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PREFACE

The *Worldmark Encyclopedia of National Economies* joins the Worldmark family of encyclopedias and attempts to provide comprehensive overviews of the economic structure and current climate of 198 countries and territories. Each signed entry provides key data and analysis on a country's economic conditions, their relationship to social and political trends, and their impact on the lives of the country's inhabitants. The goal of this set is to use plain language to offer intelligent, consistent analysis of every important economy in the world.

It is our sincere hope that this set will open the reader's mind to the fascinating world of international economics. Contained within this collection are a number of fascinating stories: of Eastern European nations struggling to adapt to capitalist economic systems in the wake of the collapse of communism; of Pacific Island nations threatened with annihilation by the slow and steady rise of ocean levels; of Asian nations channeling the vast productivity of their people into diversified economies; of the emerging power of the European Union, which dominates economic life across Europe; of Middle Eastern nations planning for the disappearance of their primary engine of economic growth, oil; and many others. To make all this information both accessible and comparable, each entry presents information in the same format, allowing readers to easily compare, for example, the balance of trade between Singapore and Hong Kong, or the political systems of North and South Korea. Economics has a language of its own, and we have **highlighted** those economic terms that may not be familiar to a general reader and provided definitions in a glossary. Other terms that are specific to a particular country but are not economic in nature are defined within parentheses in the text.

This set contains entries on every sovereign nation in the world, as well as separate entries on large territories of countries, including: French Guiana, Martinique, and Guadeloupe; Macau; Puerto Rico; and Taiwan. The larger dependencies of other countries are highlighted within the mother country's entry. For example, the entry on Denmark includes a discussion of Greenland, the United Kingdom includes information on many of its Crown territories, and the United States entry highlights the economic conditions in some of its larger territories.

ENTRY OBJECTIVES

Each entry has two objectives: one, to offer a clear picture of the economic conditions in a particular country, and two, to provide statistical information that allows for comparison between countries. To offer comparable information, we have used some common sources for the tables and graphs as well as for individual sections. Even the most exhaustive sources do not provide information for every country, however, and thus some entries either have no data available in certain areas or contain data that was obtained from an alternate source. In all entries, we tried to provide the most current data available at the time. Because collection and evaluation methods differ among international data gathering agencies such as the World Bank, United Nations, and International Monetary Fund, as well as between these agencies and the many government data collection agencies located in each country, entries sometimes provide two or more sources of information. Consequently, the text of an entry may contain more recent information from a different source than is provided in a table or graph, though the table or graph provides information that allows the easiest comparison to other entries.

No one source could provide all the information desired for this set, so some sources were substituted when the main source lacked information for specific countries. The main sources used included: the *World Factbook 2000* and *2001,* which provided the common information on the countries' gross domestic product (GDP) at purchasing power parity, the division of labor, balance of trade, chief imports, chief exports, and population, unless otherwise noted in the text; the World Bank's *World Development Indicators,* which was a valued source for information about the infrastructure and consumption patterns of many countries; the *Human Development Report,* from the United Nations, which provided GDP per capita information on many countries; and the International Monetary Fund's *International Financial Statistics Yearbook,* which provided historical records of trade balances for most countries. Each entry also contains a bibliography that lists additional sources that are specific to that entry.

ENTRY ORGANIZATION

All entries are organized under 16 specific headings to make it easy to find needed information quickly and to compare the conditions in several different countries easily. (The sole exception is the entry on the Vatican, whose unique features necessitated the removal of several sections.) The sections are as follows:

COUNTRY OVERVIEW. This section includes information about the size of all land surfaces, describing coastlines and international boundaries. It also highlights significant geographical features in the country and the location of the capital. The size of the country is compared to a U.S. state or, for smaller countries, to Washington, D.C. Also included is information on the total population, as well as other important demographic data concerning ethnicity, religion, age, and urbanization. Where relevant, this section also includes information about internal conflicts, major health problems, or significant population policies.

OVERVIEW OF ECONOMY. This overview is meant to provide an analysis of the country's overall economic conditions, mentioning those elements that are deemed most important to an understanding of the country. It provides context for the reader to understand the more specific information available in the other sections.

POLITICS, GOVERNMENT, AND TAXATION. This section identifies the structure of the government and discusses the role the government, political parties, and taxes play in the economy.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS. This section offers a description of the roads, railways, harbors, and telecommunications available in the country, assesses the modernity of the systems, and provides information about the country's plans for improvements.

ECONOMIC SECTORS. This section serves as an overview for the three more specific sections that follow, providing a general description of the balance between the country's different economic sectors.

AGRICULTURE. This section discusses the agriculture, fishing, and forestry sectors of the country.

INDUSTRY. This section discusses the industrial sector of the country, including specific information on mining, manufacturing, and other major industries, where appropriate.

SERVICES. This section concentrates on major components of the diverse services sector, usually focusing on the tourism and banking or financial sectors and sometimes including descriptions of the retail sector.

INTERNATIONAL TRADE. This section focuses on the country's patterns of trade, including the commodities traded and the historical trading partners.

MONEY. This section offers a brief description of the changes in inflation and the exchange rates in the country, and the impact those may have had on the economy. It also mentions any recent changes in the currency and the nature and impact of the central banking function.

POVERTY AND WEALTH. This section paints a picture of the distribution of wealth within the country, often comparing life in the country with that in other countries in the region. It includes governmental efforts to redistribute wealth or to deal with pressing issues of poverty.

WORKING CONDITIONS. This section describes the workforce, its ability to unionize, and the effectiveness of unions within the country. It also often includes information on wages, significant changes in the workforce over time, and the existence of protections for workers.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT. This section provides a timeline of events that shaped the country and its economy. The selected events create a more cohesive picture of the nation than could be described in the entries because of their bias toward more current information.

FUTURE TRENDS. To provide readers with a view to the future, the entry ends with an analysis of how the economic conditions in the country are expected to change in the near future. It also highlights any significant challenges the country may face.

DEPENDENCIES. This section discusses any major territories or colonies and their economies.

BIBLIOGRAPHY. The bibliography at the end of the entry lists the sources used to compile the information in the entry and also includes other materials that may be of interest to readers wanting more information about the particular country. Although specific online sources are cited, many such sources are updated annually and should be expected to change.

In addition, a data box at the beginning of each entry offers helpful economic "quick facts" such as the country's capital, monetary unit, chief exports and imports, gross domestic product (GDP), and the balance of trade. The U.S. Central Intelligence Agency's *World Factbook* (2000 and 2001) was the main source of this information unless otherwise noted. Each entry also includes a map that illustrates the location of the country. Since economic conditions are often affected by geography, the map allows readers to see the location of major cities and landmarks. The map also names bordering countries to offer readers a visual aid to understand regional conflicts and trading routes.

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COMMENTS

We encourage you to contact us with any comments or suggestions you may have that will benefit future editions of this set. We want this set to be a meaningful addition to your search for information about the world. Please send your comments and suggestions to: The Editors, *Worldmark Encyclopedia of National Economies,* The Gale Group, 27500 Drake Road, Farmington Hills, MI 48331. Or, call toll free at 1-800-877-4253.

—Sara Pendergast and Tom Pendergast

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INTRODUCTION

THE POWER OF ECONOMIC UNDERSTANDING

The economies of the world are becoming increasingly interconnected and interdependent, a fact dramatically illustrated on 2 July 1997 when the Thai government decided to allow its currency to "float" according to market conditions. The result was a significant drop in the value of the currency and the start of the Asian economic crisis, a contagion that spread quickly to other Asian countries such as the Republic of Korea, Indonesia, Malaysia, and the Philippines. Before long the epidemic reached Brazil and Russia.

In this way, a small economic change in one less-developed country sent economic shock waves around the world. Surprisingly, no one predicted this crisis, though economist Paul Krugman in a prominent 1994 *Foreign Affairs* article argued that there was no Asian economic miracle and the kind of growth rates attained in recent years were not sustainable over the long term. In such an interconnected global economy, it is imperative to have an understanding of other economies and economic conditions around the world. Yet that understanding is sorely lacking in the American public.

Various studies have shown that both young people and the public at large have a low level of literacy about other nations. A survey of 655 high school students in southeast Ohio indicated that students were least informed in the area of international economic concerns, and the number of economics majors at the college level is declining. The economic and geographic illiteracy has become such a national concern that the U.S. Senate recently passed a resolution calling for a national education policy that addresses Americans' lack of knowledge of other parts of the world.

The information provided by the media also frequently reflects a distorted understanding of world economies. During the Asian economic crisis, we often heard about the collapse of various Asian countries such as Korea and Thailand. They were indeed suffering a severe crisis, but usually companies, not countries, collapse. The use of the "collapse" language was therefore misleading. In another example, a distinguished journalist writing in a prominent East coast newspaper claimed that Vietnamese women paid more in transportation and food costs than they were earning while working in a factory manufacturing Nike shoes. Such a statement, while well intended in terms of genuine concern for these women workers, makes no economic sense whatsoever, and is actually not accurate. The wages of these women are indeed extremely low by U.S. standards, but such wages must be viewed in the context of another society, where the cost of living may be dramatically lower and where low salaries may be pooled. At other times, a fact—such as the fact that a minority of the Japanese workforce enjoys employment for life—is exaggerated to suggest that the Japanese economy boomed as it did in the 1980s *because* of the Japanese policy of life-long employment. Such generalizing keeps people from understanding the complexities of the Japanese economy.

"THINGS ARE NOT WHAT THEY SEEM." In defense of this lack of economic understanding, it must be said that understanding economics is not easy. Paul A. Samuelson, author of the classic textbook *Economics* (1995), once stated about economics "that things are often not what at first they seem." In Japan, for example, many young women work as office ladies in private companies as an initial job after completing school. These young ladies often stay at home with their parents and have few basic expenses. Over several years they can accumulate considerable savings, which may be used for travel, overseas study, or investing. Thus, as Samuelson noted in his textbook, actual individual economic welfare is not based on wages as such, but on the *difference* between earnings and expenditures. Wages are not the only measure of the value of labor: one must also consider purchasing power and how costs of living vary dramatically from place to place. Without taking into account purchasing power, we overestimate economic well-being in high-cost countries such as Japan and Switzerland and underestimate it in low-cost countries such as India and Cambodia.

Consider the following examples: The cost of taking an air-conditioned luxury bus from the Cambodian capital of Phnom Penh to its major port, Sihanoukville, is less than $2. The same bus trip of equal distance in Japan or the United States would cost $50 or more. Similarly,

a (subsidized) lunch at a factory producing Nike shoes in Vietnam may cost the equivalent of 5 U.S. cents in 1998, while lunch at a student union on a U.S. college campus may cost $5. Thus a teaching assistant on a U.S. campus pays 100 times more for lunch than the Vietnamese factory worker. Who is more "poorly paid" in these situations? Add to this the reality that in many developing countries where extended families are common, members of the family often pool their earnings, which individually may be quite low. To look only at individual earnings can thus be rather misleading. Such cultural nuances are important to keep in mind in assessing economic conditions and welfare in other nations.

Various economic puzzles can also create confusion and misunderstanding. For example, currently the United States has the highest trade deficit in world history: it imports far more that it exports. Most countries with huge trade deficits have a weak currency, but the U.S. dollar has remained strong. Why is this the case? Actually, it is quite understandable when one knows that the balance of trade is just one of many factors that determine the value of a nation's currency. In truth, demand for the U.S. dollar has remained high. The United States is an attractive site for foreign investment because of its large and growing economic market and extremely stable politics. Second, the United States has a large tourism sector, drawing people to the country where they exchange their currency for U.S. dollars. Several years ago, for the first time ever, there were more Thais coming to the United States as tourists than those in the United States going to Thailand. Third, the United States is extremely popular among international students seeking overseas education. Economically, a German student who spends three years studying in the United States benefits the economy in the same way as a long-term tourist or conventional exports: that student invests in the U.S. economy. In the academic year 1999-2000, there were 514,723 international students in the United States spending approximately $12.3 billion. Thus, the services provided by U.S. higher education represent an important "invisible export." Fourth, 11 economies are now dollarized, which means that they use the U.S. currency as their national currency. Panama is the most well known of these economies and El Salvador became a dollarized economy on 1 January 2001. Other countries are semi-officially or partially dollarized (Cambodia and Vietnam, for example). As the result of dollarization, it is estimated by the Federal Reserve that 55 to 70 percent of all U.S. dollars are held by foreigners primarily in Latin America and former parts of the U.S.S.R. Future candidates for dollarization are Argentina, Brazil, Ecuador, Indonesia, Mexico, and even Canada. With so many countries using U.S. dollars, demand for the U.S. dollar is increased, adding to its strength. For all these reasons, the U.S. currency and economy remained strong despite the persisting large trade deficits, which in themselves, according to standard economic logic, suggest weakness.

SYSTEMS OF CLASSIFICATION. As in other fields, such as biology and botany, it is important to have a sound system of classification to understand various national economies. Unfortunately, the systems commonly used to describe various national economies are often flawed by cultural and Eurocentric biases and distortion. After the end of World War II and the start of the Cold War, it became common to speak of "developed" and "underdeveloped" countries. There were two problems with this overly simplistic distinction. First, it viewed countries only in terms of material development. Second, it implied that a nation was developed or underdeveloped across all categories. As an example, "underdeveloped" Thailand has consistently been one of the world's leading food exporters and among those countries that import the least amount of food. Similarly, in "developed" Japan there are both homeless people and institutions to house the elderly, while in "underdeveloped" Vietnam there are no homeless and the elderly are cared for by their families. Which country is more "developed"?

Later the term "Third World" became popular. This term was invented by the French demographer Alfred Sauvy and popularized by the scholar Irving Horowitz in his volume, *Three Worlds of Development.* "First World" referred to rich democracies such as the United States and the United Kingdom; "Second World" referred to communist countries such as the former U.S.S.R. and former East Germany. The term "Third World" was used to refer to the poorer nations of Africa, Latin America, and Asia (with the exception of Japan). But this distinction is also problematic, for it implies that the "First World" is superior to the "Third World." Another common term introduced was modern versus less modern nations. The Princeton sociologist Marion J. Levy made this distinction based on a technological definition: more modern nations were those that made greater use of tools and inanimate sources of power. Thus, non-Western Japan is quite modern because of its use of robots and bullet trains. Over time, however, many people criticized the modern/non-modern distinction as being culturally biased and implying that all nations had to follow the same path of progress.

More recently, economists from around the world have recognized the importance of using a variety of factors to understand the development of national economies. Each of these factors should be viewed in terms of a continuum. For example, no country is either completely industrial or completely agricultural. The entries in this volume provide the basic data to assess each national economy on several of these key criteria. One can determine, for example, the extent to which an economy is industrial by simply dividing the percentage of

the economy made up by industry by the percentage made up by agriculture. Or one can determine how much energy national economies use to achieve their level of economic output and welfare. This provides an important ecological definition of efficiency, which goes beyond limited material definitions. This measure allows an estimate of how "green" versus "gray" an economy is; greener economies are those using less energy to achieve a given level of economic development. One might like to understand how international an economy is, which can be done by adding a country's exports to its imports and then dividing by GDP. This indicator reveals that economies such as the Netherlands, Malaysia, Singapore, and Hong Kong are highly international while the isolationist Democratic People's Republic of Korea (North Korea) is far less international.

Another interesting measure of an economy, particularly relevant in this age of more information-oriented economies and "the death of distance" (Cairncross 1997), is the extent to which an economy is digitalized. One measure of this factor would be the extent to which the population of a given economy has access to the Internet. Costa Rica, for example, established a national policy that all its citizens should have free access to the Internet. In other economies, such as Bhutan, Laos, and North Korea, access to the Internet is extremely limited. These differences, of course, relate to what has been termed "the digital divide." Another important factor is whether an economy is people-oriented, that is, whether it aims to provide the greatest happiness to the greatest number; economist E.F. Schumacher called this "economics as if people mattered." The King of Bhutan, for example, has candidly stated that his goal for his Buddhist nation is not Gross National Product but instead Gross National Happiness. Such goals indicate that the level of a country's economic development does not necessarily reflect its level of social welfare and quality of life.

Another important category that helps us understand economies is the degree to which they can be considered "transitional." Transitional economies are those that were once communist, state-planned economies but that are becoming or have become free-market economies. This transitional process started in China in the late 1970s when its leader Deng Xiaoping introduced his "four modernizations." Later, Soviet leader Mikhael Gorbachev introduced such reforms, called *perestroika,* in the former Soviet Union. With the dissolving of the U.S.S.R. in 1991, many new transitional economies emerged, including Belarus, Uzbekistan, Kyrgyzstan, and the Ukraine. Other countries undergoing transition were Vietnam, Laos, Cambodia, and Mongolia. These economies can be grouped into two types: full transitional and partial transitional. The full transitional economies are shifting both to free markets and to liberal democracies with free expression, multiple parties, and open elections. The partial transitional economies are changing in the economic realm, but retaining their original one-party systems. Included in the latter category are the economies of China, Vietnam, Laos, and Cuba. This volume provides valuable current information on the many new transitional economies emerging from the former Soviet world.

KEY THEMES IN THE WORLD ECONOMY. In looking at the economies of countries around the globe, a number of major common themes can be identified. There is increasing economic interdependence and interconnectivity, as stressed by Thomas Friedman in his recent controversial book about globalization titled *The Lexus and the Olive Tree: Understanding Globalization.* For example, the People's Republic of China is now highly dependent on exports to the United States. In turn, U.S. companies are dependent on the Chinese market: Boeing is dependent on China for marketing its jet airliners; the second largest market for Mastercard is now in China; and Nike is highly dependent on China and other Asian economies for manufacturing its sports products. Such deep interdependence augurs well for a peaceful century, for countries are less likely to attack the countries with whom they do a vigorous business, even if their political and social systems are radically different. In fact, new threats to peace as reflected in the tragic terrorist attack of 11 September 2001, primarily relate to long-standing *historical* conflicts and grievances.

Conventional political boundaries and borders often do not well reflect new economic realities and cultural patterns. Economic regions and region states are becoming more important. The still-emerging power of the European Union can be gauged by reading the essays of any of the countries that are currently part of the Union or hoping to become a part of it in the coming years. This volume may help readers better understand which nations are becoming more interconnected and have similar economic conditions.

The tension between equity (fairness) and efficiency is common in nearly all national economies. In some economies there is more stress on efficiency, while in others there is more stress on equity and equality. Thus, as should be expected, countries differ in the nature of the equality of their income and wealth distributions. For each entry in this volume, important data are provided on this important factor. The geographer David M. Smith has documented well both national and international inequalities in his data-rich *Where the Grass is Greener* (1979).

Invisible and informal economies—the interactions of which are outside regulated economic channels—represent a growing segment of economic interactions in some countries. In his controversial but important volume, *The Other Path* (1989), the Peruvian economist Hernando de Soto alerted us to the growing significance of the informal economy. In countries such as Peru, research has

shown that in some cases individuals prefer work in the informal to the formal sector because it provides them with more control over their personal lives. The Thai economist Pasuk Phongpaichit and her colleagues have written a fascinating book on Thailand's substantial invisible economy titled *Guns, Girls, Gambling, and Ganja* (1998). Thus, official government and international statistical data reported in this volume often are unable to take into account such data from the hidden part of economies.

In an increasingly internationalized economy in which transnational corporations are highly mobile and able to move manufacturing overseas quite rapidly, it is important to distinguish between real foreign direct investment and portfolio investment. At one point during Thailand's impressive economic boom of the late 1980s and early 1990s, a new Japanese factory was coming on line every three days. This is foreign direct investment, involving actual bricks and mortar, and it creates jobs that extend beyond the actual facility being constructed. In contrast foreign portfolio investment consists of a foreign entity buying stocks, bonds, or other financial instruments in another nation. In our current wired global economy, such funds can be moved in and out of nations almost instantaneously and have little lasting effect on the economic growth of a country. Economies such as Chile and Malaysia have developed policies to try to combat uncertainty and related economic instability caused by the potential of quick withdrawal of portfolio investments.

Some argue that transnational corporations (owned by individuals all over the world), which have no national loyalties, represent the most powerful political force in the world today. Many key transnational corporations have larger revenues than the entire gross national products of many of the nations included in this volume. This means that many national economies, especially smaller ones, lack effective bargaining power in dealing with large international corporations.

Currently, it is estimated by the International Labor Office of the United Nations that one-third of the world's workforce is currently unemployed or underemployed. This means that 500 million new jobs need to be created over the next 10 years. Data on the employment situation in each economy are presented in this volume. The creation of these new jobs represents a major challenge to the world's economies.

The final and most important theme relates to the ultimate potential clash between economy and ecology. To the extent that various national economies and their peoples show a commitment to become greener and more environmentally friendly, ultimate ecological crises and catastrophes can be avoided or minimized. Paul Ray and Sherry Anderson's *The Cultural Creatives: How 50 Million People Are Changing the World* (2000) lends credence to the view that millions are changing to more environmentally conscious lifestyles.

In trying to understand the global economy, it is critically important to have good trend data. In each of the entries of this volume, there is an emphasis on providing important economic data over several decades to enable the reader to assess such patterns. Some trends will have tremendous importance for the global economy. One phenomenon with extremely important implications for population is the policy of limiting families to only one child in China's urban areas. This deliberate social engineering by the world's most populous country will have a powerful impact on the global economy of the 21st century. The global environmental implications are, of course, extremely positive. Though there is much debate about the economic, political, and socio-cultural implications of this one-child policy, overall it will probably give China a tremendous strategic advantage in terms of the key factors of human resource development and creativity.

THE POWER OF UNDERSTANDING. By enhancing our knowledge and understanding of other economies, we gain the potential for mutual learning and inspiration for continuous improvement. There is so much that we can learn from each other. Denmark, for example, is now getting seven percent of its electrical energy from wind energy. This has obvious relevance to the state of California as it faces a major energy crisis. The Netherlands and China for a long period have utilized bicycles for basic transportation. Some argue that the bicycle is the most efficient "tool" in the world in terms of output and energy inputs. Many new major highways in Vietnam are built with exclusive bike paths separated by concrete walls from the main highway. The Vietnamese have also developed electric bicycles. The efficient bullet trains of Japan and France have relevance to other areas such as coastal China and the coastal United States. Kathmandu in Nepal has experimented with non-polluting electric buses. In the tremendous biodiversity of the tropical forests of Southeast Africa, Latin America, and Africa, there may be cures for many modern diseases.

We hope to dispel the view that economics is the boring "dismal science" often written in complex, difficult language. This four-volume set presents concise, current information on all the economies of the world, including not only large well-known economies such as the United States, Germany, and Japan, but also new nations that have emerged only in recent years, and many micro-states of which we tend to be extremely uninformed. With the publication of this volume, we hope to be responsive to the following call by Professor Mark C. Schug: "The goal of economic education is to foster in students the thinking skills and substantial economic knowledge necessary to become effective and participating citizens." It is our hope that this set will enhance both economic and

geographic literacy critically needed in an increasingly interconnected world.

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ALGERIA

Democratic and Popular Republic of Algeria
Al-Jumhuriyah al Jaza'iriyah
ad-Dimuqratiyah ash-Sha'biyah

CAPITAL: Algiers.

MONETARY UNIT: Algerian dinar (AD). One Algerian dinar equals one hundred centimes. There are coins of 20, 10, 5, 2, and 1 dinars, and 50, 20, 10, 5, and 1 centimes. Paper currency comes in denominations of AD1,000, 500, 200, 100, and 50.

CHIEF EXPORTS: Petroleum, natural gas, and petroleum products.

CHIEF IMPORTS: Capital goods, food and beverages, and consumer goods.

GROSS DOMESTIC PRODUCT: US$147.6 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$13.7 billion (f.o.b., 1999 est.). **Imports:** US$9.3 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Algeria is located in North Africa, bordering the Mediterranean Sea. It shares borders with Morocco, Mauritania, Mali, Niger, Libya, and Tunisia. Taken together, Algeria, Morocco, and Tunisia form what is known as the Arab Maghreb or West. With an area of 2,381,740 square kilometers (919,595 square miles) and a short coastline of 998 kilometers (620 miles), Algeria is the second largest country in Africa after Sudan, and is slightly less than 3.5 times the size of Texas. Algeria's capital city, Algiers, is located in the north on the Mediterranean Sea. Other major cities include Annaba and Oran, both in the north.

POPULATION. The population of Algeria was estimated at 31,193,917 in July of 2000, an increase of 6.2 million from the 1990 population of 25,010,000. In 2000, Algeria's birth rate stood at 23.14 per 1,000, while the death rate was reported at 5.3 per 1,000. With a projected growth rate of 1.7 percent between 2000 and 2015, the population is expected to reach 39.8 million by the year 2015. Muslims, mostly of the Malekite Sunni tradition, make up 99 percent of the population, while Christians and Jews make up the remaining 1 percent. A small percentage of the population are the indigenous Berbers, who speak Tamazight. Since 1995, the Berbers have been given wider autonomy and have been allowed to speak and teach their language. Arabic is the official and dominant language.

Algeria's population growth has slowed significantly since the early 1990s, reaching 2.8 percent in 1998, down from 3.06 percent in 1987. The slowdown is mostly attributable to a falling birth rate, which is now 2.15 children per family. Population growth is expected to drop even further in the coming years. The success of the Algerian government's family planning policies has ensured wider access to contraceptives and family planning education. The Comite national de la population (CNP) was established in October 1997 to oversee and coordinate national planning policies.

The population is generally young, with some 35 percent below the age of 14 and just 4 percent older than 65. Given the population makeup and the significant drop in the population growth rate, the government is faced with the daunting challenge of creating new employment opportunities, and is bracing itself for an aging population in the coming decades. Algeria's young population has also been a source of political instability, feeding an anti-government Islamic backlash that began in the early 1990s. Unemployment and limited job opportunities are largely responsible for an Islamic insurgency that has destabilized the country since 1991.

As in many developing countries, a majority of Algerians live in urban areas. In 1997, 60 percent of the population was urban, an increase of 29 percent from 1966, but the trend toward rural-urban migration is believed to have leveled off. Most of the population is

concentrated in the north, with the capital Algiers and its suburbs being home to the largest concentration of Algerians; 4 million people live in the capital.

OVERVIEW OF ECONOMY

Algeria's small- to medium-sized economy is largely dependent on the hydrocarbons sector, which accounts for about 95 percent of export earnings, 52 percent of budget revenues, and 25 percent of GDP. The second-largest natural gas exporter in the world, Algeria is home to the fifth-largest reserves of gas worldwide. Algeria also has the 14th-largest reserves of oil in the world. The European Union is the largest market for Algerian natural gas.

The industrial sector is the largest contributor to the economy, accounting for 51 percent of GDP and employing 13.6 percent of the **labor force** of 9.1 million workers. The sector is dominated by oil-related industries. Other light industries can also be found, but their contribution to GDP is modest. The services sector is the second-largest economic sector, accounting for 37 percent of GDP and employing 13.5 percent of the labor force. The agricultural sector contributes 11–12 percent

of GDP annually and employs some 22 percent of the labor force.

Algeria entered the twentieth century as a French colony heavily dependent on agriculture. Soon after the conquest of Algeria in 1830, the French created large agricultural tracts, built factories and businesses, and exploited cheap local labor. Until Algeria's independence in 1962, the bulk of its economic activity and wealth was controlled by the French colonizers, who successfully developed a small industry and a sophisticated export trade that provided food and raw materials to France in return for capital and **consumer goods**. The French also controlled about 30 percent of the total arable land, and were responsible for most of agricultural production and exports.

Since 1962, Algeria's economy has been centrally-planned, despite state efforts to **privatize** the economy and attract foreign investment. The country's huge **foreign debt**, which in 1999 reached US$30 billion according to the CIA, forced the government to launch an economic reform program in 1989. The government also concluded agreements with the International Monetary Fund (IMF) in the late 1980s and 1990s to secure international credit for its envisioned reform program.

This program has been largely successful, with the government curbing **inflation**, cutting budget spending, and preserving **foreign exchange reserves**. The adoption of the economic reforms program has also accelerated growth and succeeded in reestablishing economic stability. In the late 1980s and early 1990s, the program was coupled with austerity measures designed to reduce Algeria's **external debt**, which has proven difficult to control. In 1995, the government approved a framework for the privatization and **restructuring** of **public sector** enterprises. A financial sector reform program has also been initiated, although progress has been slow. As a result, Algeria has managed to achieve an average annual real growth rate of 5.5 percent since the mid-1990s, with the hydrocarbon sector being the main driving force of economic growth.

While the government has managed to achieve some progress toward economic recovery and reform, the country's troubled economy continues to be heavily dependent on volatile oil and gas revenues. Furthermore, the slow pace of the reform program, coupled with political turmoil, has failed to attract sufficient foreign investment or to create sufficient employment opportunities. Neither the hydrocarbon sector nor agriculture is capable of providing enough jobs to counteract long-standing unemployment problems. The rate of unemployment in 1999 was reported at 30 percent. By contrast, unemployment in the United States in 1999 was just 4.2 percent. The challenge to create new job opportunities for Algeria's young population is one of the biggest tasks facing the government.

Government bureaucracy is a major impediment to the conduct of business in Algeria. Red tape permeates all government ministries and the commercial court system, which resolves disputes between merchants and other businesspeople. Corruption is also widespread at all levels of the public sector, largely as a result of the low wages and difficult living conditions. In 1998, the government launched an anti-corruption drive, which resulted in as many as 2,000 public officials being prosecuted or awaiting trial on charges ranging from petty crime to grand larceny.

POLITICS, GOVERNMENT, AND TAXATION

After a bitter guerilla war with France (guerilla wars are fought with non-conventional methods by small units against larger, more conventional armies), which held Algeria as a colony, the country finally achieved independence in 1962. But Algeria's economy was in a state of chaos. Skilled labor was in short supply, as the French had taken with them most of the skilled personnel who ran the country. Until the late 1980s, Algeria's successive governments reacted by instituting a highly centralized **socialist** system that ensured the government a central role in the economy. Algeria's first president, Ahmad Ben Bella, moved to **nationalize** land and property previously owned by the French colonialists, which by 1963 had fallen under state control. Oil companies were nationalized in 1971, while agricultural land was placed under the control of workers. During this phase, the government placed special emphasis on the development of capital-intensive heavy industry. However, these state-led development programs and socialist policies soon proved to be a failure. The agricultural sector was particularly hit by bureaucratic mismanagement, inefficiency, and graft.

It was not until 1985 that the government came to realize the high costs associated with its socialist policies. Falling world oil prices, coupled with a high food import bill and a growing foreign debt burden, forced the government to re-evaluate its policies and abandon socialist policies. High unemployment rates, a lack of consumer goods, and shortages in basic foodstuffs threatened the country's political stability, as signs of popular unrest began to manifest themselves in protests. In 1985, President Chadli Benjedid shifted the focus of the country's development plans toward building a diversified economy by placing greater emphasis on agriculture. Benjedid's economic **liberalization** program sought to reduce central planning and decrease government control over the economy.

Since independence, Algeria has been ruled by 1 party, the National Liberation Front (FLN), which has largely used its dominance to impose heavily centralized

economic structures that were justified through socialist ideology. However, the regime's priority on heavy industry and centralized management led to the neglect of the agricultural sector and the basic needs of its growing population. The decade of the 1980s laid bare the failure of the FLN to achieve either a lasting political consensus or a sustainable basis for economic growth. The sharp decline of oil prices in the mid-1980s, coupled with an intolerable debt burden and a high food imports bill, precipitated a financial crisis that accelerated the decline of the regime's appeal. Civil unrest and widespread demonstrations in 1988 sent a clear signal that the government's command of the people's allegiance had worn thin.

In an attempt to reverse the situation, the regime experimented with democracy between 1988 and 1991. In June 1990, elections for local councils resulted in an astonishing victory for Islamic fundamentalists, with the Islamic Salvation Front (FIS) winning more than half the nation's towns and cities, including the capital of Algiers. In parliamentary elections in December 1991, the FIS continued to make impressive gains and appeared poised to take control of the government in the run-off vote slated for January 1992. Before this crucial election could take place, however, the army stepped in to put an end to this democratic experiment and its unforeseen consequences, canceling the elections, banning the FIS, and imprisoning its leaders. The military's decision to abort the electoral process led to the unraveling of what little political consensus and national unity once existed. The FLN had been discredited both by its inability to defeat the Islamists at the polls and its failure to manage the country's relatively rich economic resources.

Since 1992, Islamic militants have gone underground and launched a campaign of terror against the government. More than 75,000 Algerians have been killed in the ensuing armed struggle. Islamic militants have also staged attacks against the country's **infrastructure**—including telephone exchanges, electrical stations, rail links, and the international airport—as well as multinational oil facilities. The military has responded to growing terrorist attacks with a ferocious crackdown on militants. Since 1992, thousands of Islamic rebels have been killed by security forces during routine raids and ambushes. Even so, these efforts do not appear to have lessened the militants' resolve, and the spiral of violence continues.

Presidential, parliamentary, and local elections were organized in November 1995 through October 1997. These elections were aimed at transforming the military junta (a group of military leaders who rule a country) into a democratically elected government, and thus putting an end to the Islamic rebels' claims that the regime was not legitimate. However, with the army running the country, the political scene remains riddled with problems. Under pressure from the military, Gen. Liamine Zeroual, who won the 1995 presidential elections, announced his untimely resignation in September 1998, paving the way for the 15 April 1999 election of Abdulaziz Bouteflika, a 62-year-old former foreign minister. Bouteflika's election raised hope that the 7-year civil war may come to an end, but the violence is far from over. Shortly after taking office, Bouteflika declared general amnesty for Islamic militants who give up their arms and return to the fold of the nation.

Structurally, the Algerian government is a republic, with a president directly elected for a 5-year term and a **bicameral** (2-house) Parliament. The 380 members of the National People's Assemby are popularly elected for 4-year terms, while the 144 seats in the Council of Nations are filled with either members appointed by the president or elected by indirect vote. The prime minister is appointed by the president. However, this ideal government structure has rarely been achieved in Algeria, where ongoing civil and political struggles have meant the suspension, cancellation, and rescheduling of elections, and frequent interference by the military.

Since the 1960s, Algerian politics have been dominated by the military, which has constituted the power base of the regime. The role of the military, which has traditionally also played a big role in the economy, was briefly suspended in 1989 following the restoration of democracy in the country. By 1991, the military, which forms the bulk of the security apparatus, was back into politics to counter the Islamic insurgency. Today, the military in Algeria is stronger than ever and its powers are so extensive that no president can be nominated without the consent of the generals running Algeria behind the scenes.

The major source of government revenues comes from hydrocarbon receipts and customs **duties**, in addition to corporate, salary, road, and property taxes. According to the IMF, in 1999, taxes accounted for 13.5 percent of the central government's non-hydrocarbon revenue. Tax revenues decreased from 16.2 percent in 1997 to 13.5 percent in 1999, the direct result of the 1998 tax reforms, which sought to lower tax rates across the board. Taxes come in different forms. Taxes on goods and services account for the largest proportion of tax revenues, making up 6.4 percent of the total. Customs duties, which in 1999 accounted for 3.5 percent of tax revenues, are the second largest contributor. Taxes on income and profits and on wage income together accounted for 4.5 percent of government revenues.

However, tax evasion is a major problem, costing the government an estimated AD30 billion a year. Tax revenues dropped slightly from AD329.8 billion in 1998 to AD314.8 billion in 1999. The government's plans to press ahead with plans to improve tax collection measures in line with the IMF's recommendations are com-

plicated by economic and political uncertainties—mainly the ongoing civil war.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Algeria enjoys an extensive though aging infrastructure that has been largely neglected since independence. The country is serviced by a network of over 104,000 kilometers (64,626 miles) of primary and secondary roads, 71,656 kilometers (44,527 miles) of which are paved. According to the EIU *Country Profile*, Algeria's poor road system claims the lives of 10 people a day, while the cost of accidents to the state is estimated at AD10 billion annually. The road system is badly in need of repairs, and repair and renovation costs are estimated at AD227 billion. Roads, especially in urban areas, are highly congested. Plans are underway to privatize the road system in 2001 to cover the renovation costs, but the process is likely to be slow, despite the availability of foreign financing for the projects. Similarly, the nations' railway system, which consists of 4,820 kilometers (2,995 miles) of track, is troubled. The state's railway company, Societe national de transport ferroviare (SNTF) is also slated for privatization, but the process has been stifled by the lack of progress in the restructuring of the industry to focus on business activities. Rail lines have more than once sustained damage as a result of sabotage attacks by Islamic militants. The SNTF has been heavily indebted for years, and the railway system is mostly used to transport cargo.

Algeria has 4 major airports, located in Algiers, Oran, Annaba, and Constantine, all of which are fairly modern. Several airlines stopped service to Algeria in December 1994, following the hijacking of an Air France airplane at Houari Boumedienne airport. Many European airlines, with the exception of Air France, have resumed flights since 1999. The national carrier, Air Algerie, serves 37 destinations in Europe, Africa, and the Middle East. It carries 3 million passengers per year. Plans are currently underway in 2001 to upgrade the country's airports and expand their capacities and privatize Air Algerie. Algeria has 9 major ports, at Algiers, Oran, Bejaia, Arzew, and Annaba. The government plans to expand the handling capacity at the ports of Algiers and Oran in 2001.

Electrical power is supplied to Algerians by the state-owned power company, Sonelgaz. Over 90 percent of Algeria's 21.38 billion kilowatt hours (kWh) of power is generated from gas, while the remaining 7 percent is generated by hydroelectric power stations in Kabylie. Over 94 percent of homes are connected, and the government is planning in 2001 to extend the power network to rural areas at the rate of 150,000 new homes annually. Like the rest of state-owned companies, Sonelgaz is slated for restructuring.

Telecommunications services in Algeria are generally aging, but are better in the north than they are in the south. Telephone service is provided by the Ministry of Posts and Telecomunications. The country had 1.17 million telephone lines in use in 1995, and some 33,500 mobile cellular phones in 1999. The Ministry of Posts and Telecommunications in 2001 is upgrading the country's phone lines using fiber optic technology and digital systems. In 1999, the country had 1 Internet service provider.

ECONOMIC SECTORS

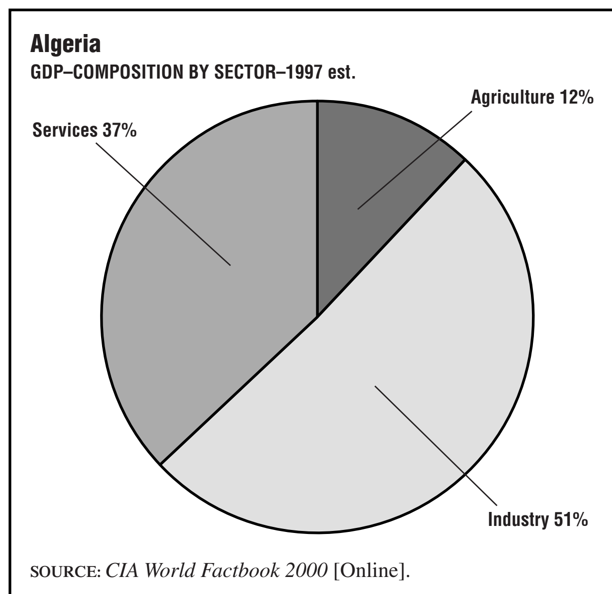
Algeria's low- to medium-size economy is heavily dependent on natural gas and hydrocarbons, which account for about 95 percent of export earnings, 52 percent of budget revenues, and 25 percent of GDP. The industrial sector is the largest contributor to the economy, accounting for 51 percent of GDP and employing 13.6 percent of the labor force. The sector is dominated by oil-related industries. Other light industries can also be found, but their contribution to GDP is modest. The services sector is the second largest economic sector, accounting for 37 percent of GDP and employing 13.5

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Algeria	38	241	105	0.0	1	0.2	4.2	0.01	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Libya	14	233	126	0.0	3	N/A	N/A	0.00	7

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

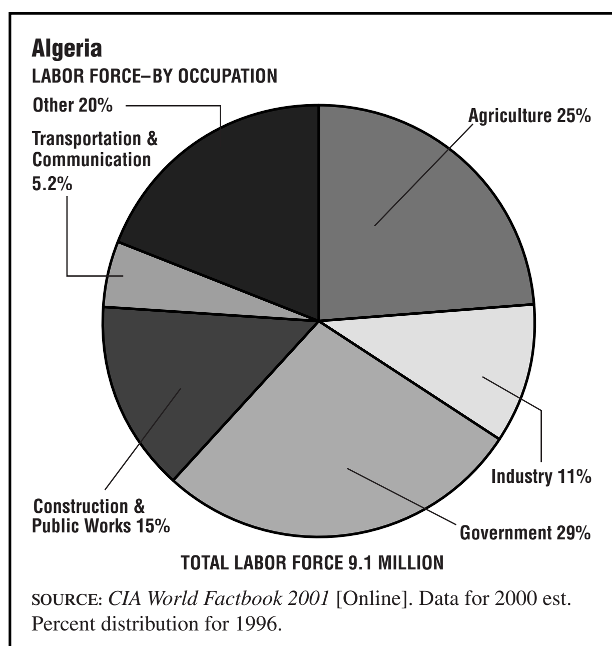
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

percent of the labor force. The agricultural sector contributes 11–12 percent of GDP annually and employs some 22 percent of the labor force. The sector, however, has been vulnerable to adverse weather conditions, and production has fluctuated accordingly.

Two of the greatest obstacles to growth in all of Algeria's economy are inefficiency in the state-controlled public sector and the state's central role in the economy. Recognizing these obstacles, Algeria has targeted certain sectors, mainly state-owned enterprises, for privatization. Years of inefficient state control over the economy have finally given way to reform. The government has embarked on an ambitious restructuring program coordinated with the IMF and its successful implementation is one of the main challenges facing the government in 2001.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1996.

AGRICULTURE

Agricultural production is a moderate contributor to the Algerian economy, accounting for 11–12 percent of GDP and 22 percent of total employment in 1997. The sector's contribution to the economy, however, has declined sharply since independence. Years of government restructuring, lack of investment, meager water resources, and dependence on rainwater for irrigation have contributed to this decline. The production of cereals as well as orchard and industrial crops has significantly dropped. As a result, Algeria today has become dependent on food imports, accounting for close to 75 percent of food needs.

Although Algeria is the second-largest country in Africa, the arable land of about 8.2 million hectares accounts for only 3.4 percent of the total land area. The vast Sahara desert, which spans much of the south central part of the country, is not available for agriculture. Between 1961 and 1987, all arable land was controlled by the state, which divided the land into state farms, known as *domaines agricoles socialistes*. State farms were dismantled in 1987 and the land was divided into smaller collective and individual farms. Despite these measures, about one-third of cultivable land in Algeria is still owned by the government, which leases the land to private investors and farmers. The remaining two-thirds of arable land (about 5 million hectares) is privately owned.

Algeria's main crops are cereals (mainly wheat and barley), citrus fruit, vegetables, and grapes. Fresh dates exports have risen sharply in the past decade and have become the second-largest export after hydrocarbons. Some 72,000 hectares are cultivated with palm trees, mainly in the Saharan oases. Algerian dates are mainly exported to France, Russia, Senegal, and Belgium. Algeria was once a major exporter of wine and associated products. Despite government efforts to revive the sector, production has fallen significantly since 1962, reaching 248,000 hectoliters (6,552,160 U.S. gallons) in 1996, down from 410,000 hectoliters (10,832,200 U.S. gallons) in 1992. Algeria is also a producer of olive oil, and production has generally averaged around 150,000 hectoliters (3,963,000 U.S. gallons) annually.

The bulk of Algeria's crops are cultivated in the fertile but narrow plains around Bejaïa and Annaba in the east, in the Mitidja Plain south of Algiers, and beyond Oran from Sidi Bel Abbes to Tlemcen. The agricultural sector's dependence on rainwater for irrigation has often

affected its production levels, especially during droughts. The cereal harvest, for example, was badly affected by drought conditions that plagued North Africa in 2000, producing only half of its annual yield. Hence, despite government efforts to extend funding and technical assistance to farmers and increase the productivity of the agricultural sector, Algeria imports the bulk of the food it consumes, especially cereals (mainly wheat).

FISHERIES. Though Algeria's location would suggest that the country would have a booming fishing industry, actual fishing production remains low, largely due to under-exploitation. Since the late 1990s, the government has embarked on a modernization program to increase the productivity of the sector, but most fishing activity continues to center around small boats and family-owned businesses. The government has also been trying to attract foreign investment in this sector, in the year 2000 granting some 20 Japanese fishing boats the right to fish in Algerian waters. This agreement was based on a provision that the catch does not exceed 750,000 metric tons of red tuna a year.

INDUSTRY

MINING. Hydrocarbons, mainly oil and gas, are the country's main exports. Algeria's oil and gas reserves rank 14th and 5th largest in the world, respectively. During the 1970s, Algeria was a large producer of oil, but has since lost that status as oil was replaced by gas production as the country's main source of export revenue. Oil, first produced in commercial quantities in the late 1950s, accounted for 73 percent of Algeria's hydrocarbon productions in 1980, but now accounts for about 20 percent. France, Spain, Belgium, Turkey, and the United States are the main consumers of Algeria's oil, and plans are underway to expand export activities, mainly to Europe. Although most restrictions on oil exports were removed in the 1990s and the government no longer subsidizes the sector, the state-owned company Sonatrach continues to retain full control over its activities.

The oil sector opened to foreign investment in 1991. As a result, foreign companies are now allowed to invest and even buy existing oilfields, and despite the high political risk associated with these investments, several foreign companies operate in the country in 2001. A total of 18 foreign companies operate in the oil sector, bringing in around US$1.5 billion in investments. Natural gas production began in 1961, and in 2000 represented 57 percent of total proven hydrocarbon reserves. Algeria is the second-largest exporter of liquid natural gas in the world after Indonesia. The bulk of Algeria's gas is exported to Europe through 2 major pipelines that run through Tunisia and Morocco. Since the late 1990s, the government has been engaged in efforts to upgrade and expand oil and liquefied natural gas exploration by attracting foreign investments. It has also moved to increase the production of liquefied petroleum gas as a means to diversify income from this sector.

Algeria's non-hydrocarbon mining infrastructure remains underdeveloped. In addition to oil and natural gas, Algeria mines gold in the southeast Hoggar region and diamonds near the Mali borders, and exports high-grade ore, iron pyrites, phosphates, lead, zinc, mercury, barite, and antimony. Since the late 1990s, the government has made progress in removing restrictions on foreign and private investment in the non-energy mining sector in an effort to minimize the state's control over the sector. The sand, marble, and gold sectors have received special interest from small private investors.

MANUFACTURING. The non-hydrocarbon manufacturing sector is a moderate though declining contributor to the Algerian economy. According to the EIU *Country Profile* for 2000, though manufacturing accounted for 12 percent of GDP in 1993, its contribution fell to 9 percent in 1999. The decline in manufacturing's contribution to GDP can be attributed mainly to the legacy of centralization and inefficiency that have characterized the state enterprises controlling the sector. Algeria's manufacturing industries are beset by an oversized bureaucracy and debt, and have, as a result, lost their ability to compete with imported finished products. The government's efforts since the 1980s to restructure the industrial sector into smaller state-run units and encourage **joint ventures** with the **private sector** have failed to produce the desired turnaround.

Before independence, food processing, textiles, cigarettes, and clothing constituted the main manufacturing activities in the country. Since the mid-1960s, a greater emphasis has been placed on heavy industry. Historically, Algerian companies have processed petrochemicals, steel, metals, electronics, clothing, leather, paper, timber, chemicals, and construction equipment. Petrochemicals are an important contributor to GDP. Petrochemical industries include methanol, resins and plastics, and fertilizers, and are centered in the 2 cities of Skikda and Arzew. Production in the private sector recorded a 10-percent increase in 1999, in contrast to the non-hydrocarbon industrial state sector, which saw a drop in output of 1.5 percent in 1999. The pharmaceuticals, chemicals, construction equipment, and leather industries were the leading performers.

SERVICES

FINANCIAL SERVICES. Financial services in Algeria are fairly outdated, and the lack of modern services is an obstacle to the growth of the private sector and foreign investment alike. Until 1998, the banking sector was

dominated by 3 major state-owned banks. But private banks, including U.S. and French banks, have been allowed to operate in the country since 1998 as part of a government plan to reform the sector. A new money and credit law was adopted in 1990, and although the Treasury purchased most of the local banks' debt in 1994, these banks continue to suffer from **bad loans**, mismanagement, and political interference. The Algerian stock exchange was officially opened in 1999, also part of the government's plan to privatize the economy.

TOURISM. Tourism is not a major contributor to GDP, despite government efforts to encourage the sector. Its promising potential is stifled by a lack of investment and the endemic political violence in the country, although the south, where some of the government's most recent projects are located, has been spared from these problems. Potential holiday destinations are the mountains and deserts of the interior and the country's beaches. Although foreign tourists have since 1998 started returning to Algeria, the sector has a long way to go to full recovery.

RETAIL. Lacking many large commercial centers other than Algiers, Oran, and their suburbs, Algeria has a poorly developed **retail** sector. While Algiers is home to a variety of retail stores, the majority of towns in the interior of the country have small family-owned shops, farmer's markets, and temporary roadside stands.

INTERNATIONAL TRADE

Over the past several decades, Algeria has maintained a **trade surplus**, largely due to the export of hydrocarbons, which accounts for 90 percent of exports. In 1999 that surplus reached $4.4 billion on exports of $13.7 billion and imports of $9.3 billion. This surplus has endured even when oil prices dropped, as they did in 1998 when the trade surplus reached US$1.5 billion. Non-hydrocarbon exports, although minimal, have risen in the last 3 years, but much of that is believed to have come as a result of repayment of debt owed to the former Soviet Union in the form of goods.

The value of imports increased between 1987 and 1995. Merchandise imports fell between 1996 and 1998, thanks to a good harvest, but rose slightly in 1999 due to an increase in domestic demand. Capital equipment accounted for 34 percent of imports, while food has generally accounted for almost 25 percent of imports. Semi-finished products were in third position, accounting for 27 percent of total imports.

The European Union and the United States are Algeria's main trade partners. The EU, which is negotiating a new Euro-Mediterranean Partnership (EMP) agreement with Algeria, is a major importer of the country's hydrocarbons. In 1999, Italy—Algeria's largest trade partner in the last decade—accounted for 17.8 percent of exports, followed by France (12.4 percent) and Spain (10.2 percent). The United States is Algeria's second-largest trading partner, accounting for 16.4 percent of exports in 1999. France is Algeria's main source of imports, accounting for 29.8 percent, followed by Italy (9.7 percent), Germany (6.8 percent), and Spain (5.9 percent). The United States comes in the fifth place, providing 5.3 percent of Algeria's total imports.

Trade (expressed in billions of US$): Algeria

	Exports	Imports
1975	4.700	5.498
1980	13.871	10.559
1985	12.841	9.841
1990	12.930	9.715
1995	10.240	10.250
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

MONEY

The value of the Algerian dinar held steady until September 1994, due to the central bank's policy of setting it at a fixed rate against other widely used currencies. This policy resulted in a wide gap between the official rate and informal **exchange rates** on the **black market**, where the dinar sold as high as 6 times the official rate at the end of 1989. The dinar has since been stable, but only after the government introduced full convertibility, allowing local importers to bid for **hard currency** in the local banking system. The country's strong foreign exchange reserves have allowed the banking system to meet the currency demands of the local market. Since 1998, the dinar has averaged AD66.57 to the U.S. dollar, but had slightly **devaluated** at the end of 2000, averaging 79.14 to the U.S. dollar.

Exchange rates: Algeria

Algerian dinars per US$1	
Jan 2001	74,813
2000	75.260
1999	66.574
1998	58.739
1997	57.707
1996	54.749

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

In the first 2 decades after independence, the government of Algeria made impressive gains in terms of raising living standards in the country by creating employment opportunities in the public sector and extending social benefits. However, the country's declining economic conditions since the 1980s, brought about by falling oil prices and years of inefficient state control, have had serious implications for the living standards of Algerians. High unemployment and **inflation rates** since the 1980s have led to a sharp increase in the incidence of poverty in the country. Between 1988 and 1995, the percentage of the population below the poverty line increased from 8 percent to 14 percent. According to the EIU *Country Profile* for 2000–01, **GDP per capita** in 1994 dropped by 2.5 percent over the preceding decade. While unemployment and poverty figures rose sharply in urban areas, the countryside was more seriously affected; almost 70 percent of the poor live in rural areas. Unemployment is especially serious among younger, unskilled workers.

Despite widespread poverty, however, uneven development has led to the emergence of an affluent class that controls most of the country's wealth, enjoying an elevated standard of living and visiting shopping centers featuring the best imported goods. Living in the suburbs of Algiers and Oran, the wealthy send their children to private schools and universities abroad. Yet not far from these affluent neighborhoods, a significant number of poor Algerians live in squalor, with poor and overcrowded housing, limited food supplies, and inadequate access to clean water, good quality health care, or education. The extremes are reflected in the country's distribution of income: in 1996, the wealthiest 20 percent of Algerians controlled 42.6 percent of the country's wealth, while the poorest 20 percent controlled only 7 percent of wealth. This uneven distribution of income has been exacerbated by chronic housing shortages, which have given rise to poor shantytowns in most cities. These shortages have been the result of high population growth rates and decades of rural-urban migration. This has prompted the government since the early 1980s to shift its spending priorities to address the housing shortages by constructing subsidized housing units and prefabricated houses at moderate cost.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Algeria	1,460	1,692	1,860	1,638	1,521
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Libya	N/A	N/A	N/A	N/A	N/A

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Algeria

Lowest 10%	2.8
Lowest 20%	7.0
Second 20%	11.6
Third 20%	16.1
Fourth 20%	22.7
Highest 20%	42.6
Highest 10%	26.8

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

The decline in living standards in Algeria continued throughout the 1990s, as the government embarked on a structural reform program to reverse economic decline, and as **subsidies** of basic foodstuffs were lifted. Unemployment numbers also continued to rise, standing at 2.3 million in 1999, and representing about 25 percent of the labor force, according to official estimates. Another 10 percent of the labor force is believed to be **underemployed**.

Algeria's mounting economic difficulties fueled public discontent that culminated in the Islamic rebellion against the state that began in 1991. The military's decision to abort the electoral process led to the unraveling of what little political consensus and national unity once existed. The FLN had been discredited both by its inability to defeat the Islamists at the polls and by its failure to manage the country's relatively rich economic resources. In the absence of viable secular parties, the Islamists claimed to represent the voice of the people.

WORKING CONDITIONS

Algeria's labor force has steadily increased in the course of the past 2 decades. In 2000, Algeria's labor force was estimated at 9.1 million, up 2.7 million since 1995. The majority of the labor force is concentrated in the public and agricultural sectors. Algerian workers are relatively poorly educated, as technical and basic education have lagged in the 1990s.

Algerian labor has a tradition of unionization, headed by the Union Generale des Travailleurs Algeriens (UGTA). About two-thirds of the labor force is unionized. UGTA has been a powerful force in negotiating public sector wages with the government, but the 1990 labor law brought collective bargaining to an end. However,

UGTA still retains its power to organize public-sector strikes to protest the decline of wages. These strikes, however, have seldom succeeded in forcing concessions from the government.

The government has adopted labor rights regulating working conditions and other rights of workers. The minimum age for employment is 16 years. These regulations, however, are rarely enforced, and child labor, especially in the agricultural sector, remains widespread. The minimum wage is US$90 (6,000 dinars) per month. The standard workweek is 40 hours.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1830. France occupies Algeria and begins to lay down the economic foundation of its colony.

1933. Anti-French political protests begin and continue through 1956.

1950. Ahmad Ben Bella founds the Revolutionary Committee of Unity and Action (Comité Révolutionnaire d'Unité et d'Action—CRUA), later renamed the National Liberation Front (FLN).

1962. After a guerilla war, Algeria gains independence from France. The Democratic and Popular Republic of Algeria is formally proclaimed. First President Ahmad Ben Bella forms country's first cabinet since independence.

1963. President Ben Bella declares that all agricultural, industrial, and commercial properties previously operated and occupied by Europeans are vacant, legalizing their confiscation by the state.

1970. The first Four-Year Plan emphasizing capital-intensive heavy industry is adopted.

1971. President Houari Boumedienne launches an agricultural reform plan calling for the seizure of additional property and the redistribution of the newly acquired public lands to cooperative farms.

1976. Boumedienne drafts the National Charter; the constitution is promulgated.

1977. Boumedienne's death sets off a struggle within the FLN to choose a successor. Colonel Chadli Bendjedid is sworn in on 9 February 1979.

1980. The First Five-Year Plan (1980–84) and Second Five-Year Plan (1985–89) aiming at diversifying the economy are adopted.

1985. The 1985–89 Four-Year plan places greater emphasis on agriculture and decreased central planning.

1987. The Ministry of Planning is abolished.

1988. Popular protests break out; government declares state of emergency.

1989. New constitution promising pluralism is adopted. Abbassi Madani and Ali Belhadj found the Islamic Salvation Front (FIS).

1991. Government cancels national elections. FIS wages rebellion against the state.

1992. Parliament is dissolved.

1999. President Bouteflika announces national reconciliation plan to end the civil conflict.

FUTURE TRENDS

Algeria entered the 21st century under a cloud of economic uncertainty. For much of the century, state control of the economy and the government's experiment with socialism has left the economy in shambles. The economic reform program waged in the early 1990s has set the stage for partial economic recovery, however. Some progress has been achieved in terms of improving transparency, cutting budget expenditures, updating legislation, and liberalizing the telecommunications market. Wide-ranging structural reforms have also been achieved.

The pace of Algeria's economic reform program, however, has been rather slow. Despite major reform efforts, the public sector continues to be a major force in the economy. Long-term challenges include servicing the country's huge external debt, further privatizing state-owned enterprises, and attracting foreign investment. More importantly, the government is faced with the daunting challenge of improving living standards, which have steadily declined over the last few decades, and creating new job prospects for Algeria's youth, who account for over 50 percent of the population. If left unresolved, the problem of unemployment in particular may potentially become a renewed source of political instability and a credible challenge to the regime. Much work is also needed on the political front. The government will have to improve the unstable security situation in the country to attract foreign investments. To that end, it has to find a way to end the cycle of violence waged by Islamic insurgents since 1991, which has become a major obstacle to foreign investments and economic recovery.

DEPENDENCIES

Algeria has no territories or colonies.

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—Reem Nuseibeh

ANGOLA

Republic of Angola
República de Angola

CAPITAL: Luanda.

MONETARY UNIT: The currency of Angola is the nova kwanza (Kzr). One Kzr equals 100 centimos. Notes are in denominations of Kzr5, 10, 50, and 100. Coins are in denominations of Kzr1, 2, 5, and 100, as well as 10, 20, and 50 centimos.

CHIEF EXPORTS: Crude oil, diamonds, refined petroleum products, gas, coffee, sisal, fish and fish products, timber, cotton.

CHIEF IMPORTS: Machinery and electrical equipment, vehicles and spare parts, medicines, food, textiles, military goods.

GROSS DOMESTIC PRODUCT: US$11.6 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$5 billion (f.o.b., 1999 est.). **Imports:** US$3 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Angola is located in southern Africa, and borders the South Atlantic Ocean, Namibia, Zambia, and both Congos—the Democratic Republic of Congo and the Republic of the Congo. Angola has a total area of 1,246,700 square kilometers (481,351 square miles). It has a coastline of 1,610 kilometers (1,000 miles) on the South Atlantic Ocean. Comparatively, the area is slightly less than twice the size of Texas. The capital of Angola, Luanda, is located on the north-central coastline. The highest point in Angola is Morro de Moco at 2,620 meters (8,596 feet). Angola also includes the exclave of Cabinda (an exclave is an area of land that is part of another country but separated physically from that country). A province of Angola, Cabinda's size is roughly 7,300 square kilometers (2,800 square miles), and it lies south of the Republic of Congo on the Atlantic coast.

POPULATION. The population of Angola was estimated by the CIA to be a little over 10 million in July 2000, although the World Bank put the figure at 12.4 million for 1999. These organizations also believe that the annual population growth rate decreased from 3.2 percent in 1995 to 2.9 percent in 1999. The growth rate for the year 2000 was estimated at 2.15 percent. In 2000 the birth rate stood at 46.89 births per 1,000, while the death rate was 25.01 per 1,000.

The population of Angola is very young. Only 3 percent of the population is over 65 years of age. About 54 percent of the population is between 15–64 years old, and 43 percent is below the age of 15. The life expectancy at birth for women is about 39 years and about 37 years for men.

The population density in 1995 was 8.8 people per square kilometer (18.1 people per square mile). The urban population has increased slowly but steadily from 31 percent in 1995 to 33.6 percent in 1999. The illiteracy rate in Angola is very high; only 42 percent of people over the age of 15 can read and write. There is a significantly higher number of men who are literate than women (56 percent versus 28 percent).

OVERVIEW OF ECONOMY

Angola's economy is in disarray due to the near-continuous warfare that has been ongoing in the country since independence in 1975. The National Union for the Total Independence of Angola (UNITA) and the Popular Movement for the Liberation of Angola (MPLA) have struggled for control of Angola and its abundance of natural resources since Portugal relinquished its control of the nation in 1975. Although the MPLA has managed to stay in power for most of Angola's history, the effort it expends in fighting UNITA and other hostile forces prevents it from developing Angola's economy. The government is likewise hindered by the fact that UNITA controls much of Angola, including its valuable

diamond mines, the profits of which go towards UNITA's military efforts rather than the development of a stable economy. The result is that Angola is among those nations with the lowest output per capita in the world. **GDP per capita** in 1999 was estimated by the CIA World Factbook at US$1030, figured according to **purchasing power parity**.

The dominant force shaping Angola's economy today is oil and oil-related activities. These are essential to the economy of the country and contribute about 45 percent to GDP and 90 percent of exports. Thanks to oil production, the economy grew by 4 percent from 1998 to 1999. U.S. oil companies have invested heavily in Angola's oil production. In 1997, the United States bought 70–80 percent of all Angola's oil. In 2000, 7 percent of all U.S. petroleum came from Angola. This is expected to rise to 10 percent within 8 years. Unfortunately, the continual warfare has stifled investment in all other sectors. Diamonds are an important export product, but

UNITA's control of this valuable resource limits its positive impact on the nation's economy.

Subsistence agriculture provides the main livelihood for 85 percent of the population, but larger-scale farming is difficult in Angola's landmine-ridden countryside. These mines remain throughout the country and hamper any development of the agricultural sector, even though the country itself is fertile. As a result, much of Angola's food must be imported. Coffee is one product that could be a large export opportunity, but the presence of so many minefields makes this development problematic.

Angola is severely indebted. The burden of debt on each Angolan is 3 times higher than the average for Africa. In 1999 the total outstanding debt was US$10.5 billion, more than two-thirds of which was owed to private creditors. In 1995 international donors (the World Bank, the European Union, and the United Nations' specialized agencies are the leading multilateral donors) pledged over US$1.0 billion in assistance to Angola. However, these funds have been held back because of the stalemated peace process between the MPLA and UNITA.

POLITICS, GOVERNMENT, AND TAXATION

MPLA and UNITA began by fighting a common enemy—Portugal—for Angola's independence in 1961. They formed a coalition government along with the National Front for the Liberation of Angola (FLNA) following Portugal's decision to grant Angola independence on 11 November 1975, but the differences between the groups resulted in the coalition's disintegration before independence was achieved. The failure of the coalition government set the stage for a civil war that continued to plague the nation into the 21st century. UNITA, backed by the United States and South Africa, fought MPLA, backed by the Soviet Union and Cuba in a Cold-War showdown. However, the MPLA forces gained the victory when they overpowered major UNITA strongholds, and earned recognition from the Organization of African Unity (OAU) as the official government of Angola in 1976.

However, MPLA's hold on the government was far from secure. UNITA continued operating from southern Angola and from Namibia to topple MPLA; both South Africa and Cuba remained involved in Angola's war-battered landscape as military presences. With so many countries and factions involved in the war, a peace agreement seemed impossible until the thawing of the Cold War in 1988 resulted in the withdrawal of South African and Cuban troops from Angola. The first free elections in 1992 gave a narrow victory to the MPLA (which then became the Government of the Republic of Angola, GRA), but UNITA alleged voter fraud and did not accept the results. Fighting broke out once more and UNITA gained control of 75 percent of the country. However, the international community condemned UNITA's failure to honor the election results and recognized the MPLA government as the legitimate power. The 1994 Lusaka Protocol attempted to broker a peace agreement between UNITA and MPLA, but not even the 6,000 peacekeeping troops installed in Angola by the United Nations in 1995 could stop continued fighting. By 1999 the United Nations withdrew its peacekeeping force and acknowledged the failure of the Lusaka Protocol.

The governmental structure of Angola is considered to be in transition pending the settlement of the civil war. In the country's first elections following independence, Jose Eduardo Dos Santos, the head of the MPLA, was elected under a one-party system. The 1992 elections were designed to elect the president by popular vote and the 220-seat National Assembly by proportional vote, with both president and legislators to serve 4-year terms. UNITA, led by presidential candidate Jonas Savimbi, contested the 1992 elections after winning 40.1 percent of the vote. Since that time the official government has been led by the MPLA with no new elections.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Due to the extensive warfare, most of Angola's **infrastructure** has been destroyed. Millions of land mines were laid, and efforts to remove them have so far made little progress. Not only do these vast numbers of mines hamper the building of an infrastructure of extensive road networks, but they continue to maim and kill civilians. There are 19,156 kilometers (11,903.5 miles) of paved roads and a total of 2,952 kilometers (1,834.4 miles) of rail tracks. There are 32 airports with paved runways and 217 with unpaved runways. However, the condition of these airfields varies, and mines are a problem here as well.

Transportation in general is a problem in Angola. Perhaps no sector has suffered more than transportation from the war. Roads, railways, and bridges have been severely damaged. Ports are run-down and antiquated. More than 60 percent of the paved road network needs repair. The estimation of the Angolan government is that it will take 10–15 years to restore the road network to the status prior to the war. However, this presumes an end to the fighting, without which the road infrastructure will take considerably longer to recreate. The road, railway, and bridge networks are essential for the other economic sectors to grow. They will link the main cities in the country and get the products from one end of the country to the next.

The continued political violence and fighting is the reason for the lack of external investment in Angola. However, when stability returns, the lack of an infrastructure

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Angola	11	54	14	N/A	1	N/A	0.8	0.00	10
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

will be a major factor hindering economic development. Building an infrastructure is essential for the country's further development of other economic areas such as agricultural products, of which Angola used to be a net exporter.

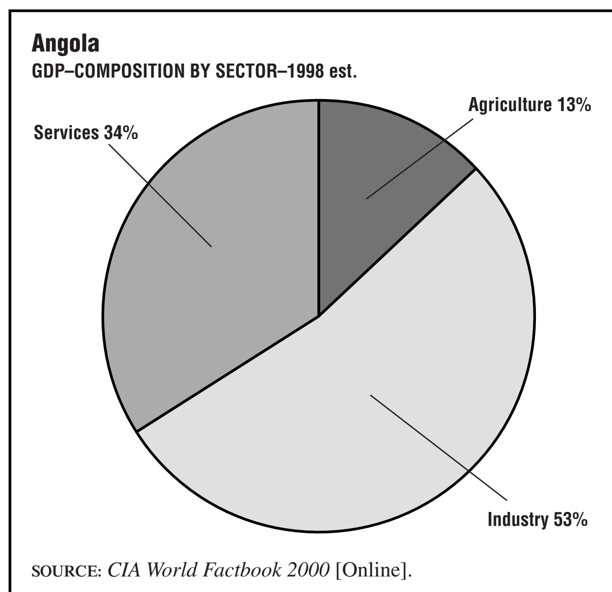
There are about 60,000 telephone main lines in use (1995). The telephone system is limited mostly to government and business use. Radio telephones are used extensively by the military. There are 2 Internet service providers in the country (1999), but the level of personal computer ownership is very low (0.8 per 1,000 in 1998). There are also very few televisions in Angola, with only 14 sets per 1,000 people in 1998.

ECONOMIC SECTORS

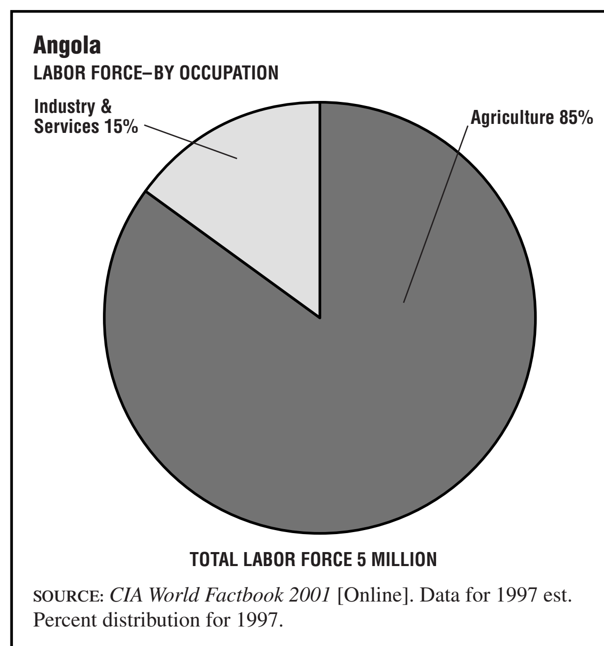
Angola's total **labor force** for 1997 was estimated at 5 million, with 85 percent of the workforce engaged in agriculture, and industry and services with 15 percent. Despite the large segment of the population in agriculture, it contributed only 13 percent to GDP in 1998. Industry contributed 53 percent, and services provided 34 percent of GDP in the same year, according to the *CIA World Factbook.*

The most important industries are petroleum, diamonds, fish, and fish processing. Other significant industries are iron ore, phosphates, feldspar, bauxite, uranium, gold, cement, basic metal products, food processing, brewing, tobacco products, and sugar textiles.

Agricultural products include bananas, sugarcane, coffee, sisal, corn, cotton, manioc, tobacco, vegetables, plaintains, livestock, forest products, and fish. The most important of these agricultural products for export are coffee, sisal, timber, and cotton. However, agricultural



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997 est. Percent distribution for 1997.

production in Angola has been severely reduced by the civil war. The majority of agriculture is now **subsistence farming**. The industrial sector has likewise been reduced, with oil as the sector's only growing industry. This is important for the economic development of Angola, but is not enough to create sustainable development, and leaves Angola's economy vulnerable to fluctuating oil prices.

AGRICULTURE

Agricultural production is the sector that contributes the least to Angola's economy, a mere 13 percent of the GDP. Prior to the civil war in 1975 Angola was self-sufficient in food production and was a major exporter of agricultural products. The two most important products for export prior to the war were coffee and sisal. Angola was the second-largest producer of coffee in Africa and the fourth-largest in the world in 1974. Today only 3 percent of all arable land is being cultivated. There are two crucial reasons for this. First, large numbers of refugees have fled the country due to constant fighting, leaving the land uncultivated. Secondly, the vast amounts of anti-personnel mines that have been buried throughout the countryside make it difficult to cultivate the land again. This is unfortunate because Angola has the potential to grow a huge range of both semi-tropical and tropical crops. With continued fighting, Angola cannot fulfill its promise as a major agricultural producer.

COFFEE. There have been attempts at coffee production during the conflict, but continued fighting has made the sector's recovery impossible. There are several advantages to focusing on coffee production in Angola. First, it is an area where Angola can compete in the global market, hence supplementing oil as a major income generator. Second, Angolans have a lot of experience in the production of coffee. Third, the fertile land is well disposed to the cultivation of coffee. Today, the coffee industry is moribund. The U.S. Department of Agriculture estimates Angola's total coffee production for 2001 will be 65,000 bags of coffee (each weighing 60 kilograms). This is up slightly from 55,000 bags for the previous year. In contrast, Mexico was expected to produce 5.8 million bags, and Kenya's production was estimated at 1.1 million for 2001. Angola is not even on the list of the top 35 suppliers of coffee to the United States.

FISH AND FISH PRODUCTS. The fishing industry in Angola prior to the war was very important, and annual catches were about 600,000 tons. This shrank to only 35,000 tons during the war, but began to rise from 1993, when the catch was 122,000 tons, and this trend has continued. Angola has been building up its fishing fleet with the support of Spain, Italy, Portugal, and the Arab Bank for African Economic Development (BADEA). The World Bank helped the Angolan government set up the Angolan Support Fund for Fisheries Development. Angola has a long coastline which is especially rich with sardines, tuna, and mackerel. There is great potential for continued expansion in this sector.

INDUSTRY

Industry is the most important sector in Angola's economy, accounting for 53 percent of the GDP. The 3 important industrial sectors are mineral resources, energy, and manufacturing, the former two being by far the most significant. All of these were severely affected by the war, but since 1994 have increased significantly.

MINERAL RESOURCES. Angola has vast deposits of a large variety of mineral resources including diamonds, gold, iron ore, phosphates, copper, lead, and zinc. However, the most important mineral with respect to export is diamonds. Prior to 1975 Angola was the fourth-largest diamond producer in the world, but this dropped during the war because of large-scale theft, smuggling, and transportation problems. UNITA controls the majority of the diamond-producing land, which has added to the government's problems in controlling the diamond trade. In 1992 Angola exported diamonds worth $250 million. While diamond exports are increasing, they have not reached pre-war levels. With a stable peace agreement there should be no obstacles keeping Angola from reaching and exceeding former export levels.

Apart from diamonds, Angola's resources are vast, but largely untapped. The Angolan government's efforts to promote private investment led it to abolish the previously state-held **monopoly** of mineral rights. (This began on a small scale in 1986 in relation to diamonds). Mining ventures can consequently be privately held. However, the continued conflict makes it difficult to attract private investment, and these resources remain untapped.

ENERGY. Angola is a regional player in energy production. Angola co-ordinates the energy policy for the Southern African Development Co-ordination Conference (SADCC), and its energy secretariat is based in Luanda. Energy production is essential for Angola, with 90 percent of the country's total exports coming from oil. In 2000 oil contributed 45 percent to the GDP of the country. Energy is the only sector that expanded throughout the 1980s, during the war. The oil industry is run by the Angolan state oil firm Sonangol, in conjunction with foreign oil companies. Angola is the second-largest producer of oil in sub-Saharan Africa and provides 7 percent of all U.S. oil imports. The United States is the main purchaser of Angolan oil, buying some 70–80 percent of all oil exports.

New oil reserves are being discovered regularly, and faster than the country's reserves can be depleted. Foreign

companies have not been deterred from investing in Angola's oil industry irrespective of the warfare. The oil industry is viewed as an attractive investment opportunity that offers the oil companies favorable geological conditions, low operating costs, and co-operation from the Angolan government. The total foreign investment in oil production in the 1980–86 period was US$2.7 billion. The investment level in the next 3 years was US$2 billion, with US$4 billion invested between 1993 and 1997.

Hydroelectric power has been a priority of the Angolan government. In 2000 75.03 percent of the electricity produced was hydro-generated. Several large rivers flow through the country and give an enormous potential for hydroelectricity. The current generating capacity exceeds demand locally and output is increasing. This makes Angola a potential regional exporter of hydroelectric energy. However the power supply has been irregular, partially due to sabotage by the warring factions, and a deteriorating infrastructure due to poor maintenance and lack of investment. However, the potential for regional export is vast when stability returns, even though Angola exported no electricity as of 1998.

MANUFACTURING. Angola had about 4,000 manufacturing enterprises before the civil war, which employed 200,000 people. However, this was significantly reduced by the onset of the war. The only products that are manufactured and exported from Angola today are cement and refined petroleum products. There is potential for establishing the pre-war levels of production, but this will require stability and outside investment. It would also necessitate the creation of an infrastructure. Hence, investment in oil and diamonds will for a long time be more interesting to outside investors than Angola's manufacturing sector.

SERVICES

Services in Angola are not very developed, again a direct consequence of the war. The government has begun to encourage investment in tourism. However, with the continued strife and breached peace agreements it is doubtful whether such projects will take place. Foreign investors will shy away from investing in tourism in such a volatile society. Not only will it take substantial time before there will be investors in tourism, but the entire infrastructure to support such an expansion is at present lacking. The willingness of tourists to go to such an area is also in doubt. Financial and human services are in a similar state of disarray.

INTERNATIONAL TRADE

In 1999 Angola exported a total of US$5 billion worth of goods and services and imported US$3 billion worth. Due to Angola's colonial past, its primary trading partner has historically been Portugal. Today, Portugal is still a primary trading partner from which 20 percent of Angola's commodities are imported. The United States and South Africa are other major sources of imports for Angola, providing 17 percent and 10 percent, respectively. However, the United States is the major source of Angolan exports with 63 percent of all exports; 9 percent of exports going to the Benelux countries (Belgium, the Netherlands, and Luxembourg), and China, Chile, and France are also important sources of exports.

MONEY

In 1990 the Angolan government changed the currency from the kwanza to the nova kwanza. This was done to reduce the money supply and force prices down in the **informal sector**, which operated parallel to the more regulated conventional market. This measure was taken to satisfy requirements of the World Bank, the IMF, and other financial institutions as part of the reforms that these institutions see as essential to higher growth and poverty reduction in Angola. A **devaluation** followed in which the official value of the kwanza was cut in half. In order to control the foreign exchange in circulation, 4 different **exchange rates** were applied in the banking system. **Privatization** was also introduced gradually because of pressure from international financial institutions. This **liberalization** process was stopped in 1992 due to resumption of the war.

Angola's financial woes heightened in 1994 and the government renewed its reform efforts. Since 1993 there has been a 25 percent decline in **real GDP**. In 1994 the government's **budget deficit** was US$872 million. The central bank attempted to address these deficits by increasing the money supply, but this raised **inflation** to 1,838 percent in Luanda in 1993, in 1995 inflation had reached 3,700 percent. In 1994 another adjustment program was attempted. However, this was made more difficult by the development of a robust informal sector with

Exchange rates: Angola

kwanza per US$1	
Jan 2001	17,910,800
2000	10,041,000
1999	2,790,706
1998	392,824
1997	229,040
1996	128,029

Note: In December 1999 the kwanza was revalued with six zeroes dropped off the old value.

SOURCE: CIA *World Factbook 2001* [ONLINE].

its own credits and expenditures which were outside the control of the Ministry of Finance. In 1994 as much as 60 percent of the income of the state was outside treasury accounts.

There has yet to be any economic stabilization in Angola. There are 2 reasons why it might continue to be difficult to obtain even with a peace process. First, military expenditures will remain high because of the previous history of broken peace processes, in addition to the involvement of other countries in the conflict. Second, strong adjustment policies may antagonize the population, because they may want to see change come about quicker than is practically feasible.

The nova kwanza has dropped in value against the U.S. dollar for several years. In 1995, the official rate was Kzr2,750 to the dollar, and by January 2000, the rate had risen to Kzr577,304 to the US$1.

POVERTY AND WEALTH

The vast majority of Angolans live in poverty, while the political elites are very wealthy. Access to goods for the poor and the rich is very different. For years there has been a shortage of **consumer goods**, and the government sought to obtain fair distribution via *lojas do povo* (people's stores). However, only about 15 basic commodities were available, and in practice the shelves were often empty. The elites on the other hand had access to *lojas de responsaveis* (stores for high-ranking people) and *lojas francas* (free shops) where they could buy goods with foreign currency only. Economic policies were faltering and this made it more difficult for people to make ends meet both in rural and urban areas. Therefore, a parallel economy grew rapidly after independence.

An estimated three-quarters of economically active people have been involved in the informal economy. There are 2 main elements of the informal economy: rural, subsistence agricultural production (which occupies 85 percent of the population) and the urban parallel market, a system of exchange outside regulated channels. However, due to the lack of infrastructure and war conditions, there has been little integration of these two aspects of the informal sector. Therefore, the urban markets tend to rely on imports.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Angola	N/A	698	655	667	527
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Dem. Rep. of Congo	392	313	293	247	127

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

WORKING CONDITIONS

The working conditions in Angola are tightly connected with the war and the development of dual economies. Wages were nominal after the war began and therefore could not serve to ensure access to consumer goods. There is also vast unemployment, which affects more than half of the population. In addition, 25 percent of the population depended upon humanitarian aid for survival in 1996.

Most Angolans are active in the informal sector. This mainly consists of subsistence farming and urban markets. Since this economy is informal there are no laws to protect the workers or unions. The effect of the war has resulted in 1.5 million internal refugees. Workers in the mines in UNITA-held territories extract diamonds to sell in support of their cause.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1575. Portuguese settlement established at Luanda.

17TH CENTURY. Portugal controls the slave trade from its base in Angola, though the Dutch, French, and British began to establish a presence on the African continent.

1836. The export of slaves is banned.

1850s. Angola's exports are dominated by ivory, wax, and rubber.

1912. Alluvial diamond mining becomes an important industry in northeast Angola.

1930. With the Colonial Act of 1930, Portugal modernizes Angola's economy and binds it to that of Portugal by a system of protective **tariffs**.

1956. The Popular Liberation Movement of Angola (MPLA) is founded. It is supported by the Soviet Union.

1957. The National Front for the Liberation of Angola (FNLA) is founded. It is supported by the United States.

1961. A major revolt against Portuguese rule erupts in northern Angola, followed by a long guerrilla war.

1966. Political leader Jonas Savimbi breaks from the FNLA and sets up the National Union for the Total Independence of Angola (UNITA). UNITA, FNLA, and MPLA all fight a guerrilla war against Portuguese forces.

1975. Portugal releases its claim to Angola, and independence is declared. A government is established, consisting of the 3 nationalist groups and a Portuguese representative. However, this government collapses and civil war ensues. Over the next 25 years the MPLA acts as official government, and the coalition of UNITA/FNLA has been in rebellion. The MPLA is backed by the U.S.S.R. and Cuba, while UNITA and the FNLA are backed by the United States, the United Kingdom, and South Africa. The civil war claims a total of 500,000 lives by 2000.

1981. An undeclared war with South Africa begins. Its origins lie in the refusal of South Africa to grant independence to Namibia and South Africa's struggle against the nationalist groups in Namibia fighting against South African rule.

1989. The United Nations monitors the withdrawal of Cuban troops.

1991. The government and UNITA conclude a peace agreement.

1992. The Forcas Armadas Populares de Libertacao de Angola (FAPLA) and UNITA forces are disbanded and a new national army established. Elections are held, and the MPLA wins a narrow majority. Refusing to accept the results of the elections, UNITA forces resume fighting.

1993. The UN sponsors peace talks amidst continued fighting.

1999. It is estimated that there are 1.5 million refugees inside Angola displaced by the civil war.

FUTURE TRENDS

The future of Angola's economy depends entirely upon a cessation of hostilities and the creation of a stable and secure environment. If this does not happen, Angola will continue to have a low GDP regardless of the vast resources it possesses. However, due to the destruction of the infrastructure and the immense problem with land mines, there will be huge problems to overcome even if the war is ended. Infrastructure is necessary for expansion of the mining industry and agricultural production. The removal of mine fields will take huge resources. Both of these objectives will take a long time to achieve and have a high cost. Therefore, even with the creation of a stable and secure society it will take a long time before Angola can begin to tap its vast resources. An additional problem is that Angola is one of the most indebted countries in the world. Unless there is a substantial debt reduction the possibilities of rebuilding Angola's economy are slim, irrespective of cessation of hostilities.

DEPENDENCIES

Angola has no territories or colonies.

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—Eirin Mobekk

BENIN

Republic of Benin
République du Bénin

CAPITAL: Porto-Novo.

MONETARY UNIT: Communauté Financière Africaine franc (CFA Fr). One franc equals 100 centimes. There are coins of 1, 2, 5, 10, 25, 50, 100, and 500 CFA Fr. There are notes of 50, 100, 500, 1,000, 5,000, and 10,000 CFA Fr.

CHIEF EXPORTS: Cotton, crude oil, palm products, cocoa.

CHIEF IMPORTS: Foodstuffs, tobacco, petroleum products, capital goods.

GROSS DOMESTIC PRODUCT: US$6.6 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$396 million (f.o.b., 1999 est.). **Imports:** US$566 million (c.i.f., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Benin is a slim, rectangular country situated in West Africa. Benin has a narrow 100-kilometer (62-mile) coastline along the Bight of Benin, in the Atlantic Ocean. The country is bordered to the west by Nigeria, to the north by Niger and Burkina Faso, and to the east by Togo. Benin has a land area of 112,622 square kilometers (42,985 square miles), making it slightly smaller than the state of Pennsylvania. Both the capital, Porto-Novo, and Cotonou, the largest city, are located on the coast in the southeast of the country.

POPULATION. The population was estimated at 6.4 million in mid-2000. The relatively high population growth rate of 3.3 percent from 1992 to 1996 has led to a young population age profile, with 47 percent below the age of 15, 50 percent aged between 15 and 64, and only 3 percent 65 and over. The birth rate was 45 per 1000 in the year 2000, and the death rate was 15 per 1000.

The principal ethnic groups are the Fon (42 percent), the Adja (15.6 percent), and the Yoruba (12.1 percent) in the south, and the Bariba (8.6 percent), the Otamari (6.1 percent), and the Peulh (6.1 percent), who live further north. Some 40 other groups are identifiable. Around 70 percent of the population follow traditional indigenous beliefs, 15 percent are Muslim, and 15 percent Christian.

Roughly 38 percent of the population live in towns (1995 estimates), double the 1990 census figure of 16 percent. Approximately 54 percent of urban dwellers have sanitation facilities. Infant mortality is high at 140 per 1000 births, but down from 205 per 1000 births in 1980 (by way of comparison, in the United States, infant mortality is 7 per 1,000).

OVERVIEW OF ECONOMY

Benin is one of the 30 or so poorest countries in the world. **Gross domestic product (GDP) per capita** measured with the **purchasing power parity** conversion (which makes allowance for the low price of many basic commodities in Benin) was estimated to be US$1,030 for the year 2000. The economy is heavily dependent on agriculture, which employs approximately 80 percent of the population. Crops are grown for export as well as domestic consumption. Industry is relatively underdeveloped and restricted mainly to simple **import substitution** products and basic agro-industrial processes.

Successive governments have struggled to tighten the country's economic and fiscal performance at the request of the International Monetary Fund (IMF) and the World Bank, while dealing with trade union pay demands. Benin entered agreements with the IMF in 1989 to introduce reforms. Though progress has been slow and is hindered by political infighting, there have been significant changes in the economy as a result of these reforms. In 1991–96 the government **privatized** or liquidated 100 state enterprises including cement, textiles, brewing, tobacco, and petroleum enterprises. The insurance sector has been **liberalized**, leading to increased

competition. There has been significant foreign investment in telecommunications. Cotton production is also opening up to private investment. However, the IMF has continued to press for further privatization's of state-run enterprises, including the major utilities such as electricity and water, as well as postal services and telecommunications. Privatization has significantly decreased the proportion of government spending. Since the collapse of the government in 1989 and the restoration of multiparty democracy with the introduction of the new constitution in 1990, there has been increased investment from overseas, and a resumption of donor lending.

Monetary policy is controlled by membership of the Union Economique et Monetaire Ouest-Africaine (UEMOA,) and Benin is also a member of the African Franc Zone, which consists of those countries that use the CFA franc for their national currencies. Membership limits government borrowing and credit creation and sets interest rates as well. The UEMOA oversaw a 50 percent **devaluation** of the CFA franc in 1994, which increased the prices received by producers for exports. Local production recovered, and GDP growth rose to about 5 percent a year in the late 1990s. The other effect of the CFA franc devaluation was that it led to **inflation** rising to 38 percent in 1994 and 14 percent in 1995. Inflation then fell to 4.9 percent in 1996 and 3.5 percent in 1997. It rose once more in 1998 to 5.7 percent due to wage increases, cereal crop shortages, and the energy crisis caused by the drought in Ghana. Inflation fell again in 1999 to 3 percent.

Agriculture has been the main economic growth sector. Cotton production grew over 300 percent from 1990 to 1997. However, cotton production has been affected adversely by falling prices and management problems. Gasoline production stopped in 1998, but rehabilitation is under way due to the recent rise in world oil prices. In 1998 a drought in Ghana led to a serious setback in economic growth due to interruption of Benin's electricity supply, which caused much industry to close. Electricity supplies returned to normal in 1999.

The U.S. State Department states: "the most daunting obstacle to economic development . . . is the pervasive and increasing level of corruption throughout society. Corruption impacts virtually all aspects of social, economic, and political life in Benin. Inefficient and unmotivated government bureaucracies, even when not overtly corrupt, also make it extremely difficult for foreign businesses to conduct operations in Benin." The government agreed in 2001 to increase plans to end corruption, but the effect of these measures is not yet clear.

POLITICS, GOVERNMENT, AND TAXATION

Benin (once known as Dahomey) became a French colony in 1900 and was granted independence in 1960. Since that time it has experienced severe political turbulence. Hubert Maga, elected under a multi-party system and the country's first president, was ousted in a coup (a domestic military takeover of a government) in 1963, and regular changes of government then ensued until another coup in 1972 brought General Kerekou to the presidency. In 1974 **Marxism**-Leninism (the political and economic doctrines of Karl Marx and Vladimir Ilyich Lenin) became the country's official ideology. Major companies, banks, and offices were **nationalized**. Corruption followed and

the economy contracted so sharply that the government was unable to pay wages, which led to strikes and eventually to a crisis in 1989. Kerekou convened a national conference of leading politicians, including opposition representation, later in 1989, which resulted in the creation of a multi-party democracy. A new constitution was adopted after a referendum in 1990. Legislative and presidential elections were held in 1991, and in a contest with Kerekou, Nicephore Soglo was elected president with 67 percent of the vote. Since the creation of the new constitution in 1990, Benin has, according to the U.S. State Department, been viewed as "a democratic model not only for its West African region but even for the entire continent."

Soglo became unpopular due to the persistence of economic problems—the inability of the government to pay salaries, high inflation, and shortages of basic commodities—and he succeeded in alienating his supporters such that he lost the 1996 election to Kerekou. In the meantime, Kerekou had renounced his military title, developed a new tolerance for the free market economy, and expressed his determination to combat corruption. Despite opposition from 16 other candidates, and a second round run-off (from which Soglo withdrew), Kerekou was successful at the polls in 2001 and secured another presidential term.

The 1990 constitution instituted a 5-year presidency, with the president eligible for re-election only once. The president has executive power and can suspend parliament with court approval. The members of the 83-seat assembly serve a 4-year terms. The position of prime minister (created in 1996) was dissolved in 1998 due to conflict between the president and the prime minister over executive powers.

Currently the main parties are fragmenting, leading to the formation of unstable coalitions, which has also decreased the effectiveness of the parliament. This dissension is likely to continue in the near future. Mr. Kerekou's coalition and the opposition are roughly equally represented in the assembly, meaning that the smaller parties can decide the parliamentary majority by aligning with one side or the other. Such tactical alliances have succeeded in blocking much government legislation. The trade unions are very powerful and are able to challenge the government's economic and **fiscal policies** through strikes, which also tend to lead to civil unrest and severe economic losses.

Benin raises less than 10 percent of the GDP in tax revenue and receives a further 2 percent in surpluses from state-owned enterprises, mainly **monopolies**. About 50 percent of government spending goes to social services (which includes health and education), about 14 percent on the armed forces, and the remainder is absorbed by general **public sector** administration. The military is an important influence in political life, and it has seized power though coups on several occasions. The relatively high level of spending on the military is an attempt to prevent alienation of the armed forces.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

There are 7,500 kilometers (4,660 miles) of roads and tracks in Benin, only 20 percent of which are paved. The coastal road that runs along the Lagos-Accra route is paved, and travel between Porto-Novo and Cotonou is easy. Contracts were awarded in 1998 for the construction of another motorway from Cotonou to Porto Novo. A north-south road forms a link to Burkina Faso and Niger. Development is focused primarily on rehabilitation and feeder roads to allow farmers to market their crops more effectively.

There are 635 kilometers (394 miles) of railway line, of which 579 kilometers (360 miles) are main lines. The most important route is from Cotonou to Parekou (440 kilometers, or 273 miles), which provides an important part of the link between Niger and Cotonou. The deep-water port at Cotonou handles 2 to 2.5 million metric tons per year and processes transit trade to Burkina Faso and Niger. A World Bank study showed that the port was losing a potential US$22 million per year in container operations due to poor organization by the state handling company. Management and development of Cotonou Port is due to be transferred to a private operator, while leaving equipment

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Benin	2	108	10	N/A	1	0.2	0.9	0.04	10
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Togo	4	218	18	N/A	2	4.1	6.8	0.17	15

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

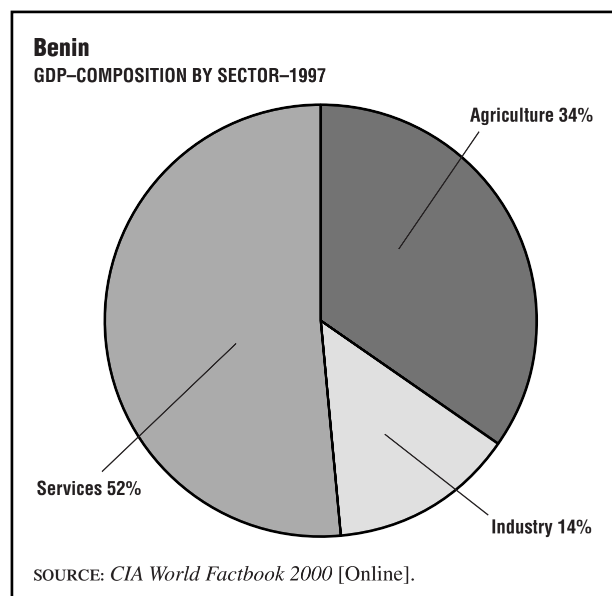
and installations in state hands. Cotonou International Airport carries 250,000 passengers per year. There are 4 secondary airports. The private Benin Inter-Regional Airline was started in 1991 and provides local and regional flights.

In 1996 there were 30,000 telephone lines in Benin, but expansion has been underway. A 1,500 kilometer microwave network currently connects 52 exchanges, and an Intelsat station is being installed. In 1999 Alcatel (a French company) and U.S.-based Titan won a US$60 million contract for fixed and mobile phone expansion projects respectively. There are approximately 150,000 radio sets being used in Benin. Television broadcasts began in 1972, but the state monopoly over television ended in 1997. In 1998, 35 radio licenses (including 13 commercial station licenses) and 3 TV station licenses were issued. There are 13 daily newspapers.

Most of the country's energy for domestic use comes from wood fuel. Electricity is produced and imported by Communaute Electrique du Benin (CEB), Benin's state-owned electricity company. CEB relies heavily on Ghana's Akosombo dam for most of its electricity. However, this reliance produced a crisis during the 1998 Ghanaian drought, when Benin's electricity supply was severely affected. This difficulty has led to attempts to diversify electricity production facilities and moves to import generators. Togo and Benin also have a shared 65 megawatt (mw) station on the Mono River, although both are still dependent on Ghana. A second 104 mw dam is under construction on the Mono River.

ECONOMIC SECTORS

Agriculture (including hunting, forestry, and fishing) employed roughly 80 percent of the **workforce** and generated 37.9 percent of the GDP in 1999. Cotton and palm oil are the main exports, and the country is predominantly self-sufficient in foodstuffs. Industry (including mining, manufacturing, construction, and power) provided 13.5 percent of the GDP in 1999, while services contributed 48.6 percent.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Problems in the agriculture sector arise from poor transport, inadequate storage, and the inability of farmers to provide legal evidence of land ownership as collateral for loans. Despite these difficulties, agriculture has expanded and developed since the 1994 CFA franc devaluation. In 1997 a project was started to rejuvenate the collective farms, costing US$5 million and employing 2000 people over 5 years. The project will be run by the **private sector**, with foreign management of some farms.

The oil palm is the most important tree crop in the south, and the oil it produces has a wide variety of uses in foodstuffs (especially margarine) and in industry (especially in soaps). Output in the 1970s and 1980s, however, fell due to drought, the overvalued franc, and low world prices. In 2000 a pilot project aimed to raise yields of coffee, cocoa, ground nuts (such as peanuts), and kerite (shea nuts), all grown in the south.

Cotton, the main export, is normally grown in the north. Higher producer prices after the 1994 devaluation boosted output to 15,000 metric tons of lint (unprocessed cotton fiber) in the 1997–98 season, though it fell again in the 1998–99 season due to smaller yields and a financial scandal in Sonapra (the cotton **parastatal**). The cotton price slump in 1999 means Sonapra might not be able to find growers at current prices and might face being sold to the private sector.

Food and livestock production accounts for 48 percent of the total agricultural output. **Smallholders** produce for domestic and regional markets. Maize and cassava are grown in the south and sorghum, millet, and yams in the drier north. Rice production is expanding rapidly and reached 30,900 metric tons in the 1998–99 season with help from a UN-backed program. Production was encouraged by Centre d'Action Regionale pour le Development Rural (Center of Regional Action for Rural Development), a government body set up to develop the rural economy.

In 1998 there were 1.3 million cattle, 6 million sheep, 1.1 million goats, and 5 million pigs in Benin. Cattle are kept mainly in the north, but there have been attempts to move production to the south. Livestock output meets 60 percent of the national requirements. Production is currently more competitive due to the 1994 devaluation of the CFA franc. There is a long-term plan for the country

to be self-sufficient in dairy products (as of 2001 Benin imports 8,000 metric tons of dairy products each year).

The Office Nationale du Bois was established 1983 to develop timber production and to stop deforestation. Plantations, mainly teak, covered 38,000 hectares in 1989 and further planting is planned. The fish catch is mainly from inland waters, rivers, and lagoons. Fish production is currently 12,000 metric tons per year, which meets 50 percent of domestic consumption.

INDUSTRY

In Benin there is no significant mining except for limestone, which is used in cement production. Improvements in mining regulations have stimulated foreign interest in recent years. Gold mining has attracted investment from 8 foreign companies and there are also proven reserves of iron and phosphates.

In 1999 the government signed a contract with Zetal Oil to rehabilitate the Sémé oil field at a cost of US$45 million. Sémé began production in 1982 and reached its peak production in 1985 at 10,000 barrels per day. Production ended in 1998 when low world prices and dwindling reserves meant that the field was not economical. Foreign companies (especially from the United States and Canada) are exploring Benin for further viable fields.

In 1999 a US$17.9 million oil terminal opened in Cotonou Port. The oil distribution company, Sonacop (previously state-owned), was sold to the private sector in 1999. Plans for a 1,000-kilometer gas pipeline from Nigeria to Benin, Togo, and Ghana moved forward in 1999 when 2 international companies and 4 regional gas boards signed a deal on the US$400 million project.

Manufacturing focuses on the processing of agricultural products and the production of **consumer goods**. The latter sector depends on imported inputs and was hit hard by the 1994 currency devaluation. However, this impact also meant the local raw material companies found it easier to compete with imports.

Cotton led agro-industry in the 1990s. Ginning capacity expanded rapidly, and the country currently can process 462,500 metric tons per year in 10 government-owned plants and 6 private plants. Capacity could be increased to 673,000 metric tons per year if the planned expansion is carried out. **Restructuring** plans for the government-owned plants are currently underway.

Palm oil has been in decline since the 1980s. Sonicog runs 6 small palm oil mills, though only 3 have operated in recent years. The sector is being restructured with World Bank assistance for privatization. Food, drink, and tobacco processing, as well as footwear manufacture and ceramics, form the basis of the import substitution sector.

SERVICES

After the collapse of several banks in 1998 and 1999, the financial sector was completely overhauled, with the liquidation of failed banks and the setting up of new private sector institutions with assistance from France and the World Bank. Benin's banks include the Banque Internationale du Benin, Ecobank, Bank of Africa-Benin, and Financial Bank.

A regional stock exchange, the Bourse Regionale des Valeurs Mobilieres (BRVM), was opened in 1998. It will help improve the capital market by attracting local savings and slowing **capital outflow** to Europe. The headquarters of the stock exchange is in Abidjan, but all UEMOA members have trading floors in their countries.

Tourism is in its infancy, and arrivals are usually French citizens or backpackers exploring West Africa. Attractions are many: the former slave towns of Porto Novo and Grand Popo, stilt villages and the lagoons around Ganvie, the northern nature reserves including the Pendjari area, and the Parc West (on the border of Burkina Faso and Niger). Hotel facilities vary in quality and availability, and outside Cotonou they provide only the basics.

INTERNATIONAL TRADE

There is a chronic international **trade deficit**, with exports in 1999 valued at US$396 million, and imports at US$566 million. However, the large number of unrecorded transactions means that assessment is difficult, mainly due to illegal cross-border trade with Nigeria.

Cotton is the most important export, followed by oil. **Re-exports** (goods that are imported into Benin and then sent to neighboring countries such as Burkina Faso and Niger) account for one-third to one-half of total exports, while food and **capital goods** account for one-quarter and one-fifth of imports respectively.

Trade (expressed in billions of US$): Benin

	Exports	Imports
1975	.032	.188
1980	.063	.331
1985	.150	.331
1990	.122	.265
1995	.414	.692
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

In 1999, France (38 percent), China (16 percent), the United Kingdom (9 percent), and Côte d'Ivoire (5 percent) were the main sources of imports for Benin. Currently, Asia supplies rice and manufactured goods for regional re-exports. Brazil (14 percent), Libya (5 percent), Indonesia (4 percent), and Italy (4 percent) are the main destination for exports, mainly cotton, in 1999.

MONEY

Benin is part of the 8-member UEMOA, and the currency is the CFA franc. The Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) issues currency notes and regulates credit expansion. The CFA franc was pegged at a **fixed exchange rate** to the French franc at 50:1 from 1948 but was overvalued in the late 1980s and subsequently devalued to CFA Fr 100 to 1 French franc in 1994. Since France joined European Monetary Union, the CFA franc is tied to the euro at CFA Fr655.959:Euro 1.

Benin is burdened with a huge **foreign debt** of more than US$1.6 billion, although the country's major creditors are working with the Paris Club (an informal organization made of various creditor companies and countries), the IMF, and the World Bank to help it manage its obligations.

Exchange rates: Benin

Communaute Financiere Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

One-third of the population live below the poverty line set by Benin, which suggests that close to 50 percent live below the dollar-a-day international poverty line. The dollar-a-day poverty line is based on the income required to provide the absolute minimum of nutrition, clothing, and shelter. Some 29 percent of children under 5 are malnourished (the figure is 1 percent for the United States), and life expectancy is 55 years (in the United States it is 77 years). Almost all those in poverty are in rural areas, relying on small-scale agriculture for their livelihoods and suffering because of poor land, inadequate rainfall, and not enough income to purchase good seeds, fertilizer, or farm machinery. In 1998 Benin was ranked 157th out of 174 countries in the UN's Human Development Index, which combines measures of income, education, and health provision.

In 1995 there was 1 doctor per 200,000 inhabitants. There was 1 midwife per 12,000 pregnant women, and just 42 percent of the population had access to health care. Several international initiatives to improve these figures have been undertaken. The constitution decrees that primary education is compulsory for all, though fees must be paid. In 1996 there was a 62 percent enrollment in primary age education, though this number dropped to 17 percent in secondary education. In 1993 almost US$1 million was set aside for a scheme for rural girls to be exempted from school fees. In 1992 adult literacy stood at 27 percent.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Benin	339	362	387	345	394
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Togo	411	454	385	375	333

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Benin	52	5	15	5	3	3	17
United States	13	9	9	4	6	8	51
Nigeria	51	5	31	2	8	2	2
Togo	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

Most people are very poor and earn their living through agriculture on small family farms. Most of the work is undertaken by hand, and women do most of the labor, helped by children. There are no official unemployment figures for Benin, but unemployment figures have little significance in a low-income African economy. There are very few with no work at all. There is no unemployment benefit, and those who do not work rely on support from charities or their families. Many people would like a modern sector job, but eke out an existence on family farms or in casual **informal sector** activities (such as **hawking**, portering, scavenging) in the urban areas. There was a minimum professional salary of US$38 per month in 1997. The biannual civil servant salary increase stopped in 1998, but trade unions are demanding its reintroduction. The **United Nations Development Program** estimates that 55 percent of urban dwellers earned less than US$160 per year in 1992.

The constitution of the Republic of Benin guarantees the basic rights and freedoms of citizens. Forced labor is illegal, but human rights are not enforced in a consistent manner. Children often work to supplement household income, resulting in lower school attendance figures. In 1998 it was estimated that 29 percent of children aged 10–14 had to work to supplement family income.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1900. Dahomey (the former name of Benin) becomes a French colony.

1960. Independence is granted, and Hubert Maga becomes the country's first president.

1963. A coup brings Colonel Christophe Soglo to power.

1963. Dahomey returns to civilian rule, with Sourou-Migan Apithey elected president.

1965. Soglo assumes power again.

1967. Major Maurice Kouandete seizes power through a coup.

1968. Emile-Derlin Zinzou is appointed president by the military, but Kouandete again assumes power.

1969. A presidential election is attempted but collapses. Maga is nominated president again.

1972. Maga is succeeded by Ahomadegbe, but Major Mathieu Kerekou seizes power.

1975. Dahomey changes its name to Benin.

1990. A new constitution is adopted, paving the way for political stability.

1991. Nicephore Soglo defeats Kerekou at the polls to become president. Soglo begins the privatization or liquidation of 100 state-run companies.

1994. The CFA franc is devalued by 50 percent, boosting exports and increasing inflation.

1996. Kerekou defeats Soglo in an election to become president again.

2001. Kerkou wins re-election to the presidency.

FUTURE TRENDS

After success in the 2001 presidential election, President Mathieu Kerekou was expected to continue with his popular poverty reduction and growth program, which is set to last to 2003. Driven by plans for increased public investment and commitments of donor support, **real GDP** growth is expected to remain at around the 5 percent a year level, allowing for steady improvements in average living standards. Cereal production still faces problems, despite recent improvements, as a result of weak **infrastructure** and delays in payments to farmers. Future growth rates are expected to be below the rate of population increase, leading to increased reliance on food imports. Sound monetary policy, implemented by the regional central bank, is projected to keep inflation at around 3 percent. The gap between international payments and receipts will be helped by increased foreign aid, expansion in cotton exports, and **debt relief** from the Heavily Indebted Poor Country (HIPC) scheme, a program instituted by the IMF and World Bank to help the poorest countries manage their foreign debt.

In politics, the multiparty system introduced in 1990 appears to be secure, with all parties prepared to accept the verdict of the ballot box. President Kerekou appears unlikely to make any major change in the style and composition of his executive team. The new anti-corruption measures, which require leaders to declare their assets, is now being implemented, and there are high expectations that they will increase honesty in public life. An interesting development is the introduction of a new electoral code in which expatriate residents are able to vote, and this move is seen as an attempt to make politics less inward-looking.

DEPENDENCIES

Benin has no territories or colonies.

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—Jack Hodd

BOTSWANA

Republic of Botswana

CAPITAL: Gaborone.

MONETARY UNIT: Pula. 1 pula equals 100 thebe. (Pula means "rain" and "greetings.") Notes come in 5-, 10-, 20-, 50-, and 100-pula denominations, and coins come in denominations of 1, 5, 10, 25, and 50 thebe and 1 and 2 pula.

CHIEF EXPORTS: Diamonds, vehicles, copper, nickel, and meat.

CHIEF IMPORTS: Foodstuffs, machinery and transport equipment, textiles, and petroleum products.

GROSS DOMESTIC PRODUCT: US$5.7 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$2.36 billion (1999 est.). **Imports:** US$2.05 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Botswana is a landlocked country in southern Africa, located just north of South Africa. Botswana has a total area of 602,957 square kilometers (232,802 square miles), making it about the same size as the state of Texas. The length of Botswana's border is 4,011 kilometers (2,493 miles), and its neighbors are Namibia to the west, Zimbabwe to the east, and South Africa to the south. The capital, Gaborone, has a population of about 135,000 and is located in the southeast of the country, almost on the border with South Africa.

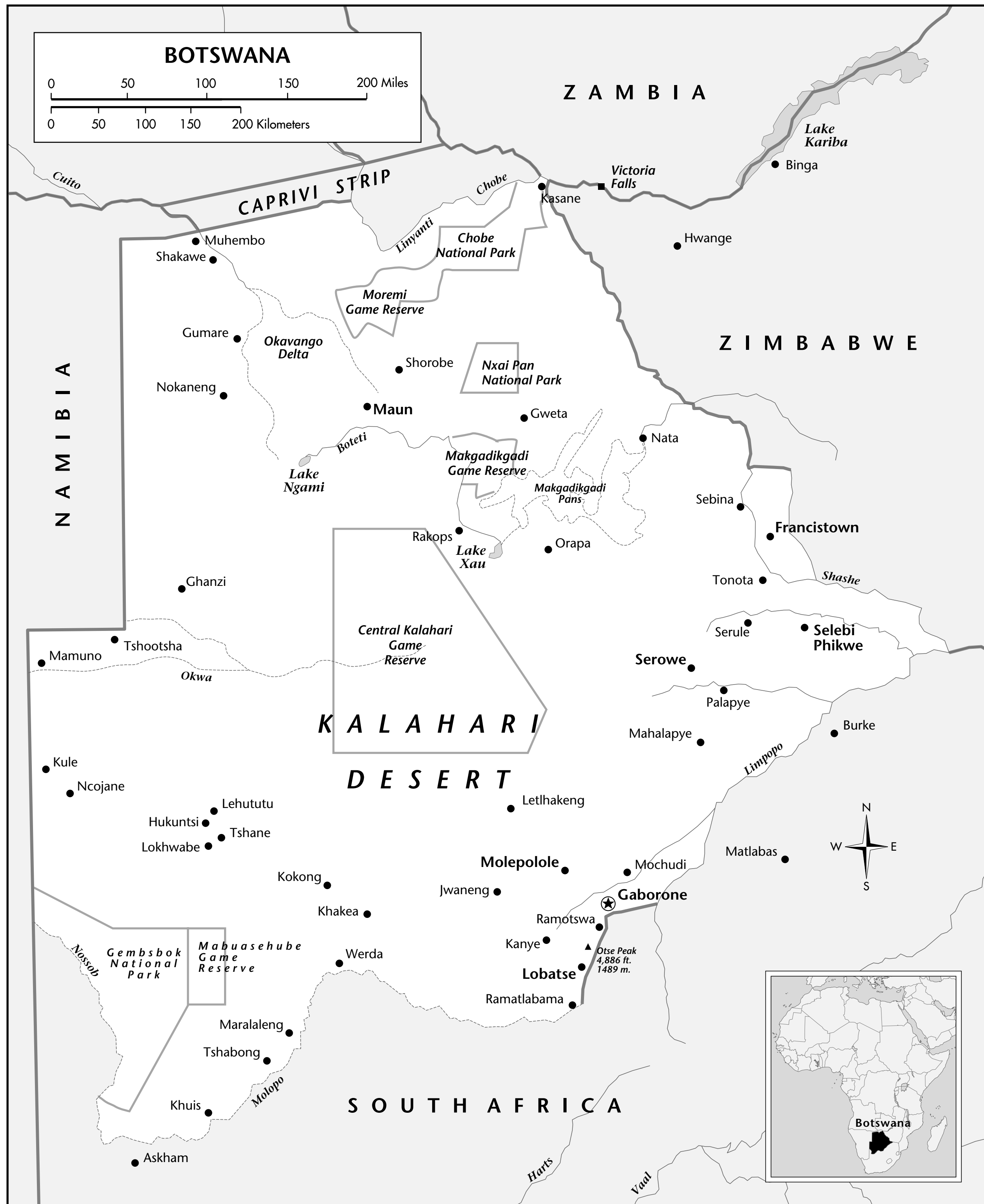
POPULATION. Botswana's population was estimated at 1.58 million in July 2000, growing at the slow rate of .76 percent. The population was expected to reach 2 million by 2030. The birth rate was 29.63 births per 1,000 people, and the death rate was 22.08 deaths per 1,000 people. Approximately 41 percent of the population was less than 15 years old, 55 percent was 15–64 years old, and only 4 percent had lived over 64 years of age in 2000.

Botswana is one of the few countries in sub-Saharan Africa with a fairly homogeneous ethnic background. The Batswanans make up 95 percent of the population, of which the Tswana tribes constitute 60 percent. The San people (also known as Basarwa, Khwe, or Bushmen) number 60,000. Population density is low due to the harsh climate of the Kalahari desert, at 2.6 people per square kilometer (6.7 people per square mile). The majority of Botswana's people live in the southeast of the country, where the desert gives way to the more fertile land of the Okavango river delta and swamp, and 50 percent of the total population lives within 100 kilometers (62 miles) of Gaborone. At independence in 1966 only 3 percent of the population lived in urban areas, but by 2000 this figure had risen to over 65 percent.

The rapid spread of AIDS in Botswana is a major reason that population growth is low. It is estimated that 25–36 percent of the population is infected with the virus, reflecting one of the highest rates in the world. This has caused a great number of social problems including labor shortages and a health care crisis. AIDS-related health and safety information is openly available, but cultural practices, social mobility, and the fact that Botswana lies on major trucking routes between South Africa and the north have contributed to the spread of the disease.

OVERVIEW OF ECONOMY

Botswana's economy depended primarily on the raising of livestock, especially cattle, until the early 1970s. At that time, the diamond industry surpassed cattle raising as the main source of foreign exchange. While the export of diamonds generates a great deal of money for the few who own and work the diamond mines, subsistence agriculture and cattle raising provides employment for about 80 percent of the population and supplies half of the domestic food consumption. The government of Botswana hopes to develop a more diversified economy through **ecotourism**, manufacturing, and financial services.



Botswana's **external debt** is small, at US$651 million (or about 10 percent of GDP in 1998). The country is one of the only African nations (with Swaziland) that contributes money to the World Bank and the International Monetary Fund (IMF). Botswana has historically favored free market policies and encourages foreign investment, although a **monopoly** in the diamond industry discourages smaller mining ventures. The South

African company De Beers, in partnership with the Botswanan government, controls virtually all of the diamond industry. In contrast, cattle are exported from smaller domestic companies. Large African companies such as Waverly Blankets (from South Africa) run manufacturing operations.

POLITICS, GOVERNMENT, AND TAXATION

Botswana was a British colony called Bechuanaland until 30 September 1966, when it received its independence. It is a republic, with a **unicameral** (single-chambered) parliament similar to that of the United Kingdom. The president of the country is elected by Parliament and then chooses the vice president. The main political parties are the Botswana Democratic Party, Botswana National Front, Botswana Congress Party, and Botswana Peoples Party. Botswana has a stable political history, with peaceful elections held every 5 years. Sir Seretse Khama was elected president of Botswana in 1966 and held office until 1980. Quett Masire took office upon the death of President Khama and remained president until 1998, when he resigned. Festus Mogae of the Botswana Democratic Party was elected president in 1998. Political opposition parties question the government about unemployment and the perception that foreigners take jobs away from locals.

Though Botswana in general practices free market policies, there is some government control over central services such as banking and telecommunications. Government policy leans towards **privatization** of publicly-owned companies. Taxes on investment are among the lowest in the Southern Africa region. Corporate taxes apply equally to foreign and domestic businesses and were lowered from 35 percent to 25 percent in 1995 in order to attract more investment. A similar tax reduction in the same year was applied to the manufacturing sector, where taxes were lowered from 35 percent to 15 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Botswana has 971 kilometers (603 miles) of rail lines, 18,482 kilometers (11,484 miles) of roads (of which only 23 percent are paved), and 92 airports, of which 12 have paved runways. The national airline is Air Botswana, which flies domestically and to other countries in Africa. Direct air service from Gaborone to London and Paris is provided by British and French airlines.

Botswana has a good **infrastructure** by African standards. The quality of infrastructure was greatly improved by the development of the mining industry, which required adequate transportation and communication networks. Botswana also benefits from its location next to South Africa. This has allowed Botswana access to South Africa's telecommunications infrastructure. Botswana's desire to become an international financial services center is a key factor driving the improvement of the country's land line and cellular telephone networks. In 1998 there were 78,000 phone lines in use.

Domestically produced coal generates 100 percent of the electricity for Botswana, which is approximately 1.619 billion Kilowatts (1998). Every other source of energy, including oil, must be imported.

ECONOMIC SECTORS

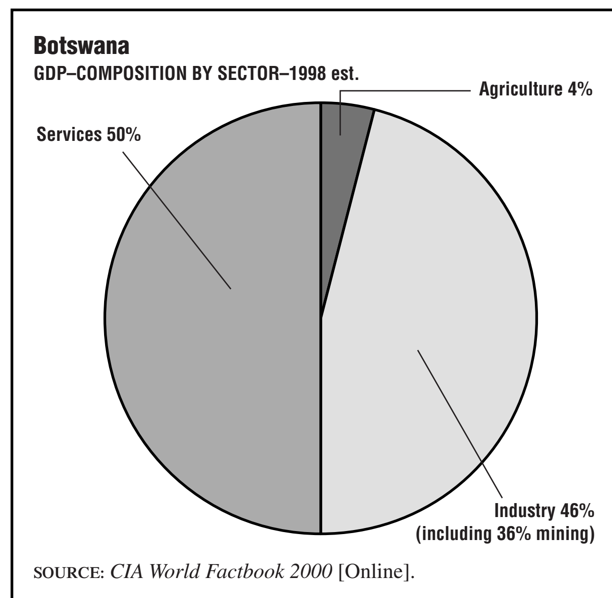
The vast majority of Botswana's people practice **subsistence farming** and cattle raising. Because subsistence farm products and livestock are primarily raised for local consumption and are not sold in the formal market, the value of this production is not included in the **gross domestic product** or formal employment figures. Although agricultural employment is estimated at 15.6 percent of the formal **labor force**, the true figure is more like 80 percent of the informal labor force. The mining and service sectors (especially government, finance, transportation, and communication) account for most of

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Botswana	27	156	20	N/A	15	2.3	25.5	6.00	12
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
Zimbabwe	19	93	30	N/A	4	N/A	9.0	1.19	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

the nation's gross domestic product, but employ very few people. About 100,000 people are employed in the **public sector**, and about 245,000 in the **private sector**.

Botswana is one of the world's largest diamond producers. Debswana (an equal partnership of the South African company De Beers and the Botswanan government) controls most of the country's diamond industry. The Botswana government is currently trying reduce the country's dependence on diamonds by encouraging new manufacturing and service industries to locate in the country.

AGRICULTURE

Agriculture in Botswana is practiced primarily to feed the country, rather than for export. Yet agricultural production is not sufficient to meet domestic demand. Botswana's agricultural exports totaled US$114.2 million in 1998, while agricultural imports for the same year totaled US$348.4 million. Though the majority of people in Botswana practice agriculture (80 percent), it contributes only 4 percent to GDP and accounts for only 15.6 percent of formal employment.

Environmental factors have determined the kinds of crops and animals that can be raised in the country. Much of Botswana is part of the Kalahari Desert, with a dry and drought-prone climate. The primary crops are corn and wheat, which are grown in the wetter eastern parts of the country. The drier parts of Botswana are suitable for non-intensive cattle raising, similar to the western United States. Botswana's only important agricultural exports are meat and animal hides.

INDUSTRY

MINING. Mining provides 86 percent of the country's export earnings, most of this from diamond sales. However, the mining sector employs only about 4.4 percent of the formal labor force. The country has 3 main diamond mines, at Orapa, Lethlakane, and Jwaneng. These are all owned and operated by Debswana, an equal **joint venture** between the South African diamond mining company De Beers and the Botswana government.

Though diamonds dominate Botswana's mining industry, the country is also rich in copper, nickel, and gold. Botswana also has sizable coal deposits.

Many of Botswana's mineral resources have not yet been discovered, but are presumed to exist given the country's geology. The area is expected to yield natural gas and crude oil; Central Botswana and the Kalahari Desert are perhaps the most likely sources of new discoveries. Though Botswana has tried to diversify its economy away from mining, the minerals sector continues to dominate the economy. Fortunately, the Botswana government saved and invested a portion of the country's mineral revenues, producing additional income for the country as well as providing investment capital for new industries.

MANUFACTURING. Manufacturing contributes only 5 percent of GDP and employs only 8.5 percent of the country's labor force. Botswana exports most of its natural resources in raw form, with minimum processing. The Botswanan government would like more manufacturing companies to locate in the country, therefore it is focusing on the natural resources that may be used in manufacturing operations. Such resources include soda ash, which is used to produce detergents and fertilizers; and copper and nickel, which are used in electrical components. Other established manufacturing products include cement, food, and beer. In 1997 the Botswana Export Development Investment Authority was established to encourage the export of goods manufactured in Botswana.

SERVICES

The services sector contributes roughly 51 percent of GDP, and employs 71.5 percent of the formal labor force. Transportation, telecommunications, and tourism are the key sectors within the services sector, as is government. Transportation is dominated by passenger air travel and cargo rail. A number of important truck routes between South Africa and central and eastern African countries pass through Botswana. The tourism sector received 734,000 tourist arrivals in 1997, generating US$184 million. The tourism industry in Botswana is characterized by ecotourism. The country has great tourism potential given its desert scenery and plentiful wildlife. Botswana also has a developing financial ser-

Trade (expressed in billions of US$): Botswana

	Exports	Imports
1975	.142	.218
1980	.503	.692
1985	.728	.580
1990	1.784	1.946
1995	2.143	1.914
1998	1.122	1.120

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Botswana

pulas per US$1	
Jan 2001	5.4585
2000	5.1018
1999	4.6244
1998	4.2259
1997	3.6508
1996	3.3242

SOURCE: CIA *World Factbook 2001* [ONLINE].

vices sector. There are currently a number of commercial banks, a savings bank run through the post office (which accepts very small deposits), a development bank, and the government's central bank. Botswana is hoping to become an international financial services center.

INTERNATIONAL TRADE

During the colonial period and in the years immediately after independence, Botswana's trade was primarily with Great Britain and Western Europe. Imports from Europe declined during the 1970s while imports from other African countries, and especially with South Africa, increased. In 1999 Botswana exported a total of US$2.36 billion in goods and imported US$2.05 billion. In 1996 74 percent of exports went to EU countries, 21 percent went to South African Customs Union (SACU) countries, and 3 percent went to Zimbabwe. In the same year, 78 percent of imports came from SACU countries, 8 percent from EU countries, and 6 percent from Zimbabwe.

The South African Customs Union was formed in 1969 with Botswana as one of the founding members, along with South Africa, Lesotho, Namibia, and Swaziland. Membership in the customs union removes many of the trade barriers, such as import **duties** and taxes, between member countries, making it easier to import and export goods within the local region. South Africa especially has been a source of imports (electricity, manufactured goods, and foodstuffs) and a destination for exports (diamonds, copper, and livestock). Exports to Europe, and especially to Great Britain, have increased. The declining value of the Botswanan currency has made imports from outside the customs union more expensive, while also making it cheaper for European nations to import Botswana's products, especially diamonds.

MONEY

The Botswana pula has traditionally had a similar **exchange rate** to the South African rand, which meant that goods sold for almost the same price in both countries. During the late 1990s the pula was much stronger than the rand, resulting in South African products becoming relatively cheaper when purchased in pula. Botswana could afford to import more South African products. The stronger pula relative to the rand also meant that foreign investors found Botswana a more attractive place to invest money. However, during the same time period the pula gradually lost its value against the U.S. dollar, meaning that imports valued in U.S. dollars, such as those from the United States itself as well as from many other countries, were more expensive. But Botswana's exports, especially diamonds, were cheaper for American and European buyers.

The Botswana Stock Exchange, established in 1995, had 22 companies listed in 2001, including 6 South African companies.

POVERTY AND WEALTH

Living standards in Botswana are high by African standards, but vary considerably across the country. Ethnic minorities, such as the San, get little recognition or support from the government, and thus tend to practice a traditional lifestyle without much involvement with the formal economy. Botswana has recently come under criticism regarding alleged human rights violations against the San people, who were removed from their traditional lands in the Central Kalahari Game Reserve to develop tourism and mining. On the other hand, Botswana has

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Botswana	1,132	1,678	2,274	3,124	3,611
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Zimbabwe	686	638	662	706	703

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Botswana	24	5	12	2	7	5	45
United States	13	9	9	4	6	8	51
South Africa	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Zimbabwe	20	10	21	3	15	9	22

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

been one of the most rapidly urbanizing nations in the world. With the obvious and major exception of the dramatic effect of AIDS on life expectancy in Botswana (32 years for men and women), living standards in urban centers are good. Botswana was ranked 122 on the Human Development Index in 1997, very high for an African country. In the urban centers, 91 percent of the population had access to sanitation and sewage disposal, and 100 percent had access to safe drinking water. The percentage having access to safe drinking water across the country as a whole was 70 percent.

WORKING CONDITIONS

The unemployment rate in Botswana is a debated figure, with the official estimate at 20 percent, and the unofficial rate at 40 percent. Most infrastructure developments, such as hospitals, roads, and schools, have been in urban areas and benefit urban residents. With the majority of the population (65 percent) living in urban centers, working conditions have improved. Wages in the mining sector are high, but are low in the agricultural sector. Women have poorer employment prospects, make less money, and are rarely promoted. Until 2000 education in Botswana was free, but in that year the government required students to pay fees, even for elementary schooling. In 1995 enrollment rates for males and females in primary and secondary education was between 81 and 89 percent, but this figure was expected to drop due to the new fees.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1885. The British government takes control of Bechuanaland.

1909. Bechuanaland is exempted from inclusion in the proposed Union of South Africa.

1966. The independence of Bechuanaland, now called Botswana.

1966. Sir Seretse Khama elected President of Botswana, holding office until 1980.

1969. Botswana helps to form the Southern African Customs Union.

1972. Botswana's first diamond mine begins production at Orapa.

1977. A political Botswana Defense Force is established because of conflict in neighboring Rhodesia.

1980. Quett Masire takes office upon the death of President Khama and remains president until 1998.

1997. The Botswana Export Development Investment Authority (BEDIA) is established.

1998. Festus Mogae is elected president.

FUTURE TRENDS

Botswana has remained peaceful and democratic since independence in 1966, and, with the opening of diamond mines in the 1970s, the country has been economically prosperous as well. Botswana has managed to invest its diamond revenues carefully, but still relies heavily on the export of diamonds for most of its revenue. This is likely to be the case for some time, though the Botswanan government is trying to diversify the economy by encouraging manufacturing industries to locate in the country. This strategy has met with mixed success. Botswana is likely to compete with South Africa for much of the manufacturing employment in the region. The Botswana government remains committed to its twin goals of economic diversification and balancing the budget.

Regional political instability, especially in neighboring Zimbabwe, but also in South Africa and Angola (where a civil war is still raging), will have an impact on Botswana, especially as refugees move into the country. However, given its political and economic history and its

current policies, Botswana is likely to remain one of the most prosperous African countries.

DEPENDENCIES

Botswana has no territories or colonies.

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—Michael Pretes and Rory Eames

BURKINA FASO

Republic of Burkina Faso
Burkina Faso Jamahiriya

CAPITAL: Ouagadougou.

MONETARY UNIT: Communauté Financière Africaine Franc (CFA Fr). One CFA franc equals 100 centimes. There are banknotes of 500, 1,000, 2,500, 5,000 and 10,000 CFA francs and coins in denominations of 1, 2, 5, 10, 25, 50, 100, 250, and 500 CFA francs.

CHIEF EXPORTS: Cotton, animal products, and gold.

CHIEF IMPORTS: Machinery, food products, and petroleum.

GROSS DOMESTIC PRODUCT: US$12 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$220 million (2000 est.). **Imports:** US$610 million (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Burkina Faso is a landlocked West African state. With a total border length of 3,192 kilometers (1,984 miles), Burkina Faso is bordered by Mali to the north and west; Niger to the east; and Benin, Togo, Ghana, and Cote d'Ivoire to the south. It has a land area of 274,122 square kilometers (105,839 square miles), making it slightly larger than the U.S. state of Colorado. The country spans 400 kilometers (250 miles) from east to west and 200 kilometers (125 miles) from north to south. The capital, Ouagadougou, is located in the center of the nation.

POPULATION. The population was estimated at 12.3 million in 2001, with a growth rate of 2.7 percent per year. The country's population density stands at 42 people per square kilometer (109 people per square mile), but the population is unevenly distributed, with the north and east regions being sparsely populated. About 17 percent of the total population live in urban areas, but the urban population is growing at a rate of 11.3 percent per year.

The country is ethnically diverse. In pre-colonial times it was part of the Mossi Empire, and the Mossi population is still the largest ethnic group in Burkina Faso, accounting for nearly half of the total population. There are many other groups, but the most significant are the Gurmanche, who are related to the Mossi group and are located in various parts of the country; the Gurunsi in the South; the Bwa, Bobo, Lobi, Senufo, Marka, and the Samo in the West; and the Fulfulde (otherwise known as the Fulani) in the North. Ethnic relations are generally relaxed, with few, if any, overt ethnic hostilities.

A large number of Burkinabe work in neighboring countries, though Cote d'Ivoire (originally the most popular with migrant workers) has become less welcoming recently.

OVERVIEW OF ECONOMY

Burkina Faso is estimated to be one of the 20 poorest countries in the world. The **gross national product (GNP) per capita**, as measured by the **exchange rate** conversion, is estimated at approximately US$240. The **purchasing power parity** conversion (which makes allowance for the low price of many basic commodities in Burkina Faso) estimates per capita income at US$1,000 (2000 est.). This amount can be compared with an average per capita income of US$36,200 in the United States in the same year.

The economy depends very heavily on agriculture, which accounted for 26 percent of the GDP in 1998. Approximately 90 percent of the population depend on subsistence agriculture, as even urban dwellers maintain strong links to the countryside. The main food crops are sorghum, millet, maize, and groundnuts. The Burkinabe economy also relies on the export of gold, cotton, and livestock. Industry, although it provides 27 percent of the GDP, is not extensive and consists mainly of mining and some manufacturing (soap, soft drinks, beer, and

household utensils). In 1998 **retail** and wholesale trade generated about 12 percent of the GDP and transport and communications approximately 10 percent, and the total contribution to the GDP by the service sector stood at 47 percent. Despite major fluctuations, Burkina Faso's GDP growth has kept pace with population growth over the past decade. The GDP growth rate was estimated at 5 percent in 2000.

Following a coup that brought Thomas Sankara to power in 1983, Burkina Faso instituted a centralized economy. The Burkinabe government eventually succumbed to international pressure and agreed to a **structural adjustment program** with the International Monetary Fund (IMF) in 1991. This agreement led to the implementation in 1993 of the first of 3 Enhanced Structural Adjustment Facilities (ESAFs), the last of which started in 1999. The programs call for **privatization** of the state run sector, **liberalization** of the major trading sectors, reform and rationalization of banking, greater incentives for **private sector** development, and tighter controls on public spending and revenue collection.

The IMF has been pleased with Burkina Faso's progress. A further ESAF was granted for 1999 to 2002 to allow for more civil service **restructuring**, increased privatization, the liberalization of the cotton sector, strengthening of the judiciary, the implementation of the common external **tariff** with other West African Economic and Monetary Union (UEMOA) states, and the improvement of health-care and education provisions. By May 2000, 22 state enterprises had been privatized, 8 were up for sale, and a further 12 had been liquidated.

Burkina Faso's taxable capacity is very low due to the limited extent of commercial activity. Many past governments have tried to cut spending, but the unavoidable expenditure on development, the high cost of **debt servicing**, and rising wages have proved obstacles. Fiscal reform is thus a priority under the ESAFs, and the government will attempt to widen its tax base, rationalize **direct taxes**, reinforce **value-added tax** (VAT) collection,

and reform custom **duties**. The government has pledged to stabilize current spending while improving spending on priority areas—health, education, and social services.

Burkina Faso's economic performance depends very much on agriculture, which in turn depends upon the weather, all of which means that the nation's economy tends to fluctuate. Inadequate and unreliable data also restrict proper analysis of the macro economy, although the situation is improving.

The Ministry of Finance indicated **real GDP** growth at 2.6 percent in the years 1986 to 1990, which was close to the rate of population growth. The strong economic expansion of 1991 was reversed in the years 1992 to 1994. The **devaluation** of the CFA franc in 1994 did not boost growth that year, but the economy grew by 4 percent in 1995, by 5.7 percent from 1996 to 1998, and by 5.8 percent in 1999.

Investment has been consistently high in recent years. The World Bank estimated investment to be 29 percent of the GDP in 1998, marking an increase from 17 percent since 1980. The **public sector** provides half to two-thirds of all investment, much of which is financed by aid, mostly from France. Economic aid totals 16 percent of the GDP.

Prices rose by 25 percent in 1994, but **inflation** fell rapidly the following year to 5.3 percent and remained at that rate until the end of 1998, and then dropped even further to -1.1 percent in 1999. Normally domestic price levels are determined by harvests, and import prices have been kept down by the strong CFA franc. Nonetheless higher prices for certain goods, such as medicines, have hit the population hard.

POLITICS, GOVERNMENT, AND TAXATION

The state of Burkina Faso consists of an area that was controlled by the Mossi from the 14th century until 1895, when the French took control. It was made part of the Franc Zone and it was named Upper Volta in 1919 after having been marked out from the surrounding territory. It was divided in the 1930s to form 2 states but returned to a single unit in 1947, changes which led to the border disputes with Mali. Burkina Faso became independent in 1960 under President Maurice Yameogo.

The first administration ended due to economic decline, corruption, and increasing authoritarianism. Rigged elections caused public demonstrations and led to military intervention in January 1966, when General Sangoule Lamizana became the head of a military ruling council. He remained in control for 15 years, despite some civilian power-sharing in the 1970s. Party bickering and trade union unrest led to a bloodless coup in 1980, bringing Colonel Saye Zerbo to power. In 1982, when the constitution was suspended, political parties were banned amid corruption allegations. Army officers replaced Zerbo with Major Jean-Baptiste Ouedraogo as president. The regime that followed was an uneasy coalition of army conservatives and young radicals.

The attempted ousting of Prime Minister Thomas Sankara in 1983 led to student, labor, and young officer unrest. Sankara himself became president via a coup, and the National Revolutionary Council (CNR) was formed. The CNR championed the redistribution of wealth to rural areas. Sankara renamed the country Burkina Faso in 1984. He aimed to reduce foreign dependence, shift the economy towards the productive sectors, and expand health care and education. Internal divisions unsettled Sankara's support, and in October 1987 Sankara and 13 of his entourage were killed in a violent coup by the self-proclaimed Popular Front. The party was led by Captain Campaore, who then declared himself head of state. The continuing violence employed by his regime led to diminishing internal support and international condemnation. International concern further increased in 1989 when 2 former ministers and 2 army officers were executed for plotting a coup to overthrow the Campaore regime.

Starting in 1990 and amid protests, Campaore opened the way for the liberalization of the regime. However, the government refused to convene a national conference with the opposition and drew up a new constitution on its own terms for multiparty elections. The constitution was approved in a referendum in 1991, albeit with a poor turnout. Campaore's ODP-MT party renounced its **Marxist**-Leninist ideology and embraced free enterprise policies instead. The opposition parties boycotted the December 1991 presidential election, and Campaore stood unopposed, winning on a 25 percent voter turnout.

The ruling alliance also dominated the 1991 legislative election, with the ODP-MT party winning 78 out of 107 seats in parliament and the fragmented opposition winning only 23. In 1996, ODP-MT absorbed several smaller parties (including some opposition parties) and formed the new Congress for Democracy and Progress (CDP). With state office, large resources, and some opposition parties on their side, the CDP dominated the legislative election of 1997, winning 101 of 111 seats. Campaore was reelected in 1998 with a 56 percent turnout and 87 percent of the vote, with some of the opposition boycotting the elections.

In 1991, the constitution formally separated the state from the ruling party by creating separate executive, judiciary, and legislative branches; basing the government on a multiparty system; and ensuring freedom of the press. A civilian president would be inaugurated for a 5-year term. Although the president was only eligible to be

reelected once in the original constitution, this was changed to allow a president to be reelected indefinitely. However, following public protest, this amendment was changed back in 2000 so that any president may now only be reelected once. In 2000, the Supreme Court was split into 3 High Courts, which oversee the judicial system, administration, and the audit of public finances.

The president selects the prime minister, subject to parliamentary approval. A parliament of 111 seats sits for 5 years. The constitution also allows for a 174 seat representative chamber.

Although salaried workers only account for a small percentage of the population, they exert a significant political effect due to unionization and their location near legislative centers. Students, who can also be a political influence, staged a 3-month strike in 1997 over political killings.

The presidential guard is a major force in Burkina Faso, although the transition to formal civilian rule and the loss of their uniforms has led to a reduction in their influence. However, tensions still exist in the military and the possibility of a future coup cannot be ruled out, especially in light of public protests in 1999.

Burkina Faso is a member of the Economic Community of West African States (ECOWAS) and UEMOA. The UEMOA headquarters are based in Burkina Faso. Relations with Côte d'Ivoire have become increasingly difficult, with the latter wishing to curb migration from Burkina Faso. Relations with Mali have been controlled since a brief border dispute, but Campaore's support of rebel factions in Liberia and Sierra Leone has irritated his neighbors.

There is little recent information on taxation. In the 1980s, Burkina Faso raised tax revenue equivalent to 10 percent of the GDP, mostly from import duties. A further 1 percent of the GDP was received from the surpluses of state-owned enterprises, mostly the big utilities that operated as **monopolies**. With increased privatization, this source of revenue has diminished in importance. The government spends 30 percent of its revenue on social services (including health and education), about 30 percent on the armed forces, and the remaining 40 percent is absorbed by general administration.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Despite recent investment, the transport system is poorly developed. Given that the country is landlocked, the nearest ports are found in Cote d'Ivoire, Benin, and Togo. The government is undertaking a US$360 million World Bank program to create a coherent policy and a regulatory framework for **infrastructure**, rehabilitate the road and rail network, and restructure the state transport system.

There are 13,200 kilometers (8,202 miles) of classified roads in Burkina Faso, of which 1,800 kilometers (1,119 miles) are paved. The former state bus company has been privatized and now runs 5 main routes throughout the country. The 1,260-kilometer (783-mile) Abidjan-Niger railway is the main transport axis, although the line has not recently operated efficiently, and rail traffic is in decline. Burkina Faso's 622 kilometers (387 miles) of line are scheduled for restructuring. In 1995 a French dominated company took control of the railroad, and the line is anticipated to be rehabilitated with a US$31 million World Bank loan.

The country has 2 international airports, and several regional carriers operate international services. The former **parastatal**, Air Burkina, has been bought by the Aga Khan's business group (the Aga Khan is the leader of the Ismailis, a Muslim sect originating in the Indian subcontinent), and is undergoing overhaul and expansion.

The main government newspaper is *Sidwaya,* but there are several private papers. Since legislation allowing opposition parties, several short-lived political newspapers have come and gone.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Burkina Faso	1	33	9	N/A	0	N/A	0.7	0.19	4
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Ghana	14	238	99	N/A	1	N/A	1.6	0.06	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Radio broadcasts in French and local dialects are a major form of government communication. There are 17 FM stations, 2 AM stations, and 1 SW station that broadcast to 370,000 radio receivers. In 1997, 103,000 televisions received programs from Burkina Faso's 1 TV station.

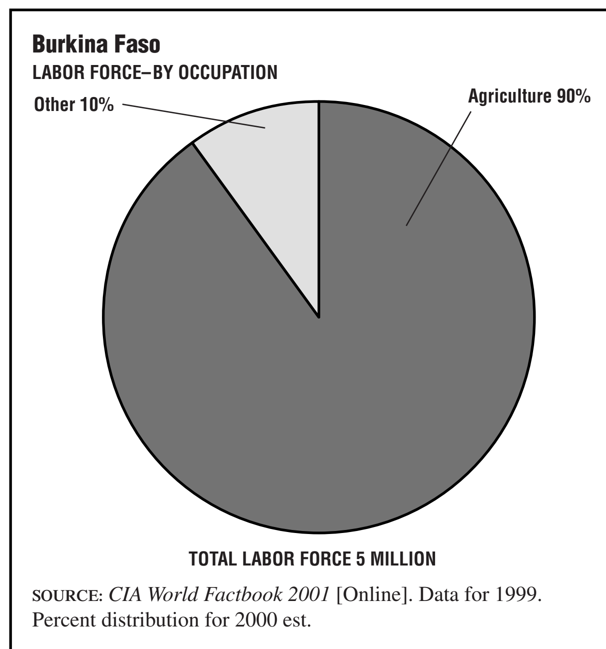
The telephone network is very small, with only 42,000 subscribers. The state telecommunications company, Onatel, is expected to be privatized and the domestic market will be liberalized, although Onatel will have a monopoly on international calls.

Burkina Faso is predominantly dependent on thermally generated energy. The National Grid Group, a leading international electricity and telecommunications organization, only covers 4 percent of the population. Sonabel, the national electric company, produced 305 million kilowatt hours (kWh) in 1997, of which two-thirds was thermally produced and one-third was hydro-electrically produced. Construction has begun on a new dam, but the cost of electricity production is still significantly higher in Burkina Faso than in neighboring countries. Although the government is not planning Sonabel's privatization, the market will be liberalized and companies will be able to compete for production and distribution with Sonabel.

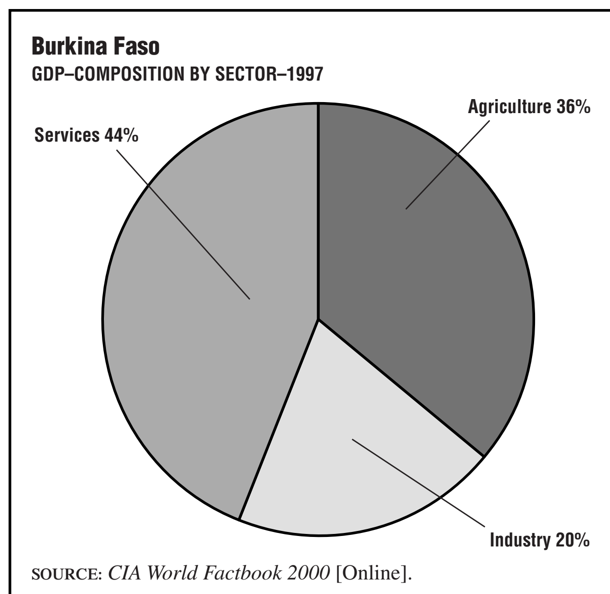
Consumption of petrol products is low, and wood fuel provides over 90 percent of domestic energy. The government is trying to promote butane in order to slow deforestation.

ECONOMIC SECTORS

The relative sizes of the main sectors of the economy—agriculture, industry, and services—have barely changed since independence in 1960. The industrial sector contracted during the period of Marxist control of the economy from 1983 to 1991, and the agriculture sector expanded as more people relied on subsistence agriculture to meet their day-to-day needs, but there has been a reversal of these trends in the past decade.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 2000 est.



SOURCE: *CIA World Factbook 2000* [Online].

The economy is heavily dependent on agriculture to provide livelihoods for its population. Although the agriculture sector (including hunting, forestry, and fishing) provided only 26 percent of the GDP in 1998, it employed about 90 percent of the workforce. Industry (including mining, manufacturing, construction, and power) contributed 27 percent of the GDP in 1998 but occupied 2 percent of the workforce. Services contributed 47 percent of the GDP in 1998 and employed 6 percent of the population. The agriculture sector is much larger than those of most African nations, which on average generate 17 percent of GDP. Burkina Faso's industry and service sectors are smaller than average (in Africa they generally would produce 34 percent and 50 percent of GDP, respectively).

AGRICULTURE

Agriculture and livestock provide a living for approximately 90 percent of the population. However, due to the climatic variations in rainfall and because there are few permanent watercourses, irrigation is limited to only 15,000 hectares (37,067 acres) of the nation's total 3.27 million hectares (8.1 million acres). Soil quality varies, though it is generally better in the southwest of the coun-

try. Cotton, shea nuts, millet, and sorghum are grown in the central Mossi plateau. Livestock is the main source of livelihood in the north, with 18 million head and providing around 15 percent of exports in 1998.

The lack of advanced technology also hinders farming in a poor environment. Only 36 percent of farmers have links with extension services, and only 30 percent own either a plough or traction animals. Fertilizer is used almost exclusively on **cash crops**. Land holdings are also very small. An extended household may farm around 9.6 hectares (24 acres) in total, but plot sizes are small, with each plot averaging only 0.4 hectares (1 acre). This means that Burkina Faso can easily fall below self-sufficiency in food production, especially in the north where the rains may come late or there may be a drought.

The main staple crops are rain-fed millet and sorghum. Maize is grown in increasing amounts, however, and vegetables are also produced in significant quantities. Attempts to boost rice production (for example, through public irrigation) doubled its production to 94,000 metric tons in 2000. The main export, cotton, has seen a revival in recent years, reaching a high of 338,000 metric tons in the 1997–98 season. It has since fallen in both the 1998–99 and 1999–2000 seasons due to farmers' debt repayments, a depressed world market, and poor weather.

Timber production is negligible, although forest and woodland cover some 50 percent of Burkina Faso. Much deforestation has taken place as a result of firewood collection and has only been partially offset by campaigns to promote tree planting. In 1991 the government launched a long-term management program to maintain the environment.

The fish catch of 6,000 to 7,000 metric tons per year, taken from rivers, dams, and ponds, is much lower than the estimated consumed figure of 13,000 metric tons. Inland fish farms are being developed.

INDUSTRY

Primary components of Burkina Faso's industrial sector are manufacturing, mining, and construction. Construction has enjoyed a boom as a result of international and government based infrastructure development schemes. Road building and the provision of water supplies are major government priorities and provide a further stimulus to construction.

MANUFACTURING. Manufacturing focuses predominantly on food processing, textiles, and substitutes for **consumer goods** imports. It is mainly concentrated in the Ouagadougou, Bobo-Dioulasso, Koudougou, and Banfora regions. There are about 100 companies in Burkina Faso, and most are publicly owned. Manufacturing accounts for 20 percent of the GDP but only employs around 1 percent of the workforce. Growth has been limited by the lack of materials, the need to import fuel, and the small domestic market. The sector was in trouble from 1985 to 1995, with an average contraction of 5.8 percent per year but has shown some signs of recovery in food processing and metalworking since 1995. However, companies in Burkina Faso are worried they will not be able to compete as regional trade is liberalized.

The agro-industry accounts for 55 percent of **value-added** manufacturing in Burkina Faso. Sosuco (the former sugar parastatal), now owned by the Aga Khan, is the single biggest employer with 1,800 workers. The company has suffered recently from the competition of cheap imports and, due to its inability to pay wages, endured repeated union strikes in 1999. The government agreed to place a ceiling of 1,000 metric tons on any sugar or rice imports, tripled the import tax on sugar, and imposed a new **levy** on sugar imports, thereby making foreign costs equal local costs in order to help the industry.

The second largest component of the manufacturing sector is textiles (including leather goods), which contributed 21 percent of value-added manufacturing in 1998. The largest textile company in Burkina Faso, Sofitex, employs 700 people and produces mostly for the domestic market. The company also exports 25 percent of its production regionally.

MINING. Burkina Faso has large unexploited mineral deposits, as one-quarter of its land is comprised of sedimentary formations from volcanoes. In 1993 the mining code was revised to encourage private investment, and the mining institutions have been restructured. Between 1992 and 1998 the government issued 180 prospecting licenses to 30 foreign and local companies. However, interest slackened in 1999 following the dip in world oil prices.

The third largest export, gold is by far the most important commodity mined in Burkina Faso. Yet Burkina Faso's gold output has remained stagnant in recent years. Underground exploitation of the Poura gold mine, which has a 26,000-kilogram (57,300-pound) reserve, stopped in 1999. The government plans to restructure the mine before reopening and privatizing it.

SERVICES

The services sector consists mainly of wholesale and retail distribution, telecommunications, posts, transport, hotels and restaurants, repairs, financial services, tourist

services, and government administration. For the most part, the service sector responds to the general growth of the economy. The size of the distribution sector has remained constant at around 12 percent of the GDP, and the transport and communications sectors have likewise remained constant at 10 percent.

BANKING AND FINANCE. Since the early 1990s banking has undergone restructuring, and the government has been limited to 25 percent participation. Of the 3 commercial banks, Banque Internationale du Burkina Faso has completed its reforms; the Banque Nationale de Development du Burkina is being liquidated; and Banque pour le Financement du Commerce et des Investissements du Burkina (BFCIB) has been privatized. Banking regulation is also being tightened by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), the regional central bank.

TOURISM. Problems of communication and poor facilities mean mass tourism is not yet an option in Burkina Faso. However, the country does have some attractions to offer visitors; it is host of the Biennial National Culture Week, the Pan African Film Festival, and the International Handicrafts Fair. National parks are also of interest. Given its central West African position, the country has also become a common location for regional conferences. In 1997, tourism receipts reached US$22 million and accounted for 9 percent of the GDP.

INTERNATIONAL TRADE

Burkina Faso's **trade deficit** fluctuates, rising in poor harvest years. The trade deficit reached a high point in 1990 at US$262 million but was reduced to US$164 million in 1994, mainly due to the CFA franc's devaluation. As imports recovered, the gap grew again to US$330 million in 1996 before receding in 1998 to US$261 million, primarily due to improved cotton exports.

Principal exports in 1998 were cotton (66 percent), livestock (8 percent), hides and skins (6 percent), and gold (5 percent). The main destinations of exports were France (15 percent), Cote d'Ivoire (10 percent), Indonesia (6 percent), Taiwan (3 percent), and Ghana (3 percent).

Principal imports in 1998 were machinery and transport equipment (29 percent), food products (13 percent), and petroleum products (12 percent). Most of the remaining imports were other types of consumer manufactures. The main origins of imports were France (28 percent), Cote d'Ivoire (19 percent), Japan (5 percent), and Italy (4 percent).

MONEY

Burkina Faso is part of the 8-member West African economic union, UEMOA, and the currency is the CFA franc. The regional central bank, BCEAO, issues currency notes and regulates credit expansion. The CFA franc was pegged to the French franc at 50:1 in 1948 but was overvalued by the late 1980s and was devalued to CFA Fr 100:1 French franc. With this devaluation, much of the benefit coming from confidence in a stable rate of exchange with the French franc was lost. However, the devaluation raised the domestic price of export crops, which improved output and raised export revenue, and made imports more expensive and resulted in lower import expenditures. With France having joined the European Monetary Union, the CFA franc is now tied to the euro at CFA Fr655.959:1 euro. Inflation averaged less than 3 percent per year from 1996 to 2000. The **inflation rate** was estimated at 1.5 percent in 2000.

A regional stock exchange has been established, the Bourse Regionale de Valeurs Mobilieres, that serves Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo. There are branches in each of the 8-member countries. To date, only companies in Cote d'Ivoire and Senegal are listed on the exchange.

Trade (expressed in billions of US$): Burkina Faso

	Exports	Imports
1975	.044	.151
1980	.090	.359
1985	.071	.332
1990	.152	.536
1995	.160	.455
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Burkina Faso

Communaute Financiere Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Burkina Faso	196	207	224	225	259
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Ghana	411	394	328	352	399

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

Burkina Faso is a low-income country, but there are no official poverty figures. However, average income per capita in the rural areas is estimated to be near the poverty level, and it can be concluded that probably more than 60 percent of the population are in poverty. The overwhelming majority of the impoverished live in the rural areas, relying on agricultural production from small family farms or herding family-based livestock for their livelihood. To be below the established dollar-a-day poverty level means that a person does not have enough income to provide the barest minimum of food, clothing, and shelter. In 1995, Burkina Faso was ranked 172 out of 174 countries in the United Nations Human Development Index, which combines measures of income, health, and education.

In 1998, 41 percent of Burkinabe children attended primary school, 10 percent attended secondary school, and only 1 percent attended schools of higher education. The pupil to teacher ratio climbed to 51:1 in 1998, and figures indicated that only 19 percent of the population over the age of 15 were literate in 1995 (30 percent of males and 9 percent of females). Health care has improved since independence, though it is still very poor. The infant mortality rate stands at 107 deaths per 1,000 live births (2001 est.), compared to a rate of 7 deaths per 1,000 live births in the United States. Life expectancy is 47 years (2001 est.).

Distribution of Income or Consumption by Percentage Share: Burkina Faso

Lowest 10%	2.2
Lowest 20%	5.5
Second 20%	8.7
Third 20%	12.0
Fourth 20%	18.7
Highest 20%	55.0
Highest 10%	39.5

Survey year: 1994

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

WORKING CONDITIONS

The **labor force** of Burkina Faso numbers 4.7 million and includes people 10 years of age and older. The government is the largest formal employer with about 40,000 public sector workers. A large proportion of the male labor force migrates annually to neighboring countries for seasonal employment. There are no official unemployment figures for Burkina Faso, but regardless, these figures would have little significance in such a low-income economy. Although there may be few people considered as unemployed, many of these people only live off **subsistence farming**. There are no unemployment benefits, and those who do not work rely on support from charities or their families. Many people would like a modern sector job but are forced instead to survive by working on their family farms or in casual **informal sector** activities in the urban areas (such as **hawking**, portering, and scavenging).

A labor court enforces the rights of workers as detailed in the national labor code, and trade unions are legal. The modern sector has a workforce of about 450,000, of which 40,000 are civil servants. Trade union membership is 60 percent in the public sector and 50 percent among private sector employees. Although union participation is small in relation to the total population, since there is such strong membership among workers and because the unions are strategically located in the modern sector and in the urban areas, they have considerable power when they exercise their right to strike.

The relatively high GDP growth from 1995 onwards has improved living standards only marginally. The guaranteed minimum industrial wage remained at US$0.44 per hour from 1988 to 1994. It increased by 10 percent after the devaluation of the CFA franc in 1994. Trade unions only gained a 3 to 5 percent rise in public sector salaries in 1996 and another 5 to 10 percent in 1999.

The Constitution of the Fourth Republic of Burkina Faso guarantees the collective and individual political and social rights of the country's citizens.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1300–1895. As Upper Volta, Burkina Faso is part of the Mossi Empire.

1895. France colonizes a broad area containing Burkina Faso.

1947. Burkina Faso becomes a recognized territory.

1960. Independence is gained from France, and Maurice Yameogo becomes the first president.

1966. Following a coup, General Sangoule Lamizana becomes president.

1970. A civilian government is elected to serve under Lamizana.

1974. The army assumes power under Lamizana.

1978. Multiparty elections are held. Lamizana is elected president.

1980. A coup brings Colonel Saye Zerbo to power.

1982. Zerbo is deposed, and Major Jean-Baptiste Ouedraogo becomes president.

1983. Prime Minister Thomas Sankara seizes presidential power.

1984. Upper Volta is renamed Burkina Faso.

1985. A 6-day war with Mali occurs.

1987. Sankara is assassinated, and Captain Blaise Campaore becomes president.

1991. A new constitution is adopted by a referendum.

1991. Campaore is reelected president in an unopposed election; the opposition boycotts the election.

1993. Enhanced Structural Adjustment Facility (ESAF) is signed with the IMF.

1994. The CFA franc is devalued, raising prices to producers of exports and raising the price of imports, thereby avoiding a period of higher inflation.

1998. Campaore is reelected as president in a contested election. The assassination of newspaper editor and popular antigovernment critic, Norbert Zongo, sparks civil unrest.

1999. There is a general 1-day strike over privatization, low salaries, and the assassination of Zongo. The government responds with a program to promote unity and national reconcilation.

2000. In all, 22 state-owned enterprises are privatized.

2001. Burkina Faso suffers severe drought.

FUTURE TRENDS

Militancy on the part of trade unions and human rights organizations is likely to continue, despite concessions announced by President Campaore in 1999. These concessions include setting up an inquiry into the death of Norbert Zongo, assuring the military that their delayed housing allowances will be paid in installments, and appointing a new prime minister who has incorporated members of the opposition into his cabinet.

The new prime minister, Paramango Ernest Yonoli, appointed in October 2000, will have to prove himself to the public, particularly with regard to the task of carrying out privatization and civil service reforms in the face of trade union opposition. Yonoli announced a new cabinet that includes figures from the moderate opposition parties. Teacher and student protests have thrown the school system into chaos, and the University of Ouagadougou has been closed since the riots that followed Zongo's death. Civic groups and opposition parties have also kept up the pressure for justice. Three presidential guards finally have been imprisoned over the assassination of Zongo, but this will hardly satisfy the opposition, who want those senior figures in the government that were behind the assassination to be brought to justice.

Despite international economic aid, GDP growth is expected to slow to 4 percent in 2001, due mainly to civil unrest, which creates a climate of political instability and discourages investment, and the impact of the drought, which has resulted in poor harvests. Prospects for cotton earnings will remain sluggish, but **debt relief** is under way under World Bank and IMF supervision. Aid from these organizations in the form of a Heavily Indebted Poor Country (HIPC) initiative should help Burkina Faso's situation.

DEPENDENCIES

Burkina Faso has no territories or colonies.

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—Jack Hodd

BURUNDI

Republic of Burundi
République du Burundi
Republika yu Burundi

CAPITAL: Bujumbura.

MONETARY UNIT: Burundi Franc (BFr). The largest Burundian note in circulation is BFr5,000 and the smallest is BFr10. There are also BFr20, 50, 100, 500, 1,000, and 5,000 notes. The only coins in circulation are BFr1, 5, and 10.

CHIEF EXPORTS: Coffee, tea, cotton, cigarettes, soft drinks, and beer.

CHIEF IMPORTS: Cement, asphalt, petroleum, fertilizer, pesticides, textiles, and vehicles.

GROSS DOMESTIC PRODUCT: US$885 million (purchasing power parity, 1998 est.). [Source: *2000 World Development Indicators.* Washington, D.C.: World Bank, 2000.]

BALANCE OF TRADE: **Exports:** US$56 million (1999 est.). **Imports:** US$108 million (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Burundi is a landlocked state in Central Africa, east of the Democratic Republic of Congo, south of Rwanda, and west of Tanzania. It has an area of 27,830 square kilometers (10,745 square miles), slightly smaller than Maryland. Burundi's capital city, Bujumbura, is located on the shore of Lake Tanganyika near the country's border with the Democratic Republic of Congo.

POPULATION. The United Nations Economic Commission for Africa estimated Burundi's population at 6.97 million in 2000, growing at an annual rate of 2.5 percent. In 2000 the birth rate stood at 40.46 births per 1,000 population while the death rate was 16.44 deaths per 1,000. The population is expected to reach 10.37 million by 2015 and 16.94 million by 2050. In 1999, only 9 percent of Burundians lived in urban habitats, which was one of the lowest levels of urbanization in Africa. About 67 percent of Burundians are Christians, mostly Roman Catholics, while 23 percent hold some form of indigenous beliefs, and 10 percent are Muslims.

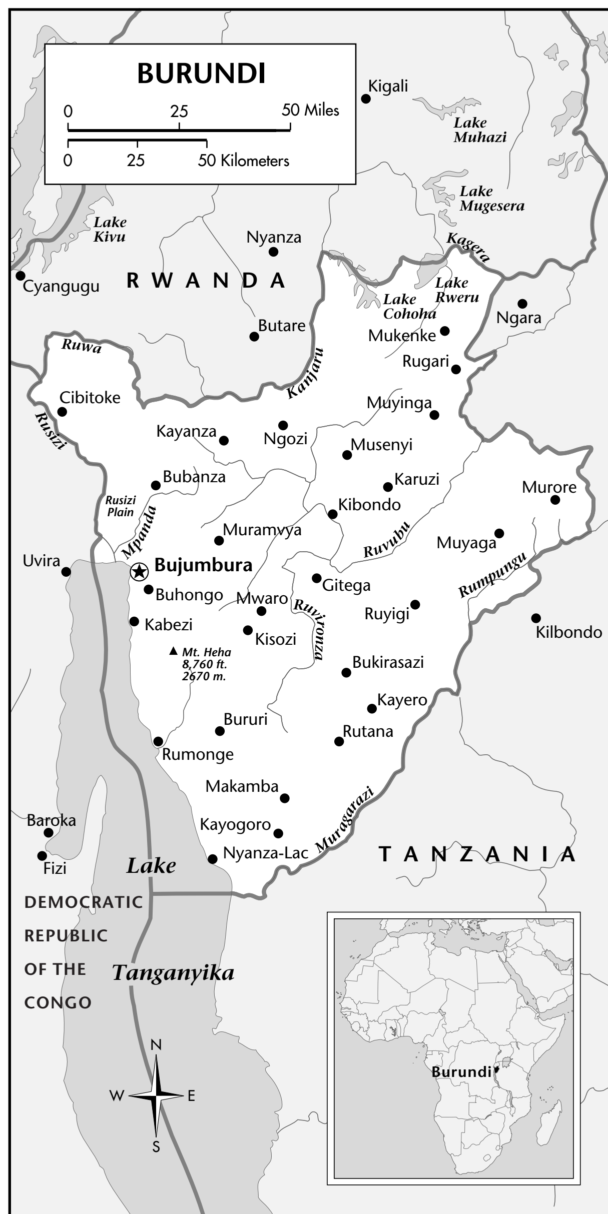
Approximately 99 percent of the citizens of Burundi are Rundi (or Barundi) and speak Kirundi. Kirundi and French are the country's official languages. Ethnic groups include the Hutu (85 percent), Tutsi (14 percent), and Twa (1 percent). Due to conflict between the Hutu and Tutsi ethnic groups, and among different Tutsi groups, the country experienced mass **emigration** of refugees. Many people fled to neighboring Rwanda, Tanzania, and the Democratic Republic of Congo, hoping to avoid violence. The net emigration rate was estimated to be 7.43 emigrants per 1,000 people in 2000.

Burundi has a very young population with 47 percent aged 14 or younger and just 3 percent aged 65 or older. As the younger half of the population grows to maturity and reproduces, Burundi's already high population density of 260 per square kilometer (100 per square mile) is expected to reach dangerous levels. However, the terrifying death toll of the AIDS epidemic may retard such population growth.

It is estimated that 39,000 Burundians died from AIDS in 1999 and 30 percent of all 25–29 year olds were HIV positive. The national rate of HIV infection stood at 11.32 percent. The social and economic costs of the disease are high. For example, the drawn out nature of death from AIDS requires a large amount of care and attention. As a result many of the population (mostly women) who could be employed are instead providing long-term care for the dying. In addition, by 1999 the estimated number of orphans created due to AIDS in Burundi reached 230,000.

OVERVIEW OF ECONOMY

Agricultural production dominates Burundi's national economy. During the colonial period (1899–1962) the German and Belgian administrations forced Burundi's



workers to produce goods like coffee and tea for export to Europe. This pattern of production continues, while the mining, manufacturing, and service sectors are less developed.

Violence and political conflict between the Tutsi and Hutu ethnic groups plagued Burundi after its independence from Belgium in 1962. By the 1990s the instability caused by civil war, Burundi's landlocked status, its colonial legacy, a limited material base, and the general decline of investment in Africa throughout the 1990s led to an overall collapse of the economy. In 1986 the government agreed to a program of economic **liberalization** with the International Monetary Fund (IMF) and the World Bank. However, a brief but brutal resumption of ethnic massacres in 1988, and the resumption of the conflict in 1993, halted this program of economic development.

While Burundi's **gross domestic product** enjoyed an average annual growth rate of 4.4 percent between 1980–1990, during 1990–1999 the annual growth rate declined by an average of 2.9 percent. Agricultural production fell by 2 percent, industrial production fell by 6.7 percent, and services production fell by 2.5 percent annually during the 1990s. The failing economy was aggravated by an economic **embargo** imposed by regional and Western powers in an attempt to encourage Burundi's politicians to make peace. This embargo and economic instability contributed to the national economy's **balance of payments** deficit of US$54 million in 1998 and US$27 million in 1999.

In 1980 Burundi's total **external debt** stood at US$166 million, but with a government surplus of 9.8 percent of gross domestic product (including external aid) the country was able to pay interest on its debt. By 1998 Burundi's total external debt was US$1.12 billion while the government had a deficit equal to 5.4 percent of the gross domestic product. Burundi's financing of debt as a percentage of exports rose from 20.4 percent in 1985 to 40 percent in 1998, draining the foreign capital generated from exports. Due to the national crisis, external donors were reluctant to lend money to Burundi, and external aid per capita fell from US$53.1 in 1992 to US$11.6 in 1998. The country continues to rely on a decreasing level of foreign aid while it is unable to pay off debts. The **inflation rate** was recorded at 26 percent in 1999. At the dawn of the 21st century, Burundi was a country in deep economic crisis.

POLITICS, GOVERNMENT, AND TAXATION

Burundi was ruled by a king (mwami) from the 1500s until colonization. European colonial powers Germany (1899–1916) and Belgium (1916–62) forced Burundians to cultivate crops for European consumption (such as coffee and tea), to act as porters and laborers, and to pay taxes. When Burundi achieved independence in 1962, Belgium still influenced its government and politics. When legislative elections were held in 1961, a Tutsi-dominated party which included Hutus, the Parti de l'Unité et du Progrès National du Burundi (UPRONA), won 80 percent of the votes. Prince Louis Rwagasore was appointed Prime Minister, but at the end of 1961 Rwagasore was assassinated in a plot by the Belgian-sponsored Hutu party, the Parti du Peuple (PDC).

Burundi's main political parties are the multiethnic Front pour la démocratie au Burundi (FRODEBU),

UPRONA, and the militant Hutu party Parti de la libération du peuple hutu (PALIPEHUTU). The army is also of central importance in Burundi's politics, as are militia groups, which are often linked to political parties. After an extensive period of military rule, Melchior Ndadaye of FRODEBU won 1993 multiparty elections with 65 percent of the vote. However, after only a few months President Ndadaye was assassinated by the Tutsi-dominated military. This led to a series of large-scale massacres of both Hutu and Tutsi by various militias and the army.

In 1996 Major Pierre Buyoya became president after a military coup. In 1998 Buyoya ushered in a new constitution, which gave executive powers to an elected president and gave legislative power to the 812-member elected Assembly. He led the creation of a 10-year power sharing agreement in 2000, which brought together many of Burundi's political and military organizations. However, a full compromise remained elusive despite mediation and financial inducements by the European Union and the United States. Over 300,000 people, mainly civilians, were killed between 1993 and 2000. Hundreds of thousands more were displaced, and over 0.5 million Hutus were forcibly relocated by the army to live in camps.

The revenue collecting capabilities of the Burundian government are minimal. Tax revenue as a percentage of gross domestic product amounted to only 12.7 percent in 1999, falling from a 1990 level of 16.3 percent. The IMF estimates that in 1998, taxes on goods and services amounted to 43.2 percent of government revenue, tax on international trade was 28.6 percent, and taxes on income and profits constituted 22.6 percent. The most important individual source of revenue was taxes on the brewing industry, which provided around 40 percent of total government tax receipts. Petroleum provided around 8 percent of **indirect taxes**.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Burundi's transport **infrastructure** is very limited. A crumbling network of 14,480 kilometers (8,998 miles) of roads, of which 1,028 kilometers (639 miles) are paved, is used by only 19,000 passenger cars and 12,300 commercial vehicles. In 2000 the World Bank encouraged a 50 percent reduction of tanker trucks bringing in fuel to Burundi to reduce the erosion of the country's roads. A 30 percent refined petrol and diesel price rise at the beginning of 2000 helped to create a fuel shortage. The majority of Burundi's trade is conducted across Lake Tanganyika with the Democratic Republic of Congo. There is no rail infrastructure. As Burundi is landlocked it relies on the sea ports of Dar es Salaam in Tanzania and Mombasa in Kenya. Burundi has 1 international airport, which is located at Bujumbura, while another 3 airports exist but are unpaved. Only 12,000 people traveled by air in Burundi in 1998.

Burundi's power needs are partially supplied by the **parastatal** Regideso. It controls 4 small hydroelectric power stations that produced 127 million kilowatt hours of electricity in 1998. Burundi is also an importer of electricity which is drawn from hydroelectric plants in the Democratic Republic of Congo. Most of this power is consumed within Bujumbura. With only 17,000 telephone main lines, 343 mobile cellular phones in use by 1995, and no Internet hosts, Burundi's telecommunications system was underdeveloped.

ECONOMIC SECTORS

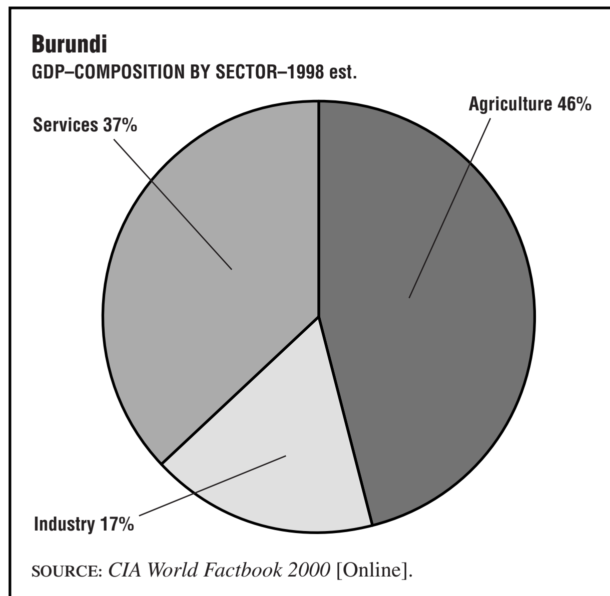
Because Burundi is landlocked, its exports are costly. They also lose competitiveness due to the **tariffs** imposed on them from neighboring countries. The most important and largest sector in the economy is agriculture, both for the domestic supply of food and for the provision of

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Burundi	3	71	4	N/A	0	0.7	N/A	0.00	2
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1
Rwanda	0	102	0	N/A	1	0.1	N/A	0.00	5

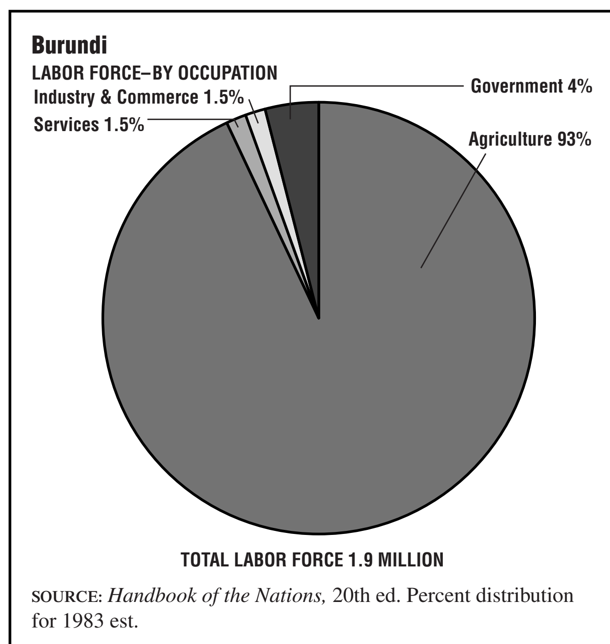
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

foreign currency through the export of coffee and tea. However, Burundi's dependence on agricultural commodities is a weakness since coffee and tea production are subject to the constant fluctuation of the weather, and the change of prices on international markets. The agricultural sector provided 46 percent of Burundi's GDP in 1998 and employed 93 percent of its people. Comparatively, industry contributed 17 percent of GDP and employed 1.5 percent, while services contributed 37 percent and employed 1.5 percent. Four percent of the country's workers are employed by the government.



SOURCE: *Handbook of the Nations,* 20th ed. Percent distribution for 1983 est.

AGRICULTURE

Burundi's agricultural sector benefits from a mild climate due to high elevation of the land and regular rainfall. However, deforestation and poor farming methods have caused extensive soil erosion and depletion. It is estimated that there will be no more arable land left in Burundi by 2020, at current depletion rates. The agricultural sector provided 46 percent of GDP in 1998, and 93 percent of the **labor force** was employed in agricultural production. In the 10-year period from 1988–1997 Burundi produced an annual average of US$80 million of agricultural exports. The most important of these exports were **cash crops** such as coffee, tea, tobacco, and cotton.

The export of coffee accounts for around 80 percent of all export earnings. In 1992, 40,000 metric tons of Burundian coffee was sold abroad. However, due to the civil war and economic embargo, coffee exports dropped between 1993 and 1996 with an annual average export of only 18,500 tons. By 1997 the coffee sector recovered with 32,000 tons exported. Tea accounts for around 10 percent of all export earnings. Exports actually grew slightly during the civil war and economic embargo. Between 1988–1992 an annual average of 4,600 tons of dry green tea leaves were exported, yet between 1993–1997 an annual average of 5,400 tons was recorded. In 1999 the parastatal Office du Thé du Burundi raised the price of tea by 15 percent in order to encourage farmers to raise production for 2000. However, there was a price slump of both coffee and tea on international markets in 2000 and early 2001.

Burundi's major food crops consist of bananas, cassava, sorghum, rice, maize, and millet. Production of these crops was steady between 1989 and 1997 except for rice, which grew by more than 50 percent from 40,000 tons to 64,000 tons, and cassava, which grew from 569,000 tons to 610,000 tons. However, over the same 9-year period Burundi imported an average of US$16.4 million of food per year.

INDUSTRY

Industry is very limited in Burundi. The industrial sector accounted for 19 percent of GDP in 1990, but due to the instability caused by civil war this fell to 17 percent by 1998.

MINING. Burundi has extensive mineral reserves. By 2001, gold, tungsten, and cassiterite (tin ore) were mined on a small scale. One gold reserve was estimated to contain 60 tons of gold ore. It is estimated that about 5 percent of world nickel reserves are on Burundian territory, and there are significant reserves of uranium, platinum, and vanadium. Due to political instability, the country's

landlocked status, and its limited infrastructure, many of these highly profitable mineral deposits remain untouched.

MANUFACTURING. Manufacturing is based in Bujumbara. Reaching a high of US$11 million of exports in 1992, manufacturing exports fell to US$1 million by 1997. Imports of manufactured goods heavily outweigh exports with US$55 million imported in 1992, falling to US$33 million in 1997.

A key manufacturing sector within Burundi's economy is the brewing of beer. In 1996, 40 percent of all government tax receipts were received from only 1 brewery, the Dutch- and government-owned company Brarudi. Due to rising **inflation** Brarudi lost money throughout 1998–1999. High inflation caused a rise in the price of raw material imports used to manufacture beer. Sales fell by 10 percent in 1999 due to the price increases that were passed on to consumers. Other products manufactured in the country include soft drinks, cigarettes, soap, glass, textiles, insecticides, cosmetics, cement, and some agricultural processing.

SERVICES

The service sector in Burundi is of minimal importance. Credit and banking services are limited and the **retail** sector is based on small trading and shops. Due to the instability caused by civil war the export of commercial services declined from US$7 million in 1990 to US$3 million in 1998.

TOURISM. Although Burundi has a great deal to offer tourists, such as rare wildlife, beautiful green mountainous landscapes, national parks, and access to one of Africa's largest lakes (Lake Tanganyika), terrible massacres and roaming militia members act as a considerable deterrent to tourists. In 1992, before the outbreak of the political crisis, 86,000 tourists arrived in Burundi (the majority from Africa and Europe), by 1996 only 26,670 were recorded entering the country.

INTERNATIONAL TRADE

Burundi's **balance of trade** showed an average annual deficit of US$39.5 million between 1985–1999. In 1999 the deficit stood at US$52 million on exports of US$56 million and imports of US$108 million. To counter this deficit the government consistently resorted to borrowing in order to maintain its spending levels. This led to greater indebtedness and a rise in annual debt repayment levels. Imports and exports were partially reduced in 1996 due to an embargo imposed by regional countries and the European Union in an attempt to force a peace agreement. However, due to smuggling to and from Burundi this embargo was soon rendered ineffective. At the outset of 1999 civil conflict had lessened in intensity, yet shortages of sugar and fuel raised the population's discontent.

Trade (expressed in billions of US$): Burundi

	Exports	Imports
1975	.032	.062
1980	.065	.168
1985	.112	.189
1990	.075	.231
1995	.106	.234
1998	.065	.158

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

The Economist Intelligence Unit estimated Burundi's principal imports in 1997 as US$70.4 million of **intermediate goods**, US$63.1 million of **capital goods**, US$55.1 million of food, and US$31.2 million in energy. The main origins of these imports were neighboring Tanzania which supplied 14.8 percent of the total, Kenya (14 percent), the United States (11.1 percent), Belgium-Luxembourg (8.3 percent), and Germany (5.1 percent). The import of refined petroleum products represented around 15 percent of Burundi's total imports, and took between 20–30 percent of all national foreign exchange earnings.

In 1997, Burundi's most important exports were coffee, which sold US$45.2 million, tea (US$20.7 million), hides (US$4.6 million), and cassiterite (US$3.7 million). Burundi's main export partners for these goods were based in the European Union. Belgium and Luxembourg consumed 36.1 percent of all Burundi's exports, while Germany consumed 20.6 percent. Other destinations for Burundi's exports were the Netherlands, which imported 4.1 percent, the United Kingdom (2 percent), and the United States (1 percent).

MONEY

Due to a lack of confidence in Burundi's national economy since the 1993 conflict, the Burundi franc (BFr) consistently declined in value against the U.S. dollar. In 1995, BFr249.76 bought US$1, while in 2000 a dollar was

Exchange rates: Burundi

Burundi francs per US$1	
Jan 2001	782.36
2000	720.67
1999	563.56
1998	477.77
1997	352.35
1996	302.75

SOURCE: CIA *World Factbook 2001* [ONLINE].

the equivalent of BFr720.67. The decline in value of the Burundi franc meant that the average citizen was paying more and more in order to obtain even the most essential products. This process of inflation led to a rise in the price of **consumer goods** by 31 percent in 1997 and 17 percent in 1998. This meant that, in constant Burundi francs, the price of sugar rose from BFr230 in 1996 to BFr350 in 1999, and the price of petrol per liter rocketed from BFr165 to BFr350. In sum, inflation contributed considerably to the rise of extreme poverty between 1993 and 2000.

POVERTY AND WEALTH

With an annual average **GDP per capita** of US$730 in 1999, Burundi was one of the poorest countries in the world with 60 percent of the population living in conditions of extreme poverty. The vast majority of Burundians were farmers on small plots of land used for subsistence agriculture or for the cultivation of cash crops such as coffee and tea. The poorest 40 percent of the country controlled only 20 percent of the wealth, whereas the richest 40 percent controlled 63.7 percent. The government spent only 0.6 percent of its gross domestic product on health but 5.8 percent on military expenditures. The majority of Burundian citizens struggled to supply themselves and their families with even the most basic health care, with only 6 doctors and 17 nurses per 100,000 people. The daily intake of calories for the average Burundian fell from 2,104 in 1970 to only 1,685 in 1997. Over the same period the daily supply of protein fell by 30.8 percent and the intake of fat by 26.7 percent.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Burundi	162	176	198	206	147
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Rwanda	233	321	312	292	227

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Burundi

Lowest 10%	3.4
Lowest 20%	7.9
Second 20%	12.1
Third 20%	16.3
Fourth 20%	22.1
Highest 20%	41.6
Highest 10%	26.6

Survey year: 1992

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

WORKING CONDITIONS

In 1998, the minimum wage in Burundi for urban areas was US$0.37 a day and $0.24 a day for the rest of the country; this represents a considerable decline from the 1994 minimum wage of $0.63 and $0.42 respectively. Considering that inflation, nation-wide instability, and the economic embargo led to a dramatic price increase of consumer goods throughout the late 1990s, the decline of the minimum wage over the same period meant that Burundi's 4 million workers were having to pay more to survive with reduced means to do so. The very low level of organization and influence of trade unions and their division along ethnic and religious grounds meant that Burundi's workers lacked a sufficient mechanism to assert their rights against declining pay and poor working conditions.

The rate of illiteracy in Burundi gradually improved through the 1980s and 1990s. In 1985 illiteracy amongst the population aged 15 and above was 68 percent. By 1997 this had been reduced to 55 percent, but this was still 13 percent below the African average. This level of illiteracy worsened due to the civil war, which helped to reduce the level of primary school enrollment from 73 percent in 1990 to 54.2 percent in 1998. In addition, it will be difficult for a government with such limited revenue to provide sufficient education and vocational training for the large number of Burundi's youth. This has significant implications for the country's economic development as the labor force remains generally unskilled. The problem of an unskilled workforce will be accentuated by the AIDS epidemic, which hits the mature working sector the hardest.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1500s. Kingdom of Burundi is formed.

1885. Burundi is allocated to Germany at the Berlin Congress of European colonial powers.

1899. Burundi becomes a full military district of the German Empire.

1916. Belgium occupies Burundi in World War I.

1961. Prince Louis Rwagasore is elected president, and is assassinated less than 5 months later.

1961. Burundi gains independence and the ethnic violence begins.

1972. Massacre by the army and militias claims 200,000 lives and 150,000 Hutu flee the country.

1986. Burundi adopts a program of economic liberalization as prescribed by the IMF and World Bank.

1993. Assassination of democratically elected President Melchoir Ndadaye leads to civil war.

1996. Major Pierre Buyoya becomes president in a military coup.

FUTURE TRENDS

Even though Nelson Mandela and many others have attempted to assist Burundi's peace process it remains unlikely that a long-term solution will be found to the highly complex and tragic conflict in Burundi. This is in part due to the exclusion of certain Hutu militias from talks and the involvement of the Burundian army and Hutu militia groups in the war in the Democratic Republic of Congo. External donors such as the IMF, World Bank, and European Union are eager to provide aid to the country if it is able to properly adapt free market reforms and end the conflict. In fact, it seems likely that these donors will accept any kind of reform as an excuse to provide much needed capital in this devastated country whose crisis has negative effects on the region as a whole. If a suitable peace agreement can be reached the national economy will enjoy significant growth due to the input of promised external aid, the reconstruction of the national infrastructure, and increased economic stability.

DEPENDENCIES

Burundi has no territories or colonies.

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—Liam Campling

CAMEROON

Republic of Cameroon
République du Cameroun

CAPITAL: Yaoundé.

MONETARY UNIT: Communauté Financière Africaine (CFA) franc. The CFA franc is tied to the French franc at an exchange rate of CFA Fr50 to Fr1. One CFA franc equals 100 centimes. There are coins of 5, 10, 50, 100, and 500 CFA francs, and notes of 500, 1,000, 2,000, 5,000, and 10,000 CFA francs.

CHIEF EXPORTS: Crude oil and petroleum products, lumber, cocoa beans, aluminum, coffee, cotton.

CHIEF IMPORTS: Machines and electrical equipment, transport equipment, fuel, food.

GROSS DOMESTIC PRODUCT: US$31.5 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$2 billion (f.o.b., 1999). **Imports:** US$1.5 billion (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located on the west coast of Central Africa, Cameroon covers an area of 475,400 square kilometers (183,695 square miles), slightly more than California. Land boundaries extend for a total of 4,591 kilometers (2,853 miles) between Nigeria to the northwest, Chad to the northeast, the Central African Republic (C.A.R.) to the east, and the Republic of the Congo, Gabon, and Equatorial Guinea to the south. The country also has 402 kilometers (249 miles) of coastline on the Bight of Biafra, part of the Atlantic Ocean. The topography of Cameroon is varied, ranging from tropical rain forests in the south to mountainous highlands in some western central regions, and semi-arid savanna in the far north.

POPULATION. The population of Cameroon was estimated at 15,421,937 in July 2000 and is growing at an annual rate of 2.47 percent. The birth rate is estimated at 36.6 births per 1,000 people and the death rate is 11.89 births per 1,000 people. If these trends continue, the population will approach 20 million in 2010. Cameroon has a very young population: 43 percent of its people are younger than 15, while just 3 percent are over 65. Though English and French are the "official" languages, there are 24 major language groups spoken by a diversity of ethnic groups. The CIA's *World Factbook* lists the religious composition as 40 percent Christian, 20 percent Muslim, and 40 percent indigenous beliefs, but these categories are not so neatly divided, as traditional animist beliefs are often mixed with Muslim or Christian beliefs.

OVERVIEW OF ECONOMY

Since gaining its independence in 1960, Cameroon's economy has swung from a long period of prosperity to a decade of **recession**, followed by a partial recovery. The economy depends on the production of various raw commodities and has therefore been vulnerable to price fluctuations for these commodities. The country remains primarily agricultural, but it has gradually diversified into the production of petroleum and lumber, and the provision of basic industries and services. Its abundant natural resources, favorable geographic position, and relative political stability have allowed Cameroon to build one of the most diverse and prosperous economies in sub-Saharan Africa.

Following independence in 1960, Cameroon enjoyed 25 years of prosperity before falling on hard times in the mid-1980s. During that period, the country developed a prosperous and diverse economy, based on agriculture, petroleum production, and some basic industries. Beginning in 1986, however, the economy shrank dramatically as low prices for oil, coffee, and cocoa reduced Cameroon's export income. Oil production also began a steady decline during the 1980s and fell from 9 million metric tons in 1986 to 5 million metric tons in 1997. Cameroon's **GDP** declined by 30 percent between 1986

and 1995. In 1993, the government was forced to reduce civil service salaries by 30 to 50 percent in an effort to limit its spending and, throughout this period, it tried with little success to revive the country by making structural adjustments and reforms. Only during the late 1990s did Cameroon begin emerging slowly from the doldrums, averaging annual growth of almost 5 percent from 1997–1999.

Beginning in the early 1980s, petroleum became Cameroon's largest single export commodity, accounting for nearly half of export earnings. Although agriculture continues to occupy most of the country's workforce, petroleum contributes the largest share of its export earnings. Falling prices and decreasing production levels reduced oil revenues to 30 percent of export earnings in the 1990s, but a surge in oil prices doubled Cameroon's oil revenues in 1999–2000. Lumber is Cameroon's second largest export, providing an additional 20 percent of export revenues. Agricultural commodities, especially coffee, cocoa, bananas, and cotton, account for most of the remaining export earnings. Cameroon also produces a number of food crops and light industrial goods that are sold in domestic and regional markets.

Several advantages have enabled Cameroon to prosper more than its neighbors. The country is blessed with a wealth of natural resources, especially its fertile land, petroleum, and lumber. Unlike all of its immediate neighbors, Cameroon has not been damaged by any serious civil conflicts, and enjoys an advantageous geographic position between Nigeria and several central African countries that provide growing markets. Two neighboring countries, Chad and the C.A.R., rely on Cameroon's transportation system and the port city of Douala for links to the outside world.

Cameroon's long economic crisis of the 1980s and 1990s contributed to a rising debt burden estimated at nearly US$7.7 billion, or 84 percent of GDP, in 1999. **Debt service** payments have reduced the value of export earnings and consumed an excessive portion (33 percent) of government budgets. In late 2000, the International Monetary Fund (IMF) announced that Cameroon would qualify for the Heavily Indebted Poor Countries (HIPC) **debt relief** initiative, which will provide US$100 million annually to cover debt service payments. Increased oil revenues have also helped to reduce the government's debt burden.

Pervasive corruption and government mismanagement have seriously hindered Cameroon's economy by creating an unfavorable business climate and discouraging investment. Based on a poll of private companies, Transparency International rated Cameroon as the world's most corrupt country for 2 consecutive years in 1998 and 1999. The country's main port, Douala, is particularly notorious for its corruption, inefficiency, and high costs, but corruption exists throughout the government bureaucracy where civil servants routinely obstruct paperwork until they receive their "gumbo," or tip. The government has initiated high-profile attempts to fight corruption, but these practices are not widely accepted and it remains difficult to eliminate. Corruption was aggravated by Cameroon's long period of economic decline, culminating in the government's decision to cut civil service salaries by up to 50 percent in 1993. Though Cameroon fell to 7th in Transparency International's 2000 listing, corruption has continued to have an adverse effect on Cameroon's economic expansion.

Economic figures in the 1990s indicated that Cameroon had made progress in reducing some of these problems. Four years of solid growth during the late 1990s followed a decade of decline and, in 2000, the government began a second 3-year **structural adjustment program** that aims to continue **privatization** of state enterprises and improvement of public management. The government has also revised tax laws and undertaken reforms to encourage investment, while several **infrastructure** projects should also help the business climate. During 2000–2004, the Chad-Cameroon Development project, one of the largest infrastructure projects in Africa, will provide Cameroon with a major economic boost, particularly in the construction and transportation sectors. This project will invest US$3.7 billion to build oil production facilities in southern Chad, a pipeline across Cameroon, and associated infrastructure in both countries.

POLITICS, GOVERNMENT, AND TAXATION

Cameroon was originally colonized by Germany, but was divided between England and France after World War I. Since gaining independence in 1960, Cameroon has had only 2 presidents: Ahmadou Ahidjo, who relinquished power voluntarily in 1982, and Paul Biya, the current president, who was elected to a 7-year term in 1997.

Historically, political stability has proved one of Cameroon's most vital economic assets. The country has watched civil wars and serious unrest erupt in each of its neighbors, while managing to avoid major conflict within its own borders. Cameroon's first president, Ahidjo, ruled the country by sometimes authoritarian methods, but the resulting stability allowed for the growth of a highly diverse economy.

The popularly-elected Cameroonian president presides over the **unicameral** (1-house) National Assembly, comprising 180 seats. Members are elected by popular vote to a 5-year term of office, but the president has the power to lengthen or shorten the term of a government. Though Cameroon is a stable country with ostensibly democratic institutions, political power remains concentrated in the hands of President Biya and his ruling party. Like the heads of state of many neighboring countries in sub-Saharan Africa, President Biya has developed a democratic facade while maintaining effective control of most governmental institutions. Past elections have been marred by serious fraud, leading most major opposition parties to

boycott the most recent elections in 1997. President Biya will be eligible for reelection in 2004.

The ruling Democratic Rally of the Cameroon People (RDPC) has dominated Cameroonian politics and controlled its government since independence. Since 1990, many opposition parties have freely organized themselves to compete in elections, but the opposition remains divided. The most prominent opposition parties include the Social Democratic Front (SDF), led in 2001 by John Fru Ndi; the National Union for Democracy and Progress (UNDP), led in 2001 by Maigari Bello Bouba; and the Cameroonian Democratic Union (UDC), led in 2001 by Adamou Ndam Njoya. All of these parties espouse similar ideologies of free enterprise.

Cameroon is handicapped by the lack of an effective and independent judiciary. Judges are appointed by the president, and courts are subject to the influence of money and politics. In 1999, Groupement Inter-Patronal du Cameroun (GICAM), an organization representing and coordinating Cameroon's largest businesses, established a business arbitration center in order to avoid the inefficiencies and uncertainties of Cameroon's legal system. A regional commercial court is due to be established in N'Djamena in Chad. Lack of an independent court system further deters foreign companies from investing in Cameroon.

The country is gradually reducing the legacy of state involvement in economic affairs that it inherited from France. Beginning in 1997, Cameroon began collaborating with the IMF and the World Bank on a new structural adjustment program. Four previous reform programs ended in failure, but the recent program has been more successful. Reforms have sought to privatize state enterprises and improve management practices in government. The tax code has been simplified and customs rules have been partly reformed in order to bring Cameroon into harmony with regional standards established by the Central African Economic and Monetary Community (CEMAC), the economic and monetary community of Central Africa. These measures have contributed to the recent turnaround in Cameroon's economy.

As part of its structural adjustment reforms, Cameroon is continuing the process of privatizing its state enterprises. Though the pace of this process has been slow, a state insurance company, the national railroad, the mobile telephone company, and all state banks have been privatized, as have several agro-industrial firms, including the state sugar company, a rubber company, and a palm oil company. Plans for the privatization of Cameroon Airlines and the Cameroon Development Corporation are well advanced, and the state electricity, water, and telephone companies should be privatized during the next 2 years. The privatization process has already contributed to recent economic growth by encouraging investment in developments that the state was unwilling to finance.

Cameroon's government generates revenues primarily from oil sales, customs **duties**, and taxes on businesses. Oil revenues declined from 50 percent of government revenue in the 1980s to 30 percent in the 1990s before returning to 50 percent when oil prices rose in 1999–2000. During the late 1990s, Cameroon began to revise its tax and customs codes to bring them into compliance with CEMAC standards. As part of CEMAC's regional integration plan, all 5 member-countries established a **value-added tax** and began to harmonize their customs duties.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Cameroon's infrastructure is partially developed, but inadequate investments have allowed some resources to deteriorate and lack of adequate infrastructure has impeded economic development in certain areas. Cameroon has developed a network of hydroelectric power stations that provide most of its electricity, while the telecommunications sector, previously stifled by government

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Cameroon	7	163	32	N/A	0	N/A	N/A	0.00	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Gabon	29	183	55	N/A	8	0.4	8.6	0.02	3

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

monopoly, has recently seen a surge in investment. Privatization of the state electric, water, and phone companies is expected to stimulate further investment in infrastructure.

Cameroon's road system is partially developed, but many rural roads are heavily eroded and poorly maintained. The road network covers 34,300 kilometers (21,266 miles), only 4,300 kilometers (2,666 miles) of which are paved. Most provincial capitals are accessible through decent roads, but many rural areas are more difficult to reach, while mountainous terrain and annual torrential rains seriously degrade the road system in many areas. During 2000–2005, several major projects are expected to pave over 800 kilometers (500 miles) of roads and improve transportation links with Chad and the C.A.R. During 1999–2000, the European Union and France allocated over CFA Fr35 billion to road construction and maintenance projects. In the long term, the government has prepared a 15-year investment plan to pave 3,000 kilometers (1,860 miles) of roads.

A railroad links the port facilities in Douala to the capital city of Yaoundé and continues to the northern city of Ngaoundéré. In addition to serving Cameroon's capital city, this railway transports goods between Douala and Chad and the C.A.R. Under public management, investments were limited and the railroad experienced frequent breakdowns until 1999, when the government railroad, Fercam, was renamed Camrail and sold to 2 foreign companies, Groupe Bollore of France and Comazar of South Africa. These 2 companies planned to invest nearly US$50 million in infrastructure improvements. With increased traffic in materials for the Chad-Cameroon pipeline, Camrail hoped to raise its annual cargo from 2 million to 2.5 million metric tons.

Douala is one of Africa's largest ports, with annual traffic exceeding 5 million metric tons. In addition to serving Cameroon's interior regions, Douala also serves as a principal port for Chad, Congo, and the C.A.R. Douala has long been plagued by problems of slow, costly services and widespread corruption but, under pressure from the World Bank and the IMF, the government has begun drafting plans to reform Douala's port services. These reforms had not yet been clearly defined by 2000, but it is expected that management of certain port services will be privatized. In the longer term, Cameroon is planning to develop other port facilities in Limbe, Kribi, and Garoua. The port in Douala is not deep enough for the larger ships that are expected to carry an increasing share of sea cargo, but Kribi is more suitable for such traffic.

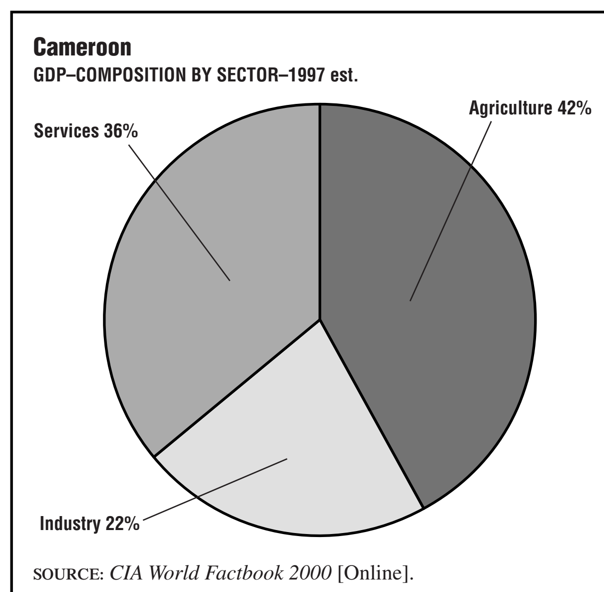
Cameroon has 3 international airports, in Douala, Yaoundé and Garoua, as well as 8 smaller airports with paved runways. The national airline, Cameroon Airlines, provides services between Cameroon and several neighboring countries, while Douala and Yaoundé are also served by several international airlines with connections to Paris and several cities throughout Africa.

Cameroon consumes approximately 3 billion kilowatt-hours (kWh) of electricity per year, most of which is provided by hydroelectric power. The country's electricity grid is mainly confined to urban areas and industry consumes over half of the power supply. The state electricity company, Sonel, has not invested in any infrastructure improvements for over a decade, but when Sonel is privatized its managers are expected to improve infrastructure and develop a wider customer base over coming years.

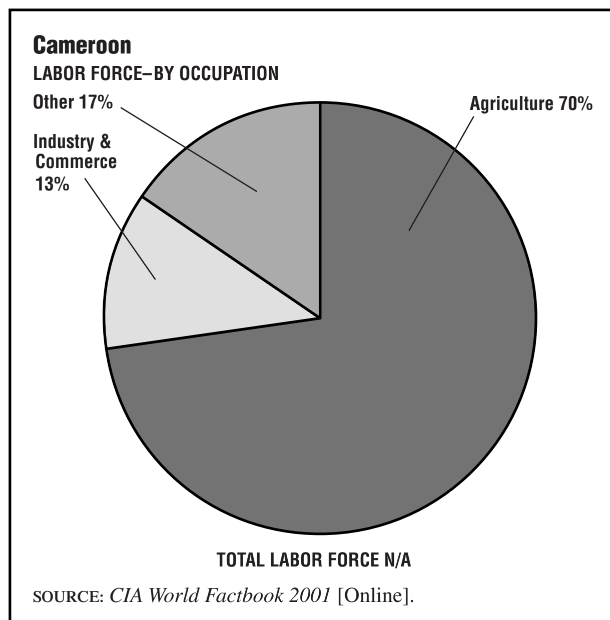
Telecommunications are quite limited, but are expected to develop more quickly as the sector is **liberalized**. In 1999, Cameroon had less than 90,000 telephone lines, giving a telephone density of less than 6 phones per 1000 people, but licenses have now been granted to several cellular telephone companies and Internet service providers. The number of cellular and Internet users is still small, but is growing rapidly. Two cellular companies, 1 French and 1 South African, have invested in cellular networks and are competing aggressively to sign up clients.

ECONOMIC SECTORS

Although primarily an agricultural economy, Cameroon has developed petroleum resources and a variety of industrial and service enterprises. Agriculture employed 70 percent of the working population and provided 42 percent of GDP in 1997. Commercial crops such



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

as coffee, cocoa, and bananas provide a significant share of Cameroon's export earnings and additional crops are produced for domestic consumption. Lumber has grown into Cameroon's second largest export, but the country's forests will probably be exhausted during the next decade.

Cameroon has developed an array of industrial enterprises that provided 22 percent of its GDP in 1997. Though oil production levels have declined since the 1980s, petroleum still provides a large share of Cameroon's export earnings. Agro-industrial enterprises produce sugar, fruit juices, pasta, powdered milk, coffee, chocolate products, corn oil, and palm oil. A textile company produces fabric from cotton grown in northern provinces, and a cement company produces cement that is sold in Chad and the C.A.R. as well as domestically. Cameroon has recently tried to encourage domestic processing of its forestry resources by banning the export of raw lumber. Additional industries manufacture matches, batteries, beer, and mineral water. Most of these products are marketed in Cameroon and its neighboring countries.

The service sector provided an additional 36 percent of Cameroon's GDP in 1997. Cameroon has profited from its geographic position by providing transportation services to several neighboring countries. The banking sector currently includes 9 commercial banks and a number of smaller financial institutions. The energy and telecommunications sectors have stagnated over the past 2 decades due to the failure of government to invest in infrastructure. Banking, telecommunications, and insurance sectors are still in the process of being liberalized and a number of state services are being privatized.

AGRICULTURE

Agriculture remains the backbone of Cameroon's economy, employing 70 percent of its workforce, while providing 42 percent of its GDP and 30 percent of its export revenue. Blessed with fertile land and regularly abundant rainfall in most regions, Cameroon produces a variety of agricultural commodities both for export and for domestic consumption. Coffee and cocoa are grown in central and southern regions, bananas in southwestern areas, and cotton in several northern provinces. In addition to export commodities, Cameroonian farmers produce numerous subsistence crops for family consumption. Principal food crops include millet, sorghum, peanuts, plantains, sweet potatoes, and manioc. Animal husbandry is practiced throughout the country and is particularly important in northern provinces.

LUMBER. The lumber industry is Cameroon's second largest source of export revenue behind petroleum, employing 25,000 workers and accounting for 7.4 percent of Cameroon's GDP. Cameroon's forest resources are concentrated in its southeastern provinces, near the borders with Congo and C.A.R. Cameroon has recently enacted laws to increase the processing of its forest resources by banning the export of raw lumber. Several foreign companies are competing in this industry and a total of 66 lumber-processing mills have been established. Annual production capacity has increased from 1.2 million cubic meters in 1994 to 2.68 million cubic meters in 1999, but lumber companies have been cutting down trees at an unsustainable rate. If the trend continues, Cameroon's forest resources will be almost exhausted by 2010. The government has enacted laws to improve the management of forest resources, but these laws have been poorly enforced.

COCOA AND COFFEE. An estimated 4 million Cameroonians depend on cocoa and coffee for their livelihood. Both commodities are produced by millions of farmers on small-scale farms. Cameroon is a major cocoa producer and exports approximately 120,000 metric tons of cocoa annually. In the late 1990s, annual coffee production has varied between 60,000 and 100,000 metric tons. Some of these commodities are processed locally, but most are exported to Europe. Coffee and cocoa prices recently fell to their lowest levels in nearly 30 years, thus reducing Cameroon's export earnings. Most of the country's coffee is produced in the western region of Moungo, while cocoa is produced primarily in central southern Cameroon. The coffee and cocoa industries were formerly under government control, but they were privatized beginning in 1995. Several hundred businesses initially jumped into the coffee exporting business, but several foreign firms have come to dominate the trade.

BANANAS AND PLANTAINS. Banana exports have risen dramatically during the past decade, increasing from 80,000 to nearly 250,000 metric tons per year. This increase is due in large part to improved farming methods that have brought greater yields. In addition to these quantities for export, Cameroonian farmers produce another 700,000 metric tons of bananas and 1,300,000 metric tons of plantains for domestic consumption. Plantains are grown by individual small-scale farmers throughout southern and western Cameroon, while banana exports are produced primarily by 2 large companies in the southwestern region, the Marseille Fruit Company, and the Cameroon Development Corporation, which is currently being privatized.

Though productivity has recently increased, Cameroon's bananas are less competitive than Central American bananas. Cameroon is one of the leading suppliers of bananas to Europe, where the European Union has long offered them preferential market access. This has provoked a well-publicized trade dispute with the United States. In 1998, the United States won a decision from the World Trade Organization (WTO) to eliminate preferential access by 2006, putting less competitive Cameroonian producers at risk. Nevertheless, some observers believe that continuing gains in productivity will allow Cameroon's bananas to compete in 2006.

COTTON. Cotton is produced in Cameroon's far northern provinces where it is the main **cash crop**. More than 300,000 farmers cultivate 172,000 hectares (424,840 acres) to produce 60–80,000 metric tons of cotton fiber a year. Cotton production is managed by a state enterprise, Sodecoton, that provides training for cotton farmers, supplies fertilizer and insecticides, and buys the crop. Sodecoton is in the midst of a slow privatization process. Cotton earnings have varied significantly according to fluctuations of rainfall in the northern provinces and prices on the international market. Prices have recovered some ground following their plunge in the 1980s and Cameroon's production has grown in recent years, but the cotton sector has not regained the profitability it enjoyed prior to the years of decline.

RUBBER. Rubber is produced primarily in the forested region of Niete, north of Yaoundé, by 3 agro-industrial companies, CDC, Hevecam and Safacam. The rubber yield plummeted from 58,000 metric tons in 1998–1999 to 32,000 metric tons in 1999–2000. The main producer, Hevecam, was purchased in 1996 by the GMG Group based in Singapore. Most of Cameroon's rubber is exported to the European Union. With average annual rubber exports valued at CFA20 billion (US$30 million), this industry provides 2 percent of Cameroon's export revenue.

SUBSISTENCE CROPS. Cameroonian farmers cultivate a variety of crops for domestic consumption, and increased their production throughout the 1990s. Cameroon has consistently been able to feed itself from subsistence crops that include plantains, corn, sweet potatoes, cassava, and millet. Farmers also grow a variety of vegetables for sale in local markets, while a number of fruits and vegetables are also exported to regional markets. In recent years, Cameroon has tried to decrease its reliance on traditional exports by encouraging the production of pineapples, avocados, plantains, and other foods for export to neighboring CEMAC countries.

ANIMAL HUSBANDRY. Approximately two-thirds of Cameroon's rural population raises animals by traditional methods, keeping cows, goats, sheep, and chickens in their compounds. Farmers raise animals as savings, to earn extra income, and for their own consumption. In rural African culture, chickens and goats are slaughtered as a gesture of hospitality for relatives and important visitors. Some semi-nomadic families raise animals as their principal occupation, particularly in several northern provinces where much of Cameroon's meat is produced. Almost all of these animals are consumed in Cameroon. Overall, animal husbandry contributes an estimated 2.6 percent of the country's GDP.

INDUSTRY

Industry employs one-eighth of Cameroon's **workforce** and contributed 22 percent of its GDP in 1997. Cameroon has gradually developed a range of industrial ventures aimed mainly at domestic and regional markets. Many of these industries are based in the port city of Douala, the country's industrial capital, and have benefited from Cameroon's geographic position and its low energy prices. The development of petroleum reserves has been accompanied by the construction of light refineries. Cameroon has also developed the manufacture of several light **consumer goods** that tend to replace more expensive imports. These include batteries, pasta, palm oil, beverages, cigarettes, and textiles. The cement industry supplies the country's booming construction sector as well as some promising neighboring markets.

PETROLEUM. Cameroon is the fifth-largest oil producer in sub-Saharan Africa and produced 100,000 barrels per day in 1999. Elf, Perenco, and Pecten International (a subsidiary of Shell) have produced crude oil from several different deposits. Petroleum production began in 1977 and reached a peak of 9 million metric tons in 1986, before declining to 6 million metric tons in 1996. Thereafter, production stabilized, and oil revenues in 1999–2000 surged from US$500 million to nearly US$900 million with the doubling of oil prices. In the late 1990s, Cameroon revised its laws to stimulate additional exploration, but has so far had limited success. One area where oil reserves hold promise is the Bakassi Peninsula, a region also claimed by neighboring Nigeria in a dispute that

has been referred to the International Court of Justice. A state-owned company, Sonara, refines 1.5 million metric tons of imported crude oil and exports 40 percent of its product. Another state oil company, Société Nationale des Hydrocarbures (SNH), manages Cameroon's interests in the petroleum sector.

MINERAL PROCESSING. One of Cameroon's largest factories is an aluminum smelting plant in Douala, which produces aluminum from imported bauxite. In 1999, aluminum exports reached nearly US$100 million, representing 5 percent of the country's export revenues. Cameroon's cement company, Cimencam, operates a factory in Douala and one in Figuil, on the Chad border. In addition to the domestic market, these factories supply the entire markets of Chad and the C.A.R. Cameroon produces small amounts of gold in the eastern province near the border with C.A.R.

BEVERAGES. Beer and soft drinks are manufactured for the domestic market and are also exported to several neighboring countries. Two of Cameroon's 5 largest companies (measured in terms of annual profits in 1998–99) are beverage producers: Cameroon Breweries and Guinness. Cameroon Breweries, owned by the French company Castel, controls 70 percent of the beer market and holds licenses to produce several major international brands including Amstel, Mutzig, Castel, and Tuborg. It also produces Tanguy mineral water and Coca-Cola soft drinks. Guinness (based in the United Kingdom) holds 17 percent of the drinks market.

AGRO-INDUSTRY. Cameroon has developed a number of small industries for processing its agricultural produce. The recently privatized domestic sugar company, Socucam, produces 100,000 metric tons of sugar for the domestic market. Panzani produces 4,500 metric tons of pasta in a factory in Douala, most of which is exported to regional countries. Cameroon makes Maggi bouillon cubes for cooking, while Chococam processes some of the country's raw cocoa to produce several chocolate products for regional markets. Cameroonians use copious amounts of palm oil in their cooking, and a number of companies produce approximately 100,000 metric tons of palm oil for the local market.

TEXTILES. Cameroon has cotton and textile industries based in the northern provinces. Sodecoton gins Cameroon's raw cotton and sells 7 percent of its product to Cicam, a textile company. Cicam employs 1,500 workers at factories in Garoua and Douala, producing fabric sold on regional markets. Cicam is the largest textile producer in the Central African region, but it has experienced difficulties in competing against imports from Nigeria and East Asia. During the late 1990s, increasing imports of cheap used clothing from Europe and the United States reduced Cicam's domestic market.

SERVICES

Cameroon's service sector has begun to benefit from the ongoing privatization of banking, transportation, and telecommunications services. In 1997, services employed an estimated 17 percent of Cameroon's workforce and produced 36 percent of its GDP. During the late 1990s, the government privatized the railroad operator and a mobile telephone company, as well as several banks and insurance companies. The state telephone company, Camtel, was offered for sale in 2000. Investments in the petroleum sector are expected to stimulate further growth in Cameroon's service sector.

TRANSPORTATION. Cameroon profits from its geographical position by serving as the principal transportation link for Chad, C.A.R., and other neighboring countries. Cameroon's railroad has traditionally transported large volumes of wood from Cameroon and the northern Congo and cotton from Chad and northern Cameroon. Cargo volumes are expected to increase in coming years when rail will be used to transport pipes, fuel, and other materials for the Chad-Cameroon oil production and pipeline project.

In spite of many problems, port services in Douala have thrived along with the transportation sector. Douala handles over 95 percent of imports to Cameroon, Chad, and the C.A.R. Cargo volumes exceeded 5 million metric tons annually in the late 1990s and Douala's capacity is estimated at 7 million metric tons.

FINANCIAL SERVICES. During Cameroon's recent economic resurgence, financial services have flourished, growing by 10 percent in 1999–2000. Total market resources increased from CFA Fr646 billion in 1999 to just over CFA Fr800 billion in 2000. Banking services are dominated by branches of several multinational banking groups such as Société Genérale, Crédit Lyonnais, and Standard Chartered Bank. During the late 1990s, Cameroon's largest state-owned bank, Banque International du Cameroun pour l'Epargne et le Crédit (BICEC), was privatized and another multinational, Groupe Populaire, took a controlling share. The banking sector expects continuing growth to be fueled by further privatization and rising investments associated with the Chad-Cameroon pipeline project.

TELECOMMUNICATIONS. A recent surge in telecommunications investment is expected to continue. Since the mid-1990s, 2 companies have begun investing in the provision of cellular services, and in 1998 the government divided the state telephone company into 2 entities, Camtel and Camtel Mobile. Camtel maintained a monopoly over fixed phone services, while Camtel Mobile offered cellular services. A second cellular license was sold to an affiliate of France Telecom, and Camtel Mobile was bought by MTN, a South African cellular phone com-

pany. The government is in the process of soliciting and evaluating bids from several foreign companies interested in buying a controlling share of Camtel. When Camtel is finally freed from government management, continuing investment and increasing access to telephone services will assure continuing growth in this sector.

RETAIL. There is a vast array of **retail** businesses of varying sizes in both rural and urban areas of Cameroon. Weekly rural markets attract farmers who sell their food crops while individual traders peddle a variety of household goods. Most durable goods, such as cars and household appliances, are sold in Yaoundé, Douala, and some provincial capitals. These urban centers also have shops offering a large variety of consumer goods.

INTERNATIONAL TRADE

During the 1990s Cameroon consistently ran **trade surpluses**, though these varied according to commodity prices. In 1999, for example, exported goods totaled almost US$2 billion, while imported goods amounted to almost US$1.5 billion. A surge in oil prices contributed to a 30 percent rise in the value of Cameroon's exports during the late 1990s. At the same time, lower revenues from cocoa and rubber were offset by increased revenues from coffee, cotton, and aluminum. In 1999–2000, oil provided nearly half of the country's export revenues, while agricultural products provided an additional 25 percent, lumber 16 percent, and aluminum 5 percent.

The European Union is Cameroon's biggest trading partner. It supplies most of Cameroon's imports, while receiving over 80 percent of its exports. All of Cameroon's principal exports—including oil, coffee, cocoa, bananas, cotton, lumber, and aluminum—travel primarily to European ports. In 1999–2000, 22 percent of Cameroon's exports went to Italy and another 16 percent to France. Cameroon also exports a variety of fruits, vegetables, and manufactured goods to neighboring countries. France has historically supplied the largest share of Cameroon's imports, which include machinery, processed food products, and a range of other consumer goods. Although Cameroon exports crude and refined oil, it also imports fuel for its domestic needs. Fuel accounted for 20 percent of imports in 1999. Most of this fuel is imported and distributed by 4 international firms: TotalFinaElf, Mobil, Shell, and Texaco, while other goods are imported by a variety of trading firms and industrial companies.

MONEY

Cameroon is part of the Central African Monetary and Economic Union (Communaute Economiquareue et Monetaire de l'Afrique Centrale, or CEMAC), a group of 5 francophone countries that use the same currency, the CFA franc. The CFA franc is tied to the French franc and can be readily exchanged at 50 CFA francs to 1 French franc. Cameroon, like all members of the CFA franc communities, has benefited from this stable currency.

As a member of the CFA zone, Cameroon was profoundly affected by the 50 percent **devaluation** of the CFA in 1994. The devaluation caused a temporary rise in **inflation** to nearly 30 percent in 1995 before descending to around 2 percent in the late 1990s. The country's economy appears to have benefited from this devaluation, which made its traditional exports more competitive on world markets. In the short term, however, devaluation lowered living standards and probably increased poverty by raising prices while most salaries remained static.

CEMAC planned to open a regional stock exchange in Libreville, Gabon, in 2001, despite the existence of a limited stock exchange in Douala.

POVERTY AND WEALTH

Though Cameroon's poverty indicators still compare favorably to other sub-Saharan countries, years of economic decline have increased the percentage of Cameroonians living in poverty. One study conducted by the

Trade (expressed in billions of US$): Cameroon

	Exports	Imports
1975	.447	.599
1980	1.384	1.602
1985	.722	1.151
1990	2.002	1.400
1995	1.651	1.199
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Cameroon

Communaute Financiere Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Cameroon	616	730	990	764	646
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Gabon	6,480	5,160	4,941	4,442	4,630

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

United Nations Development Program (UNDP) and cited in *Marche Tropicaux* estimated that this percentage rose from 40 percent in 1983 to 50 percent in 1999. Per capita income fell from US$1,100 in the early 1980s to around US$600 in the 1990s. The government reacted to Cameroon's shrinking economy by reducing producer prices and government expenditures during the early 1990s. Farmers who sold their cotton, cocoa, or other agricultural goods to state-run businesses saw their incomes drastically reduced. In 1993, the government also reduced civil service salaries by 50 percent, while devaluation of the CFA franc in 1994 also contributed to increased poverty by raising inflation. In 1999, the UNDP ranked Cameroon as 134th out of 174 countries on its Human Development Index. The Index is a social and economic indicator which ranks poverty on the basis of statistics for life expectancy, access to clean water, adequate food, and the provision of health care, education, and public services. While Cameroon ranks high among sub-Saharan African countries, it still compares unfavorably with most Asian and South American countries.

As in most other developing countries, traditional measures indicate that poverty is most prevalent in rural areas. Studies have indicated that, in 1999, 20–30 percent of the population in Yaoundé and Douala lived in poverty compared to over 60 percent in rural areas. Nearly 80 percent of rural households lacked access to electricity compared to 20 percent of urban households. Rural households are also far less likely to have access to potable water and adequate health services, and children are less likely to continue their studies through secondary school. Nevertheless, rural families enjoy many advantages insofar as they grow their own food and build their own housing, and thus have less need for monetary income.

Different classes of varying income levels inhabit the urban areas. A large civil servant class is primarily stationed in Yaoundé, Douala, and provincial capitals. Civil service salaries have fallen from the levels enjoyed prior to Cameroon's recession, but they are still higher than the average Cameroonian income. Many urban dwellers make a living from **informal sector** activities such as shopkeeping, street vending, construction, etc. Basic foods are easily available and generally inexpensive, so famine is rarer than in neighboring countries. City dwellers usually live in cooked-brick, cement-block, or adobe housing and most have access to electricity. Cameroon's cities house the upper-class officials from both public and private enterprises, whose lifestyles are comparable to those in developed countries.

While government provides education and subsidized health services, users must also contribute certain fees for these services. Education is subsidized through the university level. Government and formal sector workers are required to participate in a state pension system. The extended family traditionally serves as a safety net in the informal sector, and children are regarded as retirement insurance since they are expected to take care of their elderly parents.

WORKING CONDITIONS

Cameroon has been called a miniature version of the African continent because of its varied topography and wide range of peoples and lifestyles. In rural regions, most of Cameroon's population cultivates food crops for their own consumption and cash crops to earn money. Farmers in different regions cultivate different cash crops: cotton in the north, coffee and cocoa in the south-

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Cameroon	33	12	8	2	9	8	28
United States	13	9	9	4	6	8	51
Nigeria	51	5	31	2	8	2	2
Gabon	40	3	9	3	7	4	34

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

central region, and bananas in the southwest. In the northern provinces, animal herders live semi-nomadic lives, migrating south in search of pastures during the dry season. Rural areas also host a number of small businessmen who purchase goods in rural markets and transport them for sale to urban vendors.

Most Cameroonians live the life of small-scale farmers. Their work routine is dependent on seasonal changes of weather, with different regions of the country subject to different seasonal cycles according to rainfall patterns. In all cases, farming families have annual periods for sowing their crops, laboring their fields, and reaping their harvests. All capable family members, including students and small children, usually contribute to this work, particularly during busy periods. Local schools sometimes plan their schedules to allow pupils the freedom to participate in the seasonal farm work.

Professional and civil servant classes live in urban areas, alongside unskilled workers, and the cities reflect this mix of classes whose lifestyles and living conditions vary according to their occupations and income. The majority of Cameroon's city-dwellers are involved in various informal sector activities that provide limited income. Women play a crucial role in the informal sector economy, supplementing their husbands' income through various working activities, particularly the preparation and selling of food and beverages. Like many other large African cities, Douala and Yaoundé are plagued with increasing crime problems.

Cameroon has a number of unions that represent both private and **public sector** workers, including civil servants, dock workers, and truckers. These unions have rights to organize, to bargain with employers, and to hold strikes. Some unions have engaged in political demonstrations, but they serve primarily to negotiate with employers for wage increases and prompt payments, and generally represent the interests of employees.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1884. Germany establishes a protectorate over the Douala region of coastal Cameroon.

1920. Cameroon is divided between England and France at the end of World War I.

1958. France grants self-rule to Cameroon and Ahmadou Ahidjo becomes its first president.

1960. Cameroon formally gains independence and joins the United Nations.

1961. British Southern Cameroon is federated with Cameroon, while British Northern Cameroon joins Nigeria.

1977. Cameroon begins to export oil.

1982. President Ahidjo resigns and is succeeded by Paul Biya.

1986. Cameroon's economy begins a decade of steep decline when prices for oil and other commodities plunge.

1990. Opposition political parties are legalized.

1994. Cameroon's currency, the CFA franc, is devalued by 50 percent.

1997. The government embarks on a program of structural reform in collaboration with the IMF and the World Bank, aimed at increased privatization.

2000. Work begins on the Chad-Cameroon Oil Production and Pipeline project.

FUTURE TRENDS

Cameroon's economic growth is expected to continue in the near future, but several long-term problems remain. During 2000–2004, Cameroon is expected to receive a boost from the Chad-Cameroon Oil Production and Pipeline project. The country remains reliant on a limited number of export commodities and needs to diversify its economy and develop new export industries in order to ensure its long-term economic security. Corruption and lack of an independent and effective judiciary remain pervasive problems that have barely been tackled, despite some high-profile government campaigns aimed at improving the situation. Future levels of foreign investment may well depend on the success of these initiatives. Further short-term growth will make it easier for Cameroon to reform its investment climate and continue a program of economic liberalization.

The Chad-Cameroon Oil Production and Pipeline project is the largest infrastructure project in sub-Saharan Africa. A consortium led by Exxon will invest US$3.7 billion to build production facilities in southern Chad and a pipeline to transport oil to the Cameroonian port of Kribi. Nearly half of this investment will go to Cameroon, where most of the pipeline will be installed. The construction and transportation sectors will be the primary short-term beneficiaries of this project. Due in large part to this project, the construction sector already registered growth of over 75 percent in 2000, and the project will also impact positively on financial services and other sectors.

Cameroon remains vulnerable to falls in commodity prices, especially for oil. In addition, the valuable exports of petroleum and lumber are threatened as these resources gradually run out. Discovery of additional petroleum reserves may offset falling production levels from current oil fields, but lumber resources will be far more difficult

to replace. Cameroon will need to establish more effective institutions for managing its forests and other natural resources. In the long term, Cameroon must diversify its economy and reduce its dependency on oil and agricultural products.

DEPENDENCIES

Cameroon has no territories or colonies.

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—Alexander Gazis

CAPE VERDE

Republic of Cape Verde
República de Cabo Verde

CAPITAL: Praia.

MONETARY UNIT: Cape Verde escudo (CVE). One escudo equals 100 centavos. There are notes of 100, 200, 500, 1,000, and 2,500 escudos and coins of 1, 2.5, 10, 20, 50, and 100 escudos and 20 and 50 centavos. In July 1998 the Cape Verde escudo was pegged to the Portuguese escudo at 55:1.

CHIEF EXPORTS: Fuel, shoes, garments, fish, bananas, and hides.

CHIEF IMPORTS: Foodstuffs, industrial products, transport equipment, and fuels.

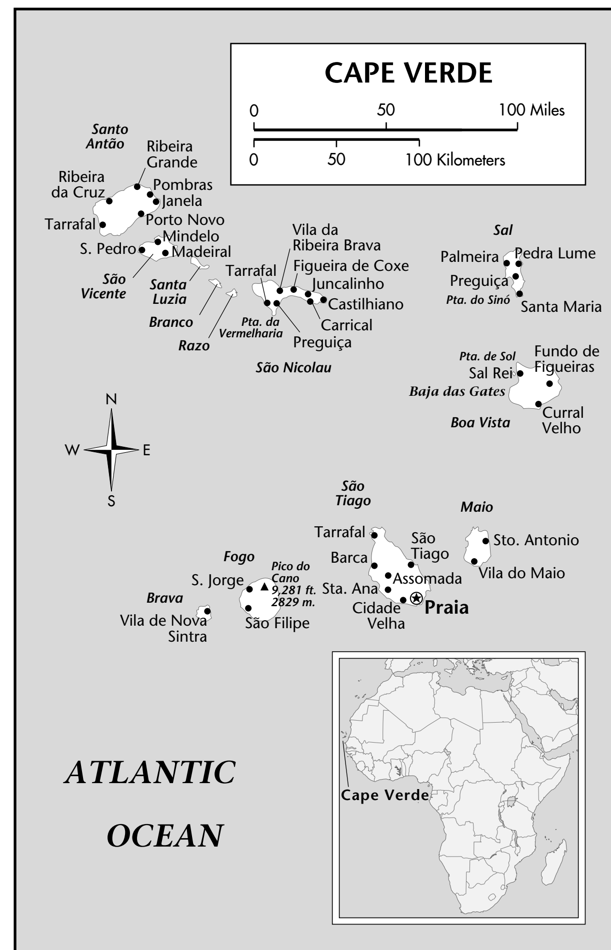
GROSS DOMESTIC PRODUCT: US$670 million (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$40 million (2000 est.). **Imports:** US$250 million (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Cape Verde is an archipelago of 10 islands and 5 islets situated 483 kilometers (300 miles) due west of Dakar, Senegal, in the North Atlantic Ocean. Cape Verde's total land area is 4,033 square kilometers (1,557 square miles), which makes it slightly larger than the U.S. state of Rhode Island. The islands stretch over a distance of 350 kilometers (218 miles) north to south and 300 kilometers (186 miles) east to west. The terrain is mountainous and there is limited rainfall, making the islands very arid. The capital, Praia, is on Santiago Island, located in the south of the archipelago. The second largest town, Mindelo, is situated in the northwest of the archipelago on the island of Sao Vincent. The islands have a total coastline of 965 kilometers (600 miles).

POPULATION. The high rate of **emigration** and recent famines have limited population growth in Cape Verde. In 2001 the population was estimated at 405,163, with a very low growth rate of 0.92 percent. At least 500,000 Cape Verdeans are living abroad in Europe, the United States, and Africa. Most Cape Verdeans are of mixed European and African background, and an estimated 95 percent are Roman Catholics. Approximately half of the population lives on Santiago Island. In recent years, Praia and Mindelo have become urban migration magnets, accounting for much of the urban growth. In 1995 the



United Nations (UN) estimated the urban population to be 54 percent of the total.

OVERVIEW OF ECONOMY

Cape Verde's economy is limited by the difficulties of accessing the islands, the nation's small size in terms of both population and geographical area, the absence of any mineral resources apart from some salt deposits, and a chronic shortage of rainfall. The rocky terrain and lack of rainfall hamper agricultural production. Most employment is in the services sector, which is sustained by **remittances** from Cape Verdeans living overseas (amounting to 16 percent of **gross domestic product** [GDP], in 1998), economic aid (mainly from Portugal and 29 percent of the GDP in 1998), and some tourism (3 percent of GDP in 1996).

However, in comparison to other African nations, Cape Verde is one of the more financially stable countries. It is considered to be on the margin between low-income and lower-middle income status. Nevertheless, living standards are still very low by comparison to the industrialized countries of the West. Per capita **GNP** measured by the **exchange rate** conversion, was $1,060 in 1998. The **purchasing power parity** conversion (which makes allowances for the low price of many basic commodities in Cape Verde) estimates per capita income at $1,700 in 2000. This amount can be compared with an average per capita income of $36,200 in the United States in the same year.

Insufficient food production and the lack of resources have resulted in a high dependence on imports, foreign investment, and aid. Since 1988 the government has tried to diversify and **liberalize** the economy in the hope that foreign investors might expand small-scale industry and develop the fishing and tourism sectors. Foreign investment and the development of local entrepreneurs are seen as the key to future growth.

The government has also started a program of **privatization**. Twenty-six **parastatals** were privatized by 1998, and a further 23 should be privatized by 2002, including utilities and financial institutions. The program of privatization has earned $80 million for the government and was expected to boost foreign investment to $11 million by 1999. The **budget deficit** grew from 6 percent of GDP in 1991 to 14 percent in 1994 due to expansion in public investment, stimulated by a massive boost in external aid. Although 32 percent of public revenue comes from external grants, the government has increased domestic revenue by higher **tariffs** and better taxation. Combined with a range of austerity measures, the budget deficit has now fallen to sustainable levels (4 percent in 1998).

Under the budget for 2000, expenditures were expected to grow by only 0.4 percent to $232 million. This estimate still indicates that government spending was much higher than expected (51 percent of GDP in 2000), due to the fact that expenditures grew by 17 percent in 1999. In accordance with the government's current National Development Plan (NDP), social expenditures were expected to be the largest expenditure item in the budget.

In 1998 the government started to implement its fourth NDP, which runs until 2001. As the main aim of the NDP is to alleviate poverty, it has the support of international donors. Under the NDP, powers are to be devolved to local councils to control spending, taxes, and investment at a local level. The NDP also aims to develop the **private sector**, provide vocational training programs, reform the education and health care systems, cut public spending, and reduce imports.

Since the pegging of the Cape Verde escudo to the Portuguese escudo, the government has committed itself to greater fiscal discipline and has sought to meet European Monetary Union (EMU) targets. These goals include a general government deficit of less than 3 percent of the GDP, public debt of less than or equal to 60 percent of the GDP, and an **inflation rate** that is less than 1.5 percent higher than those of the 3 EMU member states with the lowest inflation rates that year.

Despite its handicaps, the economy has grown steadily since independence in 1975 due to favorable loans and remittances from expatriates. World Bank figures indicate that the GDP grew by 8 percent per year from 1974 to 1985 and 4 percent per year from 1986 to 1992, comfortably faster than the population growth rate. Since 1994 the GDP growth rate has been 5.7 percent per year, and this has led to a per capita GNP that is among the highest in the West African region.

Unemployment is one of the biggest problems in Cape Verde with 25 percent of the **labor force** unable to find formal work. Although public investment in productive, export-oriented sectors is likely to increase, it will not grow quickly enough to absorb the expanding workforce. Therefore, many seek work in foreign countries, despite increasing U.S. and European barriers to **immigration**.

The government has abolished some **price controls**, while retaining a food aid distribution network. Average consumer **inflation** has fluctuated since 1989, averaging 6.5 percent between 1995 and 1999. Despite erratic inflation, interest rates remained stable.

POLITICS, GOVERNMENT, AND TAXATION

The Portuguese colonized Cape Verde in 1456 and populated the islands with slaves brought from West Africa. Cape Verde achieved independence in 1975 after

peaceful negotiations with Portugal, which had itself changed government in 1974. The African Party for the Independence of Guinea-Bissau and Cape Verde (PAIGC) was the only political party recognized during the transition. Aristedes Pereira, the first president, was reelected in 1981 and 1986. The same party ruled in both Guinea-Bissau and Cape Verde, and there were plans for the political unification of the countries. However, the Cape Verde arm of the party abandoned unification in 1980 following a coup in Guinea-Bissau. The new African Party for the Independence of Cape Verde (PAICV) was then formed.

Constitutional changes in 1991 allowed Cape Verde to be the first sub-Saharan one-party state to hold multi-party elections. The Movement for Democracy (MPD) was voted in, bringing to office Prime Minister Carlos Alberto Wahnon de Carvalho Veiga and President Antonio Mascarenhas Monteiro. In 1992 the MPD established a new constitution defining Cape Verde as a sovereign, unitary, and democratic republic and included provisions for the protection of democratic rights and freedoms. The president stands as head of state and must be elected by two-thirds of the voters. Legislative power resides in the **unicameral** parliament, the Assembleia Nacional, which nominates the prime minister. The prime minister is the effective head of government and nominates his ministers. In July 1999, the parliament made further reforms, allowing the president to dissolve parliament and creating a constitutional court. It also established an Economic and Social Advisory Council, and gave Crioulo, a blend of Portuguese and West African speech, official status as a national language.

The 2 major forces in Cape Verde's political scene are the MPD party and PAICV. The MPD was formed in opposition to PAICV's one-party state and has implemented economic and constitutional reform to change Cape Verde to a democracy with a market economy. The MPD has attracted foreign aid to the nation and has built confidence in Cape Verde's economic and political stability both at home and abroad.

The PAICV, under a new leader, Pedro Pires, has retained its leftist orientation, but its ideals are losing favor with the younger members of the party. The PAICV has tended to be popular with emigrants, particularly those who live in the United States. The only party other than the PAICV and the MPD to win seats in the 2001 legislative election was the Democratic Alliance for Change (ADM), which earned 2 seats by garnering 6 percent of the vote.

The MPD won a convincing victory in the 1995 legislative election, and Veiga was returned as prime minister. Monteiro was reelected to the presidency in 1996, when he stood unopposed. The 2001 presidential election was closely fought, with Pedro Pires of the PAICV narrowly defeating Carlos Veiga of the MPD. Pires beat the former prime minister for the presidency by a margin of 12 votes.

Cape Verde has maintained an internationally non-aligned status, while strengthening its ties with both Portugal and Brazil. Cape Verde is a member of the Organization for African Unity (OAU), the Economic Community of West African States (ECOWAS), and the Lomé Convention.

Cape Verde raises about 9 percent of the GDP from income and corporation taxes, 13 percent from import **duties**, and 7 percent from **indirect taxes**. Grants from overseas add the equivalent of 18 percent of the GDP. Education receives 19 percent of government expenditure, 21 percent goes to social security, and 19 percent is spent on health care. Cape Verde has a small armed force of 1,100 men, and less than 2 percent of government spending goes to the military.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

While the **infrastructure** of Cape Verde is adequate, the government is committed to improving its ports and roads. About 600 kilometers (373 miles) of the 2,250 kilometers (1,398 miles) of roads are paved. The irregularity of maritime transport has hindered exports, but the government has tried to set up regular links to Africa and Europe. There are regular ferry services between most islands, and the main port is the newly enlarged Porto Grande in Mindelo. Praia port has recently been modernized, and a new port to the north of the capital is under construction.

The main international airport on Sal Island handles some 300,000 passengers per year. The national airline, TACV, has several international routes to Africa, Europe, and the United States, as well as providing domestic flights. A new international airport has been opened near the capital on Santiago Island.

Since Portugal Telecom acquired a 40 percent share of Cabo Verde Telecom in 1995, it has increased the number of telephone lines by 70 percent and also has provided fiber optic links between the islands, as well as Internet access. It was estimated that the nation had 45,644 telephone main lines in use in 2000. In 1998 Telemovel became the country's first cellular network. Portugal Telecom pledged $100 million for the modernization of telecommunications up until 2001.

There are only 2 weekly papers published in Cape Verde; one is state-owned and the other is run by the opposition. State television and radio merged in 1997 to form the new RTC company, and in 1998 the government allowed the resumption of private radio broadcasts. RTPi and Canal France International began broadcasting 24-hour television and radio in 1995.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Cape Verde	45,644 (2000)	19,729	AM 0; FM 11; shortwave 0	73,000	1	2,000	1	5,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Nigeria	500,000 (2000)	26,700	AM 82; FM 35; shortwave 11	23.5 M	2 (1999)	6.9 M	11	100,000
Guinea-Bissau	8,000	N/A	AM 1; FM 2; shortwave 0	49,000	2	N/A	1	1,500

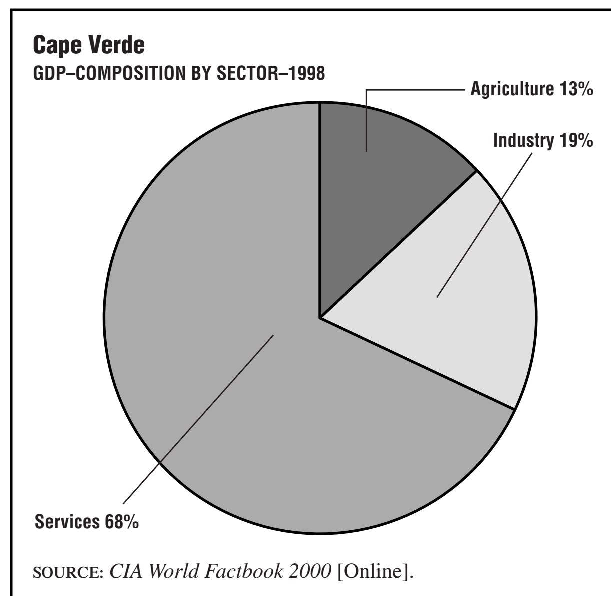
[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

Cape Verde has no known oil or gas deposits and imports all it needs from Africa and Europe. The privatized Empresa Nacional de Combustives and Shell Cabo Verde distribute fixed-price fuel. The parastatal Electra (which went up for sale in February 1999) is the primary electricity provider. There are plans to develop the country's thermal capacity, and the government is seeking to improve access to electricity in rural areas. Total electricity production in 1999 reached 40 million kilowatt hours (kWh).

ECONOMIC SECTORS

In 1998 the contribution to the GDP by sector was agriculture, 13 percent; industry, 19 percent; and services, 68 percent. The economy has also been bolstered by expatriate remittances, which are equivalent to 16 percent of the GDP, and grants from donors, equivalent to 18 percent of the GDP. In 1993, agriculture employed an estimated 24 percent of the working population, industry employed 25 percent, and services engaged 51 percent of the workforce. Approximately 24 percent of the labor force was unemployed in 1999.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Although agriculture and fishing only accounted for 13 percent of GDP in 1998, it was still a significant source of employment. However, flooding and droughts make agricultural production extremely unsteady. The most important crops are sugarcane, maize, and beans, while **cash crops** like bananas, pineapples, and coffee are being encouraged. Currently bananas are the only exported crop.

Agriculture has been affected by an unequal landholding system, overpopulation of cultivable land, and the excessive subdivision of plots. Since independence the government has worked to reform the landholding system and more recently has turned its attention to maximizing water usage. Estimates suggest there is enough water available to cultivate 8,600 hectares (21,251 acres), compared to the present cultivation of only 3,000 hectares (7,413 acres).

Fishing (including lobster and tuna fishing) accounted for 2 percent of GDP in 1998 and is an important source of foreign currency. Cape Verde's **Exclusive Economic Zone** (EEZ) covers 734,265 square kilometers (283,500 square miles) and contains one of the last under-used fishing grounds in the world. In the long term Cape Verde expects to expand its fishing industry, with the island of Sao Vicente having the greatest potential. A recent deal was signed with Senegal and Guinea that opens their waters to Cape Verdean fishermen.

INDUSTRY

Mining makes a negligible contribution to the economy. Salt is the most important mined resource in Cape Verde, and current production stands at only 7,000 metric tons per year. On the island of Santo Antao there has been intermittent exploitation of pozzolana, a volcanic ash used in making hydraulic cement.

Manufacturing, though slowly expanding, is quite small and underdeveloped. The main areas of manufacturing are in shoemaking, fish canning, rum distilling, textiles, and beverage bottling. There are about 120 small to medium-sized privately owned manufacturing companies, mostly located in Praia and on Sao Vicente. The government believes the nation's geographical position, relatively skilled labor force, and low wages make it suitable for light industry. Since 1993 a **free zone** enterprise law has provided custom and tax duty exemptions in an attempt to attract foreign investment. As a result, industrial exports quadrupled from 1994 to 1998.

SERVICES

Cape Verde's services sector is small and widely dispersed. The majority of the income produced in this sector comes from port-related services, including fueling and repair services. The Banco de Cabo Verde, the central bank, is expected to gain additional autonomy under the 1999 constitutional reforms. Banco Comercial do Atlântico (BCA) and Caixa Económica de Cabo Verde (CECV) are the only commercial banks, both of which are in the process of being privatized. Two Portuguese banks have opened in Cape Verde and should raise the availability of credit. Reforms in the financial sector have allowed the government to offer tax-free government bonds and high yield savings accounts. A stock exchange opened in Praia in 1999.

Tourism contributed only 3 percent to the GDP in 1998 but has been identified as having significant potential growth. The government aims to attract 400,000 visitors per year by 2008, a big expansion from the 57,000 visitors in 1998. Several new hotel developments are underway, and since the mid-1990s tourist arrivals have grown by 11 percent per year, with tourists coming mainly from Europe (especially Portugal).

INTERNATIONAL TRADE

Cape Verde has little to export, and total export revenues were only $40 million in 2000. In 1994 the primary exports were foodstuffs (50 percent) and manufactured items (mostly leather goods and garments, 46 percent). Exports in 1994 went to Portugal (59 percent), Spain (14 percent), the United Kingdom (14 percent), and France (5 percent).

Trade (expressed in billions of US$): Cape Verde

	Exports	Imports
1975	.002	.040
1980	.004	.068
1985	.006	.084
1990	.006	.136
1995	.009	.252
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Cape Verde relies heavily on imports, which totaled approximately $250 million in 2000. Primary imports in 1994 were foodstuffs (28 percent), fuels (4 percent), machinery and transport equipment (37 percent), construction materials (16 percent), and other consumer manufactures. Imports come mainly from Portugal (36 percent), France (14 percent), Netherlands (8 percent), Japan (5 percent), Denmark (4 percent), Germany (4 percent), Sweden (4 percent), Belgium (3 percent), and Brazil (3 percent).

Cape Verde has recorded large merchandise **trade deficits** on a regular basis since independence, and the deficit worsened in the 1990s. Initiatives backed by the International Monetary Fund (IMF) have lessened the trade gap, but it still remains high. The balance of trade deficit stood at $210 million in 210, which was over 30 percent of GDP.

MONEY

The Cape Verde escudo has been pegged to the Portuguese escudo at a rate of 55:1 since 1998 and, therefore, is fairly stable. In January 1999 the pegged currency was transferred to the euro at CVE 110.265:1 euro. The Banco de Cabo Verde, the central bank, gained additional

Exchange rates: Cape Verde

Cape Verdean escudos per US$1	
Dec 2000	123.080
2000	115.877
1999	102.700
1998	98.158
1997	93.177
1996	82.591

SOURCE: CIA *World Factbook 2001* [ONLINE].

autonomy in constitutional reforms made in July 1999. Its main functions are to control the money supply through the issue of currency and to regulate the commercial banks. However, most capital for development has had to come from foreign investment and aid, which the ruling MPD party has been consistently successful at attracting. The continuing high rate of inflation in Cape Verde is problematic, since it is higher than that of its main trading partner, Portugal, and thus raises Cape Verde's export prices, making them noncompetitive. Inflation stood at 4 percent in 2000.

POVERTY AND WEALTH

Only a small proportion of the population of Cape Verde (7 percent) are below the dollar-a-day poverty line (to be below this line means not having enough income to obtain the barest minimum of food, clothing, and shelter). Those in poverty include families that rely on agriculture for their livelihoods, whose farms may suffer from poor soil and inadequate rainfall, and urban dwellers without formal sector jobs and no family support, who exist by casual **hawking**, portering, and scavenging. Although average incomes are comparable to the average elsewhere in Africa, many Cape Verdeans are still very poor.

According to the **United Nations Development Program**'s (UNDP) Human Development Index (which combines measures of income, health, and education), Cape Verde climbed from 117th in 1995 to 106th in 1999 out of 174 total countries. In sub-Saharan Africa it now ranks third out of 43 countries, placing Cape Verde firmly in the medium development bracket, reflecting not only its economic development, but also its progress in health and education since independence.

Life expectancy was estimated at 69 years in 2001 (up from 52 years in 1960), which is the highest in sub-Saharan Africa, and this is partly due to a well-developed health care system. Infant mortality stood at 53 per 1,000 live births in 2001 (better than the 65 per 1,000 average for developing countries). There is 1 doctor for every 4,270 people (according to 1992 estimates). There are plans for a new hospital to be built in the capital.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Cape Verde	N/A	N/A	1,039	1,120	1,354
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Guinea-Bissau	226	168	206	223	173

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Clean water and sanitation have been a problem for Cape Verde, leading to intermittent outbreaks of cholera. However, the government has implemented a scheme to bring clean water to all its citizens by 2005. The 1999 budget allocated $15.5 million to health care.

Literacy stood at 71 percent in 1997 (compared to 36 percent in 1970). There is universal primary school enrollment, secondary school enrollment is 27 percent, and 3 percent go on to higher education. Improving education at all levels in Cape Verde is a key priority for the UNDP. Education accounted for 19 percent of government expenditure in 1999.

WORKING CONDITIONS

The constitution guarantees respect for human dignity and recognizes the inviolable and inalienable rights of humanity, peace, and justice. It recognizes the equality of all citizens before the law, without distinction of social origin, social condition, economic status, race, religion, political convictions, or ideologies. The constitution promises transparency for all citizens in the practicing of fundamental liberties and guarantees the equality of citizens in all fields. Forced labor is illegal. However, Cape Verde lacks the legislation and implementation machinery to ensure that the requirements of the constitution are upheld. Despite this, Cape Verde is a tolerant society, and the multiparty democratic process and the rule of law are well established.

A major problem in Cape Verde is unemployment, with 24 percent of the economically active population unable to find formal work. Although public investment in productive, export-oriented sectors is likely to increase, it will not grow quickly enough to make major reductions in the unemployed workforce. Therefore, many will continue to seek work in foreign countries, despite the increasing legal problems of immigration to the United States and Europe. There is no set minimum wage. Trade unions exist in Cape Verde but are not particularly aggressive.

Social Security is available through the Instituto Nacional de Previdencia Social (INPS), established in 1991. The INPS provides a range of benefits, including retirement and disability pensions. In 1995 the scheme covered 23,000 workers, who contribute 23 percent of their earnings.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1456. Cape Verde is colonized by the Portuguese.

1500s. Cape Verde thrives as center for the transatlantic slave trade.

1951. Portugal changes Cape Verde's status to that of an overseas province, granting more local control.

1975. Cape Verde becomes independent following a 1974 revolution in Portugal. Aristedes Pereira is elected as the first president and the first National Assembly is elected.

1980. The Cape Verde arm of the African Party for the Independence of Guinea-Bissau and Cape Verde (PAIGC) abandons its goal of unification with Guinea-Bissau and forms the African Party for the Independence of Cape Verde (PAICV).

1981. Pereira of the PAICV is reelected president.

1986. Pereira is reelected president.

1990. Opposition political groups form the Movement for Democracy (MPD) in April and campaign for the right to take part in elections.

1991. The first multiparty elections are held in January, with the MPD winning a majority in the National Assembly and electing Antonio Monteiro as president.

1992. A new constitution is adopted.

1996. Monteiro is reelected president.

2001. Pedro Pires, of PAICV, is elected president by a narrow margin of 12 votes.

FUTURE TRENDS

Cape Verde's isolation, lack of important minerals, and inadequate rainfall are expected to limit progress in the immediate future. There are, however, 2 causes for cautious optimism. The first is that Cape Verde has good prospects for expanding its tourism sector: it is relatively close to Europe for a tropical destination, and it has the priceless benefit of a secure regime and political stability. Cape Verde is aiming for an 8-fold increase in tourism over the next 8 years, and with suitable foreign investment, this is quite achievable. If successful, this growth will provide a major boost to the nation's economy. The second encouraging feature is that Cape Verde has managed to establish manufacturing and exports in leather goods and garments. The low wage rates in Cape Verde, the good educational level of the Cape Verdean workforce, and the proximity to the markets of Europe suggest that this sector of the economy can undergo significant expansion.

As for the foreseeable future, the 2000 budget was approved, but spending exceeded projections in 1999. The World Bank backed a loan to support administrative reform. Inflation has fallen but remains above target. Ties with the Azores have strengthened and the current account deficit doubled between 1997 and 1998. GDP growth estimates have been lowered slightly from 6 percent to 5.5 percent from 2000 to 2001, due to lapses in policy reform. The reduction in the growth rate can be expected to persist until the new government reveals its commitment to the liberalizing process. The election of Pedro Pires as president is unlikely to affect the overall policy of economic liberalization, although the privatization process may be slowed.

DEPENDENCIES

Cape Verde has no territories or colonies.

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—Jack Hodd

CENTRAL AFRICAN REPUBLIC

CAPITAL: Bangui.

MONETARY UNIT: Communauté Financière Africaine franc (CFA Fr). There are 100 centimes to 1 CFA Fr and 100 CFA Fr equal 1 French franc. Coins are in denominations of 5, 10, 25, 50, 100 and 500 CFA Fr, and bills of 500, 1,000, 2,000, 5,000 and 10,000 CFA Fr.

CHIEF EXPORTS: Diamonds, timber, cotton, coffee, and tobacco.

CHIEF IMPORTS: Food, textiles, petroleum products, machinery, electrical equipment, motor vehicles, chemicals, pharmaceuticals, consumer goods, and industrial products.

GROSS DOMESTIC PRODUCT: US$6.1 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$166 million (f.o.b., 2000). **Imports:** US$154 million (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. The former French colony of Ubangi-Shari, now the Central African Republic (CAR), is well named; it is a landlocked country in the center of the African continent. Land boundaries extend for 5,203 kilometers (3,233 miles) connecting Cameroon to the west, Chad and Sudan to the north, and the Republic of Congo and the Democratic Republic of Congo to the south. The country covers an area of 622,984 square kilometers (240,534 square miles), slightly smaller than Texas. The CAR is covered with tropical rainforest in the southern and western regions and dryer savanna in the north and east. The capital city, Bangui, is in the southwest, on the border of the Democratic Republic of the Congo. The other main towns are Bambari and Bossangoa.

POPULATION. The population of the Central African Republic was estimated at 3,576,884 in July 2001. It was growing 1.85 percent annually. The birth rate is estimated at 37.05 per 1,000 people and the death rate is 18.53 per 1,000 people. If current trends continue, the population, of which 43 percent are younger than 15, will surpass 4.2 million by 2010. These figures may change, however, because of the devastating effects of AIDS, which was prevalent in nearly 14 percent of the population in 1999, and the small percentage of people over 65 years. Some estimate that deaths caused by AIDS may be the most disruptive economic problem that the CAR will have to face in the coming years.

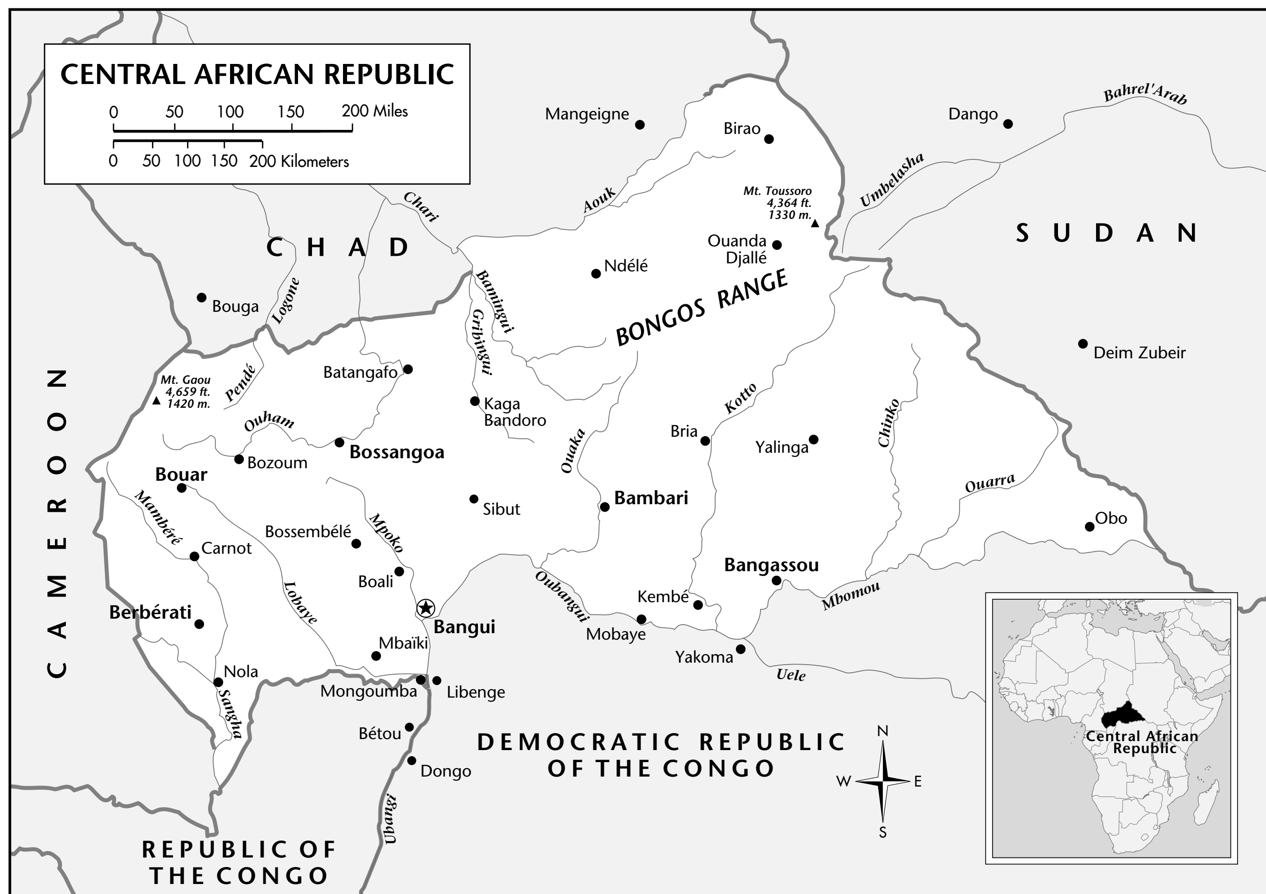
According to some sources, there are as many as 75 ethnic groups in the CAR but the Banda predominate, with the Baya, Sara and Mandjia people also prominent. There are 6,500 Europeans in the country, of which 2,500 are French. Approximately 24 percent of the population subscribe to indigenous religious beliefs, 50 percent are Christians (25 percent Protestant, 25 percent Roman Catholic), and 15 percent Muslim, with 11 percent after other faiths. Two-thirds of the people live in rural areas, with most of the remaining third residing in the capital, Bangui.

While French is the official language of the CAR, the national and most widely spoken language is Sangho. Other African languages, notably Hunsa and Swahili, are also spoken, as is Arabic.

OVERVIEW OF ECONOMY

The Central African Republic's economy is based primarily on subsistence agriculture, with important mining and timber industries the main source of export earnings. Diamonds are the country's most profitable export, while agriculture occupies most of its working population. Farmers grow cotton, coffee, and tobacco for export and crops for local markets, but economic development is handicapped by the CAR's landlocked position, limited **infrastructure**, and the low education of its **workforce**. Poor government management and political instability have further weakened the CAR's economic condition. The **informal sector** is important in the CAR, accounting for most economic activity and a large share of the diamond trade.

The CAR has had a turbulent economic history. Since gaining independence in 1960, the economy has endured intermittent periods of economic decline caused



in part by poor management. Between 1960 and 1990, the CAR's first 3 presidents pursued authoritarian policies that often impeded economic growth. **Gross domestic product** (GDP) declined at an average annual rate of 2.5 percent between 1985 and 1995, partly due to self-proclaimed Emperor Jean Bedel Bokassa's **nationalizing** several industries during the 1970s. During the 1980s, government mismanagement and corruption and low commodity prices accentuated this decline. During the 1990s, the CAR pursued economic and democratic reforms with some success, but several army mutinies in 1996 and 1997 degenerated into looting and destruction of property in Bangui. These events weakened the government and damaged the economy.

Agriculture is the primary occupation for four-fifths of the population in the CAR. During the colonial era, the French introduced cotton and coffee. They have served as the main **cash crops** for rural families ever since. Small amounts of tobacco are also grown for both the export and domestic markets. Cassava (manioc) is by far the biggest staple food crop and is produced primarily for home consumption. Millet, sorghum, corn, peanuts, and yams are also grown by farmers, who consume most of these foods themselves and sell excess harvest in the local markets.

While crop farming is the main work activity, diamonds and timber provide most of the CAR's export earnings. Diamonds are especially important, accounting for 54 percent of export revenues in 1999, while timber earned an additional 16 percent. For the domestic market, the CAR has developed a few industries that produce **consumer goods**.

Poor transport links are obstacles to economic development. An estimated 90 percent of the CAR's commercial traffic passes through the port of Douala in Cameroon, where services are notoriously inefficient and costly. Poorly maintained dirt roads link the country to Cameroon's northern railway terminal in Ngaoundere.

Government mismanagement and political instability are 2 additional factors that have hindered economic growth. Many nationalized companies have suffered under government mismanagement, thus contributing to the CAR's long decline. The resulting chronic budgetary problems, with the government unable to collect sufficient revenue to pay salaries, have fueled social tensions and political instability. To address these problems the CAR has collaborated with the World Bank (WB) and the International Monetary Fund (IMF) to **privatize** several state companies and made efforts to stimulate

growth. While there has been progress, the problem of chronic financial mismanagement continues. The CAR's economic woes are also exacerbated by the scarcity of jobs, rampant diamond smuggling, the large informal economy, and low levels of private investment.

Despite many problems, the CAR has valuable economic assets that could be profitably exploited. Fertile land and consistent rainfall are favorable to agriculture, there is the potential to export more mineral resources, and the country has abundant hydroelectric power that provides cheap electricity. But any growth is reliant on political stability and peace in the country.

POLITICS, GOVERNMENT, AND TAXATION

Politically, the CAR is an emerging democracy, whose population has the vote from age 21. The Republic's head of state is elected by popular vote for a 6-year term. He or she is responsible for appointing a prime minister as head of government, the council of ministers (cabinet), and the judges who serve the supreme and constitutional courts. The legal system is based in French law. The parliamentary structure is a 109-seat **unicameral** National Assembly, whose members are elected by the people and serve for 5 years. The National Assembly is advised by the Economic and Regional Council. The 2 bodies, when deliberating together, are known as the Congress. Local government is administered by 14 departments called prefectures, plus 2 economic prefectures, while the capital, Bangui, is designated as a commune.

There are 11 political parties, which field candidates for the National Assembly, but only a handful win representation. Until the mid-1990s, however, the country was run as a 1-party state, the party of the president. After the adoption of a constitution in January 1995, the system became more democratic and representative. By 2000, there were 12 political parties operating in the country.

An army officer, Jean Bedel Bokassa, stands as a potent symbol of the corruption and excess that characterizes many African leaders. Bokassa seized power in a military coup in 1965 and ruled for 14 years until 1979. In 1977, he crowned himself emperor-for-life in a lavish ceremony and began nationalizing the CAR's few industries. Under Bokassa's management, the economic steadily declined. The country's 3 other presidents since independence (David Dacko, Andre Kolingba, and Ange-Felix Patasse), they have proved unable to manage the CAR's economy.

After many decades of stability, army mutinies in 1996 and 1997 destabilized the political institutions and damaged the economy of the CAR. The mutinies began after soldiers, students, and civil servants protested over not being paid for months. The protest widened into widespread looting and destruction in the capital. After 3 years, a regional military force and a United Nations (UN) peacekeeping force reestablished political stability, allowing the CAR to organize democratic elections. The UN force was removed in 2000, but the budgetary problems—if not the open hostility—that caused the mutinies remain. Unable to reduce widespread tax evasion, the Central African government remains unable to raise enough revenue to pay its employees.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Infrastructure in the CAR is underdeveloped, poorly maintained, and inadequate. The CAR has no railroads, and only 450 kilometers (280 miles) of the 25,000 kilometers (15,535 miles) roads are paved. Dirt roads are poorly maintained and deteriorate in the rainy season. No organized public transport is available because the country's poor infrastructure drives up the cost, thereby discouraging commerce and investment.

The CAR suffers economically from its inadequate links to port facilities. Some of Bangui's commercial cargo has traveled down the Ubangi River to Brazzaville and by rail to Point Noire. Civil unrest in the Congos has forced the CAR to divert its commercial traffic towards the Cameroonian port of Douala. The CAR has over 4,000 kilometers (2,485 miles) of waterways; over 1,000 kilometers (621 miles) are navigable.

The country has abundant hydroelectric resources that provide reliable and inexpensive power to the capital city. About 80 percent of the CAR's electricity is provided by hydroelectricity, most of which is generated north of Bangui, with fossil fuels providing the rest. Besides these hydroelectric generators, Bangui has oil-powered generators to supplement power during peak periods and to use as backup. The state-owned enterprise, Enerca, supplies the electricity. The potential exists to harness more water resources and export energy to neighboring countries.

The CAR's telephone service is limited to a small percentage of Bangui's population but operates efficiently. The state phone company, SOCATEL, has invested little capital in improving or expanding the system and customers regularly wait up to 6 months to have new phone lines installed. A SOCATEL subsidiary began providing Internet services in 1996, but subscribers remain low. During the late 1990s, several mobile phone companies began operations, but their infrastructure was initially confined to Bangui. When SOCATEL is privatized and other companies are allowed to compete, investments are expected to increase coverage.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Central African Republic	2	83	5	N/A	0	0.1	N/A	0.00	1
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1
Chad	0	242	1	0.0	0	0.0	N/A	0.00	1

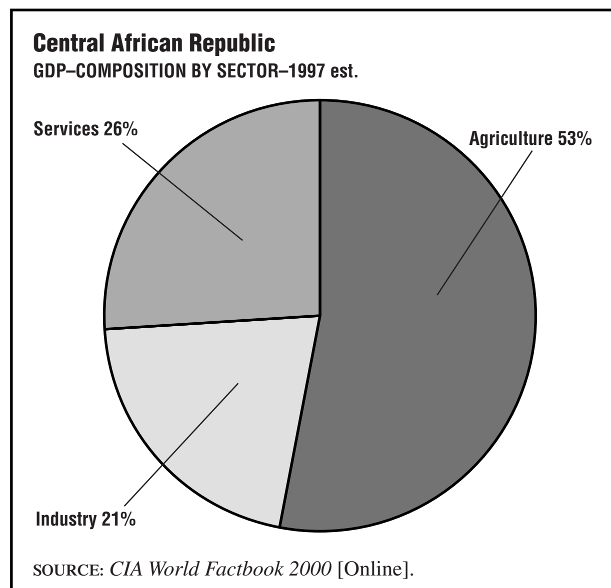
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

The CAR has only 1 international airport (near Bangui) and a few dirt airstrips. Several international airlines offer weekly flights between the capital and Paris, and to several regional capitals.

ECONOMIC SECTORS

Though production levels vary annually, agriculture has been the bedrock of the Central African economy, employing most of its workforce and accounting for half of the GDP for years. Agricultural output varies by product but has remained strong. Cotton production suffered from declining prices in the late 1990s, but this decrease was compensated for by increased food production. Lumber production also increased during the late 1990s as new timber companies entered the market. The CAR could produce far more agricultural exports, but it has been constrained by the lack of modern methods and poor access to regional markets.



SOURCE: *CIA World Factbook 2000* [Online].

The industrial sector is focused on diamond mining, in which 80,000 members of the labor force are employed, and which accounts for most of Central Africa's export revenue. Production figures have been difficult to estimate because of widespread diamond smuggling, but production grew during the late 1990s. During 2000, evidence was found of world-class deposits of iron ore, offering hope of expanded mining activities. In addition, oil exploration in the northern part of the country has begun. The construction of a pipeline between Douala and southern Chad will make oil production more feasible in the CAR. There are also several basic industries producing beverages and footwear and assembling bicycles for the domestic market. The industrial sector accounted for 20 percent of GDP in 1999.

The service sector includes a few companies and a thriving informal **retail** trade. Although small (27 percent of the GDP in 1999), the service sector has been strengthened by the privatization of several state enterprises during the 1990s. As the government sells its industrial companies, private ownership increases the demand for banking and other services. Nevertheless, the World Bank estimates indicate that services fell from a high of 32 percent of the CAR's GDP during the late 1990s.

AGRICULTURE

Agriculture employs four-fifths of the CAR's labor force and accounts for more than half of the total GDP (53 percent in 1999). The country's largest agricultural export, timber, is harvested by several foreign companies. Farmers also produce cotton, coffee, and tobacco for export. **Subsistence farmers** grow cassava, millet, corn, and bananas for their own consumption and for sale on domestic markets. Individual small-scale farmers using traditional agricultural methods produce these crops. Small amounts of palm oil and sugar are produced for the domestic market.

Timber is acquired in the southwestern regions bordering on Cameroon and the Congos and is logged and exported by several foreign firms. Production has risen from 200,000 to 300,000 cubic meters in the early 1990s to nearly 500,000 cubic meters. Forests covered nearly half of the country in the late 1990s, but this area has been reduced since timber companies do not replace the trees they have cut down.

Coffee and cotton are the most important agricultural exports after timber. Introduced by the country's French colonizers, cotton is grown in the northern provinces bordering on Chad. The CAR usually produces about 50,000 tons of raw cotton, which is purchased and ginned by the state cotton company, SOCOCA. Cotton production suffered when prices fell during the 1980s, but it partially rebounded during the 1990s. Coffee farmers in central and southern regions produce 10,000 to 15,000 tons annually.

Cassava (manioc) is by far the biggest subsistence crop in the CAR. Farmers produce about 500,000 tons of cassava annually, greater than the combined output of millet, sorghum, rice, and corn. Peanuts, yams, and sesame are also cultivated for the domestic market. In addition, almost all farm families raise livestock, partly for family consumption and to provide extra income. An assortment of cattle, goats, sheep, pigs, and poultry are owned by most rural households across the country. Individual families using traditional methods produce these commodities. Some farmers harness cattle to plow their fields and transport their crops, but most plow, hoe, and harvest by hand. The entire family, regardless of age, helps in the long, hard work of farming.

INDUSTRY

The industrial sector makes up about 20 percent of GDP. Mining is the most significant part of this sector. Mining is conducted by individual miners who use simple equipment. CAR has deposits of gold, uranium, iron ore, manganese, and copper. Lack of infrastructure, which makes it difficult to find and to transport mined minerals, has impeded further mineral exploration, but the CAR has over 400,000 square kilometers (154,440 square miles) of unexplored terrain with high geological potential for diamonds and other mineral deposits.

Diamonds provide about half of the CAR's export earnings. An estimated 80,000 independent miners officially produced 415,000 carats of diamonds in 1999. The official numbers are well below the actual amount of diamonds mined because there is a great deal of diamond smuggling in the country. Legitimate miners sell their products to 160 certified agents who sell to purchasing agents in Bangui. But one respected French economic journal, *Marche Tropicaux,* estimated total exports in 1997 at 1.5 million carats, more than 3 times the official total.

Besides mining, the CAR has several industries that process products for export as well as producing goods for domestic markets. Though most lumber is exported as raw logs, some of it is processed in sawmills and exported as boards. As in many African countries, breweries are one of the country's oldest and largest industries, brewing beer primarily for domestic consumption. Several other small companies assemble bicycles and motorcycles. In recent years, the country's textile factory has become inactive because it was unable to compete against cheap imports and the second-hand clothing market.

SERVICES

The small banking sector remains plagued by past management problems and offers only limited services. A report by the Central Bank of Central Africa (BEAC) estimated in 1999 that only one of the CAR's 3 commercial banks was financially sound, but the other 2 were at least making progress with internal reforms. Several banks have been privatized during the 1990s, and 2 of these have joined the large European banking groups, Société General and Groupe Belgolaise.

The government telecommunications company, SOCATEL, holds a **monopoly** over most telephone services (excluding cellular services). In 1996, the government agreed to sell 40 percent of SOCATEL to the French company France Radio et Cable (FRC) and plans to sell its remaining 60 percent stake in the coming years.

Small informal vendors dominate retail services. A few modern shops are centered in Bangui's commercial district, but most retail sales are conducted by unregistered street vendors or those operating from one-room stores or roadside stalls. Informal trade is difficult to quantify, but it is clear that most retail commerce is conducted within the informal economy.

INTERNATIONAL TRADE

France is the largest trade and investment partner for the CAR and supplies 35 percent of its imports. French companies have invested in most major local industries as well as in banking and telecommunications services. Other European countries, particularly the Benelux countries (Belgium, the Netherlands, and Luxembourg) and Spain, import many of CAR's exports. Within Africa, the Ivory Coast and Cameroon are major trading partners, while trade with neighboring countries such as Chad, Cameroon, and Nigeria is probably far higher than official estimates because much of it evades customs.

The CAR generally has a **trade deficit** because it imports more than it is able to export, although the 2000 figures registered a surplus, with US$166 million in exports against US$154 million in imports. Export revenues

Trade (expressed in billions of US$): Central African Republic

	Exports	Imports
1975	.047	.069
1980	.116	.081
1985	.092	.113
1990	.120	.154
1995	.171	.174
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

are dependent on diamond production levels, but these are difficult to estimate because most of the diamond trade goes unrecorded by customs agents. Exports, especially of diamonds, coffee, cotton, and timber, rose after the 1994 **devaluation** of Central Africa's currency, but were later affected by political unrest in 1996 and 1997. The most important imports include petroleum products, machinery, and different consumer goods, which became more costly to purchase after the currency was devalued.

MONEY

The CAR is part of the Central African Monetary and Economic Union (Communaute Economiquareue et Monetaire de l'Afrique Centrale, or CEMAC), a group of 5 francophone countries that use the same currency, the CFA franc. The CFA franc is tied to the French franc and can be readily exchanged at 50 CFA francs to 1 French franc. The CAR, like all members of the CFA franc communities, has benefited from this stable currency.

As a member of the CFA zone, the CAR was profoundly affected by the 50 percent devaluation of the CFA in 1994. This had some positive short-term effects, though, in promoting exports of diamonds, timber and cotton because it doubled the value of these exports in CFA francs, boosting revenue. The devaluation caused a temporary rise in **inflation** and lowered living standards temporarily and probably increased poverty by raising prices while most salaries remained static.

In the long term, results were more mixed. The devaluation made imported products relatively more expensive. One of the most significant price increases was of petrol, which was priced beyond the reach of many and severely curbed the use of petrol-powered transport, effectively stopping bus service, for example.

POVERTY AND WEALTH

Unemployment, given the lack of work opportunities in the CAR, is low at 6 percent, but poverty is high. In 1998, life expectancy was estimated at less than 45 years and less than half of the population could read. Per capita income levels have remained among the lowest in the world. Though most Central African families have limited income, they benefit from climatic conditions that enable them to produce enough food to survive. Most Central African people live under similar rural conditions, where food is available but money and consumer goods are more difficult to obtain. Social services, such as health care and education are seriously lacking.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Central African Republic	454	417	410	363	341
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Chad	252	176	235	228	230

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Exchange rates: Central African Republic

Communaute Financiere Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Central African Republic

Lowest 10%	0.7
Lowest 20%	2.0
Second 20%	4.9
Third 20%	9.6
Fourth 20%	18.5
Highest 20%	65.0
Highest 10%	47.7

Survey year: 1993

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

The urban population centered in Bangui is diverse, encompassing many different occupations and classes. However, as in several other countries in the region, the wealthy share their fortune with poorer relatives who live in rural areas, who frequently send gifts of produce in exchange for money. Many urban dwellers make their living through small-scale commerce. Women are particularly active in buying, processing, and selling different food commodities in local markets.

WORKING CONDITIONS

Working conditions in the CAR are similar to those encountered throughout rural Africa. Subsistence farmers use labor-intensive traditional farming methods to produce food and cash crops. Agricultural work varies seasonally, with fields plowed and crops sown in the early rainy season around May and June. The fields are worked during the rainy season, and the harvest is gathered between September and December. Most work is done by hand, but some farmers harness oxen to plough their fields.

A small portion of the population works in the diamond and lumber industries. Diamond miners are self-employed prospectors, whose earnings vary according to their luck in finding diamonds.

Most of the working population centered in Bangui is employed in the informal sector. Women often buy and sell different foods for meager profits, while men typically work in trades such as carpentry, masonry, and tailoring. Women have little access to education or to jobs and suffer from lesser protection under the law.

Members of the small civil service normally constitute a middle class elite, but this class has endured periods without salary because of the government's chronic budgetary problems.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1894. French forces occupy Central Africa (the current CAR).

1905. The CAR is joined to Chad under French colonial control.

1910. The CAR and Chad are joined with Gabon and the Congo to form French Equatorial Africa.

1928–31. Congo-Wara rebellion against forced labor on coffee and cotton plantations breaks out and is eventually crushed.

1946. A rebellion in the CAR forces France to grant the territory a legislative assembly and representation in the French parliament.

1958. The CAR achieves self-government as a part of French Equatorial Africa.

1960. The CAR gains its own independence. David Dacko is elected the country's first president.

1965. Army commander Jean-Bedel Bokassa takes power in a coup d'état.

1977. Bokassa crowns himself "emperor for life."

1979. Dacko overthrows Bokassa with the help of France in a bloodless coup.

1981. A bloodless coup led by General Andre Kolingba overthrows Dacko and establishes military rule.

1993. Ange-Felix Patasse is elected president.

1996–97. Several army mutinies break out over unpaid salaries and quickly degenerate into widespread looting of the capital city of Bangui. Patasse flees.

1997. Bangui accords are signed in January to reconcile political factions; France withdraws its troops in October.

1998. The UN sends a peacekeeping force to help maintain order throughout the legislative and presidential elections.

1999. Patasse is reelected president.

2001. More mutinies disrupt the political and economic stability of the country.

FUTURE TRENDS

The CAR has a great deal of economic potential. The country's fertile land and abundant water resources offer hope in the agricultural sector, while rich mineral resources offer an opportunity to expand the export of commodities other than diamonds. The current construction of the pipeline project will also increase the feasibility of petroleum exploration by making it easier and cheaper to export oil reserves through Cameroon. The potential is great, but all depends on the CAR's ability to conquer its past demons.

Despite the CAR's vast natural resources, several obstacles impede the CAR's future prosperity: deforestation, poor infrastructure, the AIDS epidemic, and political instability. Deforestation is an unfortunate result of the heavy logging industry. New strategies must be developed for the timber industry to thrive economically. Deforestation adds to the problems of frequent flooding as well as to the country's vulnerability to **desertification**. The poor quality and lack of adequate infrastructure throughout the country also hampers economic development, making it difficult to get products to market or to explore new deposits of valuable minerals. With AIDS cases reaching epidemic proportions, the lack of

health-care coverage and education threaten the well-being of the country. Some estimate that the CAR will lose an increasing number of its labor force to AIDS. Finally, and to some—most importantly—the government needs to overcome its budgetary problems. Internal budgetary mismanagement has deprived civil servants and others of their salaries and has bred political unrest. The government's ability to manage successfully will determine political stability, the essential precondition for foreign investment and consequent economic growth.

DEPENDENCIES

Central African Republic has no territories or colonies.

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—Alexander Gazis

CHAD

Republic of Chad
République du Tchad

CAPITAL: N'Djamena.

MONETARY UNIT: Central African franc (CFA Fr). 100 CFA Fr equals 1 French franc. There are coins of 5, 10, 25, 50, 100, and 500 CFA Fr. In the local marketplace, money is expressed in terms of "riyal," a unit equal to 5 CFA Fr. Thus 500 CFA Fr equals 100 riyal.

CHIEF EXPORTS: Cotton, cattle, textiles, gum arabic.

CHIEF IMPORTS: Machinery and transportation equipment, industrial goods, petroleum products, foodstuffs, textiles.

GROSS DOMESTIC PRODUCT: US$8.1 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$172 million (f.o.b., 2000 est.). **Imports:** US$223 million (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The former French colony of Chad, a landlocked country located in northern Central Africa, is more than 3 times the size of California. The country has an area of 1,284,000 square kilometers (495,755 square miles), with a land boundary length of 5,968 kilometers (3,708 miles). Neighboring countries are Niger, Nigeria, and Cameroon to the west; Libya to the north; Sudan to the east; and the Central African Republic (C.A.R.) to the south. Lake Chad in the southwestern part of the country is the largest body of water in the Sahel region. Chad also has the Tibesti mountain range in the far north, some smaller mountains in central Chad, and a few hills near the southern and western borders. Most of the country is desert or savanna with limited rainfall, although there are moderately temperate areas in the south. Chad's capital, N'Djamena, is in the southwestern part of the country.

POPULATION. In July 2001, the population of Chad was estimated at 8,707,078, an annual growth rate estimated of 3.29 percent. The birth rate is estimated at 48.28 per 1,000 people and the death rate at 15.4 per 1,000 people. Most of the population, half of which is under the age of 15, lives in several southern provinces where high rainfall makes farming and animal husbandry easier. About 1 percent lives in the arid upper half of the country extending into the Sahara desert. Population density varies between 0.15 persons per square kilometer (0.39 per square mile) in the northern province and 61.7 persons per square kilometer (154 per square mile) in the Logone Occidental province.

OVERVIEW OF ECONOMY

Chad's economy is primarily agricultural. Most of the population engages in **subsistence farming** and animal husbandry, producing food mainly for their own consumption. Chad depends on 3 commodities—cotton, cattle, and gum arabic (a gum from different African trees, used as an emulsifier in pills and candies)—for its export revenues. During the past 30 years, Chad's economy has been seriously damaged by chronic political instability. Its development has also been hindered by high energy and transport costs due in part to its geographic position. The beginning of a major oil project in southern Chad in 2000 offers an opportunity for Chad to diversify its economy and stimulate further growth.

The country's export commodities are subject to fluctuations in production and price levels. Cotton and cattle have been Chad's main exports before independence in 1960, but during the 1990s gum arabic emerged as a third major export commodity, making Chad the world's second biggest exporter after Sudan. Chad's economy has been vulnerable to swings in cotton prices, and when these fell during the 1980s, the economy suffered. Prices recovered during the 1990s, but production levels continue to vary according to the annual rainfall.

Armed conflicts and continuing tensions between ethnic, religious, and regional groups have severely damaged the economy. After independence in 1960, Chad was governed by the authoritarian leader, Francois Tombalbaye, until he was assassinated in 1975. Tombalbaye's death was followed by a decade of turbulence as several armed groups from different regions vied for control. The situation reached a climax in 1979 when a truce broke down between 2 principal armies stationed in N'Djamena, leading to further conflict and increased tensions between Muslim and Christian southerners. By the early 1980s, Hissein Habre, a ruthless northern dictator, managed to consolidate his power. He ruled until 1990, when he was ousted by Idriss Deby, a former deputy. These years of violence and political instability have damaged Chad's **infrastructure** and seriously impeded its economic development.

Economic progress has also been hindered by several other constraints. Chad is seriously handicapped by its landlocked position; exports and imports must pass through Cameroon where widespread corruption inflates transport costs. Energy prices in Chad are among the highest in the world, and variable rainfall causes frequent

deficits in food production. Heavy taxes, corruption, and the lack of an independent judiciary have discouraged foreign investment. These issues continue to limit commercial opportunities in Chad.

Like other poor countries with limited resources, Chad must import many goods and is dependent on foreign aid. Although the country's overall burden of debt is low by the standards of developing nations, the government relies on foreign donors to finance most investment projects. The European Union (EU), notably France, provides the largest share of foreign aid aimed toward health, education, and transport. Multilateral lending agencies, the United Nations (UN), the International Monetary Fund (IMF), and the World Bank also supply assistance to encourage improvements in government management and social services. Chad has a small industrial sector that produces paint, fruit juices, roofing, and a few other products mainly for domestic consumption, and depends on foreign suppliers for fuel and **consumer goods**.

As in many other developing countries, Chad's economy includes a thriving **informal sector**. Many entrepreneurs conduct commercial activity without official structure or permits and do not use organized accounting. Informal commerce ranges from individual vendors peddling their wares on the streets of N'Djamena to major business entrepreneurs transporting thousands of tons of gum arabic. Many businesses neglect to register their companies to avoid the high taxes imposed on formal businesses. The informal sector is hard to measure, but many observers estimate that most of Chad's economic activity is conducted by informal businesses.

During the late 1990s, Chad collaborated with the World Bank and the IMF to implement **structural adjustment programs** aimed at **liberalizing** the economy and improving government management. These programs have had some success. By 2000, most of Chad's state enterprises had been **privatized** and opened up to competition. In the rural water supply sector the former state-owned **monopoly** was converted into a private company and the water supply business opened to other competitors. The government has also managed to limit spending and meet some of its budgetary targets.

Chad's economy will receive a huge boost from the Chad-Cameroon Development project. A consortium (businesses working together) led by Exxon will invest US$3.7 billion in building production facilities, a pipeline, and associated infrastructure to export over 1 billion barrels of crude oil reserves in southern Chad. The World Bank has played a role in providing financing for the governments of Chad and Cameroon to invest in this project. In return for this financing, the World Bank has obtained agreements from the 2 governments that they will closely monitor environmental conditions and revenue management, issues of serious concern in the region. When oil starts flowing in 2004, the project is expected to double Chad's government revenue. More importantly, this project may stimulate investment in food processing and other promising sectors as local businesses satisfy demands created by the project.

POLITICS, GOVERNMENT, AND TAXATION

Chad's government continues to be dominated by a powerful president and his Patriotic Salvation Movement (MPS) party. After decades of civil war and regional clashes, Chad made some progress in increasing political freedoms and establishing democratic institutions during the 1990s. Nevertheless, elections have been marred by irregularities, and power remains concentrated in the president and his ruling Zaghawa clan. Chronic corruption and human rights abuses have contributed to a resurgence of armed conflict in the far north. These problems have seriously dampened Chad's economic climate and have forced the government to divert scarce resources into military expenditure.

To explain local politics, Chadian political observers have coined an often-quoted dictum: "A man's strength lies in his cooking pot." In such a poor country, vulnerable to famine, politicians ally themselves to the party that can best fill their "cooking pot." The ruling MPS has thus used its control over highly coveted civil service jobs to co-opt many rival parties and develop a nationwide membership. Some opposition parties support a more decentralized federal structure, but most parties rely on regional and ethnic loyalties and do not espouse ideology.

Chad is gradually trying to overcome a legacy of **socialism** inherited from France. Until recently, state companies enjoyed monopolies over major sectors, and lack of competition encouraged mismanagement and corruption in these companies. The government has privatized Chad's 2 largest banks, its rural water supply company, and its meat packing plant, as well as many other companies. State enterprises continue to control the cotton, electricity, and telecommunications companies, but these companies are due for privatization. The IMF and the World Bank have been helping the government to reduce its direct involvement in the economy.

High taxes and customs **duties** are another handicap to private business. Because there are so few formal businesses from which tax can be raised, the government must tax these firms heavily to acquire a modest amount of revenue. Corruption is also a major problem in tax collection and customs agencies. The government has, however, made efforts to reduce certain taxes and harmonize its tax and customs system with those of other countries in the Central African Economic Community (CEMAC).

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Chad	0	242	1	0.0	0	0.0	N/A	0.00	1
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Central African Republic	2	83	5	N/A	0	0.1	N/A	0.00	1

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Chad's infrastructure is exceptionally poor even by standards in other developing countries. Decades of civil war have taken their toll, and improvements have proceeded slowly. The road system is unpaved and vulnerable to erosion. Mismanagement of government-run power and communications monopolies slowed the development of infrastructure in these essential sectors. Chad's people have limited access to power, electricity, telecommunications, water, and other modern services fundamental in developed societies. Nevertheless, some improvements are expected as the government liberalizes energy and telecommunications sectors and gradually improves the transport infrastructure.

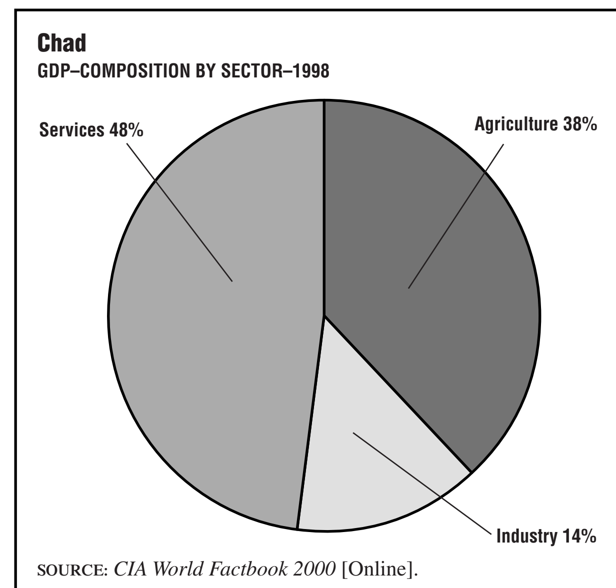
Transport costs are high, and most of Chad's roads are unpaved dirt or laterite (red soil found in humid tropical and subtropical areas) that can become impassable during the rainy season and make some regions inaccessible. According to the U.S. State Department's *2001 Country Commercial Guide* for Chad, less than 10 percent of 6,200 kilometers (3,853 miles) of roads in Chad were paved in 2000. Road conditions can vary widely according to the seasons.

Electricity and water services are confined to the capital, N'Djamena, and a few regional capitals. Even in these limited areas, electricity is extremely expensive and services are often cut off. Urban electricity and water supplies have long been provided by a state company, Société Tchadien d'Eau et d'Electricité (STEE), that has suffered from chronic corruption and mismanagement. As this company is privatized, there is hope that utility services will improve and prices will be lowered. In rural areas, most people rely on traditional wells with little or no protection against surface water contamination. Because of the absence of latrines and other human waste disposal systems in rural areas, there is a high incidence of water-borne diseases.

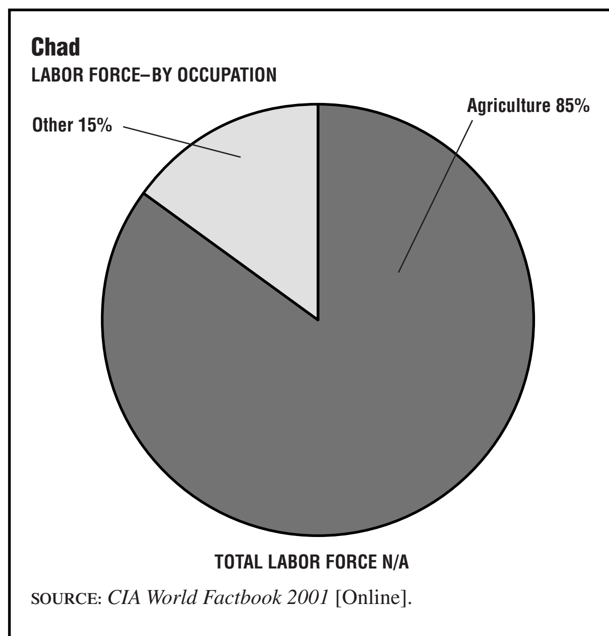
Chad ranks with those countries in the world that have the lowest density of telephones, televisions, and Internet users. According to the *World Development Indicators for 2000,* Chad has 1 television set per 1,000 people. Advertisements from the telephone company, Soteltchad, at the end of 2000 estimated that Chad had 10,260 telephones and 1,020 Internet subscribers. The country has 1 television station that is run by the state and a governmentally-run radio station which broadcasts from several regional capitals. Both the television and radio stations provide information from the government's perspective. Although there are several newspapers circulating in the city of N'Djamena that offer differing political views, the news does not reach Chad's mostly rural and illiterate population.

ECONOMIC SECTORS

Agriculture is the backbone of Chad's economy. In 1998, the *World Factbook* estimated that agriculture, fishing, and herding accounted for nearly 40 percent of the GDP and occupied 80 percent of the workforce. Agriculture continues to dominate Chad's economy, account-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

ing for 44 percent of the GDP, but this figure alone does not convey the importance of agriculture and animal husbandry to the society. An estimated 85 percent of Chad's population relies primarily on these activities for its livelihood. In the agricultural sector, cotton accounts for half of Chad's export earnings and cattle provide most of the remainder. In addition, Chadians produce several crops and animals for their own consumption.

Chad has developed a small industrial sector that produces electricity, beverages, soap, oil, paint, and construction materials. Most of these goods are consumed domestically, while further industrial ventures have been impeded by high production costs and Chad's limited market. Industry accounted for 14 percent of GDP in 1998, according to the *World Factbook.* The petroleum sector is expected to grow dramatically in coming years as proven oil reserves of over 1 billion barrels are exploited in southern Chad.

The service sector is limited in size and in different services, although it accounted for 46 percent of GDP in 1998. According to the U.S. State Department's *Country Commercial Guide*, the banking sector had an estimated US$100 million in total deposits in 2000. The cost of credit is high, reflecting the risk to bankers. Medical services are rudimentary, limited by scarcities of human and material resources.

AGRICULTURE

Agriculture and animal husbandry employs 85 percent of the country's workforce but only contributes 44 percent to the GDP. While cotton, cattle, and gum arabic provide most of Chad's export revenue, farmers also produce several subsistence crops for domestic consumption.

Farming methods are traditionally simple, and irrigation and mechanical equipment are rarely used. Farmers work their fields by hand or use cattle to till the soil. Competition for land between farmers and cattle-herders has caused conflicts in rural areas.

Cotton employs an estimated 2.5 million Chadians and provides half of Chad's export revenue. Over the past decade, production of raw cotton has varied between 94,000 tons and 260,000 tons. Production levels depend primarily on variations in annual rainfall, and the cotton sector has been affected by fluctuations in world prices. During the 1980s, low cotton prices caused the state cotton company, Cotontchad, to lose money for several years until it modernized its ginning factories and prices recovered. In addition to ginned cotton, Cotontchad produces oil and soap from cottonseed.

Chad's second leading export is cattle, most of which travel overland to Nigeria. Cattle-herders lead a semi-nomadic lifestyle, migrating north during the rainy season and traveling south in search of green pastures during the dry season. These migrations often bring them into conflict with farmers when cattle damage crops. Cattle-herders travel in small groups but are well armed to defend against hostile farmers. Camels, donkeys, goats, and sheep are also farmed, primarily for domestic use or consumption. These animals also represent savings and a measure of wealth in rural areas where money is scarce.

The country's main subsistence crops include grains, oilseeds, tubers, and several leafy vegetables (legumes). Millet and sorghum are the major staples of the local diet. These grains are also widely used to produce bili-bili and arghi, 2 popular alcoholic beverages. Chad produces between 600,000 and 1,100,000 tons of grain per year, most of which is consumed locally. Peanuts, groundnuts, and sesame are Chad's principal oil seeds and are also primarily for local consumption. Farmers grow several tubers, including manioc and sweet potatoes.

In the 1990s, gum arabic production soared, and Chad solidified its position as the world's second largest producer of this commodity. Chadian gum arabic production rose from fewer than 6,000 tons in the early 1990s to approximately 18,000 tons in 2000. Gum arabic is exported to Europe, the United States, and other industrialized nations, where it is used in soft drinks, pharmaceuticals, and many other products. Chadian gum is tapped by small-scale harvesters from wild acacia trees throughout the semi-arid Sahel region.

INDUSTRY

Chad has a small industrial base that mainly supplies its domestic market and contributed 14 percent of GDP in 1998. Industries manufacture construction materials, beverages, and a few other products for the local market. A textile mill produced fabric for several decades but was unable to compete with foreign imports. A consortium of oil companies is investing in a major oil project in southern Chad, which is expected to provide a boost to the economy. The high costs of energy and transport have impeded new industrial ventures, yet if these constraints can be eased and improved access found to Nigeria's market, the potential exists to process more raw commodities.

MANUFACTURING. Based in Moundou, Chad's most important industrial company, Cotontchad, gins cotton and manufactures soap and oil from cottonseed. Cotontchad also has ginning operations in several large southern towns. In addition to Cotontchad, Moundou has a cigarette company and a firm that assembles agricultural equipment. In N'Djamena, several companies produce paint, metal roofing, fruit drinks, mineral water and cookies. Chad's third largest city, Sahr, hosts a sugar production factory and an idle textile mill.

PETROLEUM. Chad's petroleum industry will be extremely important in the short-term future. There are plans to exploit 2 known petroleum deposits: a small reserve of high-grade oil north of Lake Chad and a much larger deposit of heavy crude oil in the Doba Basin of southern Chad. A consortium led by Exxon will employ up to 4000 workers and invest US$3.7 billion to exploit over 1 billion barrels in the Doba basin. Further exploration is planned to determine whether more reserves can be exploited.

MINING. A South Korean company, AFKO, recently began building a factory to extract gold reserves near the southern town of Pala. Chad is known to hold deposits of bauxite, iron ore, uranium, tin, and tungsten, but further research is necessary to determine whether these resources can be extracted.

SERVICES

Chad's service sector is limited, although it contributes an estimated 49 percent of the GDP, up from 46 percent in 1998. Privatization and improved management practices have strengthened financial services, but they remain limited in size and in the services they offer. **Retail** sales are conducted primarily in the informal sector. Chad holds some potential for tourism, but instability and lack of infrastructure have prevented the development of this sector. Some firms in the capital, N'Djamena, have seen a proliferation of computer service firms, offer insurance, accounting, and computer services. Several international firms offer accounting services, tax advice, and business consultancy services, but the market for these services remains limited as long as most Chadian entrepreneurs remain in the informal sector.

FINANCIAL SERVICES. Chad's banking sector is small by international standards. With US$100 million in deposits and limited capital investment, Chadian banks have little money to lend. Much of their capital finances the cotton-buying season for Cotontchad. For other businesses, credit is expensive and difficult to obtain. Short-term credit can cost 18 to 26 percent and long-term credit is rarely available.

RETAIL. The retail business is conducted primarily in the informal sector. Thousands of vendors wander in Chad's urban streets searching for buyers for their wares. In addition, thousands of small stores and roadside stands sell limited varieties of household goods. In rural and urban areas, many vendors gather in a network of small markets where perishable goods are sold.

TRANSPORTATION. Transport of goods is managed by many informal sector operators. Small vehicles and large semis carry passengers and merchandise between N'Djamena and different regional centers. Most vehicles are old and break down often.

INTERNATIONAL TRADE

Chad's principal trading partners are the EU countries and neighboring CEMAC countries. France has been Chad's largest trading partner, accounting for 41 percent of imports. Nigeria and Cameroon are probably Chad's next biggest trading partners, although much of this trade goes unrecorded by customs officials. The 2 countries export many consumer products to Chad. Cotton exports usually go to Portugal and other EU countries, while most beef exports go to Nigeria. Gum arabic has traditionally been exported to France and other EU countries, but increasing volumes now go to the United States.

For decades, Chad has run large **trade deficits**, importing far more than it exports. In 1999, exports were estimated at US$288 million against imports of US$359

Trade (expressed in billions of US$): Chad

	Exports	Imports
1975	.048	.133
1980	.071	.074
1985	.062	.166
1990	.188	.286
1995	.277	.250
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Chad

Communaute Financiere Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
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Nigeria	301	314	230	258	256
Central African Republic	454	417	410	363	341

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

million. By 2000, the *World Factbook* estimated that exports had reached US$172 million and imports, US$223 million. When money flows out of Chad to purchase these exports, foreign donors compensate for this flow by sending money back into Chad for investment in development programs. In 1997, Taiwan promised US$125 million and the African Development Bank, US$30 million.

MONEY

As a member of the Central African Franc Zone, Chad underwent a 50 percent **devaluation** of its currency in early 1994. Unlike other CFAF countries, however, Chad benefited little from this devaluation, which raised **inflation** for two years but failed to stimulate export volumes. Chad has otherwise benefited from a stable currency.

In Chad's domestic markets, inflation and **deflation** are seasonal occurrences. Food prices fall during the harvest season and usually rise by at least 100 percent during the rainy season. Chad's markets are volatile, and prices vary from day to day and week to week. At the end of each month when civil servants are paid, prices for prized consumable goods such as fish and chicken rise for a short while as suppliers take advantage of a brief rise in demand.

POVERTY AND WEALTH

In the **United Nations Development Program**'s World Development reports, Chad's Human Development Indicator has increased from 0.29 in 1990 to 0.393 in 1999, placing it among the 10 poorest countries in the world. In the benchmarks used to measure poverty (literacy rates, access to health care, access to clean water, etc.) Chad has ranked among the poorest countries in Africa.

Chad's population can be divided into rural and urban classes. In rural areas, farmers and animal herders construct their own housing and produce most of their own food but earn little monetary income. In urban areas, small business people practice an array of trades. The civil service constitutes Chad's upper class, though its employees are poorly paid by international standards. A small class of diplomats, international aid workers, high-ranking government officials, and a few **private sector** managers occupy topmost wage scale.

Urban and rural classes are closely linked by Chad's extended family traditions. Poor rural farmers will often send children to live with comparatively wealthy urban relatives to study in urban schools. And wealthy urbanites often send money in return for foodstuffs as a means of helping out less fortunate rural relatives. Given the lack of social security programs, the poor, the elderly, and the handicapped usually depend on members of their extended family for support.

WORKING CONDITIONS

Working conditions, too, differ between rural and urban areas. Farmers rely on family members, including small children, to help labor in the fields and harvest the crops. Animal herders have a different lifestyle, migrating seasonally between northern and southern pastures. Monetary wages are low for unskilled workers, averaging less than a dollar per day. More educated workers can earn substantially more, but the scarcity of jobs tends to drive down wage rates. Chad's labor code is adapted from French laws that are protective of workers, but workers in the informal sector are not covered by these rules. Several unions have been formed to represent different workers, but their influence is limited.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1891. France begins colonizing Chad.

1900. Decisive battle between France's Major Lamy and Chad's Rabah marks the French victory over the Chadian leader. Both Lamy and Rabah die during the battle.

1960. Chad gains its independence from France. Francois Tombalbaye becomes Chad's first president.

1975. Tombalbaye is assassinated.

1979. Civil war erupts in N'Djamena.

1982. Hissein Habre consolidates power in N'Djamena.

1990. Idriss Deby takes power by military force.

1996. Constitution is voted on by referendum. Presidential elections are held.

2000. The Chad-Cameroon oil production and pipeline project begins.

FUTURE TRENDS

Provided Chad's civil unrest is resolved, Chad's economy could improve. The boost expected by the oil production project in the southern Doba Basin region will help in the service sector as well, creating transportation jobs in particular. The construction phase began in October 2000 and is due to finish by 2004. Once production begins, this Exxon-led project will double current government revenue. The increased revenue will allow Chad to invest in social programs and reduce its dependency on foreign donors. Chad should experience improvement in other parts of the economy as well, especially in the cotton industry, which is scheduled to be privatized over the next several years. Despite the improved economic prospects for Chad, political stability remains the most important factor for economic progress in the country.

DEPENDENCIES

Chad has no territories or colonies.

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—Alexander Gazis

COMOROS

Federal Islamic Republic of the Comoros
République Fédérale Islamique des Comores
Jumhuriyat al-Qumur al-Ittihadiyah al-Islamiyah

CAPITAL: Moroni.

MONETARY UNIT: Comoran franc (KMF). One Comoran franc equals 100 centimes. There are notes with denominations of 25, 50, 100, 1,000, 5,000, and 10,000 francs. Coins come in denominations of 1, 2, 5, 10, and 20 francs and 20 centimes. French francs are also commonly used. The Comoran franc is currently pegged to the euro at KMF 492 = 1 euro.

CHIEF EXPORTS: Vanilla, ylang-ylang, cloves, perfume oil, and copra.

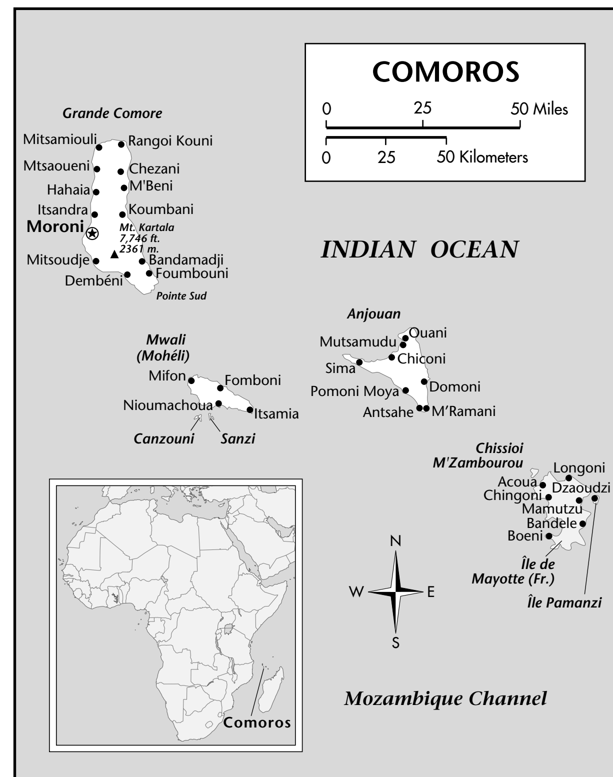
CHIEF IMPORTS: Rice and other foodstuffs, consumer goods, petroleum products, cement, and transport equipment.

GROSS DOMESTIC PRODUCT: US$419 million (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$7.9 million (f.o.b., 1999 est.). **Imports:** US$55.1 million (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Comoros is comprised of 3 islands that are part of a 4-island archipelago in the Mozambique Channel. The fourth island, Mayotte, is still a dependency of France. The islands lie between the northern tip of Madagascar and the African mainland. The archipelago, formed by the tips of a volcanic mountain range rising from the Mozambique Channel, stretches over 300 kilometers (186 miles) from north to south. Comoros has a land area of 2,170 square kilometers (838 square miles), making it slightly larger than 12 times the size of Washington, D.C. The main island, Grande Comore (locally known as Ngazidja but also called Njazidja), is geologically the youngest. It measures 60 kilometers (37 miles) from north to south and 20 kilometers (12 miles) from east to west. Its most prominent geographical feature is Mount Kartala (2,361 meters/7,746 feet), an active volcano which smokes and bubbles continuously on Grande. The capital, Moroni, is located on Grande Comore. The other 2 smaller islands are Anjouan (Nzwani) and Mohéli (Mwali). Anjouan is the most topographically varied, with steep coastlines and deep valleys. Its highest peak, Mount Ntingui, rises 1,595 meters (5,233 feet). Mohéli, on the other hand, is the smallest, least populated, and least developed island. The total coastline of the islands is 340 kilometers (211 miles).



POPULATION. The population of Comoros was estimated at 596,000 in July 2001, up from 479,600 in 1994. The nation has a young population; the proportion of older people (65 years of age and above) was estimated at 2.9 percent in 2001, while the 0–14 age group was 43 percent in the same year. Comoros is steadily becoming more urbanized, with the proportion of the population living in towns having increased from 29.9 percent in 1994 to 32.1 percent in 1998. The population consists almost entirely of persons of mixed-race, mostly of African, Malagasy, and Arab descent.

French, Comoran, and Arabic are the official languages. Comoran, the main spoken language, is akin to Swahili but has elements borrowed from Arabic. Other languages spoken include Malagasy and Swahili.

Islam, the state religion, is followed by 98 percent of Comorans. Almost all Comorans are Sunni Muslims. There are small numbers of Christians, mostly Roman Catholics of French Malagasy descent.

OVERVIEW OF ECONOMY

The economy of Comoros is limited by low incomes, high unemployment, an inadequate transport system, the nation's isolated location, the absence of any mineral resources, and a heavy dependence on foreign aid. Most of the population relies on small-scale family agriculture for their livelihoods. The industrial sector is very small and relies mostly on construction and electricity and water distribution. The industrial sector also is supplemented by some processing of ylang ylang (a flower used to make perfume) and vanilla. The services sector comprises mostly government employees, with some employment in the tourism sector.

Comoros has suffered continuous political instability since independence in 1975, which has impeded economic progress. Local and foreign businesses are unwilling to invest in the current volatile (unstable) political and business climate. Falling world prices and increased competition in the international market for the principal export commodities of Comoros have contributed to economic decline. Emphasis is currently on containing **public sector** wage costs to reduce domestic **inflation** and speeding-up **privatization** of state-owned enterprises.

The per capita **gross national product** (GNP) of Comoros was estimated at $370 in 1998 by the **exchange rate** conversion. Per capita GNP declined in real terms from 1990 to 1997 at an average annual rate of -3.1 percent. Output grew at an almost negligible rate of 0.1 percent per year in the last half of the 1990s, much less than the population growth rate, which was estimated at 3 percent in 2001.

POLITICS, GOVERNMENT, AND TAXATION

The 3 islands that form the present state of Comoros were French protectorates at the end of the 19th century and were proclaimed colonies in 1912. Following a referendum in December 1974, the Comoran Chamber of Deputies unilaterally declared the islands' independence on 6 July 1975. Mayotte, the fourth island in the group, opted to remain a French dependency.

Since 1975 there has been continuous political instability characterized by coups and undemocratic regimes. Recent years have been marked by internal political disruptions, and the islands of Anjouan and Mohéli have attempted to secede.

The constitution of 1 October 1978 was amended in 1983, approved in a referendum, and Comoros became a Federal Islamic Republic. Mayotte was permitted the right to join when it so chose. A new constitution was adopted on 20 October 1996. The constitution stipulates that each of the islands has a council and a governor who is appointed by the president. The president is elected by direct universal suffrage for an unlimited number of 5-year terms.

The president appoints the prime minister, who heads the Council of Ministers. There is a **bicameral** legislative branch, consisting of a 43-member Federal Assembly, the members of which are directly elected for 5-year terms, and a 15-member Senate, made up of 5 members from each island who are selected by regional councils.

Colonel Azali Assoumani staged a bloodless coup on 30 April 1999. He introduced a new constitutional charter giving himself full legislative and executive powers. The Federal Assembly has not met since the coup. Azali promised that he would serve for 1 year at the time he came to power, but the elections promised for spring 2000 were not held. Assoumani has pledged that elections will take place before the end of 2001, and it is expected that this will herald a reopening of the Federal Assembly.

Comoros had a 1,500-man national army in 1997, the Force Comorienne de Defense (FCD), which was supported by a French military contingent. The size of the armed forces has not changed since the coup. The role of the French has been to exert pressure for a return to democratic rule.

The main political forces are continually fragmenting and reforming, and alliances are based mainly on opportunism. The party of government prior to the 1999 coup was the National Union for Democracy in Comoros (NUDC). Other parties are the Republican Party of Comoros (PRC), the Democratic Front (DF), and the Movement for Socialism and Democracy

(MSD). These parties are now dormant. They are expected to come to life only when the military government **sanctions** campaigning for the elections expected in late 2001.

Previously the island governors undertook tax collection, but it became a federal responsibility under a 1983 constitutional revision. Wage and salary earners were taxed at a maximum rate of 15 percent in 1987; however, only government employees appear to pay tax, and there has been no attempt at **income tax** reform in subsequent years. Tax rates have ranged from 17 percent on **consumer goods** to 60 percent on building materials and cars to 200 percent on luxury goods. Import and export licenses are required but are usually limited to a few favored firms. Tax revenue as a share of expenditure increased from 33 percent in 1994 to 54 percent in 1998, implying an improved ability to meet public sector expenses without relying on aid from overseas. The total tax revenue share of the **gross domestic product** (GDP) also increased from 13 percent in 1994 to 15 percent in 1998.

The overall **budget deficit** in 1998 was estimated at US$8.4 million, equivalent to 4 percent of the GDP. The nation's **external debt** at the end of 1997 totaled US$197.4 million, and the cost of **debt servicing** was about 10 percent of the value of exports in 1998, or slightly below the 15 percent average for African nations. The relatively low debt-servicing ratio means that Comoros has a greater availability of foreign exchange with which to purchase imports.

Comoros is a member of several international organizations. These include the Indian Ocean Commission (IOC), which is dedicated to regional cooperation; the Common Market for Eastern and Southern Africa (COMESA), which aims at reducing barriers to trade and the movements of labor and capital; and the Franc Zone, which pegs the currency to the French franc.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Comoros has poorly developed **infrastructure**. The transport system is particularly limited. In 1996, it was estimated that there was a total of 880 kilometers (547 miles) of highways, 673 kilometers (418 miles) of which were paved. There are no railways. Prince Said Ibrahim Airport is the international air terminus near Moroni. In 1996, it handled 92,000 passengers.

There were 75,000 telephone main lines in 1997 and 100 fax machines in 1995. There were 36 post offices in 1993. Comoros does not have any local newspapers; the few that are read are circulated from Madagascar. The U.S. State Department noted that there were about 5 independent local television stations in 1998. The CIA *World Factbook* estimated that the country only had 1,000 televisions in 1997. There were 90,000 radios in the country by 1997, with 1 government-run station, Radio Comoros; an opposition station, Tropique; and about 20 other regional stations. The government introduced Internet service in 1998 and there were 800 Internet users by 2000.

In 1981, Comoros had 236 primary schools, 1 teacher training college, and 2 technical schools. In 1998, there were no universities, and the public schools on Grand Comore were closed for most of the year because of civil unrest.

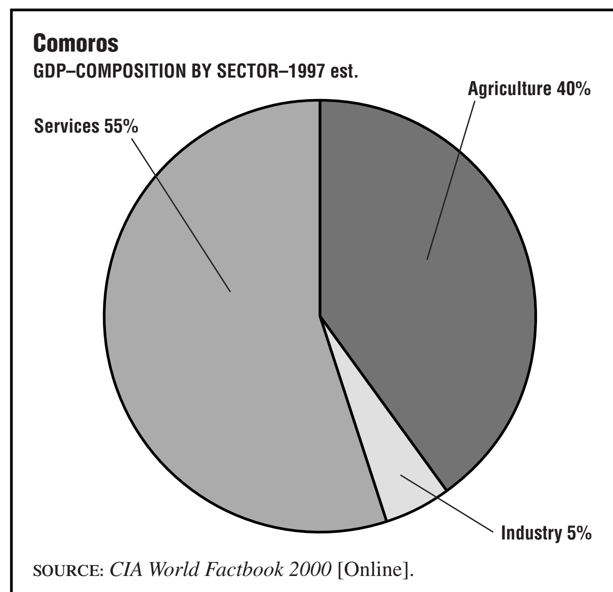
Work began in 1985 on a 4,500-kilowatt hydroelectric dam on Anjouan. In 1998, 15 million kilowatt hours (kWh) were generated. Fossil fuels currently generate 87 percent of electricity, with the remaining 13 percent provided by hydroelectricity.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Comoros	6,000	N/A	AM 1; FM 2; shortwave 1	90,000	0 (1998)	1,000	1	800
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
South Africa	5.075 M (1999)	2 M (1999)	AM 14; FM 347; shortwave 1	13.75 M	556	5.2 M	44	1.82 M
Mauritius	223,000	37,000	AM 5; FM 9; shortwave 2	420,000	2	258,000	2	55,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

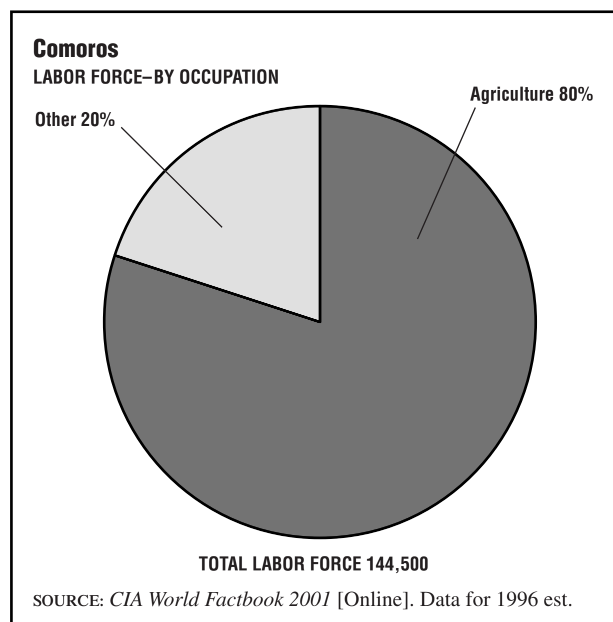


SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

Agriculture (including hunting, forestry, and fishing) contributed 40 percent of the GDP in 2000. About 74 percent of the workforce are employed in this sector. Agriculture accounts for more than 98 percent of total exports. The principal **cash crops** are vanilla, ylang ylang, cloves, and copra (dried coconut flesh).

Industry (including manufacturing, construction, and power) contributed 4 percent of the GDP in 2000. The industrial sector employs 6 percent of the workforce. The manufacturing sub-sector is the largest contributor to the industrial share of the GDP. Manufacturing in Comoros is primarily comprised of agro-processing industries, with vanilla and essential oils as their main products. Energy is derived from woodfuel (78 percent) and thermal installations.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1996 est.

The service sector contributed 56 percent of the GDP in 2000 and employs approximately 20 percent of the workforce. Despite political instability, there has been some growth in tourism leading to expansion in retailing, catering, and hotel activities.

AGRICULTURE

The chief agricultural export product used to be sugar, but now vanilla, copra, maize, cloves, and essential oils (citronella, ylang-ylang, and lemon grass) have gained increasing importance. Crops that are mainly for domestic consumption include cassava, taro (a tropical root crop), rice, maize pulses, coconuts, and bananas. Almost all agricultural production takes place on small family farms, with tilling, weeding, and harvesting undertaken by hand. The success of the harvests heavily relies on rainfall, which is generally adequate and regular. From 1990 to 1996, the **real GDP** of the agricultural sector declined at an average annual rate of -0.7 percent, mainly as a result of political instability that discouraged investment and poor progress with economic reforms.

In 1995, 9,000 hectares (22,240 acres) of Comoros was forestland, or about 4 percent of the total land area. The shortage of cultivable land, the pressure to increase ylang-ylang production, and the demand for woodfuel are all contributing to deforestation at a rate of 6 percent a year. At present the government has no policies to combat deforestation.

Fishing is small-scale and is accomplished without modern equipment. The catch was estimated at 13,200 metric tons in 1995.

INDUSTRY

Industry comprises mostly construction and the provision of electricity but also includes the processing of spices and extraction of perfume from flowers. The construction sector consists of **private sector** enterprises and is very reliant on conditions elsewhere in the economy. Spurts in tourist activity, for example, lead to increased hotel and dwelling construction. International construction companies undertake most large construction projects (such as highways, ports, and modern hotels). The amount of agricultural processing has not expanded in recent years, mainly because low prices offer little incentive to growers to invest in new planting and increase output.

Owing mainly to a sharp rise in construction activity, industrial GDP increased at an average annual rate

of 5.7 percent from 1990 to 1996. Industry's contribution to the GDP has subsequently contracted, providing 4 percent of GDP in 2000, down from 6.0 percent in 1994.

SERVICES

Service is now the largest sector of the economy in terms of output, contributing an average of 48 percent of the GDP from 1994 to 1998 and 56 percent by 2000. However, only 20 percent of the workforce is employed in services. The service sector generates the highest incomes in Comoros, and earnings are particularly high in government service and tourism.

The tourism industry was undeveloped at independence and still has made only modest progress towards its potential. The major hindrance has been the lack of political stability, which clearly has discouraged visitors. Fortunately, the regular unconstitutional changes of government have not resulted in any serious problems for tourists who have visited the islands. The bigger issue is that foreign investment in hotels and resorts has been discouraged. Nevertheless, a number of development projects have been completed, and there has been some recent rise in tourism receipts. In 1996, there were 23,775 tourist arrivals by Air Comoros and receipts totaled $9.1 million.

INTERNATIONAL TRADE

Comoros has had persistant **trade deficits**, which are covered by foreign aid, most of which comes from France. Merchandise export earnings in 1999 were $11 million. (The *World Factbook* estimated that exports reached US$7.9 million that same year.) The bulk of the exports were ylang-ylang essence, other essential oils, vanilla, cloves, copra, and other agricultural produce. The most important export earner is vanilla, although there is yearly variation depending on the success of the harvests. Most exports go to France (35 percent) with Germany, the United States, Singapore, and Mauritius also providing important export markets.

Trade (expressed in billions of US$): Comoros

	Exports	Imports
1975	.010	.023
1980	.011	.029
1985	.016	.036
1990	.018	.052
1995	.011	.063
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Comoros

Comoran francs per US$1	
Jan 2001	524.41
2000	533.98
1999	461.77
1998	442.46
1997	437.75
1996	383.66

Note: Prior to January 1999, the official rate was pegged to the French franc at 75 Comoran francs per French franc; since January 1, 1999, the Comoran franc is pegged to the euro at a rate of 491.9677 Comoran francs per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Imports include rice and other foodstuffs, petroleum products, consumer manufactures, and motor vehicles. In 1999, imports were valued at $48 million. (The *World Factbook* estimated that imports reached US$55.1 million that same year.) Most imports come from France with Pakistan, South Africa, Kenya, the United Arab Emirates, and Belgium also supplying significant quantities.

MONEY

Comoros is a member of the Franc Zone, which it joined in 1976. The national currency, the Comoran franc (KMF), is pegged to the French franc and is fully convertible. This arrangement has provided considerable advantages in terms of exchange rate stability and low inflation, but the Franc Zone has also placed restrictions on public sector budget deficits. Some of the stability associated with Franc Zone membership was undermined by a 50 percent currency **devaluation** that took place in January 1994. Now that France is a member of the European Monetary Union (EMU), the peg to the French franc also implies a peg to the euro.

POVERTY AND WEALTH

With the low price of basic commodities in Comoros taken into account, per capita GDP was estimated at

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Comoros	N/A	499	544	516	403
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Mauritius	1,531	1,802	2,151	2,955	4,034

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

$1,398 (**purchasing power parity** (PPP), 1998 est.). By 2000, the *World Factbook* estimated that the **GDP per capita** (PPP) had sunk to US$720. Together with a life expectancy of 60 years, an adult literacy rate of 80 percent, and an enrollment ratio in all levels of education of 39 percent, Comoros was placed by the United Nations (UN) in the group of countries with medium human development. Comoros, however, is close to the bottom of the ranking of those in this group.

There are no figures for the percentage of the population below the dollar-a-day poverty line, which is defined as not having enough income to provide the barest minimum of food, shelter, and clothing. The indicator for children judged underweight at age 5 would suggest that around 30 percent of the population are below the poverty line. Most of those in poverty are members of rural families who must rely on small-scale family farms for their livelihoods. These families are unable to increase their incomes as they are unable to afford investments in mechanization, fertilizers, insecticides, and improved seeds that would boost their output. Even in the main towns, electricity and the piped water supply is erratic. In the rural areas electricity and plumbing are practically nonexistent; lighting is by small paraffin lamps with wicks, and water is obtained from wells. There is some septic tank sewage disposal in the towns, but in the rural areas people rely on pit latrines.

WORKING CONDITIONS

The workforce in 1996 numbered 286,000. About 74 percent of this labor was engaged in agriculture. The unemployment rate was 20 percent in 1996. Comoros has a national labor union, the Union des Travailleurs des Comores (Union of Comoran Workers, UTC), which negotiates to regulate the working conditions. Implementation, however, is very ineffective. There are no official welfare programs, despite the high level of unemployment. Those without employment rely on support from their families or charity, and in the urban areas many try to earn what they can from casual **hawking**, portering, and scavenging.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1841. France begins the process of occupation and colonization of the islands, which were formerly an autonomous sultanate.

1909. The islands are made a dependency of Madagascar (also a French colony).

1940. With France occupied by Germany, Britain assumes administration of the islands.

1946. Comoros is returned to France and granted administrative autonomy as an overseas territory.

1973. France agrees to independence within 5 years.

1974. In a special referendum, all of the islands except for Mayotte (which remains as a dependency of France) vote for independence.

1975. The Chamber of Deputies votes a unilateral declaration of independence and proclaims the Republic of Comoros, with Ahmed Abdallah as president.

1975. President Abdallah is overthrown in a coup led by French mercenary Bob Denard, who installs Ali Soilih, the leader of a 4-party coalition known as the National United Front (NUF).

1975. The National Assembly is dissolved.

1975. Island of Mayotte rejects union with Comoros in 2 referenda.

1975. French estates in Comoros are **nationalized**, and French officials are **repatriated**.

1976. Comoros joins the Franc Zone, with its currency fully convertible and pegged at a fixed rate to the French franc.

1978. Soilih is ousted in a coup led by Denard. Former president Ahmed Abdallah is installed as leader of the new government and is endorsed as president by an election. The band of 50 mercenaries, headed by Denard, forms a presidential guard and controls the administration. The mercenary presence infuriates other African nations, and Comoros is expelled from the Organization for African Unity (OAU). A new constitution is drafted and approved by 99 percent of the votes. Diplomatic relations with France are resumed. The newly elected Federal Assembly approves the formation of a one-party state. The mercenaries leave and OAU readmits Comoros.

1984. Abdallah is elected for a second 6-year term.

1989. Abdallah is assassinated. Said Muhammad Djohar is named interim president.

1990. Djohar is elected president.

1995. Djohar is ousted by a coup. An interim government rules until scheduled elections.

1996. The election is won by Taki Abdoulkarim's National Union for Democracy in Comoros (NUDC), and Taki is elected president. In May, Taki dissolves parliament and calls for new elections in October. The NUDC obtain 36 of the 43 seats at stake in the elections, which are boycotted by the opposition.

1997. In August, a secessionist movement headed by Abdallah Ibrahim calls for the independence of Anjouan Island.

1998. In March, over 99 percent of Anjouan citizens vote for independence in a referendum. Mohéli Island declares independence. Troops are sent to restore status quo (the normal order).

1998. President Taki dies amid rumors of a political assassination. An interim government is formed under Tadjidine Ben Said Massoude.

1999. Colonel Azali Assoumani takes power through a coup and imposes military rule.

2001. A new constitution and new national government are established.

FUTURE TRENDS

The future of Comoros is clouded by uncertainty. There is little doubt that the 2 smaller islands, Anjouan and Mohéli, would like to enjoy the prosperity and stability of Mayotte, the fourth main island in the archipelago, which has remained a French dependency. Mayotte is administered by France, and the island sends deputies to the French National Assembly. Mayotte's population benefits from social security and general development support from France, which has substantially improved the island's income levels. Such status would significantly improve conditions on Grande Comore. However, it would be a bitter blow to the pride of the ruling elite on Grand Comore and to the Organization for African Unity (OAU). Local politicians see more to their advantage in hanging on to power and accumulating wealth through corrupt practices. It remains to be seen whether the OAU will continue to oppose the democratically expressed wishes of the 2 smaller islands for independence and a possible return to French rule.

The economy is totally dependent on agriculture and tourism for the foreign exchange that it requires to import manufactures and fuels. Agricultural output has been stagnant due to soil degradation, and producers of export crops are discouraged by declines in export prices. Tourism is the most promising sector for expansion. With political stability, perhaps secured by a return to French rule, there is little doubt that foreign investment in tourism would expand, and the islands would progress toward the levels of income enjoyed by their French-ruled neighbors in the Indian Ocean, Reunion and Mayotte. The most likely outcome, however, is that there will be some reconciliation between the other islands and Grande Comore, and Comoros will continue to stagnate.

DEPENDENCIES

Comoros has no territories or colonies.

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—Allan C.K. Mukungu

CONGO, DEMOCRATIC REPUBLIC OF THE

CAPITAL: Kinshasa.

MONETARY UNIT: Congolese franc (FC). One Congolese franc equals 100 makuta. Due to the unstable nature of the currency it is impossible to predict which notes and coins are available in the country.

CHIEF EXPORTS: Diamonds, copper, coffee, cobalt, crude oil.

CHIEF IMPORTS: Foodstuffs, mining and other machinery, transport equipment, fuels.

GROSS DOMESTIC PRODUCT: US$35.7 billion (purchasing power parity, 1999 est.). [Because most economic activity in the Democratic Republic of Congo is in the informal sector and difficult to track, different world agencies provide very different estimates of GDP. For example, the World Bank listed GDP in 1998 as US$7.0 billion, while the International Monetary Fund listed GDP as US$34.9 billion in the same year.]

BALANCE OF TRADE: **Exports:** US$530 million (f.o.b., 1998 est.). **Imports:** US$460 million (f.o.b., 1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Democratic Republic of the Congo (DRC; the country is often simply called the “Congo” or “Congo-Kinshasa” to distinguish it from the neighboring Republic of the Congo) is located in Central Africa. The Congo is the third-largest country in Africa. It shares borders with the Central African Republic (1,577 kilometers, or 980 miles), Sudan (628 kilometers, or 390 miles), Uganda (765 kilometers, or 475 miles), Rwanda (217 kilometers, or 135 miles), Burundi (233 kilometers, or 145 miles), Tanzania (473 kilometers, or 294 miles, all on Lake Tanganyika), Zambia (1,930 kilometers, or 1,199 miles), Angola (2,511 kilometers, or 1,560 miles), and the Republic of the Congo (2,410 kilometers, or 1,498 miles), and has a small coastline of 37 kilometers (23 miles) on the South Atlantic Ocean. The Congo is 2,345,410 square kilometers (905,563 square miles), slightly less than one-fourth the size of the United States.

Kinshasa is the capital of the Congo. The Congo’s other major cities are Lubumbashi, Mbuji-Mayi, Kolwezi, Kisangani, and Matadi.

POPULATION. As of July 2000 the population of the Congo was estimated at 51,964,999, making it the third-most populous country in Africa. The birth rate was 46.44 per 1,000 persons and the death rate was 15.38 per 1,000 persons according to 2000 estimates. Congolese women on average bore 6.92 children in 2000. As of the year 2000, the Congo’s estimated infant mortality rate was 101.71 deaths per 1,000 live births. Males have a life expectancy of 46.72 years while females have a life expectancy of 50.83 years. Some 48 percent of the population is under age 15, while only 3 percent of the population is older than 65 years.

The Congo is made up of more than 200 tribes. The 4 largest tribes in the Congo are the Mongo, Luba, Kongo, and Mangbetu-Azonde. Approximately 700 local languages and dialects are spoken in the Congo. The majority of Congolese speak one of the following languages: Kikongo, Lingala, Tshiluba, Swahili, and French. Most of the Congolese population lives in rural areas, while one-third of the population is urban.

About 80 percent of the Congolese population is Christian. Most non-Christians have traditional African religious beliefs.

OVERVIEW OF ECONOMY

The Democratic Republic of Congo (DRC, or the Congo) is a nation rich in natural resources, including diamonds, cobalt, and copper. The DRC also has vast onshore oil reserves which it has yet to exploit. Despite its potential wealth, however, the Congo’s economy has drastically declined since the 1950s. Prior to a bitter war in 1998, the Congolese government had tightened **fiscal policy** and managed to curb the country’s runaway **inflation** and the drastic depreciation of its currency. Most recently, however, those gains have been erased

as a result of the war that began in the summer of 1998. The Congo's economic plight is exacerbated by the reduction of foreign business operations as a result of the war. The war, however, is not the only reason for the Congo's economic woes. The country's poor **infrastructure**, inoperative legal system, corruption, and lack of openness in economic policy and financial operations continue to be further obstacles to investment and growth. Although there have been a number of meetings between the Congolese government and the International Monetary Fund (IMF) and the World Bank to develop a coherent economic plan, most reforms are on hold.

During the Cold War, the Congo (then known as Zaire) was a key figure in the United States' African policy because of its strategic location in the center of the continent. Approximately half of all U.S. aid designated for Africa went to Zaire. Under the dictatorship of Mobutu Sese Seko, who controlled the country for more than 35 years, widespread corruption blossomed and the diversion of public resources for personal gain hindered economic growth. The United States supported Mobutu from the 1960s until 1990. After the collapse of the Soviet Union in 1989, however, the Congo declined in importance in U.S. policy and U.S. financial backing was greatly reduced.

Mobutu ran the Zairian economy like his personal piggy bank. From 1965 through 1997, Mobutu and his associates stole billions of dollars from the Zairian economy. Because of this kleptocracy (government institutionalized theft), Zaire's infrastructure crumbled. In 1971 Mobutu legalized his plunder of the Zairian economy under the guise of "Zairianization," a law which effectively turned over to Mobutu and his associates ownership of over 2,000 foreign-owned businesses. These businesses ranged from medium-sized grocery stores to huge billion-dollar mining conglomerates, and were the mainstay of the Zairian economy. As a result of inexperience and mismanagement, many of these **nationalized** companies became bankrupt, and the Zairian economy came to a halt. Realizing that the Zairian economy was in a tailspin, Mobutu returned many of the businesses to their rightful owners. The Zairian economy, however, never rebounded.

Mobutu and his associates further crippled the Zairian economy by openly flouting and discouraging the application of the rule of law (a term which refers to a broad system of laws and regulations that keep social and economic order). Instead of the rule of law, Mobutu installed a system of patronage which had at its pinnacle Mobutu and his family. Mobutu's system of patronage replaced the Zairian judicial system as the true arbiter of disputes. By 1997, at the time of his ouster, Mobutu's corrupt government and his system of patronage had laid waste Zaire's economy and social fabric.

Mobutu's regime began to crumble following the collapse of the Soviet Union in 1989. Not only did the United States withdraw aid, but the Congo fared no better with the World Bank and the International Monetary Fund (IMF). Both international aid organizations cut off aid to the Congo in early 1990. As a result, the country was incapable of servicing its **external debt** and by 1993 both the IMF and the World Bank suspended the country's borrowing rights. Further compounding the Congo's economic malaise was the promulgation (to make known by open declaration) of a new currency, the "new zaire." The new zaire was not only overvalued against foreign currencies, but inflation rose to a dizzying 9,000 percent by early 1994. In 1993, 5 new zaires could buy a British pound. Four years later, it took 200,000 new zaires to buy 1 pound. In 1997, following Mobutu's removal, a new currency called the France Congolese was introduced, but it too faced real instability. There were, in the late 1990s, many informal **exchange rates** in the country, and the only currencies of real value came from outside the country.

In May 1997 Laurent Kabila, an unknown rebel supported by Rwanda and Uganda, toppled the Mobutu regime. As the head of the Alliance des Forces Démocratiques pour la Libération du Congo-Zaire (AFDL), Kabila renamed the country the Democratic Republic of Congo and made attempts to reform the tax system and the police force, and repair the decrepit road system. Unfortunately, President Kabila's attempts were too little and came too late to solve the Congo's economic and social problems.

By August 1998 the coalition of armed militias which had supported Kabila fell apart, plunging the nation into a bloody war that further damaged an already broken economy. Warring forces with ethnic ties to Uganda and Rwanda soon brought these and most of the remainder of Congo's neighbors into the conflict. Much of eastern Congo was a battleground for warring forces from these surrounding nations, some of whom are fighting against each other on Congolese soil. The country is now divided into regions under rebel control and regions ruled by the Kabila regime. Commerce between these regions has come to a halt.

In January of 2001 Laurent Kabila was assassinated by one of his bodyguards, but his son, Joseph Kabila, stepped in to continue his father's disastrous regime. Joseph Kabila has suggested that he would like to **liberalize** the economy, and hopes to capitalize on diminished fighting within the country. However, he has inherited a country whose major economic engines—the mining companies—are held by powerful government-run agencies to whom Kabila owes his political power. Bringing these companies back into private hands, and bringing anything like normal economic order back to this shattered country, will be Kabila's great challenge.

POLITICS, GOVERNMENT, AND TAXATION

On May 17, 1997, with the clandestine support of Rwanda, Uganda, and the United States, Laurent Kabila toppled President Mobutu. Mobutu had been at the helm of the Congo for more than 3 decades. For the most part, Zairians (as the Congolese were then called) welcomed Kabila and even embraced the idea of renaming Zaire the Democratic Republic of the Congo. Even so, peace in the Congo was fleeting.

Kabila imposed rule by decree. All governmental powers were vested in the executive branch, which even had the power to appoint and to dismiss members of the judiciary. Not surprisingly, Kabila filled his 26-member cabinet with loyalists from his political party, the Alliance of Democratic Forces for the Liberation of Congo-Zaire (AFDL). By Kabila's decree, the AFDL was the only political party that could engage in political activities.

At the inception of his rule, Kabila lowered the **inflation rate** and improved internal security. However, some armed groups remained beyond his control, including the

Hutu/Interahamwe, Mai-Mai soldiers, and the Tutsi Banyamulenge. Upon taking command, Kabila promised reform. At first, Kabila claimed that his government was one of transition and would lead to a new constitution and elections by 1999. During his tenure in power, however, elections were never held and a 1998 constitution was not finalized. Although Kabila's stated aim in toppling the Mobutu regime was restoring democracy to the Congo, his rule resembled that of his predecessor more so than a democracy. When Kabila banned every political party save his own, protests grew both domestically and internationally.

In the summer of 1998, Kabila attempted to gain autonomy from Rwanda and Uganda, which led to war. Kabila's first move was to expel the Rwandan and Ugandan troops that helped him topple the Mobutu regime. This war eventually embroiled the rest of the countries in the region. On the one side fighting against the Kabila government were the Rally for Congolese Democracy and the Movement for the Liberation of the Congo, which are supported by Rwanda, Uganda, and Burundi. Fighting on the side of the Kabila government were Angola, Namibia, Chad, Zimbabwe, the Congolese army, and the Interhamwe (the former Rwandan-Hutu army exiled in the Congo). All the belligerents in this war had their own separate reasons for intervening. Rwanda, Uganda, and Angola wanted to protect their borders. Zimbabwe wanted to maintain the balance of power in the region. But all of them wished to participate in the bounty of the Congo's vast riches.

The warring parties reached a cease-fire in Lusaka, Zambia, in July 1999. The parties memorialized the terms of their cease fire in the Lusaka Peace Accord, which called for a cessation of war, a peacekeeping force comprised of international troops mostly from Africa, and the commencement of a "national dialogue" on the Congo's future. Unfortunately, the Peace Accord was not implemented and only lip-service was devoted to the national dialogue.

President Laurent Kabila was assassinated on January 16, 2001, in Kinshasa by one of his own soldiers. His son, Major General Joseph Kabila, was appointed as interim president on January 26, 2001. At the beginning of his rule, Joseph Kabila made valiant efforts to rekindle the Lusaka Peace Accord, and Rwanda and Uganda have begun removing their troops from the Congo. In March 2001, the UN inserted peacekeeping troops in areas where Rwandan and Ugandan forces had withdrawn. It remains to be seen, however, if peace will come to the Congo and if Joseph Kabila will engage the country in a national dialogue.

During the rule of Laurent Kabila, U.S.-Congolese relations soured. In fact, the United States and other western nations largely blamed Kabila for the perpetuation of the war. However, relations between the Congo and the United States seem to be improving since Joseph Kabila has come to power, as demonstrated by the meeting between Joseph Kabila and U.S. Secretary of State Colin Powell early in the new Bush administration.

The government collects taxes primarily from businesses. Tax collection is arbitrary and many charge that harassment from tax authorities has lately reached unprecedented levels. Moreover, taxes have served to enrich corrupt government officials.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The Congo's infrastructure is virtually non-existent and is a major impediment to economic improvement. Though there are an estimated 157,000 kilometers (97,560 miles) of roads in the country, most of them are poorly maintained and there are no major paved roads connecting the regions of the country. Most goods are transported by air. The Congo has 6 major airports located in Kinshasa, Lubumbashi, Kinsangani, Goma, Mbuji-Mai, and Gbadolite, and hundreds of small landing strips elsewhere in the country. There were 5,138 kilometers (3,193 miles) of railways in 1995, but most

Communication

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Sudan	27	271	87	N/A	0	0.6	1.9	0.00	5

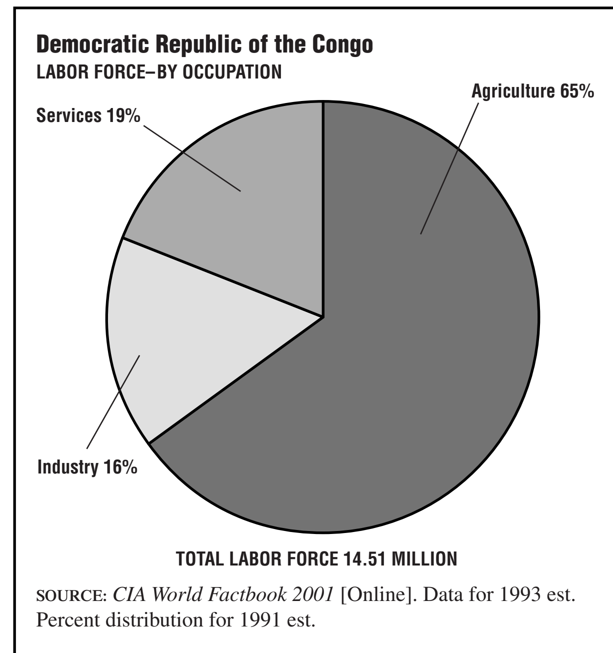
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

of these were destroyed or damaged during the wars of the late 1990s.

The production of electricity contributes merely 1 percent of the country's GDP. Yet, the Congo's hydroelectric potential is extraordinary. During the 1970s, Congolese and foreign investors, principally from the United States, invested heavily in the Inga-Shaba hydroelectric facility, but today the dam is operating at only a small fraction of its capacity. In 1998 the country produced 5.74 billion kilowatt-hours of total electric power, the vast majority of which was consumed domestically.

The Congo's telecommunications infrastructure, like its roads, is also virtually non-existent. There were 36,000 main lines and 10,000 cellular phones in use in 1995. There are only about 0.7 telephones for every 1,000 Congolese. Even the few telephones that exist are often inoperable because the telecommunications infrastructure is so poorly maintained. Cellular telephones, such as those provided by the American company TELECEL, are replacing wire-based telephone networks, and the numbers of cellular phones in use have risen dramatically in the last several years.

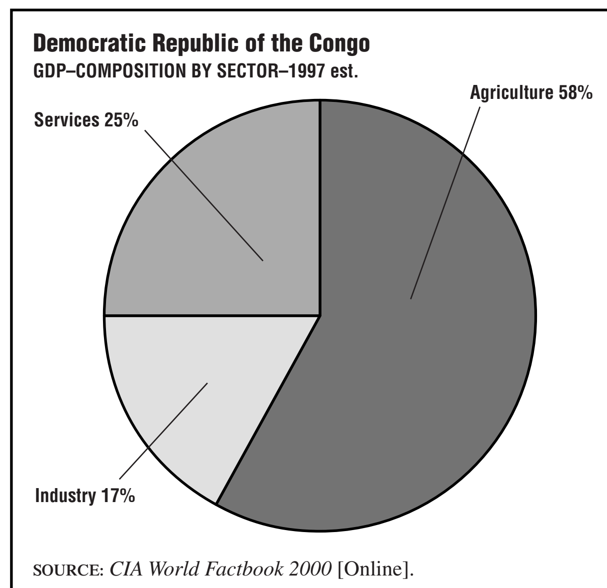


SOURCE: *CIA World Factbook 2001* [Online]. Data for 1993 est. Percent distribution for 1991 est.

ECONOMIC SECTORS

In 1997 agriculture represented about 58 percent of the Congo's GDP. The country's primary **cash crops** include coffee, palm oil, rubber, cotton, sugar, tea, and cocoa. The Congo's primary food crops include rice, groundnuts, maize, plantains, and cassava. Two-thirds of the Congo's **labor force** works in the agricultural sector.

In 1997, the industrial sector represented approximately 17 percent of GDP and employed 16 percent of the workforce. Industrial diamonds alone account for 52 percent of exports. The Congo's abundant reserves of copper and cobalt present enormous potential to its economy. However, this potential has not been met because the Congo's mining companies have failed to keep up with general improvements in mining technology. Also, the war has had a great effect on production in the industrial sector. Services account for just 25 percent of the economy and employ 19 percent of the workers.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

The Congo's economy is largely based on subsistence agriculture. However, 99 percent of the Congo's land is not under cultivation. Nearly 70 percent of the population lives in the countryside and continues to cultivate individual tracts of land by traditional methods for personal consumption. Coffee, cocoa, sugar, palm oil products, rubber, tea, and quinquina are produced on plantations and by small farmers. Food crops include plantains, maize, cassava, groundnuts, and rice. The Congo's agricultural sector has declined since independence because the government has imposed low producer prices, encouraged the importation of cheap foodstuffs, implemented policies that hampered the access of credit to rural areas, and neglected the country's transportation and energy infrastructure. The Kabila governments promised, as part of their development policy, upgrades in rural roads and agricultural mechanization, so far without much success.

Although the Congo's agricultural sector is full of promise, the Congo still remains dependent on imports,

despite having been a net exporter prior to its independence. In the 1980s, the Congo experienced a 2 percent growth in the agricultural sector. But since the early 1990s, the agricultural sector has been stagnant, experiencing zero or negative growth rates. Livestock production was decimated by fighting in 1996–97, and fish production on interior rivers has decreased dramatically. Finally, income from timber sales can hardly be considered part of the Congolese economy, as the timbered areas remain under rebel control in 2001.

INDUSTRY

MINING. Since the colonial era, mining has been and continues to be the Congo's main source of exports and foreign exchange. The Katanga region of the Congo contains some of the world's richest deposits of copper and cobalt. The national copper mining company, GECAMINES, which had been struggling in the 1980s, collapsed in 1991 and has had little success in expanding production since then, thanks again to the wars of the late 1990s. Recovery in this sector will occur only if the Congo enjoys sustained political stability and the mines receive massive technological improvements.

As recently as the 1980s, the DRC was the world's fourth leading producer of industrial diamonds. It also has an abundant reserve of gem-quality diamonds. The Congo exports its diamonds mainly to Belgium, Israel, and India. Two-thirds of the Congo's industrial diamond production is realized through artisanal (skilled worker) diamond diggers. In the 1990s the state granted to one company, IDI Diamonds, a **monopoly** on the sales and export of diamonds. This move—meant to bring order to the diamond industry—in fact forced most diamond sales into the **black market** as artisanal diamond diggers sought the highest prices for their diamonds.

The Congo also produces gold. However, production has suffered as a result of both the current and previous wars. Currently, the Congo's main gold mines are in regions governed by rebel forces. Like industrial diamonds, gold production takes place mostly through artisanal panning and is not significant.

PETROLEUM. Compared to other sub-Saharan African oil producers, the Congo produces very little crude oil. However, offshore oil fields remained one of the government's few stable sources of revenue in the 1990s. The country produces about 22,000 barrels per day of oil. U.S.-owned Chevron and Mobil dominate the Congo's crude oil sector. SOCIR, the national refinery, is unable to process the country's crude oil so it must be processed externally, limiting the economic benefits of this natural resource.

MANUFACTURING. The Congo's primary manufacturing regions are Kinshasa and Lubumbashi, and they produce batteries, tires, shoes, food products, plastics, beverages, autos, textiles, and other **consumer goods**. Agricultural processing is one of the few relatively healthy industries, thanks to its ability to benefit from the mass of Congolese who are involved with agriculture. Although the Congo's locally-produced goods are far more expensive than imports, local manufacturers have been able to withstand import competition ironically because of the Congo's poor transportation system.

SERVICES

The service sector represents one-fourth of GDP and employs 19 percent of the labor force. The primary services are banking, communications, government, and transportation, yet each of these subsectors are plagued by inefficiency, corruption, and the stresses from war. The public health and education systems are, in the words of the U.S. Department of State, "defunct" and most health and education services are now provided by international aid agencies. Transportation services are rudimentary and inefficient. The state-run transport firm Office National des Transports (ONATRA) has a difficult time competing with private transporters, the majority of whose activities go unreported in economic statistics. Tourism in the past decade has been virtually non-existent.

Congo's banking system includes the central bank, Banque Central du Congo, 10 commercial banks, and a development bank, as well as a variety of smaller financial institutions. In the 1990s, however, most of these banks were insolvent, their assets demolished by runaway inflation, massive defaults on loans, and the government's misuse of central bank funds. Most Congolese avoid formal banks and participate in a cash economy.

INTERNATIONAL TRADE

As with GDP, there is immense difficulty in determining accurate statistics for international trade for the Democratic Republic of Congo, thanks to the difficulty

Trade (expressed in billions of US$): Democratic Republic of the Congo

	Exports	Imports
1975	.275	.300
1980	.544	.278
1985	.950	.792
1990	.999	.888
1995	.438	.397
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

of assessing the contributions of the **informal economy**. The CIA World Factbook reports exports of US$530 million and imports of US$460 million in 1998. The World Bank estimated 1999 exports of US$1.94 billion and imports of US$549 million, comparable to the Banque National du Congo's most recent figures of US$1.546 billion in exports and US$936 million in imports in 1995.

According to the CIA World Factbook, the country's primary export partners in 1998 were the Benelux countries (52 percent), the United States (14 percent), South Africa (9 percent), and Finland (4 percent). The Congo's primary import partners in the same year were South Africa (25 percent), Benelux (14 percent), Nigeria (7 percent), Kenya (5 percent), and China.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Dem. Rep. of Congo	392	313	293	247	127
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Sudan	237	229	210	198	296

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

MONEY

The local currency in the Congo is the Congolese franc. The Congolese franc replaced the new zaire and was issued in 1997 for the first time. The official exchange rate, set by the Banque Central du Congo, was widely ignored as the value of the Congolese franc plummeted against every world currency. No foreign currency is available at the official exchange rate, so most foreign currency must be traded on the black market. The drop in the value of the currency has led to high inflation, which has been a chronic problem in the DRC. Inflation rates in the last decade were as high as 8,828 percent in 1993, dropping to 6 percent in 1997 before climbing again to 333 percent in 1999. Because wages have not kept up with inflation, most Congolese cannot afford many goods and resort to **bartering** to obtain basic necessities.

POVERTY AND WEALTH

Independence from Belgium, gained with little trouble in 1960, has had the unintended effect of increasing the gap between rich and poor in the Congo. The Congo lacks a middle class. The wealthy Congolese—usually tied to those in power by patronage—live in the city in modern houses and apartment buildings and drive expensive cars. The urban poor, who make up the majority of the population, live in overcrowded slums lacking even the basics of life, such as running water and basic health care. Congolese who live in the rural parts of the country live in thatched huts and survive on subsistence agriculture. Though any estimates of income are questionable, it is estimated the per capita GDP is as low as US$100.

Exchange rates: Democratic Republic of the Congo

Congolese francs per US$1	
Jan 2001	50
2000	4.5
1999	4.02
1998	1.61
1997	1.31
1996	0.50

Note: On June 30, 1998 the Congolese franc was introduced, replacing the new zaire.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Since independence, the Congo has made efforts to provide its citizens with access to primary and secondary schooling. About 80 percent of the males and 65 percent of females aged 6 to 11 were enrolled in a mixture of state- and church-run primary schools in 1996. At higher levels of education, males greatly outnumber females. The country's elite continue to send their children abroad to be educated, primarily in Western Europe.

Taxes are very burdensome for Congolese, and rural dwellers are subjected to a variety of coercive measures by officials to extract payments, fines, and other financial penalties. The health care system, roads, and school system have virtually collapsed, and the government has focused its meager resources in the urban areas, leaving rural citizens with nothing but high taxes, low prices for their agricultural products, and much suffering.

WORKING CONDITIONS

The DRC has a sizable labor force of some 14.51 million workers, but working conditions for the average Congolese are abysmal. Most Congolese work in the agricultural sector. The average income of a Congolese worker does not provide a sufficient income to sustain a family. In fact, most Congolese earn less than $40 a month. Most workers supplement their income by doing odd jobs besides their usual work and depend heavily on the assistance of their extended families. The government has established minimum wage scales for workers, but wages have not kept pace with inflation, making such wage scales nearly meaningless.

The country created the 1967 Labor Code to provide guidelines for labor practices, including the employment

of women and children, anti-discrimination laws, and restrictions on working conditions. The collapse of the economy and the corruption in the government have destroyed the enforcement of most such laws. Several of the limited number of larger employers, however, pay for benefits for their employees and may even provide roads, schools, and hospitals for the local community.

The employment of children of all ages is not uncommon in the informal sector and in subsistence agriculture, which are dominant portions of the economy. Such employment is often the only way a child or family can obtain money for food. Neither the Ministry of Labor, which is responsible for enforcement, nor the labor unions make an effort to enforce child labor laws.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1885. The Congo is colonized as a personal fiefdom of Belgian King Leopold II and is called the Congo Free State.

1907. The administration of the Congo Free State is transferred to the Belgian government, which renames the country the Belgian Congo.

1960. The Congo gains independence from Belgium. Shortly after, the army mutinies and the Katanga province secedes. The United Nations sends troops to protect Europeans and maintain order. Joseph Desire Mobutu, the army's chief of staff, intervenes militarily to resolve a power struggle between President Joseph Kasavubu and Prime Minister Patrice Lumumba. Mobutu has Lumumba arrested.

1961. Mobutu returns power to President Kasavubu. Lumumba is handed over to Katanga rebels and soon murdered.

1964. The country is renamed the Democratic Republic of the Congo.

1965. Mobutu stages a military coup amid a political crisis, appointing himself president for 5 years and canceling scheduled elections.

1970. Mobutu establishes his Popular Movement of the Revolution as the sole political party and all Congolese are forced to join the party. Mobutu is also re-elected as president in a one-candidate election.

1971. Mobutu begins reform under his "Zairianization" policy. Under this policy he changes the country's name to the Republic of Zaire, and Zairians are forced to use their African names (as opposed to their Christian names) and adopt African dress.

1973. Under "Zairianization," the government appropriates over 2,000 foreign-owned businesses. These businesses are mostly distributed to Mobutu and his associates.

1977. Former Katangan secessionists invade Katanga from Angola, where they had been living in exile. Mobutu suppresses the rebellion with the help of Moroccan troops and military assistance from his Western allies.

1982. Dissidents of Mobutu's one-party rule form the Union for Democracy and Social Progress (UDPS). UDPS leaders are harassed and imprisoned.

1990. Mobutu announces the creation of a multiparty democratic system. However, a national multiparty conference to draft a new constitution is suspended. The United States, which had supplied Mobutu with hundreds of millions of dollars annually, ends direct military and economic aid because of corruption and human rights abuses by the Mobutu regime.

1991. As a result of mounting domestic and international pressure, Mobutu agrees to form a coalition government with UDPS leader Etienne Tshisekedi.

1992. The multiparty constitutional conference resumes amid squabbling and continued unrest. Conference members name Tshisekedi as Prime Minister to head a transitional government. Later, the Conference adopts a draft constitution to incorporate a **bicameral** parliament and a system of universal suffrage to elect a president.

1994. Rwandan ethnic Hutus massacre over 500,000 Rwandan ethnic Tutsis. Shortly thereafter, an outside Tutsi rebel force takes over Rwanda. Fearing retribution, over 1.3 million Rwandan Hutus flee into eastern Zaire. Accompanying these refugees are many of the Hutus responsible for the Tutsi massacre.

1996. Zairian Tutsi in eastern Zaire revolt because they are threatened with expulsion by Hutus. Uganda and Rwanda seize upon this revolt to secure their borders from the Hutus responsible for the massacre and select veteran guerrilla fighter Laurent Kabila to invade eastern Zaire. Hundreds of thousands of Hutu refugees return to Rwanda.

1997. Kabila's army, composed mostly of Rwandans and Ugandans, takes Kinshasa, and Mobutu flees into exile. Kabila appoints himself as president and changes the country's name back to the Democratic Republic of the Congo.

1998. Kabila kicks out his Rwandan supporters, which sparks a war supported by Rwanda and Uganda against him. Rebel activity unofficially divides the Congo into 3 regions.

1999. The Lusaka Peace Accord is signed by Kabila and representatives of Rwanda and Uganda. Pursuant

to the Accord, the parties agree to a cease-fire, the installation of U.N. peacekeeping troops in the Congo, and a "national dialogue" to chart the country's future. All parties continue to violate the Accord.

2001. President Laurent Kabila is assassinated by one of his bodyguards. His son, Major General Joseph Kabila, is appointed as interim president. Rwanda and Uganda begin removing their troops and the U.N. sends peacekeeping forces.

FUTURE TRENDS

The outbreak of war in August 1998 caused the collapse of the Congo's already frail economy. Since the outbreak of war, the country has been divided into Rwandan/Ugandan rebel-governed areas, and areas controlled by the government. Commerce between these regions has ceased and the Congo's economy has suffered even more.

As a result of this war, the Congolese government's revenues went from bad to dismal. Customs revenues have declined because the flow of imports has dried up. Tax revenues have also substantially declined because of the fall in business activity. Further compounding the problem is the fact that unpaid government bills owed to private businesses have increased to the point that some businesses have been forced to close.

On January 16, 2001, President Laurent Kabila was assassinated by one of his bodyguards. Ten days later Major General Joseph Kabila was appointed as interim president. At the inception of his presidency, Joseph Kabila has demonstrated a sincere interest in re-establishing peace in the Congo. Thus far, he has revived the Lusaka Peace Accord, and both Rwanda and Uganda have begun removing their troops from the Congo. Additionally, the U.N. began sending peacekeeping troops to the Congo. There are also signs that Joseph Kabila will adopt a less hard-line approach to governing the Congo than his father. He has already replaced his father's hard-line cabinet with appointees with a more liberal outlook on governance. Joseph Kabila has also engaged in extensive travel to meet heads of state of many of the Western nations to reintegrate the Congo into the international community. It remains to be seen how he intends to reinvigorate the Congo's decrepit economic state.

DEPENDENCIES

The Congo has no territories or colonies.

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—Michael David Nicoleau and Raynette Rose Gutrick

CONGO, REPUBLIC OF THE

CAPITAL: Brazzaville.

MONETARY UNIT: Communauté Financière Africaine franc (CFA Fr). The CFA franc is tied to the French franc at an exchange rate of CFA Fr50 to Fr1. One CFA franc equals 100 centimes. There are coins of 5, 10, 50, 100, and 500 CFA francs, and notes of 500, 1,000, 2,000, 5,000, and 10,000 CFA francs.

CHIEF EXPORTS: Petroleum, tropical and other woods, diamonds, sugar, coffee, and cocoa.

CHIEF IMPORTS: Petroleum products, machines and appliances, construction materials, chemical products, transportation equipment, foodstuffs, textiles, and paper products.

GROSS DOMESTIC PRODUCT: US$4.15 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$1.7 billion (f.o.b., 1999). **Imports:** US$770 million (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of the Congo (ROC) is located in Western Africa and has an area of 342,000 square kilometers (132,000 square miles). It has a modest coastline of 169 kilometers (105 miles) along the Atlantic Ocean in the southwest and shares land borders with Gabon, Cameroon, and the Central African Republic on the west and north. The country is sometimes referred to casually as simply Congo or the Congo, or even Congo Brazzaville, to designate that it is the Congo with Brazzaville as its capital, distinguishing it from the Democratic Republic of the Congo (or Congo Kinshasa), which has its capital at Kinshasa. The Democratic Republic of the Congo lies along Congo's eastern border, with Angola's Cabinda Province sharing a small section of the southeastern border. The Congo is slightly smaller than Montana. The capital city of Brazzaville is located in the southeast of the country, directly across the Congo River from Kinshasa.

POPULATION. Congo's population was 2,830,961 and growing at an annual rate of 2.23 percent annually in 2000. The birth rate and the death rate in 2000 were estimated at 38.61 and 16.35 per 1,000 population, respectively. Life expectancy in Congo is only about 47 years of age, with women living to age 50 and men on average to age 44. One contributing factor to this short life span is the AIDS epidemic, which has in recent years swept across much of sub-Saharan Africa (that part of the African continent that is south of the Sahara desert).

The Congo is one of the most urbanized countries in Africa. Eighty-five percent of the population lives in Brazzaville, Pointe-Noire, or one of the smaller cities found along the railway which connects Brazzaville and Point-Noire. The official language is French. However, there are many dialects spoken in the Congo of which Lingala and Monokutuba are the most widely spoken.

The population of the Congo is made up of 4 major ethnic groups: the Kongo, the M'Bochi, the Sangha, and the Teke. Only 12,000 pygmies (or the Baka people, a collection of tribes who dwell in African forests in the region occupied by Congo and its neighbors) remain in the country.

OVERVIEW OF ECONOMY

The Congolese economy depends on agricultural production for personal consumption and the exploitation of natural resources. Because the country provides a key port and other transport facilities for neighboring countries such as Chad, Gabon, and the Central African Republic, commercial activities also play an important role in the economy. In 1997, the Congo's government had US$302 million in revenues and US$468 million in expenditures, with a major share of its revenues derived from oil drilling. In the 1980s rising oil revenues provided the Congolese government with the ability to finance large-scale development projects by borrowing against a large share of its future oil income. But this has resulted in shortages in current government revenues. In the late 1990s, oil prices fell and this further reduced government revenue and the country's economic progress.

Further, the Congo suffered another setback due to a civil war that broke out in 1997.

By the end of the 1990s the Republic of the Congo was in a state of disarray. The country's **external debt** in 1997 was estimated at a huge US$5 billion. Added to this burden of debt was a highly overvalued CFA franc, which made it difficult to export goods; a 5-month civil war in 1997 that cost thousands of lives, wreaked havoc on the capital city of Brazzaville, and sent hundreds of thousands of refugees into the countryside and out of the country; a volatile oil market; and a bloated bureaucracy that is unable to quickly shift economic policies for the better.

POLITICS, GOVERNMENT, AND TAXATION

The Congo's 1992 constitution states that the Congo is a multiparty democracy, and that the president is head of state. Legislative power is apportioned between a 125-member National Assembly and a 60-member Senate. The constitution also stipulates that the president and members of the national assembly are to be elected every 5 years, while senate members are to be elected every 6 years. In 1997, however, the constitution was suspended by former President General Denis Sassou-Nguesso, who overthrew the popularly-elected government of President Pascal Lissouba. To his credit, President Sassou installed

a cabinet composed of individuals from various political parties in order to build a broad consensus. In addition, he created a **unicameral** 75-member National Transitional Council to act as a legislature until the time that elections are held again. He has failed, however, to make good on his promise to restore democratic rule to the Congo by 2001.

The Republic of Congo gained its independence from the colonial power of France in 1960, and was led in its first years by a Catholic priest named Abbé Fulbert Youlou, who created a single-party state and aligned the nation with the **socialist** nations led by the Soviet Union. General Sassou-Nguesso first seized power in 1979. He transformed himself into a civilian leader, and continued the country's socialist policies. However, with the collapse of the Soviet Union in the late 1980s the country made the difficult transition to market economic practices and created a new constitution that paved the way for democratic elections. Sassou-Nguesso lost the presidency in the Congo's first universal elections in 1993 to Pascal Lissouba. In 1997, as the next presidential election loomed, conflict broke out between supporters of President Lissouba and Sassou-Nguesso. A 5-month civil war erupted, and troops from neighboring Angola intervened on Sassou-Nguesso's behalf. General Sassou-Nguesso's forces won, and he declared himself president. However, the peace was short-lived, and fighting broke out once more. The war reached its zenith in 1998 during the battle to control Brazzaville, which substantially destroyed the city and resulted in the deaths of thousands and the flight of 250,000 of its inhabitants. Since that time there have been several attempts to negotiate an end to the conflict, but as of 2001 no settlement has been agreed upon and Sassou-Nguesso remains in power.

The war has had a devastating impact on the Congo's economy, due in part to the severing of the main rail line between Brazzaville and Pointe-Noire, which disrupted trade. Oil revenue is the only reason the Congo has not experienced a total collapse of its economy. In 1998, as a result of the war, the country's **budget deficit** increased to 30 percent. It was reduced to 10 percent in 1999.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Two major rivers—the Congo (the fifth largest in the world) and the Ubangi—carry commercial shipping in the Congo, and comprise a vital mode of economic activity. A 534-kilometer (332-mile) railroad links many of Congo's villages and the 2 major cities of Brazzaville and Pointe-Noire; however, this railway was badly damaged in the civil war of 1997–98. Congo's road system consists of a total of 12,800 kilometers of highways (7,954 miles), of which only 1,242 kilometers (772 miles) are paved. The Congo has 2 international airports in Brazzaville and the port city of Pointe-Noire.

Six newspapers are published in the Congo daily. Congolese sources report that there are 4 AM and 1 FM radio stations, while the *CIA World Factbook* lists 1 AM, 5 FM, and 1 short-wave station. Very few people in the Congo have telephones, international calls are possible, and the telephone system is highly unreliable. In 1998, there were only 8 telephone lines per 1,000 people. Internet service is provided on a limited basis by the government's Ministry of Post and Telecommunications, as well as by a small number of providers in the neighboring Democratic Republic of the Congo.

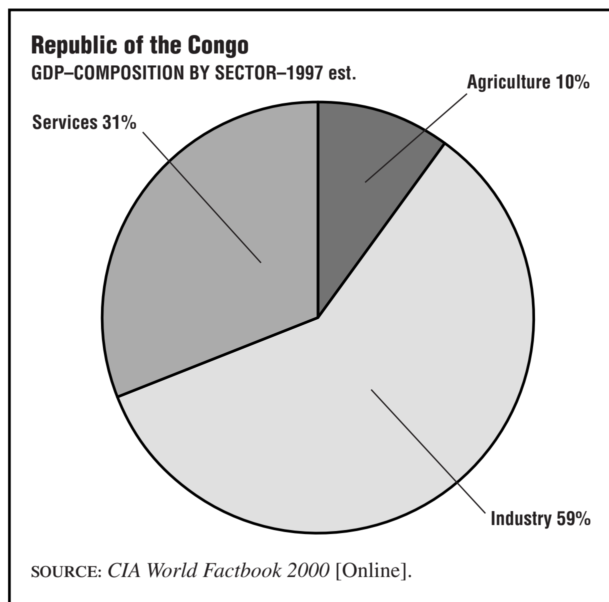
The Congo's potential for hydroelectric power generation is substantial, but is not fully exploited. Even though hydroelectric plants provide some 99 percent of the country's power, the Congo must still purchase roughly one-fourth of its electricity requirements from its neighbor, the Democratic Republic of the Congo. Altogether, the total electricity produced in 1998 amounted to 503 million kilowatt hours (kWh). Wood is the primary source of fuel for most people living in rural areas.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Rep. of Congo	8	124	12	N/A	1	N/A	N/A	0.00	1
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1
Gabon	29	183	55	N/A	8	0.4	8.6	0.02	3

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

Agriculture contributes to 10 percent of the GDP and employs approximately 60 percent of the **workforce**, indicating the real inefficiency of this sector. Most participants in the agricultural sector produce food for their own consumption only. Industry and services represents 59 percent and 31 percent of GDP, respectively. Petroleum produced from offshore oil fields and crude oil represent 75 percent of the Congo's annual exports. Additionally, the Congo exports natural gas, lead, gold, and copper.

The Congolese state bureaucracy is a major employer. At the beginning of the 1990s the state employed some 80,000 people, an enormous number for a country of its size. Since that time government efforts to **privatize** state-run industries have lessened state employment, but the still large and corrupt government bureaucracy acts as a drag on economic growth.

AGRICULTURE

Agriculture and forestry comprised 12 percent of GDP in 1995, and just 10 percent in 1999. Reliable statistics for a country such as the Congo are difficult to obtain, as most agricultural labor takes place outside of official channels, but most estimates put the percentage of the workforce engaged in agriculture between 60 and 75 percent. In 1998, agricultural exports totaled US$15.3 million, while agricultural imports totaled US$130 million. Cassava is the principal food crop. Other major crops include manioc, plantains, bananas, peanuts, sugarcane, cocoa, coffee, and palm kernels. Agricultural commodities that are exported include tropical and other woods, sugar, coffee, and cocoa. The Congo also produces beef and veal, chicken, lamb, game, and pork. Less than 2 percent of the country's land is cultivated.

Forest products from the Congo's lush rainforests represent 10 percent of export earnings, and once led exports until the country developed its oil industry. But due to high transportation and wage costs as well as low productivity, the forest industry has suffered severe declines in recent years.

INDUSTRY

MANUFACTURING. The Congo's manufacturing sector plays a small role in the economy, consisting of around 100 factories in Brazzaville and Pointe Noire, mostly engaged in the processing of agricultural and forest products. There are a number of companies engaged in manufacturing **import-substitution** products such as footwear, soft drinks, chemicals, cement, and metal-working products. The less significant sectors of the manufacturing industry produce textiles, footwear, cement, and soap.

OIL. Oil is Congo's main export and the major support for a faltering economy. In 1998, the Congo exported more than 257,000 barrels of oil daily, and petroleum comprises some 50 percent of exports. In sub-Saharan Africa, the Congo is the fourth-largest oil producer, and has an estimated 1.5 billion barrels in reserve.

In 1994, the Congo took steps to **deregulate** the oil industry by offering production-sharing agreements with major foreign oil companies. This initiative is intended to regularize the flow of income to the government. Despite these steps, declining oil prices in 1998 badly hurt the Congo's economy. The French oil company Elf-Aquitaine, which accounts for 70 percent of Congo's annual oil production, is the major producer, along with the Italian oil firm Agip, and Chevron and Exxon from the United States. Rising worldwide oil prices in 2001, together with new discoveries and production, are expected to increase export revenues in the coming years.

OTHER INDUSTRIES. The Congo has the third-largest natural gas reserves in sub-Saharan Africa, estimated at over 3 trillion cubic feet. As of 2001, however, there was no development of a natural gas industry. The Congo has substantial reserves of copper, lead, zinc, gold, and platinum, but these metals are mined in small quantities.

SERVICES

Services provide a major portion of GDP, making a 37 percent contribution in 1997, second only to industry's 59 percent (largely composed of oil production).

One major services area in the Congo is the public bureaucracy. In the early 1990s, the Congolese government was the biggest employer in the country, with a pay-

roll in excess of 80,000. This was a severe drain on the country's resources. Due to pressure from the World Bank and other institutions, the government made major cuts in the number of civil servants as well as their salaries. Since the mid-1990s, the payroll has been cut in half and nearly 8,000 government employees have been let go.

Figures for other aspects of the service sector such as banking are sketchy. Most of the service industry is located in Pointe-Noire and Brazzaville. As of 2001, the government was engaged in intensive talks with the World Bank, the IMF, and other bodies in an effort to renegotiate aid packages and rebuild the banking system.

INTERNATIONAL TRADE

With exports of US$770 million and imports of US$1.7 billion, the Congo has a severe trade imbalance of nearly US$1 billion. The Congo conducts considerable trade with other Central African countries such as Cameroon, the Central African Republic, and Gabon, which are part of the Customs and Economic Union of Central Africa. However, it exports the majority of its goods—primarily oil—to Western countries. The United States purchased 23 percent of the country's exports in 1998, while the Benelux countries took 14 percent, followed by Germany, Italy, Taiwan, and China. France was the major source of goods imported into the Congo, with 23 percent; the United States provided 9 percent; Belgium, 8 percent; and the United Kingdom, 7 percent.

Although the Congo has a bilateral investment treaty with the United States and a new investment code intended to bring in more **foreign direct investment**, it has been unable to attract meaningful foreign investment. According to the U.S. Department of State Background Notes, "High costs for labor, energy, raw materials, and transportation; militant labor unions; and an inadequate transportation **infrastructure** are among the factors discouraging investment. The recent political instability, war damage, and looting also will undermine investor confidence."

Trade (expressed in billions of US$): Democratic Republic of the Congo

	Exports	Imports
1975	.275	.300
1980	.544	.278
1985	.950	.792
1990	.999	.888
1995	.438	.397
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Republic of the Congo

Communaute Financiere Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The Republic of the Congo is part of the Central African Monetary and Economic Union (Communauté Economiquareue et Monetaire de l'Afrique Centrale, or CEMAC), a group of 5 francophone countries that use the same currency, the CFA franc. The CFA franc is tied to the French franc and can be readily exchanged at 50 CFA francs to 1 French franc. Congo, like all members of the CFA franc communities, has benefitted from this stable currency.

As a member of the CFA zone, Congo was profoundly affected by the 50 percent **devaluation** of the CFA in 1994. The currency had been overvalued prior to the devaluation, making it difficult for the country to export its goods. The devaluation has made its traditional exports more competitive on world markets. In the short term, however, devaluation lowered living standards and probably increased poverty by raising prices while most salaries remained static.

CEMAC planned to open a regional stock exchange in Libreville, Gabon, in 2001, despite the existence of a limited stock exchange in Douala.

POVERTY AND WEALTH

The lack of proper monitoring makes it difficult to determine the actual income levels of the Congolese people, the majority of whom are involved in subsistence agriculture and trade their labor for the goods that they need. World Bank estimates indicate that the per capita GDP was just US$670 per year in 1999. According to the Congolese government, only 30 percent of the population has access to health care, and they estimate that CFA44 billion is needed to rebuild the medical services sector. Further, there are over 120,000 HIV/AIDS victims in Congo, and only 14 percent of the people live in "healthy" environments.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Rep. of Congo	709	776	1,096	933	821
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Gabon	6,480	5,160	4,941	4,442	4,630

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

For children ages 6 through 16, schooling is compulsory and free. The CIA and World Bank estimate that 79 percent of Congolese over the age of 15 are literate. The country's only university, Universite Marien-Ngouabi, is located in Brazzaville and has an enrollment of 12,000 students annually.

WORKING CONDITIONS

The lack of proper monitoring agencies makes it impossible to estimate the total workforce or unemployment figures for the Congo; moreover, the existence of a large **informal economy** and subsistence agricultural practices would distort any figures that were available.

The government calls for a monthly minimum wage of about US$85, a sum insufficient to afford a worker and his or her family a decent standard of living. The lack of proper protections for workers has led to the rise of a number of militant labor unions, including the Congolese Trade Union Congress, the General Union of Congolese Pupils and Students, the Revolutionary Union of Congolese Women, and the Union of Congolese Socialist Youth.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1879. Pierre Savorgnan de Brazza of France explores the area of today's Congo. He signs treaties with its leaders and declares the area to be subject to France's protection. Subsequently, this territory becomes known as the Middle Congo.

1910. The Middle Congo officially becomes one of France's federated colonies. Brazzaville becomes the principal city of the Middle Congo and head of the Federation's government.

1924–34. The Congo-Ocean Railway is completed, which paves the way for the development of the port city of Point-Noire and the numerous townships along the ocean.

1944. Major reforms in France's colonial policy take place as a result of the Brazzaville Conference, including the end of compulsory labor, French citizenship for colonial members, and the right to limited self-rule.

1960. France grants Middle Congo its independence; the country is renamed the Republic of the Congo.

1963. Fulbert Youlou becomes the Congo's first president and prohibits all political parties except his own. He is overthrown by Alphonse Massamba-Débat 3 years later. President Massamba-Débat introduces **communism** to the Congo and establishes strong ties with communist states, including the People's Republic of China.

1968. Marien Ngouabi becomes head of state after overthrowing Massamba-Débat. Ngouabi's 9-year rule is even more leftist than that of his predecessor.

1970. A new constitution is ratified, renaming the country the People's Republic of the Congo.

1977. General Joahim Yhombi-Opango assumes power after Ngouabi is assassinated. The Congo continues its close ties with France, despite its ideological affiliation with communism.

1979. President Yhombi-Opango is succeeded as president by Colonel Denis Sassou-Nguesso.

1981. The Congo signs a treaty with the Soviet Union establishing cooperation and friendship between the 2 nations.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Rep. of Congo	34	2	12	3	3	11	36
United States	13	9	9	4	6	8	51
Dem. Rep. of Congo	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gabon	40	3	9	3	7	4	34

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

1991. A new constitution is ratified making the Congo a multi-party democracy. The country's name is changed back to the Republic of the Congo and the country adopts a new national flag and anthem.

1992. Sassou-Nguesso is defeated in the presidential elections by Pascal Lissouba. Subsequently, Lissouba is accused of ethnic favoritism and armed factions supporting Sassou-Nguesso rise against him.

1997. Civil war breaks out in Brazzaville, which results in Brazzaville's destruction. Later that year, Sassou-Nguesso overthrows Lissouba with help from Angola.

FUTURE TRENDS

One of the major impediments to improvements to the Congo's economy is the service on the Congo's external debt. The Congo is one of Africa's most indebted countries, with its **foreign debt** totaling about 250 percent of its GDP. As a result, too large a share of the government's revenues goes to servicing that debt and very little remains for building infrastructure and maintaining the social services of the country. To solve this problem, the International Monetary Fund agreed to an Interim Post-Conflict Reconstruction and Rehabilitation Program which provides for **debt relief** based on the Congo's implementation of economic reforms. If these measures are undertaken, and debt relief is begun, this will free up much needed resources that can be channeled to infrastructure building. Improvements in infrastructure are essential if the country wishes to draw any foreign investment and build its underdeveloped manufacturing and industrial base.

The Congo's economic progress had been hampered by poor oil prices in 1998, which resulted in a decline in government revenue. The government also experienced a slump in revenue as a result of the war. Both of these factors contributed to the major decline in the Congo's economy, which experience -3.0 percent annual GDP growth in 1999. Subsequent increases in world oil prices in 2000 and 2001 were certain to aid the economy, though the destruction of the country's infrastructure by the 1997–98 civil war may make it difficult for the country to prepare its goods for export.

In the long term, the Congo must rebuild political stability and commit itself to the dual projects of paying down public debt and rebuilding its infrastructure. Should it solve its political problems the country is likely to gain the assistance of international lending agencies, but even with such assistance the Congo faces a long and difficult road to economic well-being.

DEPENDENCIES

The Republic of the Congo has no territories or colonies.

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—Michael David Nicoleau and Raynette Rose Gutrick

CÔTE D'IVOIRE

Republic of Côte d'Ivoire
République de Côte d'Ivoire

CAPITAL: Yamoussoukro has been the official capital since 1983. However, Abidjan remains the administrative center, and most countries maintain their embassies there.

MONETARY UNIT: Communauté Financière Africaine franc (CFA Fr). 1 franc equals 100 centimes. Coins exist in 5, 10, 50, 100, and 500 CFA Fr. Paper currency denominations are of 500, 1,000, 2,000, 5,000, and 10,000 CFAF.

CHIEF EXPORTS: Cocoa, coffee, tropical timbers, petroleum, cotton, bananas, pineapples, palm oil, cotton, and fish.

CHIEF IMPORTS: Food, manufactured consumer goods, heavy machinery, fuel, and transport equipment.

GROSS DOMESTIC PRODUCT: US$26.2 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$3.8 billion (f.o.b., 2000 est.). **Imports:** US$2.5 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Côte d'Ivoire (which means "Ivory Coast") is a West African country bordering the North Atlantic Ocean between Ghana and Liberia. It has an area of 322,460 square kilometers (124,502 square miles) of which 318,000 square kilometers (122,780 square miles) are occupied by land while water occupies the remaining 4,460 square kilometers (1,722 square miles). Its boundaries are 3,110 kilometers long (1,932 miles). These borders include 716 kilometers (445 miles) with Liberia in the west, 610 kilometers (379 miles) with Guinea in the northwest, 532 kilometers (330 miles) with Mali in the north, 584 kilometers (363 miles) with Burkina Faso in the north, and 668 kilometers (415 miles) with Ghana in the east. The country's coastline is 515 kilometers (320 miles) long.

Located on the Gulf of Guinea, Côte d'Ivoire has 2 major natural divisions. Its topography is a mix of plains and low hills containing a small mountainous area, with Mont Nimba rising to 1,752 meters (5,748 feet) above sea level in the Man region to the west. The south's equatorial rainforest (much of which has been logged) changes into woodland savanna to the north. The south has heavy rainfall and lush rain forests where foreign investors have large plantations of crops like coffee, cocoa, and bananas while the north is a granite plain characterized by savannas, where small landowners raise sorghum, corn, and peanuts. Côte d'Ivoire has one of the fastest rates of deforestation in the world.

POPULATION. The population was estimated to be 15.9 million in 2001, up from 13.9 million in 1995, and 11.8 million in 1990. The population density is 50 people per square kilometer (129 per square mile), up from 43.6 in 1995 and 37.1 in 1990. The population growth rate has been 3.1 percent a year in the period 1990–98, and the fertility rate is correspondingly high. The average number of children per woman is 5.1. Urban population has been growing, rising from 40 percent in 1990 to 46 percent in 1999. The structure of the population is youthful, with only 2 percent aged 65 and over, while 52 percent are aged between 15 and 65, and 46 percent are under 15 years. Life expectancy at birth has been decreasing from 50 in 1990 to 46 in 1999, and the incidence of AIDS has been one of the main factors in this decline, with more than 1 million Ivorians affected.

The population includes 5 major ethnic groups: the Kru, Akan, Volta, Mande, and Malinke, inhabiting both the savannas and rain forests, subdivided into approximately 80 smaller groups. Nearly two-thirds of the population follow traditional African religions, while 23 percent are Moslems, and 12 percent are Christians. French is the official language, but there are many other local languages. The most widely spoken are Diula in the north, Baule in the center and west, and Bete in the southeast.

The net out-migration rate was estimated in July 2000 to be 1.6 migrants per 1,000 of the population. After Liberia's civil war started in 1990, more than 350,000 refugees fled to Côte d'Ivoire, but by the end of 1999 almost all the Liberian refugees had returned.

OVERVIEW OF ECONOMY

Côte d'Ivoire has benefited since independence in 1960 from considerable political stability, and to no small measure this has been due to the close relationship with the former colonial power, France, and the presence of French troops in the country. These provided a secure platform for economic development and an encouraging environment for foreign investment. This state of affairs was disturbed by a military coup (a domestic overthrow of a government) in 1999, but international pressure led to a return to constitutional civilian government in 2000.

Most people in the economy (more than half) depend on agriculture for their livelihoods, and they are the poorest section of the community. Farming is undertaken on small family plots, and much of the output is consumed by the producing family. The economy depends heavily on exports of tropical agricultural products to generate the foreign exchange that Côte d'Ivoire requires to purchase the manufactured goods it does not have the ca-

pacity to produce itself. The main exports are cocoa and cocoa products, coffee, and fish. Exports generate 40 percent of the GDP. However, the heavy reliance on tropical agricultural exports makes the economy very vulnerable to changes in international commodity prices and the weather. In 1994, the currency was devalued by 50 percent which resulted in higher prices to producers of export crops who have responded with higher output, but much of the benefit has been eroded by declining world prices, particularly for coffee. Sparked by the **devaluation**, in the 1994–98 period the **real gross domestic product** (GDP) growth averaged 5.5 percent providing the first sustained improvement in per capita GDP since the late 1970s. During this period, the external current account deficit (including grants) was lowered from 11 percent of the GDP in 1993 to 4 percent in 1998, and the **external debt** burden was reduced.

Despite the positive economic results of devaluation, the government is aware of its economy's vulnerability due to its heavy reliance on cocoa and coffee. To safeguard the economy, the government is doing its best to encourage other agricultural exports, such as pineapples and rubber, and exploring for offshore deposits of oil and gas. Since 1986, Côte d'Ivoire has been undertaking a program of economic **liberalization**, which has involved ending state **monopolies**, particularly in agricultural marketing, and **privatizing** state-owned enterprises in an effort to make these sectors more efficient.

The economic situation was further boosted by an increase in grants and low interest rate loans, mainly from France, between 1994 and 1998. Significant progress was made in consolidating public finances during this period with the overall **budget deficit** declining from about 12 percent of the GDP in 1993 to 2.5 percent in 1998. The 50 percent devaluation of CFA franc in January 1994 caused a single jump in the **inflation rate** to 26 percent in 1994, but the rate fell sharply to 9.4 percent in 1996 and 1.3 percent in 1999.

The sharp downturn in the terms of trade, with cocoa prices falling by 40 percent below their end-of-1998 level as well as a significant slowdown in disbursement of external assistance have given rise to problems. Economic growth has slowed, and investment has slipped with the **private sector**'s adoption of a more cautious stance in the uncertain political environment following the 1999 coup.

POLITICS, GOVERNMENT, AND TAXATION

In pre-colonial times, the territory of present-day Côte d'Ivoire was inhospitable to the sea-borne European traders because of the dense, thinly populated tropical forest stretching hundreds of kilometers inland from the Atlantic Ocean. There was little European interest in the interior before the mid-19th century. Northern Côte d'Ivoire, largely savanna and populated by Muslims, was historically controlled by the Guinean kingdoms, which periodically exerted influence over much of modern Mali, Guinea, and Niger. The French presence grew after 1893 when the colony of Côte d'Ivoire was officially established. The potential of the country's agricultural and forestry resources came to be realized with the building of the railway through Côte d'Ivoire into present-day Burkina Faso, and by the late 1940s, Côte d'Ivoire had replaced Senegal as France's richest colony in West Africa.

Côte d'Ivoire became independent in August 1960, with Felix Houphouet-Boigny, a successful cocoa farmer and former minister in the French government, as president. Close ties to France have characterized the period since independence, and trade and investment links have expanded, as well as the number of French expatriates working in Côte d'Ivoire.

Capitalizing on his carefully cultivated personal relations with successive French governments as well as his skillful economic and political management, Houphouet-Boigny dominated the country's political life for more than 3 decades. Houphouet-Boigny's party, Parti Democratique de Côte d'Ivoire (PDCI), became the only legal political party in Côte d'Ivoire. In the 1960s and 1970s, he presided over Côte d'Ivoire's emergence as one of Africa's few stable and economically successful countries. With the introduction of multiparty politics in 1990, his PDCI remained in control. There was remarkably little internal strife and no significant external threat, leading to a resolution not to develop a costly and possibly untrustworthy army, and instead entrusting national defense to France.

However, Côte d'Ivoire faced serious social and economic problems in the 1980s with the fall in world commodity prices. As Houphouet-Boigny slipped into old age and popular dissent grew in the beginning of the 1990s, demonstrations and strikes became commonplace. The first multiparty elections were held in 1990 and were won by Houphouet-Boigny's PDCI amid accusation from the opposition of vote rigging.

Flamboyant Laurent Gbagbo, leader of the Front Populaire Ivorienne (FPI), defiantly led thousands of protesters through the streets of Abidjan in 1992, resulting in widespread rioting in the commercial capital and attracting a stern reaction from the authorities. Many protesters, including Gbagbo, were arrested and charged under legislation rushed through parliament, although many were freed 6 months later.

Mr. Houpouet-Boigny's death in 1993—which was feared would lead to social chaos and dash hopes of a return to economic prosperity—resulted in a controversial

power transfer to Konan Bedie, formerly president of the Assemble Nationale.

In the October 1995 presidential elections Konan Bedie won 95 percent of the vote amid protests from the opposition against a PDCI-dominated parliament's passing of a law that barred Alassane Dramane Ouattara, a World Bank-schooled economist who had been prime minister since 1990, from participating. The law excluded anyone who was considered not born to Ivorian parents, or who had been resident abroad in the preceding 5 years, and Ouattara was deemed to fall into both categories. A pro-Ouattara party, the Ressemblement des Republicans (RDR), was formed by defectors from the reformist wing of the PDCI. Whereas the presidential elections were marred with violence, the parliamentary elections were more peaceful, resulting in a PDCI victory with 149 of the 175 available seats while the rest were split between the FPI and the RDR.

In December 1999, a military coup—the first ever in Côte d'Ivoire's history—overthrew the government and installed military rule under General Robert Guei. The presidential elections in October 2000 were contested by Guei and Laurent Ggagbo of the FPI. Ouattara of the RDR was prevented from running. The results were unclear, and Guei attempted to hijack the process by announcing himself the elected president. Demonstrations and protests and pressure from the international community prevailed, however, and on the basis of the available electoral results, Gbagbo was declared president.

Côte d'Ivoire has a republican (constitutional) government with a multiparty presidential regime established in 1990. It is a country with 50 administrative departments (or districts), with a constitution that was first drawn up in November of 1960 but has been amended on numerous occasions, the last time being in July 1998. The constitution recognizes universal adult suffrage at 21 years of age. The legal system is based on French civil law and customary law with judicial review in the Constitutional Chamber of the Supreme Court. There is a **unicameral** (1-chamber) National Assembly of 175 seats to which members are elected by direct popular vote to serve 5-year terms.

Côte d'Ivoire has a more effective tax revenue collection system than most of sub-Saharan Africa. It includes a wide range of taxes on personal income, capital gains, **value added** on economic activities, exports, and imports. Tax revenues as a share of GDP were 20 percent in 1999. Taxes on international trade are around 40 percent of total government revenue. Income, profits, and capital gains taxes were 21 percent, taxes on goods and services were 5 percent, and the remaining 34 percent came from other taxes, licenses, and the surpluses of state-owned enterprises. There has been a steady rise in revenue collection, which has favorably affected the fiscal situation from 1994 to 1996. Tax revenue increased by an average annual rate of 24 percent in this period, reflecting the impact of the devaluation, strong GDP growth and the effects of improved tax measures. Tax revenues have increased because of the government's efforts to reintroduce an export tax on cocoa and coffee in 1994 and to build the capacity of its revenue departments by implementing strategies to curb fraud and tax evasion.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

By 1996, Côte d'Ivoire had a fairly well-developed network of 50,400 kilometers (31,317 miles) of roads, of which 4,889 kilometers (3,038 miles) were paved; about 6,000 kilometers (3,728 miles) were primary roads; and 7,000 kilometers (4,350 miles) are secondary roads. A fall in railway traffic has increased the burden on the road network. The government plans to develop the system further, for instance, by extending the country's main highway from Abidjan to Yamoussoukro and to Grand-Bassam, southwest of Abidjan.

The only railway line in Côte d'Ivoire was built by the French, and it links Abidjan with Ouagadougou, the capital city of neighboring Burkina Faso. The Ivorian side is 660 kilometers (410 miles) of meter gauge railway. The rail company, Societe Ivoirienne des Chemins

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Côte d'Ivoire	17	164	70	0.0	6	N/A	3.6	0.25	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Ghana	14	238	99	N/A	1	N/A	1.6	0.06	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

de Fer (Ivory Society of Railroads, SICF), saw the number of passengers decline by 75 percent to about 760,000 by 1993, owing in part to the poor condition of the rolling stock.

There are 980 kilometers (609 miles) of navigable rivers and canals, as well as numerous coastal lagoons. There are also 4 major ports: Abidjan, Aboisso, Dabou, and San-Pedro. The Port Autonome d'Abidjan (PAA) is the busiest in Francophone West Africa (the former French colonies in West Africa, in which there is still a legacy of French civil law and language) and earns revenue from transit traffic to and from the country's landlocked neighbors, particularly Burkina Faso and Mali. Petroleum products account for approximately 40 percent of its tonnage. Côte d'Ivoire's second largest port, San Pedro, handles smaller volumes of timber and cocoa.

In 1999, there were an estimated 36 airports in the country, 7 of which had paved runways. Côte d'Ivoire has an important stake in the multinational Air Afrique, which provides most international connections.

Although an estimated 64 percent of the country's electricity is generated from hydroelectric plants, gas power stations are becoming more important with fossil fuels constituting 36 percent of the country's electric energy production. Total electric energy production in 1998 was estimated to be 3.36 billion kilowatt hours (kWh) against a consumption demand of 3.2 billion kWh. Oil is refined for domestic use but is also exported to the region, including to Nigeria where a dismal downstream oil industry has led to persistent oil shortages.

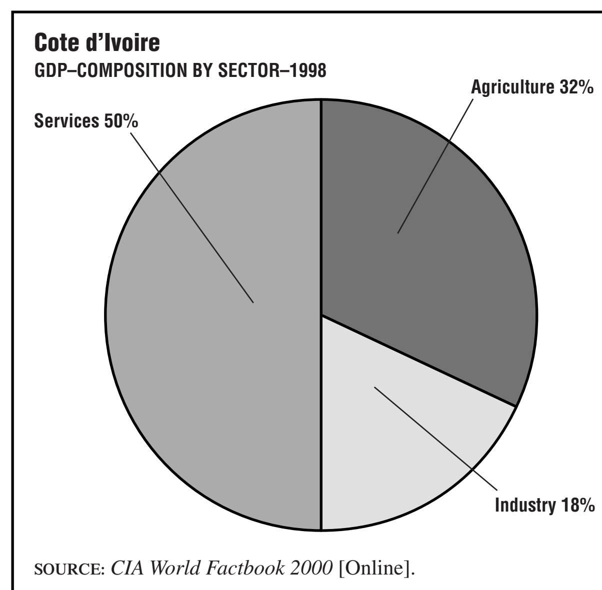
There were 182,000 telephone land lines and more than 60,000 mobile cellular phones in use in 1998. By June 1999 the telephone system was well-developed by African standards but operating far below capacity. Domestic needs are met by land lines and microwave radio relays, 90 percent of which are digitalized. Two Intelsat satellite earth stations and 2 coaxial submarine cables serve international demand. The government sold 51 percent of the national telecommunications company, CI-Telcom, to France Telecom in 1997, which renamed the company Côte d'Ivoire Telecom. At the time of privatization, CI-Telecom was operating 120,000 lines, but the government intended to have 400,000 lines in use by 2002. The long waiting list has enabled many Ivorian companies to benefit from the scramble for market share after liberalization of the industry.

Radiodiffusion-Television Ivorienne (Ivorian Radio Broadcasting-Television, RTI) is a government-owned corporation but is in most respects independent. It is partly funded by advertising and operates 2 television channels and a national radio service, broadcasting in French and local languages. Radio Espoir is owned and operated by the Roman Catholic Church. In 1999 there were a total of 2 AM, 8 FM and 3 short-wave stations, as well as 14 television stations. In 1997 there were 900,000 television sets.

While there were a number of new publications as a consequence of the 1990 political liberalization, many disappeared during Konan Bedie's tenure, and at least 20 journalists have been jailed since 1994. Nonetheless, there remains a healthy opposition press which includes the daily *Notre Voie* and *Nouvel Horizon*, owned by the pro-FPI Nouvel Horizon media group. This alternative coverage provides a counterweight to the dominance of the pro-government press, mainly the daily *Fraternite Matin* founded in 1964 and its evening sister paper, *Ivoire Soir*, with a circulation of about 50,000 and 40,000 respectively.

ECONOMIC SECTORS

For many years after independence from France in 1960, Côte d'Ivoire was the jewel of West Africa, with a strong economy—initially based on agriculture, particularly coffee and cocoa—that attracted many thousands of workers from neighboring countries. Sizeable French and Lebanese communities established themselves in the capital, Abidjan. In 1998, agriculture contributed 32 percent of the GDP, industry 18 percent, and services 50 percent. Agriculture remains based on 2 major crops—cocoa and coffee, which together provided 45 percent of export revenue in 1998. The industrial sector's share of the GDP increased in 1999, and this trend is likely to continue in the coming decade as the country develops food processing. Services, 50 percent of the GDP in 1998, are led mostly by trade and transport, the latter accounting for 30 percent of the GDP.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agriculture (including forestry and fishing) is a very significant sector of Côte d'Ivoire's economy. It contributed an estimated 32 percent of the GDP and employed about 51 percent of the **labor force** in 1998. However, the disparity between share of the GDP and share of the labor force indicates that agriculture generates much lower incomes than the other 2 major sectors, industry and services. Exports of cocoa and related products contributed an estimated 37 percent of total export earnings in 1998. Export taxes on cocoa and coffee contributed more than 10 percent of government revenue in each year since 1996.

Production of cocoa beans doubled between 1970 and 1979, making Côte d'Ivoire the largest exporter in the world. The country has been the world's largest cocoa producer since 1977–78, when its level of production overtook that of Ghana. Overall output continued to rise, with some fluctuations, reaching a record 1.1 million metric tons in 1995–96 and an estimated 1 million metric tons in 1996–97, up from an annual average of 750,000 metric tons over the 1990–94 period. This increase, however, was attributed to the government incentives program of the 1980s as well as the resultant switching of resources from coffee production. Until 1989, both coffee and cocoa attracted virtually the same producer prices, although coffee was more heavily taxed and is more difficult to grow.

The total land area is distributed among different uses as follows: arable land 8 percent, permanent crops 4 percent, permanent pastures 41 percent, forests and woodland 22 percent, and others 25 percent. In 1993 only 680 square kilometers (262 square miles) of land was under irrigation. Agricultural production increased by an average of 2.4 percent annually between 1990–98. There were 2.44 million hectares of arable land in 1994, 1.27 million hectares of permanent cropland, and 13 million hectares of meadow and pasture. The other major **cash crops** include cotton, rubber, bananas, and pineapples. The principal subsistence crops are maize, yams, cassava, plantains, and, increasingly, rice, as demand continues to outstrip local production of rice. In 1996, it was estimated that there were 1.28 million cattle, 1.31 million sheep, 1.0 million goats, 290,000 pigs, and 27 million chickens.

With about two-thirds of the total export earnings provided by the sale of coffee and cocoa, which are both highly vulnerable to fluctuations in international prices, the government has sought to diversify agricultural production. Since the 1960s, Côte d'Ivoire has become a major producer of palm oil, and local processing of palm products has developed. Cotton production has done particularly well in recent decades, enabling Côte d'Ivoire to compete—alongside Sudan, Mali, and Benin—for the position of Africa's second largest producer of cotton after Egypt. Most of the cotton is processed locally in 8 ginning complexes both for export (some 80 percent of total production) and the local textile industry.

The rubber industry has also shown growth since the mid-1980s with output increasing by more than 50 percent between 1990 and 1994 in response to government plans for Côte d'Ivoire to become Africa's leading rubber producer. Côte d'Ivoire is also a significant producer of pineapples and bananas with exports mostly directed to European markets.

In recent years, the government has stressed the need to increase output of basic food crops such as rice in which Côte d'Ivoire is not self-sufficient. A deficiency in the sugar supply and the need to save foreign exchange on sugar imports led the government to initiate a sugar program in the 1970s. By the 1980s, the 2 schemes could supply most of internal demand, then estimated at 80,000 metric tons a year, but production costs were twice the world price, leading to cancellation of further sugar projects.

Livestock is not a significant sector, comprising mostly small herds, which can supply only about one-third of the nation's demand for livestock products. On the other hand, fishing is a significant activity, and Abidjan is the largest tuna-fishing port in Africa with an annual catch of more then 90,000 metric tons. However, most of this catch is by foreign vessels, and the only benefits to Côte d'Ivoire are the license fees. Ivorian participation in this sector is still low, with the domestic fishing fleet numbering only 38 vessels and most traditional fishing being undertaken by non-Ivorians. Domestic production meets only about 40 percent of local demand.

Forestry has always been a significant source of export revenue, from both logs and sawn timber. Boosted by enhanced price competitiveness since 1994, timber has displaced both coffee and petroleum products as the country's second highest earner of foreign exchange earnings, after cocoa. Most of the production is carried out by large integrated foreign-owned firms. The area of exploitable timber has fallen to only about 1 million hectares in 1987 compared with some 15.6 million hectares in 1960 because of logging and the encroachment of agriculture into forest areas. Progress in reforestation has been disappointing, and the government is committed to a ban on exports of timber once the country's foreign payments position has improved.

The main current environmental issue is deforestation. Some 94 percent of the country's forests—once the largest in West Africa—have been cleared by the timber industry since independence. Water pollution from sewage, industrial plants, and agricultural effluents is also causing concern.

INDUSTRY

Industry includes agricultural processing, mining, manufacturing, construction, and power. It comprises mostly foodstuffs, beverages, wood products, oil refining, automobile assembly, textiles, fertilizer, construction materials, mining, and electricity. It contributed an estimated 18 percent of the GDP in 1998 and employed about 12 percent of the labor force in 1994.

MINING. Mining contributed only an estimated 0.3 percent of the GDP in 1998. This sub-sector's contribution, however, is expected to increase considerably following commencement in the mid-1990s of commercial exploitation of important offshore reserves of petroleum and natural gas. Gold and diamonds are also produced, although the illicit production of the latter has greatly exceeded formal commercial output. There is believed to be a significant potential for the development of nickel deposits, and there are also notable reserves of manganese, iron-ore, and bauxite.

MANUFACTURING. The manufacturing sub-sector contributed about 14.6 percent of the GDP in 1998. It is dominated by agro-industrial activities such as processing of cocoa, coffee, cotton, palm kernels, pineapples, and fish. Crude petroleum is refined at Abidjan while the tobacco industry uses mostly imported tobacco leaf. In 1998 almost two-thirds of Côte d'Ivoire's electricity was derived from thermal sources while the rest was from hydro-generation. Through exploitation of natural gas reserves, the country is expected to generate sufficient energy for its own requirements by 2000 and for regional export thereafter. Imports of petroleum products including crude oil accounted for 14.9 percent of the total value of imports in 1998.

Manufacturing output expanded in real terms at an average rate of 8.9 percent per year between 1965 and 1974, easing to 5.4 percent per year in the following decade after the main industrial opportunities had been exploited. However, this sector continues to be sustained by the high rate of growth in domestic demand, arising mainly from the rapid increase in the country's population and the boost in competitiveness to domestic industry resulting from the 1994 devaluation of the CFA franc. Between 1990 and 1998, industrial GDP increased by an average of 5.1 percent per year, while the industrial production growth rate was estimated to be about 15 percent in 1998.

SERVICES

A major economic feature of the 1990s has been the expansion of the services sector. It contributed about 50 percent of the GDP in 1998 and employed about 37 percent of the labor force in 1994. The transformation of Abidjan's stock market into a regional exchange for the member states of the Union Economique et Monetaire Oeust-Africaine (UEMOA) together with the hosting of the headquarters of the Africa Development Bank is expected to enhance the city's status as a center of financial services.

Emphasis was also placed on the revival of tourism as a major source of foreign exchange. Tourism developed strongly in the 1970s with a newly created ministry stimulating diversification both in location (away from the Abidjan area) and in type of visitors (aside from business travelers) who previously accounted for almost two-thirds of arrivals. Special tax incentives and guarantees were offered for hotel construction, and by 1984 the number of hotels was 452, about 5 times the 1972 level. The number of tourists increased from 93,000 in 1974 to 198,900 in 1979 with business visitors accounting for 40 percent of arrivals. Since then, visitor arrivals have fluctuated in the range of 200,000–290,000 per year, broadly reflecting trends in tourism. The government's target is for 500,000 arrivals by 2000.

Abidjan is also central to regional communications and trade. The service sector's contribution to the GDP increased at an average rate of 3.5 percent per year from 1990 to 1998.

INTERNATIONAL TRADE

Côte d'Ivoire had very rapid economic growth between 1950 and 1975, with fewer problems with the **balance of payments** than most African countries. Exports increased at a faster rate than the GNP and they remain the main factor contributing to economic growth in the new millennium. Côte d'Ivoire's balance of trade has always been in surplus because of the strength of its exports, which have largely been determined by the level of earnings from sales of coffee and cocoa. In recent years, the surplus has also been boosted by the 1994 devaluation of the CFA franc, affecting both cocoa and timber exports, although increases in export earnings from

Trade (expressed in billions of US$): Côte d'Ivoire

	Exports	Imports
1975	1.181	1.127
1980	3.135	2.967
1985	3.198	1.749
1990	3.072	2.098
1995	3.645	2.945
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

logs and sawn wood have been limited owing to the impending exhaustion of the country's forestry resources. Other exports that have responded favorably to the currency adjustment are canned fish, natural rubber, bananas, and other fruits. The CIA *World Factbook* estimated the country's exports to be US$3.8 billion in 2000.

Despite the government's wish to diversify the direction of trade, the existing pattern reflects Côte d'Ivoire's historical ties with European colonial powers. In 1998, the EU absorbed an estimated 58 percent of all its trade, with France accounting for 21 percent. Trade with African countries is increasing and represented 28 percent of total trade in 1998, and the government is eager to promote closer trade links with the 8-member Francophone Union (UEMOA), of which Côte d'Ivoire is a member. UEMOA countries are in the process of reducing import **duties** on their goods, and the government hopes that West Africa will provide a market for 50 percent of total exports early in the 21st century. Meanwhile, exports to Asia continue to increase, reaching 15 percent of total exports in 1998. The CIA *World Factbook* estimated Côte d'Ivoire major export partners to be France (15 percent), United States (8 percent), Netherlands (7 percent), and Germany and Italy (both at 6 percent) in 1999.

Imports are mainly food, manufactured **consumer goods**, heavy machinery, transport equipment, and fuel. In 2000, the total value of imports was estimated to be US$2.5 billion. Imports are sourced from France (26 percent), Nigeria (10 percent), China (7 percent), Italy (5 percent), and Germany (4 percent).

MONEY

The unit of account is the West African CFA franc. There are no restrictions on the import of local currency. **Monetary policy** in Côte d'Ivoire is set by the regional central bank, the Central Bank of West African States (BCEAO). The Bank aims to conduct a prudent policy consistent with the **fixed exchange rate** to the French franc, which since January 1999 has implied a fixed exchange rate to the euro, the new common currency of the European Union. In January 2000 the **exchange rate** was 647CFA Fr = US$1, a depreciation in the value of the CFA franc of 23 percent from 499CFA Fr = US$1 in 1995.

The BCEAO controls monetary policy in the Côte d'Ivoire, and a cautious rate of increase in the money supply has kept the inflation rate low in since 1995. In 1999 **inflation** was estimated at 0.8 percent a year.

POVERTY AND WEALTH

In 1998, it was estimated that 17.5 percent of the population lived below the dollar-a-day poverty line (this line is based on the income required to provide the absolute minimum nutrition, clothing, and shelter). It means that 24 percent of the children under 5 years of age are malnourished (the figure is 1 percent in the United States), and life expectancy is 47 years (in the United States it is 77 years). However, poverty levels are markedly better in Côte d'Ivoire than nearby Senegal, which has almost exactly the same level of average income per head but has 34 percent below the dollar-a-day

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Côte d'Ivoire	4,300	1,700	1,680	1,600	1,600
United States	28,600	30,200	31,500	33,900	36,200
Nigeria	1,380	N/A	960	970	950
Ghana	1,530	2,000	1,800	1,900	1,900

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

Exchange rates: Côte d'Ivoire

Communauté Financière Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Côte d'Ivoire

Lowest 10%	3.1
Lowest 20%	7.1
Second 20%	11.2
Third 20%	15.6
Fourth 20%	21.9
Highest 20%	44.3
Highest 10%	28.8

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Côte d'Ivoire	30	7	4	1	18	8	32
United States	13	9	9	4	6	8	51
Nigeria	51	5	31	2	8	2	2
Ghana	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

poverty line. Almost all those in poverty are in the rural areas, relying on small-scale agriculture for their livelihoods, and suffering because of poor land, inadequate rainfall, and not enough income to purchase good seeds, fertilizer, or farm machinery.

The **GDP per capita** was at US$1,730 in 1998, relatively high for the region. Nevertheless, this placed Côte d'Ivoire in the low-income category of countries and is put in perspective by the US$29,340 level of the GDP per head for the United States. As with most developing countries, there is considerable income inequality, with the poorest 10 percent of the country's population sharing only 2.8 percent of the country's household income while the share for the richest 10 percent is 28.5 percent.

The UN's Human Development Index (HDI), which attempts to measure the quality of life on the basis of real GDP per head, the adult literacy rate, and life expectancy at birth, placed Côte d'Ivoire at 154 out of 174 countries in 1999, firmly in the low human development category.

WORKING CONDITIONS

The workforce in 1998 was estimated at 6 million, of which 33 percent were women. Of children aged 10 to 14, about 20 percent were engaged in full-time work. There are no official unemployment figures for Côte d'Ivoire, but unemployment figures have little significance in a low-income African economy. There are very few with no work at all. There are no unemployment benefits, and those who do not work rely on support from charities or their families. Many people would like a modern sector job, but eke out an existence on family farms or in casual **informal sector** activities (such as **hawking**, portering, and scavenging) in the urban areas.

The National Union of Côte d'Ivoire was formed in 1959 but was replaced in 1962 by the General Union of Côte d'Ivoire Workers (Union Generale des Travailleurs de Côte d'Ivoire), controlled by the PDCI. In mid-1980s, it had some 190 affiliated unions and 100,000 members. A labor inspection service supervises conditions under which foreign workers are employed. The greater prosperity of Côte d'Ivoire has led to considerable migrations of workers from Mali and Burkina Faso, many of them illegal workers, and the inspection service tries to prevent them from being unfairly exploited by employers.

Labor legislation is still based on the French overseas labor code of 1952 which provides for collective agreements between employees and trade unions, the fixing of basic minimum wages by the government, and a 40-hour week for all except agricultural workers for whom longer working hours are permitted. The average annual wage was estimated by the IMF to be US$4,545 in 1999, up from about US$4,200 in 1993 with government employees earning on average better than those in the private sector. Legislation also provides wage earners with paid annual leave and children's allowances. The government has the power to impress persons into public service for up to 2 years.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1893. Côte d'Ivoire becomes a French colony.

1944. Felix Houphouet-Boigny founds Syndicat Agricole Africain (SAA) to protest the colonial authorities' preferential treatment of French planters in the recruitment of farm labor.

1960. Republic of Ivory Coast is proclaimed with Felix Houphouet-Boigny elected president. A new constitution is adopted.

1963. A plot against the government is uncovered, and hundreds are arrested, including members of the National Assembly and cabinet ministers.

1969. Street clashes between Ivorians and immigrant workers are followed by student demonstrations. Diplomatic relations with the Soviet Union are broken.

1970. The government restricts **immigration** of foreign workers and suppresses a group of Bete rebels led by Gnabe Opadjele.

1973. A coup attempt by 12 army officers is foiled.

1990. Opposition parties are legalized. First multiparty elections are held. Houphouet-Boigny is re-elected president.

1993. Felix Houphouet-Boigny, Côte d'Ivoire's president since independence in 1960, dies in December. Henry Konan Bedie, president of the National Assembly, succeeds him.

1994. The CFA franc is devalued in January by 50 percent, preparing ground for further economic reforms and a sustained period of economic growth.

1995. In October, Konan Bedie wins 95 percent of the vote in the presidential elections in the face of a widespread opposition boycott.

1998. The constitution is amended in August strengthening the powers of the president and barring Ouattara from standing in the 2000 presidential election.

1999. Bedie is ousted in a coup, and a military government under General Robert Guei is installed.

2000. The presidential elections between General Guei and Laurent Ggagbo of the FPI occurs. After an attempt by Guei to announce himself elected, Gbagbo is declared president.

FUTURE TRENDS

There is no question but that the 1999 coup was a severe setback to the image of Côte d'Ivoire as a secure and stable civilian-led country where the rule of law was respected and the business environment was encouraging for domestic and foreign investment alike. It is fortunate that the matter was speedily settled, but the subsequent elections were resolved only by civilian demonstrations and international pressure. A major task for the new government is to reestablish the strength of democratic procedures and ensure the support of the armed forces.

The strong rebound in Côte d'Ivoire's economic performance following the 1994 devaluation permitted sustained improvement in per capita incomes after several years of decline. This performance was marked by a return to low inflation and a sizeable reduction in external debt, as well as the substantial progress with the extensive economic reform program. However, growth was expected to slow down in 2000 because of the country's difficulty in meeting the conditions of international donors, continued low prices of key exports, and post-coup uncertainty.

The authorities recognize that the private sector is the engine of growth and employment and seem inclined to strengthen the climate for private sector activity through continued enterprise reform. If the governance issues can be addressed and the management of the **public sector** improved, Côte d'Ivoire should be able to realize its growth potential and bring about a sustained reduction in poverty.

DEPENDENCIES

Côte d'Ivoire has no territories or colonies.

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—Allan C. K. Mukungu

DJIBOUTI

Republic of Djibouti
République de Djibouti
Jumhouriyya Djibouti

CAPITAL: Djibouti.

MONETARY UNIT: Djiboutian franc (Dfr). One Djiboutian franc equals 100 centimes. There are notes of 1,000, 5,000, and 10,000 francs and coins of 10, 20, 50, 100, and 500 francs. Since 1973 the Djiboutian franc has been tied to the U.S. dollar at a rate of Dfr177.72:US$1.

CHIEF EXPORTS: Reexports, hides and skins, and coffee (in transit).

CHIEF IMPORTS: Foods, beverages, transport equipment, chemicals, and petroleum products.

GROSS DOMESTIC PRODUCT: US$574 million (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$260 million (1999 est.). **Imports:** US$440 million (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Djibouti is situated in the Horn of Africa, at the southern entrance to the Red Sea, bordering the Gulf of Aden. To the north lies Eritrea with a shared border of 113 kilometers (70 miles); to the north, west, and southwest lies Ethiopia, with a border length of 337 kilometers (209 miles); and to the southeast lies Somalia, with a border length of 58 kilometers (36 miles). Djibouti has a land area of 23,000 square kilometers (8,880 square miles), making it slightly smaller than the U.S. state of Massachusetts. It has 314 kilometers (195 miles) of coastline. The city of Djibouti, located on the coast, is the nation's capital and only major urban center.

POPULATION. The U.S. Central Intelligence Agency estimated the population of Djibouti at 460,000 in July 2001, though the accuracy of this figure is uncertain. The uncertainty arises because there are an unknown number of expatriates and refugees, and sensitivity over the ethnic composition of Djibouti makes the government unwilling to produce definitive figures. The population is comprised of 2 main ethnic groups. The Somali are estimated as 60 percent of the population, and the Afar are estimated at 35 percent. The remaining 5 percent are mostly French, Arabs, Ethiopians, and Italians. Both the Somali and the Afar are Muslim groups and speak related Cushitic languages. French and Arabic are the official languages. There is an Arab minority population that numbers 12,000 and is mostly people of Yemeni descent. The European population in Djibouti (including French troops) was estimated at 8,000 in 1997. The Somalis are divided into clans, of which the Issa, Gadburs, and Issaqs are the largest.

The population was estimated to be growing at a rate of 2.6 percent per year in 2001, with 43 percent of the population less than 15 years of age. In the 1980s a survey showed that 75 percent of the population were urban (with around half living in the capital), and the rest primarily lived nomadic lives. The urban population has increased significantly in recent years as people have fled from the civil war in the north, the Eritrea-Ethiopia border clash, and the conflicts in Somalia.

OVERVIEW OF ECONOMY

Djibouti is a small country both in terms of geographical size and population, with an economy that depends on the provision of port services for goods in transit to and from Ethiopia. The only other links between the coast and Ethiopia pass through Eritrea. However, since the start of the border dispute and the subsequent war between Ethiopia and Eritrea that took place from 1988 to 2000, Ethiopia has not been inclined to use the Eritrean routes. Thus Ethiopian use of Djibouti's port facilities has expanded.

The structure of the economy has not changed much since Djibouti achieved independence from France in 1977. The economy is mostly based on services, and this sector accounted for 75 percent of **gross domestic product** (GDP)

in 1998. The significance of the service sector is connected to the country's strategic location and its free trade status in Northeast Africa. The primary components of the sector are the port and railway service, the civil service, and the French garrison stationed in Djibouti. Public administration is the largest sector in the economy. Djibouti has no significant mineral resources, and farming is constrained by the poor quality of the land and limited water availability.

Uncertainty over the size of the population makes estimates for per capita **gross national product** (GNP) rather tentative, but using the **exchange rate** conversion the figure is approximated at US$750. The United Nations (UN) provides a figure using **purchasing power parity** conversion (which makes allowances for the low price of some basic commodities in Djibouti) of $1,300 in per capita GDP in 2000. Both of these estimates place Djibouti in the low-income category of nations.

After modest growth enjoyed during Djibouti's first decade of independence, poor planning and reduced foreign assistance led to GDP growth that averaged only 1 percent per year from 1989 to 1991. Growth became negative following the outbreak of civil war (1991–94), which was instigated by dissidents from the minority Afar group. **Informal sector** activities, which evade both tax and customs, flourished in the mid-1990s, resulting in the apparent 5.5 percent per year decrease in the GDP from 1991 to 1994 as reported by the **UN Development Program**. Since 1992 the port has registered a fall in the number of imports for domestic use, leading to the closure of many outlets. The reduced use of the French garrison since 1999 will also decrease growth, though the increased provision of services for the transit trade with Ethiopia due to its war with Eritrea is expected to provide some compensation.

In the 1980s attempts to improve **infrastructure** and reduce structural problems in the economy had little impact. A program for the decentralization of the economy, the development of **free trade zones**, and agricultural and livestock programs all depended on foreign aid, which was terminated in 1991 following the outbreak of the civil conflict. In 1992 the depth of the crisis led to the suspension of government investment which resulted in the crumbling of infrastructure, most notably of electric power.

Djibouti has had a stable government since independence under the ruling People's Progress Assembly (RPP), namely the presidencies of Hassan Gouled and his successor Ismael Gouleh. Nonetheless, government policy since 1991 has consisted of a series of short-term responses to both external donor pressure (particularly from France) and internal demands (especially during the civil war). The government controls the major sectors of the economy—the port facilities, railway, and utilities—but there are currently plans for **privatization** of these enterprises.

In the period from 1991 to 1994, the civil war upset an already limited tax base, and budget controls disappeared as income dwindled. Expenditures rose, causing major deficits—although the extent was hidden by irregular accounting—and the government built up debts in salary **arrears** with private creditors.

In 1996 proposed budget cuts caused a general strike and civil unrest, which led to a policy reversal. A more comprehensive package was then drafted in 1996 with the International Monetary Fund (IMF), World Bank, and French help. This culminated in an IMF US$6.2 million standby credit, which started in April 1996, and the resumption of limited French budget assistance. A donor conference in 1997 secured limited funds for reforms, especially for the demobilization of the army after the civil war, which had been the single biggest cause of the **budget deficit** in recent years.

In the period from 1999 to 2000, the government launched plans for the privatization of all the major utilities (including water, electricity, post, railway, telecom-

munications, and port facilities). The government also hopes to attract private capital in free-trade zone projects.

POLITICS, GOVERNMENT, AND TAXATION

The French first took control of the small coastal settlement of Obock in 1859. The completion of the Franco-Ethiopian railway in 1917 established the town of Djibouti and began a period of economic growth as the port facilities were developed. Djibouti was known as French Somaliland until 1967 when it was renamed the French Territory of the Afars and the Issas; it became Djibouti at independence in 1977.

Ethnic tension between the Afars and Somali has always been high. In 1967 the people of Djibouti voted in a referendum to maintain an association with France, despite claims of expulsions of pro-Somali politicians and vote rigging favoring the Afars in the first election supervised by the French. Growing pressure from the Organization for African Unity (OAU) led to the peaceful progression towards independence in 1977, and Hassan Gouled (an Issa) became the first president. Within one month, Somalia and Ethiopia began the Ogaden war, which had severe economic effects for Djibouti since the fighting, ranging over the rail link between Ethiopia and Djibouti, closed rail links to Addis Ababa, Ethiopia, for a year and cut port traffic.

Despite the resignation of 5 Afar members from the cabinet in 1977, the president managed to contain ethnic strife for most of the 1980s. Political stability was maintained through patronage dispensed through the RPP, the sole political party. Despite winning the elections in 1982 and 1987, the government became extremely unpopular in the late 1980s, and there were calls for a multiparty political system. The government's suppression of Afar civil unrest in Djibouti caused an insurgency in the north.

The Afar rebellion, led by former Prime Minister Ahmed Dini, spread rapidly, and 3 rebel groups came together to form the Front for the Restoration of Unity and Democracy (FRUD). However, the government was able to deflect French pressure for compromise, and with Arab funding regained control of the north, defeating the insurgents. The government signed a cosmetic peace accord with the minority group of the now divided rebels in 1994 and gave 2 of its leaders cabinet posts. The presidential adviser Ismail Omar Guelleh consolidated his position during president Gouled's long illness and became president himself in the 1999 election. The change of president is not expected to lead to a change in policy, as Guelleh headed the cabinet for 20 years and has proved ruthless in dealing with opposition. Guelleh has retained most of the previous cabinet, but power essentially lies with him and his personal advisers.

The constitution is largely French in structure, and provides for universal suffrage. The president is elected for a 6-year term and the members of the 65-member Chamber of Deputies for 5-year terms. At the height of the civil war in 1992, a constitution endorsed by a referendum brought in a multiparty system, though it only recognized 4 political parties. However, formal government institutions have been severely disrupted since 1991. The judicial system has been undermined by political pressure, and most actual power resides in the hands of the security services, which are under the direct control of the president.

The 2 opposition parties are divided and—despite large support—the Party for Democratic Renewal (PRD) and the National Democratic Party (PND) failed to gain any seats in the 1992 or the 1997 elections, mainly due to infighting. In the 1999 presidential election they presented a united candidate, Moussa Ahmed Idriss, who gained a quarter of the votes in a 15 percent voter turnout.

Internationally, Djibouti has remained politically non-aligned, though it has been watchful of its larger neighbors and has been active in promoting the regional developmental organization, the Intergovernmental Authority on Development (IGAD).

The border dispute in 1998 between Ethiopia and Eritrea brought economic benefit to Djibouti, since most international trade with Ethiopia then had to come through Djibouti's ports. This situation strengthened Djibouti's trade ties with Ethiopia, which have remained strong after the cessation of the border dispute. Djibouti broke off diplomatic links with Eritrea and forged solid links with the ruling Ethiopian party in 1998.

Unrest in neighboring Somalia, which began in 1991, could have been destabilizing for Djibouti, but the establishment of the stable, but unrecognized, Somaliland Republic adjacent to the border has limited the impact. French military presence in the form of a naval base has protected Djibouti from international threats both before and after independence, although French presence is currently being scaled down. Despite having an Arab minority, Djibouti declares itself an Arab state and plays an active role in the Arab League.

Djibouti succeeded in raising 31 percent of the GDP as government revenue in 1997. About 19 percent of this money was raised by **income taxes** on individuals and corporations, 20 percent from other **direct taxes** (mostly property taxes), 46 percent by **indirect taxes** (mostly customs **duties**), and 15 percent came from license fees and property sales. Grants received from abroad (mostly from France) are about 3 percent of GDP. Administration made up 41 percent of government recurrent expenditure, 28 percent was spent on defense, education accounted for 12 percent, transfers were 10 percent, 5 percent was spent on health care, and **subsidies** to state-owned enterprises

was 4 percent. Government capital expenditure was about 5 percent of the GDP. Defense spending in 1997 was about twice its normal level as a result of demobilization payments made to reduce the size of the defense forces at the conclusion of the civil war.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Transport in Djibouti is geared towards international trade, with local transport being only of secondary concern. The port facilities are central to the economy. Djibouti's use as a naval base by French, British, Italian, and U.S. fleets that operate in the Gulf may be lucrative but is not a basis for growth. Improved port efficiency was needed for the 1998 increase in Ethiopian trade, with traffic up 333 percent to 1.2 million metric tons. Only 10 percent of the 2,800 kilometers (1,740 miles) of roads in Djibouti are paved, and the railway, jointly owned with Ethiopia, is in desperate need of an overhaul.

The capital of Djibouti houses the nation's only international airport, which is serviced by Air France, Ethiopian Airlines, and Yemenia. Several small companies fly to Somalia. Djibouti Air was relaunched in 1997 with private investment and flies to Ethiopia, Yemen, Saudi Arabia, and the United Arab Emirates.

The international telephone exchange has a radio link with Saudi Arabia and Yemen, 2 earth satellite stations, and a submarine fiber optic link to Sri Lanka and Europe. Domestic and international telephone exchanges are being **restructured** to attract foreign investment. There were 8,000 telephone main lines in use in 1997. The country's international telecommunications company offers a range of Internet services. In 1992 Japan provided a TV studio for Djibouti. The only newspaper printed in Djibouti is state-owned.

Energy resources are very limited. The population has no access to trees for wood fuel and must import charcoal and all petroleum products. The Boualos diesel electricity generator is in urgent need of repair, and power cuts are frequent. In 1999 the country produced a total of just 180 million kilowatt hours (kWh) of electricity, 100 percent of which was generated from fossil fuels.

ECONOMIC SECTORS

Agriculture, though it engaged 75 percent of the working population in 1991, provides very low incomes and generated only 3 percent of the GDP in 1998. Industry contributed some 22 percent of the GDP in 1998 and engaged 11 percent of the working population in 1991. The largest sector by far in terms of contribution to the GDP is the services sector, which accounted for 75 percent of the GDP in 1998 and engaged 14 percent of population in 1991. The services sector is strongly dependent on the reexporting of goods.

AGRICULTURE

Official figures suggest that 75 percent of employment was in agriculture in 1991 and that the sector pro-

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Djibouti	N/A	N/A	N/A	N/A	742
United States	19,364	21,529	23,200	25,363	29,683
Egypt	516	731	890	971	1,146
Eritrea	N/A	N/A	N/A	N/A	175

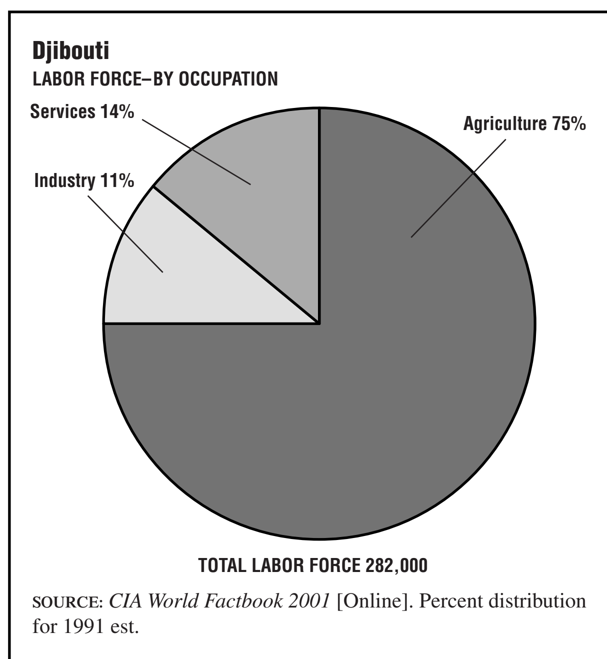
SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Djibouti	8,000	203	AM 2; FM 2; shortwave 0	52,000	1 (1998)	28,000	1	1,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Egypt	3,971,500 (1998)	380,000 (1999)	AM 42; FM 14; shortwave 3 (1999)	20.5 M	98 (1995)	7.7 M	50	300,000
Eritrea	23,578 (2000)	N/A	AM 2; FM 1; shortwave 2 (2000)	345,000	1 (2000)	1,000	4	500

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1991 est.

duced 3 percent of GDP in 1998. These figures are somewhat deceptive in that almost everyone over the age of 10 in the rural areas is considered to be involved in agricultural production, though many of them are not engaged in such work full time. However, this also indicates that incomes in agriculture are very much lower than in the industrial and the service sectors. Given the aridity of the area, barely 6,000 hectares (14,827 acres) can be farmed even with irrigation, though only 500 hectares (1,236 acres) are under permanent cultivation. Crop production is mostly limited to fruit and vegetables. Several market garden plots have been established and are provided with water by 50 wells (18 of which were provided by Saudi Arabia since independence), though many of these wells have fallen into disrepair.

Livestock has always been more important than farming in Djibouti, but animal husbandry is highly susceptible to droughts. Droughts in the 1970s and 1980s cost some of the nomads their entire herds. The Food and Agriculture Organization (FAO) estimates the number of animals in Djibouti at 200,000 cattle, 500,000 sheep, 500,000 goats, and 62,000 camels.

Djibouti has a short coastline, but there is an estimated fish catch of 7,000 to 9,000 metric tons per year. Most of the catch is caught by large-scale industrial trawlers, many of which are foreign owned. Only 500 metric tons per year are caught by traditional methods by approximately 140 small vessels. About two-thirds of the fish catch is exported, with Djiboutian fish consumption at 3.5 kilograms (7.7 pounds) per person per year. The fishing port is being upgraded with African Development Bank money to try to raise the catch.

INDUSTRY

No minerals are mined in Djibouti, despite the fact that perlite (on the Ergelaba plateau), limestone, gypsum (located at Ali Sabieh), and high magnesium content diatomites (present at Lake Assal) have been found by surveys. In 1997, a U.S. company received a license to prospect for gold, although it is unclear if deposits exist.

Manufacturing is small, providing only 5 percent of the GDP, with only 13 companies employing more than 10 people in 1989. The most important producers in the industrial sector are the water bottling plant, the dairy plant, the Coca-Cola plant, the flour mill, and the ice factory. All of them closed during the civil war, however, and many remain idle. Privatization of **parastatal** enterprises is being discussed as part of economic reforms.

Construction has been depressed by low industrial activity and by the fact that most people in Djiboutian towns live in shanty areas, despite some state housing and donor-funded sanitation schemes. The reconstruction of the port and the airports will be major projects in the near future.

SERVICES

The main high-income activities in Djibouti are located in the services sector, in port and transportation services, government administration, and in providing services for the considerable contingent of French troops and their dependents.

The port and transportation services are, however, particularly vulnerable to political developments in the region. The French were aware of the strategic importance of Djibouti—located at the mouth of the Red Sea and in a position to control access to the Suez Canal—when they took possession of the territory in 1859. The importance of Djibouti to France was enhanced when a French company constructed the railway from Djibouti to Addis Ababa, the capital of Ethiopia. Ethiopia is a large country, both in terms of population and geographical area, and the railway through Djibouti was for many years the only practical link Ethiopia had with the coast. When the Italians occupied Ethiopia in 1935, they constructed a road from Asab in Eritrea (an Italian colony) to Addis Ababa, which ended Ethiopia's near total reliance on the railway. This road proved to be a sound strategic move on the part of the Italians since Italy and France found themselves on opposite sides during World War II. The existence of the road led to neglect of the railway, and, in turn, a stagnation of the services provided by the port and the railway. This slow down was exacerbated by the paralysis of the Ethiopian economy under the **Marxist** regime in the 1970s and 1980s. The demand for

Djibouti's port services began to recover with the fall of the Ethiopian Marxist regime in 1991 and the resulting restoration of economic growth and external trading links. When Eritrea became independent in 1993, Ethiopia became landlocked and entirely dependent on surface transport links through either Djibouti or Eritrea. The outbreak of the border war between Eritrea and Ethiopia in 1998 led to a complete reliance of Ethiopia on Djibouti, and this business has been a big boost for the Djibouti port and railway sectors. There will undoubtedly be some reconciliation between Eritrea and Ethiopia at some stage in the future, so the task for Djibouti is to establish a level of efficiency in their port and railway services so that they can be competitive with the road link through Asab when Ethiopia eventually resumes use of this route.

Likewise, the income generated by the French troops and their families is dependent on how the French see their role as a world power and, particularly, the nature of their involvement in Africa. The reduction in French forces stationed in Djibouti is a reflection of the reduced emphasis that France is currently placing on its role in Africa.

Djibouti is effectively a city-state; there is little banking outside of the capital. A number of banks have been established in Djibouti, most of which are French-owned or backed. The central bank is the Banque National de Djibouti. The formal **retail** and wholesale sectors are in private hands, and the role of French companies in the economy is in decline. Since 1997 there has been an increase in Ethiopian business near the port. The potential for tourism in Djibouti has not been exploited.

INTERNATIONAL TRADE

Merchandise exports, including reexports, were valued at $260 million in 1999, and merchandise imports, including goods for reexport, at $440 million. Excluding the reexport trade, Djibouti exported $16 million of domestically produced goods and imported $24 million of goods for domestic use in 1998. The trade gap is met by the receipts from the port and transport services supplied by Djibouti and the earnings from the presence of French troops.

Locally produced merchandise exports are limited to livestock and hides (21 percent), miscellaneous manufactures (20 percent), and coffee products (11 percent), with all the other exports (48 percent) not classified according to category. The reexports are predominantly coffee from Ethiopia, fish caught by foreign fishing fleets, livestock, meat products and hides from Somalia, and manufactured goods reexported to Ethiopia. The main destinations of domestically produced exports are Somalia (53 percent), Yemen (23 percent), and Ethiopia (5 percent).

Imports for domestic use consist mainly of foods and beverages (39 percent); machinery, metals, and vehicles (20 percent); fuels (13 percent); and qat (13 percent). Qat is a mild but legal stimulant that is chewed. Official trade statistics do not reflect the level of the informal trade with Ethiopia and Somalia, much of which involves the smuggling of qat. In 1998, the main sources of imports for domestic use were France (13 percent), Ethiopia (12 percent), Italy (9 percent), Saudi Arabia (6 percent), the United Kingdom (6 percent), and Japan (4 percent).

MONEY

The Djiboutian franc has been tied to the U.S. dollar since 1973 at Dfr 177.72:US$1, which allows for considerable stability, although the Djiboutian franc has experienced a steady climb against the French franc. Foreign reserves have been steady during the 1990s and stood at $66 million in 1998. **Devaluation** of the Djiboutian franc seems unlikely in the foreseeable future. The Banque Nationale de Djibouti, the central bank, controls the money supply through the issue of currency and regulates the commercial banks.

Trade (expressed in billions of US$): Djibouti

	Exports	Imports
1975	.015	.140
1980	.012	.213
1985	.014	.201
1990	.025	.215
1995	N/A	N/A
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Djibouti

Djiboutian francs per US$1	
Jan 2001	177.721
2000	177.721
1999	177.721
1998	177.721
1997	177.721
1996	177.721

Note: Djibouti currency has been at a fixed rate since 1973.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Djibouti	N/A	N/A	N/A	N/A	742
United States	19,364	21,529	23,200	25,363	29,683
Egypt	516	731	890	971	1,146
Eritrea	N/A	N/A	N/A	N/A	175

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

Per capita GDP, using the purchasing power parity conversion, was estimated at $1,300 in 2000. There are wide disparities between those who are engaged in modern sector activities in the town of Djibouti and the rest of the population, which mainly consists of shanty-dwellers relying on the informal sector, rural farmers, and nomadic shepherds. Perhaps 80 percent of the people who rely on agriculture for their livelihood are below the US$1 per day poverty line, meaning that approximately 60 percent of the total population live in poverty. Of an estimated **labor force** of 282,000 in 2000, formal unemployment stands at 50 percent, although many of the unemployed are engaged in informal sector activities

In 1987, government statistics indicated that 66 percent of the population were able to read, but in 1995 a new estimation measured the literacy rate of the population over 15 years of age as 46 percent (males 60 percent; females 33 percent). In the period from 1991 to 1992 there were 33,500 pupils, 66 schools, and 707 teachers in primary education. In 1996, the total enrollment at primary and secondary schools was equivalent to 26 percent of the school-age population. Education is limited primarily to urban areas, where teacher strikes are frequent. There is no university in Djibouti, and technical skills are often found lacking.

Life-expectancy estimates are 49 years for males and 53 years for females in 2001. Infant mortality stands at 102 per 1,000, which marks an improvement from the past but is still a long way from what can be achieved (the U.S. rate is 7 per 1,000). There is a 600-bed hospital in the capital and a 60-bed maternity and pediatric hospital in Balbala. There are 6 medical centers and 21 dispensaries cover the interior of the country. Virtually all medicines can be obtained, but since they must be imported they are expensive. The large prostitute population, attracted by the French troops stationed in Djibouti, leads to a high incidence of sexually transmitted diseases, including HIV.

WORKING CONDITIONS

The labor force in 1991 was estimated at 282,000. However, 50 percent of the labor force was thought to be unemployed in 2000. Of those who had employment, around 75 percent were engaged in agriculture, almost entirely on small family farms or in family-based cattle herding. The largest single employer in the formal sector is the civil service, with an estimated 10,000 employees. The rest of the state-owned sector (which includes the port, railway, posts, telecommunications, and utilities) employs an estimated 16,000 people. Many people seek work in the government sector since it entails considerable job security, family medical benefits, and a pension. Forced labor is illegal in Djibouti.

There is a social insurance scheme in Djibouti with benefits, which depend on whether the worker is employed in the **private sector**, the civil service, or the army. Employees receive benefits in case of accidents at work and are allocated retirement pensions after the age of 55 years.

Trade unions and workers can be militant, as was shown in 1996 when proposed budget cuts caused a general strike and civil unrest. The government also has often built up salary arrears that have led to discontent among the workforce.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1859. The French first take possession of the coastal settlement of Obock.

1917. The Franco-Ethiopian railway from Djibouti to Addis Ababa is completed.

1977. Djibouti becomes independent. Hassan Ghouled becomes the first president.

1977–1988. The Ogaden War between Somalia and Ethiopia adversely affects Djibouti's economy.

1981. Ghouled is returned as president in an uncontested election.

1987. Ghouled is returned as president in an uncontested election.

1991. Civil war with the Afars commences in the North. The rebel group FRUD is formed.

1992. Multiparty elections under a new constitution return Ghouled and his RPP party.

1994. A peace accord is signed, ending the 3-year uprising by Afar rebels.

1996. Proposed budget cuts cause a general strike and civil unrest.

1997. Multiparty elections return the FRUD-RPP alliance with Ghouled as president.

1998. A border dispute between Ethiopia and Eritrea leads to an increase in trade through Djibouti.

1999. The successor to Ghouled, Ismael Guelleh, wins the presidential election.

FUTURE TRENDS

The key factors for the Ethiopian economy are the amount of Ethiopian trade passing through the port and the size of the French garrison. Despite the interim settlement between Ethiopia and Eritrea, almost all of Ethiopia's trade still flows through Djibouti, and this situation is likely to continue for the foreseeable future. Domestic political pressure to maintain employment levels in the **public sector** is likely to limit the pace of economic reform through privatization, despite IMF pressure. Delegation visits by the IMF have not resolved concerns over the lack of financial transparency and the poor availability of data, and this will impair the prospects for financial assistance from the donor community. The economy is not expected to show much significant growth in the near future, with the expansion of the use of port facilities by Ethiopia being offset by the scaling-down of the presence of French troops.

In politics, Guelleh received praise for having convened the Somali peace conference. Full relations have been restored with Eritrea, and there is now the prospect of more stable relations in the area. If peace comes to Somalia, it will reduce tensions caused by the influx of Somali refugees as the refugees begin to return home.

DEPENDENCIES

Djibouti has no territories or colonies.

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—Michael Hodd

EGYPT

Arab Republic of Egypt
Jumhuriat Misr al-'Arabiyah

CAPITAL: Cairo.

MONETARY UNIT: Egyptian Pound. One hundred piastres equals one Egyptian pound. Notes are in denominations of 1, 5, 10, 20, 50, and 100 pounds, and coins in denominations of 5, 10, 20, 25, and 50 piastres.

CHIEF EXPORTS: Crude oil and petroleum products, cotton, textiles, metal products, and chemicals.

CHIEF IMPORTS: Machinery and equipment, foodstuffs, chemicals, wood products, and fuels.

GROSS DOMESTIC PRODUCT: US$200 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$4.6 billion (f.o.b., 1999 est.). **Imports:** US$15.8 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Arab Republic of Egypt is located in North Africa, bordering on the Mediterranean Sea to the north, Libya to the west, the Gaza Strip to the east, and Sudan to the south. With an area of 1,001,450 square kilometers (386,659 square miles) and a coastline of 2,450 kilometers (1,522 miles), Egypt is slightly more than 3 times the size of New Mexico. Egypt's capital city, Cairo, is located in the north of the country.

POPULATION. The population of Egypt was estimated at 69,359,979 in July of 2000, an increase of 17,115,079 from the 1990 population of 52,244,000. In 2000, Egypt's birth rate stood at 25.38 per 1,000, while the death rate was reported at 7.83 per 1,000. With a projected annual growth rate of 1.5 percent between 2000 and 2015, the population is expected to reach 92 million by the year 2030.

Egypt's population is the largest in the Arab world, and is generally young, with 35 percent below age 14 and just 4 percent older than 65. Almost 50 percent of the population is below 20 years of age and 39 percent under 15, presenting a real challenge to government in creating job opportunities. The vast majority of the population—94 percent—is Sunni Muslim. Coptic Christians, and other smaller religious groups represent 6 percent of the population, while smaller minorities—primarily Nubians, Armenians, and other Europeans—make up approximately 1 percent of the population.

A large number of Egyptians—44.9 percent in 1998—live in urban areas. The capital city of Cairo and its suburbs is home to the largest concentration of Egyptians, with a population of almost 7 million. Other major cities include Alexandria, which has a population of 3.3 million, and Port Said, with 469,000 inhabitants. Migration from rural to urban areas presents a serious problem for policy planners due to the heavy stress it places on services in major cities. Egypt is over-populated and continuing population growth places a major strain on land and resources alike. Most Egyptians are concentrated in the Valley and Delta of the Nile River, areas that account for only one-third of the entire land surface of Egypt. The rest of the country is largely uninhabited desert.

Family planning policies were first adopted in the 1950s, but it was not until the mid-1980s that a government family planning body, the National Population Council (NPC), was established. The country's population policy has addressed multiple issues, focusing on the promotion of primary health care, encouragement of family planning in rural areas, and the reduction of infant and maternal mortality. The annual population growth rate has dropped dramatically in recent years, reaching 1.9 percent in 1998. The drop can be credited to carefully designed and well-financed family planning policies adopted since the mid-1990s by the government of President Mubarak. In 1995, the Family Planning Association (FPA) was formed to complement government health services and to provide family planning services through its clinics and voluntary organizations. In conjunction

with the ministries of health and social affairs, the FPA also carries out programs to educate the general public about reproductive issues.

OVERVIEW OF ECONOMY

Egypt's economy improved dramatically in the 1990s as a result of several arrangements with the International Monetary Fund (IMF) and the move by several, mainly Arab, countries to relieve a large proportion of its debts. These decisions were primarily to reward Egypt for its stand with the U.S.-led coalition against Iraq in the 1990–91 Gulf War. Since that time, Egypt has managed to maintain positive growth rates. **Inflation** has been kept down, the country's **budget deficit** decreased, and its foreign reserves increased, while **gross domestic product** (GDP) has averaged annual growth of 4–5 percent. Despite the slow pace of **privatization** and new business law enactment mandated by the IMF reform program, the country has succeeded in attracting foreign investment by moving towards a market-based economy. Having successfully stabilized the economy since 1995, the government embarked on a privatization plan in 1997 aimed at expanding the role of the **private sector**.

In spite of this considerable economic progress, the Egyptian government continues to face serious challenges. Egypt's economic growth has slowed down since

1998, partly due to the economic crisis in Asia, but also as a result of huge government investment in large-scale **infrastructure** projects. The **recession** that affected Gulf economies in 1998 and 1999 also impacted Egypt's economy, with lower oil prices causing a drop in **remittances**—traditionally a major source of foreign currency—sent home by Egyptian workers in the Gulf region. Tourism receipts also fell in reaction to the wave of terrorist acts waged by Islamic militants in Egypt, thus causing a further decline in the levels of foreign exchange. The government's reluctance to relinquish its shares in state enterprises has further contributed to the slowdown in the Egyptian economy since 1998. Little progress has been made in **deregulating** the largely state-run economy, or in bringing about legislative reforms and structural overhaul, ranging from **tariff** reduction to wholesale reform of the collapsing education system.

Egypt entered the twentieth century as a British protectorate, heavily dependent on agriculture—mainly cotton production—which accounted for 90 percent of its exports in 1914. The British fostered the development of a small industrial base, mainly concerned with processing raw materials, but further industrial development was stifled by a British trade policy that focused on selling British products at the expense of local goods. Although Egypt was granted independence in 1922, Britain continued to control the country in an alliance with the Egyptian monarchy until 1952, when a group of young army officers overthrew King Farouk. In 1954, Gamal Abdel Nasser ousted the first president Muhammad Maguib and became a popular and influential leader.

Since gaining independence from Britain, Egypt has struggled to rid itself of the feudal economic system left behind by the British and to create an independent economy capable of standing on its own. By the end of the twentieth century, Egypt had not yet achieved a vibrant economy and remained heavily dependent on foreign aid and imported goods.

Today, Egypt is primarily a free-market economy with some state control. Despite occasional outbreaks of political violence, it has a reasonably stable multiparty system and is strongly supported by the United States and the European Union. The economy's main exports are crude oil and petroleum products, cotton, textiles, metal products, and chemicals. Agriculture today accounts for 17 percent of GDP, industry for another 32 percent, while the services sector provides 51 percent.

Egypt is the world's largest exporter of cotton and its textile industry is large. Other industries include the production of cement, iron and steel, chemicals, fertilizers, rubber products, refined sugar, tobacco, canned foods, cottonseed oil, small metal products, shoes, and furniture. Although the agriculture sector continues to employ almost one-third of the **workforce**, most of the arable land is used to cultivate cotton, and Egypt must import about half of its food requirements. Unemployment in 1998 was reported at 20 percent, and the income disparity between the highest and lowest strata of society remains high. By contrast, unemployment in the United States in 1999 was just 4.2 percent.

Since the 1950s, foreign aid has played a major role in Egypt's development processes. As a **socialist** country, Egypt received much financial and military assistance from the former Soviet Union between 1952 and 1970, but this ended in the 1970s after Egypt signed a peace treaty with Israel. Following Egypt's defeat in the 1967 war with Israel, the Arab states of Kuwait, Saudi Arabia, and Libya provided Egypt with US$221 million annually, increasing to a total of US$1 billion annually between 1973–1979. Arab support, mainly from the Gulf states, was frozen in 1979 because of Arab opposition to Egypt's 1978 peace treaty with Israel.

From 1979, the United States emerged as Egypt's main source of economic aid. This was seen, in large part, as a reward for Egypt's warmer attitude toward Israel, as well as to assist the country in meeting the demands of the extreme economic and political challenges it was facing. Between 1979 and 1998, Egypt received US$815 million annually from the United States. Since 1999, the level of U.S. aid has gradually decreased, reaching US$727 million in 2000 and US$695 million in 2001. Aid levels are expected to decrease further, to US$400 million over a 10-year period. U.S. aid to Egypt has come in the form of development assistance for infrastructure programs, job creation, education, democracy and governance, and in incentives for enlarging the private sector.

Arab aid to Egypt resumed in 1987 with the restoration of diplomatic relations. In 1990, Egypt was rewarded for its pro-Kuwait stand during the Gulf War with the write-off of its US$7 billion in debt to the United States. Although support from Arab sources has declined since the end of the Gulf War in 1991, U.S. and European aid has increased in support of the Euro-Med **free-trade zone**, to be set up by the year 2010.

According to the U.S. State Department *Country Commercial Guide* for 2001, government bureaucracy is a major impediment to the conduct of business in Egypt. Red tape permeates all government ministries and the commercial court system. Corruption is also widespread at all levels of the **public sector**, largely as a result of low wages and difficult living conditions.

POLITICS, GOVERNMENT, AND TAXATION

Egypt has had 3 presidents since the 1954 revolution that brought popular president Gamal Abdel Nasser to

power. Between 1954 and 1970, Nasser attempted to institute socialist economic principles on the Soviet model, and actively sought to industrialize an agriculture-based economy. Internally, Nasser dismantled the political and economic power of the landed class by **nationalizing** land previously owned by rich feudal landlords and distributing it to the poor. During those years, the government spearheaded a campaign to improve the lot of the working class and the peasants, who were offered free education and employment opportunities. Although the economy grew at an acceptable rate in the initial years, the failure of Nasser's socialist policies became evident toward the end of his rule, especially after the 1967 war in which Egypt lost parts of the Sinai desert to Israel. Military expenditure consumed about 25 percent of **gross national product** (GNP) under Nasser, while a rapidly growing population began to place additional pressures on the state.

Under President Anwar Sadat (1970–81), Egypt began its move toward a market-based economy. In April 1974, Sadat announced a new economic policy that came to be known as "infitah," or open-door policy. This policy brought the relaxation of currency regulations and led to a remarkable increase in foreign investment and a larger economic role for the private sector. In 1977, acting on the advice of the World Bank, Sadat lifted **subsidies** on flour, rice, and cooking oil and canceled bonuses and pay increases. These actions, in the face of growing disillusionment at the infitah policy, which allowed only a handful of people to accumulate wealth, led to a wave of popular protest across the country on 17 January 1977. As a result of the 2-day clashes in which 800 people were killed and several thousands more wounded, the government was forced to back down on the price increases while retaining 10 percent wage increases and other benefits for public sector employees.

In 1981, President Sadat was assassinated by fundamentalists of the Islamic Jihad group, who disagreed violently with his policies. He was succeeded by his vice-president, Hosni Mubarak, who was still holding office in 2001. The threat of growing popular dissatisfaction explains the economic reforms chosen by the Egyptian government since 1990. In 1991, Islamic groups began pressing for a strict Islamic state that would shun Western values and lifestyles. Their quest to overthrow the government includes demands for restrictions on freedom of expression, liberal education, and secular laws. These groups have resorted to violent means to overthrow the government, and have mostly targeted government installations and the tourism sector. The government has cracked down hard on the Islamists since 1994 but, although the threat from many of these groups has abated since 1998, they nevertheless have continued to be a source of much concern to the government and a serious impediment to foreign investment.

Since taking office in 1981, President Mubarak has demonstrated commitment to the program of economic reform that President Sadat charted for the country in the mid-1970s. At the time Mubarak came to power, the economy was faltering under the weight of massive **foreign debt**. Unable to meet its payments, the Mubarak government was forced to reschedule US$6.5 billion in debts to the IMF and the Paris Club (an informal group of official creditors comprising the world's largest countries) in 1987. It was not, however, until 1991 that the government, faced with a growing Islamic threat, began concentrating all its efforts on economic reform. The results of the reform program have been promising. According to the U.S. State Department *Country Commercial Guide* for 2000, the public debt has fallen from $40 billion to $30 billion, the Egyptian pound is stable, and inflation is under control. Further, foreign reserves reached an all-time high in 1997 and the budget deficit was slashed. Egypt's heavy debt burden accumulated during the 1980s had been reduced from $31 billion to $19 billion by 1998.

Politically, Mubarak allowed parliamentary elections in 1984. However, for most of the last 25 years, Egypt has been governed by a single party, the National Democratic Party. Although the national constitution describes Egypt as a "democratic, socialist state," in reality it is not much of either. While it is not a dictatorship, the government is an authoritarian one, given legitimacy by being elected. Egyptian voters elect a 448-member *Majlis al-Sha'ab* (People's Assembly), which, in turn, elects a president who wields wide powers during a 6-year term. The president appoints the vice-president and all ministers, and can be re-elected for additional terms. However, given that emergency powers—first put into effect shortly after the assassination of President Anwar Sadat—were extended for a further 3 years in February 2000, the current regime and the security forces behind it have far more power than the constitution allows.

There are a total of 13 legal political parties, the most important of which include the New Wafd (Delegation) Party, the Socialist Labor Party, the Umma Party, and the Socialist Liberal Party. However, since its creation by Sadat in 1978, the New Democratic Party (NDP) has maintained an unequaled nationwide party machine and an iron grip on the Assembly, and thus on the presidency. The ruling NDP won an overwhelming majority in the 1996 and 2000 parliamentary elections, as well as in the April 1997 local and municipal elections, although opposition candidates and many foreign observers alleged vote rigging and intimidation at the ballot boxes.

Since the late 1990s, the Islamic movement known as the Ikhwan al-Muslimin (The Muslim Brotherhood) has made substantial inroads into the political establishment, but is largely held at bay by the NDP. The Brotherhood is

officially banned by Egyptian law, which prohibits political parties founded on a religious basis. However, Islamist candidates do campaign under the auspices of legal opposition parties, such as the Socialist Labor Party, a practice quietly **sanctioned** by the government. Although the official presence of the Brotherhood is still minor, it maintains a powerful grassroots movement and has captured control of nearly every professional organization in the country, including the influential Lawyers' Association.

The judicial system in Egypt has been fairly independent from the executive branch of government. Although freedom of expression is to some extent tolerated, the media—including newspapers, magazines, and periodicals—are subject to censorship. The government owns all domestic television and radio stations.

Between 1952 and the mid-1970s, the military emerged as the strongest institution in Egypt and, as a result, played a major role in its politics and economy. Egypt's large professional army, which numbers 450,000 personnel, was created in the 1950s as a deterrent force against Israel and today represents 1 percent of the population. However, unlike other developing countries, the military's role in Egypt has not been politically disruptive. Its political role, in fact, greatly diminished over the last 2 decades of the twentieth century, particularly as the country moved toward political **liberalization** in the mid-1980s. Although the military has opted to stay out of the government's confrontation with Islamic militants opposing the state, it continues to form the backbone of the regime and enjoys great privileges. Since the early 1990s, however, the military's economic involvement has expanded into 4 major areas: military industries and arms production, civilian industries, agriculture, and national infrastructure.

Taxes are a major source of state revenue, contributing approximately one-third of the government budget, and 16.6 percent of GDP. Taxes come in a variety of forms, including **income tax**, which accounts for 22 percent of the total tax revenue, and taxes on goods and services, which account for another 17 percent. Tax increases are expected in the coming years, but, aware of the potentially disruptive political implications of such a course, the government has been reluctant to burden the Egyptian populace with further taxes.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Egypt's infrastructure is relatively underdeveloped. The country is serviced by a network of over 64,000 kilometers (39,769 miles) of primary and secondary roads, 49,984 kilometers (31,060 miles) of which are paved. Despite the modernization of the road system in the 1980s, most roads remain in poor condition or under construction. With growing numbers of licensed automobiles in the 1990s, the road system, especially in urban areas, has become highly congested, and is a major safety concern. According to the EIU *Country Profile,* "Egypt reports the highest incidence of traffic fatalities in the world: 44.1 deaths per 100,000 kilometers driven in 1994." Egypt's aging state-owned railway system, which has 9,400 kilometers of tracks (5,841 miles) is old by regional standards and in need of upgrade. The sector is slated for privatization. Cairo's new metro system, opened in 1987, is one of the most heavily used systems in the world, carrying some 1.4 million passengers a day.

Egypt has a total of 90 airports. Egypt Air, the country's official airline, carries some 4.6 million passengers, roughly 25 percent of international air traffic, and an estimated total of 87,240 metric tons of freight annually, but has a poor service record and is generally unreliable. Egypt has 3 major ports, at Alexandria, Port Said, and Suez, and 3,500 kilometers (2,175 miles) of waterways, divided between the Nile and the canals.

Electrical power is supplied to Egyptians by the state-owned Egyptian Electricity Authority (EEA), which

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Egypt	40	324	122	N/A	1	0.5	9.1	0.28	200
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Saudi Arabia	57	321	262	N/A	31	N/A	49.6	1.17	300
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

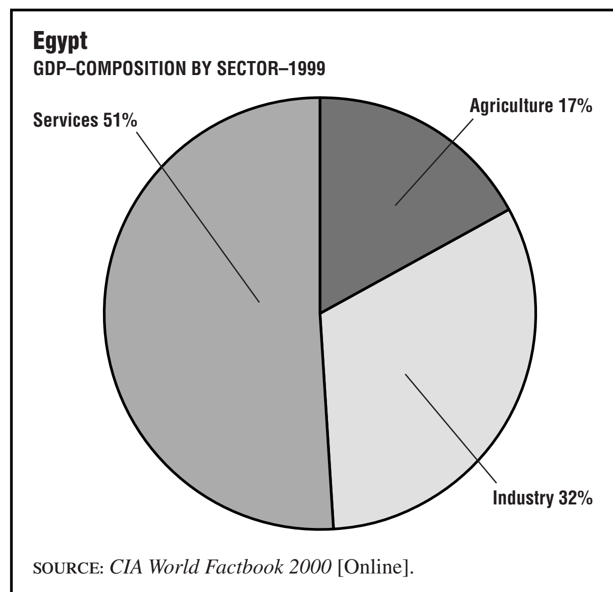
SOURCE: World Bank. *World Development Indicators 2000.*

has the capacity to produce 15,000 megawatts of power, 80 percent of which are from natural gas. Plans are underway to expand power production by an additional 1,950 megawatts by 2002. Power consumption has been growing at the rate of 5.6 percent year, and EEA plans to invest some US$4.5 billion in the coming years to boost the country's power generation capacity.

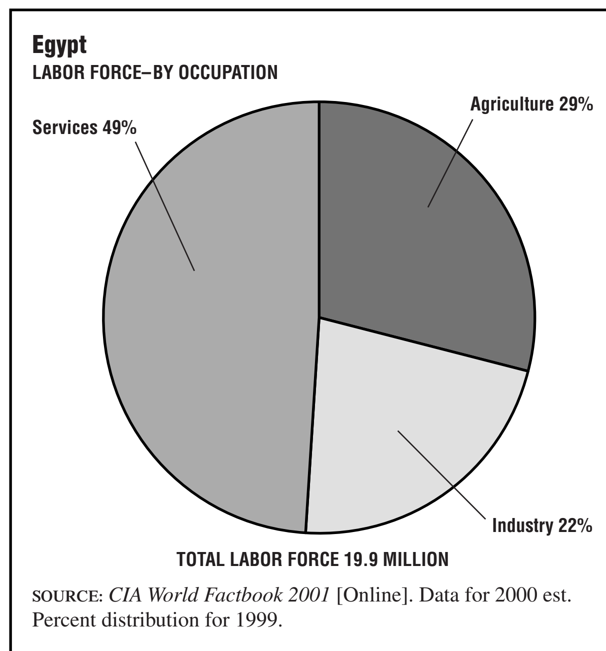
Telecommunication services in Egypt are thoroughly modern. Telephone service is provided by the state-owned Telecom Egypt. According to the EIU *Country Profile* for 2000/2001, the country has some 6.5 million lines, and has been adding new ones at the rate of 1 million per year. In 2000, Egypt had over 60 local Internet service providers.

ECONOMIC SECTORS

Egypt's economy is the second largest in the Arab world (after Saudi Arabia) and its economic sectors reflect its size. The service sector is by the far the largest and fastest-growing economic sector and accounts for almost 51 percent of GDP. Tourism, trade, banking, and shipping services on the Suez Canal constitute the main sources of service sector revenue. Both tourism and the Suez Canal were hit hard by Islamic violence in the 1990s, with tourism in particular suffering badly after the 1997 Luxor attack, in which 58 foreigners were killed by Islamic militants. The massacre is estimated to have cost the tourism sector 50 percent of its annual US$3.7 billion revenues in 1998, when foreign visitors stayed away from the country. The government has moved to aggressive promotion of domestic tourism to compensate for the loss of foreign tourism, and managed to restore more than 60 percent of the pre-1997 tourist traffic by late



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1999.

1999. The sector's performance improved dramatically in the first 2 quarters of 2000, growing by 43 percent on the previous year. The prospects of recovery in the Suez Canal sector, however, have been less promising, with growth in that area rather slow, despite government plans to revive it.

Industry is the second-largest economic sector in Egypt, and accounted for 32 percent of GDP in 1999. Some 13 percent of the total labor force is employed in industrial activity, which is concentrated in Cairo and the Nile delta. Major industries include the production of petroleum and petroleum products, accounting for roughly 7 percent of GDP and providing a major source of foreign currency. The sector's contribution is heavily dependent on the performance of the world's oil markets, and fluctuates accordingly. The growth in domestic energy demands in the 1990s has placed constraints on Egypt's petroleum exports, leading to a downturn in net revenues. The construction industry has become one of the fastest-growing sectors of the economy, thanks in large part to huge government infrastructure and modernization projects. Overall, the industrial sector's contribution has increased as a result of the government's efforts towards privatization.

Even though arable land accounts for only 3 percent of the country's overall land area, agriculture remains one of the most important sectors of the economy, employing roughly 40 percent of the labor force. However, agriculture's contribution to GDP declined from 20 percent in 1986–87 to 17 percent in 1999, and the number of workers in the sector decreased steadily during the 1990s.

AGRICULTURE

Even though its contribution to GDP has declined considerably in the last 15 years, from 25.6 percent in 1985–86 to 17 percent in 1999, agriculture remains a significant contributor to Egypt's economy, accounting for 20 percent of commodity exports. In 1998, according to the CIA *World Factbook* for 2000, 40 percent of the labor force was employed in the agriculture sector.

Cotton has been the country's largest agricultural export product for many years. The proportion of land cultivated with cotton has dropped significantly over the last 4 decades, from 924,000 hectares in 1962 to 227,000 hectares in 2000–01. For most of the century, cotton has been heavily subsidized by the government. These subsidies, however, were lifted in the mid-1990s and, as a result of higher cultivation costs, cotton exports have dropped from 121,500 metric tons in 1993–94 to only 45,000 metric tons in 1996–97.

In an attempt to reverse this trend, the government moved to raise the purchase price of cotton above international market levels. This was coupled with a move to import lower-grade cotton in March 1996 to allow for the export of better-quality cotton, and the full liberalization of the cotton trade in 1998–99. Higher price incentives have led to increased production and higher export deliveries, but the cotton trade is threatened by dwindling acreage.

Wheat and rice outputs have grown dramatically since the early 1990s, particularly since 1994 when all subsidies for fertilizers, seeds, and pesticides were lifted. The result has been self-sufficiency in several important commodities. Today, 95 percent of the wheat and rice crops are used to satisfy domestic consumption but, despite increased output, Egypt continues to be a large importer of food, especially agricultural products. Imports of wheat rose by 8 percent in 1996–97 and have generally accounted for more than a quarter of total imports.

Egypt's agricultural sector remains one of the most productive in the world, despite the small area of arable land and irregular and insufficient water supplies. Farmers do not have to pay for water used in irrigation. Since the construction of the Aswan Dam on the Nile river, the sector's development has been hindered by the problems of waterlogged soil and soil with a high salt content. Drainage efforts have proved insufficient to counter the harmful effects of these 2 factors to the sector's performance. Since the mid-1980s, the government has attempted to reclaim the desert for cultivation, and has managed to successfully reclaim some 1 million acres of desert. Plans are underway to reclaim an additional 3.5 million acres by the year 2017 with the South Valley Development project near Lake Nasser. These efforts, however, are countered by the fast pace of urban and industrial expansion, which has been claiming an average of 31,000 acres a year.

INDUSTRY

MINING. Egypt's main mining activity revolves around the extraction of crude oil. The country is not a major producer of oil, and its reserves are small by regional standards. According to the EIU *Country Profile* for 2000–01, oil reserves were estimated at around 3.8 billion barrels in July 2000; in comparison, Saudi Arabia has over 260 billion barrels of proven and unproven reserves. Until 1998, Egypt produced an average of 880,000 barrels a day of crude oil, the majority of which was refined domestically, but production has steadily declined since 1998, mainly due to the depletion of the main oil fields. In July 1998, production reached 840,000 barrels a day, but had declined to 787,660 barrels a day in 1999.

Despite declining production, however, oil remains a significant source of government revenue and export earnings. The decline in crude oil exports in recent years has been mainly due to rising domestic demand and depressed world oil prices in 1998. As a result, crude oil exports, which accounted for 55 percent of overall export earnings in 1992–93, accounted for only one-quarter of overall export earnings in 1998–99.

Most oil production is concentrated in the Gulf of Suez, which produces 79 percent of Egypt's oil. Oil exploration activity is also taking place in the Western Desert near the Libyan border, offshore in the Mediterranean, and in the Sinai Desert. Unlike their neighboring Arab countries, where the state maintains full control of the oil industry, Egypt's oil production is dominated by foreign companies, working in conjunction with the state-owned Egyptian General Petroleum Corporation. The bulk of oil exploration activity is undertaken by large foreign companies, mainly British Petroleum and the Italian company AGIP. In recent years, the government has awarded exploration rights to a number of small local companies, but their presence is minimal in comparison to the foreign giants.

According to the EIU *Country Profile* for 2000–01, Egypt is one of the largest producers of refined oil goods in Africa, producing 35 million tons of refined goods annually. Refineries are based in Suez and Sidi Keir. Output in the sector has increased since 1994, when the private sector was allowed to enter the refineries business.

In addition to the extraction of crude oil, Egypt has natural gas reserves estimated at 45 trillion cubic feet, while potential reserves were estimated at a further 75 trillion cubic feet in year 2000. So as to increase oil exports, the government has adopted a policy of promoting the use of natural gas for domestic consumption. Gas

production is mostly concentrated in the Nile delta region and the Western Desert, and is mostly used for power generation. Natural gas production is expected to rise in the coming years as the government concludes several agreements with its neighbors, mainly Israel, Jordan, and the Palestinian Authority. In July 2000, the government signed an agreement with the Spanish electricity company Union Fenosa to supply almost 25 percent of Spain's annual natural gas consumption.

Most of Egypt's coal reserves are located in Sinai and are estimated at 50 million tons. Egyptian coal, however, is of poor quality, and previous plans to increase production have been abandoned due to the sector's lack of economic viability. Egypt also produces limestone and phosphates, which are mined near Bur Safaga and Quseir on the Red Sea, and iron ore is extracted at the Baharia oasis in the Western Desert. Other minerals, such as manganese, gold, zinc, tin, lead, copper, potash, sulphur, and uranium, can also be found in Egypt, but their mining is limited because of the high cost involved in their exploitation and transportation.

MANUFACTURING. The manufacturing sector is an important and growing contributor to the Egyptian economy, with production dominated by large state-owned enterprises. Industrial activity grew rapidly in the 1970s and early 1980s as a result of the oil boom in the Gulf and the influx of large Arab investments in Egypt, recording an annual growth rate of 10 percent or more. Growth, however, has since slowed down, although the private sector has expanded since 1996, and its contribution has increased dramatically as a result of economic liberalization. By contrast, growth in the public sector's industrial production has declined sharply, mainly thanks to the legacy of centralization and inefficiency that characterizes state-controlled manufacturing industries. One example is textile manufacturing, once one of the largest industries in Egypt. The sector, which continues under state **monopoly**, has been largely inefficient, and beset by problems ranging from the lack of modern machinery to over-employment of workers. By contrast, the privately owned ready-made garment industry has been booming.

Egyptian companies produce a wide range of goods. Textiles and food processing account for the largest share of Egypt's manufacturing revenue. Other manufactured goods include furniture, ceramics, and pharmaceuticals. The termination of public sector monopoly over the production of automobiles in 1991 has led to a considerable growth in the car assembly sector. Egypt has a fledgling computer software industry that the government has encouraged. Heavy industries, including iron and steel production, are based in Helwan, outside Cairo, and in Dikheila, near Alexandria. Aluminum production is based in Nag Hammadi, while the production of chemicals is concentrated in Aswan. Since the 1970s, the government has attempted to encourage industrial production in non-agrarian regions in order to relieve the congestion in the main cities. As a result, 7 free zones (areas within which goods are received and stored without payment of **duty**) have been established throughout the country, and industrial production in those areas is subject only to minimal regulations.

The country's large defense industry employs around 75,000 workers. The sector assembles arms for export, mainly to the United States, and manufactures industrial goods for consumption in the civilian sector. Egypt has attempted to capitalize on one commodity where it maintains a significant advantage: cheap labor. The government has moved in recent years to develop an information technology industry, which has been growing at the rate of 35 percent annually. Plans were underway in 2001 to train software engineers and programmers to increase the fledgling industry's potential and to boost computer software export over a 3-year period from US$15 million to US$1 billion.

CONSTRUCTION. The construction sector is a major contributor to the Egyptian economy and one of its fastest-growing sectors. This growth, estimated at an average of 20 to 22 percent annually since the 1980s, is fueled by the ever-increasing demand for housing and by the state's large infrastructure projects. Among these projects are the Greater Cairo Wastewater Project, considered one of the largest sewerage developments in the world, and the US$88.5 billion South Valley Development project, which aims to create an alternative delta along the Nile and relocate urban communities so as to ease the severe congestion in the major cities.

Most of the material required for the construction sector is produced locally. Local cement production, amounting to 24 million tons annually and meeting more than 70 percent of domestic demand, is expected to increase over the coming decade due to heavy government investment in the sector. Private companies have also been allowed to compete in the production of cement, which continues to be dominated by state-owned companies. The construction industry is expected to continue its upward trend in the coming years as a result of continued government and private business expenditure, anticipated to reach 20 billion Egyptian pounds annually.

SERVICES

TOURISM. Despite the drop in revenue as a consequence of political violence, tourism remains a significant contributor to Egypt's economy and the premier source of its foreign exchange earnings. The sector has huge potential, owing to the country's rich archeological heritage, such as the pyramids and other major attractions, as well

as attractive tourist destinations on the Red Sea. The majority of visitors to Egypt, almost 61 percent, come from Western and Southern Europe. Tourists from other parts of the Middle East, especially from the Arab Gulf region, account for 19 percent of the total number, while Americans and Eastern Europeans each represent 6 percent of the total, and Asian visitors make up 5 percent.

The sector's growth has been stifled by periodic Islamic political violence, the absence of adequate facilities, and poor government management of state-owned tourist enterprises. The tourism industry suffered a sharp decline from October 1992, when the militant Islamic movements waged their war to discredit the state. The sector began to recover in 1995, with a record 4 million tourists visiting the country in 1996–97 and generating some US$3.7 billion in tourist receipts. This upward trend was reversed after the November 1997 massacre in which 58 tourists were killed while visiting the Luxor archeological site. The sector has managed to recover quickly, with some 4.8 million tourists visiting the country in 1999, spending some US$4 billion. According to the EIU *Country Profile* for 2000–01, tourism revenue is believed to have risen by 33 percent in 1999–2000, generating a record US$4.3 billion. Plans are underway to achieve a 12 percent growth in the tourism sector by the year 2005 by attracting some 9.5 million tourists annually over the next 5 years. The sector employs some 2.3 million people.

Major international hotels have a presence in Egypt. These include the Four Seasons, Sheraton, Hilton, and Marriott chains, among others, and there are major resort complexes, especially on the Red Sea. The most visible growth area of the tourist industry is the operation of Nile cruises. Dozens of cruise ships, many owned and operated by foreign companies, and particularly popular with British visitors, ply the river between Aswan and Luxor, stopping to take visitors ashore to the major cultural sites of Ancient Egypt. These cruises are accompanied by teams of licensed and highly qualified Egyptian guides.

THE SUEZ CANAL. The other major component of Egypt's service industry is the Suez Canal, which links the Red Sea to the Mediterranean. The canal generates revenue from fees charged for shipping to pass through the canal. Some 13,490 ships passed through the Suez Canal in 1999. Twenty-five percent of the tankers that pass through the canal carry petroleum and petroleum products from the Gulf region to the United States, while the remaining 75 percent carry dry goods. According to the EIU *Country Report* for 2000, revenue from the canal has declined steadily since 1994, down to US$1.7 billion in 1998, from US$2.1 billion in 1994. Despite the government's efforts to promote the Suez Canal, receipts have remained sluggish, largely due to competition from alternative routes and the effects of the economic slowdown in Asia. The government is currently attempting to deepen the canal to accommodate huge tankers, and has changed its pricing policies to make usage of the canal more lucrative to international traffic.

FINANCIAL SERVICES. For an economy of its size, Egypt's banking system is underdeveloped. Most of the services provided by the banking sector remain basic, with the majority of transactions in the country still conducted using cash. Regulatory controls are inefficient, and the banking sector in general is not only overstaffed, but also suffers from a lack of well-trained or experienced employees. State-owned banks suffer from low capitalization and a high percentage of poorly performing loans.

The roots of the banking sector's inefficiency can be found in the nationalization policy implemented by President Nasser between 1957 and 1974. In that period, private banking was banned and only state banks were allowed to operate. State-owned banks still dominate the banking market, even though private banks were once again allowed to operate in 1974. In 1992, foreign banks were allowed to engage in local operations, reversing a policy that had restricted them to foreign currency business since 1974. But it was not until 1995 that foreign banks were allowed a majority ownership in local banks, a right denied them under the previous 1974 regulations. Efforts to reform banking and raise it to international standards are ongoing, with reform focused on improving the regulatory and institutional aspects of the sector. The government, however, has thus far been reluctant to cede control of the financial sector for both financial and political reasons. The privatization of the 4 state-owned commercial banks has been delayed on the pretext of popular opposition to such a move. The commercial banks provide banking and credit services to remote areas, and are profitable partners in the government's large development projects.

The banking sector is controlled by the Central Bank of Egypt, which sets banking and **monetary policies** through the control of interest rates, **liquidity**, and **reserve ratios**. The central bank also sets fees charged for the various transactions conducted in the sector. According to the EIU *Country Report* for 2000–01, there are currently 81 banks operating in Egypt, including 28 commercial banks, 32 investment banks, 2 real estate banks, 18 agricultural banks, and 3 specialized banks. The commercial banks are by far the most important, providing more than 75 percent of loans and accounting for more than 90 percent of deposits. As a result of the excessively large number of banks operating in the market, the Central Bank has placed a ceiling on the entrance of new banks, both Egyptian and foreign, into the market. The banking sector has been hit by a liquidity crisis that has affected the market since 1998, mainly as a result of indirect pressure from the government to limit credit to importers in order to control currency fluctuation.

Interest rates have, as a result, remained high, averaging over 10 percent in the first 6 months of 2000.

Egypt has one of the oldest stock markets in the Middle East. Established in 1906, the Cairo and Alexandria stock exchanges were forced to close in 1961 as a consequence of President Nasser's nationalization drive. The 2 markets re-opened in 1986 in line with President Mubarak's privatization program. A 1992 law paved the way for the reorganization of the stock markets in Egypt, granting the Capital Markets Authority wider regulatory powers. A 2 percent capital gains tax was abolished in 1996 to encourage investment in the stock market. The 2 markets are now open to foreign investors, but interest in trading has declined over the last few years as a result of government mismanagement and eroding confidence in the country's political environment. According to the EIU *Country Profile* for 2000–01, the market grew by 157.9 percent in 1994, following the passage of the Capital Markets Law. The market's inconsistent performance since 1994 has been largely determined by the pace of the government privatization program.

INSURANCE. Egypt has a large domestic insurance market, dominated by 4 state-owned companies that control almost 90 percent of the insurance market. Since May 1995, the lifting of restrictions that prevented foreign companies from being majority holders in domestic insurance companies has encouraged foreign activity in the Egyptian insurance market. The government is currently reviewing the viability of privatizing the 4 state-owned companies.

RETAIL. The absence of large commercial centers other than Cairo and Alexandria has resulted in a poorly developed **retail** sector. While Cairo and Alexandria are home to a variety of retail stores, including fast food franchises such as KFC and McDonald's, the majority of towns in the interior of the country rely on small family-owned shops, farmer's markets, and temporary roadside stands.

INTERNATIONAL TRADE

Egypt has grown increasingly reliant on imports over a very long period of time, and has, as a result, maintained an external **trade deficit** for most of the past 6 decades. The deficit, however, grew considerably between 1974 and 1984 as a result of President Sadat's open-door policy that encouraged imports, and reached US$4.86 billion in 1980. This sharp rise was fueled by the infusion of large amounts of foreign aid following the signing of the Camp David peace accords with Israel in 1978 and the rise in oil revenue. Imports dropped for a brief period between 1984 and 1986, due to the shortage of foreign exchange coupled with debt repayments. Since 1986, imports have been on the rise, increasing from US$11.74 billion in 1995 to US$15.8 billion in 1999, when exports totaled US$4.6 billion. Thus, with exports remaining steady at around US$4.5 billion, Egypt has continued to maintain its trade deficit. Since 1998, the government has attempted to discourage imports by tightening trade financing and controlling the amounts of foreign currency in the country. Coupled with higher oil prices, the policy of lowering imports succeeded in reducing the deficit in 2000. However, imports are likely to continue outpacing exports due to the widespread lack of most raw materials, especially those needed by the construction and industrial sectors.

Trade (expressed in billions of US$): Egypt

	Exports	Imports
1975	1.402	3.751
1980	3.046	4.860
1985	1.838	5.495
1990	2.585	9.216
1995	3.435	11.739
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Egypt imports a wide variety of goods, especially **capital goods** such as machinery and equipment, necessary for its economic and infrastructure development. Food has traditionally accounted for 20 percent of Egypt's imports, but chemicals, wood products, and fuels are also imported. Before 1973, one-third of Egypt's imports came from the former Eastern European bloc, or Comecon countries, as part of Egypt's alliance with the Soviet Union. After the signing of the Camp David accords, Egypt's new pro-Western orientation was coupled with a shift in trading partners. Today, the European Union, especially Germany, Italy, and France, supplies more than 40 percent of Egypt's imports, while the United States accounts for 15–20 percent of total imports.

Between 1960 and 1980, agricultural products made up the bulk of exports, accounting for 71 percent of the total. That percentage dropped significantly in the 1990s, reaching 20 percent of total exports in 1995, according to the EIU. On the other hand, the export of fuel, minerals, and metal rose sharply over that same period, from 8 percent in 1960 to 41 percent in 1995. The export of manufactured goods has also risen since the 1990s, from US$2.9 million in 1993 to US$3.4 million in 1998. This increase has been mainly the result of the growth in clothing and textile production, which accounted for 14 percent of total exports in 1998. The value of exports has been steady since 1997, reaching US$4.6 billion in 1999. The failure to expand exports has been blamed on a number of factors: state bureaucracy and red tape, lack of

competitiveness in the **exchange rate** market, the shortage of modern technology, and low industrial capacity. Additionally, the inadequate marketing experience of Egyptian exporters has left them ill-equipped to compete successfully in the export business.

Egypt's main export partners are the European Union—chiefly Italy, the United Kingdom, and Germany—and the United States. Before 1973, Egypt exported some 55 percent of its goods to **communist** countries then in the sphere of influence of the Soviet Union. Since the early 1990s, Egypt has gradually regained its influential role in the region, which it had lost after the signing of the 1978 Camp David Accords, and its exports to neighboring Arab countries have increased.

Egypt has been a member of the World Trade Organization (WTO) since 1995. The effects of the implementation of membership requirements remain unclear. While the agreement secures better access to developing markets, there is rising concern about its impact on the protected sectors of the economy, namely the industrial and agricultural sectors. The lifting of state protection might make these sectors more competitive, but could also lead to a huge increase in the country's import bill.

MONEY

The value of the Egyptian pound has been fairly stable since 1991, thanks to the government's efforts to maintain a stable exchange rate against the U.S. dollar. Traditionally, the government's policy has rested on the principle of defending the Egyptian pound against the U.S. dollar and increasing the country's foreign reserves. However, since 1998, a policy designed to keep the supply of U.S. dollars tight by removing them from the market led to a 10–12 percent **devaluation** of the Egyptian pound against the dollar in the last 6 months of the year 2000. This setback occurred despite government assurances that the pound would not be devalued. As a result, the Egyptian pound's exchange rate has fluctuated since the beginning of 2000, moving from EP 3.4 to the dollar in January 2000 to EP 3.8 to the dollar by the end of the year.

The banking sector is expected to continue suffering from foreign currency shortages in 2001, as the supply of U.S. dollars remains tight. For the time being, the government appears to have allowed market forces to determine the exchange rate of the pound as a means of relieving the pressure caused by tight foreign currency supplies. The government is hoping that in the longer term, the tight foreign currency supply will be offset by a rise in foreign currency receipts from the tourism sector, a lower budget deficit, and decreased imports.

POVERTY AND WEALTH

Living standards in Egypt are low by international standards, and have declined consistently since 1990. According to United Nations figures, some 20 to 30 percent of the population live below the poverty line. Despite widespread poverty, however, uneven development has led to the emergence of an affluent class that controls most of the country's wealth and enjoys an elevated standard of living that includes shopping at centers that feature the best imported goods. Living in such Cairo suburbs as Garden City, al-Zamalek, and Nasr New City, the wealthy send their children to private schools and to universities abroad. Yet not far from these affluent neighborhoods, a significant number of poor Egyptians live in squalor, with poor and overcrowded housing, limited food supply, and inadequate access to clean water, good quality health care, or education. The extremes are reflected in the country's distribution of income: in 1996, the wealthiest 20 percent of Egyptians controlled 39 percent of the country's wealth, while the poorest 20 percent controlled only 9.8 percent of wealth.

Uneven development in Egypt has not only affected the urban population. Inequality in the distribution of wealth is dictated by geographical regions. Historically, the north of Egypt has been more prosperous and received more government attention than the predominantly rural south, which stretches from Beni Suef, 120 kilometers (75 miles) south of Cairo to the border with Sudan. The central government, which retains great power over the country, has always been based in the north, and has

Exchange rates: Egypt

Egyptian pounds per US$1	
Jan 2001	3.8400
2000	3.6900
1999	3.4050
1998	3.3880
1997	3.3880
1996	3.3880

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Egypt	516	731	890	971	1,146
United States	19,364	21,529	23,200	25,363	29,683
Saudi Arabia	9,658	11,553	7,437	7,100	6,516
Nigeria	301	314	230	258	256

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Egypt

Lowest 10%	4.4
Lowest 20%	9.8
Second 20%	13.2
Third 20%	16.6
Fourth 20%	21.4
Highest 20%	39.0
Highest 10%	25.0

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

therefore based major economic activity in that area. According to the EIU *Country Profile* for 2000–01, almost one-half of economic and social establishments in the country are based in the northern cities of Cairo and Alexandria. This uneven development has fueled a cycle of rural-urban migration from south to north that has only started to abate since the mid-1990s. Migration has only served to aggravate the state of underdevelopment prevailing in the south.

The economic reforms launched by the Egyptian government in the early 1990s have been double-edged, severely affecting the lower classes and threatening to further erode popular support for the government. Both the rural and urban poor have suffered from the long decline in the quality of social services provided to Egyptians. A lack of adequate resources for schools and hospitals has meant that these services have declined in quality over the years. Despite this deterioration, 93 percent of primary level students are enrolled in schools, and a government-funded health-care system ensures that all Egyptians have access to some form of health care.

As a result of high inflation, which, at its peak, reached 28.5 percent in 1989, the middle and lower classes have seen their living standards erode since the 1980s. The problem has been compounded by the government's reduction of subsidies on basic foodstuffs and certain budget controls on public services since 1991. The government's awareness of the political implications of the complete lifting of subsidies has slowed down the implementation of IMF-mandated price deregulation. In 1991, to soften the impact of these measures on the poor and those affected by privatization, the government established the Social Fund for Development, a US$613 million project funded by the European Union, the World Bank, and the **United Nations Development Program** (UNDP). The fund is a job creation project aimed at training and finding jobs for workers displaced as a result of privatization. However, poverty remains endemic in Egypt despite these efforts.

WORKING CONDITIONS

Since the 1970s, the Egyptian labor force has been growing at the rapid rate of 500,000 (2.7 percent) per year. In 2000, Egypt's labor force stood at 19 million. The official unemployment rate for 1999 was 7.4 percent. However, Egypt's unemployment rate is believed to be higher than the official figures. Independent estimates put unemployment at about 10 percent. Almost one-third to one-half of the labor force is believed to be under-employed.

Egypt's labor force generally lacks secondary education and proper job training, which explains why much of the younger workforce cannot expect high pay. Despite higher rates of school enrollment since the 1960s, illiteracy is still high, at 35 percent for men and 58 percent for women. The educational sector remains overburdened and understaffed, and shortages in technical skills are viewed as a major impediment to business operations.

Unemployment remains especially high among women and workers under 20 years of age. The government is hard-pressed to meet its commitment to create

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Egypt	44	9	7	3	17	3	17
United States	13	9	9	4	6	8	51
Saudi Arabia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nigeria	51	5	31	2	8	2	2

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

jobs for the thousands of university graduates entering the workforce every year, a major challenge since the 1980s. The average waiting period for a job in the public sector is estimated to be 11 years.

Egypt has a long tradition of trade unions. Workers' unions have existed in Egypt since the British mandate and, although repressed by the British government, workers routinely organized strikes to protest working conditions. By 2001, the workers' movement was less effective. Workers have the right to join trade unions, but are not required to do so by law. Some 27 percent of union members are state employees. There are 23 general industrial unions and some 1,855 local trade unions; all of them are required by law to be members of the Egyptian Trade Union Federation (ETUF). Although semi-independent, the ETUF maintains close ties with the ruling National Democratic Party and has traditionally avoided confrontations with the government. The close connection between the ETUF and the ruling party has meant less protection for state-sector employees, but the federation has been far more successful in bargaining on behalf of private sector employees.

The Egyptian government supports workers' rights promoted by the International Labor Organization (ILO) and has set conditions governing industrial and human relations and established minimum-wage standards. The 6-day, 42-hour working week is the standard. The government-mandated minimum wage in the public sector is approximately US$33 a month, although the actual income a worker takes home is triple that amount, due to a complex system of added benefits and bonuses. The minimum-wage law is also observed in the private sector. In addition, the government provides social security benefits that include a retirement pension and compensation for on-the-job injuries. Wages have increased steadily over the last few years and are expected to increase again, since the 2001–02 budget has allocated US$10 billion for public sector workers' salaries and bonuses. However, it is only recently that the rate of increase in public wages has exceeded the rate of inflation.

Egypt has had a history of child labor problems. Poverty has driven many children younger than the minimum working age of 14, to join the labor force. Official estimates indicate that children under the age of 14 make up 1.5 percent of the total labor force. The number, however, is believed to be much higher, and it remains difficult to gauge the real extent of the child labor problem. The majority of working children (78 percent) work in agriculture. Children are also employed in craft shops, as domestic servants, and in the construction industry. The problem of child labor is worsened by poor enforcement of the law and the inadequacy of the education system.

The current labor laws make it difficult for employers to dismiss workers. Despite the protection offered by unions and the labor laws, however, working conditions are not ideal. Workers do not have the right to strike, and although strikes occur, they are considered illegal. The abundance of available labor has meant that workers are generally underpaid and are usually forced to work in overcrowded and often unsafe conditions. Government health and safety standards are rarely enforced, resulting in many workers seeking extra income through a second job or work in the **informal sector**, perhaps as street vendors. Thousands of Egyptians also seek employment opportunities in other countries, mainly in the Arab Gulf region. According to the latest census by the Egyptian government, 1.9 million Egyptians live and work abroad, and their remittances are a major source of foreign currency.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1798. The Emperor Napoleon Bonaparte invades and occupies Egypt, bringing Western influences to the country for the first time in its very long history, during which it has been variously under the rule of Greeks (Alexander the Great, 332 B.C.), Macedonians, Persians, Romans, Mamelukes, and Turks.

1801. An alliance of British and Turkish Ottoman Empire forces invades Egypt and expels the French. Ottoman army officer Muhammed Ali takes over control of the country, organizing the economy, the military, and the educational system according to Western standards.

1854. French engineer Count Ferdinand de Lesseps is granted the right by the Egyptian government of Mohammed Said to dig the Suez Canal, which will become one of the world's most strategically significant waterways.

1869. The Suez Canal is opened under the reign of the Khedive Ismail. Khedive enters into agreements with Britain which pave the way for British control of Egypt.

1882. Egypt enters a long period of British rule, and becomes dependent on imports of British manufactured goods and exports of Egyptian cotton.

1914. Egypt is formally incorporated into the British Empire as a protectorate during World War I.

1922. Egypt gains independence from Britain under monarch King Fuad.

1935. Fuad's son, King Farouk, assumes the Egyptian throne and signs the Anglo-Egyptian Treaty allowing the British to retain rights to the Suez Canal Zone.

1947. Egypt joins a joint Arab invasion of the newly created State of Israel, but Israel wins the war.

1952. Clashes break out between Egyptians and British in the Suez zone. Revolutionaries led by army officers Gamal Abdel Nasser and Muhammad Naguib lead an insurrection that forces the abdication and exile of King Farouk.

1953. Egypt is declared a republic in June, with Maguib as president. Nasser takes over as president in 1954 and ushers in an era of Socialism, during which Egypt allies itself with the Soviet sphere of influence.

1956. Nasser nationalizes the Suez Canal in July. In October, the Suez War breaks out as Britain, France, and Israel attempt unsuccessfully to seize control of the Canal.

1967. Egypt loses the Six-Day war against Israel.

1970. President Nasser dies and is succeeded by Anwar Sadat.

1973. Syria launches an attack on Israel, leading to the October War between Israel and an alliance of Arab States, including Egypt. Israel triumphs.

1974. President Sadat introduces his "infitah," or open-door economic policy, but the lifting of subsidies on basic foodstuffs leads to countrywide rioting.

1978. Sadat pays a historic visit to Jerusalem, and Israel's prime minister Menachem Begin pays a reciprocal visit to Cairo. In the United States in September, the 2 leaders meet for peace discussions brokered by President Jimmy Carter and sign the Camp David Accord, under which the Sinai, captured by Israel in the war, is returned to Egypt.

1981. Sadat is assassinated by Islamic extremists. He is succeeded by President Hosni Mubarak, who introduces new economic policies emphasizing the free market. The first parliamentary elections take place, and the government launches a program of economic reform.

1990–91. Egypt allies itself with the United States and Great Britain in the Gulf War against Saddam Hussein of Iraq. The United States rewards Egypt's support by canceling its massive debt.

1997. Mubarak's government begins a program of privatization, but the economy is badly affected when 58 foreign tourists are massacred by Islamic terrorists at the Luxor tourist site.

FUTURE TRENDS

Egypt entered the 21st century under a cloud of economic uncertainty. For much of the 20th century, Egypt's experiments with socialism left the economy in a shambles. The open-door policy, begun in the 1970s, set the stage for partial economic recovery, but it was not until the 1990s that the government embarked on a real reform and privatization program to address the country's woes. The economic reform program has been successful, with Egypt's business climate continuing to improve. The government appears committed to the path of reform started in the early 1990s, and if the longer-term structural reforms, especially privatization, are accelerated and fully implemented, then Egypt will be able to position itself as a leading economy in Africa and the Middle East.

Despite major reform efforts, however, economic growth has slowed down considerably since 1998. The public sector continues to be a major force in the economy. According to the EIU *Economic Profile* for 2000–01, the Egyptian government today accounts for one-third of total GDP, two-thirds of non-agricultural GDP, and two-thirds of manufacturing. In addition to the need to reduce its dominant role in the economy, the government is hard-pressed to meet several serious challenges that are crucial to the success of its economic reform program and, more importantly, its long-term political stability. These include addressing the unemployment problem and achieving social stability. To achieve that goal, Egypt will have to sustain a **real GDP** growth of about 6 percent, which would require dealing with the low levels of domestic savings and investment, increasing competition in the domestic economy, and stimulating export performance, as well as reducing dependence on foreign sources of income, primarily remittances and foreign assistance. Although aware of the possible political repercussions associated with its economic program, the government has done little to alleviate its impact on the majority of Egyptians, whose living standards have continuously deteriorated over the last decades. And it remains to be seen whether popular support for the government's economic reforms will outlast Egypt's enduring economic difficulties.

DEPENDENCIES

Egypt has no territories or colonies.

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—Reem Nuseibeh

EQUATORIAL GUINEA

Republic of Equatorial Guinea
República de Guinea Ecuatorial

CAPITAL: Malabo.

MONETARY UNIT: Communauté Financière Africaine franc (CFA Fr). One CFA Fr equals 100 centimes. There are coins of 1, 2, 5, 10, 25, 50, 100, and 500 CFA Fr and notes of 50, 100, 500, 1,000, 5,000, and 10,000 CFA Fr. [The country is part of the "Franc Zone," which includes a number of former French colonies in Africa that share a common currency that is pegged to the French franc. The Communauté Financière Africaine franc was introduced in 1985.]

CHIEF EXPORTS: Petroleum, timber, cocoa.

CHIEF IMPORTS: Petroleum, manufactured goods, and equipment.

GROSS DOMESTIC PRODUCT: US$960 million (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$555 million (f.o.b., 1999). **Imports:** US$300 million (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Equatorial Guinea is a small West African nation of 28,051 square kilometers (10,830 square miles), roughly the same size as Maryland. It consists of a mainland enclave called Río Muni, on the west coast of Africa bordering Cameroon and Gabon, and 5 small islands off the coast of Cameroon in the Bight of Biafra: Bioko, Annobón, Corisco, and the 2 small islands known together as Islas Elobey. Total boundary length of Equatorial Guinea equals 835 kilometers (519 miles). The capital city, Malabo, is on the island of Bioko.

POPULATION. Estimated at 472,214 in July 2000, the population is growing at a rapid rate of 2.47 percent, which will result in the population increasing to over 600,000 by 2010. This fast rate of growth is attributed to the very high fertility rate of 4.94 children per woman, although this is combined with a very high infant mortality rate of 111 per 1,000. The high rate of population growth is reflected in the age distribution of society where over 43 percent of the population is under the age of 14 years old. Equatorial Guinea residents have an average life expectancy of 50 years. The health problems limiting many residents' lives are preventable diseases, including malaria, parasitic disease, upper respiratory infections, gastroenteritis, and pregnancy-related problems.

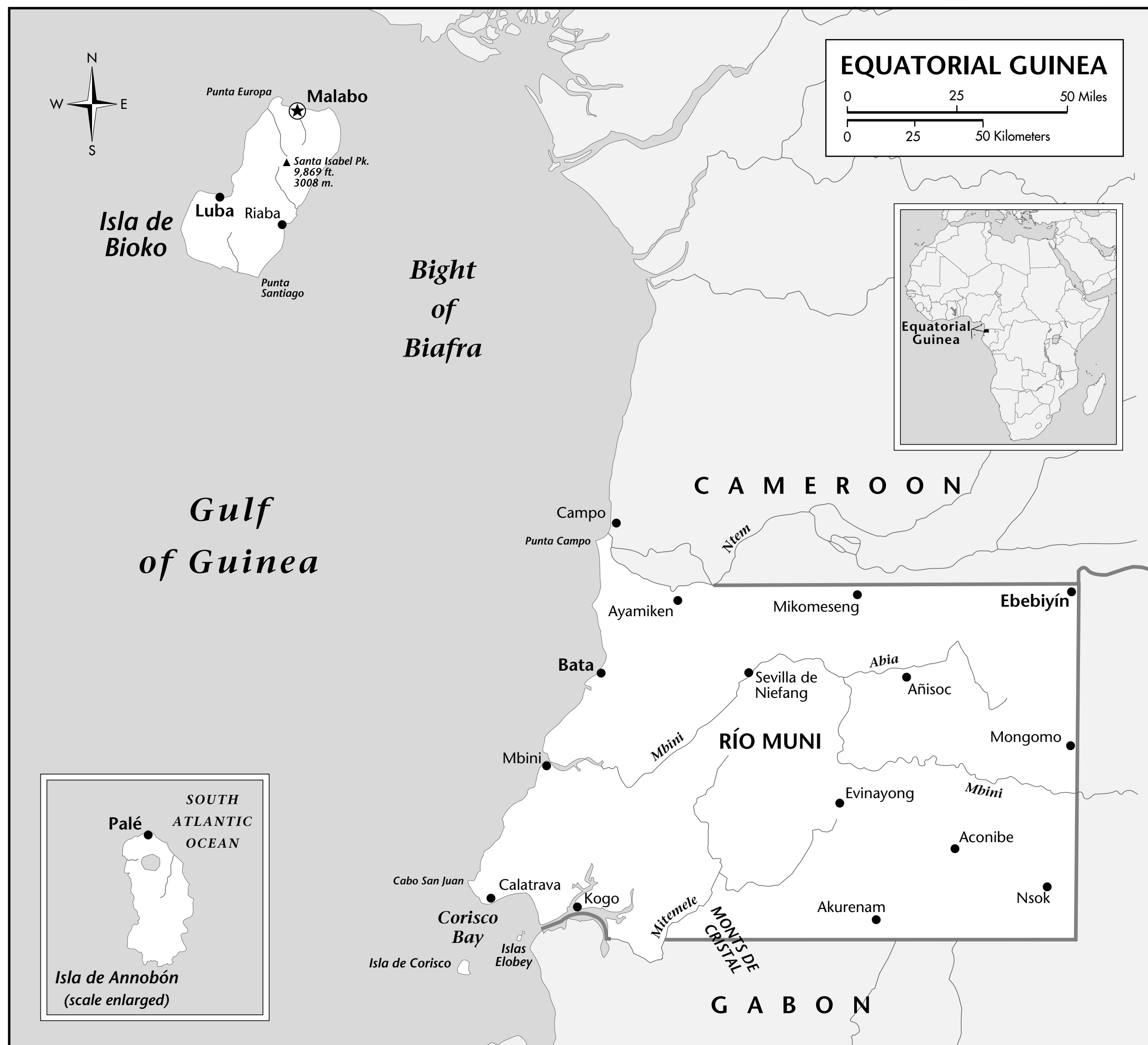
Decades of economic stagnation have prevented urbanization. There has been some population movement towards the capital in recent years due to the search for jobs in the booming oil industry, although a considerable amount of the population still resides in rural areas.

Although French and Spanish are the official languages, Europeans make up a very small percentage of the population. The primary ethnic groups include Bioko (Bubi and Fernandinos) and Río Muni (Fang) and languages associated with these groups are commonly spoken.

Equatorial Guinea has a literacy rate of 78.5 percent, much higher than the Sub-Saharan African average of 55 percent. Unfortunately, the economic collapse of the 1970s and 1980s left many workers with little skills and very few individuals with high levels of education. The first university in the country was established in 1999 and prior to that very few individuals could afford to study at overseas universities.

OVERVIEW OF ECONOMY

The economic mismanagement of the rule of Francisco Macias Nguema left the economy of Equatorial Guinea in very sad shape by the 1990s. Commercial cocoa production was essentially destroyed and most families in rural areas survived through **subsistence farming** and through the relatively high levels of foreign aid. But many charities and international lending agencies



have ceased providing new funds to the country due to the high level of corruption. With little manufacturing, forestry has been one of the few promising industries which thrived in the early and mid-1990s.

The country is rich in natural resources, specifically oil, gold, titanium, iron ore, manganese, and uranium, although the country has been slow to exploit them. Specifically, the country has only just begun to produce and export oil after finding enormous deposits off Bioko Island in 1991. These oil deposits have attracted a number of **multinational corporations**—the first significant foreign investments into the country.

Although the discovery of oil can be a blessing to a developing country, the government has recognized some of the problems associated with allowing the economy to be based on oil production and hosted a United Nations Conference concerning the proper governance of such an economy. Besides the obvious potential problems of environmental damage and the difficulty of negotiating with powerful multinational corporations, a number of countries in Africa have recognized the political and economic problems associated with natural resource dependent economies. Economically, reliance on oil makes the economy very susceptible to the extremely volatile oil prices and may lead to the lack of incentive to develop other aspects of the economy such as manufacturing and services. Politically, the profits from natural resources can inspire new levels of corruption in the government, both in filling the pockets of politicians and supporters and in helping the ruling elite to maintain power. The issue of corruption is especially striking in Equatorial Guinea. In 1993 the IMF and World Bank suspended a number of loans and grants due to the discovery of high

levels of corruption. Although some of these loans have been reinstated in recent years, levels of corruption have not improved dramatically.

POLITICS, GOVERNMENT, AND TAXATION

In the early 1990s a wave of democracy swept through Eastern Europe, the former Soviet Union, and much of the African continent. While hopes were high that democracy would take hold across the globe, many nations made little progress towards real democracy. In many cases the dictators of the former regimes became the central political figures in supposed multi-party democracies. Unfortunately, Equatorial Guinea was one of these countries.

After the Spanish departed in 1968 and made way for Equatorial Guinean independence, the country suffered harsh political and economic times. The country was ruled by Francisco Macias Nguema, who quickly established a one-party state. Nguema contained any possible opposition, declaring himself president for life and the "Unique Miracle of Equatorial Guinea." Nguema cut off ties to the West and aligned the country with the **socialist** bloc countries.

The Partido Democrático de Guinea Ecuatorial (PDGE), the country's only political party prior to 1991, was created by Teodoro Obiang Nguema Mbasogo after a successful coup in 1979. After the brutal Nguema regime, internal and external pressure forced the ruling elite to reform the constitution and hold democratic elections. Even after a movement towards multi-party democracy along with much of Africa in the early 1990s, the PDGE remained the central political party, retaining the vast majority of parliamentary seats and Obiang the powerful presidency. In the 1999 elections, the PDGE won over 80 percent of the vote and gained 75 out of the 80 seats in the parliament.

Outside of the formal systems of political parties, clan networks complicate the transition to democratic rule. Some groups, such as the minority Bubi population, have been all but left out of politics. These marginalized groups have become more active in recent years. The militant Movimiento para la Autodeterminacion de la Isla de Bioko (MAIB), for example, has been accused of attacking government installations throughout the country.

Obiang's rule continues to be centered on personality, not ideology. Obiang and the PDGE have maintained tight control over the economy, although they have begun to allow higher levels of international investment.

Equatorial Guinea has been a target of human rights activists in recent years. The current regime has been accused of harassing political opponents, limiting freedom of expression, limiting the development of new political parties, and inhumane conditions in the country's prisons. In 1999 Amnesty International, an international human rights organization, issued reports on the arrest of 3 citizens for "insults against the government and the Armed Forces" stemming from their activities with Amnesty International and their attempt to establish a political party.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Fueled by both the revenues from natural resources and the increased demands for power, roads, and harbors to continue the production of natural resources, the country has made large improvements in the vastly underdeveloped **infrastructure**. This includes upgrading the port at Luba, the airport at Malabo, and many roads linking major cities. The telecommunications revolution has

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Equatorial Guinea	4,000 (1996)	N/A	AM 0; FM 2; shortwave 4	180,000	1	4,000	1	500
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Nigeria	500,000 (2000)	26,700	AM 82; FM 35; shortwave 11	23.5 M	2 (1999)	6.9 M	11	100,000
Cameroon	75,000	4,200	AM 11; FM 8; shortwave 3	2.27 M	1 (1998)	450,000	1	20,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

slowly been introduced with a new digital network, public phone booths, a cellular system, and even some limited Internet access.

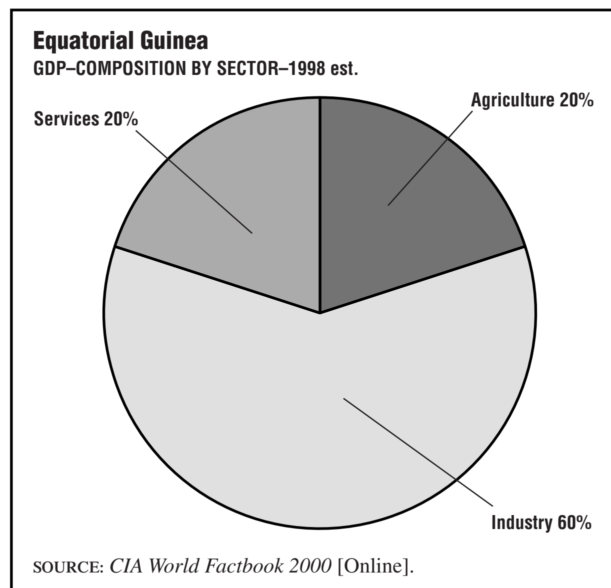
Most of the country's power is generated by a number of oil-fired power plants and a few large dams. The country's power generation capacity will be doubled when a new gas-fired power plant is completed on Bioko. The gas for this power station will be supplied domestically.

These investments in infrastructure have helped increase the attractiveness of the country to foreign investors and have a positive impact on economic development. Unfortunately, the prior political regime left the country's infrastructure in a horrible state. Even with these vast improvements, the lack of developed infrastructure is still a major hindrance to economic development. The country currently has no rail system, few paved roads, and an inefficient communications system. Especially troubling is the lack of physical infrastructure in rural areas.

ECONOMIC SECTORS

The oil industry dominates all economic activity in Equatorial Guinea. The oil industry draws most the country's foreign investment, provides most of the exports, and provides the central government with a tremendous amount of revenue. Unfortunately, this industry has not provided a significant amount of jobs. Most citizens survive through subsistence agricultural production on small family plots.

In recent years the timber industry has played more of an important role in the economy and has contributed to country exports, mostly to Asia. Cocoa and coffee production, once the mainstay of the economy, has declined in importance since the 1970s. Today this sector plays a very small role in the economy. The manufacturing and service sectors also have very little impact on the national economy and provide very few jobs.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Although agriculture employs the majority of the population, it contributed to less than 20 percent of **gross domestic product** (GDP) in 1998. Most agricultural production is done through subsistence farming. Only a few cocoa and coffee plantations produce agricultural products for sale on the open market. The only efficient agricultural sector is the production and export of timber and timber products. Unfortunately, many environmentalists believe that the level of production may be unsustainable.

COCOA AND COFFEE. The once thriving cocoa and coffee industry were devastated by years of economic mismanagement under authoritarian rule. Cocoa and coffee production in 1969 stood at an impressive 36,161 tons and 7,664 tons, respectively. By the mid-1990s cocoa production had plummeted to less than 3,000 tons (1993) and coffee production to under 200 tons (1996). Obscured in these numbers is the decline in the quality of the products, which has been especially glaring in the quality of cocoa. With only a few large and inefficient plantations still producing coffee and cocoa, coupled with declining cocoa prices due to the European Union's (EU) loosening of regulations on the percentage of cocoa needed for chocolate production, the future of these 2 industries is bleak.

TIMBER. Timber exports have been increasing rapidly in recent years due to government promotion of the industry and available capital from oil revenues. By 1997 trade in tropical wood exports alone amounted to almost 6 percent of GDP. The economic success of this industry has been a mixed blessing, increasing economic growth and employment, but threatening serious environmental damage. While environmentalists have become increasingly active on this issue, the most serious challenge to this industry remains the weakening of markets in Asia due to the recent financial crisis. This crisis has both reduced exports to the region and, with the weakening of the Asian currencies, has been followed by a drop in the price of timber from other exports in Asia. The *Economist Intelligence Unit* argues that the competition from Asian timber exports was felt as early as 1998, decreasing sales substantially. Even with this competition, the recent investments in infrastructure (especially the roads and port systems) may greatly help the timber industry.

FISHING. The small island of Annabón is situated in the midst of one of the richest fishing areas in the Atlantic Ocean. The 300,000-square-kilometer area around the island is an exclusive maritime fishing zone, although the

government of Equatorial Guinea has granted concession to the EU for the use of this zone. Few reliable figures exist on the size of current production, but it is clear that the rich fishing waters offer a substantial opportunity for the development of a large domestic fishing industry.

INDUSTRY

MANUFACTURING. The manufacturing industry of Equatorial Guinea contributes only a 0.6 percent of GDP. Manufacturing is limited to the mainland processing of timber and a water-bottling plant at Bata. The *Economist Intelligence Unit* paints a gloomy picture for the prospects of developing a manufacturing industry: “Despite the high overall growth rates, the lack of skills and capital, the small size of the local market, and the weakness of national infrastructure make any significant growth in the manufacturing sector unlikely.”

OIL. In the late 1980s and early 1990s the economy of Equatorial Guinea was fueled by international aid; it is now fueled by oil. The country has emerged as the sixth largest oil producer in sub-Saharan Africa, an amazing feat for such a small country. This sector has attracted a number of significant international investments. These investments have ranged from a **joint-venture** between local producers and a U.S. partner to produce diesel and methane gas, to contracts for foreign firms to explore for oil offshore, to the pumping of crude oil from existing oil deposits. Oil remains the largest export and is the potential key to further economic development. Profits from the oil industry have been used for the upgrading of the country’s infrastructure.

MINING. The country is believed to have large deposits of gold, diamonds, uranium, bauxite, iron ore, titanium, manganese, and copper. Little domestic production has occurred in this sector, but new mining codes were issued in 1995 to attract investments in the sector. Efforts to negotiate mining contracts with multinational corporations has been much more complex than expected. The lack of infrastructure, less severe for the development of oil resources, is especially damaging to this sector due to the need to ship produces through rural areas to coastal ports. At the very least, the mining sector will take years to develop.

SERVICES

TOURISM. The pristine environment and rare animals offer the country a tremendous amount of potential for tourism. To date, tourism has made very little contribution to the local economy, although investments in infrastructure and the recent establishment of Mt. Alen National Park may help attract tourists. The recent construction of a number of hotels in Malabo offers some sign of the future significance of tourism to the economy.

Trade (expressed in billions of US$): Equatorial Guinea

	Exports	Imports
1975	.026	.020
1980	.014	.026
1985	.017	.020
1990	.062	.061
1995	.086	.050
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

INTERNATIONAL TRADE

The international trade position of the country has improved dramatically. Prior to the discovery of oil, exports were dominated by agricultural production, which declined dramatically under the period of authoritarian rule. The trade balance in the late 1980s and early 1990s was in constant deficit, only to improve with the explosion of oil production in the early 1980s. With a depreciation of the CFA Fr, the price of timber from Equatorial Guinea is less expensive relative to timber from other countries. This depreciation has led to a dramatic increase in timber exports. These 2 industries propelled the country into a surplus in the mid-1990s.

With no real manufacturing base, almost every manufactured good has to be imported. The increased activity in the oil sector has led to a surge in imports to service this industry’s needs.

The country’s main trading partner is the United States, consuming 62 percent of the country’s exports and providing 35 percent of the imports. France, Spain, China, Cameroon, and the United Kingdom are also important trading partners.

MONEY

In 1985 the country abandoned the national currency, the bikwele, and joined a number of former French colonies in pegging their own national currencies to the French franc and adopting the CFA Fr. The CFA Fr is supported by the French Treasury and is fully convertible. With this financial arrangement and the competent **monetary policy** of the regional central bank, the Bank of the Central African States, Equatorial Guinea has greatly helped reduce the levels of **inflation** from almost 40 percent in 1994 to a range of 6 to 12 percent in 1994–1999. Given the extremely fast economic growth of almost 20 percent in recent years, this inflation-fighting performance is impressive.

Exchange rates: Equatorial Guinea

Communaute Financiere Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Attempts to establish a commercial banking sector following the 1979 coup failed miserably. Only the Banque centrale des Etats de l'Afrique centrale (BEAC) offers commercial financial services, although there are some prospects for new entrants in the commercial center of Malabo.

POVERTY AND WEALTH

Even though Equatorial Guinea is one of the wealthiest countries in Africa, with **GDP per capita** estimated at more than US$2,000 in 1999, the bulk of the citizenry lives in poverty. Official unemployment stands at almost 30 percent, and the government's social safety net does not adequately provide for the unemployed. The massive economic growth rates have been fueled by the production of oil offshore, an industry that has not substantially increased the number of jobs in the country. Timber, on the other hand, has made some contribution to increasing living standards, although this industry currently remains too small to make a significant contribution to the average worker's standard of living. The bulk of the population remains poor and makes a living off subsistence farming. The majority of Equatorial Guineans live without electricity, basic education, adequate health care, or safe drinking water.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Equatorial Guinea	N/A	N/A	352	333	1,049
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Cameroon	616	730	990	764	646

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

WORKING CONDITIONS

Few studies have examined the working conditions in rural areas. Most people work on small farms for family consumption. Hours can be long and conditions can be harsh due to the lack of advanced farming equipment and farming techniques.

The United States Department of State Human Rights Report (1999) argues that working conditions for employees are substandard in Equatorial Guinea. The current minimum wage, roughly equivalent to US$41 a month does not provide for a sufficient standard of living for families. Labor standards, while officially codified into law, are seldom enforced. Laws declare women to have the same rights as men, but discrimination continues.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1963. Provinces of Fernando Po (Bioko Island) and Río Muni (3 small islands and the mainland) are joined under Spanish rule.

1968. Country gains independence from Spain.

1979. Macias is overthrown by Brigadier-General Teodoro Obiang Nguema Mbasogo in a violent coup.

1985. Country joins the Franc Zone.

1991. Obiang declares the end of one-party rule.

1991. Large oil and natural gas deposits are discovered.

1994. Investment by Mobil in the oil sector is followed by a number of multinationals over the next couple of years.

1996. Multi-party elections in 1996 are won by Obiang with 98 percent of the vote. This election is widely contested as unfair.

1997. French becomes second official language.

1997. The government claims an attempted coup in May and doubles the size of the military to 2,000.

1998. Attacks on government installations in January. Government blames a militant group for the attacks.

1999. The ruling PDGE increases its majority in parliament.

1999. Border dispute with Sao Tomé and Príncipe is settled by negotiation.

1999. First university established.

FUTURE TRENDS

The future is mixed for the country and the people of Equatorial Guinea. The aggregate growth prospects for

the economy remain fairly bright, with high levels of economic growth being forecast for the future. These growth forecasts are dependent on the recent high prices of oil, which historically have been subject to tremendous price fluctuations. A drop in world oil prices could be disastrous for these future growth prospects.

Perhaps even more troubling is the uneven level of development in the country. While the oil sector has been booming in recent years, the bulk of the population remains dependent on subsistence farming for their livelihood. This large part of the population has been relatively untouched by recent economic successes and most likely would be untouched by further economic growth fueled by the oil sector.

On the positive side, Equatorial Guinea has shown some ability to develop the timber industry and has great potential for development in the mining and tourism sectors. The challenge for the country is to find the means to further develop these sectors.

In recent years the country has made some progress in investing in telecommunications, roads, and rail systems. This is one means of using the government revenues from the economic boom in the oil sector to finance economic development in other parts of the country. While this exhibits some positive signs, much more needs to be done.

In many ways, Equatorial Guinea suffers from the same problems as many other African countries. The country is rich in natural resources, yet poor in essentially all other aspects of economic development. The problems ahead will revolve around issues of how to use these resources to stimulate even economic development.

DEPENDENCIES

Equatorial Guinea has no territories or colonies.

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—Nathan Jensen

ERITREA

State of Eritrea
Hagere Ertra

CAPITAL: Asmara.

MONETARY UNIT: Nakfa (Nkfa). One nakfa equals 100 cents. There are coins of 1, 5, 10, 25, 50 and 100 cents, and notes of 1, 5, 10, 20, 50, and 100 nakfa.

CHIEF EXPORTS: Livestock, sorghum, textiles, food, small manufactures.

CHIEF IMPORTS: Processed goods, machinery, petroleum products.

GROSS DOMESTIC PRODUCT: US$2.9 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$26 million (1999 est.). **Imports:** US$560 million (1999 est.). [The *CIA World Factbook* lists exports of US$52.9 million (f.o.b., 1997 est.) and imports of US$489.4 million (c.i.f., 1997 est.).]

COUNTRY OVERVIEW

LOCATION AND SIZE. Eritrea is an eastern African country occupying an area of 121,320 square kilometers (46,841 square miles), which makes it slightly larger than the state of Pennsylvania. It borders Sudan to the north and west, Ethiopia and Djibouti to the south, and the Red Sea to the east. Its land borders extend for 1,630 kilometers (1,012 miles), while its total coastline is 2,234 kilometers (1,388 miles). Eritrea's capital, Asmara, and its 2 other major cities, Assab and Massawa, are in the southeastern and eastern parts of the country.

POPULATION. Eritrea's population was estimated to be 4,135,933 in July 2000. The population increased from 2.1 million in 1975 to 3.6 million in 1998, indicating a growth rate of 2.4 percent. The estimated birth rate in 2000 was 42.71 births per 1,000, and the estimated death rate 12.3 deaths per 1,000, contributing to a 3.86 percent growth rate in 2000. The population is expected to increase to about 5.5 million by 2015. Because of drought and a war with Ethiopia, about 1 million Eritreans lived abroad (mostly in Sudan) in 2000, while at least 955,000 were internally displaced.

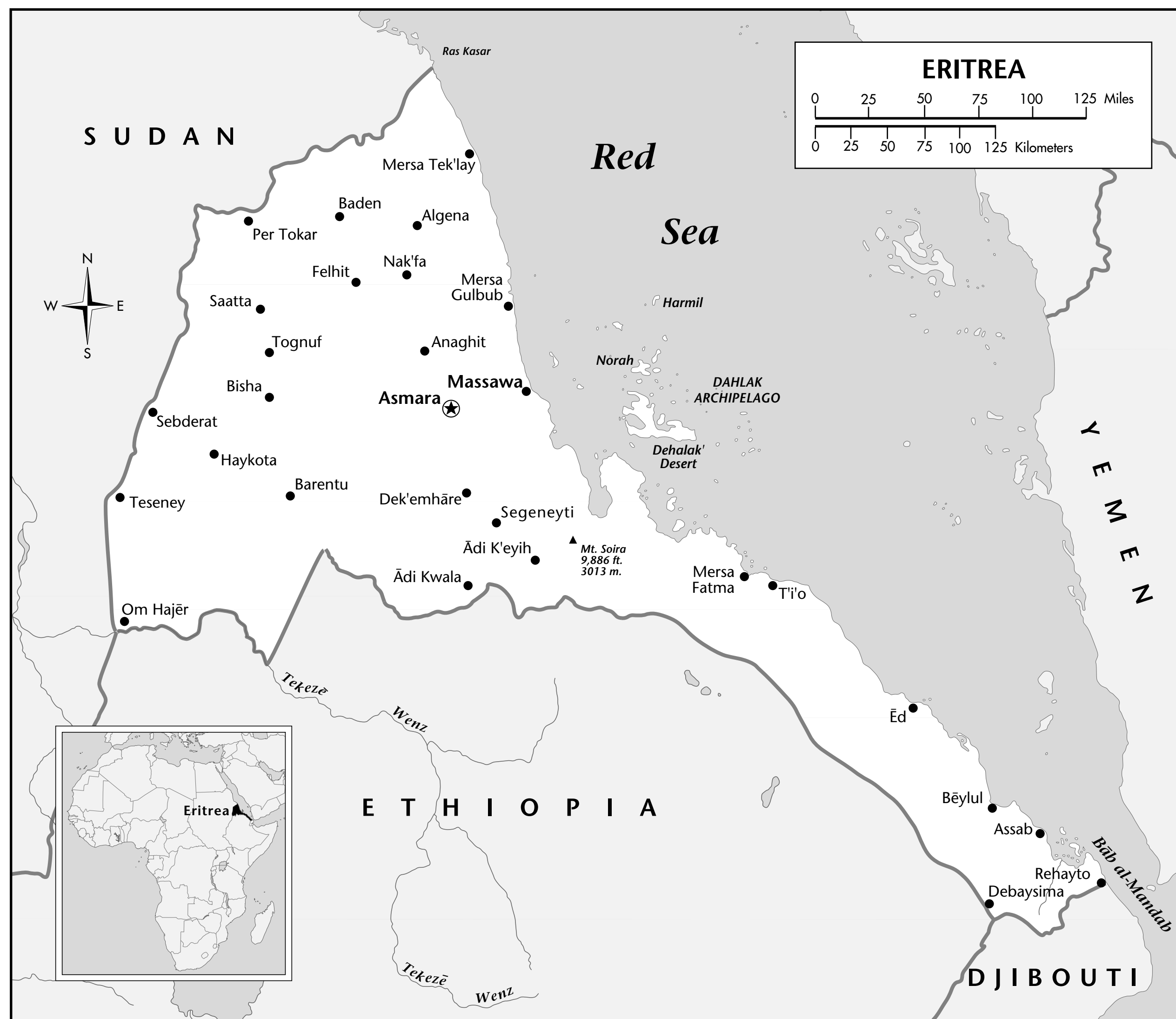
The major ethnic groups of the predominantly African population of Eritrea are the Tigrinya (50 percent), Tigre and Kunama (40 percent), Afar (4 percent), and Saho (3 percent). There are a variety of religions in the country, with Muslims, Coptic Christians, Roman Catholics, and Protestants dominating. There are also a variety of Cushitic languages spoken in the country. The population is young, with 43 percent under the age of 15 and only 3 percent above the age of 65.

Most Eritreans live in rural areas. In 1998 urban dwellers accounted for only 18 percent of the population, but this figure is expected to reach 26.2 percent by 2015. Asmara is the largest city with 480,000 inhabitants. Other major urban areas include Assab (70,000), Keren (70,000), Mendefera (65,000), and Massawa (35,000).

OVERVIEW OF ECONOMY

Eritrea gained independence from Ethiopia in 1991 and declared statehood in 1993, but its underdeveloped economy had suffered greatly from the 30-year war of independence with its neighbor. Conditions were worsened by a serious drought in the late 1990s, and the outbreak of a new war with Ethiopia that arose over a territorial dispute in 1998 and reached an uneasy, internationally brokered peace in mid-2000. This combination of adverse conditions further destroyed Eritrea's already limited agricultural and industrial capabilities and exhausted its inadequate financial resources, leaving the economy in ruins. Consequently, the country's **foreign debt** rose from $76 million in 1997 to $142 million in 1998, and to $242 million in 1999.

Eritrea is in transition from a deteriorating **socialist** economy to a market economy. The government has



taken steps to end state **monopolies** and foster the growth of a **private sector**. It has encouraged domestic and foreign investments by beginning the **privatization** of state enterprises and passing laws to open trade and investment to market forces. Measures such as the lowering of business taxes have created some incentive for investment, but the emerging private sector is still too weak and foreign investment too small to make an impact on Eritrea's severe underdevelopment. The private sector is limited to the importation and distribution of goods.

The country's industrial, agricultural, and service sectors are small-scale and underdeveloped. Exports are limited and the country relies heavily on imports, including foodstuffs. Unsurprisingly, the **balance of trade** has recorded a large annual deficit since independence—$534 million in 1999. Since 1952, Eritrea has depended on 2 strands of economic activity to provide employment and revenue: port services at Assab and Massawa and agricultural exports. Landlocked Ethiopia conducted most of its international trade through these ports until the outbreak of war in 1998. Agricultural exports to a few African and Middle Eastern countries have been a major source of income for Eritrea.

The Eritrean economy grew during the first few years of independence. However, since this growth was due to its earnings from port services, it proved unsustainable as a consequence of hostilities with Ethiopia. Ethiopia placed an **embargo** on Eritrea's ports, while the heavy cost of war between the 2 countries and a sharp decline in agricultural production caused by war and drought have since damaged the economy. Economic contraction began in the late 1990s, with the growth of Eritrea's **gross domestic product** (GDP) falling from 7 percent in 1997 to 4 percent in 1998, and to nil in 1999 and 2000. This disaster has made Eritrea dependent on foreign assistance for its survival. The Persian Gulf countries, Italy, Japan, the United States, the

World Bank, the African Development Bank (ADB), and the European Union (EU) have collectively been the country's main source of loans, grants, and food aid. Eritreans who have dispersed to live in other countries have become the main **hard-currency** providers since 1998.

POLITICS, GOVERNMENT, AND TAXATION

Eritrea has enjoyed internal political stability since its independence. In 1993, a splinter group of senior members of the Eritrean Liberation Front (ELF) joined the Eritrean People's Liberation Front to become a political party, the People's Front for Democracy and Justice (PFDJ), which has ruled the country ever since. The Eritrean constitution provides for a multiparty political system, but the reality is a one-party system dominated by the PFDJ, which, while so far unable to rescue the economy, keeps a tight rein on internal order, sometimes by measures such as the restriction of press freedom, that ensures domestic political stability. The opposition groups are all in exile (in Sudan) and include the Eritrean Islamic Salvation party and dissenting ELF factions, but they have no impact on Eritrea's economy.

Despite its **liberalization** policies, the government still dominates the economy. However, corruption is enviably low by the standards of many third world countries, and the government encourages industrial growth and exports. It has introduced low customs **duties** (2 percent in 2000) on **capital goods**, intermediate industrial spare parts, and raw materials, side by side with high **tariffs** (50–200 percent) on luxury goods (liquor and tobacco). Nevertheless, by 2001, efforts to create a viable free-enterprise economy and stimulate sustainable growth had not yet succeeded. The major barriers to meeting these objectives include limited financial resources, the absence of adequate **infrastructure**, lack of expertise and management, and a high illiteracy rate. These factors, with an environment made unattractive by war and drought, have conspired to discourage investment.

It is difficult to gather accurate statistics regarding revenues obtained by the Eritrean government, but it is evident that taxes and tariffs contribute little. In 1996, when the economy showed some growth, taxes contributed 30 percent of national income. However, the worsening economic situation and low international trade figures do not yield sufficient taxable profits or incomes, and the 1996 figure undoubtedly took a sharp fall in 1999 and 2000 when economic growth halted. From 1998, the war with Ethiopia and the drought proved disastrous to the economy. With drastic reductions in port fees and exports, the share of port-generated revenue dropped from 16 percent of revenues in 1996 (about $32 million) to almost nil in 1999 and 2000, while export earnings decreased from about 48 percent in 1996 ($95 million) to about 12 percent in 1999 (just under $26 million).

The gap between Eritrea's annual income and its expenditures is enormous (expenditures outstripped income by more than half in 1996), thus forcing the government to finance its deficit through foreign loans and grants and money from expatriates. In 1999 expatriate purchases of government bonds generated $400 million. Eritrea has been mostly successful in securing favorable loans, enabling it to keep its foreign debt low ($242 million in 1999).

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Eritrea suffers from seriously inadequate infrastructure. An extensive road and rail network built by

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Eritrea	23,578 (2000)	N/A	AM 2; FM 1; shortwave 2 (2000)	345,000	1 (2000)	1,000	4	500
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Egypt	3,971,500 (1998)	380,000 (1999)	AM 42; FM 14; shortwave 3 (1999)	20.5 M	98 (1995)	7.7 M	50	300,000
Djibouti	8,000	203	AM 2; FM 2; shortwave 0	52,000	1 (1998)	28,000	1	1,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

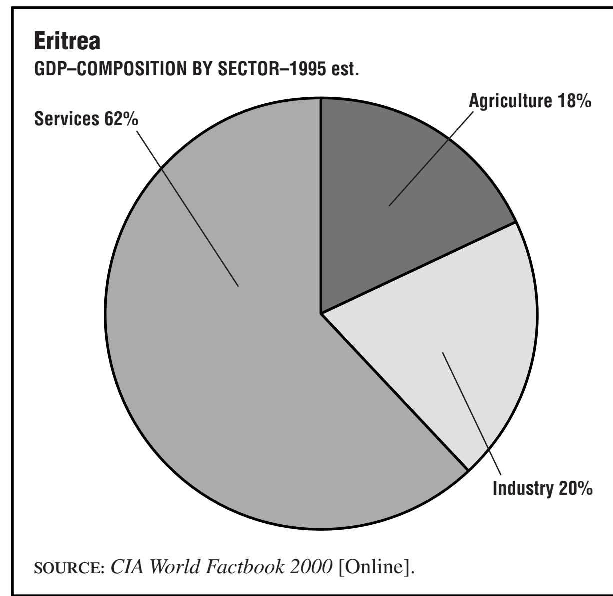
SOURCE: CIA *World Factbook 2001* [Online].

the Italians in the 1930s was destroyed during the long war of independence. It is now estimated that there are 4,010 kilometers (2,491 miles) of roads, of which 874 kilometers (543 miles) are paved, but they are poorly maintained. The country's Italian-built, narrow-gauge railway, owned by the state, is almost defunct, with only 317 kilometers (196 miles) accessible. The few road and rail reconstruction projects are proving to fall far short of what is required.

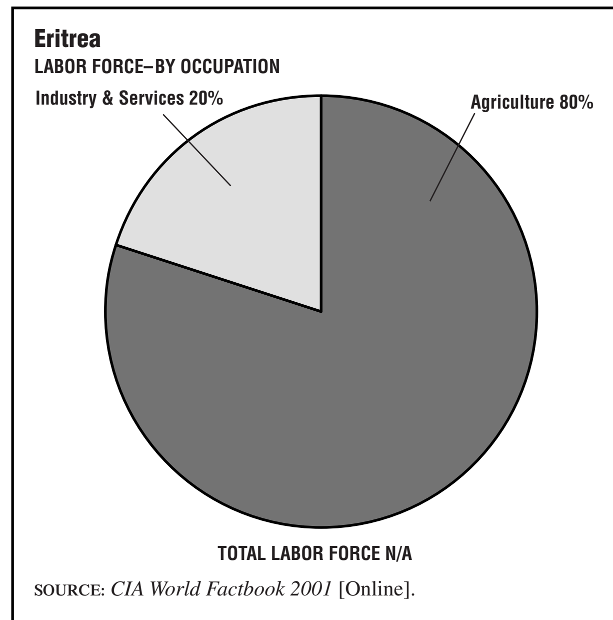
Eritrea has 21 airports and airstrips, 3 of which have paved runways. Asmara International Airport was damaged during the war. Assab has a small airport and another is being built in Massawa. Eritrea's 2 major ports, Massawa and Assab, require upgrading.

Energy production is limited in Eritrea. According to 1997 estimates, the country generates and consumes 177.6 million kilowatt hours (kWh) of electricity, powered by fossil fuel, and many parts of the country, particularly the rural areas, lack electricity. Saudi Arabia, Kuwait, and the United Arab Emirates (UAE) have funded the construction of an 84-megawatt power station, and the European Development Bank has pledged a loan for the restoration of war-damaged power infrastructure. Eritrea has a limited oil production (0.55 million tons in 1998), but its main refinery is closed and thus it must import all refined oil products. Imports of petroleum products amounted to 100,000 tons in 1998.

Eritrea's telecommunications system is old and inadequate. In 2000 there were only 23,578 telephone lines in the entire country. The Eritrean government has installed a digital system to improve and expand the service. There is 1 Internet service provider and a growing number of e-mail stations. The country has 1 state-run television channel and 5 radio stations. In 1997 there were only 345,000 radios and 1,000 television sets in use.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

ECONOMIC SECTORS

At the time of independence, Eritrea lacked the basic infrastructure and resources to address its many economic problems. Efforts to improve the infrastructure and develop its backward agriculture, industry, and services have had limited success, despite foreign assistance. Drought devastated agriculture, and war further damaged the inadequate infrastructure, destroyed many farms, and exhausted financial resources. The result was a massive internal displacement of civilians and the flight of large numbers of Eritreans to neighboring Sudan. Thus, by 2000, the country was unable to meet the basic needs of its population. In the wake of such devastation, Eritrea has had to depend on foreign aid and a large quantity of imports for its survival, and most of its limited developmental projects have been placed on hold.

AGRICULTURE

Subsistence agriculture shapes Eritrea's economy and employs about 80 percent of its population, but its contribution to the economy is small. Agriculture's share of the GDP was only 9 percent in 1998 (equal to $261 million), while its contribution to exports was only $8 million. Major exports are livestock, sorghum, and food products exported to Ethiopia (before the war), Sudan, Yemen, the UAE, and Saudi Arabia. In the absence of statistics, one can assume with some certainty that the 1998–2000 war and drought have lowered the contribution of agriculture to Eritrea's economy. The main agri-

cultural products (sorghum, lentils, vegetables, corn, cotton, tobacco, coffee, sisal, and livestock) are insufficient to meet domestic needs, and these must be satisfied through foreign aid and large imports of foodstuffs ($63 million in 1998). The sharp fall in production during the crisis period between 1998 and 2000 led to price increases in food. The production of sorghum fell from 120,000 tons in 1994 to 62,000 tons in 1998. Eritrea can only become self-sufficient in food production if it is able to address its major handicaps: lack of money, poor irrigation, extensive soil erosion, and outdated technology.

The Red Sea coastline of Eritrea is rich in lobster, shrimp, and crab and offers the potential for a valuable export-oriented fishing industry. However, the lack of adequate investment, modern fishing boats, and technology have prevented any development, and fishing represents a negligible economic activity with a low annual catch (5,000 tons in 1999). Fishery projects are focused on privatization and the creation of storage and processing facilities funded by the **United Nations Development Program** (UNDP) and Japan.

INDUSTRY

Industry is the second largest sector after the service sector. Its main activities, manufacturing and mining, accounted for 29.5 percent of the GDP in 1998, valued at $855 million.

MANUFACTURING. The manufacturing industry is unable to meet domestic needs, while its exports are insignificant. Exports earned a paltry $4 million in 1998, while imports of industrial goods ran to $250 million. Manufacturing consists of Asmara-based small and medium size establishments producing consumer products such as glass, leather, processed foods, cotton, textile, liquors, and other beverages. New factories produce marble, recycled plastics, metals, and rubber goods. Low investment and management capacity, outdated machinery, and poor infrastructure have prevented growth, and the Eritrean government has privatized some of its industries while ending **subsidies** to others to stimulate development. It has also lowered taxes and tariffs on industrial exports and imports and offered other incentives to foreign investors.

MINING. Eritrea's mining industry is small but has growth potential. Its mineral resources include substantial reserves of barite, feldspar, kaolin, gold, potash, rock salt, gypsum, asbestos, and marble. If mining developed, Eritrea's proximity to the Middle East and Europe would be favorable to the export of minerals to those markets. In the absence of domestic investments, companies from Australia, Canada, France, South Korea, and the United States have operated or now operate limited mining operations there. Mineral exports accounted for $12 million in 1998. Eritrea has sought foreign investment for the exploration and development of offshore oil and gas reserves, but Anadarko, an American company, stopped drilling operations in 1999 after disappointing results.

SERVICES

The most important services in Eritrea are tourism, **retail**, and financial. Services form the largest economic sector, accounting for 61.2 percent of the GDP and 20 percent of the workforce in 1998. However, like the rest of the country's economic sectors, services suffer from underdevelopment.

FINANCIAL SERVICES. Eritrea has a small state-run financial system. It consists of a central bank, the National Bank of Eritrea (NBE), 4 other banks, dominated by the Commercial Bank of Eritrea (CBE), and an insurance company, the National Insurance Corporation of Eritrea. The NBE accounted for over 60 percent of Eritrean banking assets in 2000. Except for the Housing and Commerce Bank of Eritrea, owned by the ruling party, all other financial institutions are state-owned, and the government licensed several private exchange offices in 1997 to liberalize the industry. No foreign financial institution operates in Eritrea, but the CBE has arrangements for money transfers with 40 foreign banks.

TOURISM. With its long warm-water coastline and an abundance of historical, archaeological, and natural sites, Eritrea has much to offer as a tourist destination. However, the development of tourism is constrained by the lack of basic infrastructure. There are only 11 hotels, all in Asmara, all of which require renovation. The government has privatized 3 hotels but has failed to find buyers for the rest. Thanks to some success in attracting foreign investment, in 2000 the first foreign hotel, the Inter-Continental, was opened in Asmara. In that year the government negotiated the construction of a casino and several hotels on the Dahlak archipelago by U.S. and Saudi Arabian companies.

RETAIL. The retail sector of Eritrea is poorly developed. It consists of small-scale traditional shops that are unable to ensure the accessibility of goods and services to either the rural or the urban populations. The emerging middle class is encouraging the establishment of modern retail outlets in major urban areas, but the economic devastation of the country has delayed the creation of a viable retail sector.

INTERNATIONAL TRADE

Eritrea's international trade is characterized by its deficit. The 1998 deficit of $499 million rose to $534 million in 1999, as the value of exports dropped to $26 million against imports of $560 million. Large trade

deficits are a clear sign of Eritrea's underdeveloped economy in which the necessity for large-scale imports does not begin to be matched by its output of exportable goods. Imports accounted for a huge 89.7 percent of the GDP in 1998, the same year that an epidemic of cattle disease stopped major livestock exports to Saudi Arabia and Yemen, while drought and the outbreak of war with Ethiopia further decimated local productivity. Although that war ended in June 2000, Eritrea's exports are likely to remain low for a long time because of its devastated farms and infrastructure, its depleted financial resources, and the massive displacement of its population.

The country's main export products are salt, livestock, flour, sorghum, foodstuffs, small manufactures, and textiles. Major imports include foodstuffs, fertilizers, fuel, machinery, spare parts, construction materials, and military hardware. The war brought a sharp increase in military hardware imports, causing state expenditures on defense to jump from 9 percent of the GDP in 1997 to about 44 percent in 1999.

Ethiopia was Eritrea's largest trading partner until 1998, taking 65.8 percent and 64 percent of its total exports in 1996 and 1997. Ethiopia's share dropped to 26.5 percent ($28 million) in 1998 when the countries went to war, but their bilateral trade did not resume when the war was over. Eritrea's other main trading partners are Sudan, Italy, Japan, Saudi Arabia, the United States, Yemen, and the UAE. Sudan was Eritrea's second largest export destination in 1997, taking 17 percent of exports, rising to 27.2 percent in 1998. In 1996 and 1997, Eritrea's main source of imported goods was Saudi Arabia, followed by Italy and the UAE; in 1998, Italy was the most important supplier of imports, followed by the UAE and then Germany.

MONEY

Eritrea shared the Ethiopian currency, the birr, until November 1997 when it introduced its own currency, the nakfa. The NBE adopted a **fixed exchange rate** for the first 6 months and then switched to a **floating exchange rate**, that is, a rate determined by supply and demand. There are no exchange restrictions for the Eritreans or foreigners. The nakfa remained stable between 1997 and 2000, during which time it depreciated slowly against the U.S. dollar, declining from 7.2 to 9.5 nakfas to US$1. This minor fluctuation had no noticeable impact on the pace of economic activity or on the purchasing power of the population.

POVERTY AND WEALTH

Eritrea is one of the world's poorest countries. Poverty is rampant, and the severity of the war, compounded by the effects of drought, forced the migration of about 1 million people (1998 est.) to neighboring Sudan, decreasing the resident population to 3.5 million. In 2000 about half of this population faced a serious humanitarian emergency as their dismal situation gave rise to epidemics of diarrhea, malaria, and respiratory infections.

Basic necessities for dealing with the crises of homelessness, want, and disease are worse than inadequate. In 1997 access to sanitation was available to a mere 13 percent of Eritreans, while only 22 percent had access to safe water. Widespread malnutrition and a poor health-care system lead to high infant mortality (70 per 1,000 live births) and low life expectancy (50.8 years) in 1998. The inadequate medical services are barely available outside the capital.

A high illiteracy rate, estimated at between 49 and 80 percent, demonstrates the weakness of the educational system. Over half of the children of school age do not study because of poverty and a lack of educational facilities. There is only one small university in Asmara with 1,300 students. Solutions to these many social problems are unlikely so long as Eritrea lacks domestic resources and foreign aid remains relatively low.

WORKING CONDITIONS

Eritrea's workforce consists of unskilled workers, over 80 percent of whom are involved in agriculture. The

Exchange rates: Eritrea

nakfa per US$1	
2001	N/A
Jan 2000	9.5
Jan 1999	7.6
Mar 1998	7.2
1997	N/A
1996	N/A

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Eritrea	N/A	N/A	N/A	N/A	175
United States	19,364	21,529	23,200	25,363	29,683
Egypt	516	731	890	971	1,146
Djibouti	N/A	N/A	N/A	N/A	742

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

country suffers from a shortage of skilled or educated labor. There are no unemployment statistics, but one must conclude that, given the state of the economy, it must be high. Unions are legal and The National Federation of Eritrean Workers consists of 129 unions representing over 23,000 workers, and public and private company employees. The labor code prohibits child labor, discrimination against women, and anti-union regulations. Regulations permit the right to strike and endorse equal pay for equal work for women. However, in the absence of mechanisms for enforcement, the labor laws exist in principle rather than in practice. About half of children work and women face discrimination. The working week is 44.5 hours, but many work less than that due to limited employment opportunities. There is no minimum wage, and the market determines wages.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

16TH CENTURY. Eritrea falls under the rule of the Ottoman Empire but claims to the region are disputed by the Ottomans, Italians, Ethiopians, and Egyptians.

1889. Italy signs the Treaty of Wechale with the king of Ethiopia to establish the borders of its colonial state of Eritrea.

1941. Italy loses Eritrea to Britain during World War II (1939–45), and Eritrea falls under a British mandate until 1952.

1948. The United Nations (UN) is mandated to determine the future of Eritrea.

1950. The UN adopts Resolution 390 A (V) to provide for the creation of a federation of Eritrea and Ethiopia with Eritrea to retain autonomy under the Ethiopian crown.

1952. The Federation of Eritrea and Ethiopia is ratified.

1961. The Eritrean Liberation Front (ELF) begins an armed struggle against Ethiopia.

1962. Ethiopia formally annexes Eritrea in violation of international law.

1973. A splinter group of the ELF forms the Eritrean People's Liberation Front (EPLF).

1991. Ethiopia's military junta is overthrown. The EPLF defeats the ELF and establishes control over Eritrea. The 2 new governments agree to discuss Eritrea's independence.

1993. In a referendum held in April, almost 100 percent of voters demand independence for Eritrea, and the country declares its independence on May 24.

1994. The EPLF reorganizes itself as a political party, renamed the People's Front for Democracy and Justice (PFDJ).

1997. In May, Eritrea's constitution is promulgated. In November, the Ethiopian currency (the birr) is replaced by the Eritrean nakfa.

1998. In May, a territorial dispute between Eritrea and Ethiopia leads to a new and devastating war.

2000. In June, Eritrea and Ethiopia conclude a peace accord, and refugees who have fled to Sudan begin to reenter the country.

FUTURE TRENDS

War and drought have devastated the Eritrean economy. Eritrea requires large investments in infrastructure as a first step for an overhaul of its economy, and extensive foreign assistance is essential in tackling urgent problems such as malnutrition, and to help revive and expand the economy. The expansion of fishery and tourism could make a major contribution to Eritrea's economic growth, but there is little interest on the part of international donors to help Eritrea achieve these objectives. In the absence of foreign resources, the outlook for the Eritrean economy, at least in the future, would appear bleak.

DEPENDENCIES

Eritrea has no territories or colonies.

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—Hooman Peimani

ETHIOPIA

Federal Democratic Republic of Ethiopia
Ityop'iya Federalawi Demokrasiyawi Ripeblik

CAPITAL: Addis Ababa.

MONETARY UNIT: Ethiopian birr (Br). One Ethiopian birr equals 100 cents. Notes come in denominations of 1, 5, 10, 50, and 100 birr, and coins come in denominations of 5, 10, 25, and 50 cents.

CHIEF EXPORTS: Coffee, gold, leather products, oilseeds.

CHIEF IMPORTS: Food and live animals, petroleum and petroleum products, chemicals, machinery, motor vehicles.

GROSS DOMESTIC PRODUCT: US$33.3 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$420 million (1998 est.). **Imports:** US$1.25 billion (1998 est.).

COUNTRY OVERVIEW

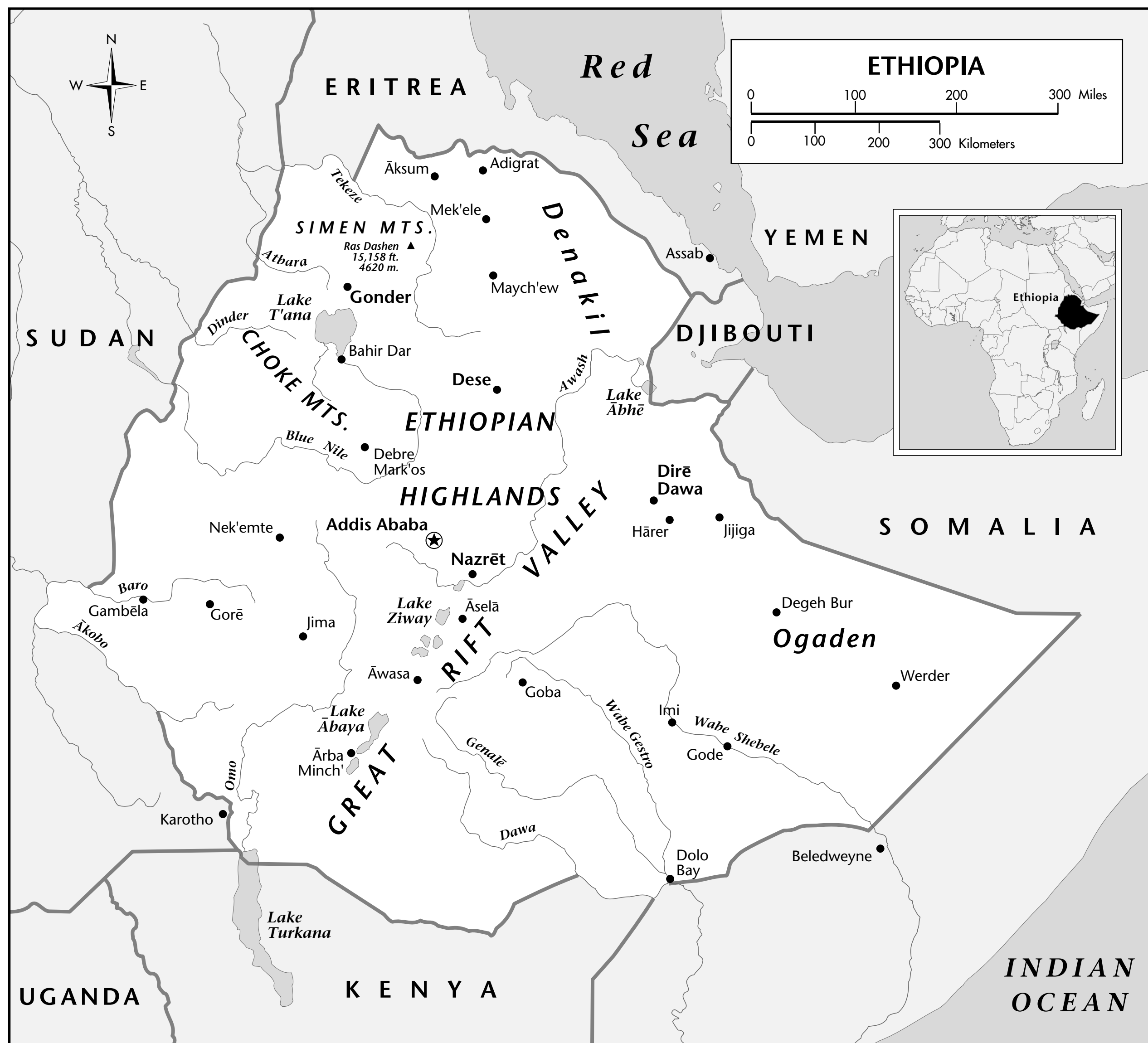
LOCATION AND SIZE. Located in the Horn of Africa—the pointy peninsula-like landmass that emanates out of the eastern part of the continent—Ethiopia has a total area of 1,127,127 square kilometers (935,183 square miles), rendering it slightly less than twice the size of Texas. A landlocked country completely surrounded by other states, Ethiopia has a total border length of 5,311 kilometers (3,300 miles). Ethiopia is bordered by Kenya to the south, Somalia to the east, Djibouti and Eritrea to the northeast, and Sudan to the west. The capital of Ethiopia, Addis Ababa, is located in the heart of the country.

POPULATION. In 1975, the population of Ethiopia was approximately 32.2 million. With a relatively high growth rate of 2.7 percent between 1975 to 2000, the population of Ethiopia doubled during this period, reaching a total of 64,117,452 by July 2000. Currently, the population growth rate remains high (2.76 percent), and it is forecasted that the population will reach 90.9 million by 2015 (July 2000 est.). In order to restrain the growth process, the Ethiopian government recently included a population control component in its overall development program. The death rate was estimated at 17.63 deaths per 1,000 people, and the birth rate was 45.13 births per 1,000 people (2000 est.). In terms of the age structure of the population, 47 percent of Ethiopians are younger than 15 years of age, 50 percent are between the ages of 15 to 64, and only 3 percent are older than 65 years of age. Only 16.3 percent of the population live in urban areas.

Ethnically, the population of Ethiopia is extremely heterogeneous (diverse). The country's principal ethnic groups are the Oromo (40 percent), the Amhara and Tigre (32 percent), Sidamo (9 percent), Shankella (6 percent), Somali (6 percent), Afar (4 percent), and Gurage (2 percent). The remaining 1 percent belong to various other ethnic groups. In total, there are more than 80 different ethnic groups within Ethiopia. Islam is the predominant religion with 45 to 50 percent of the population identifying as Muslim, 35 to 40 percent as Ethiopian Orthodox (a distinct denomination of Christianity), and 12 percent as animist (a term used to delineate a wide range of native African religious belief systems). The remaining 3 to 8 percent are adherents of various other religions.

Many languages are spoken by the inhabitants of Ethiopia, including Amharic, Tigrinya, Orominga, Guaraginga, Somali, and Arabic. Numerous other local languages and dialects also are spoken. Many of the languages are from the Semetic or Cushtic linguistic groups. Amharic is the country's only official language, while English is the major foreign language taught to Ethiopians in the educational system.

Like many African countries, one of the most daunting prospects that Ethiopia faces is a massive HIV/AIDS epidemic. By the end of 1997, conservative estimates stated that 2.6 million Ethiopians were living with HIV/AIDS, while the adult prevalence rate was 7.4 percent. In addition to causing considerable suffering,



HIV/AIDS places a large burden on health care expenditure and diminishes the ability of the poor to save and invest, due to the high cost of treating the disease. According to the **United Nations Development Program** (UNDP), the efficacy of the government's plan to curb the epidemic will depend on its ability to address the structural factors that facilitate the spread of the disease, such as poverty and gender inequality.

OVERVIEW OF ECONOMY

The Ethiopian state consists, territorially, of the only area in Africa that was never colonized by a European power, with the exception of a brief Italian occupation from 1936 to 1941. Indeed, Ethiopia—or Abyssinia, as the area was once called—is one of the oldest independent countries in the entire world. Modern Ethiopia, characterized by political centralization and a modern state apparatus, emerged in the mid-19th century. Throughout much of the 20th century, Ethiopia was presided over by the emperor, Haile Selassie, who ruled the state autocratically (single-handedly and dictatorially), until he was overthrown and subsequently executed in the revolution of 1974.

Under Selassie's rule, the Ethiopian economy relied primarily on agriculture, particularly coffee production. During this time, agricultural production resembled a feudal system since land ownership was highly inequitable, and the vast majority of Ethiopians were obliged to till the fields of the wealthy landowners. Much of the marginal amount of industry that did exist was concentrated in the hands of foreign ownership. For example, by 1962, the Dutch H.V.A. Sugar Company, which commenced operations in Ethiopia in the early 1950s,

employed 70 percent of the Ethiopian **workforce** involved in the industrial food-processing sector. The food-processing sector, in turn, employed 37 percent of all workers involved in manufacturing and industry.

Spouting anti-feudal and anti-imperialist (anti-foreign dominance) rhetoric, an administrative council of soldiers, known as the Derg, overthrew Selassie in 1974, ushering in a lengthy period of military dictatorial rule. The Derg regime, in turn, vocally promoted a **Marxist**-Leninist system, though according to Ghelawdewos Araia, author of *Ethiopia: The Political Economy of Transition,* it was only ostensibly (superficially) based on **socialist** principles. The Derg introduced substantial land reform and **nationalized** almost all of the country's important industries. The Derg regime, however, known for its particularly brutal suppression of opposition forces, failed to solve Ethiopia's many economic problems. In 1991, massive discontent led by the student movement, declining economic conditions caused by drought and famine, and provincial insurrections led by ethnic separatist groups forced the Derg chairman and Ethiopian president, Mengistu Haile Mariam, to flee the country. Following a period of transitional rule by the Transitional Government of Ethiopia, free elections were held in 1995, resulting in a victory for the Ethiopian's People's Revolutionary Democratic Front (EPRDF).

Since its democratic assumption of power, the EPRDF has supported a process of economic reform based on the **privatization** of state-owned enterprises, promotion of agricultural exports, and **deregulation** of the economy. By 1999, the Ethiopian Privatization Agency had already overseen the privatization of more than 180 **parastatals**, including most state-owned **retail** shops, hotels, and restaurants.

Since the fall of the Derg regime, the economy has experienced several positive economic developments. In 1992, for example, the International Monetary Fund's (IMF) *Staff Country Report No. 98/6* stated that 62,941 persons were registered as unemployed, whereas in 1996, the figure of officially unemployed fell to 28,350 persons. Of course, for both years, many unemployed Ethiopians, and perhaps even the majority, did not register themselves as such. Nonetheless, it would be fair to deduce that a considerable amount of formerly unemployed Ethiopians have found jobs throughout the 1990s. At the same time, however, the UNDP estimates that the annual growth rate in **gross national product** (GNP) per capita between 1990 to 1998 was 1.0 percent, while the average annual rate of **inflation** during the same period was 9.7 percent. This means that Ethiopians were having an increasingly difficult time purchasing the commodities, such as food, that are essential for human existence.

The Ethiopian economy remains highly dependent upon coffee production, with 25 percent of the population deriving its livelihood from the coffee sector. Indeed, from 1995 to 1998, coffee accounted for an average of 55 percent of the country's total value of exports. Gold, leather products, and oilseeds constitute some of the country's other important exports. Major export partners include Germany, Japan, Italy, and the United Kingdom, while import partners include Italy, the United States, Japan, and Jordan. Ethiopia's imports include food and live animals, petroleum and petroleum products, chemicals, machinery, and motor vehicles.

Since Ethiopia mostly exports agricultural products and imports higher valued **capital goods**, the country runs a severe **balance of trade** deficit. This deficit, in turn, means that Ethiopia must borrow heavily to finance its imports, a factor that has led to the development of a significantly sized **external debt** (owed to both foreign-owned banks and international financial institutions, such as the World Bank and the IMF). In 1997, the total debt stood at US$10 billion. The frequent droughts that plague the country also prevent the creation of a self-sufficient agricultural economy. Consequently, as many as 4.6 million people rely on annual food assistance provided by the wealthy industrial countries. Indeed, Ethiopia is the largest recipient of U.S. aid in sub-Saharan Africa. Notwithstanding (not including) emergency food aid, in 1996 Ethiopia received a total of US$45 million in Official Development Assistance (ODA) from the United States alone.

POLITICS, GOVERNMENT, AND TAXATION

The executive branch of the Ethiopian government consists of both an elected president, who is the chief of state, and a prime minister, who is the head of government. Cabinet ministers are selected by the prime minister and approved by the House of People's Representatives, the lower chamber of the **bicameral** parliament. Members of the lower chamber are directly elected by popular vote, while members of the upper chamber, the House of Federation, are chosen by the various state assemblies. The president and vice president of the Federal Supreme Court, the chief institution of the judicial branch of government, are recommended by the prime minister and appointed by the House of People's Representatives.

In June 1994, the first democratic multiparty elections in Ethiopia's history took place, ending a 3-year transitional period that commenced following the overthrow of the Derg regime. During the transitory phase, the Eritrean People's Liberation Front (EPLF) assumed control of Eritrea and established a provisional government in the Ethiopian province. In April 1993, the EPLF administered a separatist referendum under the auspices

of the United Nations (UN), which subsequently formed the basis of a declaration of independence at the end of that month. Thereafter, Eritrea was recognized internationally as an independent sovereign nation. Since 1998, Ethiopia and Eritrea have officially been engaged in a border war as a result of territorial disputes.

The June 1994 national elections resulted in an overwhelming victory for the Ethiopian People's Revolutionary Democratic Front (EPRDF), a coalition of numerous ethnically based Derg-opposition movements led by the Tigrayan Peoples' Liberation Front (TPLF). The TPLF initially entered politics as a Marxist guerrilla movement bent on overthrowing the Derg regime. As the leading party in the EPRDF, however, the TPLF has officially adopted a pro-democracy and pro-free market stance, as its economic and political policies clearly make manifest. Nonetheless, the U.S. Department of State argues that the EPRDF displays certain residual (left-over) control-oriented tendencies, which result from the party's quasi-authoritarian guerrilla past (during the insurgency, the TPLF was directed necessarily as a military unit). The recently held 2000 national elections saw the EPRDF return to power, and Meles Zenawi, the leader of the party, is serving his second term as prime minister. Most observers have agreed that Zenawi's government has pursued sound policies, which have contributed to economic growth and reductions in unemployment.

Several other parties also add to the plurality of Ethiopian political life, including the Coalition of Alternative Forces for Peace and Democracy (CAFPD); the Ethiopian Democratic Union (EDU); The Ethiopian Movement for Democracy, Peace, and Unity (EMDPU); the Ethiopian National Democratic Party (ENDP); the Oromo Liberation Front; and the All-Amhara People's Organization (AAPO), not to mention dozens of other smaller parties. While most parties are more or less pro-democracy and pro-free market, several Ethiopian parties, including the last 2 listed above, represent the specific interests of particular ethnic groups.

Import **duties**, which ranged from 0 to 50 percent and averaged approximately 20 percent in 1997, are the most significant contributor to government tax revenue. **Income tax** on employment, in turn, is the second most important source of tax revenue, while taxation of business profits is the third most important. There are 5 income tax brackets, with the highest marginal tax rate set at 40 percent for monthly incomes above 3,301 birr, and the lowest marginal tax rate set at 10 percent for monthly incomes between 121 to 600 birr. The profits of incorporated businesses are taxed at a uniform rate of 35 percent. **Excise taxes** are also quite important, and the tax rates of many products, including pure alcohol (150 percent), perfumes and automobiles (100 percent), dishwashers (80 percent), and tobacco and tobacco products (75 percent), are set at exceptionally high rates. Since most of these items are luxury products, the high tax rates do not affect poor consumers. However some of the more essential commodities, such as petroleum and petroleum products (20 percent), are also taxed quite heavily. The government's total revenue stood at US$1 billion in 1996.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

According to the U.S. Department of State's *Country Commercial Guide 2000,* Ethiopia's surface and transport **infrastructure** is exceedingly poor and underdeveloped. Indeed, the country has the lowest road density in the world, and only 13.3 percent of all roads are paved (1999 est.). There are few interconnecting links between nearby regions and large parts of the country are isolated and dependent upon pack animals for transportation. The main highway route is from Addis Ababa to the port of Djibouti, which Ethiopia uses extensively since it is a landlocked country without ports and harbors of its own. The only train network consists of the 681-kilometer (423-mile) long segment of the century old Addis Ababa-Djibouti railroad.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Ethiopia	1	195	5	N/A	0	0.0	N/A	0.01	8
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1
Eritrea	N/A	91	14	N/A	0	0.4	N/A	0.01	1

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Since May 1998, Ethiopia has expended considerable effort to repair and maintain the railroad lines. Moreover, with the help of various donors, including the World Bank, the European Union (EU), and the African Development Bank (ADB), the government has implemented a US$3.9 billion Road Sector Development Plan designed to expand the road network by 80 percent for 2007. In 1998, the World Bank approved a US$309 million loan to be used for the project, a welcome contribution even though the loan will contribute significantly to Ethiopia's overall debt.

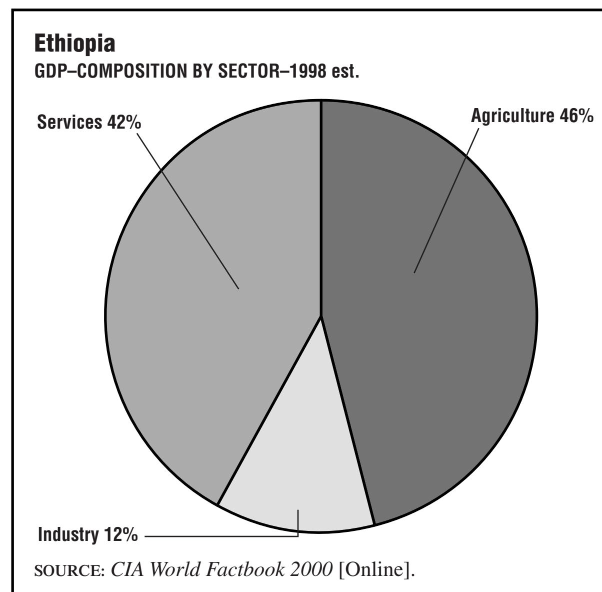
As for air transport, there are a total of 85 airports in Ethiopia, 11 of which have paved runways. All passenger and cargo flights are provided by Ethiopian airlines. The airlines' international services link the country with 43 cities on 3 continents, while domestic services link 38 airfields and 21 landing strips with Addis Ababa.

The government-owned Ethiopian Telecommunications Corporation (ETC) provides the population with telephone services. However, with only 3.1 telephone mainlines per 1,000 people, very few Ethiopians actually have telephone access (1999 est.). The situation compares unfavorably with most other sub-Saharan African nations, to say nothing of the wealthier industrialized nations of the world. In the United States, for example, there are 640 phone lines per 1,000 people (1996 est.).

Almost 90 percent of Ethiopia's electricity is derived from hydropower, which is exclusively provided by the parastatal Ethiopian Electric Power Corporation. In 1999, the country's total electric capacity was 400 megawatts. Over the next several years, the government plans on tripling this capacity to reach 1,200 megawatts. Although doing so would satisfy current electrical needs, Ethiopia has an untapped natural potential to generate over 30,000 megawatts of hydroelectric power. Ethiopia neither exports nor imports electricity, though it does heavily import oil.

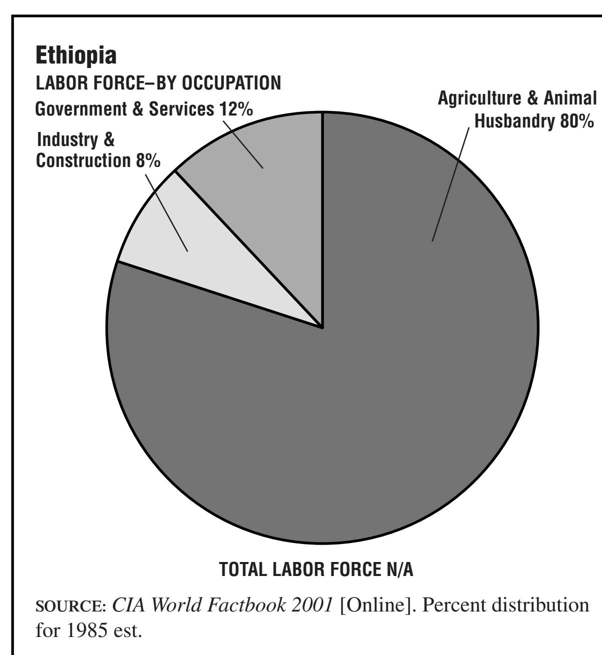
ECONOMIC SECTORS

Like most of the countries of the African continent, Ethiopia's economy is dominated by agricultural production. For many similar countries, this dominance is the direct result of the colonial period, which encouraged policies of agricultural exportation at the expense of industrial development. African territories were forced to export primary crops to their colonizing countries and to import higher **value-added** manufactured commodities. For Ethiopia, however, which was never a European colony, the agricultural predominance is in part a historical legacy of the feudalistic policies that prevailed throughout most of 20th century. These policies consisted of onerous (oppressive) obligations on the part of the peasantry, who were expected to provide high taxes and agricultural surplus to sustain the livelihoods of the ruling classes (consisting of the royal family, government officials, and lords and nobles). In this system, which lasted until the mid-1970s, the government was more concerned with maintaining the rule of the status quo (the existing order) than in fostering industrial development, which resulted in the foreign domination of industry.



SOURCE: *CIA World Factbook 2000* [Online].

Industry still remains a relatively small aspect of the Ethiopian economy, though there is potential for growth in both manufacturing and mining. The service sector, which has become extremely important in terms



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1985 est.

of contribution to the **gross domestic product** (GDP), is characterized by a strong financial system. Tourism is one area of the service sector that is currently marginal, though there is significant potential for commercial development.

AGRICULTURE

Agriculture, which constituted 46 percent of GDP and more than 80 percent of exports in 1998, is by far the most important economic activity in the Ethiopian economy (1998 est.). An estimated 85 percent of the population are engaged in agricultural production. Important agricultural exports include coffee, hides and skins (leather products), pulses, oilseeds, beeswax, and, increasingly, tea. Domestically, meat and dairy production play an integral role for subsistence purposes.

Socialist agricultural reforms conducted by the Derg included land reforms that led to relatively equitable patterns of land tenure. The state maintained complete ownership of land, and state marketing boards were created with **monopolistic** rights to purchase and sell agricultural commodities. Currently, the government retains the right of ultimate land ownership in the agricultural sector, though most marketing boards have been abolished. While marketing boards enabled farmers to sell their crops to the highest bidder, they also required the dissolution of minimum prices for agricultural commodities. Since the government normally purchased agricultural commodities at low prices, however, the abolition of marketing boards may prove to be a positive development.

With 25 percent of all Ethiopians—approximately 15 million people—gaining their livelihoods from coffee production, the coffee sector is the most important agricultural activity. According to the U.S. Central Intelligence Agency *World Factbook 2000,* coffee production, Ethiopia's largest source of foreign exchange, contributed US$267 million to the economy in 1999, with export volumes equaling 105,000 metric tons. Coffee has long held a central role in Ethiopia's export economy and, as early as the mid-1970s, about 55 percent of the nation's total export earnings derived from coffee exports. This percentage share remained more or less constant until the mid-1990s, when it increased to an average of 63 percent of total export earnings between 1995 to 1998.

With the export economy so heavily dependent upon the exportation of a single crop, the Ethiopian economy is structured into a precarious (insecure and dangerous) position. If annual production declines as a result of a bad harvest (due to natural factors, such as drought—a constant threat), export earnings will suffer considerably, exacerbating (making worse) the country's already negative balance of trade. Similarly, if all coffee producing countries produce large amounts of coffee in a given year—resulting in an excessive supply—international prices for coffee will decline and Ethiopia's export economy will accordingly suffer. Such was the case in 1998, when a **glut** in the world supply of coffee reduced Ethiopia's coffee earnings by 22 percent from the previous year.

With 75 million heads of livestock, Ethiopia has the largest concentration of livestock on the African continent. According to the *Country Commercial Guide 2000,* however, it is difficult to calculate the cattle sector's exact value, since a substantial amount of meat and dairy production is for subsistence consumption. In certain regions, such as the highlands, livestock is utilized only to support farming. Still, hides and leather products are Ethiopia's second most important export, though the *Commercial Guide* states that the sector's huge potential remains largely untapped, as a result of weather conditions (drought), diseases, and the lack of a coherent government plan for the development of the sector. In 1996, Ethiopia produced 8,500 metric tons of leather and leather products for exportation, thereby earning a total of US$6.5 million.

Ethiopia is also the continent's leading producer and exporter of beeswax and honey. The country has approximately 7 million bee colonies. Other important agricultural activities include tea production, which has reached approximately 4,000 metric tons of output in recent years, and cotton and sugar production. Moreover, there are opportunities for expanding cultivation and export of dried fruits, cut flowers, and canned vegetable products.

While the agricultural export economy is constantly subjected to the caprices (whims) of the weather, so too is agricultural production geared towards domestic consumption. In 1992, for example, IMF statistics indicate that Ethiopia produced 51,850 quintals of cereals, mostly for domestic consumption, whereas the following year the cereals output dropped to 47,404 quintals—a decline of 8.6 percent. The decrease was largely the result of drought. The fact that Ethiopia has an extremely poor infrastructure for agricultural production does not help the matter. Though there is the potential for Ethiopia to become self-sufficient in grain production, the country must currently continue to import grains in addition to receiving food aid in order to feed the population.

Like many African countries, Ethiopia confronts several environmental issues that are particularly problematic for the agricultural sector of the economy. Such issues include deforestation (depletion of forests), overgrazing (depletion of pastures), soil erosion (depletion of quality soil), and **desertification** (extensive drying of the land). Since only 12 percent of all Ethiopian land is arable, 1 percent is used for permanent crops, and 40 percent is comprised of permanent pastures, it is essential

for Ethiopia to address these environmental problems in order to maintain the land so fundamental for agricultural activities. Moreover, according to Girma Kebbede, the author of *The State and Development in Ethiopia,* it is precisely these environmental problems—rather than just the shifting weather patterns—which contribute primarily to the chronic famines that so frequently plague the country. Quite simply, limited arable land as a result of soil erosion and other environmental difficulties mean that in times of drought, there are very few available methods to prevent widespread famine.

INDUSTRY

Ethiopian industry, including both mining and manufacturing, constitutes approximately 12 percent of the GDP, while providing employment for 8 percent of the country's labor force (1998 est.). Under the Derg regime, almost all of the major industries were owned exclusively by the state. With a marginal average annual growth rate of 3.8 percent between 1980 and 1987, the state's policies of industrial control did not fare well. According to Kebbede, the failure of such policies can be attributed to "bureaucratic mismanagement, inefficiency, and corruption." State bureaucracies were costly and wasteful because they were not held responsible to any section of the society and because political and ideological questions took precedence over questions of efficiency or practicality. At the same time, however, one must remember that for many impoverished African countries fearful of foreign domination and eager to create more or less equitable societies, state control of industry seemed to be the most reasonable form of economic organization throughout the 1960s and 1970s. The country's first democratic government, formed in the early 1990s, made privatization of Ethiopia's industrial sector a major objective to promote economic growth, but progress remained slow at the beginning of 2000.

MINING. Regarding the exploitation of natural resources, gold, marble, limestone, and small amounts of tantalum are the major minerals mined in Ethiopia. Of these minerals, gold, which provided US$12.5 million to the economy in 1996, is the most significant contributor to export earnings. Gold mining output has oscillated (wavered) considerably throughout the 1990s, fluctuating, for example, from 3,500 metric tons in 1992 to 1,800 metric tons in 1994 and 5,100 metric tons in 1996. Traditionally, the mining industry, which remains under state domination, has played a marginal role in Ethiopia's economy. Resources with potential for future commercial development include potash (recently found in large deposits), natural gas, iron ore, and possibly coal and geothermal energy.

MANUFACTURING. Manufacturing as a percentage of the GDP only marginally increased throughout the 1990s. In 1992, for example, manufacturing constituted 3.9 percent of the GDP, whereas its percentage share had slightly increased to 4.3 percent by 1998.

The manufacturing sector of the Ethiopian economy produces construction materials, metal, and chemical goods, in addition to basic **consumer goods** such as food, beverages, clothing, and textiles. Despite massive privatization campaigns, the industrial sector remained dominated by the state, with 150 public (state) enterprises accounting for more than 90 percent of the entire sector's value in 1999. Production by state-owned enterprises is centered on food and beverages, textiles, clothing, leather products, tobacco, rubber, plastic and cement. In 1999, there were also 165 **private sector** manufacturing firms involved in producing goods such as bakery products, textiles, footwear, and furniture.

Though certain areas of manufacturing are now open to participation by foreigners with permanent residence status as a result of legislation passed in 1998, still other areas, such as garment factories, are restricted from foreign participation. In 1998, there were a total of 163 foreign investment projects with total projected capital investment of US$1.2 billion. Of these projects, 90 were wholly foreign owned while 73 were **joint ventures** with local partners. Major foreign investors include the United States, with investments worth US$9 million in 1999, as well as Saudi Arabia, South Korea, Kuwait, and Italy. U.S.-based manufacturing companies that have a significant presence in Ethiopia include Pepsi-Cola, Coca-Cola, Caterpillar, General Motors, Xerox, and John Deere. Numerous other U.S. firms also operate in Ethiopia, albeit in different sectors of the economy.

SERVICES

Accounting for 42 percent of the GDP, services are an extremely important component of Ethiopia's economy (1998 est.). At the same time, however, with only 12 percent of the labor force engaged in services and government employment, a relatively small percentage of Ethiopians work in the service sector. The large contribution of services to the GDP stems mostly from the government and the strong financial sector.

TOURISM. According to the aforementioned *Country Commercial Guide 2000,* the tourism industry in Ethiopia is negligible, though there is great potential for commercial development. With many unique indigenous plant, bird, and mammal species, the country has an enormous diversity of wildlife, exotic landscapes, and architectural ruins of prehistoric, historical, and religious significance. As such, Ethiopia is an ideal location for foreign and local visitors embarking upon historic, cultural, or **ecotourism** expeditions.

FINANCIAL SERVICES. Following the 1974 revolution, the banking and financial sector in general came under the domination of the state. In 1994, legislation was passed that permitted the establishment of private banks and insurance companies but prohibited foreign ownership of such companies.

Ethiopia's central bank, the National Bank of Ethiopia (NBE), seeks to foster monetary stability and a sound financial system by maintaining credit and exchange conditions perceived to be conducive to the balanced growth of the economy. All transactions in foreign exchange must be carried out through authorized dealers under the control of the NBE. The Commercial Bank of Ethiopia (CBE), whose assets totaled over US$3 billion in 1996, is a government-owned bank with 167 branches in operation and over US$1.5 billion on deposit (1996 est.). The CBE, the largest bank in Ethiopia, offers credit to investors on market terms, though the 100 percent collateral requirement limits the ability of small entrepreneurs with limited resources to capitalize upon business opportunities.

Ethiopia's first private bank, Awash, commenced operations in 1994 and now boasts 6 branches in Addis Ababa and 2 in the Oromiya Regional State. In addition to Awash, 5 other private banks now operate in Ethiopia, including Dashen Bank (with a total of 12 branches), the Bank of Abyssinia (2 branches), and Wegagen Bank (5 branches). The 2 newest private banks in operation are NIB International and United Bank. Since the banking and financial reforms of 1994, there are also 7 private insurance companies in operation—United, Africa, Nile, Nyala, Awash, National, and Global. Ethiopia does not have a securities market, although the U.S. Department of State reported that a private sector initiative to establish a mechanism for buying and selling company shares was expected to begin by the year 2000.

RETAIL. Ethiopia's retail sector consists mostly of small shops, local markets, and roadside stands, many of which are part of the **informal sector** of the economy, which remains unregulated and untaxed. Investment legislation passed in September 1998 also allows foreigners with permanent resident status to participate in retail and wholesale trade.

INTERNATIONAL TRADE

Ethiopia has chronically run a negative **balance of payments**, rendering the country highly dependent upon foreign aid and loans to finance imports. Throughout the 1990s, the situation has shown little sign of improvement. Indeed, the balance of trade deficit was US$829.4 million in 1992 and—despite a brief amelioration in 1994 when the deficit declined to US$609.5 million—it remained approximately the same in 1998, when it reached US$830.0 million. The constant deficit ensures Ethiopia's perpetual indebtedness to the commercial banks of the rich industrial countries and international financial institutions, such as the IMF, the World Bank, and the ADB. In 1997, Ethiopia's total external debt stood at US$10 billion.

Trade (expressed in billions of US$): Ethiopia

	Exports	Imports
1975	.240	.313
1980	.425	.716
1985	.333	.993
1990	.298	1.081
1995	.423	1.145
1998	.560	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Ethiopia's major exports include coffee, gold, leather products, beeswax, canned vegetables, tea, sugar, cotton, and oilseeds. Purchasing approximately 22 percent of Ethiopia's exports in 1997, Germany is Ethiopia's largest trading partner. Along with many other countries of EU—such as Italy, France, and the United Kingdom—Germany has steadily increased its quantity of Ethiopian imports. In 1992, for instance, the countries of the EU purchased approximately Br203.3 million worth of Ethiopian exports, whereas this figure increased dramatically to Br1,351.5 million in 1996. Similarly, the United States has increased its quantity of Ethiopian imports from Br19.6 million in 1992 to Br169.9 million in 1996. This major increase in trade with the Western countries can be explained primarily by the fall of the Derg and the subsequent **liberalization** policies pursued by the EPRDF. Other major importers of Ethiopian products include Saudi Arabia, China, and Japan, the latter of which purchased 12 percent of all Ethiopian exports in 1997. Ethiopia's largest trading partner in Africa is Djibouti, a neighboring country through which Ethiopia must conduct all of its importing and exporting since Ethiopia is landlocked and thus lacks a port of its own.

Ethiopia's major imports include food and live animals, petroleum and petroleum products, chemicals, machinery, civil and military aircraft, transport and industrial capital goods, agricultural machinery and equipment, and motor vehicles. Ethiopia's imports have followed the same pattern as its exports in the 1990s, with the percentage of imports from the countries of the EU and the United States steadily increasing. In 1991, imports worth Br364.7 million were purchased from the countries of the EU, while this figure increased to Br2,006.7 million in 1995. In the same year, a similar value (Br2,300.7 mil-

lion) of imports came from various countries of Asia and the Middle East, including Japan, Saudi Arabia, and China. With imports to Ethiopia equaling Br146.8 million in 1995, Djibouti is Ethiopia's number-one regional exporter, while Kenya is second.

Ethiopia's balance of trade deficit can be largely explained by the unequal terms of trade between agricultural commodities (the country's major exports) and capital goods (Ethiopia's major imports). International markets accord a higher price to commodities that are manufactured—or "value-added"—than to those that are in their raw form. Recognizing the uneven terms of international trade, many countries, including Ethiopia, pursued policies of protectionism throughout the 1960s and 1970s to develop national industrial capacity or **import-substitution**. In many cases, where the state pursued policies of complete industrial control, they failed miserably. For others, however, such as the economies of Southeast Asia, the policies were more successful, enabling these countries to eventually partake in liberalized free trade at the global level.

Ethiopia's policies of import substitution were largely disastrous. This does not mean, however, that the country should necessarily abandon all forms of protection in favor of free trade, which is theoretically designed to increase the efficiency of national industries through competition with the outside world. Instead, such liberalization may lead to the inability of Ethiopian industries to compete at all, thereby further assuring the dominance of the agricultural sector. To date, Ethiopia has proceeded with the liberalization process relatively cautiously, maintaining an average **tariff** rate of approximately 20 percent (1997 est.), though there are plans to reduce this figure to 17 to 18 percent. Ethiopia is considering application to the World Trade Organization (WTO), and it is already a member of the Common Market for Eastern and Southern Africa (COMESA). Regional trading arrangements such as the latter may offer member countries the opportunity to profit from increased trade while competing from a more level playing field. There has been little trade increase between the members of COMESA, however.

MONEY

Prior to 1993, the official rate of the Ethiopian birr was pegged (fixed) to the U.S. dollar at US$1:Br5.000. Since a pegged **exchange rate** does not necessarily represent a currency's true market value, the EPRDF replaced the **fixed exchange rate** system with a **floating exchange rate** system. The value of the birr is thus determined in an inter-bank market where the national bank sells foreign currency to private banks, the Commercial Bank of Ethiopia, and large corporations at weekly auctions. In this way, the official exchange rate is auction-determined. The purchasers of foreign exchange, in turn, are free to establish their own exchange rates.

Exchange rates: Ethiopia

birr (Br) per US$1	
Dec 2000	8.3140
2000	8.3140
1999	8.1340
1998	7.5030
1997	6.8640
1996	6.4260

Note: Since May 1993, the birr market rate has been determined in an interbank market supported by weekly wholesale auction.

SOURCE: CIA *World Factbook 2001* [ONLINE].

The value of the birr in relation to the U.S. dollar has steadily depreciated since the implementation of the floating exchange system. In 1995, for instance, the exchange rate was set at US$1:Br6.3200 while, 3 years later in 1998, the rate had decreased to US$1:Br7.5030. As of January 2000, the rate was determined at US$1:Br8.2.

According to the *Country Commercial Guide 2000,* the Ethiopian currency has remained relatively stable, especially in comparison to the currencies of most other sub-Saharan African nations, as a result of conservative **monetary policies** and considerable **foreign exchange reserves**. Nonetheless, the steady depreciation of the currency means that it takes a growing amount of Ethiopian birr to purchase imports from abroad. While this can help the export economy, since fewer U.S. dollars are needed to purchase Ethiopian exports, it also renders valuable imports, such as food for the population, more expensive. In 1998, incidentally, food imports constituted 14 percent of all merchandise imports.

POVERTY AND WEALTH

Under the rule of Haile Selassie, Ethiopian society was characterized by gross inequality between the largely aristocratic elite—consisting of landowners, lords, nobles, the royal family, government officials, and elements of the clergy—and the impoverished peasantry. Indeed, according to Kebbede, the massive famines of the 1960s could have been avoided if the obligations on the part of the peasantry towards the elite (in terms of providing agricultural produce) had not been so oppressive. The Derg regime subsequently abolished feudal obligations and titles of privilege, even going to the extreme of executing numerous members of the high-ranking nobility (the so-called "red terror"). Despite the egalitarian rhetoric of the Derg, however, high-ranking government officials

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Ethiopia	N/A	N/A	91	100	110
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Eritrea	N/A	N/A	N/A	N/A	175

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

retained privileged economic positions. Today, Ethiopia's elite continues to consist of government officials, in addition to a small upper class of highly skilled managers and professionals.

Like all the countries of Sub-Saharan Africa, poverty is rampant in Ethiopia. The UNDP's Human Development Index (HDI) listings, which arranges countries according to their overall level of human development, ranks Ethiopia 171st out of a total of 174 nations. The HDI is a composite index (one that assesses more than one variable) that measures life expectance at birth, adult literacy rate, school enrollment ratio, and the **GDP per capita**. It is indicative of a country's general social and economic well-being. As such, Ethiopia's HDI ranking demonstrates that the country is one of the poorest and least developed in the world. Fortunately, the situation has shown small signs of improvement, and the Ethiopian HDI score increased from a dismal 0.265 in 1985 to a slightly better 0.309 in 1998 (the highest possible rank is 1.0, and Canada—the highest ranking HDI country—scored 0.935 in 1998).

The Ethiopian government spends relatively little on education and health. In 1998, for example, public expenditure on health and education as percentages of the GDP equaled 1.6 percent and 4.0 percent respectively. Though these expenditures displayed marginal increases, they are nowhere near the percentage level of industrialized countries, such as the United States, which spent 5.4 percent of the GDP on education and 6.5 percent on health in 1998. Moreover, the Ethiopian government spends a significant amount on military expenditure, largely as a result of the border war with Eritrea, though such expenses have decreased substantially from 10.4 percent of the GDP in 1990 to 3.8 percent in 1998. The fact that the Ethiopian government must continually service a large debt does not help the social expenditure cause.

Distribution of Income or Consumption by Percentage Share: Ethiopia

Lowest 10%	3.0
Lowest 20%	7.1
Second 20%	10.9
Third 20%	14.5
Fourth 20%	19.8
Highest 20%	47.7
Highest 10%	33.7

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

The vast majority of Ethiopians spend their meager incomes on the basic necessities of life, such as food, rents, clothing, fuel, and transportation. Very little is spent on entertainment and recreation, which are considered luxuries for those that live in considerable poverty. To make matters worse, in the past 10 years, the increase in the GNP per capita has been grossly outweighed by mounting inflation, which means that Ethiopians are having an increasingly difficult time purchasing the commodities essential for human existence. The UNDP estimates that the annual growth rate in GNP per capita between 1990 to 1998 was 1.0 percent, while the average annual rate of inflation during the same period was 9.7 percent.

WORKING CONDITIONS

Since 85 percent of Ethiopia's workforce engages in **subsistence farming** in the countryside, only a very small percentage of the population is involved in wage labor. The Ethiopian constitution and the 1993 labor law provide wage laborers with the right to form and belong to unions, though employees of the civil and security services (where most wage earners work), judges, and prosecutors are denied these rights. The Confederation of Ethiopian Trade Unions (CETU), established after the fall of the Derg regime in 1993, includes 9 federations organized by industrial and service sector. There is no requirement that unions belong to the CETU. Approximately 250,000 Ethiopian workers are unionized.

Workers who provide an "essential service," such as those who work in air transport, railways, bus service, police and fire services, post and telecommunications, banks, and pharmacies, are denied the right to strike. Other workers are granted the right to strike, though the unions involved must follow certain detailed procedures before doing so. The same applies for the right of an employer to lock out workers. Both sides must make efforts at reconciliation and provide at least 10 days notice to the government before the commencement of an action.

The minimum age for wage labor is 14 years, and various laws protect children between the ages of 14 to 18 years, including restrictions that they may not work more than 7 hours per day. The U.S. Department of State

maintains that there are some efforts to enforce such regulations within the formal industrial sector, though there are large numbers of children of all ages that grow and harvest crops outside government regulatory control in the countryside or work as street peddlers in the cities. The harsh reality is that many impoverished parents depend on the work contributions of their children to ensure the survival of the household.

While there is no minimum wage in the private sector, a minimum wage in the **public sector** has been in effect since 1985. According to the U.S. Department of State, however, the minimum wage in the public sector, which equaled about US$16 per month in 1996, is insufficient to provide a decent standard of living for a worker and family. The Office of the Study of Wages and Other Remunerations, for instance, reports that a family of 5 requires a monthly income of US$61 in Ethiopia. Even with 2 minimum wage earners, therefore, a family receives only about half the income needed for adequate subsistence. These factors result in the family's reliance upon the children to contribute to the household income.

Most employees in Ethiopia work a 40-hour week, and the government, industry, and unions negotiate occupational health and safety standards. The Inspection Department of the Ministry of Labor and Social Affairs cannot enforce these standards effectively, however, due to a lack of human and financial resources.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

5TH CENTURY B.C. Ethiopia becomes one of the first countries in Africa. Ethiopia is described by the Greek historian Herodotus, and the Old Testament records a visit by the Ethiopian Queen of Sheba to Jerusalem.

4TH CENTURY. Missionaries from Syria and Egypt introduce Christianity to the country.

1493. The Portuguese establish contact with Ethiopia, prompting a lengthy conflict between Roman Catholic converts and adherents of Ethiopian Coptic Christianity.

1630s. All foreign missionaries are expelled from Ethiopia, and the country subsequently remains isolated from the West until the mid-19th century.

MID-19TH CENTURY. Under the Emperors Theodore (1855–68), Johannes IV (1872–89), and Menelik II (1889–1913), Ethiopia becomes a modern state characterized by political centralization.

1930. Adopting the throne name Haile Selassie, Ras Tafari Makonnen is crowned emperor, commencing a lengthy period of rule that witnesses the perpetuation of a quasi-feudal system, albeit with marginal reforms.

1936–42. The Italians occupy Ethiopia despite Selassie's plea to the League of Nations for intervention. The Italians are expelled by British and Ethiopian forces, and Selassie returns to rule after a period of forced exile.

1974. Following a period of civil unrest, Selassie is deposed, and a military administrative council known as the Derg declares a military dictatorship supposedly based on socialist principles. The Derg, which pursues abhorrent policies of political repression (the "red terror"), nationalizes the land and most of the economy.

1991. Ethnic insurrection, a collapsed economy, and recalcitrant (rebellious) students cause the final collapse of the Derg regime. The Ethiopian People's Revolutionary Democratic Front (EPRDF) is democratically voted into office.

1993. Eritrea establishes its independence under a UN-monitored referendum. Ethiopia and Eritrea commence a border war that continues to restrain the development of both countries.

FUTURE TRENDS

Despite the pervasive poverty, marginal growth rates, and tumultuous political and economic history of Ethiopia, there are several signs indicative of hope and improvement. For the first time in the country's history, for instance, an effective democracy has been institutionalized. While this will most certainly not solve Ethiopia's deeply embedded economic difficulties overnight, it is, if nothing else, a huge step forward in the direction of the establishment of a responsive and stable government. Moreover, the economy has experienced an unprecedented degree of stability since the mid-1990s, though this is, admittedly, counterbalanced by a precarious agricultural dependence and a chronic balance of payments deficit.

While there are undeniably positive developments, there remain severe impediments that prevent the assurance of a sustained path towards economic development. Perhaps the most significant question that the Ethiopian government must address is the specific policy framework that must be implemented over an extended period of time to surmount these impediments. Privatization and the absolute rule of the free market currently reign supreme in the international neo-**liberal economic** environment. Rather than accepting the virtues of neo-liberal ideology at face value, however, Ethiopia must adopt policies that are relevant to its particular circumstances. To its credit, this is precisely what the EPRDF seem to be doing. Though the government has pursued policies of trade liberalization, they have not promoted unobstructed free trade. Similarly, while many state-owned enterprises have been privatized, the government retains

a considerable role in certain areas of the economy, such as telecommunications, infrastructure provision, and electricity. Moreover, foreign dominance, which can be nationally unprofitable, has been entirely excluded from certain segments of the economy, such as the finance sector. The EPRDF must continue along this path, withstanding international pressure to create a complete free market economy that may not be appropriate at this stage of Ethiopia's economic development.

DEPENDENCIES

Ethiopia has no territories or colonies.

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—Neil Burron

GABON

Gabonese Republic
République Gabonaise

CAPITAL: Libreville.

MONETARY UNIT: Communauté Financière Africaine (CFA) franc. The CFA franc is tied to the French franc at an exchange rate of CFA Fr50 to Fr1. One CFA franc equals 100 centimes. There are coins of 5, 10, 50, 100, and 500 CFA francs, and notes of 500, 1,000, 2,000, 5,000, and 10,000 CFA francs.

CHIEF EXPORTS: Crude oil and natural gas, timber and wood products, manganese, uranium.

CHIEF IMPORTS: Machinery and equipment, foodstuffs, chemicals, petroleum products, construction materials.

GROSS DOMESTIC PRODUCT: US$7.9 billion (purchasing power parity, 1999 est.).

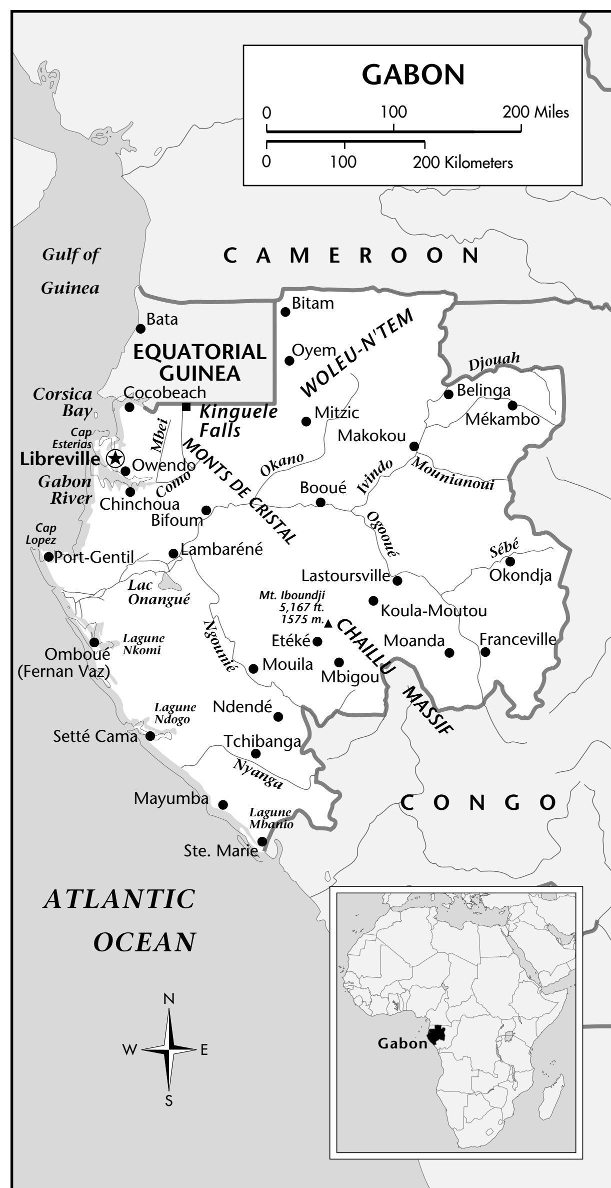
BALANCE OF TRADE: **Exports:** US$2.4 billion (f.o.b., 1999 est.). **Imports:** US$1.2 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Gabonese Republic lies along the equator on the west coast of Africa with a border length of 2,551 kilometers (1,585 miles) and a coastline of 885 kilometers (550 miles). Gabon is bounded to the west by the Atlantic Ocean, to the north by Equatorial Guinea (350 kilometers/218 miles) and Cameroon (298 kilometers/185 miles), and to the east and south by the Republic of the Congo (1,903 kilometers/1,183 miles). The drainage basin is comprised of the westward flowing Ogooue River, together with several smaller coastal rivers such as the Nyanga and the Como. Gabon covers an area of 267,667 square kilometers (103,346 square miles), of which land comprises 257,667 square kilometers (99,484 square miles) and water occupies 10,000 square kilometers (3,861 square miles). Comparatively, the area occupied by Gabon is slightly smaller than the state of Colorado. It has a tropical climate, which is always hot and humid. The terrain is comprised of a narrow coastal plain, savannah grassland in the east and south, and a hilly interior. The major rural areas are found in Woleu Ntem in the north, where coffee and cocoa are the main **cash crops**, and around Lambaréné, located inland from the central coastal belt, where palm oil and coffee are important. The highest point is Mount Iboundji, which stands at a height of 1,575 meters (5,168 feet). The capital city of Libreville is located on the country's northwestern coast.

POPULATION. At the July 1993 census, the population of Gabon numbered 1,014,976 and in mid-1998 the United Nations (UN) estimated a total of 1,188,000, giving an average density of 4.4 inhabitants per square kilometer. The population estimate for 2000 was 1,208,436. The population growth rate was estimated at 1.08 percent in 2000, with a life expectancy at birth of 48.94 years for males and 51.26 years for females in the same year. The infant mortality rate was 96.3 deaths per 1,000 live births while the fertility rate was 3.73 births per woman. The birth rate (per 1,000 population) was 27.6 while the death rate was 16.83 in 2000. The slow population growth takes into account the effects of mortality due to AIDS. AIDS results in lower life expectancy, higher infant mortality and death rates, and a lower population growth rate than would be expected under normal conditions. The distribution of population by age and sex is also affected, with those in the sexually active age groups and women being more vulnerable to the disease.

The population is more urbanized than most of Africa, with 53 percent living in the towns in 1988. It is mostly a young population with only 6 percent above 65 years of age and over 33 percent below 15 years. The country's principal ethnic groups are the Fang (30 percent) and the Eshira (25 percent), who reside primarily in the north, followed by the Bapounou and Bateke. French is the official language.



OVERVIEW OF ECONOMY

The combination of a small population and plentiful petroleum resources has given Gabon one of the highest incomes per capita in sub-Saharan Africa. The 1999 per capita **gross domestic product** (GDP) was a comfortable US$6,500. It therefore ranks as an upper middle-income country, a rarity among African nations.

Gabon's economy depended on timber and manganese until oil began to be exploited in significant quantities offshore in the early 1970s. The oil sector now accounts for 50 percent of GDP. Gabon continues to face fluctuating prices for its oil, timber, manganese, and uranium exports. The dominance of the petroleum sector is reflected in the economy's vulnerability to changes in world prices for this commodity, and the rate of economic growth has fluctuated widely in recent decades. While growth in GDP averaged 9.5 percent per year between 1965 and 1980, the average growth rate declined to 0.8 percent from 1985 to 1990 following the collapse of the petroleum prices in 1986. When the Rabikonga oil fields were developed in the 1990s, however, there was some improvement, reaching an average growth rate of 3.2 percent per year from 1990 to 1997. But due to steeply falling petroleum prices and a downturn in Asian demand for timber, the economy contracted by approximately 4 percent in 1998 and only saw a modest recovery in 1999 with an estimated 2 percent rise in GDP.

The petroleum boom of the mid-1970s and the expectation that oil prices would remain high led to government investment spending and borrowing, which left the country with a heavy debt burden. Consequently, in the mid-1980s the government had to undertake a series of economic adjustment programs designed to reduce debt while promoting the development of non-petroleum activities. Programs of **privatization**, rationalization, and retrenchment (cutting expenses) of **public sector** enterprises were undertaken.

Progress was limited in the areas under reform and the non-petroleum economy failed to expand as hoped. However, in January 1994 the government adopted a program for economic recovery supported by the International Monetary Fund (IMF). The objectives of this program were broadly achieved by the end of 1998. A number of major privatizations have taken place (the power utility and railway companies, for example), while others pending include the telecommunication services and the national airline. Some significant tax reforms have been introduced, notably the extension of the **value-added tax** (VAT) to forestry companies, removal of tax exemptions, and introduction of an investment code consistent with IMF recommendations.

POLITICS, GOVERNMENT, AND TAXATION

Formerly part of French West Africa, Gabon was granted internal autonomy in 1958 and became fully independent on 17 August 1960. Leon M'Ba, president of the new republic, established Gabon as a one-party state by inviting the opposition to join the government. There was a coup in 1964, but M'Ba was restored by French troops. Following his death in November 1967, M'Ba was succeeded by his vice-president, Albert Bernard (later Omar) Bongo. Bongo organized a new ruling party, the Parti Democratique Gabonais (PDG), which became the sole legal party in 1968. Gabon enjoyed relative stability in the 1970s and joined the Organization of Petroleum Exporting Countries (OPEC) after the discovery of oil deposits. But in the early 1980s, social and political

strains began to emerge led by the Mouvement pour le Redressement National (MORENA), a moderate opposition group. This group accused Bongo of corruption and personal extravagance and demanded restoration of political pluralism. But Bongo resisted and maintained the single-party system.

A series of strikes and demonstrations by students and workers in the early 1990s culminated in a constitutional amendment that led to the creation of a multiparty system and formation of an interim government. Bongo was elected president in 1990 and reelected in 1993 and 1998. Elections for the National Assembly were held in December 1996, and the PDG gained 89 of the 120 seats. At the Senate elections in early 1997, the PDG won 53 of the 91 seats.

The 1991 constitution provides for an executive president directly elected for a 5-year term (renewable only once). The head of government is the prime minister, who appoints the Council of Ministers. The **bicameral** legislature consists of the 120-member National Assembly and the 91-member Senate. Both houses are directly elected for 5-year terms. Local governments exist in each of Gabon's 9 provinces, and are administered by a governor appointed by the president. There are also 37 smaller divisions, or departments, each administered under a prefect.

Total government revenue in 1997 was US$1.565 billion. Of this, US$301 million was from international trade, with import **duties** contributing US$254 million. In addition, the government gains substantial royalties from the oil sector. Corporate and capital gains taxes are levied at 40 percent, but if companies make small profits or suffer losses, they are taxed at 1.1 percent of **turnover**. There is a withholding tax of 20 percent on dividends remitted overseas.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Despite substantial investment in the Trans-Gabonais railway and foreign backing for road development in the 1990s, the surface transportation system is still inadequate and inconsistent with Gabon's high per capita income level. Until 1979, there were no railways except for the cableway link between the Congo border and the Moanda Manganese Mine. The main rivers are navigable for only the last 80 to 160 kilometers (50 to 100 miles) of their course to the Atlantic Ocean. The road network is poorly developed and much of it is unusable during the rainy seasons. In 1996 there were an estimated 7,670 kilometers (4,766 miles) of roads, of which only some 634 kilometers (394 miles) were paved. The government's aim is to surface some 1,400 kilometers (870 miles) of the road network in the next few years, with an eventual target of 3,580 kilometers (2,225 miles).

By 1989 the railway line linking Libreville and Franceville, which is located in the southeast area of the country, was fully operational. The main port for petroleum exports is Port Gentil, which also handles logs (floated down the Ogooue River). Owendo, the principal mineral port, also handles timber. A third deepwater port operates at Mayumba, in the south.

Air transport plays an important role in the economy, particularly because of the dense forest that covers much of the country and makes other modes of transport impracticable. There are international airports at Libreville and Port-Gentil and scheduled internal services link these to a number of domestic airfields. Gabon has a total of 61 airports within its borders, 11 of which have paved runways. The national carrier, Air Gabon, is 80 percent state owned.

In 1997 there were 37,300 telephone lines, 4,000 cellular phone subscribers, 6,000 PCs, and 400 fax machines. The domestic telephone system combines the use of cable, microwave radio relay, radiotelephone communication stations, and a domestic satellite system with 12 earth stations. For international links it operates 3 Intelsat satellite earth stations. There were also 4 television broadcast stations in 1997. In 1998 there were approximately 400 Internet users and 1 Internet service provider.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Gabon	29	183	55	N/A	8	0.4	8.6	0.02	3
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Cameroon	7	163	32	N/A	0	N/A	N/A	0.00	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

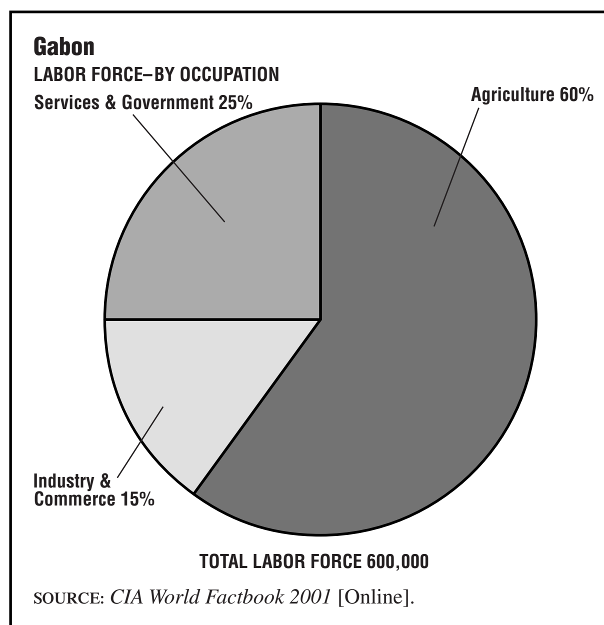
There was a range of radio broadcast stations, with 6 AM, 7 FM, and 6 short-wave stations in 1998.

The installed capacity for electricity production was 1.02 billion kilowatt hours (kWh) in 1995. Power generation is both hydroelectric and thermal (gas fired), with 72 percent of total capacity hydroelectric. There are proven crude petroleum reserves estimated in 1997 at 1.34 billion barrels. Production in 1996 was 135 million barrels. Natural gas production in 1995 was 102 million cubic meters.

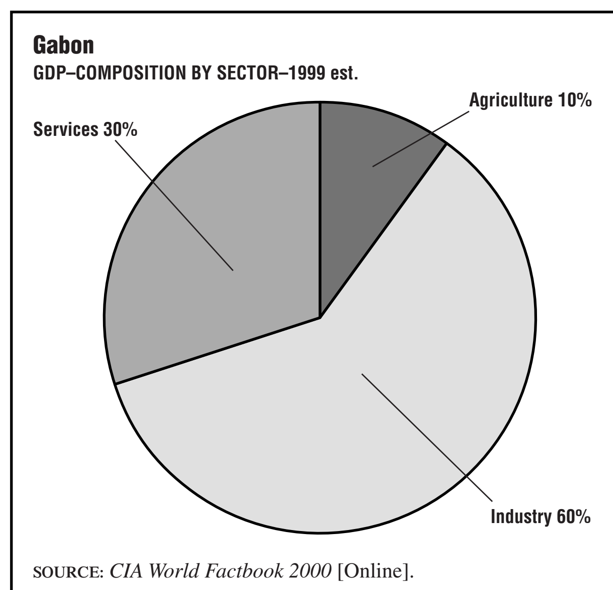
ECONOMIC SECTORS

Agriculture (including forestry and fishing) contributed an estimated 10 percent of GDP in 1999, and employed about 41 percent of the **labor force**. The forestry sector alone accounted for an estimated 3 percent of GDP in 1997 and engaged an estimated 15 percent of the working population in 1991. The exploitation of Gabon's forests (which covers about 75 percent of the land area) is a principal economic activity. Although Gabon's territorial waters contain important fishing resources, their commercial exploitation is minimal.

Industry (including mining, manufacturing, construction, electricity, and water) contributed an estimated 60 percent of GDP in 1999, and about 12 percent of the working population were employed in the sector. Industrial GDP increased at an average annual rate of 2.7 percent from 1990 to 1997. Mining alone (including oil) accounted for an estimated 46 percent of GDP in 1997. Gabon is among the world's foremost producers and exporters of manganese. Gabon's manufacturing sector is relatively small, accounting for an estimated 6 percent of GDP in 1997. A substantial part of this is represented by oil refining and timber-processing. Electricity and water are produced and distributed by the Societe d'Energie et d'Eau du Gabon (SEEG).



SOURCE: *CIA World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].

Services engaged 47 percent of the economically active population and provided an estimated 30 percent of GDP in 1999. The GDP of the service sector increased at an average annual rate of 3.3 percent over the period from 1990 to 1997.

AGRICULTURE

Owing to the density of the tropical rain forest, only a small proportion of land area is suitable for agricultural activity and only 2 percent is estimated to be under cultivation. With over 50 percent of the population living in towns and with a poor road **infrastructure**, the contribution to GDP of the agriculture, forestry, and fishing sector is very modest by African standards at approximately 10 percent in the 1990s. The country lacks self-sufficiency in staple crops and over half of food requirements must be imported. Cocoa, coffee, palm oil, and rubber are cultivated for export. The principal subsistence crops are plantains, cassava, and maize. Coffee and cocoa were once relatively significant cash crops with a small amount available for export, but outputs for both have been falling since the 1980s.

Animal husbandry was for many decades hindered by the prevalence of the tsetse fly (a bloodsucking fly that causes disease in cattle), until the first tsetse-resistant cattle were imported in 1980. Livestock numbers have since risen, with 1998 estimates standing at 39,000 head of cattle, 208,000 pigs, 259,000 sheep, and 24,000 goats. The Societe Gabonaise de Developpement d'Ellevage (an

offshoot of AgroGabon) manages 3 cattle ranches covering 14,000 hectares (34,595 acres). Poultry farming is mainly on a **smallholder** basis. The fishing catch, at 45,000 metric tons, falls well below total demand. Industrial fleets account for about 25 percent of the catch, and about half of the total catch comes from marine waters.

FORESTRY. The exploitation of Gabon's forests (which cover some 85 percent of the land area) is a principal economic activity and the second leading source of exports, with 14 percent, behind petroleum. According to the U.S. State Department, commercial wood reserves cover 50 million acres and contain 400 million cubic meters of wood. Production levels reached 2.77 million cubic meters of lumber in 1997, declined in 1998 thanks to the Asian financial crisis, and rebounded again in 1999. The sector is the second largest employer, behind the government, and there is some potential for further growth. The major problem facing the industry is the fact that most forestry exports are in raw lumber. **Value-added** processing occurs abroad. Should foreign investment allow for more milling and processing of logs at home, the industrial sector would be boosted substantially.

INDUSTRY

Industry is the largest of the 3 major sectors in terms of GDP, but the smallest in terms of employment. This sector provides its employees with the highest average incomes.

OIL AND MINING. Oil and its related industries has been the main source of Gabon's economic growth since the 1970s. In 1997, the petroleum industry was still the dominant sector of the economy, contributing 42.5 percent of GDP when all subsidiary industries are factored in. Petroleum and petroleum products accounted for an estimated 77 percent of total export earnings. Oil reserves are declining, however, and there have been no major new discoveries in recent years.

Mining holds great potential for further economic growth. Gabon is one of the largest producers and exporters of manganese in the world. Gabon holds 25 percent of the world's manganese reserves, and the main manganese mining operation, COMILOG, produces about 2.5 million metric tons a year of finished ore. Uranium has also been a major source of export income, though uranium reserves are nearly depleted. There is potential for the mining of phosphates, niobium, iron, gold, and diamonds; foreign investment is needed for these mineral deposits to prove profitable.

MANUFACTURING. The manufacturing sector contributed an estimated 6 percent of GDP in 1997. The principal activities are the refining of petroleum and processing of other minerals, the preparation of timber, and other agro-industrial processes. The chemical industry is also significant. Electric energy is derived principally from hydroelectric installations. Imports of fuel and energy comprised an estimated 21 percent of the total value of imports.

SERVICES

The services sector is the biggest employer in Gabon, with the government being the single largest employer in the nation, and incomes earned in this sector are significantly higher than average. The mineral and forestry sectors drive the economy, and services expand to support these activities. The production of the service sector increased at an average annual rate of 3.3 percent from 1990 to 1997. Due to the poor infrastructure and the dense forests, tourism is limited.

The telecommunications sector has been identified by the U.S. State Department as a prime area for growth. The **parastatal** Office des Postes et Telecommunications du Gabon (OPT), which has a **monopoly** on telecommunications services in the country, is slated for privatization. This development is expected to encourage foreign investment and create jobs as the country is opened to modern telecommunications networks and cellular services.

INTERNATIONAL TRADE

Gabon has sustained a considerable surplus in its foreign trade, even through periods of quite marked fluctuations in petroleum prices, because the import demand of its small population has remained relatively modest. Exports are normally 2 to 3 times the value of imports and most investment spending is directed toward generating increased earnings from the export of petroleum, timber, and manganese. In 1999, exports stood at US$2.4 billion, while imports were US$1.2 billion.

The main export markets in 1998 were the United States (68 percent), China (9 percent), France (8 percent),

Trade (expressed in billions of US$): Gabon

	Exports	Imports
1975	.983	.469
1980	2.173	.674
1985	1.951	.855
1990	2.204	.918
1995	2.713	.882
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

and Japan (3 percent). Imports come mostly from France (39 percent), the United States (6 percent), and the Netherlands (5 percent). Despite high per capita income levels and the foreign investments its petroleum sector attracts, Gabon receives a significant amount of aid (US$38 per capita in 1998). This has helped to support both the budget and **balance of payments**.

While Gabon has traditionally enjoyed a **trade surplus**, it has also tended to have a balance of payments deficit. This deficit is a result of high outflows on interest payments on the **foreign debt** and on **remittances** on profits and dividends by the petroleum industry. Foreign debt was US$4.213 billion in 1996. However, high per capita GDP and a poor record of compliance with commitments to the IMF mean that Gabon is not a priority candidate for **debt relief**.

MONEY

Gabon is part of the Central African Monetary and Economic Union (Communaute Economiquareue et Monetaire de l'Afrique Centrale, or CEMAC), a group of 5 francophone countries that use the same currency, the CFA franc. The CFA franc is tied to the French franc and can be readily exchanged at 50 CFA francs to 1 French franc. Gabon, like all members of the CFA franc communities, has benefitted from this stable currency.

As a member of the CFA zone, Gabon was profoundly affected by the 50 percent **devaluation** of the CFA franc in 1994. The devaluation caused a temporary rise in **inflation**. The average annual **inflation rate** during the period from 1990 to 1996 was 9.8 percent. However, inflation declined through the late 1990s, reaching a rate of 2.9 percent in 1999. The country's economy appears to have benefitted from this devaluation, which made its traditional exports more competitive on world markets. In the short term, however, devaluation lowered living standards and probably increased poverty by raising prices while most salaries remained static.

CEMAC planned to open a regional stock exchange in Libreville, Gabon, in 2001.

Exchange rates: Gabon

Communaute Financiere Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

The population of Gabon earns a per capita income 4 times that of most other sub-Saharan African nations. Although the relative strength of Gabon's economy has led to a decline in the sharp poverty that is familiar to these other African nations, much of the population remains poor and income inequality is high. The portion of the population that does suffer from poverty is almost all in the 40 percent of the population that relies on agriculture for its income.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Gabon	6,480	5,160	4,941	4,442	4,630
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Cameroon	616	730	990	764	646

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Gabon	40	3	9	3	7	4	34
United States	13	9	9	4	6	8	51
Nigeria	51	5	31	2	8	2	2
Cameroon	33	12	8	2	9	8	28

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Social security, based on the French system, was introduced in 1956. Under this program, family allowances are paid to all salaried workers. There is a national fund for state insurance, which provides medical care.

The UN's Human Development Index (HDI), which attempts to measure the quality of life on the basis of **real GDP** per capita, the adult literacy rate, and life expectancy at birth, placed Gabon at 123 out of 174 countries in 1999, in the medium human development category.

WORKING CONDITIONS

The workforce in 1996 numbered 519,000, 56 percent of which are males. The unemployment rate in 1997 was estimated at 21 percent. There is a standard 40-hour working week. However, around 40 percent of the economically active population engages in agriculture, which is poorly regulated. Due to the small population, much of the labor is imported from the neighboring countries.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1470. The Portuguese, French, Dutch, and English begin trading along Gabon's coast.

1839. First French settlement established.

1910. Gabon becomes part of French Equatorial Africa.

1958. Gabon granted internal autonomy by the French.

1960. Gabon is formally proclaimed an independent nation, with Leon M'Ba as prime minister.

1961. M'Ba is elected president and heads a government of National Unity with his opponent, Jean Hilaire Aubame, serving as foreign minister.

1963. Aubame is fired from his position in the Department of Foreign Affairs.

1964. Aubame leads a successful coup; French troops respond to M'Ba's appeal, intervene, and restore him to office. Aubame is sentenced to 10 years in prison.

1967. M'Ba is reelected president but dies a few months later. Vice-President Albert Bernard (later Omar) Bongo succeeds M'Ba as president.

1968. Parti Democratique Gabonais (PDG) is proclaimed as the sole legal political party in the country.

1973. Bongo is reelected president.

1979. As the only candidate in the national presidential elections, Bongo is reelected for a second 7-year term.

1980. In national, municipal, and legislative elections, independents are permitted to run against official candidates.

1981. Over 10,000 Cameroonians are expelled from Gabon following a riot against a Gabonese soccer team at Douala, Cameroon.

1982. Members of the opposition Mouvement pour le Redressement National (MORENA) are arrested for insulting the president and are sentenced to harsh prison terms.

1983. The Owendo-to-Booue section of the Trans-Gabonais Railway is opened by French and Gabonese presidents.

1984. France agrees to supply Gabon with a 9,300-megawatt nuclear power plant, the first in an African nation under black rule.

1986. The Chernobyl accident in the Soviet Union results in the cancellation of the nuclear power plant. MORENA political prisoners are freed.

1990. After much social unrest, President Bongo legalizes opposition to his government. In the country's first multiparty election, Bongo's PDG wins 65 seats in the legislature while opposition parties take the remaining 55 seats.

1993. Multiparty elections are held in December, and Bongo wins with slightly more than 50 percent of the vote. The main opposition leader, Paul Mba Abbesole, claims the process was flawed.

1994. Devaluation of the CFA franc by 50 percent.

1995. The National Assembly election held in December results in a seat distribution of PDG 89, opposition parties 31.

1996. Senate elections are held in January and result in a seat distribution of PDG 53, opposition parties 38.

1998. Bongo is reelected president with 67 percent of the vote.

FUTURE TRENDS

Despite the abundance of natural wealth, the Gabonese economy is hobbled by poor economic management. In 1992, the fiscal deficit widened to 2.4 percent of GDP, and Gabon failed to settle **arrears** on its debt, leading to a cancellation of rescheduling agreements with official and private creditors. Devaluation of the currency by 50 percent in January 1994 sparked a one-time inflationary surge to 35 percent, but the rate dropped to 6 percent by 1996 and 2.9 percent by 1999. In 1997, an IMF mission to Gabon criticized the government for

overspending on off-budget items, over-borrowing from the central bank, and slipping on its schedule for privatization and administrative reform. The IMF is expected to continue to support Gabon as long as progress is made on privatization and fiscal discipline. The rebound of oil prices in 1999 helped growth, but drops in production hampered Gabon from fully realizing potential gains. Gabon's potential for economic growth is based upon its considerable mineral and forestry resources. It is a country with high potential and with support from higher oil prices, reinforced by better economic management, Gabon can be expected to make steady progress.

DEPENDENCIES

Gabon has no territories or colonies.

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—Allan C.K. Mukungu

THE GAMBIA

Republic of The Gambia

CAPITAL: Banjul.

MONETARY UNIT: Dalasi (D). One dalasi equals 100 bututs. Dalasi notes come in denominations of 5, 10, 25, and 50, and coins are in denominations of D1 and 1, 5, 10, 25, and 50 bututs.

CHIEF EXPORTS: Ground nuts, fish and fish products, palm kernels, cotton.

CHIEF IMPORTS: Food, machinery, transport equipment, manufactured goods, fuels.

GROSS DOMESTIC PRODUCT: US$1.5 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$125.8 million (f.o.b., 1999). **Imports:** US$202.5 million (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of The Gambia measures 11,295 square kilometers (4,361 square miles) and consists of a long narrow ribbon of land sitting astride the river Gambia, one of the major waterways in West Africa. Apart from the 50-kilometer (31-mile) stretch of coastline on the Atlantic ocean, it is entirely surrounded by Senegal. At the estuary of the river Gambia, the northern and southern boundaries are only 45 kilometers (28 miles) apart and the belt of land narrows to about 20 kilometers (13 miles) inland. Banjul is the coastal capital located on the southern side of the estuary.

POPULATION. The population of The Gambia was estimated at 1.026 million in the 1993 census and 1.169 million in 1997. The estimated population in 2000 was 1.367 million, growing at a rate of 3.2 percent a year with a fertility rate of 5.2 children per woman. It is a young population with about 45 percent under 14 years of age, 52 percent between 15 and 64 years, and 3 percent 65 and over. Population density is 117 per square kilometer (1997) with 30 percent of the people living in urban areas. Life expectancy was estimated at 47 years in 1997, up from 36 years in 1970.

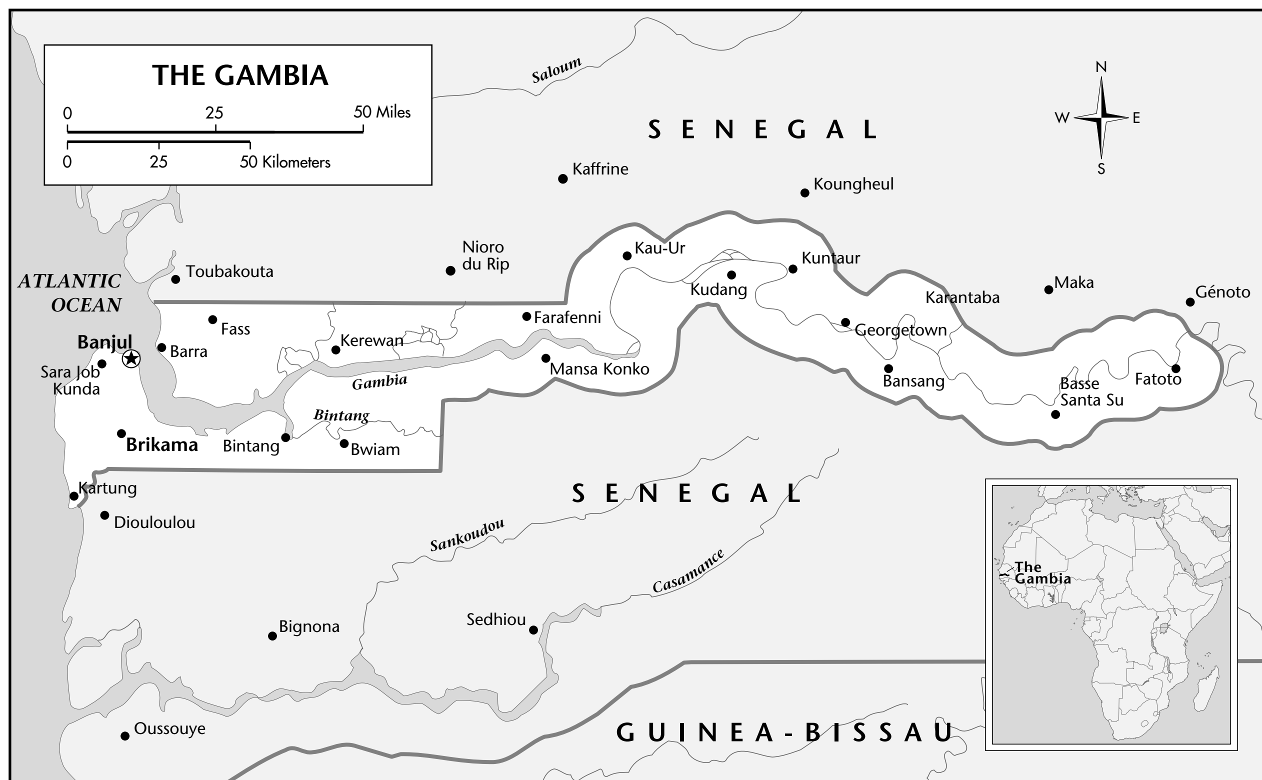
The Mandinka people constitute 42 percent of the total population, followed (in descending order of population) by the Fula, Wollof, Jola, and Savaluli. There is also a community of Akus (Creoles) descended mainly from African slaves freed in the 19th century. About 90 percent of the population is Muslim and the rest are mostly Christians. There are also traditional religions practiced. English is the official language with Mandinka extensively used in the provinces while Wollof is widely spoken in Banjul.

OVERVIEW OF ECONOMY

The Gambia's economy is closely tied to its command of the Gambia river system, which gives it considerable potential in trade, depending on the level of development in the hinterland. At present, it is an economically disadvantaged country, hampered by its small size, geographical and climatic difficulties, lack of mineral or other natural resources, and rudimentary **infrastructure**. The economy is driven by agriculture (especially groundnut production) and tourism. Agriculture production suffered during the droughts of the last 2 decades, although the Gambia is less vulnerable than its Sahel (a semi-arid region just south of the Sahara desert) neighbors.

Tourism is the most important source of foreign exchange revenue. It suffered in the wake of an abortive coup in 1981 and again after the successful coup of 1994. It has since recovered and in 1996 and 1998 the number of tourist arrivals had overtaken pre-coup levels.

Foreign aid has been key to the development of infrastructure as well as general budgetary support. An economic recovery program, launched in August 1985, later renamed the Programme for Sustained Development, introduced austerity measures which controlled **inflation** and produced significant **real GDP** growth in the latter



part of the 1980s. Real GDP grew at 3.6 percent annually between 1980 and 1990 and 2.2 percent annually between 1990 and 1997. The economy grew in real terms by 5.3 percent in 1996, 4.9 percent in 1997, and 4.7 percent in 1998. The Gambia has continued to implement market-oriented reforms which won it praise from the International Monetary Fund (IMF) in 1992, and its policies have been broadly continued by the post-1994 government.

The Gambian economy is strongly affected by the health of CFA franc because of its close relationship with Senegal. The Gambia has enjoyed a successful **re-export** trade, and the success of Banjul port has been the result of its ability to undercut the port charges of Dakar in Senegal . When the CFA franc was devalued by 50 percent in 1994, the position changed abruptly, affecting the Gambia-Senegal cross-border trade in groundnuts. Nuts grown in the Gambia were sold in Senegal because of the higher prices there, with Gambia losing on the processing and shipping revenues.

The Gambia had US$37.8 million of international debt in 1998, and this was 9.1 percent of GDP, and US$31 per head. **Debt service** took up 9.7 percent of the export earnings on goods and services. The levels of debt in relation to GDP and per person are significantly higher than the African average, but the debt servicing requirement from export earnings is lower.

POLITICS, GOVERNMENT, AND TAXATION

Gambia did not receive administrative autonomy from the British until 1963. Two years later, on 18 February 1965, they achieved full independence and joined the British Commonwealth. Until the military coup of 1994, the Gambia had been governed under a republican constitution by an executive president and a **unicameral** legislature, with the House of Representatives elected for 5-year terms. Until 1996, the House of Representatives had 36 members elected by universal adult suffrage, 5 chief's representative members elected by head-chiefs, plus the attorney general and 8 non-voting nominated members.

A new constitution was approved by referendum on 7 August 1996. It provides for a unitary republican democracy with a president, vice-president, and secretaries of state responsible to parliament. Five members are nominated by the president, and 45 elected. There is an ombudsman and an independent judiciary. The constitution allows for declaration of a state of emergency and convening of special courts to try cases of corruption. A two-thirds majority in parliament is required to change the constitution.

Dawda Jawara, founder of the Peoples Progressive Party (PPP) who dominated Gambian politics from the 1960s, won the election in 1970 when the country was proclaimed a republic. In 1994, a military coup led by

Yahaya Jammeh overthrew president Dawda Jawara, ending his long political leadership of the country. In September 1996, Jammeh—up to then chief of the Armed Forces Government Junta—became the Gambia's second elected president. Since August 1997, the government has lifted restrictions which limited political activity.

In 1995, central government revenue was 20 percent of GDP. The most recent year for which data is available is 1987, when taxes in income, profits, and capital gains generated 16 percent of government revenue, domestic taxes on goods and services 10 percent, export **levies** and import **duties** 66 percent, other taxes 1 percent, and non-tax revenue 7 percent.

Corporation tax is 25 percent, or 2 percent of **turnover**, whichever is the greater. Many charities and non-government organizations are exempt from tax, and the Ministry of Finance has considerable discretionary powers to grant tax relief to new investors.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

There are over 2,700 kilometers (1,678 miles) of road in the Gambia, 35 percent of which are paved. Roads in and around Banjul are mostly sealed. Unsealed roads are impassible in the rainy season. The road network is being improved, particularly north of the river with a view to linking up with routes in Senegal. There are plans to build more roads and bridges across the river, replacing the ferry crossings for freight at Banjul and Fawafeni. In 1996 there were 15 motor vehicles, including 8 passenger cars, per 1,000 people, and 7 motor vehicles per 1 kilometer of road.

The Gambia river runs the entire length of the country east to west, providing a vital communications link for cargo and passengers. It is navigable by ocean-going vessels up to Kuntaar (240 kilometers—149 miles—upstream) and by shallow draught vessels up to Basse Santa Su (418 kilometers or 260 miles). The principal sea port is Banjul, serving the international and river trade, and Gambia's exports, mainly groundnuts, are shipped from there.

Banjul International Airport is situated at Yundum, 29 kilometers (18 miles) southwest of Banjul, and has a new terminal. Gambia Airways is jointly owned by the government and British Airways. Several international airlines provide air links to the country.

There are 2 English daily newspapers: *The Gambia* and *The Daily Observer*. There is also a weekly, *The Point.* There are 3 radio stations (2 of which are private). A national television service (Gambia TV) became operational in 1995. There were 164 radios, 4 TV sets and 2.6 PCs per 1,000 people in 1996–97. The country has an automatic telephone system and a good international connection in the Banjul area via satellite pick-up at Abuko. Telecommunications are run by Gambia Telecom (Gamtel), a **private sector** company. Fax facilities are available at Gamtel offices in Banjul, some open 24 hours a day. There were 21 main telephone lines and 4 mobile phones per 1,000 people in 1997.

Resources for energy production are extremely limited. Electricity supply is entirely reliant on diesel generators. All petroleum products are imported. Wood is used for domestic fuel supplies, but government policy emphasizes conservation of the forest reserves. Alternative energy sources are being developed. The use of groundnut shells for fuel and solar energy output is expanding. Various donors are assisting with the rehabilitation of electricity-generating stations, and a program of rural electrification began in 1998. Prospecting for off-shore oil was active in the early 1990s, and although the exploration is continuing off-shore in Gambian waters, no exploitable oil reserves have yet been found.

ECONOMIC SECTORS

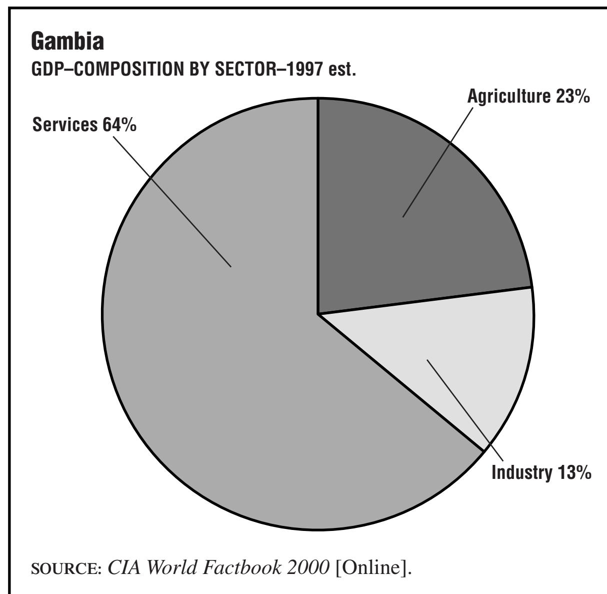
Without minerals or other natural resources, and economically small in size with an under-developed

Communications

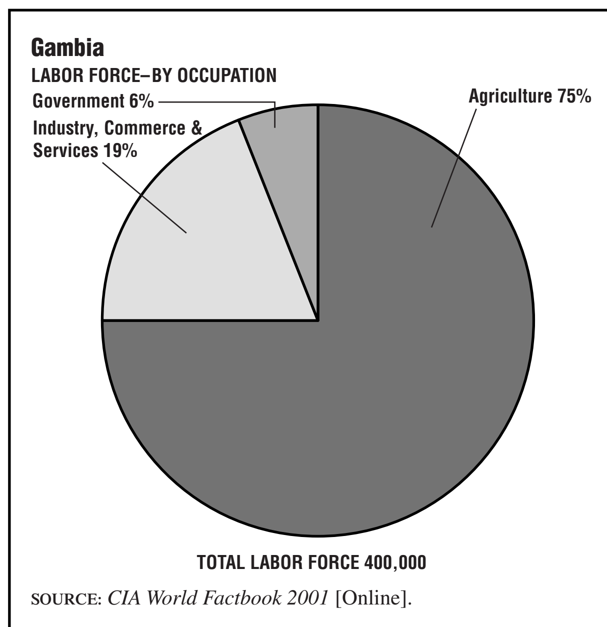
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Gambia	2	168	3	N/A	4	1.0	2.6	0.02	3
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Guinea-Bissau	5	44	N/A	N/A	0	0.4	N/A	0.13	2

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

infrastructure, the Gambia's economy depends heavily on agriculture, tourism, and the re-export of imported goods to neighboring countries through the port at Banjul. The 1998 estimates for the contributions of each sector to GDP were: agriculture 22 percent, industry 14 percent, and services 64 percent.

AGRICULTURE

Agriculture (including forestry and fishing), acounted for 22 percent of GDP and employed 75 percent of the **labor force** in 1998. Agriculture grew annually at 0.9 percent from 1980–90 and 0.6 percent from 1990–97, a particularly disappointing performance as the population was increasing at 3.2 percent a year. It is the mainstay of the economy, directly supporting about three-quarters of the population, with production mostly undertaken by small-scale farmers, but generating very low incomes.

The main crop and export is groundnuts which takes up 45 percent of the total planting area. Production has generally remained at 80,000 metric tons annually in the 1990s (83,700 in 1998). Exports of groundnuts and related products accounted for an estimated 63 percent of domestic export earnings in 1998. However, a significant proportion of the crop is frequently smuggled for sale in Senegal. Cotton, citrus fruits, mangoes, avocados, and sesame seed are also cultivated for export.

Other crops are sorghum, millet, maize, rice, cotton, and palm kernels. Rice is the staple food, and is cultivated under 3 systems—swamp, upland, and irrigated—but the country is not self-sufficient in food, and large quantities of rice are imported. Livestock production is an important contributor to GDP and includes sheep, cattle, goats, and pigs. Cattle are exported to other West African countries.

The fishing industry has been developed with the assistance of the EU and the African Development Bank and other donors. It has 8 factories and some 15 Gambia-registered vessels. Fish is exported to other West African countries, and the Gambia has agreements with Guinea, Guinea-Bissau, Cape Verde, Senegal, and Mauritania on fisheries protection and management, including protection of the ecosystem. A program for updating fishing facilities and equipment, supported by the African Development Bank, is running during 2000–05.

INDUSTRY

Industry (including manufacturing, construction, mining, and power) in the Gambia is quite limited. It contributed an estimated 14 percent of GDP in 1998 and about 10 percent of the total labor force was employed in the industry at the 1993 census. Industrial GDP increased at an annual average rate of 1.0 percent a year in 1990–98, with growth estimated at 5.2 percent in 1998.

Manufacturing is a significant sub-sector of industry. It contributed an estimated 6 percent of GDP in 1998 and employed about 6 percent of the labor force at the 1993 census. It is dominated by agro-industrial activities, most importantly the processing of groundnuts and fish. Manufacturing GDP increased at an annual average rate of 1.1 percent between 1990–98, and the sector's GDP increased by an estimated 2.4 percent in 1998. Beverages and construction materials are also produced for the domestic market. Although seismic surveys have suggested

existence of petroleum deposits, the Gambia's mineral resource base is economically unviable and deposits of kaolin and salt are to date unexploited.

SERVICES

The services sector is very important to the Gambia's economy. It contributed about 64 percent of GDP in 1998, but engaged only 15 percent of the labor force. The tourist sector is second only to the groundnut industry as the most important source of foreign exchange. Tourism contributed about 10 percent of annual GDP in the early 1990s and employed about one-third of the workers in the formal sector at the same time.

The tourist industry took off in the 1970s and focused mainly on the promotion of beach holidays. The highest levels of growth were recorded in the 1980s and 1990s when the number of visitors rose to 100,000 a year. The international response to the coup of 1994 and its aftermath had a severe impact on the sector, although it recovered strongly from 1996 onwards. The industry registered 80,000 tourists and generated US$22 million (9.6 percent of exports of goods and services) in 1997, and 92,000 tourists in 1998. The industry is centered in Banjul where there is a 5-star hotel with conference facilities, and several other high-quality hotels. The majority of the tourists are from Northern Europe.

The government has expressed intentions of further exploiting the country's potential as a transit point for regional trade and also as a center for regional finance and telecommunications. According to IMF figures, re-exports contributed about 84 percent of the value of total merchandise exports in 1998. The GDP of the services sector increased at an annual average rate of 3.7 percent between 1990–98 and growth in 1998 was estimated at 5.8 percent.

INTERNATIONAL TRADE

The main export of the Gambia is groundnuts. Other exports include fish (and its products) and some cotton. The largest international trade activity by far is the import of food, machinery, transport equipment, manufactured goods, and fuels—some of which are re-exported to the neighboring countries. The chief export partners are Belgium-Luxembourg, Japan, the UK, Germany, and France, and the chief import partners are Côte d'Ivoire, China, the United Kingdom, and the Netherlands.

The CFA **devaluation** of 1994 resulted in a reduction in regional re-exports, export earnings, and import expenditures. While exports have recovered slowly, imports have risen more quickly to pre-1994 levels. In 1998 total exports were worth US$132 million and imports US$201 million.

Trade (expressed in billions of US$): Gambia

	Exports	Imports
1975	.044	.060
1980	.031	.165
1985	.043	.093
1990	.040	.199
1995	.016	.140
1998	.019	.245

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Gambia

dalasi (D) per US$1	
Jan 2001	15.000
Q3 1999	12.729
1999	11.395
1998	10.643
1997	10.200
1996	9.789

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The dalasi (D), the unit of account, was pegged to the pound sterling until 1984, when the peg was relaxed. The currency was floated in 1986, depreciating steadily against the dollar during the 1990s. It exchanged at D9.64=US$1 in 1995, D11.8=US$1 in 1999, and in mid-2001, D16.3=US$1. This depreciation of the Gambian currency increases the prices of imported products, encouraging the use of locally-produced substitutes when these are available. It also reduces the prices of Gambian goods and services to foreigners, particularly visitors, making Gambian holidays cheaper and increasing tourism.

POVERTY AND WEALTH

The Gambia is classified as one of the least developed countries and is a low-income country. Real GNP per capita growth in the 1990–97 period averaged -0.6 percent a year, so average living standards were falling.

In 1999 it was estimated that 57 percent of the population were below the US$1 per day poverty line. The families in poverty do not have enough income to provide the barest minimum of food, shelter, and clothing. Most of those in poverty are rural families relying on small-scale family farms for their livelihoods, and unable to increase their incomes as they are unable to afford investments in mechanization, fertilizers, insecticides, and

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Gambia	356	376	378	374	353
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Guinea-Bissau	226	168	206	223	173

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Gambia

Lowest 10%	1.5
Lowest 20%	4.4
Second 20%	9.0
Third 20%	13.5
Fourth 20%	20.4
Highest 20%	52.8
Highest 10%	37.6

Survey year: 1992

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

improved seeds that would boost their output. In the main towns, electricity and the piped water supply is generally available, but in the rural areas it is rare, and lighting is by small paraffin lamps with wicks, and water is from wells. Some mains and septic tank sewage disposal are available in the capital, but in the rural areas people rely mainly on pit latrines.

The UN's Human Development Index, which combines income, health, and education indicators, places the Gambia at 161 out of 174 countries in 1998, putting Gambia firmly in the low development category.

WORKING CONDITIONS

The labor force was estimated to comprise of some 500,000 people in 1997, of which 45 percent were female and 36 percent aged between 10 and 14 years (an improvement compared with 1980, when 44 percent were estimated to be in this category). The labor force was estimated to have grown at an annual average rate of 3.6 percent in the period 1980–97. Agriculture is significant to the Gambian economy; about 75 percent of the people work on small farms for a livelihood, with a relatively small number employed in the manufacturing, tourism, and fishing industries. In agriculture, incomes are very low, and there is no regulation of working conditions.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1200. The Ghana empire establishes its authority over the area.

1400. Europeans begin to explore and settle on the coast and river areas.

1588. The Portuguese sell rights to the Gambia River to British merchants.

1783. Treaty of Versailles gives the British possession of the Gambia, with the French retaining a small enclave on the north bank at Albreda.

1816. The British establish a military post on Banjul Island (then called Bathurst) to suppress the slave trade on the River Gambia.

1857. The French cede Albreda to the British.

1888. Downstream Gambia becomes a colony and the upstream section becomes a protectorate.

1889. Britain and France reach agreement as to the boundaries of their respective colonies.

1906. Slave trade outlawed in the Gambia and other surrounding areas.

1962. Dawda Jawara and the Peoples Progressive Party (PPP) win elections but fail to assume office due to a vote of no confidence by the opposition.

1963. After further constitutional changes, the country obtains administrative autonomy from British, Jawara becomes the prime minister, and the PPP forms government.

1965. On February 18, Gambia achieves full independence.

1970. Gambia proclaimed a republic with a presidential system of government. Dawda Jawara wins election again.

1972. The dalasi is introduced as the Gambia's national currency.

1973. In national elections, the ruling PPP wins 28 of the 32 seats in the House of Representatives and Jawara is re-elected president.

1975. The success of Alex Haley's book *Roots* turns Gambia into an important tourism center.

1981. Muslim dissidents attempt to overthrow Jawara but are foiled with the help of Senegalese troops.

1982. The Senegambian federation established, a loose arrangement to benefit both countries, with Abdion Diouf of Senegal as its first president.

1989. The confederation of Senegambia is dissolved after Gambian resistance to closer union.

1994. A military coup overthrows Jawara. Captain Yahya Jammeh assumes presidency.

1996. Elections return Yahya Jammeh as president.

1998. IMF approves 3-year Enhanced Structural Adjustment Facility of US$27 million.

1999. Poverty Reduction and Growth Facility US$4.5 million loan from IMF is approved.

2000. Gambia receives US$91 million in **debt relief** under the Highly Indebted Poor Countries scheme.

FUTURE TRENDS

The Gambia's overriding dependence on the groundnut sector, which lags behind other sectors in terms of modernization and productivity, remains an obstacle to growth. International debt and poor infrastructure are among the factors limiting Gambia's progress. It is hoped that the IMF-supported Enhanced Structural Adjustment Facility (ESAF) for 1998–2000 will reduce fiscal deficits, encourage further private sector development, and form the basis for future development.

DEPENDENCIES

The Gambia has no territories or colonies.

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—Allan C. K. Mukungu

GHANA

Republic of Ghana

CAPITAL: Accra.

MONETARY UNIT: The cedi (¢). One cedi equals 100 pesewas. There are coins of 1, 2, 5, 10, 20, and 50 pesewas, and 1, 5, 10, 20, 50, and 100 cedis. There are notes of 1, 2, 5, 10, 20, 50, 100, 200, 500, and 1,000 cedis. By the end of 2001, US$1 was worth more than ¢7,500. With the decline in the value of the cedi, use of the pesewa has ceased.

CHIEF EXPORTS: Gold, cocoa, timber, tuna, bauxite, aluminum, manganese ore, diamonds.

CHIEF IMPORTS: Capital equipment, petroleum, foodstuffs.

GROSS DOMESTIC PRODUCT: US$7.932 billion (1999 est.). [*CIA World Factbook* lists GDP as US$35.5 billion in 1999, using the purchasing power parity conversion.]

BALANCE OF TRADE: **Exports:** US$1.7 billion (f.o.b., 1999). **Imports:** US$2.5 billion (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of Ghana, formerly the Gold Coast, is a West African country lying on the Gulf of Guinea. It has a total border of 2,093 kilometers (1,300 miles), including 548 kilometers (341 miles) with Burkina Faso to the north, 688 kilometers (428 miles) with Côte d'Ivoire to the west, and 877 kilometers (545 miles) with Togo to the east. It has a coastline on the Gulf of Guinea, part of the Atlantic Ocean, measuring 539 kilometers (335 miles). It has an area of 239,540 square kilometers (92,486 square miles), making it about the size of the state of Oregon. Water occupies 8,520 square kilometers (3,290 square miles) of the country, primarily Lake Volta. The capital of Accra is located along the southeastern coast.

Ghana has a tropical climate, warm and comparatively dry along the southeast coast, hot and humid in the southwest, and hot and dry in the north. Its terrain is mostly low plains with a plateau in the south-central area. Its highest point is Mount Afadjato, which rises to 880 meters (2,887 feet). Lake Volta, its largest lake, is the world's largest artificial lake. Ghana has 10 regions: the Northern, Upper West, Upper East, Volta, Ashanti, Western, Eastern, Central, Brong-Ahafo, and Greater Accra.

POPULATION. The population of Ghana was estimated at 19,533,560 in July 2000, an estimate that takes into account the impact of HIV/AIDS. It was estimated at 17,832,000 in 1996, with a density of 81 people per square kilometer (210 per square mile). About 37 percent of the population lived in urban areas and 10 percent in urban agglomerations of more than a million people. The population grew at 2.8 percent a year between 1970 and 1990, and 2.9 percent between 1990 and 1997. The fertility rate in 1997 was 4.9 children per woman.

Ghana has a young population, with more than 42 percent of the people below 15 years of age in 2000 and 55 percent in the 15–65 year bracket. Those over 65 constitute only 3 percent of the population. Life expectancy was estimated at 57 years overall, with 56 and 58 years for men and women, respectively.

The population is predominantly of African origin, with the Akan tribe comprising 44 percent of the population, the Moshi-Dagomba 16 percent, the Ewe 13 percent, the Ga-Adangbe 8 percent, the Yoruba 1.3 percent, and European and other nationalities less than 1 percent. Most people (38 percent) hold traditional beliefs, while 30 percent follow the Islamic faith, 24 percent are Christians, and 8 percent have other beliefs. English is the official language, with the other main languages being Akan, Moshi-Dagomba, Ewe, and Ga.

OVERVIEW OF ECONOMY

Ghana's formerly strong economy has been the victim of instability resulting from a series of military coups

and economic mismanagement in the period from independence in 1958 to 1983. A highly protected economy and substantial government investment created a large but inefficient manufacturing sector by the mid-1980s. Over the last 15 years, economic reforms, including substantial **privatizations**, have resulted in a small but viable industrial sector.

Ghana has a considerable endowment of natural resources (timber, fertile agricultural land and fishing grounds, and minerals). Agriculture constituted about 40

percent of GDP in 1999 and employed 60 percent of the **labor force**. The main export crop is cocoa. Coffee, palm products, and tropical fruits are exported in smaller quantities. Other crops include cassava, yams, corn, sorghum, and rice, while goats and sheep are the principal livestock reared. Timber is also an important export. Fishing is important to the domestic market, with some exports of tuna.

Industry contributes about 30 percent of the GDP and employs 15 percent of the labor force. Ghana's industries include mining, lumbering, light manufacturing, aluminum, and food processing. Mineral exports—mainly gold, manganese, diamonds, and bauxite—account for a large part of the country's earnings. Petroleum is extracted in small quantities offshore between Saltpond and Cape Coast, and exploration in other areas is under way. Manufacturing is dominated by **import substitution** industries, producing food products, beverages, tobacco, textiles, timber and wood products, refined petroleum, vehicles, chemicals and pharmaceuticals, cement, and metals. Electricity is generated almost entirely from hydroelectric plants, mainly the Akosombo Dam on the Volta River.

Services contribute 30 percent of GDP and employ only 25 percent of the labor force. Trade, transportation, financial services, and public administration are the main activities.

POLITICS, GOVERNMENT, AND TAXATION

Ghana is a former British colony. Kwame Nkrumah set up the Convention Peoples Party (CPP) to campaign for independence in 1949. Elections took place in 1951 and the following year Nkrumah became the leader of the executive council and the legislature. Full independence followed in 1957, with Ghana becoming the first country in Africa to achieve this feat. Ghana became a republic on 1 July 1960, with Nkrumah as president.

In 1964 Nkrumah introduced legislation to make Ghana a one-party state. In 1966 Nkrumah was removed by military coup, making way for army leadership under the umbrella of the National Liberation Council (NLC), headed by 3 army officers. Political activity was permitted again in 1969, elections were held, and the Progress Party (PP) won a majority of seats. The leader of the PP, Dr. Kofi Busia, was invited to form a government and became prime minister. A 3-man commission of Emanuel Kotoka, Akwasi Arifa, and John Harley from the NLC acted as head of state.

In 1972 there was another military coup led by Col. Ignatius Acheampong, and he set up a National Redemption Council (NDC). In 1978 Gen. Fredrick Akuffo replaced Acheampong as head of what was now the Supreme Military Council (SMC), and in 1979 political activity began in preparation for elections scheduled for June. Two weeks before the election, however, a military coup led by Flight Lt. Jerry Rawlings ushered in the leadership of the Armed Forces Revolutionary Council (AFRC). Elections were held as scheduled, and Dr. Hilla Limann of the Peoples National Party (PNP) took office as president in September 1979.

Another coup, in 1981, put Rawlings back in power. He suspended the constitution and banned political activity. From December 1981 to November 1992 a Provisional National Defence Council (PNDC), with secretaries in charge of the ministries and the regions, ruled Ghana. A new constitution was approved by a national referendum in April 1992, based on the U.S. model. The PNDC formed a new party, the National Democratic Congress (NDC), and successfully contested the elections in December 1992 with Rawlings emerging as the president. In the 1996 elections, NDC and Rawlings were again returned to office. Rawlings stood down for the 2000 elections, and the New Patriotic Party, with John Kufuor as presidential candidate, was victorious.

The 1992 constitution makes Ghana a unitary republic with an executive president and a multiparty political system. The national legislature is the **unicameral** parliament, whose 200 members are elected by universal adult suffrage every 4 years. The president, who is the head of state and commander-in-chief of the armed forces, is elected by universal adult suffrage for a maximum of 2 4-year terms.

The president appoints the vice president and nominates a council of ministers, subject to approval by parliament. The constitution also provides for 2 advisory bodies to the president: a 25-member Council of State and a 20-member National Security Council. There are 110 administrative districts, each having a District Assembly.

In 1996 government revenues amounted to 21 percent of GDP and expenditures were 22 percent of GDP. The **budget deficit** was 1.2 percent of GDP, well within the 3 percent guidelines. The most recent year for which tax revenue data is available is 1993, when taxes in income, profits, and capital gains generated 17 percent of government revenue, domestic taxes on goods and services 40 percent, export **levies** and import **duties** 27 percent, and non-tax revenue 23 percent.

The general rate of corporation tax is 35 percent, and there is a capital gains tax of 5 percent. Hotels are subject to a 25 percent corporation tax, manufacturing companies in the regional capitals are subject to 26.25 percent, elsewhere at 17.5 percent. Interest and dividends are subject to a 10 percent withholding tax. Non-agricultural exports are subject to an 8 percent levy.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

There are 39,409 kilometers (24,490 miles) of roads, of which 11,653 kilometers (7,241 miles) were paved in 1997. In 1997 there was a 953-kilometer (592-mile) railway network (currently undergoing major rehabilitation) of narrow gauge. The railway connects Accra, Kumasi, and Takoradi, the major mining areas, to the sea ports. The railway network also provides passenger services from the interior of Ghana to the main sea ports at Tema (near Accra) and Takoradi.

The main waterways include the Volta, Ankobra, and Tano Rivers, which provide 168 kilometers (104 miles) of year-round navigation, and Lake Volta, which provides 1,125 kilometers (699 miles) of arterial and feeder waterways. The main ports are at Takoradi and Tema. There were 12 airports in 1999, 6 of which had paved runways.

Growth in electricity production averaged 4.2 percent a year between 1980 and 1996. In 1998 electricity production was 6.206 billion kilowatt-hours (kWh), 99.9 percent of which was from hydroelectric sources. In the same year, electricity consumption was 5.437 billion kWh and exports were 400 million kWh, while 65 kWh of electricity were imported. Hydroelectricity is generated at the Akasombo and Kpong power plants, which traditionally supply virtually all of the country's electricity needs, as well as provide exports to Benin and Togo.

Total dependence on hydroelectricity makes Ghana vulnerable to variations in rainfall, and power shortages reached crisis-point in 1998. This has stiffened resolve to provide alternative sources of electric power, including a recently built oil- and gas-fired power station. There are also plans for a number of gas-fired plants, using imported gas and gas from the Tano fields. The Tama oil refinery was being expanded and prepared for privatization in 1997–99. The U.S. Export-Import Bank is to provide guarantees to cover drilling in the Tano off-shore natural gas fields and construction of pipelines, plus loan financing for operations and maintenance work.

The Ghana Broadcasting Corporation provides radio services, supplemented by 36 private companies which were granted authorization to operate radios and TV networks in 1999. Broadcasters comprised 3 short-wave, 18 FM radio stations, and 11 television stations in 1999. There were 238 radios, 109 TV sets, and 1.6 PCs per 1,000 people in 1999.

Ghana has a modest telephone system which is Internet accessible, and although many rural communities are not yet connected, expansion of the services is underway. There were 200,000 main lines in use in 1998 and an estimated 30,000 cellular phones in use. Domestically the telephone system comprises a microwave radio relay, and a local wireless loop has also been installed. International communication is through 4 Intelsat satellite earth stations, and a micro-wave radio relay which links to the Panaftel system connecting Ghana to its neighbors.

International direct dialling is available to major cities. Fax facilities are available around the clock in Accra. There are also several privately-owned and operated cellular phone networks with 1 mobile phone per 1,000 people. There were 2 Internet Service Providers (ISPs) in 1999.

ECONOMIC SECTORS

In 1995 agriculture (including forestry and fishing) was the largest sector and the biggest employer of the working population. The chief agricultural export is cocoa, and it occupies more than half of the country's cultivated land.

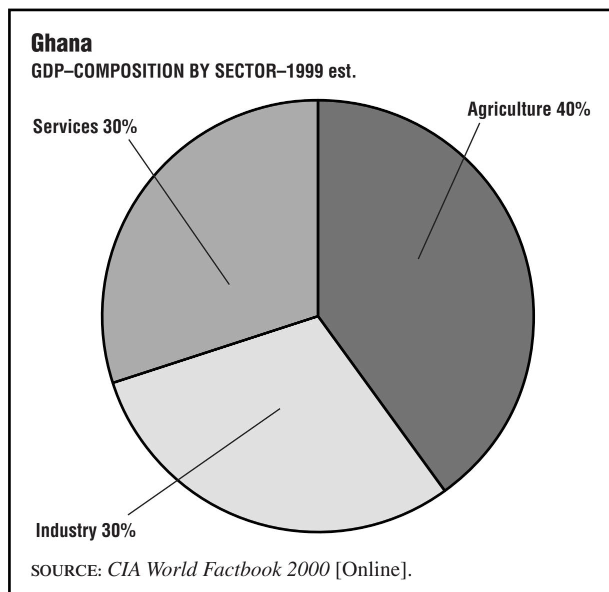
Mining contributes a big proportion of foreign exchange earnings through the export of gold, diamonds, and bauxite (used in the production of aluminum). The

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Ghana	14	238	99	N/A	1	N/A	1.6	0.06	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Cote d'Ivoire	17	164	70	0.0	6	N/A	3.6	0.25	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

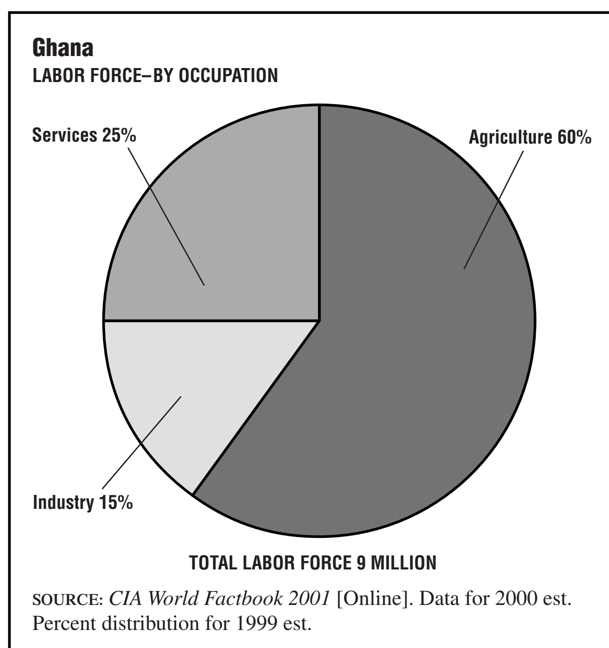
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

country is among the world's largest producers of manganese. Manufacturing contributed 9 percent of GDP in 1998. However, the economic recovery program of the late 1990s hit the industry through high interest rates and the lifting of restrictions on some imports.

The tourist sector, while so far not rated amongst the main economic sectors, is the fastest growing sector in the economy. The government's main priority is to privatize the state-owned enterprises to relieve government of the heavy burden on national resources. The government, with the help of the IMF, plans to diversify its exports to avoid its vulnerability to the fluctuating prices of cocoa on the world market. The government also plans to attract more investment to achieve the diversification of exports as well as to meet local needs.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1999 est.

AGRICULTURE

Agriculture accounted for more than 40 percent of GDP in 1999 and employed three-fifths of the workforce. However, despite its importance, sectoral growth has lagged behind other sectors of the economy and has been unpredictable, as most farming is reliant upon rainwater. Agricultural output (including forestry and fishing) grew at just 1.0 percent per year between 1980 and 1990, and 2.7 percent between 1990 and 1997. Agricultural growth increased to 5.3 percent in 1998. Ghana is one of the world's leading producers of cocoa, mostly grown on small farms. In 1998–99 cocoa production reached 400,000 metric tons.

Although most of the year-to-year trends are attributable to weather patterns, the longer term improvement in performance can be attributed to public policy changes. As part of the broader **macroeconomic** reforms (reforms which affect the whole economy, such as changing the **exchange rate**, altering controls on interest rates, and adjusting the money supply) the government has removed food **price controls**, raised cocoa prices paid to producers, and boosted extension services, which help increase farmer productivity.

Other **cash crops** are coffee, bananas, palm oil, coconuts, and kola nuts. The chief food crops are cassava, maize, yams, coco yams, plantain, millet, corn, fruit, rice, and vegetables. Cattle are raised in the north. Yields of food crops, however, have shown disappointing growth with only cassava and millet yields improving in the past decade. This seems to be a result of low investment and poor technology. The removal of **subsidies** on fertilizers and other agricultural inputs has also had an effect on several crops.

Cocoa is Ghana's most important agricultural export crop, normally accounting for 30–40 percent of total exports. Most cocoa is produced by around 1.6 million small farmers on plots of less than 3 hectares in the forest areas of the Ashanti, Brong-Ahafo, Central, Eastern, Western, and Volta regions. In the 1960s Ghana was the world's largest producer of cocoa but it has since been overtaken by neighboring Côte d'Ivoire.

Livestock farming is restricted to the Northern region and the Accra plains. Production of meat is, however, insufficient to meet local annual demand of about 200,000 tons. The shortfall has been met by imports of livestock from neighboring countries, although imports have been constrained by dwindling **foreign exchange reserves**. As part of the revitalization effort, the government undertook to rehabilitate and restock the 6 cattle stations at Pong-Tamale, Ejura, Babile, Kintampo, Amrahia, and Nungua, but these efforts have yet to bear fruit.

More than one-third of Ghana's total land area is covered by forest, although not all of it is suitable for commercial exploitation. Commercial forestry is concentrated in the Western region in Southern Ghana, and has been the third largest foreign exchange earner in recent years (accounting for about 10 percent of exports).

Since 1983, the forestry industry has undergone substantial changes, attracting aid and commercial credits which have focused on forestry management, research and equipment for logging, saw-milling, and manufacture. Since 1989 the government has banned the export of certain timbers to avoid deforestation. River and sea fishing are important, although domestic fisheries (in the ocean and Lake Volta) supply only about one-half of the country's total annual demand of 600,000 tons.

INDUSTRY

Industry contributed about 30 percent of the GDP in 1999, when it employed about 15 percent of the workforce. A policy of industrialization has resulted in the establishment of a wide range of manufacturing industries, producing food products, beverages, tobacco, textiles, clothes, footwear, timber and wood products, chemicals and pharmaceuticals, and metals, including steel and steel products. Almost all of them began as state-owned enterprises, but now are mostly privatized.

Ghana possesses substantial bauxite reserves, though the output, all of which is exported, is less than half of capacity. High-quality sand in the Tarkwa mining area provides the basis for a small but important glass industry. Cement factories have been developed at Tema and Takoradi. The development of export zones (areas where raw materials can be imported without customs duties, provided the products are for export) and industrial estates (areas with good transport links, electricity, and water supplies, for groups of enterprises able to provide services for each other) is underway.

Apart from traditional industries such as food processing, Ghana also has a large number of long-established large and medium-sized manufacturing enterprises. The large-scale manufacturing sector includes textiles, drinks, food, plastics, vehicle assembly, and aluminum processing. Much of it is owned and managed by the Lebanese community, but multinational companies such as Unilever and Valco also run factories. Various state-owned enterprises also used to be involved in manufacturing, but since **liberalization** opened up the market to foreign competition in the 1980s, many factories have been closed, leading to substantial job losses.

Gold remains central to the Ghanaian economy, although diamonds, manganese, and bauxite are also mined. The privatization of the Ashanti Goldfields Corporation, the largest producer of gold in the country, has been regarded as a great African success story, as it has been managed by Ghanaians and was one of the first indigenous companies to be listed on the international stock market. From a 15 percent share of export earnings in the mid-1980s, gold now vies with cocoa as the largest source of Ghana's export earnings.

Ghana's diamond sector is smaller and has struggled to survive its legacy of corruption. Production is mainly industrial grade. Structural adjustment ended the state's control over large-scale extraction but the private businesses now involved have not been able to restore official production to even a quarter of the 1970s level. Smuggling is rife, and the official figures do not reflect the actual level of output.

Ghana is also one of the world's largest exporters of manganese. There is considerable potential for expansion of bauxite extraction in conjunction with Ghana's relatively abundant supply of cheap hydro-electricity for aluminum smelting.

SERVICES

Financial services have improved in recent years with the introduction of a stock market, the Ghana Stock Exchange (GSE) in 1990, and several new financial institutions. Since 1992, privatization and the arrival of 4 new commercial banks have brought increased dynamism to the sector. The government has sold off **equity** in several wholly or partly state-owned banks. After some difficulty finding an active investor for the Social Security Bank (SSB), a consortium of fund managers led by the UK-based Blakeney Asset Management built up a controlling 51 percent stake in 1997 and hired a technical partner, Allied Irish Bank, to enhance SSB's management and services.

Competition has brought some benefits, with commercial banks introducing new products, including automatic telling machines and credit-card services, and a significant turnaround in check-clearing and cashing. However, the banks still have little appetite for lending to small and medium-sized local businesses, which has caused some concern.

The rest of the financial sector is growing and diversifying, although it remains relatively small. Ghana has 2 discount houses, and since the setting up of the stock exchange, several stock brokers have set up shop. Legislation introduced in 1999 is expected to open way for unit trusts and more varied financial instruments. There are now 17 insurance companies, up from fewer than 9 in 1993, although the industry remains dominated by 2 state firms. There are mortgage companies, building societies, at least 1 venture capital company, and 3 leasing companies.

Although **retail** facilities remain limited, urban areas are served by a range of outlets, and there are a growing number of foreign-owned stores in Accra with many more new investments expected in the coming years. Rural areas typically have mainly informal markets or modest general stores.

The tourist sector is the fastest growing sector and it has overtaken timber as a foreign exchange earner. Revenue from tourism has increased gradually, with most of the tourists coming from Nigeria, the United Kingdom, Côte d'Ivoire, the United States, and Germany. The Ghana Tourist Board and the Ghana Tourist Development Company supervise the regulation, financing, and development of the tourist industry. Tourism is being revamped through up-grading of hotels and the rehabilitating of tourist attractions. Hotels are located at Accra, Tema, Takoradi, and Kumasi, and there is a hotel at Akosombo overlooking Lake Volta. There were 325,438 tourist arrivals in 1997, including some 83,000 Ghanaians who live abroad, generating receipts of US$266 million, comprising 16 percent of foreign exchange earnings.

INTERNATIONAL TRADE

Ghana is essentially an exporter of primary products, mainly gold, cocoa, and timber, and an importer of **capital goods**, foodstuffs, and fuels. Merchandise exports amounted to $1.7 billion in 1999, of which cocoa contributed the largest share. The other main exports were aluminum, gold, timber, diamonds, and manganese. Imports were $2.5 billion in 1999. Export partners included the United Kingdom, Togo, Germany, Italy, the Netherlands, the United States, and France. Import partners were Nigeria (supplying most of Ghana's oil requirement), the United Kingdom, Italy, Germany, the United States, Spain, France, Côte d'Ivoire, and the Netherlands.

MONEY

The unit of currency, the cedi, was valued at ¢7,325:US$1 in mid-2001. Under the Economic Recovery Program (ERP) Phase One (1983–86), backed by the IMF and the World Bank, the cedi was allowed to depreciate rapidly from October 1983 to March 1986. Valued at ¢2.75 to the dollar in 1982, it fell to ¢90 to the dollar by 1986. Market forces currently determine the exchange rate and the depreciation has continued, making it easier for Ghana to export its goods. Travellers to Ghana are allowed to bring with them any amount of foreign exchange into the country which can be changed into cedis in commercial banks or the foreign bureau. Previously travellers were required to declare the amount of foreign currency they were carrying, and forced to exchange it at highly unfavorable rates with official foreign exchange dealers, and this served to provide a significant discouragement to tourists.

Inflation has been a persistent problem in Ghana, thanks in part to its depreciating currency. Over the period from 1997 to 1999, however, inflation declined from 20.8 percent to 15.7 percent to 9.5 percent. In 1999 the **inflation rate** rebounded to 12.8 percent.

POVERTY AND WEALTH

It was estimated in 1992 that 31 percent of the population of Ghana was below the poverty line of US$1 a day. People below this line do not have enough income to meet the barest minimums of food, clothing, and shelter. Almost all those in poverty were located in the rural areas, and rely on agricultural production from small family farms or herding family-based livestock for their

Exchange rates: Ghana

new cedis per US$1	
Jan 2001	6,895.77
2000	5,321.68
1999	2,647.32
1998	2,314.15
1997	2,050.17
1996	1,637.23

SOURCE: CIA *World Factbook 2001* [ONLINE].

Trade (expressed in billions of US$): Ghana

	Exports	Imports
1975	.809	.802
1980	1.257	1.129
1985	.617	.731
1990	N/A	N/A
1995	1.724	1.907
1998	1.885	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Ghana	411	394	328	352	399
United States	19,364	21,529	23,200	25,363	29,683
Burkina Faso	196	207	224	225	259
Nigeria	301	314	230	258	256

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Ghana

Lowest 10%	3.6
Lowest 20%	8.4
Second 20%	12.2
Third 20%	15.8
Fourth 20%	21.9
Highest 20%	41.7
Highest 10%	26.1

Survey year: 1997

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

livelihood. Income in 1992 was very unevenly distributed, with the poorest 10 percent of the population receiving only 3.4 percent of total household income while the richest 10 percent received 27.3 percent.

While Ghana is considered to be among the least developed countries in the world, it is rated as one of the fastest growing economies in Africa. It is a low-income economy; using the **purchasing power parity** conversion (which allows for the low price of many basic commodities in Ghana) GDP per head was US$1,900 in 1999. The rate of per capita income growth during the years between 1985 and 1995 averaged 1.4 percent per year, rising to 1.7 percent per year between 1996 and 1997, and this performance has brought about a significant increase in living standards. The growth in GDP per head experienced by Ghana is vitally important in reducing poverty, with every 1 percent of GDP per head growth reducing those in poverty by 2 percent. Thus the 1.7 percent per year rate of GDP per head growth shifts over 200,000 people out of poverty each year.

The UN Human Development Index, which combines indicators for income, health, and education, placed Ghana at 129 out of 174 countries in 1998, making Ghana one of the few African countries to achieve a medium level of human development. This means that Ghana is placed among those countries with levels of income, health provision, and educational facilities that are midway between the high human development countries of Europe, North America, and Australasia, and the very poorest and most deprived countries, mostly in Africa, where many people do not have enough food to meet minimum nutritional levels, and have no access to health or educational services.

WORKING CONDITIONS

It was estimated in 1999 that the labor force comprised 4 million people, of which 60 percent worked in agriculture, 15 percent in industry, and 25 percent in services. The unemployment rate was estimated at 20 percent in 1997. However, the unemployment rate has little meaning in Africa. Many people work in some form of **subsistence farming**, which is not counted in employment figures. There are no social security provisions, and those without work or support from families or charities cannot survive. For much of the year in subsistence farming there is relatively little work to do, and this work is shared among family members. During planting and harvesting, there is more work to be done, and everyone is more fully occupied, but even in these periods, there may be more than enough labor to do the tasks, and the work is again shared. Everyone sharing the work appears to have an occupation in agriculture, but because workers are not engaged full-time the whole year, there is some "disguised unemployment."

Trade unions are governed by the Industrial Relations Act (IRA) of 1958, as amended in 1965 and 1972. Organized labor is represented by the Trades and Union Congress (TUC), which was established in 1958. The IRA provides a framework for collective bargaining and protection against anti-union discrimination.

The law prohibits civil servants from joining or organizing a trade union. However, in December 1992, the government enacted legislation allowing each branch of the civil service to establish a negotiating committee to engage in collective bargaining for wages and benefits in the same fashion as trade unions in the **private sector**. While the right to strike is recognized in law and practice, the government has on occasion taken strong action to end strikes, especially in cases involving vital government interests or public order. The IRA provides mechanisms for conciliation and arbitration before unions can resort to industrial actions or strikes.

The law prohibits forced labor and it has not been reported to be in practice. There is a minimum employment age of 15 and night work and certain types of hazardous labor are prohibited for those under 18. The violation of this law, however, is common, and young children of school-going age can often be found during the day performing menial tasks in the agricultural sector or in the markets.

In 1991 a Tripartite Commission comprising representatives of government, organized labor, and employers established minimum standards for wages and working conditions. The daily minimum wage combines wages with customary benefits such as a transportation allowance. The current daily minimum wage, ¢2,900—about US$0.40—however, does not permit a single-wage earner to support a family and frequently results in multiple-wage earners and other family-based commercial activities. By law the maximum working week is 45 hours but collective bargaining has established a 40-hour week for most unionized workers.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1470. Portuguese traders arrive on the coast of what is now Ghana, then known as the Gold Coast, and begin to establish trading settlements.

1553. The British begin trading along the coast, to be joined in due course by German, Danish, and Dutch traders.

1821. The British take control of all the forts along the coast.

1844. Britain signs agreement with local chiefs, which enables Britain to establish the colony of the Gold Coast.

1868. Dutch possessions are transferred to the British, and the British begin conquest of the interior. British occupation is fiercely resisted, particularly by the Fante Confederation (an alliance of coastal kingdoms) and the Ashanti.

1900. The British finally defeat the Ashanti and war ends.

1920. A number of political parties begin to emerge, dedicated to regaining African independence. Representing different regions, these parties are not nationally based.

1947. The United Gold Coast Convention (UGCC) is formed, but without representatives from some key areas in the north.

1948. Kwame Nkrumah, general secretary of the UGCC, breaks away to found the Convention People's Party (CPP), which quickly becomes a voice for the nation and for the first time draws the northern people into politics.

1949. Exasperated by the slow progress towards self-government, Nkrumah calls for a national strike. Seeking to contain the situation, the British haul Nkrumah before the courts and sentence him to jail.

1951. The CPP wins elections for Legislative Assembly while Nkrumah is in jail. He is released to become leader of the Executive Council and the Legislature.

1957. On March 6, Ghana becomes the first African country to gain independence from European control, with Nkrumah as prime minister.

1958. The Constitution Act and the Preventative Detention Act are passed, giving Nkrumah wide extra-constitutional powers to suppress opposition. Regional assemblies are dissolved.

1960. Ghana approves a republican constitution with Nkrumah as president.

1961. Ghana becomes a one-party state, with the CPP as the sole political party.

1965. The cedi is introduced as a unit of currency, replacing the Ghana pound. In the first elections, the CPP wins all parliamentary seats with an unchallenged slate.

1966. The Akosombo dam, built over the Volta river at a cost of US$414 million, is completed. Nkrumah is overthrown while on a visit to Peking by a military coup led by Emanuel Kotoka, Akwasi Arifa, and John Harley. The National Liberation Council (NLC) assumes power.

1967. The new cedi is introduced with a devalued rate of exchange. Kotoka is killed in an abortive counter-coup. Ghana joins the West African Economic Community.

1969. The constitution of the second republic is adopted. In national elections, the Progress Party (PP) led by K.A. Busia wins absolute majority; a 3-man presidential commission consisting of Harley, Arifa, and A.K. Okran is appointed to serve as head of state.

1970. The presidential troika is abolished; Edward Akufo-Addo is elected president.

1972. The Busia government is overthrown by military coup under Ignatius Acheampong. The National Redemption Council (NRC) assumes supreme power and **nationalizes** mining and textile firms.

1974. Agreement is reached with creditor nations, giving Ghana a liberal repayment schedule.

1975. The Supreme Military Council (SMC) is created as the highest legislative and administrative body in the state, with a reconstituted NRC as a subordinate cabinet.

1977. Acheampong promises return to civilian rule by 1979.

1978. Fredrick Akuffo, Acheampong's deputy, assumes power in a bloodless coup. Local assembly elections are held and the National Assembly is established.

1979. A 6-year ban on political parties is lifted. Flight Lt. Jerry Rawlings leads a coup of junior officers, and the Armed Forces Revolutionary Council (AFRC) takes power. A new constitution is adopted as a prelude to return to civilian rule. In presidential elections Hilla Limann, candidate of the People's National Party (PNP), is elected.

1981. Rawlings seizes power for second time in a bloodless coup, suspends the National Assembly, political parties, and Council of State. He sets up a Provisional National Defence Council (PNDC) with himself as chairman.

1983. Nigeria expels over 1.5 million Ghanaian residents. The government devalues the cedi by over 1,400 percent in line with IMF requirements.

1990. A pro-democracy organization, the Movement for Freedom and Justice, demands a national referendum to establish a multi-party system.

1992. A draft constitution is approved in a referendum. Political associations are allowed and 6 opposition movements are granted recognition. In November, presidential elections return Rawlings with 58.3 percent of the vote. The December parliamentary elections return the NDC with 189 out of 200 seats.

1995. Riots in Accra in February over the introduction of **value-added tax** (VAT) lead to 4 deaths and the withdrawal of the tax.

1996. Rawlings wins re-election and the NDC retains a majority in parliament.

1999. Fall in gold prices upsets Ghana's economic recovery.

2000. John Agyekum Kufour of the New Patriotic Party (NPP) is elected as president, and the NPP gains a majority in parliament.

FUTURE TRENDS

Well endowed with natural resources, Ghana has twice the per capita output of the poorest countries in West Africa. Even so, Ghana remains heavily dependent on aid and foreign investment.

Gold, timber, and cocoa production will continue as the major sources of foreign exchange. The domestic economy continues to revolve around agriculture, which accounts for 40 percent of GDP and employs 60 percent of the workforce, mainly small landholders, most of whom are very poor. It is difficult to envisage anything other than very slow progress in the agricultural sector, where so much of the work is devoted simply to providing for subsistence.

Between 1995 and 1997, Ghana made steady progress under a 3-year **structural adjustment program** in cooperation with the IMF. On the minus side, **public sector** wage increases and regional peacekeeping commitments have led to continued inflationary deficit financing, depreciation of the cedi, and rising public discontent with Ghana's austerity measures. A rebound in gold prices will provide a substantial boost to the economy.

DEPENDENCIES

Ghana has no territories or colonies.

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—Allan C.K. Mukungu

GUINEA

Republic of Guinea
République de Guinée

CAPITAL: Conakry.

MONETARY UNIT: Guinea franc (GF). One franc equals 100 centimes. There are notes of 25, 50, 100, 500, 1,000, and 5,000 francs.

CHIEF EXPORTS: Bauxite, alumina, diamonds, gold, coffee, fish, agricultural products.

CHIEF IMPORTS: Petroleum products, metals, machinery, transport equipment, textiles, grain and other foodstuffs.

GROSS DOMESTIC PRODUCT: US$10 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$820 million (f.o.b., 2000). **Imports:** US$634 million (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Guinea lies on the West African coast, bordered by Sierra Leone and Liberia to the south, Guinea-Bissau and Senegal to the north, and Mali and Côte d'Ivoire inland to the east. It has 320 kilometers (199 miles) of coastline, and a land area of 245,857 square kilometers (94,925 miles). Comparatively, the country is slightly smaller than Oregon. The capital of Conakry is on the coast of the Atlantic Ocean and has the only international airport.

POPULATION. The population was estimated to be 7,613,870 in July of 2001, a figure which includes up to half a million refugees from the neighboring countries of Sierra Leone and Guinea-Bissau. According to the United Nations, Guinea is the largest provider of shelter for refugees in the region, with an estimated 650,000 refugees in 2000, and the pattern has been for refugees to drift to the capital, putting pressure on municipal services. The population growth rate in 2001 was estimated at 1.96 percent. The majority of the population is rural, with just 29.6 percent of the population living in urban areas. The capital is home to 1.1 million people, and a further 9 towns have populations of between 25,000 and 100,000.

The population is composed primarily of 3 indigenous ethnic groups: the Peuhl (40 percent), Malinke (30 percent), and Soussou (20 percent). Fully 85 percent of the population are Muslim, while 5 percent are Roman Catholic and the rest follow traditional beliefs. The population is quite young, with 43 percent between the ages of 0 and 14, and 54 percent between the ages of 15 and 64. The life expectancy in the country is 45.91 years (43.49 for men and 48.42 for women).

OVERVIEW OF ECONOMY

Guinea is a small economy in terms of the total value of its output. The population is small, at around 7.6 million, and not very productive: the amount of output produced per person is very low at US$540 a year (by way of comparison the U.S. figure is US$29,340 per person, per year). This low output level, combined with poor educational prospects and inadequate access to health care and other human services, has earned Guinea a place near the bottom of the United Nations (UN) Human Development Index, with a ranking of 162 out of 174 countries. The population is growing fairly rapidly, at 1.96 percent a year, with the average woman giving birth to 5.5 children during her lifetime, and this rate adds to the problems of generating higher incomes. Most people—80 percent—depend on agriculture for their livelihoods, mainly on small family farms. Despite these limitations, in the last several decades Guinea's economic output has increased more rapidly than its population, and average living standards have improved. The agriculture and services sectors have performed better, with industry doing less well.

Following independence from France in 1958 all opposition was ruthlessly crushed, and Guinea pursued a **Marxist** development strategy, which continued until 1984. Inefficient public companies controlled all economic activity, discouraging all private enterprise, and the economy was centrally planned. Vestiges of the old system remain, despite 15 years of support from the International Monetary Fund (IMF) for economic reforms. Only the mining sector remained productive over this entire period, as it operated mainly in enclaves isolated from the rest of the economy.

Some liberal policies were brought in towards the end of President Ahmed Sékou Touré's First Republic, but his death in March 1984 brought a fundamental change in policy. The new government embarked on an economic and financial reform program with IMF support and foreign creditor banking. Phase One of the program concentrated on removing the worst distortions in the economy. This task involved a massive **devaluation** of the Guinean franc; the **privatization** or liquidation of government-owned enterprises; trade **liberalization** and the removal of **price controls**; the abolition of state marketing boards; the creation of a commercial banking system; and the review of civil service employment. The initial success of the program won Guinea partial debt rescheduling in 1986 and further IMF funding in 1987.

A second phase of reforms was designed to change attitudes in the public and **private sectors**. It included reorganizing the Customs Service, widening the tax net, and introducing stricter budgetary controls. Guinea failed to secure an extension to the 1987 loan, however, because of budgetary overspending, inadequate revenue generation, privatization delays, and a failure to cut **public sector** employment. Some of the more serious struc-

tural problems were addressed in the early 1990s on the signing of a new loan agreement which brought further support and **debt relief** from the donor community.

In 1992 the IMF had again to address the government's inability to reach targets, and in 1994 it extended its lending for 12 months while it constructed a new package. Performance was good in early 1995 but fell again later in the year. An army mutiny in February 1996 compromised donor aid and business confidence and caused the government to be unable to balance the budget after it gave in to the mutineers' demands for pay increases.

When Sidya Touré, an economist by profession, became prime minister in mid-1996, he led a sustained attempt to stick to IMF targets, especially in the field of budgetary shortfalls, public expenditures, and revenue collection. Thus, the structural adjustment loan was renewed in 1997, and lenders rescheduled Guinea's debts on exceptionally generous terms. However, the appointment of a new prime minister, Lamine Sidime, in 1999 led to further IMF and donor problems because, despite allowances being made for the exceptional circumstances of the period, the reform program had drifted off-track and had been suspended. By late 1999 the donor community felt that the situation had improved enough to release further funds to Guinea, under tight conditions. By the turn of the century, however, Guinea had labored for twenty years to improve the structure of its economy and had little to show for its efforts. Despite millions of dollars of foreign aid and loans, the government is still unable to stick to budgetary schemes, unemployment remains high, and the country remains overly dependent on the mining sector.

Agriculture accounted for 22 percent of the GDP in 1998, but it offered employment to 80 percent of the population. Most people involved in the agricultural sector are engaged in some form of subsistence agriculture, which means that they are producing goods for their own consumption or for **barter**. Mining provides the largest source of foreign exchange earnings and government revenue, but its share in the economy is declining due to under-investment and falling world prices. Due to the poor state of the government-owned industries, there has been little interest in the government's privatization program, and only 4 percent of the GDP is generated by formal manufacturing. Altogether, industry provided 35.3 percent of the GDP in 1998. There has, however, been large growth in services, with banking reforms stimulating the financial services sector and external financing bringing a boom in trading and utilities. Services contributed 42.4 percent to the GDP in 1998. Together, industry and services employed 20 percent of the workforce in 2000. The **informal sector**, comprising small-scale manufacturing and services operating from no permanent premises, is also thriving.

Consumer **inflation** has run in single figures since 1992, after hitting a high of 72 percent in 1986. This rate is mainly due to low price rises for local goods and necessities, a fall in the price of imported rice, and the tight **monetary policy** of the government.

POLITICS, GOVERNMENT, AND TAXATION

European traders settled on the coast of Guinea in the 1600s, and the French military laid claim to Guinea in the 19th century after defeating tribal chieftains in the region. Guinea became a colony in 1891, though French forces took until 1898 to consolidate the interior of the country.

Ahmed Sékou Touré led Guinea to independence at the head of the Democratic Party of Guinea (PDG), which he founded in 1947. In 1958 Guinea rejected joining the French African community, and on being granted independence in October 1958, it severed all links with France. Touré set up a Marxist state with a 1-party dictatorship; it is known as the First Republic. Touré's regime quickly became oppressive and totalitarian, and by the time of his death in 1984, about 1 million Guineans lived abroad, while the ruling party enjoyed no popular support. On Sékou Touré's death in 1984, the military seized power, led by Lansana Conté.

Lansana Conté has dominated the political scene in Guinea since 1984. He directed the economy away from **socialism**. Under Conté, the military government sought to decrease the size of the public sector and increase private ownership and investment in a program of sweeping economic changes. Conté invited prominent exiles back into government. However, Conté's early years retained the pattern of eliminating opponents and engaging in frequent coups, along with regularly changing the cabinet.

In 1989, Conté paved the way for democratic political institutions. The Third Republic began in 1991 with the adoption of a new constitution, under which the president is elected to a 5-year term by popular vote. Conté and the PUP have dominated the New Republic, winning all elections by large majorities. However, questions about how the elections were conducted led to controversy. In February 1996 a group of officers opposed to Conté's regime tried to seize power. Conté was held for some hours until he agreed to certain concessions, including doubling army salaries and conferring amnesty on those involved in the mutiny. In 1998 the presidential election was marred by the arrest of the main opposition party leader, Alpha Condé, on charges of trying to overthrow the government. Local elections in 2000 brought a landslide victory for the PUP and widespread condemnation of how the elections were held.

Cabinet reshuffles have followed every election and the 1996 mutiny. The 1996 mutiny also led to budgetary problems and the cessation of IMF support. Following the mutiny political appointees were replaced with **technocrats**, and the prime minister became head of government. Prime Minister Sidya Touré, who had restored donor relations, was replaced by Lamine Sidime in March 1999.

Guinea has 40 registered political parties, with 9 being represented in parliament. The PUP has its stronghold in the Soussou-speaking coastal areas, although through patronage, it holds influence in most towns as well. Most other parties have strong regional support, but little else. The main opposition to PUP comes from its own reformers and the traditional political elite.

The 1982 constitution, which was suspended in 1984, was replaced in 1991 by the "Loi Fondamentale." The president is elected by universal suffrage and serves a renewable 5-year term. The president appoints the Council of Ministers to share executive power. Their decisions are subject to approval by the Legislative Assembly, though opposition from the Legislative Assembly may be overruled by decree.

The 114-member People's National Assembly is elected in a complicated way. One-third of the parliament is elected by a simple majority, and two-thirds by **proportional representation**. The legal system in Guinea is based on French civil law, but with local additions, and may be modified by decree. Guinea was originally supported by the Soviet bloc, but in 1975 Guinea's attitudes changed with the signing of the Lomé Convention (a European Union aid scheme), joining the Economic Union of West African States (ECOWAS), and repairing strained relations with the West, particularly France. Conté has politically realigned the state and has now fully restored Western ties. He is active regionally, and his troops often skirmish with neighbors, as political unrest in Guinea-Bissau, Liberia, and Sierra Leone have created refugees and rebel groups that operate across Guinea's borders.

Mining revenue accounts for 20 percent of government income (including taxes, royalties, and export **duties**), but this figure has fallen with falling world prices since 1987. Guinea has also significantly widened its tax net on incomes and profits, goods and services, and trade; in fact, this source of revenue has multiplied tenfold from 1989 to 1999, though this amount has not been enough to offset the reductions in mining revenue and the increased state wage bill. Overall government expenditures have been reduced since 1991, though not enough to consistently balance the budget.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

There has been a great improvement since the mid-1980s to Guinea's transport **infrastructure**. The road network has quadrupled in size and several projects are under way to further expand it. In 1996, about 16.5 percent of the country's 30,500 kilometers (18,953 miles) of main routes were paved. Most routes link urban areas to mining areas, and access to the remainder of Guinea is difficult. Half of the 80,000 vehicles on Guinean roads provide public transport.

The only functioning railway links the ports to the mines and carries no passengers. The Kamsar to Kankan railway line no longer operates. Renovation of the railway system is under consideration.

Conakry port is operating at near saturation levels, handling 94 percent of imports. Plans are afoot to build an inland container terminal and reactivate Benty port. The country has 1 international airport, with Air Guinea operating an erratic regional schedule and internal flights to a dozen airstrips around the country.

Telecoms are handled by Sotelgui, which has been managed by Telekom Malaysia since 1995. The number of telephones increased to 25,000 by 1998, up from 19,000 in 1996. Sotelgui was scheduled to introduce a mobile cellular network in late 1997. The number of tele-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Guinea	N/A	47	41	0.0	3	0.4	2.6	0.00	5
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Guinea-Bissau	5	44	N/A	N/A	0	0.4	N/A	0.13	2

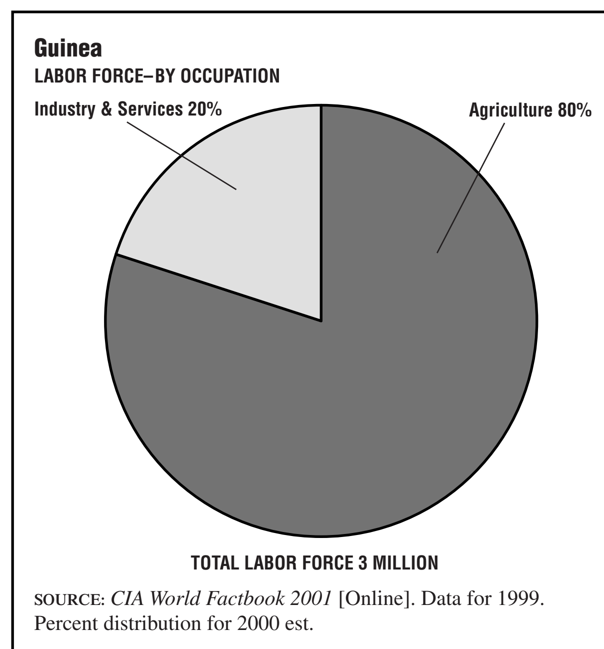
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

phones is set to double by the end of 2000, although most are still only used in the capital. However, the system is still inadequate, and most companies continue to rely on their own communication services.

A vigorous independent press competes with a state-run newspaper. However, the broadcast media, especially influential in rural areas, are controlled largely by the state.

Guinea has no proven fossil fuel reserves but enormous hydro-electric potential. Nevertheless, firewood accounts for 85 percent of domestic energy needs, and petroleum products are imported. Of the 320 megawatts of installed energy production capacity, 40 percent is privately owned. Only 6 percent of the population receive grid electricity, and this group is mainly in the capital. Several projects are underway to increase electricity production.



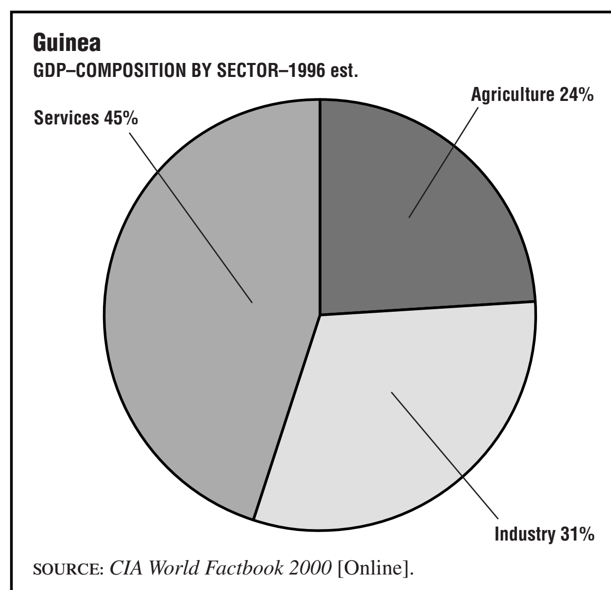
SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 2000 est.

ECONOMIC SECTORS

Agriculture generated 22.3 percent of the GDP in 1998, and the major products are rice, coffee, pineapples, and palm kernels. Industry provided 35.3 percent of the GDP. The most important part of the industrial sector is mining, providing approximately 20 percent of GDP. Guinea has major mineral resources and is the world's second largest bauxite producer (bauxite is used to produce aluminum). Services were estimated to provide 42.4 percent of the GDP in 1998.

AGRICULTURE

Agriculture provided 22.3 percent of GDP in 1998, and 80 percent of the employment of the economically active population. Guinea has a climate that allows for a range of activities, but only 15 percent of cultivable land is farmed, and most production is for subsistence. After independence in 1958, agricultural production stagnated, and growth in production did not meet growth in population as many **cash crop** plantations were abandoned. Self-sufficiency in food production is still elusive, despite the end of Marxist economic policies in 1984.



SOURCE: *CIA World Factbook 2000* [Online].

There are projects in hand to improve rice production, which is the main staple and covers 50 percent of cultivable land. However, around 40 percent of the national consumption of rice is still imported. The country is self-sufficient in most other foodstuffs and is even able to export some vegetables and fruit to Europe. Oil palm, rubber, and cotton plantations have received foreign investment.

Approximately 30 percent of rural families own livestock, mainly in the Kankan and Labe regions. The UN estimates that there are 2.4 million cattle, 1.5 million sheep, 54,000 pigs, and 9 million chickens in Guinea. Guinea imports 1,500 tons of meat and 10,000 tons of dairy products for urban use every year, though several projects designed to increase production in these items are under way.

Fishing provides less than 1 percent of the GDP, but 6 percent of exports. Industrial fishing provides half of the 120,000 ton catch, and 65 percent of the industrial catch is caught by foreign-registered boats. A lack of infrastructure reduces the domestic market for fish.

INDUSTRY

MINING. Mining is the most important sector in the economy, providing approximately 20 percent of GDP,

90 percent of recorded exports, and 70 percent of government revenue, though world commodity price declines in the 1990s have hurt the industry. A new mining code has been an incentive to investors, and foreign companies are now responsible for 85 percent of new developments.

Guinea has 30 percent of the world's known reserves of bauxite and is the world's second largest producer of the ore. The biggest company in the sector is owned by the U.S. company, Alcoa, and produces 12.5 million tons per year, and through further investment this figure should rise to 13 million. A Soviet-backed company has had erratic production since the downfall of the Soviet system and produced only 1.5 million tons in 1998, though its capacity is 5 million tons per year. There is also a **joint venture** with Iran, though production has yet to start, as it is still waiting for improvements of the rail links with the capital to make the venture viable.

The **parastatal** Frigvia has the capacity to produce 700,000 tons per year of alumina (the processed form of bauxite), though heavy losses in the years 1991–96 and internal disputes have caused the French advisers to pull out. The privatization sale of Frigvia to a U.S. company is well advanced, and other nations have also shown interest in other smelting ventures elsewhere in the country.

Small-scale gold-mining takes place throughout the country, and several large ventures are planned or have recently come into production. Gold generates about 13 percent of export revenues according to the official figures, but the amount of small-scale mining and smuggling means that much gold production goes unrecorded, and the importance of gold to the economy is significantly greater than the statistics indicate.

The 1985 ban on small-scale diamond mining, which was designed to encourage large-scale foreign investors, was lifted in 1992, and small-scale operators are now responsible for the bulk of the national production of an estimated 80,000 to 125,000 carats per year. Official diamond exports are about US$40 million a year, but because only 15 percent of diamond mining goes through official channels, the real benefit to the economy is closer to US$250 million. The new mining code has sparked considerable international interest.

Guinea has 6 percent of the world's iron-ore, though plans to exploit the deposits have been held back due to their location near Liberia during a period of regional tension. Other reserves include chrome, cobalt, copper, lead, zinc, manganese, molybdenum, nickel, platinum, titanium, uranium, chalk, graphite, and granite. Guinea almost certainly has undiscovered deposits of commercial minerals as only one-third of the country has been surveyed.

MANUFACTURING. Formal manufacturing is small and has fallen from 4.3 percent of the GDP in 1993 to 3.9 percent of the GDP in 2000. The majority of production is in the agro-industry sector, although manufacturing in Guinea also includes brewing, soft drinks, cement, and metal manufacture. The cigarette producer, Entag, closed following a fire in 1999, and most state-run enterprises have closed, and no major enterprise opened in the 1990s. Most manufacturing is concentrated around the capital.

Publicly-funded construction accounts for one-half of total construction, and most of it was concentrated on improving the infrastructure. However, recently the private sector has become more active.

SERVICES

Guinea's financial sector includes the Central Bank, 7 deposit-taking banks, 4 insurance companies, a social security institution, 2 small co-operative banks, and 50 *bureau de change* (currency exchanges). Most banking is in the capital, and the banking system is slowly gaining in public confidence, and more people are prepared to hold their money in the form of bank deposits.

Interest rate controls were lifted as part of monetary reforms in 1993, which also reinforced banking supervision. Banks may set lending and deposit rates, subject to a maximum spread about the **Treasury bill** rate. Short-term loans accounted for 83 percent of the US$170 million credit distribution to the private-sector in 1998, with 55 percent going to trading activities. The increasing funding needs of mines and the increase in deposits have led to an increase in medium-term lending.

Guinea's small tourism industry collapsed after independence and is unlikely to be rejuvenated in the near future. Despite government efforts, only 17,000 people visited in 1998, and most of those were for business. Tourism is mainly limited to wealthy locals and expatriates. A new ministry has been set up to deal with hotels and tourism. The capital has 4 international standard hotels.

INTERNATIONAL TRADE

Guinea's trade balance varies, depending on the output of the mining sector and prices in the international commodity markets. Guinea enjoyed a **trade surplus** in 1998 of US$135 million, on exports of US$695 million and imports of US$560 million. That surplus jumped to US$186 million on exports of US$820 million and imports of US$634 million in 2000. Bauxite and alumina have contributed approximately 70 percent of official export earnings in recent years, with diamonds and gold contributing 20–25 percent. All other exports come from agriculture and fishing. The main destinations for exports in 1999 were the United States, the Benelux countries (comprised of the Netherlands, Belgium, and Luxembourg), Ukraine, and Ireland; major importers were France, Belgium, the United States, and Côte d'Ivoire.

The lack of oil deposits and significant manufacturing means that imports are largely fuels, heavy machinery, transport equipment, and consumer manufactures. The increase in mining is reflected in the increase in machinery imports since 1995. Semi-finished goods have also increased, due to the boost in the construction industry.

Developing countries now provide one-third of Guinea's imports, whereas before industrialized countries supplied more than 80 percent. This change is mainly due to the forging of new links and a shift towards new inexpensive suppliers, predominantly the Côte d'Ivoire and China.

MONEY

Guinea is a member of the Economic Community of West African States (ECOWAS). Unusual for a former French colony, Guinea did not join the Franc Zone at independence. The **exchange rate** remained virtually unchanged from independence in 1958 until 1985 at around GF20–25:US$1 but had depreciated substantially to GF1,940:US$1 in 2001.

Since 1985, economic liberalization measures and a tight monetary policy have been undertaken, as advocated by the IMF and World Bank, and by the late 1990s Guinea had succeeded in reducing the rate of inflation, increasing **foreign exchange reserves**, and raising private investment. Fiscal reform and the elimination of administrative inefficiency and corruption are ongoing concerns.

Consumer inflation has run in single figures since 1992 (but stood at 72 percent in 1986) and this fact is mainly due to low price rises for local goods and necessities, a fall in the price of imported rice, and the tight monetary policy of the government. The **inflation rate** was estimated to be 4.5 percent in 1999.

POVERTY AND WEALTH

Guinea is a poor country by any measure. The **GDP per capita** (according to the **purchasing power parity** conversion, which allows for the low price of many basic commodities in Guinea) stood at US$1,300 in 2000. A 1994 survey indicated that 40 percent of the population was below the US$1 per day poverty line. About 80 percent of the **labor force** is employed in agriculture, most of which is **subsistence farming**, and the greatest incidence of poverty is in the rural areas.

Education was severely disrupted after independence in 1958, with teachers being one of the first groups to seek exile. The change of government in 1984 brought a greater emphasis on primary education, which, although it is universally compulsory, achieved only 48 percent enrollment in 1996. Secondary education enrollment stood at 12 percent in 1996. Guinea devotes 25 percent of its budget to education and is backed by the IMF and World Bank, with the aim of achieving 60 percent primary enrollment by the end of 2000. Male literacy stands at 50 percent, but the female figure is much lower at 22 percent, according to a 1995 estimate.

Guinea's health statistics are amongst the worst in sub-Saharan Africa. Life-expectancy in 2000 at birth was 46 years. This estimate is an increase from the 1965 figure of 35, although it is far below the sub-Saharan average of 51 years. Moreover, 1 in 6 live births die before the age of one year, and 12 percent die in infancy (between the ages of 1 and 5). Only 45 percent of the population has access to medical care.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Guinea	N/A	N/A	N/A	532	594
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Guinea-Bissau	226	168	206	223	173

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Exchange rates: Guinea

Guinean francs per US$1	
Oct 2000	1,855.0
2000	1,572.0
1999	1,387.4
1998	1,236.8
1997	1,095.3
1996	1,004.0

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Guinea

Lowest 10%	2.6
Lowest 20%	6.4
Second 20%	10.4
Third 20%	14.8
Fourth 20%	21.2
Highest 20%	47.2
Highest 10%	32.0

Survey year: 1994

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Guinea	29	18	5	2	9	16	21
United States	13	9	9	4	6	8	51
Nigeria	51	5	31	2	8	2	2
Guinea-Bissau	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

Wages are fixed according to the Government Labor Code. The official maximum working week for industrial workers is 48 hours, but there is little enforcement.

Guinea has a total labor force of some 3 million workers, and according to official 1995 statistics, some 50 percent of the workers had no formal employment. However, estimates that include participation in the informal economy and subsistence agriculture indicate an unemployment rate of between 8 and 11 percent. Unemployment figures have little significance in Guinea. There are very few with no work at all.

The civil service is the largest formal employer, engaging 3.6 percent of the population. An estimated 16.4 percent of the population earns wages from industry, commerce, and services, with 80 percent of the population employed in agriculture, of which most are engaged in subsistence farming. There is no unemployment benefit, and those who do not work rely on support from charities or their families. Many people would like a modern sector job but eke out an existence on family farms or in casual informal sector activities (such as **hawking**, portering, scavenging) in the urban areas.

The Confederation des Travailleurs de Guinée (Confederation of Guinea Workers, CTG) is the main trade union in Guinea. However, it has done little to improve working conditions and has generally lacked the ability to confront the government or large employers.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1600. European traders settle on the West African coast.

1891. Guinea becomes a French colony.

1898. French troops consolidate the Guinean interior.

1947. Sékou Touré forms the Democratic Party of Guinea (PDG) party.

1958. Guinea rejects joining the French African community and becomes independent, with Sékou Touré as the first president.

1984. Sékou Touré dies. Colonel Lansana Conté leads a military takeover of the government.

1984. The constitution is suspended.

1991. The constitution is replaced by the Loi Fondamentale. Multi-party politics are introduced.

1993. Conté is elected as head of state in presidential elections.

1996. A group of officers attempt a military coup but are unsuccessful.

1998. Conté is re-elected as president.

FUTURE TRENDS

It is very difficult to have economic progress without a platform of political stability, as both domestic and foreign investors are unwilling to risk resources which may not be secure. Conté has improved the domestic environment for business, but conflict with rebels on Guinea's borders with Sierra Leone and Liberia continues to dominate the political scene, though most regional leaders are expected to work together to try to restore stability. Rebel groups from Liberia have destroyed several towns in Guinea. Refugee transfer has started, with the aid agencies struggling to cope with the numbers. ECOWAS troop deployment in the region is attempting to restore order.

Most of the population of Guinea will continue to depend on agriculture for their livelihoods, and progress in this sector is expected to be slow. Guinea's undoubted mineral wealth has created income for only a small section of the community and does little to improve living standards or reduce poverty.

The IMF has pledged further support, and as a highly indebted poor country Guinea is expecting further debt

relief. Aluminum companies are showing renewed interest in the country, but realization of investment plans will depend on improving regional stability. The United Nations has asked for stricter diamond controls to keep gems out of the hands of rebel groups in Sierra Leone who are looking for sources of income.

DEPENDENCIES

Guinea has no territories or colonies.

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—Jack Hodd

GUINEA-BISSAU

Republic of Guinea-Bissau
República da Guiné-Bissau

CAPITAL: Bissau.

MONETARY UNIT: Communauté Financière Africaine franc (CFA Fr). The CFA franc is tied to the French franc at an exchange rate of CFA Fr50 to Fr1. One CFA franc equals 100 centimes. There are coins of 5, 10, 50, 100, and 500ÊCFA francs and notes of 500, 1,000, 2,000, 5,000, and 10,000ÊCFA francs.

CHIEF EXPORTS: Cashew nuts, shrimp, peanuts, palm kernels, and sawn lumber.

CHIEF IMPORTS: Foodstuffs, machinery and transport equipment, and petroleum products.

GROSS DOMESTIC PRODUCT: US$1.1 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$80 million (f.o.b., 2000 est.). **Imports:** US$55.2 million (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Guinea-Bissau lies on the west coast of Africa, with Senegal to the north and Guinea to the east and south. With a total area of 36,120 square kilometers (13,946 square miles), the country is a bit less than 3 times the size of the U.S. state of Connecticut. It has about 300 kilometers (186 miles) of coastline along the Atlantic Ocean. Guinea-Bissau also controls a set of islands, named Bolama, about 50 kilometers (31 miles) off the coast. The capital and largest city, Bissau, is located on the coast and has the only international airport in the country.

POPULATION. The United Nations estimated that in 1997 the population stood at 1.1 million. As of July 2001, the *World Factbook* estimated the population to be 1,315,822. United Nations estimates put population growth at 2.7 percent in the years 1975 to 1997. By 2001, the *World Factbook* had estimated population growth to have dropped to 2.23 percent. The average woman in Guinea-Bissau has more than 5 children.

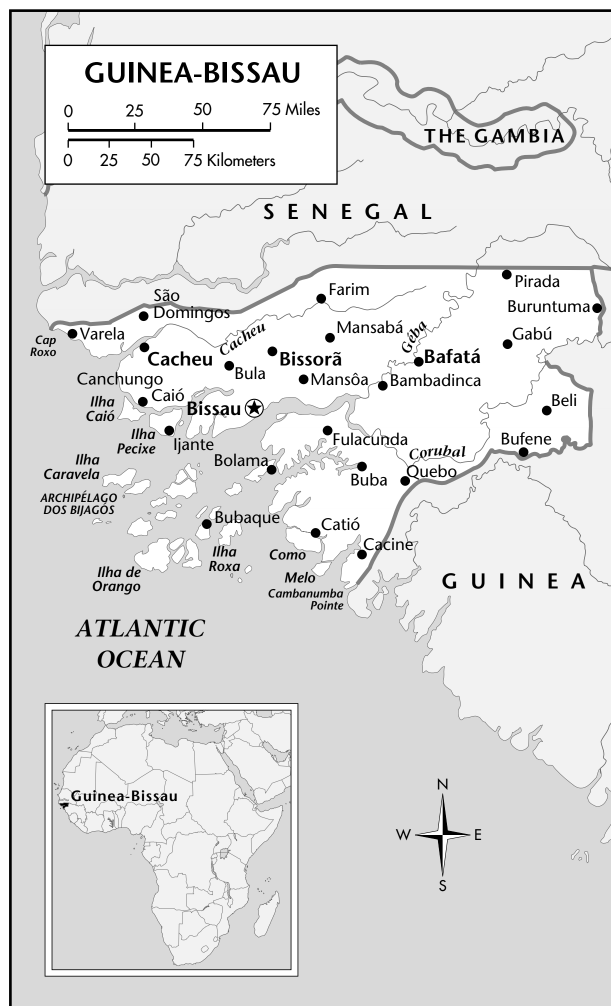
The population is composed of many ethnic groups, with the largest being the Balanta (30 percent), followed by the Fula (20 percent), Manjaca (14 percent), and Mandinga (13 percent). Other groups include Cape Verdean expatriates, Syrian Lebanese, and some Portuguese. Nearly half (45 percent) of the population is Muslim, and the Muslim community dominates the commercial sector and, increasingly, the government.

About 20 percent of the population was estimated to live in or near Bissau. The rest of the population lives as agriculturists in 8 mainly rural regions.

OVERVIEW OF ECONOMY

Guinea-Bissau has one of the least developed economies in the world. The economy relies mostly on agriculture. Nearly 80 percent of the workforce is engaged in agriculture; most work on small family farms and some work as laborers on cotton or cashew nut plantations. The production of cashew nuts is vital to the economy, making up 70 percent of the country's total exports. The **gross domestic product** (GDP) grew by 4.7 percent per year in between 1995 and 1997, compared to 2.6 percent between 1993 and 1994. However, the civil war caused output to fall by 28 percent in 1998, with the industry and services GDP output falling by 40 percent. This decline was a serious setback, as Guinea-Bissau was already one of the 15 poorest countries in the world.

The economy of Guinea-Bissau has not performed well in recent years. Output has increased less rapidly than population, and average living standards have fallen. But development in its widest sense involves more than just income, and in that sense Guinea-Bissau also suffers. The United Nations (UN) includes education and health as well as income in its Human Development Index, for which Guinea-Bissau was ranked 169 out of the 174



countries listed in 1998. The **gross national product** (GNP) per capita (converted using the **exchange rate** method) was low at US$160 per year. The **purchasing power parity** conversion (which makes allowance for the low prices of many basic commodities in Guinea-Bissau) puts GNP per capita at US$616. The *World Factbook* estimated the **GDP per capita** (based on purchasing power parity) to be US$850 per capita in 2000. These measures place Guinea-Bissau near the bottom of the low human development and low income categories.

The reasons for such poor economic performance stem from the country's tumultuous political situation. At the end of the 1990s, Guinea-Bissau weathered corruption, a devastating civil war, a coup d'etat, near destruction of Bissau, and displacement of more than 250,000 people. The problems in the country can be traced back to the end of the colonial period in 1974. Since independence, the economy and **infrastructure** has been poorly managed, leading to a reliance on international aid and imports. Weak infrastructure, the lack of equipment, and unskilled labor are the major obstacles to increasing output in the country's main economic sector: agriculture. Without these resources, Guinea-Bissau is also unable to exploit its abundant fish reserves, due to its lack of a modern fleet and port facilities. Hence, fishing is contracted out to foreign fleets. Manufacturing is also small, and mining is undeveloped.

After the decline caused by the **centrally planned economy** that was introduced after independence in 1974, the government began **liberalizing** the economy in the late 1980s. Since 1987, the World Bank and the International Monetary Fund (IMF) have had almost complete control of Guinea-Bissau's economic policy, and **structural adjustment programs** (SAPs) have aimed at removing **price controls**, increasing private enterprise, and reforming the **public sector**. However, the programs have been suspended periodically due to the government's inability to meet fiscal targets, and only after 1994 did the situation start to improve, mainly due to a $15 million 3-year IMF loan. The GDP growth was restored, **inflation** fell, and the **trade deficit** was reduced. The civil war also disrupted the plans, but by 2000 the programs were getting started again, and Guinea-Bissau was aided by the receipt of US$790 million in **debt relief**.

Guinea-Bissau's 1997 entry into the Franc Zone meant that the country adopted the CFA franc as its official currency and required the membership of the regional central bank, the Union Economique et Monetaire Ouest-Africaine (West African Economic and Monetary Union, UEMOA). UEMOA demanded expenditure cuts and higher tax collection. A comprehensive tax reform in 1997 involved the introduction of a generalized sales tax, streamlined custom **tariffs**, and reformed **excise tax**. The government also began eliminating 4,000 civil service posts. However, government expenditure rose due to reform costs and the re-capitalization of Banco Central de Guinea-Bissau. In addition, the rise in prices following Guinea-Bissau's entry into the Franc Zone led to a 50 percent pay raise for civil servants in late 1997. Inflation, which ran at 107 percent per year (1992–96), was chronically high before Guinea-Bissau entered the Franc Zone due to a rise in credit to the economy and the depreciation of the peso (the country's old currency). With the adoption of the CFA franc the government was able to reduce inflation to 17 percent at the end of the year, and, despite the civil war, it fell to 8 percent in 1998 and is estimated to have been 6 percent in 1999 and 3 percent in 2000.

The outbreak of civil war in June 1998 created turmoil in the reform program and put an end to US$10 million of the IMF loan. During the civil war, most economic activities were disrupted, especially in urban areas where most of the fighting took place. The government requested US$138 million in post-war assistance in May 1999. However, only in September 1999 did the IMF give

US$3 million, which was designed to help prepare Guinea-Bissau for another 3-year loan program to support economic reforms. At the same time, the IMF urged Guinea-Bissau to increase tax revenue, control expenditure, **restructure** public enterprise, and re-capitalize the financial sector. This action led to a US$25 million Economic Rehabilitation and Recovery Credit (ERRC) loan in November, and in conjunction with other loans, this should help with the rebuilding of Guinea-Bissau.

POLITICS, GOVERNMENT, AND TAXATION

Guinea-Bissau was first colonized by Portugal in the 15th century, but later incursions met with resistance which culminated in a series of wars (1878–1936). However, during the colonial period Guinea-Bissau remained undeveloped. After a 10-year guerrilla war, Guinea-Bissau unilaterally declared independence in 1973, and Guinea-Bissau's independence was recognized by Portugal in 1974, following a military coup. A new government was formed by the African Party for the Independence of Guinea-Bissau and Cape Verde (PAIGC), which wished to unite Guinea-Bissau with Cape Verde. In 1980, Commander Joao Vieira overthrew the government and severed Guinea-Bissau's link with Cape Verde. The political situation remained unstable in the 1980s, with many attempted coups and much civil unrest.

Since 1991, the country has been a multi-party republic. The president is elected to a 5-year term by popular vote and appoints a prime minister after consultation with the leaders of the **unicameral** National Assembly, the country's legislature. Legislators are elected to 4-year terms. The court system ranges from a Supreme Court, whose members serve at the pleasure of the president to 9 regional and 24 sectoral courts.

Although Vieira forcibly took control of the government in 1980, he had agreed in principle to the implementation of a multi-party democracy in the early 1990s. Predominantly due to a fragmented opposition, PAIGC won the first election, but Vieira won a disputed presidential election in the second round in 1994. The change in government did not erase its economic ineptitude, however. The bad handling of the country's entry into UEMOA in 1997 led to strikes, and although a change of prime minister restored some confidence, corruption scandals soon struck the government. In June 1998, Vieira dismissed the army chief Brigadier Ansumane Mane, for alleged involvement in supplying arms to separatists from the Senegalese region of Casamance, which sparked a civil war. Despite a peace accord, tensions continued until Vieira was ousted in May 1999.

In November 1999, in a multi-party election, PAIGC was defeated, and Kumba Iala (also spelled Yala), the head of the Social Renovation Party (PRS), was elected president in January 2000.

The country implemented a constitution in 1984, which has been amended 5 times, the latest change approved in 1996. The original constitution of 1984 allowed a 1-party state and reforms, instituted by Vieira. The document put all power in presidential hands. In 1990, reforms led to a multi-party state. A crisis was narrowly averted in 1997, when the president unconstitutionally dismissed the prime minister without consulting the Assembly, which was later revoked after referral to the Supreme Court, with Prime Minister Correira reappointed in October with the full support of the main opposition parties. Later electoral organizational problems culminated in civil war and unrest that ended with the dismissal of Vieira.

After the problems of 1997, a committee was set up to revise the constitution and reinforce the judiciary's independence. In 1999, the Assembly passed the new constitution with a two-thirds majority. The constitutional amendments specified that any president could only be elected twice, with each term lasting 5 years, it abolished the death penalty, and it specified that only nationals born in Guinea-Bissau of parents born in Guinea-Bissau may hold high offices of state. The constitution still requires President Iala's approval, but this point is problematic because several incumbents (including Fadul and Brigadier Mane) are not of local descent. Also, the military junta's future plans are uncertain, as it has announced that it would rule alongside the new government for the next 10 years.

Since 1999, 2 parties have dominated the National Assembly—the PRS and the Resistance Ba-Fata Movement (RGB-MB)—and these 2 parties are likely to form a coalition. PAIGC's representation in the Assembly has dropped, despite its change from **socialist** ideals to those of democracy and market economics. The infighting between the new and old guard in Guinea-Bissau was responsible for the expulsion of Vieira and others and has continued. Since the civil war, for example, there has been a rift in the army between the old guard and the new professional soldiers. Because the military is underpaid and promotion is an arbitrary process, the rift could cause military problems in the long term. Some think the political situation in Guinea-Bissau remains very unstable.

Since the civil war, Guinea-Bissau has had intermittent security concerns along its border with Guinea and Senegal. Vieira had requested the assistance of Senegalese and Guinea troops to protect his administration during the civil war, which turned the coup into a regional conflict. In addition, Guinea-Bissau had also been a haven for Senegalese rebels. However, since the end of the war, the new government has sought to mend

relations with Guinea and Senegal, and relations with Gambia are good.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Guinea-Bissau does not have a very developed or well-maintained infrastructure. Since the early 1980s, one of the country's main goals has been to develop its infrastructure. The 4,400 kilometers (2,734 miles) of roads in Guinea-Bissau, of which about 10 percent (453 kilometers, 281 miles) are paved, has attracted foreign aid in the form of sealing the main road to the northern border and constructing a major bridge at Joao Landin. About 85 percent of the population lives within 20 kilometers (12 miles) of a navigable waterway. Guinea-Bissau has many rivers that could be accessible to coastal shipping, but water transport needs vast improvement. Bissau is the main port, and there are plans for a European Union-sponsored deep-water port that will specialize in minerals and will be linked to Guinea by rail. (As of 2000, the country had no railways.)

Since the liquidation of the **privatized** national airline, Guinea-Bissau has had to rely on foreign-owned carriers. The civil war severely disrupted flights and the main airport only reopened in July 1999. In 2000, the country had about 29 airports, but only 3 had paved runways.

The government has announced its intention to liberalize the telecom industry, which is at present dominated by Portugal Telecom, which has a 51 percent stake in Guinea-Telecom. The government has also announced the extension of telecommunications to the whole country and the introduction of a cellular network, while US-AID will provide Internet access. In 1997, there were 8,000 telephones in the country. By 2000, there was 1 Internet service provider and about 1,500 Internet users.

An experimental television service was started in 1989; by 1997 there were 2 television stations. The country's 3 private radio stations broadcast to nearly 49,000 radios in the country in 1997. Since 1991, a number of private newspapers and magazines have been launched, though all depend on the state printing house for publication. In 1998, there were several newspapers: 1 government biweekly, 1 private daily newspaper, and 3 private weeklies. The national printing press had difficulty maintaining enough raw material to print all the newspapers during the civil war, and publication was sporadic. By the end of the war, more regular publication had returned.

Guinea-Bissau has one of the lowest electrification rates in Africa, mostly because of corruption and inefficiency. The country is completely dependent on petroleum products, despite its own high energy potential, especially in hydroelectric power. Construction of a dam at Saltinho could eventually supply the whole country and provide excess electricity for export. After the development of an offshore upstream oil industry had been delayed by border disputes with Senegal, the United Kingdom's Monument Oil and Gas company and the Chilean company, Sipetrol, agreed to acquire the 3,500 square kilometer block with Guinea-Bissau receiving 22.5 percent of the output. In 1998, the state-owned electricity company was put up for a long-term lease to a private company, but little progress has been made.

ECONOMIC SECTORS

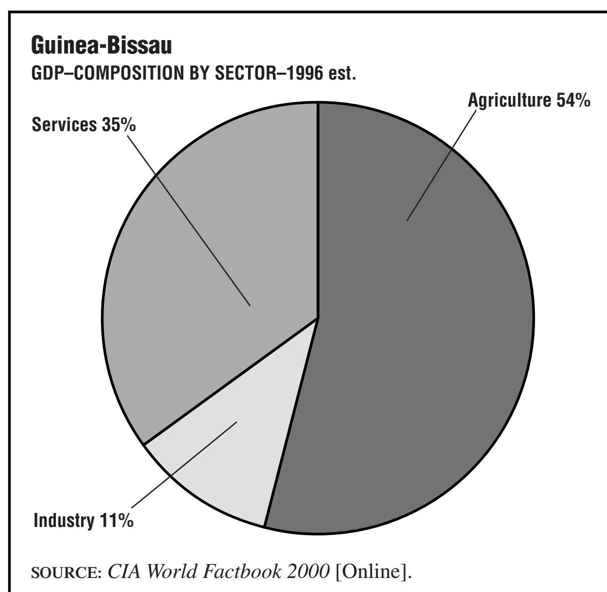
Although all economic sectors in Guinea-Bissau were damaged by the civil war, agriculture remained the most dominant economic sector. Agriculture (including forestry and fishing) contributed 62 percent of the GDP in 1998 and 83 percent of the **labor force** were employed in the sector in 1994. The *World Factbook* reported that agriculture contributed 54 percent of the GDP and employed 78 percent of the workforce in 1997. Industry (including mining, manufacturing, construction and power) employed an estimated 4 percent of the economically active population in 1994 and provided around 13 percent of the GDP in 1998, down from the

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Guinea-Bissau	5	44	N/A	N/A	0	0.4	N/A	0.13	2
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Guinea	N/A	47	41	0.0	3	0.4	2.6	0.00	5

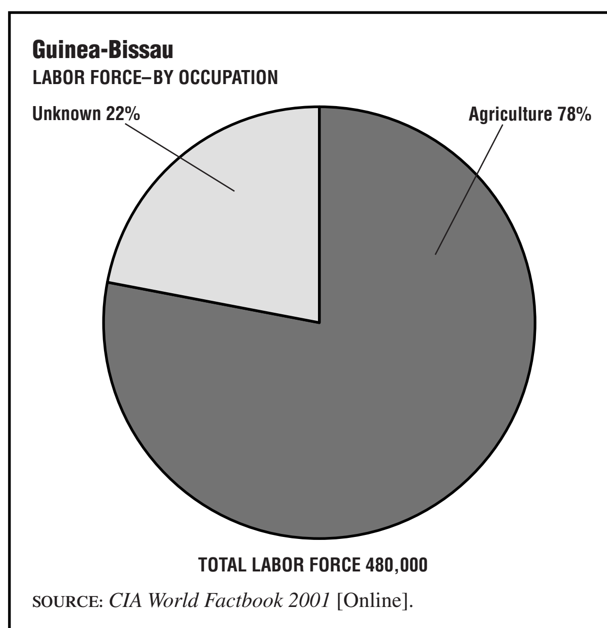
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

15 percent reported by the *World Factbook* for 1997. According to World Bank figures, the industrial GDP contribution increased in real terms by an average of 2.7 percent per year from 1990 to 1997, although it rapidly decreased by 12.7 percent in 1998 during the civil war. Services employed an estimated 19 percent of the economically active population in 1994 and provided an estimated 25 percent of the GDP in 1998, down from the 31 percent reported by the *World Factbook* for 1997. Despite the disruptions caused by the civil war, the economic sectors were not and still are not able to sustain the country. The economy of Guinea-Bissau is truly reliant on international aid.



SOURCE: *CIA World Factbook 2001* [Online].

AGRICULTURE

Agriculture is the most important sector in the economy, providing well over half of the GDP. Food self-sufficiency has been the target of several governments, with the main products being rice, cassava, beans, potatoes, yams, sugar-cane, and tropical fruits. Rice production covers 30 percent of the arable land. The livestock population has recovered after the war, with the number of cattle reaching 550,000 in 2001, which is high in relation to a population of just over 1 million people. The changes in the agriculture sector have sparked much debate about land tenure issues as a result of the conflict between traditional village-based farms (*Tabancas*) and the encroaching large-scale commercial sector (*Pontas*). Even though the first development plan calling for self-sufficiency in food supplies was created in 1983, by the late 1990s foodstuffs remained the largest portion of imports.

The legacy of the Portuguese colonial period lives on in Guinea-Bissau because **cash crops** grown on vast plantations remain the largest export products for the country. Cashew nuts are the most important cash crop (cashew nut output has quadrupled since 1988). Despite suffering setbacks during the civil war, cashew nut production is expected to reach 60,000 metric tons in 2001 from 38,000 metric tons in 1997.

Forestry resources are abundant but under-used. The 2.35 million hectares of forest could produce 100,000 metric tons per year without disturbing the ecology. Under privatization the former **parastatal**, Socotram, has become 4 separate private companies, with a view to increasing competition and raising timber production.

The coastline is rich in fish and shellfish, and joint fishing ventures have been set up with Russian, Algerian, and Portuguese companies (with licensing for this fishing accounting for 40 percent of government revenue [1992–96]). However, over-fishing and lax controls have led to a drop in fishing potential and the introduction of a European Union-backed modernization program, with a quota system and more maritime patrols. In 1996, Guinea-Bissau also signed agreements to cross-monitor fishing zones with 6 other West African nations. Estimated catches of 0.25 to 0.3 million metric tons are possible if illegal fishing can be eliminated.

INDUSTRY

Industry is very small, providing only 13 percent of the GDP in 1998 and 4 percent of employment in 1994. Apart from construction, output consists largely of **consumer goods** for the domestic market. A brewery opened in 1997 and was the only large venture with international investment. Mostly there is little investment due to the

poor power supply situation, the unskilled labor force, and the small market size. What little industry existed was heavily affected by the war. The mining sector is completely undeveloped, though prospecting is under way for bauxite, petroleum, and phosphate.

SERVICES

The banking system was radically reformed in 1989 to reflect economic liberalization and again in 1997 with Guinea-Bissau's entry into UEMOA. There are 2 private commercial banks in Guinea-Bissau, and an investment bank was launched with Portuguese capital. All banks were closed during the civil war and only re-opened in July 1999. Loan repayments are difficult due to the effects of the war, and credit availability is also set to contract due to reduced savings. The central bank was replaced by the Banque Centrale des États de l'Afrique de l'Ouest (Central Bank for West African States, BCEAO) when Guinea-Bissau joined UEMOA, and BCEAO has taken over part of the former central bank's assets and liabilities.

INTERNATIONAL TRADE

Since independence Guinea-Bissau has been internationally non-aligned, in order to solicit aid from all available quarters. While trading mostly with Western countries, it has also courted the other countries (including China and Brazil). In March 1997, Guinea-Bissau joined UEMOA as a full member and also became a full member of ECOWAS.

Since independence, trade has experienced many years of deficit. In 1999, imports were US$101 million. The *World Factbook* estimated that by 2000 imports had dropped to $55.2 million. Government efforts to diversify exports and to reduce export taxes have improved exports from US$27 million in 1998 to US$48 million in 1999, but this growth still left a trade deficit of US$53 million. Port closures during the war hindered exports, but the IMF expects exports to reach previous levels of 60,000 metric tons per year from 1999 onwards. By 2000, exports had risen to US$80 million, according to the *World Factbook,* giving the country a small surplus. Exports go mainly to India, Singapore, Italy, and Portugal, with imports mostly coming from Portugal, France, Senegal, and the Netherlands.

Trade (expressed in billions of US$): Guinea-Bissau

	Exports	Imports
1975	.007	.038
1980	.011	.055
1985	.012	N/A
1990	.019	.068
1995	.044	.133
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Guinea-Bissau

Communaute Financiere Africaine francs per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	26,373

Note: Rate for 1996 is in Guinea-Bissauan pesos per US dollar. As of May 1, 1997, Guinea-Bissau adopted the CFA franc as the national currency; since January 1, 1999, the CFA franc is pegged to the euro at a rate of 655.957 CFA francs per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

Guinea-Bissau since 1997 has been a member of the 8-member UEMOA, and the currency is the CFA franc. The BCEAO issues currency notes and regulates credit expansion throughout the region. Since 1999, the CFA franc has been tied to the euro at 655.959:1 given that France has joined the European Monetary Union.

POVERTY AND WEALTH

Guinea-Bissau is one of the poorest countries in the world, and its population suffers. According to 1991 estimates, 50 percent of the population lives below the poverty line. The GDP per capita was estimated to be US$850 at purchasing power parity in 2000. Although the *World Factbook* estimated in 1991 that the poorest 10 percent of the population controlled 0.5 percent of the GDP and the richest 10 percent controlled 42.4 percent

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Guinea-Bissau	226	168	206	223	173
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Guinea	N/A	N/A	N/A	532	594

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Guinea-Bissau

Lowest 10%	0.5
Lowest 20%	2.1
Second 20%	6.5
Third 20%	12.0
Fourth 20%	20.6
Highest 20%	58.9
Highest 10%	42.4

Survey year: 1991

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

of the wealth, there are few reliable figures for the distribution of wealth.

Economic development has been hampered by both low quality and poor coverage of education. Although education is compulsory between the ages of 7 and 13, barely half of the children in that age group attend school regularly. Primary enrollment stood at 60 percent, and secondary enrollments stood at 6 percent in 1997. Most students also supplement family income and frequently miss school. Education has also been hit by strikes over reforms and was badly disrupted by the war. According to 1997 estimates, male literacy was estimated to be 67 percent and female literacy 41 percent.

Health in Guinea-Bissau is in a state of crisis. About 90 percent of the needed funding comes from abroad, though this money is often diverted through corruption and does not reach its intended recipients. There are 1,300 hospital beds in Guinea-Bissau, and Bissau Hospital was badly affected during the war. The spread of disease and endemic malnutrition with resultant high death rates have made the level of health care in Guinea-Bissau the lowest in West Africa. Infant mortality stood at 138 per 1,000 before the war, but this figure has dropped to an estimated 112 deaths per 1,000 live births in 2000. Only a quarter of the population has access to clean water, sanitation, and health care, leading to frequent outbreaks of cholera and meningitis. HIV is also spreading, with an estimated 14,000 adults having been infected by the end of 1999.

WORKING CONDITIONS

The constitution of Guinea-Bissau makes little provision for workers and that which exists is not necessarily heeded. Forced labor is prohibited, and the economy is run along centralized lines, although this is changing under IMF and World Bank pressure. However, most of the population is employed in **subsistence farming** and the formal employment sector is small. There is no formal minimum wage. Children often work to help the household, leading to poor school attendance figures. Unions in the formal sector have been active, as was shown in strikes following the poorly handled entry into UEMOA in 1997.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1878. Portugal begins the colonization of Guinea-Bissau.

1973. Guinea-Bissau declares independence.

1974. Guinea-Bissau becomes independent from Portugal. Luis Cabral becomes president.

1980. Joao Vieira overthrows Cabral and assumes the presidency.

1997. Guinea-Bissau joins UEMOA.

1998. Civil war breaks out after Vieira dismisses the army chief.

1999. Government of national unity is installed. The Senegalese and Guinean troops who had come to aid Vieira withdraw.

1999. Vieira is ousted. Multi-party elections are held.

2000. Kumba Iala is elected president.

FUTURE TRENDS

It is very difficult to have economic progress without a platform of political stability. Given the fragile peace in Guinea-Bissau, both domestic and foreign investors hesitate to risk their resources. The damage of the civil war and the continuing role of the military have been major concerns for international donors and the business community. Until confidence is restored, Guinea-Bissau cannot expect to make progress in improving the living standards of its people.

On the positive side, the general election was held without major incident and the opposition party gained the majority. It is expected that the former ruling party will continue to be a minority in the Assembly and that the military junta will struggle to reposition itself in the new political landscape. (The political parties have refused to endorse the military junta's proposed pact, which would allow it to participate in government for 10 more years.) Internal security could be unstable as demobilization of the armed forces begins. With the resumption of aid, the economy is expected to continue to recover, but long-term progress will depend on political stability and commitment to economic reform programs.

DEPENDENCIES

Guinea-Bissau has no territories or colonies.

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—Jack Hodd

KENYA

Republic of Kenya
Jamhuri ya Kenya

CAPITAL: Nairobi.

MONETARY UNIT: Kenyan shilling (KSh). There are 100 cents in KSh1. The Kenyan shilling includes denominations of 5, 10, 20, 50, 100, and 200.

CHIEF EXPORTS: Tea, coffee, horticultural products, and petroleum products.

CHIEF IMPORTS: Machinery and transportation equipment, petroleum products, iron, and steel.

GROSS DOMESTIC PRODUCT: US$45.1 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$2.2 billion (f.o.b., 1999 est.). **Imports:** US$3.3 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in east Africa, Kenya has a total area of 582,650 square kilometers (224,962 square miles), rendering it slightly larger than twice the size of Nevada. With a coastline of 536 kilometers (333 miles), Kenya borders the Indian Ocean to the east, Somalia to the northeast, Ethiopia to the north, Sudan to the northwest, Uganda to the west, and Tanzania to the south. Nairobi, the capital of Kenya, is situated slightly south of the center point of the country.

POPULATION. Between 1975 and 1997, the population of Kenya, which more than doubled from 13.7 million to 28.4 million, increased at an exceedingly high average growth rate of 3.4 percent. In July 2000, the CIA *World Factbook* estimated that the population stood at 30,339,770. With a current annual growth rate of 1.6 percent, it is expected that this figure will increase to approximately 37.6 million by 2015. The birth rate in Kenya is 29.35 births per 1,000 persons, while the death rate is 14.08 deaths per 1,000 persons. In terms of age structure, the population of Kenya is relatively young, with 43 percent of all Kenyans aged between 0 to 14 years, 54 percent aged between 15 to 64 years, and only 3 percent aged 65 years and over. In 1997, only 30.4 percent of the population lived in urban areas, though this figure is expected to expand to 44.5 percent by 2015.

The population of Kenya is highly heterogeneous (diverse). Some of the major ethnic groups include the Kikuyu (comprising 22 percent of the population), the Luhya (14 percent), the Luo (13 percent), the Kalenjin (12 percent), the Kanmba (11 percent), the Kisii (6 percent), and the Meru (6 percent). There are also several other African groups (15 percent), in addition to a small population of Arabs, Asians, and Europeans. With 38 percent of Kenyans adhering to one denomination or another of Protestantism, and 28 percent practicing Roman Catholicism, the majority of Kenyans are Christian. An additional 26 percent of the population follow an indigenous religious system unique to east Africa, while another 7 percent are devoted to Islam. A plethora (a large amount) of indigenous languages are spoken in Kenya, though the only 2 official languages are English and Kiswahili. The latter, which acts as the *lingua franca* (common language) in east Africa, is a Bantu-based language with strong Arabic influences.

Like many sub-Saharan African nations, Kenya currently confronts an HIV/AIDS epidemic of massive proportions. At the end of 1997, conservative estimates by the World Health Organization (WHO) placed the total population living with HIV/AIDS at approximately 1,600,000. The United Nations Development Programme (UNDP) argues that HIV/AIDS is inextricably interrelated to issues of poverty. Poor women in urban areas, for example, are often forced out of economic necessity to engage in prostitution in order to survive. Prostitution, in turn, exposes sexual workers and their clients to high risks of HIV contraction. As such, any effective HIV/AIDS strategy on the part of the Kenyan government will have to address the dynamics of poverty in addition to gender inequality.

OVERVIEW OF ECONOMY

The area that now comprises Kenya came under British domination in the 1890s, though it was not declared an official Crown colony until 1920. Under British hegemony (complete domination), a racially stratified economy was created, with European settlers controlling a large segment of the fertile land and managing nascent industries, while the African indigenous population worked as laborers on **cash-crop** plantations and in factories. Indians, occupying a status somewhere between the Europeans and Africans, formed a petty-capitalist class of artisans, clerks, and merchants. By and large, the colonial economy was characterized by settler control of farming lands (settler-economy), with tea and coffee acting as the major export crops designated for sale in European markets abroad.

Following the emergence of various nationalist movements throughout the 1950s, in addition to a series

of rebellions (the Mau Mau) against British rule, Kenya was granted independence in December 1963. Under the subsequent rule of the Kenya African National Union (KANU), headed by President Jomo Kenyatta, Kenya experienced significant economic growth throughout the 1960s. Although KANU, a self-proclaimed African **socialist** party, pursued various socialistic policies—including government control of agricultural marketing boards, state ownership of certain industries, and **import-substitution**—the economy under Kenyatta was more or less mixed.

In 1980, a growing **balance of payments** deficit caused by declining terms of trade (international prices for agricultural commodities greatly outweighed by prices for **capital goods**) and high international oil prices, compelled Kenya to borrow heavily from the World Bank. The latter issued a second large-scale loan to Kenya in 1982, with both the first and second loans being subjected to numerous conditionalities (requirements). Such conditionalities centered on increasing the role of the **private sector** in the economy while concomitantly decreasing the role of the government. In particular, the conditionalities—collectively labeled Structural Adjustment Packages (SAPs)—emphasized trade **liberalization** and gradual dissolution of government marketing boards that controlled purchasing and selling of agricultural commodities.

Kenya's slow progress towards implementing agricultural conditionalities, in addition to the widespread use of public resources by government and **parastatal** officials for private gain (corruption), prompted many bilateral donors and the major international financial institutions to severely criticize KANU throughout the early 1990s. Inefficient and corrupt parastatals were singled out as being particularly draining to the country's treasury, and thus a major factor behind deficit and debt problems. Economic performance in the 1990s declined severely, and the average annual GDP growth rate, which stood at 6.5 percent between 1960 to 1980, fell to 2 percent between 1990 to 1999. In August 1993, **inflation** temporarily reached a record high of 100 percent. Five years later, in 1998, the unemployment rate soared to 50 percent.

Both the IMF and the World Bank suspended **structural adjustment programs** in 1997, as a result of KANU's failure to implement governance conditionalities designed primarily to curb corruption and promote sound economic policy. In July 2000, however, Kenya signed a long-awaited 3-year Poverty Reduction and Growth Facility (PRGF) with the IMF, a development that is expected to normalize relations with the World Bank and various bilateral donors. The PRGF, a direct relative of the SAPs, sets out some of the most detailed conditions ever agreed to by a national government.

The Kenyan economy continues to be dominated by agriculture, with tea, coffee, horticultural products, and petroleum products acting as the country's major exports. Export partners, in turn, include Uganda, Tanzania, the UK, Egypt, and Germany. Tourism is the second largest contributor to foreign exchange, while agriculture is the first. Kenya's major imports include machinery and transportation equipment, petroleum products, and iron and steel, most of which are imported from the UK, the United Arab Emirates, the United States, Japan, Germany, and India. Due, in large part, to the uneven terms of trade between Kenya's agricultural exports and higher **value-added** imports, the country runs a significant **balance of trade** deficit. This means that Kenya must borrow heavily to finance imports, hence the various SAPs. In 1998, Kenya's total **external debt** stood at US$7 billion. In addition to commercial loans, the country also receives large amounts of economic aid from various international organizations and bilateral donors. In 1997, for instance, Kenya received a total of US$457 million in aid.

POLITICS, GOVERNMENT, AND TAXATION

The legislative branch of the Kenyan government consists of a **unicameral** National Assembly (bunge), whose representatives are elected by popular vote to serve 5-year terms. The executive branch consists of a chief of state who is both president and head of government. The president is elected by popular vote by members of the National Assembly. The president, in turn, selects a cabinet. The judicial branch comprises a Court of Appeal, a chief justice appointed by the president, and a High Court. The legal system is a complex hybrid of English common law, tribal law, and Islamic law. The military is more or less apolitical, and Kenya boasts one of the most stable political histories in all of east Africa. This record was slightly marred in the early 1990s, when serious ethnic clashes killed thousands and left tens of thousands homeless.

Although KANU, dominated mostly by the Kikuyu and Luo ethnic groups, initially claimed to be socialist, it has long since abandoned this pretense. Indeed, according to Vincent B. Khapoya, author of the *African Experience,* even in the earliest years of Kenyan independence, KANU promoted capitalist policies. During this period, KANU, which replaced the ethnic federalism of the original post-independence constitution with centralization, banned its major opposition party, the Kenya People's Union (KPU), thereby creating a *de facto* (in practice) one-party state. In 1982, KANU constitutionally declared a *de jure* (on paper) one-party state, claiming that this was needed to decisively avoid the effects of "tribalism" (ethnic conflict), supposedly engendered by multiparty politics. Despite the reintroduction of

multiparty politics in 1992, the government of Kenya has been headed by the KANU leader, Daniel arap Moi, since the death of Kenyatta in 1978. Moi is currently serving his last constitutional term in office, which is scheduled to end in January 2003.

Some of the other major political parties represented in the National Assembly include the Democratic Party of Kenya (DP), the Social Democratic Party (SDP), the National Development Party (NDP), Forum for the Restoration Democracy-Kenya (FORD-K), and SAFINA. The CIA *World Factbook 2000* states that most opposition parties in Kenya are divided along ethnic lines, a factor which enabled KANU to win the 1997 elections despite its failure to garner the majority of votes.

Tax revenue, which accounted for 86.6 percent (KSh129,230) of government revenue in 1997, is the largest source of government income. The 3 largest sources of tax revenue, in turn, are taxes on goods and services, taxes on income and profits, and taxes on international trade. Each respectively accounted for 37 percent (KSh55,279), 33 percent (KSh49,266), and 15.3 percent (KSh22,773) of government revenue in 1997. Non-tax revenue only accounted for 13.4 percent of government income in the same year.

Taxes on companies in Kenya are set at the relatively high rate of 32.5 percent for resident companies and 40 percent for nonresident companies, though certain deductions and exemptions do apply. The **income tax** system is based on an annual pay-as-you-earn (PAYE) scheme in which a person is taxed progressively on sums of KSh90,240, beginning at 10 percent on the first KSh90,240, and ending at 32.5 percent on the sixth sum of KSh451,200. Those that make less than KSh90,240 are effectively exempted from income taxation. Moreover, a second pro-poor taxation policy includes the exemption of unprocessed agricultural products and processed foodstuffs from the standard **value-added tax** (VAT) rate of 17 percent on all goods. Some **excise tax** rates, however, such as the rate of 135 percent on cigarettes and tobacco products, and the 95 percent rate on light beer, are set at extremely high rates. Consequently, these commodities are confined to the enjoyment of the wealthy.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Kenya has an extensive road network of approximately 95,000 miles connecting most parts of the country. According to the U.S. Department of State *Country Commercial Guide 2000*, however, the current state of most roads is deplorable. Of the total 63,800 kilometers of highway, for example, only 8,868 kilometers are paved (1996 est.). In collaboration with various donors, the Kenyan government recently launched the ambitious 'Roads 2000' project, designed to create links between all major and minor roads, in addition to rehabilitating 20,000 kilometers of roads in 6 urban centers. The project, which will span approximately 3 years, is expected to cost US$245 million. The road network accounts for over 80 percent of Kenya's total passenger and freight transport.

The state-owned Kenya Railways Corporation (KR) manages Kenya's single-track railway system, which runs from Mombasa through Nairobi to the Ugandan border. As a result of heavy operational losses, there has been a steady deterioration in the KR's services. The World Bank and the British Overseas Development Administration are currently funding a railway rehabilitation project to make KR commercially viable, while the government has made plans to open up the railways to private-sector participation by limiting the KR's role to owning and regulating lines. Accordingly, the KR would lease locomotives to private-sector operators.

Kenya's port of Mombasa, which has an annual average freight throughput of about 8.1 million tons, is the country's main seaport and serves most East and Central

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Kenya	9	104	21	N/A	0	N/A	2.5	0.19	35
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1
Tanzania	4	279	21	0.0	1	N/A	1.6	0.05	25

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

African nations. The deep-water port, boasting 21 berths, offers specialized facilities, including cold storage, warehousing, and container terminal.

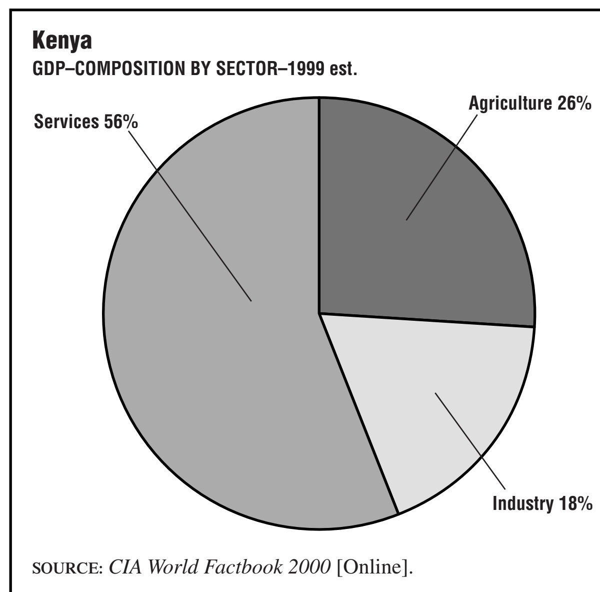
The international and domestic air transport **infrastructure** is relatively well-developed in Kenya. There are 3 international airports; the largest is Nairobi's Jomo Kenyatta International Airport, which serves more than 30 airlines providing scheduled services to cities around the world. In total, Kenya has 230 airports, including 21 that are paved. Wilson airport in Nairobi, the busiest airport in Africa, handles light aircraft and general aviation.

In 1999, the Communications Commission of Kenya was established to regulate telecommunications and radio communications in the country. In the same year, the state-owned Kenya Posts and Telecommunications Corporation was split into 2 separate parastatals—Telkom Kenya, a telecommunication corporation, and Postal Corporation of Kenya, a postal services corporation. Kencell, a **joint venture** between Vivendi France and Sameer of Kenya, won the second cellular license bid in 1999 to provide cellular services in competition with the Telkom subsidiary, Safaricom. The government plans to sell up to 49 percent of Telkom Kenya through the Nairobi Stock Exchange. As of 1998, there were 290,000 main telephone lines in use, or approximately 9.9 telephone lines per 1,000 people. The United States, in comparison, boasted 640 phone lines per 1,000 people in 1996.

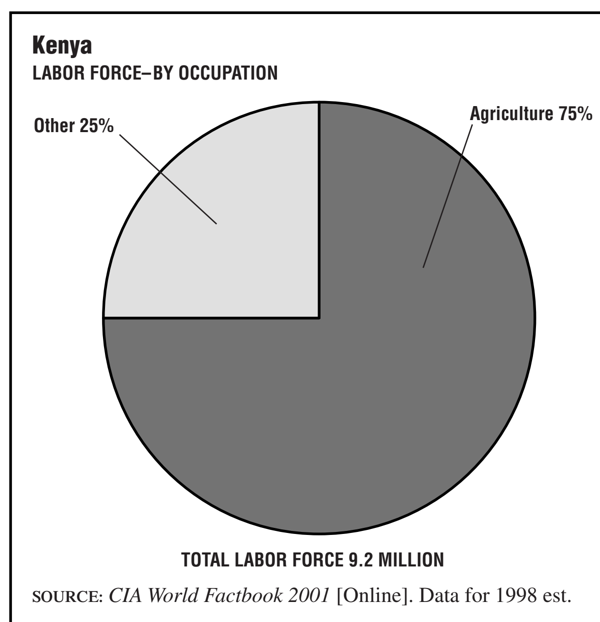
Kenya's electricity services are mostly provided by the state-owned Kenya Power and Lighting Company (KPLC), though an Electricity Regulation Board was appointed in 1998 to manage the opening up of the power sector to independent private producers. Since 82.74 percent of the power supply comes from hydroelectricity, power outages and blackouts have become increasingly common as a result of chronic drought. In 1999–2000, Kenya experienced its worst drought in 40 years, a development that forced the KPLC to introduce an emergency rationing program in July 2000 under which electricity supplies have been cut off for 12 hours a day. Further adding to the problem, hydro equipment tends to be outdated and poorly maintained. Consequently, the government is eager to further develop both thermal and geothermal sources of power. Two international companies were licensed at the beginning of 1997 to respectively produce 43 MW of power from a thermal plant in Mombasa and 45.5 MW from a diesel plant in Nairobi. In 1998, total electricity production in Kenya equaled 4.23 billion kWh. Only 8 percent of the Kenyan population is connected to the national grid.

ECONOMIC SECTORS

As in most of Africa, the legacy of colonialism has ensured the predominance of agriculture in the Kenyan economy at the expense of industry. According to Norman Miller and Roger Yeager, authors of *Kenya: The Quest for Prosperity,* the colonial-settler-dominated economic system carried with it an explicit discouragement of indigenous **capitalism**. Policies directed towards these ends had the effect of guaranteeing African labor for colonial farmers while simultaneously preventing Kenyans from accumulating capital wealth. Perhaps even more importantly, Kenyan independence leaders accepted the unequal patterns of land tenure and private land ownership that developed in the colonial period, with the caveat that large estates were taken over by emerging African elites (so-called "Africanization"). As Miller and Yeager assert,



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est.

this committed Kenya to a potentially dangerous course of unbalanced economic growth, as the politically powerful landowners maintained a system of agro-export domination that engendered deep class inequality and stymied (frustrated) industrial development. Today, the industrial sector remains relatively small, though many manufacturing sub-sectors have experienced considerable growth in recent years. The service sector, for its part, forms a vital part of the economy, with financial services and tourism predominating.

AGRICULTURE

With 75 percent of the 9.2 million person **labor force** engaged in farming, the agricultural sector is the mainstay of the Kenyan economy. The sector contributes an estimated 26 percent of GDP, and generates 60 percent of the total foreign exchange earnings (1998 est.). The major agricultural products in Kenya include tea, coffee, horticulture, corn, wheat, sugarcane, dairy products, beef, pork, poultry, and eggs.

Tea production, which netted US$520 million in 1998, is Kenya's largest single foreign exchange earner. Coffee and horticulture are the other major agricultural export foreign exchange earners. With the economy so heavily dependent upon the exportation of agricultural commodities for its foreign exchange, however, Kenya is in a considerably vulnerable position. Adverse weather conditions, for instance, can completely affect the economy as a result of decreased production in any given year. Over the past 10 years, IMF statistics indicate that annual tea exports have fluctuated unpredictably, according, in large part, to weather conditions. In 1992, the total volume of tea exports equaled 169,000 tons; in 1996, this figure increased to 229,000 tons, though, in the following year, the total decreased to 206,000 tons. The Economist Intelligence Unit (EIU) November 2000 Report on Kenya estimated tea output declined by 5.3 percent from the year before, leading to a 6 percent decline in the value of exports. The cause of this decline relates to the debilitating drought that the country experienced at the close of the twentieth century.

Coffee production has similarly followed varied patterns of output according to weather conditions. In 1991, 83,900 tons of coffee were produced for exportation, with this figure increasing to 113,500 tons in 1995, and declining to 83,200 tons in 1996. To add to the problems of production instability, revenue acquired from agricultural commodity exports depends heavily upon international prices for a given commodity in a given year. For instance, if there is a considerable coffee yield by most coffee-producing countries of the world, international prices will accordingly decline as a result of a **glut** (excessive supply). The EIU estimated that coffee export production in 1999 would reach 85,000 tons, a considerable improvement on the 1998 output of 68,100 tons resulting from the improvement in the weather of the coffee-growing regions of the Central Highlands. At the same time, coffee revenue in 1999 showed little increase due to depressed world coffee prices. Coffee export earnings fell to US$125 million in the 12 months prior to the end of August 2000, compared with US$149 million in the same period of the previous year.

Horticulture—primarily the production of flowers, fresh fruits, and vegetables—is the fourth largest earner of foreign exchange and the fastest-growing activity in the Kenyan economy. Unfortunately, the recent drought led to a 6.4 percent decline in horticultural output in 2000 and a fall of 3.6 percent (US$188 million) in export earnings.

As a result of the scarcity of arable land, in addition to the tendency to use valuable land for the cultivation of export crops, Kenya must import large amounts of food in order to feed the population. The latter factor is inextricably related to the domination of large farms producing export crops in the agricultural sector. Such farms are more concerned with producing crops for profit than in producing food for local subsistence consumption. Kenya normally produces only 35 to 40 percent of its domestic wheat requirements, which are estimated at 650,000 tons per year. Adverse weather conditions in 1997 led to a drastic reduction in domestic wheat production, thereby necessitating 465,000 tons of wheat imports. Similarly, in the same year a deficit in maize production had to be rectified with 1.1 million tons of imported maize.

In 1993, Kenya's total arable land was estimated at 8 percent, while permanent pastures and forests and woodland respectively occupied 37 percent and 30 percent of the land. Several environmental problems currently threaten this land, including deforestation (erosion of forests), soil erosion, and **desertification** (drying of the land). Other environmental problems include water pollution from urban and industrial wastes and degradation of water quality from increased use of pesticides and fertilizers.

INDUSTRY

With industry contributing 18 percent of GDP (1998 est.), the industrial sector in Kenya is a relatively small, albeit important one. Some of the major industries include small-scale **consumer goods** producers (plastic, furniture, batteries, textiles, soap, cigarettes, and flour), agricultural products processing, oil refining, and cement. Industrial production is confined exclusively to the urban centers, such as Nairobi and Mombasa.

Until the early 1990s, the Kenyan government pursued a strategy of import-substitution industrialization

(ISI) in the manufacturing sector. ISI seeks to stimulate local manufacturing capacity by blocking manufacturing imports from abroad. Although ISI has been effective in certain contexts, the neo-liberal (the ideology of the complete free market) international financial institutions have criticized it severely for facilitating the development of inefficient firms that do not have to compete with their foreign counterparts. The result is higher prices and poorer quality goods for domestic consumers. In accordance with the conditions delineated in the various SAPs, therefore, the government of Kenya has replaced ISI with a strategy of export-oriented industrialization (EOI). The latter is premised on the idea of stimulating manufacturing industries by engaging in competition and free trade. It has been criticized for not taking into account the possibility that highly competitive foreign manufacturers will depress nascent Kenyan firms if they are granted access to Kenya's markets through trade liberalization.

Aggregately (in total), the value contribution of manufacturing in the Kenyan economy has steadily increased over the past 10 years, rising from KSh6,833 million in 1991, to KSh11,976 million in 1994, and KSh23,490 million in 1996. As other economic sectors have also increased in their value contributions, however, the percentage increase of manufacturing in GDP contribution has not changed significantly. In 1991, manufacturing contributed 3.1 percent of GDP, while this figure only marginally increased to 4.6 percent in 1996. In the same year, the manufacturing sector provided employment for 210,500 Kenyans.

The production output of many manufacturing subsectors has also increased considerably throughout the 1990s. From 1991 to 1996, for instance, output of rubber products increased annually on average by 16 percent, plastic products by 12.3 percent, petroleum and other chemicals by 3 percent, metal products by 5.38 percent, electrical machinery by 7.11 percent, and, finally, clay and glass products by a whopping 46.85 percent. The cement industry, one of Kenya's most valuable, increased the value of its exports from US$15.2 million in 1992 to US$43.3 million in 1997. Other sectors did not fare so well, and annual average output for many actually declined. Beverages and tobacco declined on average by 0.13 percent, textiles by 6.9 percent, and clothing by 12.11 percent.

Although the Kenyan government does not maintain data on the value of **Foreign Direct Investment** (FDI), the U.S. Investment Promotion Center estimated that FDI totaled more than US$1 billion in 1994. Many foreign firms are located within Export Processing Zones (EPZs)—designated areas in which foreign firms are granted **tax holidays** and other concessions in order to attract their investment. There are a total of 14 EPZs in Kenya, and manufacturers are enticed with a ten-year corporate tax holiday and a 25 percent tax rate thereafter. Some of the major foreign manufacturers in the Kenyan economy include Bayer AG (German pharmaceuticals), British Petroleum, Cadbury Schweppes (UK confectionery/beverages), Coca-cola (U.S.), General Motors (U.S.), Colgate Palmolive (U.S. hygiene products), Mitsubishi (Japanese motor vehicles), and Mobil (U.S. petroleum products). While many praise FDI for creating needed investment and facilitating transfers of technology, others argue that it allows foreign firms to operate in isolation from the rest of the economy and that their profits are often expatriated (returned to the investor country).

The mining sector in Kenya, as a sub-component of the industrial sector, is negligible, though there are small deposits of gold, limestone, soda ash, salt barites, rubies, flourspar, and garnets. In 1991, mining only accounted for 0.1 percent of GDP, with this figure remaining exactly the same in 1996.

SERVICES

Accounting for approximately 56 percent of GDP, the service, or tertiary sector, is the most valuable area of economic activity in the domestic economy. The service sector consists mainly of 2 major areas: tourism and financial activities. **Retail**, which includes a significant number of restaurants in the urban centers, is dominated by small-scale street vendors, many of whom form part of the **informal sector**. In total, 144,300 Kenyans were involved in retail in 1996, not counting those that were engaged in the informal sector. The informal sector itself, known in Kenya as "jua kali," employs approximately 64 percent of all Kenyan urban workers. It is also the most dynamic sector in the economy in terms of job creation, accounting for about 90 percent of new jobs outside the **smallholder** farm sector. Informal sector activities, such as carpentry, motor vehicle repair, tailoring, **hawking**, and selling various fruits, vegetables, and other commodities, are largely service-based. Though the government recognizes the value of the informal sector, the U.S. Department of State *Country Commercial Guide 2000* argues that it could do more to develop needed infrastructure.

TOURISM. With its beautiful coastal beaches, wildlife, unique scenery, and history of relative stability, Kenya is the tourist hub of east Africa. Indeed, tourism is the country's second-largest foreign exchange earner, next to the agricultural sector as a whole. In 1995, Kenya received an estimated 785,000 tourists with earnings of about US$486 million, a slight decline from the US$501 million in earnings and 807,600 tourists of the previous year. Earnings from tourism further declined to US$448 million in 1996, though this figure still equaled about 65 percent of the

combined revenues from tea and coffee exports. Europeans account for more than 50 percent of Kenya's tourists, while Americans account for less than 10 percent.

According to the U.S. Department of State *Country Commercial Guide 2000,* the relative decline in Kenya's tourism sector can be attributed to a high level of crime, disintegrating infrastructure, the eruption of ethnic violence in the early 1990s, and growing competition from neighboring countries. Reassuringly, political stability has returned and the government has offered various fiscal incentives to firms operating in the tourism sector, thereby counterbalancing the negative trends. Several **multinational corporations** are involved in the tourist sector in Kenya, including the Hilton International (British), the Intercontinental Hotel (Japanese), and Safari Park Hotel (South Korean).

FINANCIAL SERVICES. The financial sector has grown considerably in importance throughout the 1990s, increasing its value contribution to the economy from KSh7,069 million in 1991 to KSh9,843 million in 1996. In terms of GDP contribution, the financial sector accounted for 8.2 percent of GDP in 1991 and 10.1 percent in 1996. In the same year, approximately 81,000 Kenyans worked in the financial sector.

As of the beginning of 1998, the highly diversified financial sector in Kenya consisted of the Central Bank of Kenya, 53 domestic- and foreign-owned commercial banks, 15 non-bank financial institutions, 2 mortgage finance companies, 4 building societies, and numerous insurance companies and other specialized financial institutions. The banking sector is dominated by 4 large banks, which aggregately control 50 percent of all bank assets and 52 percent of bank deposits. The largest bank, the state-owned Kenya Commercial Bank, accounts for 17 percent of bank assets and 18 percent of bank deposits. The multinational Barclays Bank, with 16 percent of bank assets and 15 percent of bank deposits, is next in line, followed by the state-owned National Bank of Kenya and the multinational Standard Chartered Bank, each respectively boasting 8 percent of bank assets and 9 percent of bank deposits.

The Nairobi Stock Exchange, which handles 61 listed firms, was established in 1954. In January 1995, the stock market, including stock-brokerage, was opened up for foreign direct participation, although there is a 40 percent limit on foreign ownership. **Market capitalization** has recently manifested considerable growth, increasing from US$1.89 billion in 1995 to US$2.08 billion in 1998.

INTERNATIONAL TRADE

As an agricultural exporting and capital goods importing nation, Kenya routinely runs a balance of trade deficit that renders it highly dependent on loans and aid to finance needed imports. The balance of trade deficit varies widely, depending upon, among other things, the market success of agricultural export commodities in a given year (as we have seen, this in turn, depends on both weather conditions and international commodity prices). In 1996, for instance, the deficit stood at US$73.5 million, while this figure increased dramatically to US$251.7 million in 2000—a year of endemic drought. With a large amount of **foreign exchange reserves**, however, which equaled US$875 million in 2000, Kenya has been able to reduce its total external debt significantly, from US$6.9 billion in 1996 to US$5.7 billion in 2000.

Trade (expressed in billions of US$): Kenya

	Exports	Imports
1975	.606	.945
1980	1.245	2.125
1985	.958	1.436
1990	1.032	2.124
1995	1.879	2.949
1998	1.993	3.280

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Kenya's principal exports include tea, coffee, horticultural products, and petroleum products. Exports designated to Western Europe, particularly the United Kingdom and Germany, have increased considerably from US$437 million in 1992 to US$672 million in 1997. This increase is dwarfed, however, in comparison to the increase of exports designated to African economies. In 1992, Kenyan exports to Africa equaled US$330 million, 5 years later, in 1997, this figure exploded to US$971 million. This phenomenal increase is largely the result of the East African Cooperation (EAC) economic treaty signed with Uganda and Tanzania in 1996. The EAC promotes regional economic integration through policies geared towards eventually harmonizing inter-territorial **tariffs**, removal of trade barriers, and, in the longer-term, currency alignment.

Kenya's major imports include machinery and transportation equipment (capital goods), petroleum products, and iron and steel (**intermediate goods**). In 1996, the total value of Kenyan imports equaled US$2,928 million, US$727 million of which came from capital goods and US$1,719 million of which derived from intermediate goods. Imports from Western Europe, once more particularly Germany and the United Kingdom, have increased significantly from US$715 million in 1994 to US$1,048 million in 1997. Imports from African countries only increased marginally from US$59 million in 1994 to US$136 million in 1997. The balance of trade surplus with

Africa signifies Kenya's relative economic strength in the continent. Japan and the United States are also important exporters to Kenya, with each respectively exporting goods and services equaling US$245 million and US$261 million in 1997.

The Kenyan government has promoted policies of trade liberalization throughout the 1990s, reducing, for instance, the maximum tariff rate from 45 percent in June 1994 to 25 percent in June 1997. While the international financial institutions and Western governments in general tend to support trade liberalization, it may have negative effects for a country like Kenya that depends on agricultural exports in exchange for higher value-added capital imports. If Kenyan manufacturing firms cannot compete with their foreign counterparts, reduction of trade protection measures, such as tariffs, will simply lead to the retardation of the Kenyan industrial sector. The result would be further entrenchment of the agricultural sector in the economy, and thus the prolonging of the unequal trading patterns that sustain the country's severe balance of trade deficit. In such a context, the pro-trade idea that all countries benefit when each focuses on producing and exporting that in which they have a comparative advantage and on importing that in which they do not, seems hardly relevant.

Regional trading arrangements (RTAs), such as the EAC, may offer the benefits associated with trade, while providing a more level playing field since member countries are more likely to be at a similar level of development. Still, more relatively developed countries might benefit disproportionately, which seems to be the case with Kenya and the EAC. Kenya is also a member of the 21-country RTA, the Common Market for Eastern and Southern Africa (COMESA).

MONEY

SAP-induced reforms in the first quarter of 1994 instituted a free-**floating exchange rate** policy in Kenya, with the value of the Kenyan shilling thereafter being determined by its supply and demand in international money markets. Prior to the reform, the Kenyan government followed a fixed exchange regime in which the shilling was pegged to the U.S. dollar at a specific rate, subject to alterations only to rectify substantial distortions. Since the introduction of the free-floating exchange regime, the shilling has generally depreciated in relation to the U.S. dollar, meaning it takes increasingly greater quantities of shillings to equal the value of 1 U.S. dollar. In 1995, the **exchange rate** was averaged at KSh51.430 per US$1, with the rate depreciating to an average of KSh70.326 per US$1 in 1999, and an average of KSh76.93 per US$1 in 2000. The EIU expects that the rate will average at KSh80 per US$1 in 2001, and KSh84 per US$1 in 2002. While currency depreciation is positive for the exporting sectors of the Kenyan economy, since less foreign money is needed to buy Kenyan exports which thereby renders them more attractive, it has the adverse effect of increasing the prices of imports. For a drought-effected food-importing nation like Kenya, increases in the prices of essential imports can have negative consequences on the poorest segments of the society.

Exchange rates: Kenya

Kenyan shillings (KSh) per US$1	
Dec 2000	78.733
2000	76.176
1999	70.326
1998	60.367
1997	58.732
1996	57.115

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Kenya is a country characterized by abject poverty on the one hand and conspicuous wealth on the other. According to Miller and Yeager, the roots of inequality stem, in large part, from the colonial heritage that bestowed upon the nation highly unequal patterns of land tenure. Since the KANU regime has done very little to rectify the situation of land ownership in the post-independence era, a small segment of the population—now African instead of European—continues to own large tracts of land at the expense of the largely small-holding and landless peasantry. This landed elite, often absentee (having mangers run their estates so that they can live elsewhere) and centered in the urban centers, controls much of the industrial and commercial sectors. In addition to the elite landowners (though the groups are not always mutually exclusive), there exists a small class of politicians and parastatal managers that exercise extensive access to public resources. As Miller and Yeager assert, politics in Kenya are synonymous with the pursuit

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Kenya	301	337	320	355	334
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Tanzania	N/A	N/A	N/A	175	173

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Kenya

Lowest 10%	1.8
Lowest 20%	5.0
Second 20%	9.7
Third 20%	14.2
Fourth 20%	20.9
Highest 20%	50.2
Highest 10%	34.9

Survey year: 1994

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

of profit, and the Kenyan political elite is particularly notorious for its high degree of corruption.

David Himbara, author of *Kenyan Capitalists, the State, and Development,* observes that cutting across the axis of class inequality in Kenya is a second axis of ethnic inequality. Thus, throughout the Kenyatta era, a large portion of the political elite consisted of members of the Kikuyu ethnic group. Indeed, Himbara states that Kenyatta's policy of Africanization was in fact a policy of "Kikuyization." Since the beginning of the Moi era, however, the Kalenjin ethnic group has displaced the majority of the Kikuyus from the most senior echelons of state power.

In contrast to the tremendous wealth of the politically- and agriculturally-based economic elite, the vast majority of the Kenyan population lives in poverty. The United Nations Development Programme's (UNDP) human development index (HDI) listings, which arranges countries according to their overall level of human development, ranks Kenya 138th out of a total of 174 nations. The HDI, a composite index (one that assesses more than one variable) that measures life expectancy at birth, adult literacy rate, school enrollment ratio, and **GDP per capita**, is indicative of a country's general social and economic well-being. As such, Kenya's HDI ranking demonstrates that the country is considerably underdeveloped, though it does fare better than many of its sub-Saharan African neighbors.

The Kenyan government spends relatively little on health, though it does spend a considerable, albeit declining, amount on education. In 1998, for example, public expenditure on health and education as percentages of GDP respectively equaled 2.2 percent and 6.5 percent, as opposed to 1.7 percent and 7 percent in 1990. Comparatively, the United States spent 5.4 percent of GDP on education and 6.5 percent on health in 1998. The vast majority of Kenyans, for their part, spend their meager incomes on the basic necessities of life, such as food, rents, clothing, fuel, and transportation. As a result of a declining economy and a deepening of poverty, however, Kenyans consume less food calories on a daily basis then they did thirty years ago. In 1970, the average Kenyan consumed 2,187 calories per day, with this figure declining to 1,976 calories per day in 1997. Americans, in contrast, consumed on average 2,965 calories per day in 1970 and 3,699 calories per day in 1997. This is not surprising, considering the increase in the GNP per capita has been grossly outweighed by mounting inflation in the past 10 years. The UNDP estimates that the annual growth rate in GNP per capita between 1990 to 1998 was 0.3 percent, while the average annual rate of inflation during the same period was 10.6 percent.

WORKING CONDITIONS

In 1997, an estimated 1.2 million males and 473,400 females engaged in formal wage employment. Women work overwhelmingly in services, while men work in education, manufacturing, building and construction, trade, and transport. The highest percentage of females working in male-dominated areas of the formal sector is in education, where women constitute 40 percent of the workforce. Women almost exclusively staff several textile factories, reflecting their overall lower status in the economy. More-

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Kenya	31	9	21	2	8	3	26
United States	13	9	9	4	6	8	51
Dem. Rep. of Congo	34	2	12	3	3	11	36
Tanzania	67	6	5	4	12	6	0

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

over, women tend to suffer from a double-work day, being forced out of economic necessity to engage in income-earning activities during the day, and then being responsible for the domestic work activities at night.

There are at least 33 unions representing 350,000 workers in Kenya—approximately 20 percent of the country's industrial workforce. With the exception of the National Union of Teachers, which represents 150,000 teachers, all unions are affiliated with the Central Organization of Trade Unions (COTU), an organ not known for its vigorous pursuance of workers' rights. Created by the government in 1965, COTU's leadership is comprised of the leadership of affiliated unions, though it is common for KANU to provide funding and other support for the election of senior officials.

The Trade Disputes Act permits workers to strike, provided that 21 days have elapsed following the submission of a written letter to the Minister of Labor. At the same time, however, the Ministry of Labor has the right to determine the legality of any strike, a power that was abused in 1994 when several strikes were declared illegal despite the requisite warnings. The government's response to wildcat strikes is usually severe, a problem which has been raised by various workers' rights organizations with the International Labor Organization (ILO). Members of the military services, police, prison guards, and members of the National Youth Service are legally forbidden to strike. Also, labor laws protecting workers, such as the right to organize and bargain collectively, are subject to numerous exceptions in the Export Processing Zones (EPZs).

Children under the age of 16 years are prohibited from working in the industrial sector, and the government has put forward concerted efforts to ensure this regulation is followed. Children often financially assist their parents by working as domestic servants in private homes, partaking in the informal sector, and working in family business and agriculture. Given the high levels of adult unemployment and **underemployment**, the employment of children in the formal industrial sector rarely occurs.

According to the U.S. Department of State Kenya Country Report on Human Rights Practices for 1998, the minimum wage, which has 12 separate scales according to location, age, and skill level, is insufficient to meet the daily needs of a worker and family. Consequently, most workers rely on second jobs, **subsistence farming**, informal sector opportunities, or the extended family for additional support. The legal limitation of a workweek for workers in the non-agricultural sector is 52 hours, while employees are entitled to 1 rest day per week. There are also provisions for one-month annual leave and sick leave. The Factories Act of 1951 sets forth detailed health and safety standards, which have been increasingly enforced since the early 1990s with the dramatic growth of factory inspections. Still, many workers who find themselves in hazardous conditions are reluctant to file complaints for fear of illegal dismissal.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

8TH CENTURY. Arab and Persian settlements begin sprouting along the Kenyan coast. The Kiswahili language develops as a *lingua franca* for trade between the newcomers and the Bantu inhabitants.

16TH CENTURY. Arab dominance along the coast gives way to Portuguese ascendancy, following the first Portuguese contacts made in 1498.

19TH CENTURY. The United Kingdom establishes its influence in the Kenyan region with the arrival of various explorers, commercial representatives, and missionaries.

1895. The government of the United Kingdom establishes the East African Protectorate and subsequently opens the fertile highlands to white settlers. The settlers are allowed a voice in government even before Kenya is officially made a colony in 1920, though Africans are denied any form of political participation until 1944.

1952–1959. The so-called Mau Mau rebellion erupts against British colonial rule, and African participation in the political process increases rapidly.

1963. Kenya becomes an independent nation with Jomo Kenyatta of the Kikuyu ethnic group and Kenya African National Union (KANU) party as president. KANU, which claims to be socialist, promotes many capitalistic practices, though the state creates many parastatals in so-called strategic areas of the economy.

1969. With the banning of the major opposition party, the Kenya's People Union (KPU), Kenya becomes a *de facto* one-party state.

1978. Following the death of Kenyatta, Daniel arap Moi succeeds as president. Moi continues to be the president of the country.

1980. Kenya receives its first conditional World Bank loan, marking the commencement of a lengthy period of international financial institution-sponsored structural adjustment programs designed to increase the role of the free market in the economy.

1982. Amendments to the constitution make Kenya a *de jure* one-party state.

1992. The Kenyan government re-introduces multi-party politics.

2000. Kenya signs a long-awaited 3-year Poverty Reduction and Growth Facility (PRGF) with the IMF.

The PRGF is expected to normalize relations with the World Bank and various bilateral donors, which had soured in the mid-1990s as a result of government corruption and resistance to implementing reforms.

FUTURE TRENDS

Kenya represents an excellent example of the general economic and political trends that have prevailed, in varying degrees, throughout most of sub-Saharan Africa in the 1990s. On the political front, significant liberalization has occurred, with the various SAPs forcing the Kenyan government to deal with major issues of corruption and mismanagement. Moreover, the reintroduction of multiparty politics in 1992 certainly represents a positive development in terms of the elaboration of a democratic system. Yet, all the while, the widespread outbreak of ethnic violence in the early 1990s demonstrates that political stability is precarious, especially in an environment characterized by rampant poverty and deep inequality.

Economically, the various SAPs that have been implemented have yet to usher in an age of sustained growth, a factor that may be attributed, in part, to certain inappropriate policies, such as major trade liberalization. Indeed, the general economic situation seems to be worsening, as indicated by the low GDP growth rates and the consistently declining GNP per capita. At the same time, there is no denying that certain major economic reforms are needed, as the inefficiency and commercial failure of most parastatals clearly suggests. The experience of state-led development in Southeast Asia also indicates that the state cannot altogether remove itself from the arena of economic activity. In the words of Himbara, "there can be no substitute for the state in capitalist development. Nor is it likely that international financial institutions, which are currently attempting to reconstruct elements of the Kenyan state and force the adoption of reforms, can become a surrogate for a national interventionist state that conceives and implements a consistent program of development."

DEPENDENCIES

Kenya has no territories or colonies.

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—Neil Burron

LESOTHO

Kingdom of Lesotho
Muso oa Lesotho

CAPITAL: Maseru.

MONETARY UNIT: Loti (L) (the plural form is maloti). One loti equals 100 lisente. Notes include denominations 2, 5, 10 , 20, 50, 100, and 200 maloti. Coins include denominations of 2, 5, 10, 25, 50, 100, 200, and 500 lisente. The South African Rand is also accepted as legal currency on par with the loti.

CHIEF EXPORTS: Textiles (clothing and footwear), raw wool and mohair, agricultural produces (corn, wheat, pulses, sorghum, barley), livestock (cattle, sheep, and goats).

CHIEF IMPORTS: Food, building materials, vehicles, machinery, medicines, fuels.

GROSS DOMESTIC PRODUCT: US$5.1 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$260 million (2000). **Imports:** US$780 million (2000). [The CIA *World Factbook 2001* estimated exports at US$175 million f.o.b. and imports at US$700 million f.o.b. for 2000.]

COUNTRY OVERVIEW

LOCATION AND SIZE. Formerly called Basutoland, Lesotho is a small, landlocked, and mountainous state in southern Africa. The total area of 30,355 square kilometers (11,718 square miles) is a geographic enclave completely surrounded by the Republic of South Africa. There are no large lakes or direct access to the sea. This is the only country in the world where all the terrain is 1,000 meters (3,300 feet) above sea level. The westward tilting highland plateau descends from steep basaltic ridges into deep gorges and treeless rolling lowlands. The confluence of the Orange and Makhaleng Rivers form the lowest point (1,400 meters/4,593 feet), while Thabana Nitlenyana is the highest peak (3,482 meters/11,424 feet). The 3 large rivers, the Orange, the Caledon, and the Tugela, all rise in the mountains. Most of the population lives in a fertile 30 to 65 kilometers (18 to 40 miles) strip of lowland adjacent to the Caledon River in northwest Lesotho, where the capital of Maseru (population 386,000) is located.

Positioned in the Southern Hemisphere, the kingdom enjoys a temperate climate with 300 days of annual sunshine and well marked seasons that vary significantly with elevation. The cool lowland winters last from May to July and become very cold in the mountainous center of the country where freezing temperatures occur most evenings. Summer extends from November to January, when the lowland daytime temperatures frequently exceed 37°C (100°F). About 85 percent of the rain falls from October to April, when snow blankets the highlands. Periodic droughts, lowland flooding, and deadly lightning strikes are the main climate hazards.

POPULATION. The 2000 population of 2.1 million was an increase of 6.5 percent since 1990. There are 33.4 live births per 1,000 population, countered by a death rate average of 12.7 per 1,000 population. The gap between these 2 rates explains why the United Nations is projecting an annual growth rate of 2.07 percent to the year 2015. The population is expected to reach 2.4 million by the year 2025. In 2000, the life expectancy at birth was 44.6 years for the total population and slightly higher for women. This dropped from 52.4 years in 1995 and reflects the devastating effects of the HIV/AIDS and tuberculosis epidemics. The total fertility rate of 4.15 children per woman is among the world's highest and is nearly double that of fully industrialized countries. Outmigration in search of employment and the HIV/AIDS epidemic will likely curb population growth during the next 50 years. This "demographic fatigue" (a declining growth rate for negative reasons) is common in developing African countries.

The population is overwhelmingly "Basotho" (99.7 percent). Europeans, Asians, and other Africans comprise

the remaining small minority (0.3 percent). The **dependency ratio**—the number of people under 15 and over 65 years of age, compared with those who fall between—is a very high, 72.5 percent. Approximately 80 percent are Christians, while 20 percent follow indigenous faiths. A total of 81 percent of the males and 62.5 percent of females are literate. Sesotho (southern Sotho), English (official language), Zulu, Xhosa, and Afrikaans are spoken throughout the kingdom.

The overall population density is 70.2 persons square kilometer (181 per square mile). However, since 85 percent are **subsistence farmers**, the rural population density of 461 persons per square kilometer (176 per square mile) of arable land clearly reveals a critical land shortage. This expanding population is pushing settlements, grazing, and cultivation into the marginal higher elevations and more arid eastern parts of the kingdom. The resulting overgrazing and soil erosion accompanying this land use is perhaps the most serious problem facing Lesotho.

OVERVIEW OF ECONOMY

Subsistence agriculture, livestock, manufacturing, and the paycheck **remittances** of "migratory" laborers employed in South Africa dominate the economy of Lesotho. Fresh water is the only important natural resource and is being exploited under the multi-year, 30 billion dollar, Lesotho Highlands Water Project (LHWP). This massive scheme provides employment, domestic energy needs, and revenue from selling both water and hydropower to South Africa. The country also depends on foreign development assistance to meet much of its current food and **infrastructure** needs.

Since the 1950s, fixed-length migratory contracts to work gold and diamond mines in South Africa have been the most important source of income for Lesotho. Under present employment terms, a percentage of the salary is remitted directly to the National Bank in Lesotho. These earnings support the farms and families back home. In the 1990s, 70 percent of households had at least 1 migrant worker, and 35 percent of households used migratory earnings as their primary income. However, the Economist Intelligence Unit reports that from 1995 to 1999, the number of migrant mine workers hired in South Africa declined from 104,000 to an estimated 65,000, adding to a growing unemployment problem.

Subsistence agriculture accounts for 75 percent of domestic employment and production and about 14 percent of the GDP. However, land shortages, international aid, and government initiatives to increase credit and implement seed-fertilizer machinery are not keeping pace with population growth and decreasing migratory work in South Africa. Since 1987, population increase has doubled the growth of agricultural productivity.

A small but growing manufacturing sector produces woolen items and machine parts, and an expanding service industry accounts for the remaining 25 percent of domestic production.

Tourism in this "Rooftop of Africa" attracts South Africans and other foreigners to hike, pony-trek, and bird watch. The hospitable Basotho villages afford excellent opportunities to observe subsistence agriculture and transhumance (the seasonal migration of livestock and the people who herd them from lowlands to mountainous regions). This sector is expanding rapidly.

Foreign assistance to Lesotho in support of the struggle against apartheid (the legal separation of races) in South Africa increased during the 1970s. This aid quickened the pace of modernization and urban development, and there were significant improvements in infrastructure, education, and communications. Since 1995, the **real GDP** growth rate averaged an impressive 7 to 10 percent. However, population growth, political conflicts,

and the shrinking demand for mine workers in South Africa now jeopardize these gains.

From 1988 to 1998, the annual GNP growth averaged 3.7 percent, and the per capita GNP increased US$47, from US$649 to US$696 (in constant 1995 U.S. dollars). Civil unrest following an unsuccessful coup in 1998 eroded Lesotho's economy and destroyed nearly 80 percent of the commercial infrastructure. The CIA *World Factbook* estimated the rate of GDP growth to be 2.5 percent in 2000 and **GDP per capita** was estimated at US$2,400.

POLITICS, GOVERNMENT, AND TAXATION

Khoisan-speaking hunter-gatherers first settled this region 10,000 years ago. They were overwhelmed in the 16th century by sedentary farmers who evolved into the Sotho nation of today. By the mid-19th century internecine (struggle within a nation) conflict, competition from Boer trekkers for the Cape Colony, and British intervention finally resulted in Basutoland—a British Protectorate that lasted from 1871 until independence in 1966.

Today, Lesotho is a multi-party constitutional monarchy. There is a **bicameral** National Assembly composed of a lower house of directly elected representatives, and an Upper House (Senate) comprised of 22 non-elected principal chiefs and 11 other members appointed by the king. The legal system is modeled after English common law and Roman-Dutch law. The High Court and Court of Appeal exert judicial review of legislation.

During the 1970s, discord over apartheid in South Africa destabilized all of southern Africa. The conservative South African regime accused Lesotho of accepting refugees and harboring African National Congress operatives. South African troops attacked Maseru in 1982. About 4 years later their border blockades severed the kingdom from the outside world. A pro-South African military faction within Lesotho reacted by removing Chief Jonathan and establishing military rule. The king became a figurative head of state.

In 1993, Lesotho returned to democracy after 23 years of authoritarian rule. The current head of state is King Letsie III, and the head of government is Prime Minister Pakalitha Mosisil. The Lesotho Congress for Democracy (LCD), Basotho Congress Party (BCP), Basotho National Party (BNP), and Maramatlou Freedom Party (MFP) are the largest of 12 to 15 political parties. The political system remains very fragile and prone to disruption. The last general election on May 1998, was disputed and triggered civil tension that is still present. An Interim Political Authority will oversee the next elections.

The government consumes 21.5 percent of the GDP. The top **income tax** rate is 35 percent, and the average taxpayer pays a 25 percent marginal tax rate. The top corporate tax rate is 35 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Printed and electronic media are available from 3 sources. South African newspapers, magazines, radio and television are the most numerous and widespread. Of these independent publications, the *Mopheme* (Survivor) and *The Mirror* are the most popular. Catholic and Evangelical church newspapers that appear on a weekly and bi-weekly schedule are a second source. Finally, the Lesotho News Agency (LENA) provides government-**sanctioned** perspectives on all issues. One organ of this, the Lesotho National Broadcasting Service, offers programs in English and Sesotho. There are 2 FM radio stations and 1 AM radio station. LENA plans to establish an Internet news service in the next few years. The government tolerates criticism from independent media.

There is no national airline, but South African Airways offers direct flights from Johannesburg to Maseru. The 31 other airstrips scattered throughout the country

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Lesotho	8	49	25	N/A	5	N/A	N/A	0.08	1
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1

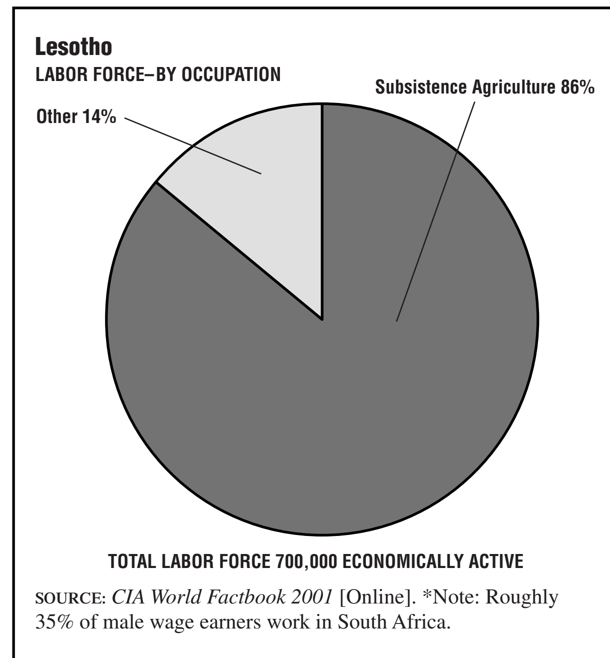
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

service private aircraft and occasional charter flights. The South African railroad stops near Maseru and connects to points within Southern Africa.

In 2000, 18.3 percent (800 kilometers/480 miles) of the roads were paved. The remaining 1,600 kilometers (960 miles) vary between high quality gravel corridors and rough dirt tracks. Road upgrades since 1970 were designed to unite the country, improve commerce, and reduce the dependence on peripheral South African roads.

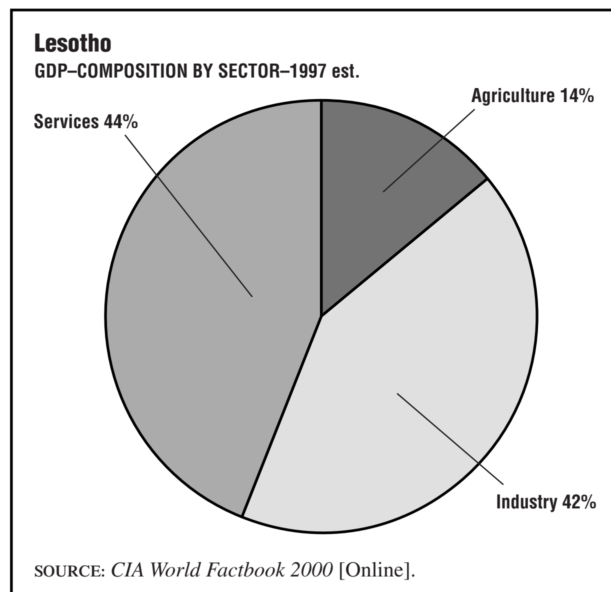
TELECOMMUNICATIONS. Adequate telephone service exists in and around Maseru and in settlements adjacent to the major roads. Many remote areas still await electrification. In 2000 there were approximately 30,000 telephones in use (about 1.4 per 100 people), and connections increase 13 percent each year. In 1995, a consortium (a cooperative group) of public and private telecommunications corporations combined to offer cellular service in Lesotho for the first time. Service will increase over the next decade so that remote areas will likely leap into the cellular age. There is 1 satellite Earth station for international calls. Personal computers are almost unknown, and the 1 Internet Service Provider appeared only recently.



SOURCE: *CIA World Factbook 2001* [Online]. *Note: Roughly 35% of male wage earners work in South Africa.

ECONOMIC SECTORS

Lesotho's principle economic sectors are agriculture (18 percent), mining and manufacturing (38 percent), and **retail**/tourism/services (44 percent) in 1999, according to the CIA *World Factbook.* Although politically autonomous, Lesotho's economy is almost totally dependent on trade and cooperative development with the Republic of South Africa. Several reasons explain this dependence. First, South Africa completely surrounds mountainous Lesotho in the same manner that water surrounds an island. Thus, all commerce and travelers to and from Lesotho must pass through their wealthier neighbor which is also their dominant trading partner. Second, 75 percent of Lesotho families rely on wages earned in South African mines for at least some of their income. Any fluctuation in mine productivity affects Lesotho. Finally, political changes in South Africa greatly alter foreign aid and investment in Lesotho. In the past, the international donor community (wealthy industrialized nations) viewed this small mountain kingdom as an island of racial freedom surrounded by a South Africa locked in apartheid. When Nelson Mandela spearheaded majority rule, South Africa became a more important recipient of international development dollars.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agriculture employs a modest 57 percent of the **labor force**, mostly on subsistence farms. This figure is lower than similar developing countries as the mountain environment offers less terrain for growing crops and many adult males work in South African mines. While the CIA *World Factbook* estimates that 35 percent of the male wage earners do work in South African mines, it also estimates that 86 percent of the resident population is involved in subsistence agriculture, a much higher number.

Most crops and livestock are produced in small villages distant from the major roads. The products are consumed locally with the surplus shipped for sale and profit in outside markets. Maize, wheat, and sorghum predom-

inate. As a percentage of the GDP, farming has declined from 50 percent in the 1970s, to just 18 percent in 2000. During the 1990s, about 13 percent of the country was cultivated. This amount is shrinking as soil erosion, droughts, and the destruction of farm equipment during civil unrest in 1998 take a cumulative toll. To stimulate exports to South Africa, the government is **liberalizing price controls**, improving roads, and encouraging monocropping of cut flowers, asparagus, and fruits.

Most farmers also raise livestock to supplement crops and maintain "food security" during drought years when crop yields are low. Animal husbandry is important everywhere and is often the only revenue source in the higher elevations. Sheep and goats that produce meat, milk, and very high quality wool and mohair are the most important animals. Cattle are also increasing because they fetch more lucrative contracts.

Lesotho's forest cover is very fragmented as neither the arid lowlands nor the colder highlands favor tree growth. The best stands are in riparian sites (located on the bank of a natural watercourse) and in sheltered mountain hillsides. Aggressive wood collection for cooking, warmth, and home construction prevents trees from attaining commercial stature. The Ministry of Agriculture manages one 874-hectare (2,518-acre) forest reserve of mostly rapidly growing eucalyptus. Fishing resources are also minimal in this landlocked country with no significant lakes. There is sport fishing for river trout, and village cooperatives are experimenting with fishponds (mostly carp) to boost protein in the local diet.

INDUSTRY

MINING. Local mining and migratory labor to South African mines are essential to Lesotho's economic fortune. Diamond is the principal commercial mineral. Clay for manufacture into bricks and ceramic ware is also important. Deposits of coal, quartz, agate, galena, and uranium have been identified but are not yet commercially viable. Domestic mining and migratory mine wages account for 24 percent of total income in Lesotho. This amount exceeds comparable developing countries and stems from the unusual migratory labor pattern.

Traditional diamond mining from small and independent diggings averaged only 9,000 carats per year until 1977, when South African mining giant De Beers opened the Letseng-la-Terae open-cast mine. Production surged to 105,200 carats in 1980, so that high quality gemstones accounted for 55 percent of Lesotho's exports. The oscillating global diamond market produced many periods of boom and bust, and in 1983 De Beers ceased the Letseng-la-Terae operation. It was recently reopened under a new private/government partnership, and the rising demand for raw diamonds may also stimulate foreign investment in additional mines within Lesotho.

The "fixed contract" (or circular) migration of mostly 20- to 40-year-old male workers from Lesotho to South African mines is integral to the economy. It is also subject to market forces, and since the late 1990s, falling output from South African mines has reduced the need for foreign labor. In 2001 this demand dropped to its lowest level since the early 1970s. Still, 25 percent of Lesotho's total labor force engages in what are typically fixed-term contracts of 12 months. Remittances from mine employment accounted for 45 percent of Lesotho's GNP from 1983–91 (30 percent of each paycheck is now "deferred" until the worker returns home). If this downward spiral continues, Lesotho will face severe unemployment and a staggering loss of outside earnings that have been the primary source of family support and economic development since independence.

MANUFACTURING. Manufacturing as a percentage of the GDP rose from 8 percent in 1980 to 18 percent in 2000. This rapidly expanding sector employs 24,000 people. Basotho workers produce clothing, footwear, leather goods, handicrafts, furniture, pottery and tapestries from mostly imported raw materials. Finished goods are exported primarily to South Africa and the United States. This sector will continue to improve if the political situation remains stable.

Increasing both output and employment is an important government objective, although achieving these goals has proved contentious. Prior to 1965 the industrial base was small because geographic isolation, poor infrastructure, and no access to major commerce routes restricted growth. In 1967 the government founded the Lesotho National Development Corporation (LNDC) to attract foreign investment. The effort succeeded but hurt "indigenous" enterprise that lacked the entrepreneurial capacity and financial resources to compete with government/foreign partnerships. Basotho workers resented some foreign operations, especially those under Chinese ownership, for their demeaning labor practices (low compensation, unpaid overtime, gender bias), and apparent bribing of local officials to skirt labor laws. From 1992 to 1998, repeated strikes, walkouts, and political rallies diminished productivity. Teachers, manufacturing workers, and even those staffing the Highlands Water Project participated. Moreover, the protests coincided with the transition to majority rule and erasure of economic sanctions against South Africa, which opened their larger labor force and excellent infrastructure to the same outside investors.

ENERGY: WATER. Begun in 1986, the Lesotho Highlands Water Development Project (LHWDP) has been the most important economic and resource development project in Lesotho. Water exports started in 1998 and are now a re-

liable source of foreign income. Much of the water is bound for South Africa. Leadership from the World Bank and a consortium of public and private sources financed the project that provides Lesotho with 4,000 jobs, water, and energy. More hydropower stations are under construction so that the kingdom will soon export power to South Africa. The government is also investigating the possibilities of solar and LHWDP power for its rural areas.

SERVICES

TOURISM. When compared to South Africa, traveling in Lesotho is very inexpensive. Commercial accommodation and food are available in the larger towns. Elsewhere, Basotho farmers and herders accept tourists into their homes for a small fee or **bartered** item. Tourists choose to hike, pony trek, bird watch (over 300 species), and observe a rural subsistence way of life. A pony trekking cooperative offers highland routes that overnight in villages. The cool upland air and a fine reputation for local hospitality also explain why tourism is flourishing. Lesotho offers free entry visas and compared with much of Africa, risk of crime and disease is low.

FINANCIAL SERVICES. Despite pervasive state involvement in the financial sector, state control is shrinking, as are revenues from state-owned enterprises and government property ownership. The government plans to **privatize** the state-owned Lesotho Bank that formulates and implements **monetary policy** and advises on **fiscal policy**. Foreign banks operate in the kingdom. Procuring credit for investment and land purchases remains beyond financial reach for most Basotho.

RETAIL. Maseru offers the only significant hotel, dining, and retail enterprise with department stores and specialty shops marketing Basotho handicrafts. Teyateyaneng is the center of traditional arts and crafts industries such as tapestries, tribal wool products, and handcrafts.

INTERNATIONAL TRADE

Lesotho joined the Southern African Development Community (SADC) in 1994. The organization promotes economic growth and cooperation among its 14 member states. The kingdom also participates with South Africa, Botswana, Namibia, and Swaziland, in the South African Customs Union (SACU) to encourage free trade and economic exchange. Unfortunately, most SACU members are similarly underdeveloped. In 2000 the import of goods and services equaled approximately US$780 million. The net **foreign direct investment** was US$196 million.

The main exports are textiles (clothing and footwear), raw wool and mohair, agricultural produce (corn, wheat, pulses, sorghum, barley), livestock (cattle, sheep, and goats, and building materials (especially ceramics). The SACU accounts for 65 percent of export trade, with North America (34 percent), and the European Union (.07 percent) following. The primary imports include cereals, food ingredients, machinery, medical supplies, and oil and petroleum products. As with exports, the major import trading partners are the SACU (90 percent), Asia (7.4 percent), and the European Union (1.5 percent). There are no export controls except for diamonds, which require a license.

Exchange rates: Lesotho

maloti per US$1	
Jan 2001	7.78307
2000	6.93983
1999	6.10948
1998	5.52828
1997	4.60796
1996	4.29935

Note: The Lesotho loti is at par with the South African rand which is also legal tender; maloti is the plural form of loti.

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The loti is pegged with the South African rand; both currencies are legal tender in Lesotho. Those wanting to exchange maloti for convertible currency (dollars, marks, francs, etc.) usually exchange inside Lesotho, or change for South African rand, which is then convertible worldwide. Lesotho's currency is convertible internationally but is very uncommon outside of Southern Africa. In January 2000, US$1=6.125 maloti, a rate that has remained stable in the last 3 years. There is no domestic **exchange rate** policy, and there are no controls on regional exchange flows. The average **inflation rate** is approximately 8.5 percent.

POVERTY AND WEALTH

Despite significant economic progress, Lesotho remains one of world's poorest countries. The average cit-

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Lesotho	220	311	295	370	486
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Swaziland	1,073	1,046	1,035	1,446	1,409

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Lesotho

Lowest 10%	0.9
Lowest 20%	2.8
Second 20%	6.5
Third 20%	11.2
Fourth 20%	19.4
Highest 20%	60.1
Highest 10%	43.4

Survey year: 1986–87

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

izen survives on less than 2 dollars per day. Half the population exists below the United Nations poverty line. Only 14 percent of the urban residents have good access to water. The most telling statistic is that 16.5 percent of children under 5 years of age suffer from malnutrition, a figure that swells during droughts.

In comparison to the majority of African nations the overall health of the population is good. The mountainous climate and southern latitude preclude tropical diseases that devastate developing regions elsewhere. Public health expenditures amount to only 3.7 percent of the GDP in 1990–98, yet 80 percent of the population has access to health services even though many medicines are unavailable. Those with money can use South Africa's excellent health system. There are 50 doctors and 33 nurses per 10,000 people. Only 23 percent use birth control.

The AIDS epidemic that is pervasive throughout Africa is evident in Lesotho. In 2001, 25 percent of those between the ages of 15 and 49 were infected with HIV/AIDS, and the rate grows each year. Tuberculosis also strains the health-care system to capacity. The government is sponsoring aggressive prevention, control, and screening programs for both diseases. In 2000, the World Bank issued a US$6.5 million credit to improve access to quality preventive, curative, and rehabilitative health care services.

WORKING CONDITIONS

The World Bank estimates that approximately 35 percent of the labor force is unemployed or **underemployed**. Another 50 percent are fully or partially employed in South Africa. About 86 percent of the population is rural subsistence farmers and herders. As is the case throughout sub-Saharan Africa, this cohort lives in "roundavels" (circular mud and thatch huts) with outdoor plumbing, oil lamps, and wood heat. Many villages are not connected to roadways. Fewer than 10 percent of the population works in the service and retail industry where wages are low and mistreatment by foreign-owned manufacturing plants resulted in mass civil unrest during the mid-1990s. There are no labor unions.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1600s. Sotho people arrive in present-day Lesotho, intermarry with the Khoisans, and establish trade links in Southern Africa.

1800. White traders introduce cattle. Boer pioneers usurp Sotho.

1820. Basotho emerge as Moshoeshoe the Great unites Sotho.

1860s. Boer wars and British intervention cost Basotho much of the western lowlands.

1880. The British gain control and prevent Lesotho's inclusion into the newly formed Union of South Africa, which spares Lesotho from apartheid.

1966. Basotholand becomes independent "Lesotho."

1970. The first prime minister, Chief Jonathan, is defeated at the 1970 poll; he suspends the constitution, expels the king, and bans the opposition.

1983. South Africa closes Lesotho's borders after Jonathan criticizes South African apartheid, strangling the country economically.

1984. Lesotho Highlands Water Development Project (LHWDP) initiated.

1986–97. A period of political unrest, coups, and skirmishes between rebel troops and government loyalists. Moshoeshoe II eventually gains power then dies in a car accident.

1994. Lesotho joins the Southern African Development Community (SADC).

1998. Elections are held under alleged cheating. Fearing violence the government calls on SADC treaty partners (Botswana, South Africa, and Zimbabwe) to help restore order. South African troops enter the kingdom and heavy fighting engulfs Maseru. Eighty percent of the shops and other businesses are severely damaged.

2000. Government promises to call new elections and privatize more enterprise.

FUTURE TRENDS

As with many developing nations, Lesotho must reconcile population growth with limited agricultural, infra-

structure, and monetary resources. An isolated geographic location lacking access to the sea, overgrazing, and soil erosion are other severe problems. Failure to reverse these trends will impose severe economic hardship.

The AIDS epidemic, political unrest, and declining migrant remittances from South Africa also cloud the future. Ironically, South Africa's adroit transition to majority rule made that country more attractive to foreign investment and ended Lesotho's role as an island of racial freedom. As a result, foreign assistance was reduced and, in many cases, redirected to healing wounds in South Africa.

There are 3 phenomena that will largely determine Lesotho's future. First, the Highlands Water Project must continue expanding to generate more profit, domestic power and reliable employment. Second, sustaining political stability to attract additional foreign enterprise is critical to grow employment and domestic capital. Finally, achieving zero population growth through family planning (instead of HIV/AIDS and outmigration) will reduce pressure on agricultural and grazing lands. Accomplishing these objectives will situate this tiny nation in an excellent position to prosper when Africa begins to fully industrialize later this century.

DEPENDENCIES

Lesotho has no territories or colonies.

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—Stephen F. Cunha

LIBERIA

Republic of Liberia

CAPITAL: Monrovia.

MONETARY UNIT: Liberian dollar (L$). One dollar equals 100 cents. The dollar is equivalent to the U.S. dollar. There are coins of 5, 10, 25, and 50 cents and 1 and 5 dollars. No Liberian notes are in circulation, and U.S. notes are used as the paper currency.

CHIEF EXPORTS: Diamonds, iron ore and concentrates, natural rubber and gum, timber, coffee, cocoa.

CHIEF IMPORTS: Machinery and transport equipment, manufactures, food and live animals, mineral fuels, lubricants.

GROSS DOMESTIC PRODUCT: US$3.35 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$55 million (f.o.b., 2000). **Imports:** US$170 million (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Liberia is situated on the West African coast, bordered by Sierra Leone to the northwest, Guinea to the north, and the Côte d'Ivoire to the east. Liberia also has 300 kilometers (186 miles) of coastline on the Atlantic Ocean. Its land area is 111,370 square kilometers (43,000 square miles). The capital, Monrovia, is on the Atlantic coast.

POPULATION. Liberia's population was estimated at 3,255,837 in July of 2001, and in normal circumstances the country has had a high population growth rate of 3.3 percent (1980–87). However, the most recent estimate puts the figure at 2.3 percent for 1990–96 and just 1.92 percent for 2001, as war has lowered the birth rate and raised the mortality rate. An estimated 5 percent of the population died in the civil war of 1989–96.

Even before the war, the urban population was high at 40 percent, but during the conflict it rose to 46 percent, as people sought refuge in the towns. In early 1995, the capital's population stood at 1.3 million, a tripling of its size compared with 1986.

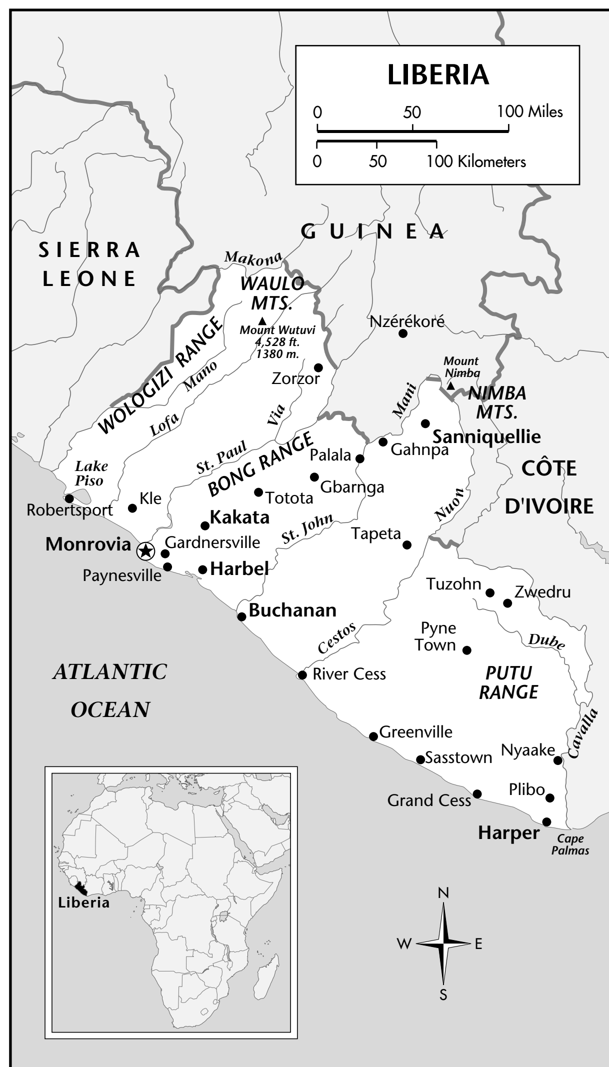
During the war about 1 million Liberians fled abroad, some of whom returned during the lulls in fighting, often to flee again as violence intensified in 1992, 1994, and 1996. Since the end of the war, further tensions have meant the refugees in neighboring countries have been reluctant to return, and an outflow has continued. In 1997, with international help, the government began resettling refugees.

The vast majority—95 percent—of Liberia's people are members of indigenous African tribes, with descendants of U.S. immigrants and Congolese both making up 2.5 percent of the population. Forty percent of the people practice indigenous religious beliefs, 40 percent are Christians, and 20 percent are Muslims.

OVERVIEW OF ECONOMY

Liberia has traditionally relied on mining (of iron-ore, gold, and diamonds), rubber, timber, and shipping registration revenues as its major sources of income. Nearly 8 years of war ending in the mid-1990s destroyed much of the country's **infrastructure** and has brought mining to a halt. Most of the country's inhabitants are engaged in agriculture. Apart from small farmers producing rubber, however, almost all agriculture is **subsistence farming**. The government has not produced systematic data since 1989, and such information that is available has come from limited surveys by prospective aid donors.

Liberia's economic boom in the late 1960s and early 1970s was due to strong rubber and iron exports, with the **real gross domestic product** (GDP) growing at 9 percent a year. In the late 1970s, with a general slowdown in the world economy, growth slowed to 1 percent. In the 1980s the economy declined. Real GDP was 10 percent lower in 1986 than in 1979, as companies cut back on investment. The civil war—which lasted from 1989 to 1996—displaced



much of the population and destroyed the productive infrastructure. Iron ore output ceased relatively early on in the hostilities, although other resources, particularly diamonds, continued to be exploited by the various factions. The formal economy came to a standstill as the population turned to subsistence production for survival. Since the end of the war in 1997, the formal sector has started up again in the major towns, but the lack of reliable data makes it difficult to be confident about the extent of the recovery. According to the International Monetary Fund (IMF), domestic production has rebounded strongly, though it still only stands at one-third of its pre-war level. The GDP is thought to have doubled in 1997 and grew at 25–30 percent in 1998 due to increases in agricultural output. The *CIA World Factbook* estimates that the GDP grew at the rate of 15 percent in 2000, reaching US$3.35 billion at **purchasing power parity** in that year.

The abrupt stop in formal economic activity at the start of the war produced a drastic fall in revenues and substantial **capital flight**. The rise in military spending took an increasing share of government revenues. A string of interim governments relied principally on funds from the Liberian maritime shipping registry, which was largely unaffected by the war. In 1999 agriculture and reconstruction were allocated funds far below the levels required to revive the economy. Alleged human rights abuses and allegations of Liberian government support for destabilizing forces in neighboring Sierra Leone caused some donors to be reluctant to resume aid.

In Liberia, unlike most of Africa, a high proportion of revenue comes from **direct taxation** on incomes and profits, particularly from iron ore mining and shipping registration fees. However, revenues have invariably been inadequate to meet spending plans, and until a return to budgetary control in 1999, the government failed to pay salaries, accumulated debts, and financed **budget deficits** by printing money.

From January to June 2000, the Liberian government operated an IMF-monitored program to improve the country's fiscal position, **liberalize** import controls, and reform the civil service and the state-owned enterprises. The initial response by the government to this program has been encouraging, but the task facing the government in reforming the economy is considerable, and it will take several years to improve tax revenues, re-structure the civil service, and **privatize** the state-owned enterprises.

POLITICS, GOVERNMENT, AND TAXATION

Liberia is the only West African state never to have been formerly colonized. The country was formed in 1820 when U.S. philanthropists negotiated rights to settle freed slaves from the United States in the area. Liberia was declared a republic in 1847 and operated with political institutions modeled on those of the United States.

For the next 133 years the True Whig Party, which mostly consisted of the descendants of freed slaves, was the only significant political force. The party's rule ended in 1980 when President William Tolbert was assassinated. Following Tolbert's death Sergeant Samuel Doe took power as head of the ruling 15-member military People's Redemption Council (PRC).

The following decade was marked by growing opposition to the military regime, with many alleged or actual coup attempts resulting in executions. Rigged multi-party elections in 1985 brought Doe back to power as president with a tiny majority. In the next month a coup led by Brigadier General Quiwonkpa was put down, 600 people died, and reprisals were taken against Quiwonkpa's ethnic group, the Gio, adding further to the tensions.

On 24 December 1989, Charles Taylor, a former government employee, invaded the country with a small armed force from Côte d'Ivoire. Taylor's National Patriotic Front of Liberia (NPFL) gained popular support, and by June 1990 only Monrovia remained under Doe's control. The fight for the capital became a 3-way contest with the Armed Forces of Liberia (AFL), the NPFL, and a splinter group from the NPFL, the INPFL, vying for control.

The Economic Community of West African States (ECOWAS), anxious about regional destabilization, sent in a 6,000-strong monitoring group, ECOMOG, to take control of the capital. ECOMOG was made up of many nations, but the main constituent was Nigerian. Despite ECOMOG also offering Doe protection, Doe was kidnapped and killed. A cease fire was signed in November 1990, but the NPFL refused to recognize the interim government.

By March 1991, fighting had resumed, spilling over into Sierra Leone, with the NPFL backing a Sierra Leonian rebel group, the Revolutionary United Front (RUF). The Sierra Leone army was backed by the new United Liberation Movement for democracy in Liberia (Ulimo), who went on to attack the NPFL in north-west Liberia.

Amid this shifting chaos of armed rebel groups and failed peacemaking, diplomatic efforts continued. Finally, in June 1995, Charles Taylor visited Nigeria, and all sides agreed to a peace accord in August. The accord set out plans for elections in 1996, with an interim 6-man Council of State that included representatives of the main factions and civilians. Renewed violence in April 1996 threw this initial agreement off track, but a second peace agreement, again signed in Nigeria, called for disarmament and elections, with the threat of **sanctions** if this was not achieved. Disarmament started slowly but in early 1997 was completed, and the militias were formally disbanded.

Elections took place in July 1997, which allowed time for preparations and campaigning and were undertaken in a calm and relatively peaceful atmosphere. Taylor won 75 percent of the vote, and Taylor's National Patriotic Party (NPP) won a majority in both Houses. However, prospects for a viable multiparty system receded by 1998 with all the main opposition leaders in exile. Currently the country is not completely secure, as witnessed by invasions from armed bands in 1999 and 2000.

Liberia's political history has been dominated both by the struggle between American Liberians and ethnic Liberians (which was resolved in the 1980 coup with the ethnic Liberians gaining the upper hand) and conflicts between ethnic groups within Liberia (both to gain power and avenge past wrongs). Ethnically motivated killings and harassment were undertaken by all sides during the civil war, and reconciliation has proved to be slow and difficult. Taylor was initially seen as a welcomed alternative to Doe but was later seen as preventing stability by not honoring the peace agreements. The murder of Samuel Dokie, a former member of the NPFL, and the intimidation of other opposition leaders led to greatly reduced opposition power and to fears of Liberia becoming a de facto 1-party state, with all power in the hands of the president.

Under the 1986 constitution, the president and vice-president have executive roles, and legislative power rests in Congress and the House of Representatives. Both houses were elected for 6 years, although this was reduced to 4 years before the 1997 elections. New legislation has endorsed the 1986 constitution, although the rebuilding of democratic institutions has been hampered by limited funding and enduring tensions.

The links with Sierra Leone's rebel RUF and the allegations of material support for the group have caused significant problems for Taylor's regime. Taylor has used his influence over the RUF in constructive ways, for example, by helping to negotiate the release of captured United Nations troops. However, renewed violence in May 2000 prompted the United Kingdom to accuse Liberia of supplying arms for diamonds and led to the suspension of a US$60 million European Union (EU) aid package for Liberia. Recently, government forces have reinforced the Sierra Leone border, and the Liberian government has accused the United Kingdom of trying to destabilize Taylor's regime.

Relations with Guinea, in the light of reports of armed incursions being launched from there as well as from Sierra Leone, have improved little despite the president of Mali's attempts to broker a reconciliation. Relations with the United States have got better since 1998, but Liberia's oldest ally is critical of civil rights abuses.

There is little recent information on government finances. In 1988 total government revenue was 18 percent of the GDP, with taxes on income of individuals and corporations raising 33 percent of government income, **indirect taxes** 25 percent, customs **duties** and export **levies** 34 percent, and other sources contributing 8 percent. General administration accounted for 24 percent of expenditure, defence 10 percent, health 5 percent, economic activities 28 percent, and other expenditures (including social services) 33 percent.

Extensive corruption and a near complete lack of respect for the law makes Liberia an extremely unfriendly place for foreigners to do business. According to the U.S. State Department, corruption and lawlessness permeates every level of the government: requests for bribes, red tape, and a lack of enforcement for legal contracts has kept investment to a minimum. The government has done little to address these problems.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Liberia has a limited infrastructure that was severely damaged by the country's long civil war. Roads in Liberia are in poor condition due to poor maintenance and heavy rains. Only 6 percent of the national road network of 10,600 kilometers (9,942 miles) is paved. There are no passenger rail services, and the iron ore rail transport links are in need of serious repair as large sections of the rail network were dismantled and sold for scrap during the civil war.

The country's 5 ports of Monrovia, Buchanan, Greenville, Harper, and Robertsport handle 200,000 tons per year in general cargo (80 percent of which is iron-ore deposits) and 400,000 tons a year of petroleum products. Ports in the south-east of the country handle timber exports.

Robertsport had an international airport until it was destroyed by fighting in 1990. It now carries some regional commercial flights but will need major repairs to carry international flights. Harbel, 56 kilometers (35 miles) from Monrovia, remains the only international airport.

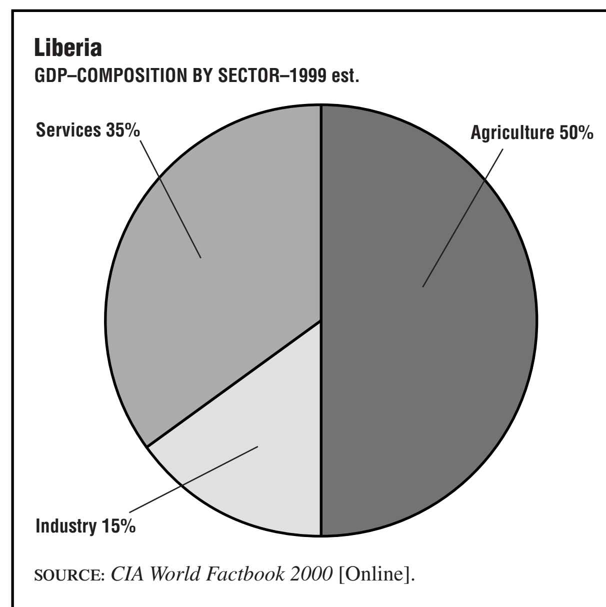
Liberian state television, ELTV, was off the air for most of the war but has resumed broadcasts as a largely commercial station. There are 2 private TV stations broadcast for a proportion of the day, and there are 6 FM radio stations and 4 shortwave stations. Independent newspapers emerge from time to time, but invariably fail to establish themselves. There were only 6,000 telephone main lines in the country in 1997 and no cellular phones.

In 1999 Liberia produced 432 million kilowatt hours (kWh) of electricity, but much of the electricity-generating infrastructure has been destroyed or damaged. Two-thirds of electricity is generated from diesel and one-third from hydro-electric sources. Access to electricity is very restricted, and those who can afford it use private diesel generators. Poor provision of electricity is a major cause of criticism of the new government. All petroleum products are imported, and so far surveys have shown no local oil reserves. 38 percent of diesel consumed in Liberia is used to produce electricity, and most domestic energy needs are provided by charcoal and wood.

ECONOMIC SECTORS

Agriculture (including fishing and forestry) employed an estimated 70 percent of the **labor force** in 1999 and contributed 60 percent of the GDP in 2000. Industry

Liberia
GDP–COMPOSITION BY SECTOR–1999 est.



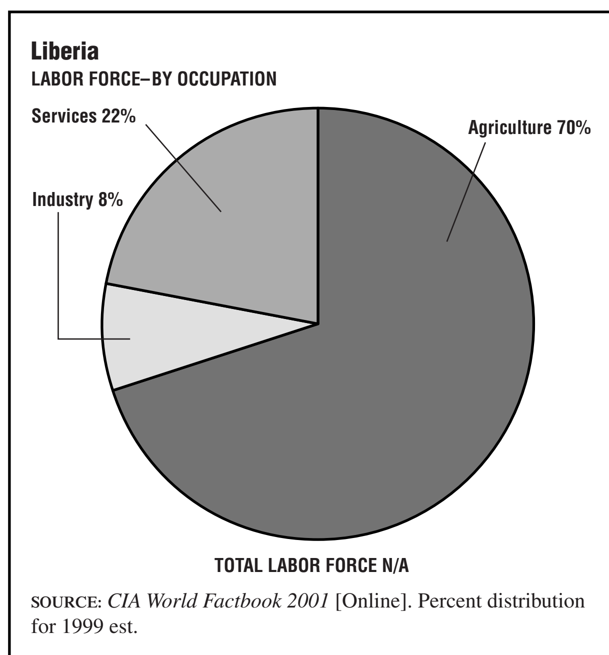
SOURCE: *CIA World Factbook 2000* [Online].

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Liberia	6,000	0 (1995)	AM 0; FM 6; shortwave 4 (1999)	790,000	2 (2000)	70,000	1	300
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Nigeria	500,000 (2000)	26,700	AM 82; FM 35; shortwave 11	23.5 M	2 (1999)	6.9 M	11	100,000
Sierra Leone	17,000	650 (1999)	AM 1; FM 9; shortwave 1 (1999)	1.12 M	2 (1999)	53,000	1	2,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1999 est.

(including mining, manufacturing, construction, and power) employed an estimated 8 percent of the workforce in 1999 and provided just 10 percent of the GDP in 2000. The services sector employed 22 percent of the workforce in 1999, and contributed an estimated 30 percent of GDP in 2000. Each sector of the economy was impacted by the civil war, and each is still recovering from the damage done by that war.

AGRICULTURE

The devastation caused by Liberia's civil war has helped to make agriculture the dominant sector in the economy. That dominance, however, reflects not the strength of the agricultural sector but rather the complete failure of the other sectors. Liberia's agricultural production is primarily aimed toward subsistence—providing enough food for individual farmers to survive. Liberia's main staple food is rice, but the country has low yields despite improvements arising from new varieties. Taylor's government has given high priority importance to the sector. In 1998 the FAO reported that rice and cassava production reached 70 percent and 90 percent of pre-war levels respectively, and the IMF estimates indicate good growth in the 2000 harvest.

Rubber is the most important **cash crop**, though cocoa, coffee, and palm oil are also produced. The U.S.-based Bridgestone company is a major producer in Liberia's rubber sector and owns 30 percent of rubber plantations. Despite falling world prices, rubber production rose to 106,000 tons in 1989 and was high throughout the 1980s, though the coming of war brought desertion of the plantations and production fell to a fifth of its pre-war level. Recovery has been steady, reaching 28,000 tons of production in 1997 with some reports suggesting output is now more than 50,000 tons. Depressed world prices have hampered recovery.

Liberia has large forest reserves, with estimated production of 317,000 cubic meters of commercial production in 1997, and 4.8 million cubic meters consumed as fuelwood. There is considerable possibility for expansion. Some Asian companies involved in the logging operations have been criticized for their poor environmental practices, and it has been suggested that they have been able to ignore environmental considerations because of involvement by key figures in the government, or their relatives, in the companies concerned.

INDUSTRY

In the 1960s Liberia was one of the biggest exporters of iron-ore, with deposits of 800 million tons of 35- to 67-percent purity ore, and new deposits of 1 billion tons of high grade ore had been discovered. Many international companies were exploiting the ore from Liberia, but in the 1980s the industry suffered from depressed steel prices and the **parastatal** NIOC closed in 1985. Other companies made cutbacks, leading to a reduction in production to only 1 million tons in 1989, from a high of 15 million tons in the mid-1980s. All production halted early in the war, and no figures have been produced since 1992, when production was estimated at 145,000 tons. Revival of the sector will take huge investments to repair mines and replace equipment, though several international companies have appeared interested.

Diamonds and gold are produced by small-scale mining, though reliable figures have never been available due to smuggling. In 1988, diamonds accounted for US$9 million of exports officially, and gold production yielded an estimated US$6 million a year in the mid-1980s. The illicit mining and export of diamonds remains widespread. In early 1999, the government estimated that there were 5,000 unlicensed and 1,000 licensed mines in Liberia. The government does not have the resources to tackle the problem of unlicensed mines. Official diamond exports tripled between 1998 and 1999, but this is almost entirely due to smuggling of diamonds from Sierra Leone now that there are restrictions on Sierra Leone diamond export to prevent the proceeds supporting the rebel movement there.

Before the civil war manufacturing and construction accounted for around 20 percent of the GDP; that figure dropped to 10 percent by 2000. Manufacturing was dominated by iron-ore production and rubber processing, but domestic and industrial consumption goods were also produced. The size of the local market in Liberia is very small (the United States market is 15,000 times larger in

terms of purchasing power), and this makes investment to produce goods for domestic consumption in Liberia unattractive. Political instability has further discouraged investment, particularly from foreign sources. Looting during the civil war means substantial investment is needed to revive the sector. Construction should be stimulated in the post-war period due to reconstruction.

SERVICES

The services sector consists mainly of wholesale and **retail** distribution, telecommunications, postal service, transport, hotels and restaurants, repairs, financial services, tourist services, and government administration, but all such services are quite limited. For the most part, these services support the other sectors of the economy. The main exception is the charges made for the use of Liberian registration by merchant ships owned by private shipping companies from other countries, the so-called "flag of convenience."

Liberia's standing as the second largest flag of convenience was scarcely affected by the war, with revenue amounting to about US$20 million in 1995, providing the interim government with virtually its only source of income. Registration fees were collected by the International Trust Company of Liberia (ITC) on behalf of the Washington, D.C.-based Liberian Maritime Programme, which has controlled the Liberian registry since 1948. In 2000 the registry was taken over by the Liberian International Ship and Corporation Registry.

The financial sector is made up of 12 banks, but 8 were closed in 1996 when fighting erupted in Monrovia. By the end of 1997, about 80 percent of the loans held by Liberian banks were non-performing (that is, borrowers were not making interest payments or repaying the principle). Only 17 percent of the notes and coins in circulation in the country were thought to be in the banking system in 1995, implying a great lack of confidence in the banking system and reducing the ability of the banks to make loans. In April 2000 the Central Bank of Liberia stepped in to administer a leading bank, LUBI, due to **liquidity** problems and insolvency.

INTERNATIONAL TRADE

In normal times, Liberia was highly dependent on external trade; trade generated some 44 percent of the GDP in 1989. But the civil war severely limited Liberia's ability to produce goods for export and led to huge deficits in the trade balance. In 2000 the value of exports stood at US$55 million, compared to US$170 million in imports. However, there is a substantial unrecorded trade in diamonds, which in part explains the financing of Liberia's apparent **trade deficit**.

Trade (expressed in billions of US$): Liberia

	Exports	Imports
1975	.394	.332
1980	.589	.535
1985	.436	.284
1990	N/A	N/A
1995	N/A	N/A
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

In 1999, Belgium took 53 percent of Liberia's exports, followed by Switzerland (9 percent,) the United States (6 percent), and France (4 percent). Imports in 1999 came from South Korea (30 percent), Italy (24 percent), Japan (15 percent), and Germany (9 percent).

MONEY

The Liberian dollar and the U.S. dollar are the 2 legal currencies and are officially interchangeable (that is, the official **exchange rate** is L$1:US$1). However, it is not possible for the public to purchase U.S. dollars at this rate, and in 1999 the actual exchange rate stood at L$40:US$1. Huge volumes of capital flight (the movement of money out of the country) after the coup in 1980 caused the government to mint new coins to fill the resulting gap. In 1989, coins were replaced by notes, but due to the theft of notes from the banks during the civil war, the notes were replaced by the liberty dollar in 1992. This attempt to restore monetary stability was also designed to undermine the position of the rebel leaders, whose wealth was mainly in the old currency. Hence the liberty dollars were not allowed by the rebels in rebel territory, and old notes became illegal in government territory. During the 1997 election campaign, the successful candidate, Charles Taylor, announced that he wanted U.S. dollars to be the only cur-

Exchange rates: Liberia

Liberian dollars (L$) per US$1	
Dec 2000	39.8100
2000	41.0483
1999	41.9025
1998	41.5075
1997	1.0000
1996	N/A

Note: From 1940 until December 1997, rates were based on a fixed relationship with the US dollar; beginning in January 1998, rates are market determined.

SOURCE: CIA *World Factbook 2001* [ONLINE].

rency in Liberia, but a commission in 1998 argued that a new family of notes and coins, which entered circulation in 2000, would allow the government to benefit, on the new issues, from seigniorage (the situation that occurs when increased amounts of new notes and coins are allowed to enter circulation, allowing the issuer to make a profit to the extent that the face value of the notes and coins is greater than their cost of production).

In October 1999 the ineffective National Bank of Liberia was replaced by the Central Bank of Liberia with Mr. Saleeby, the former finance minister, at its head. The Central Bank of Liberia is pledged to a tight **monetary policy** by limiting the supply of base money to cover replacement only, and will not lend to the government to monetize budget deficits (budget deficits are monetized when the central bank prints money to lend to the government to meet its budget deficit, sparking off an increase in **inflation**). Inflation in 1999 averaged 4 percent, one of the best inflation performances in Africa.

POVERTY AND WEALTH

Using the exchange rate conversion, the GDP per head was around US$175 in 1999, with the purchasing power parity conversion (which allows for the low price of many basic commodities in Liberia) setting the GDP per head at around US$1,000. Both these measures place Liberia among the poorest 20 or so countries in the world. It was estimated in 1999 that 80 percent of Liberia's population was living below the poverty line, most of them engaged in subsistence agriculture, farming small plots of land.

Before the war there were 1,635 schools, 8,804 teachers, and 303,168 pupils. Primary and secondary education was free, though only 50 percent of the primary school age groups attended school. Although most education provision broke down during the war, new efforts to rehabilitate schools and pay wages to teachers have brought about some recovery. The adult literacy is still low at 48 percent, compared to the sub-Saharan average of 58 percent.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Liberia	N/A	1,000	1,000	1,000	1,100
United States	28,600	30,200	31,500	33,900	36,200
Nigeria	1,380	N/A	960	970	950
Sierra Leone	980	540	530	500	510

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

Life expectancy at birth was 41 years in 1960, 39 during the war, and 47 in the post-war period. Infant mortality stands at 194 per 1,000 live births (as compared with 7 per 1,000 in the United States). The good health care and nutrition levels of the pre-war period have fallen, and disease is rife. In 1995 clean water was available to 79 percent of urban dwellers and 13 percent of rural dwellers, and sanitation was available to 56 percent of urban dwellers. About half the pre-war medical centers have been rehabilitated since the war.

WORKING CONDITIONS

The government is the largest employer in Liberia, but it is a sad truth of Liberia's decimated economy that there is little formal employment. In 1999, estimates indicated that large-scale agriculture engaged 8 percent of the labor force, industry 8 percent, and services 22 percent, with the remaining 62 percent of the working population engaged in small-scale, family, mostly subsistence, agriculture. However, it was also estimated that 70 percent of the country's workforce was unemployed. Clearly, the majority of the population of Liberia works outside the formal economy, most likely in subsistence agriculture, **bartering**, illegal mining, and other **informal economy** activities.

What little legislation there is for the protection of workers is often ignored. The civil war in Liberia has seen a collapse in government services, and regulation of employment conditions is not seen as a priority by the government. There is no minimum wage, and children are often made to work in agriculture on small family farms from the age of 5 upwards, contributing to low attendance figures at schools. Slavery is officially banned in Liberia, but the civil war has produced a situation where it has been possible for people to be intimidated or coerced into working without any payment or the right to leave. Recent regimes in Liberia have given international observers great cause for concern over human rights, particularly over employment conditions and the plight of children.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1820. U.S. philanthropists establish a settlement for U.S. freed slaves in Liberia.

1847. Liberia becomes a republic and adopts governmental institutions similar to those in the United States.

1945. William Tubman becomes president.

1971. Tubman dies, and William Tolbert succeeds him as president.

1980. After Tolbert is assassinated, Sergeant Samuel Doe rules through a military council.

1989–96. Civil war hurts the country. In 1989, Doe is returned to power in multi-party elections, but the elections are widely considered to be flawed. Violence between ethnic and political factions begins a civil war.

1990. A coup led by Brigadier General Quiwonkpa is crushed, and 600 are killed in post-coup violence. Samuel Doe is kidnapped and killed as violence worsens.

1991. Forces led by Charles Taylor invades from Côte d'Ivoire, and the civil war becomes more violent and concentrated. For a time, fighting spills over into neighboring Sierra Leone.

1995. After many failed attempts, a peace accord is signed in Nigeria calls for future elections.

1997. The disarmament of the various military forces is completed, and Charles Taylor is elected president in multi-party elections.

1998. Opposition leaders are sent into exile. Taylor continues his support for rebel forces in Sierra Leone.

FUTURE TRENDS

Though the long civil war that so devastated Liberia's economy ended in 1996 and economic growth has increased since that time, Liberia still faces real obstacles to economic stability and recovery. With the Liberia-backed Revolutionary United Front (RUF) continuing to destabilize Sierra Leone in 2001, international donors have remained reluctant to extend aid to Liberia, and UN sanctions are a possibility. Border confrontations can be expected to continue to hinder development. This ongoing situation makes for negligible economic progress in Liberia, and the misery of most people there will continue. In 2001, it was estimated that 80 percent of the people do not have enough income to meet the barest minimum requirements for food, shelter, and clothing.

Economically, President Taylor has demanded more control over strategic commodities, there have been calls for an **embargo** on timber exports, and oil exploration permits for foreign companies have been withheld. These measures, while increasing the power of the government over the economy, are not calculated to improve the conditions of ordinary people. The government has announced plans to privatize the main public utilities, which, when implemented, should introduce improvements in electricity, water, and telecommunication services. However, it will be many years before economic stability returns to Liberia, and prosperity remains a distant dream.

DEPENDENCIES

Liberia has no territories or colonies.

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—Michael Hodd

LIBYA

Socialist People's Libyan Arab Jamahiriya
Al-Jamahiriyah al-'Arabiyah al-Libiyah ash-Sha'biyah al-Ishtirakiyah

CAPITAL: Tripoli.

MONETARY UNIT: Libyan dinar (LD). One Libyan dinar equals 1,000 dirhams. Coins come in denominations of 1, 5, 10, 20, 50, and 100 dirhams. Paper currency comes in denominations of .25, .50, 1, 5, and 10 dinars.

CHIEF EXPORTS: Crude oil, refined petroleum products, and natural gas.

CHIEF IMPORTS: Machinery, transport equipment, food, and manufactured goods.

GROSS DOMESTIC PRODUCT: US$39.3 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$6.6 billion (1998 est.). **Imports:** US$7 billion (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Libya is a North African country, which shares a border with the Mediterranean Sea to the north, Egypt and Sudan to the east, Niger, Chad and Sudan to the south, and Algeria and Tunisia to the west. With 1,759,540 square kilometers of area (679,358 square miles), it is slightly larger than the State of Alaska. The length of its land border and its coastline is 4,383 kilometers (2,723 miles), and 1,770 kilometers (1,099 miles), respectively. With the exception of Sabha, located in the south, all its major cities—including the capital city of Tripoli—are along its coastline.

POPULATION. Libya's population of roughly 5,115,450 (est. July 2000) has seen an annual growth rate of 3.5 percent since 1975, when it was 2,400,000. With a predicated annual growth rate of 2.1 percent, the population will reach 7,600,000 in 2015. In 2000, the birth and death rates were 27.68 births per 1,000 population, and 3.51 deaths per 1,000 population, respectively.

The Arabic-speaking Berbers and Arabs constitute 97 percent of Libya's population. Greeks, Maltese, Italians, Egyptians, Pakistanis, Turks, Indians, and Tunisians are the significant minority groups.

The Libyan population is relatively young, with 64 percent of the population between the ages of 15 and 64. Only 4 percent of Libyans are over the age of 64. (In contrast, almost 13 percent of the population in the United States is over the age of 64.) In 1998, 86.8 percent of the population was living in urban areas, particularly in Tripoli and Benghazi; this percentage marks a significant growth in urban population since 1975, when it accounted for 60.9 percent of the population. Urban dwellers will constitute roughly 90 percent of the population by 2015.

OVERVIEW OF ECONOMY

After about 5 centuries of colonization by the Ottoman Empire, Italy, Britain, and France, Libya became an independent monarchy in 1951. In 1969, Colonel Muammar Qadhafi staged a coup (an internal military uprising against a government) and established a republic. During its first decade, the new regime **nationalized** all foreign businesses and weakened the **private sector** through nationalization, confiscation, and "spontaneous" seizures of private factories by workers. The private sector was confined to **retail** trade, but the shortage of investments in the late 1980s forced the Libyan government to ease laws restricting its activities. Nevertheless, the private sector is still limited to small-scale activities in agriculture, retail trade, and manufacturing. Various legal and practical restrictions have prevented its rapid expansion, including the absence of respect for private property reflected in the periodic arrest of merchants and shopkeepers, and confiscation of their businesses.

Libya has a single-product economy, which survives on exports of hydrocarbons (oil, gas, and their refined products), accounting for 94 percent of exports in 1998. Thanks to these exports, since the 1960s Libya has had **trade surpluses** and a small **foreign debt** (US$3.9 billion

in 1999) compared to its **foreign exchange reserves** (US$7.28 billion in 1999). However, the economy is highly vulnerable to fluctuations in oil prices, which directly affect government revenues. The Libyan government has been successful to a great extent in creating an **infrastructure**, but it has failed to establish viable industry, agriculture, and service sectors. In particular, it has failed to diversify the economy through establishing desired heavy industries. As a result, the Libyan economy is still an oil-based economy.

Internal and external factors have prevented the economic growth of Libya. Inconsistent planning, frequent changes in government economic policies, and the government's weakening of the private sector have been the major internal factors. External factors include periodic low oil prices, which have deprived the Libyan government of financial means needed to implement fully its development plans. In addition, the imposition of American **sanctions** in the late 1970s, 1980s, and 1990s on Libya for its alleged involvement in terrorism has limited

Libya's income and its access to foreign technology and investment. Additionally, the UN-imposed sanctions on Libya in the 1990s over Libya's refusal to hand over for trial 2 Libyan suspects implicated in the 1988 bombing of a Pan American jetliner further worsened its economic situation. Libya's improving relations with Europe following the suspension of UN sanctions in 1999, and high oil prices have eased pressure on its economy as reflected in a jump from a 2 percent growth rate in 1998 to 5.4 percent in 1999, and to an estimated 6.5 percent in 2000.

POLITICS, GOVERNMENT, AND TAXATION

As explained in his manifesto *The Green Book,* published in the 1970s, Colonel Qadhafi's ideology has shaped the Libyan political system and economy since 1969. As an "alternative" to **capitalism** and **Marxism**, this ideology draws on Arab nationalism and Islam, but its economic program is primarily **socialist**. Accordingly, the state controls the economy, and the private sector assumes a negligible role. The situation has remained the same despite the relaxation of some restrictions on the private sector.

Libya has a peculiar political system known as the *Jamahiriya* or the "republic of the masses." In theory, this means that the Libyans rule their country directly through a series of popular entities that function as local governments, which are called Basic People's Congresses (BPCs). Each BPC chooses a secretary to represent it in Libya's highest legislative organ, the General People's Congress (GPC). The GPC chooses "the secretaries of the secretariat," (cabinet ministers) who form the cabinet called the General People's Committee, and also the head of the Committee, who presides over the cabinet as the prime minister.

The system has undergone changes in form, but the theoretical concept of running the country through popular entities has been kept. In 1992, Colonel Qadhafi divided Libya into 1,500 *mahallat* (communes or neighborhoods) and granted each of them its own budget as well as executive and legislative powers. As part of his decentralization policy, in 2000 he transferred most central government executive functions excluding its defense, trade, social security, health, education, and infrastructure to 26 municipal councils represented in the GPC.

Having the title of "Brother Leader and Guide of the Revolution," Colonel Qadhafi does not hold any official government position. Theoretically, he has no power and defers to the GPC. However, in practice, the GPC is a rubber stamp for the colonel, who appoints all influential figures and ensures the docility of all security and political organs through the revolutionary committees (associations of pro-Qadhafi young men led by the colonel's appointees). They function as a political police force with the power of arrest and summary execution, although their power has been curtailed to some extent since the late 1980s to appease the growing popular dissatisfaction with their abuses. Since mid-1996, the newly formed "purification committees" have also operated on Colonel Qadhafi's behalf to combat corruption and **black-market** activities. In short, Libya is run by Qadhafi and a small circle of his close allies.

There is no legal opposition group inside the country with an alternative economic view or with any impact on the economy whatsoever. The government has suppressed various secular and religious political groups and turned them into ineffective political forces based mainly in exile. They include the National Front for the Salvation of Libya, the Militant Islamic Group, and the Libyan Martyrs' Movement.

Fossil-energy exports have been the major contributor to government revenues since the 1960s, accounting for more than 70 percent of these revenues. The Libyan government has failed to reduce its heavy reliance on such exports by increasing its revenue from taxes due to the limited tax base and insignificant private sector activities. In absence of such activities, salaried government employees are the main tax payers, although they make little income that can be taxed. Heavy dependency on energy exports affects government revenues, since world oil prices tend to fluctuate. Due to this vulnerability on energy prices, the Libyan government makes every effort to balance its budgets and avoid deficit spending. While accurate budget figures are difficult to obtain from a relatively closed society, it is estimated that in 1999, government revenues roughly equaled expenditures of US$10.88 billion, of which the share of exports was over US$7 billion.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Libya has a good infrastructure thanks to its development projects since the 1970s. Its fossil-fuel generators produced electricity at the rate of 16.92 billion kilowatt hours (kWh) in 1998, which was well above consumption (15.736 billion kWh in 1998). There are large-scale plans for their expansion—which will prepare Libya for increasing consumption—valued at about US$6 billion.

Libya's land communication system is confined to an extensive road network estimated at 83,200 kilometers (51,700 miles) in 1996 of which 47,590 kilometers (29,572 miles) are paved. They provide adequate access to most of its major rural and urban areas. There is no train service, but there are plans for building north-south and east-west railway lines.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Libya	14	233	126	0.0	3	N/A	N/A	0.00	7
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Egypt	40	324	122	N/A	1	0.5	9.1	0.28	200
Algeria	38	241	105	0.0	1	0.2	4.2	0.01	20

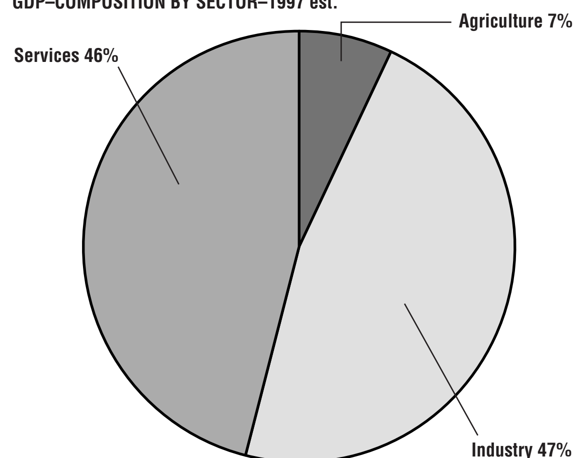
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

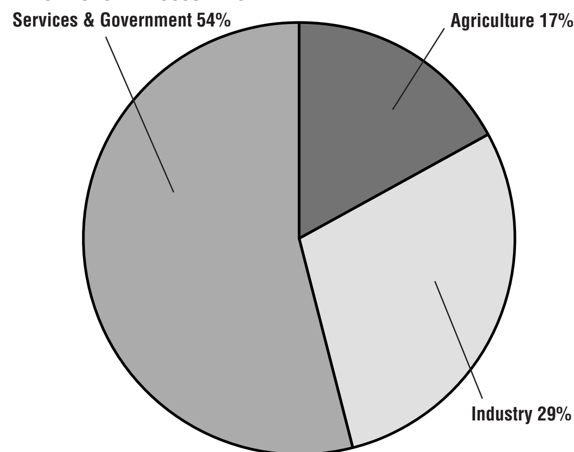
Sea and air connections are facilitated through several ports and airports. Major ports include Tripoli, Benghazi, Marsa el-Brega, Minsurat and El-Sider (Sidra), and 3 new ports are under construction. There are also 5 major oil terminals at Zuetina, Ras Lanuf, Marsa el-Hariga, Marsa el-Brega, and El-Sider. Libya has 59 airports with paved runways and 83 with unpaved runways. UN sanctions stopped international flights to and from Libya, and lack of spare parts caused by other sanctions grounded about 80 percent of its civilian air fleet in the 1990s. The 1999 suspension of UN sanctions paved the way for the resumption of international flights and for purchasing new aircraft and modernizing the airports.

The state-owned General Post and Telecommunications Company (GPTC) dominates the Libyan telecommunications system. It provides fixed telephone services; a private company (El Mada) in which the GPTC has a 20 percent stake provides cellular telephone services. There are at least 318,000 fixed telephone lines (1995 est.) and 20,000 cellular telephones (2000 est.) in use.

All Libyan radio and television programs are state-run. There were 24 AM, FM and short wave radio programs, and 12 television programs in the late 1990s, but many people in urban areas had access to satellite television programs. There were also 1.35 million radios and 730,000 televisions in use. Internet access is provided by the GPTC.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1997 est.

ECONOMIC SECTORS

After a decade of growth in the 1970s, the state-dominated Libyan economy has suffered from over 2 decades of sanctions. Additionally, the practical exclusion of the private sector from major economic activities has limited the growth and diversification of the 3 economic sectors. Agriculture is the smallest sector with limited farming activities and underdeveloped fisheries; it is unable to feed the population. Industry is the largest sector, almost exclusively because of the large hydrocarbon

industry. Oil exports make industry the largest contributor to the economy, and fluctuations in oil prices expand and contract both the sector and the entire economy. The service sector is not underdeveloped, but lacks viable tourist and retail industries. Financial services and transportation, however, make service a significant part of the economy.

AGRICULTURE

Libya has sought to expand its agriculture since the early 1970s. Its success in this regard has been limited despite heavy investments that equaled 30 percent of government expenditures in the 1970s. For example, production of cereals in 1998 (207,000 metric tons) met only 15 percent of the country's needs. Therefore, Libya has remained dependent on large agricultural imports, estimated at about 75 percent of its annual needs.

Libyan agriculture is a small contributor to the workforce (about 17 percent), and to GDP (about 5.6 percent in 1997). Major barriers to its growth are limited arable land (1.7 percent of Libya's area) and water resources, over-use of arable land and fertilizers, and a shortage of labor. Apart from a limited production of barley and wheat, major agricultural products are mostly fruits and vegetables such as dates, almonds, grapes, citrus fruits, watermelon, olives, and tomatoes, which constitute about 80 percent of annual agricultural production. Agricultural activities take place mainly along the coastline. Inland farming is very limited because of water shortages. Rapid urbanization has resulted in a severe shortage of agricultural workers, forcing Libya to rely on foreign farm laborers.

Libya's animal husbandry has suffered from the sanctions, limiting imports of animal feed on which it depends heavily. For example, the production of beef and veal dropped from 22,100 metric tons in 1994 to 2,100 metric tons in 1998.

The low annual catch (34,500 metric tons in 1997) demonstrates the underdeveloped nature of Libya's fisheries, despite the richness of its waters in exportable fish (e.g., tuna and sardines). Low investments in fishing boats, ports, and processing facilities are major obstacles to its growth. The country has 1 major fishing port (Zlitan), 1 tuna plant, and 2 sardine factories with small processing capacities (1,000 metric tons per year each). Libya is planning to build 24 fishing ports in addition to the one under construction at Marsa Zuaga.

INDUSTRY

While its share of GDP is only 52.8 percent (est. 1994), industry is by far the most important segment of Libya's economy, since it encompasses the oil industry, which is vital to the country's economic survival.

OIL. As the main export item, oil dominates Libya's mining industry. Estimated at 29.5 billion barrels in 1998, Libya's oil reserves ensure exports until 2053 at the 1999 export level of 1,137,000 barrels per day (b/d). The Libyan government owns 5 oil refineries in Libya as well as a network of oil refineries in Italy, Switzerland, and Germany in partnership with European oil companies.

Libya's oil production has decreased significantly since the 1970s. In 1975, the Libyans reduced their production from 3.32 million b/d to 1.48 million b/d, for fear of drying up their resources. Managerial problems, OPEC quotas, and sanction-created shortages of spare parts and investments have further lowered production. Sanctions have also resulted in a decrease or stoppage in production of certain oil products (e.g., gasoline), which then had to be imported. American sanctions are still in force, but the 1999 suspension of UN sanctions opened the way for Europe's involvement in Libya's oil industry.

MINING. With estimated gas reserves of 1.5 trillion cubic meters, Libya is also rich in natural gas, but most of its reserves are undeveloped. The Libyan government has tried to develop them to increase the life of its oil reserves by replacing oil with gas for domestic consumption, and also to increase its gas exports. Development projects include 2 gas pipelines to connect 4 new gas-powered electricity generators to the national grid, and a US$5.5 billion project with Italy for the development of onshore and offshore gas reserves and the construction of an undersea pipeline to export gas to Italy. On average, 20 to 25 percent of annual gas production (6.4 billion cubic meters in 1998) is exported mainly to Italy and Spain.

Iron ore and salt are other major resources that play a role in Libya's economy. The iron ore resources are estimated at 700 million metric tons and are located in southern Libya far from its iron and steel complex. Their development has been delayed due to the absence of financing for building the required rail link. Libya's salt mines—located mainly around Tripoli and Benghazi—produce 30,000 metric tons annually. There is also a limited extraction of construction materials (e.g., limestone, clay, and stone).

MANUFACTURING. Libya's manufacturing industry is not well-developed. Ambitious projects in heavy industries (e.g., aluminum and fertilizer complexes) have been partially realized at best, as various sanctions have limited funds, denied foreign investments, and severely restricted transfer of technology and sale of required equipment. Manufacturing establishments suffer from a shortage of spare parts and poor maintenance, which lower their production. The current share of this industry of GDP must be well below its 1994 share of about 10 percent.

Besides a few **joint ventures** (mainly with Italy), most manufacturing establishments are Libyan. They are mostly small- and medium-sized factories producing light and **consumer goods** (e.g., foodstuffs, wood, paper, textiles, and VCRs). The limited heavy industries include an iron and steel complex, a petrochemical complex, and a pharmaceuticals plant. Libya produces about 3,000 cars a year, and assembles trucks in joint venture with Italy. The manufacturing products are far short of domestic demand, making Libya very dependent on imports.

CONSTRUCTION. Thanks to extensive hydrocarbon supplies and water projects, construction is a major industry. Two long-term major projects are the construction of the Great Man-Made River to transfer water from Libya's southern water resources to its major urban and farming areas in the north. It has received an average of 10 percent of government annual expenditures since 1984. Another project is a large gas development and pipeline construction with Italy. There have been modernization projects in major cities including Tripoli since the suspension of UN sanctions.

SERVICES

Services form a growing economic sector, which accounted for about 40 percent of GDP in 1994. Given the suspension of the UN air **embargo** against Libya in 1999, the expected growth in tourism in the first decade of the 21st century should strengthen the role of this sector in the Libyan economy.

FINANCIAL SERVICES. The Libyan government controls the financial system, including banking, insurance, and investment activities. In 1970, it nationalized all financial institutions, but economic problems forced it to allow the operation of private banks in 1993. With one exception in Misurata, no private bank has been established yet. Nor is there any foreign bank, excluding the Arab Banking Corporation, a Baharini bank partly owned by Libya. The banking system consists of the Central Bank of Libya and 8 major banks: the Agriculture Bank, the Jamahiriya Bank, the National Commercial Bank, the Savings and Real Estate Investment Bank, the Umma Bank, the Wahda bank, the Sahara Bank, and the Libyan Arab Foreign Bank. The last 2 are among the top 1,000 banks of the world. State-run companies provide insurance and business services. The Libyan finance ministry conducts foreign investments through the Libyan Arab Foreign Investment Company, which has invested US$500 million in 45 countries.

TOURISM. Libya has an underdeveloped tourist industry, although it has the potential to grow. As a Mediterranean country with long warm beaches and historic sites, Libya could attract many Europeans who currently vacation on the inexpensive warm coastlines of Libya's North African neighbors Egypt and Tunisia. The industry, however, lacks an adequate infrastructure such as hotels. Furthermore, the sanction-related fall of tourism has turned many Libyan beaches into garbage dumps. Anticipating an upsurge in the tourist trade in the wake of the lifting of UN sanctions, a tourist center, including a large hotel and entertainment facilities, is being built in Tripoli.

TRANSPORTATION. The Libyan transportation industry is significant, but has suffered a great deal from sanctions. Its merchant fleet consists of 27 vessels and is oriented towards oil and gas exports. Libya's civilian air fleet, under-utilized from the sanctions, will be expanded by the purchase of 24 Airbuses as part of a government plan announced in 2000.

INTERNATIONAL TRADE

Libya's international trade has been characterized by a positive balance since the 1960s. One estimate put its 1999 balance as US$7.01 billion in exports, and US$4.21 billion in imports, creating a trade surplus of US$2.79 billion, according to the Economist Intelligence Unit. Oil and gas and their refined products accounted for about 95 percent of Libya's exports in 1999. Its major imports are food, **capital goods**, transport equipment, and iron and steel products.

Libya has reduced its trade with the ex-socialist countries since 1991, while expanding trade with North African and Western countries. The suspension of UN sanctions removed barriers to trade with most Western countries. Italy, Germany, Spain, Turkey, France, Sudan, the UK, and Tunisia have been the major destinations of exports for Libya since 1990. With 40.1 percent, 17.8 percent, and 11.3 percent share of exports, the first 3 countries were the largest destinations in 1998. In that year, Italy, Germany, the UK, France, Tunisia, Belgium, Luxembourg, Spain, and Japan were the major exporters to Libya. The first 3 were the largest exporters in 1998 with 22.9 percent, 12.2 percent, and 9.1 percent share of exports, respectively.

Trade (expressed in billions of US$): Libya

	Exports	Imports
1975	6.834	3.542
1980	21.910	6.777
1985	10.929	4.101
1990	13.225	5.336
1995	N/A	N/A
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

MONEY

To ensure the stability of its currency, the Libyan government pegged the Libyan dinar (LD) to the U.S. dollar at a **fixed exchange rate** in 1973. In 1986 it switched to a new system: pegging the dinar to an SDR (special drawing right) at a fixed rate. The SDR is an artificial "basket" of 5 currencies selected and used by the International Monetary Fund for internal accounting purposes. The SDR method allows greater flexibility in stabilizing the value of the dinar as world economic conditions change.

There is a significant difference between official **exchange rates** and those of the black market. In 1996, the black market rate for the U.S. dollar was 10 times as much as the official one. The government has sought to narrow the gap between the 2 rates by selling dollars to push the black market rate down. This policy showed some success in 1999 when that rate dropped to 3 times the official rate (LD 0.45 = US$1).

There are currency restrictions for Libyans and foreigners. Libyans travelling abroad may purchase a certain amount of currency (about US$6,000 in 2000) while foreigners entering Libya have to declare their currencies and leave the country with no more than the declared amount.

In absence of reliable statistics on fluctuations of price changes, it is difficult to determine **inflation rates** in Libya. The existing rates for the second half of the 1990s are therefore estimates. The inflation rate was estimated at 18 percent in 1999, a significant decrease from the average annual rate of 28.5 percent for the period 1995 to 1998. A major reason for such high rates is the heavy government **subsidies** for domestic foodstuffs, which it has kept despite their huge cost for an economy heavily dependent on large food imports. Scarcity of many consumer goods provoked rising prices, which further worsened **inflation**. Economic sanctions, with their limiting effects on trade, and the closure of many retail stores in the second half of the 1990s as part of a government crackdown on the black market, were 2 major contributing factors. The suspension of UN sanctions in 1999 improved the availability of consumer goods and paved the way for a higher oil- and natural gas-generated income as European oil companies began to return to Libya. These factors, and lower spending by the Libyan government, helped reduce the inflation rate to 18 percent in 1999. Various government subsidies (e.g., free education and medical services and low-priced foodstuffs) helped the Libyans cope with the impact of Libya's high inflation rates without a sharp decline in their living standards.

Exchange rates: Libya

Libyan dinars (LD) per US$1	
Jan 2001	0.5101
2000	0.5081
1999	0.4616
1998	0.3785
1997	0.3891
1996	0.3651

Note: Libya currently has two rates for foreign trade; one for government operations and foreign companies and one for Libyan individuals (0.45 dinars per US dollar in December 1998).

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

The living standards of Libyans have improved significantly since the 1970s, ranking the country among the highest in Africa. Urbanization, developmental projects, and high oil revenues have enabled the Libyan government to elevate its people's living standards. The social and economic status of women and children has particularly improved. Various subsidized or free services (health, education, housing, and basic foodstuffs) have ensured basic necessities. The low percentage of people without access to safe water (3 percent), health services (0 percent) and sanitation (2 percent), and a relatively high life expectancy (70.2 years) in 1998 indicate the improved living standards. Adequate health care and subsidized foodstuffs have sharply reduced infant mortality, from 105 per 1,000 live births in 1970 to 20 per 1,000 live births in 1998. The government also subsidizes education, which is compulsory and free between the ages of 6 and 15. The expansion of educational facilities has elevated the literacy rate (78.1 in 1998). There are universities in Tripoli, Benghazi, Marsa el-Brega, Misurata, Sebha, and Tobruq. Despite its successes, the educational system has failed to train adequate numbers of professionals, resulting in Libya's dependency on foreign teachers, doctors, and scientists.

Many direct and indirect subsidies and free services have helped raise the economic status of low-income families, a policy which has prevented extreme poverty. As part of its socialist model of economic development,

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Libya	N/A	6,700	6,700	7,900	8,900
United States	28,600	30,200	31,500	33,900	36,200
Egypt	2,900	4,400	2,850	3,000	3,600
Algeria	4,000	4,000	4,600	4,700	5,500

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

the Libyan government has weakened the private sector and confined it to mainly small-scale businesses. While this policy has damaged the Libyan economy significantly, it has also prevented the accumulation of wealth by a small percentage of the population. While the ruling elite (i.e., top civil servants, military officers, and politicians), enjoys much higher living standards compared to average Libyans, and corruption exists within its ranks, Libya is not a highly polarized society divided between extremes of wealth and poverty.

WORKING CONDITIONS

The Libyan labor law provides for wages and pensions, but prohibits independent trade unions. The government-created National Trade Unions' Federation is the only legal workers' organization. The labor law does not provide for the right to strike, but Qadhafi has confirmed its existence. Collective bargaining is not allowed, since the government must approve all labor agreements. The minimum age of labor is 18, the maximum work week is 48 hours, and the average monthly wage is roughly 270 dinars. At the official exchange rate, this works out to roughly US$750 a month, but is only US$100 at the unofficial (and more realistic) rate. The labor law provides for the equality of women with men, but traditional social restrictions on women's activities outside the home limit the practical effects of the law, and therefore create barriers to full participation of women in the workforce. Foreign workers may be denied rights provided for Libyan workers, and there are restrictions on their **repatriation** of income.

Libya's workforce is about 1.2 million strong as estimated in 1997. There are also 1 to 2 million foreign workers. The majority of the workforce are government employees. Unemployment was estimated at about 30 percent in 2000. The high unemployment rate is the result of years of sanctions as well as Qadhafi's efforts at preventing the emergence of a viable and growing private sector. Sanctions have been particularly effective in harming Libya's oil and gas exports, thus constraining economic security for many Libyans who directly or indirectly rely on these industries. Large infrastructure projects, financed by the government, also depend on export revenues. Thus, a decline in the activities of the oil and gas industries and large governmental projects has reduced employment opportunities, resulting in a large unemployment rate. This situation will likely change in the near future. In the aftermath of the 1999 suspension of UN sanctions, the growing interest of the European oil companies in the Libyan energy industry will increase its exports, which in turn will generate funds to be invested in the expansion of the industry and also in many other government projects. In short, the revival of the energy industry will surely help reduce unemployment in Libya.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

643. The Arabs invade Libya and rule over it until the 1500s when the Ottoman Empire conquers it.

1911. Italy replaces the Ottoman Empire as the colonizer of Libya.

1945. Libya is divided between Britain and France at the end of World War II.

1951. Libya becomes independent, and King Idris establishes a monarchy.

1959. The first commercially viable oilfield is discovered at Zelten.

1960s. Libya emerges as a major oil-producing country.

1969. Colonel Muammar Qadhafi stages a *coup* and overthrows the monarchy.

1977. Libya was renamed as the Great Socialist People's Libyan Arab Jamahiriya. Inspired by Colonel Qadhafi, workers assume control of the private manufacturing sector.

1978. The United States imposes sanctions on Libya for its alleged state terrorism.

1982. The USA bans Libyan crude oil imports.

1992. The United Nations imposes sanctions on Libya for its refusal to hand over suspects implicated in the 1988 bombing of a Pan American airliner.

1993. UN sanctions expand to freeze Libyan financial assets abroad.

1996. The United States imposes secondary sanctions, the "Iran and Libya Sanctions Act," targeting non-American companies wishing to invest more than US$40 million a year in the Iranian and Libyan oil industries.

1999. UN sanctions are suspended as Libya, the United Kingdom, and the United States agree on the trial of the 2 suspects in the Netherlands.

FUTURE TRENDS

The suspension of UN sanctions in 1999 has paved the way for large foreign investments in the Libyan hydrocarbon industries, a necessity for its full operation, expansion, and modernization. The Italian oil companies have been eager to embark on major projects in Libya. Libya will likely further expand its economic ties with European countries in energy and non-energy areas, while American sanctions will exclude American businesses, including oil companies, from investment in that

country. The expansion of the Libyan private sector will likely gain momentum, since the **liberalization** of Libya's centralized economy is a necessity for its development and diversification. In the absence of any significant opposition, there is no serious challenge to the Libyan political system and the authority of Colonel Qadhafi. For the foreseeable future, the Libyan political system led by Colonel Qadhafi will likely remain stable.

DEPENDENCIES

Libya has no territories or colonies.

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—Dr. Hooman Peimani

MADAGASCAR

Democratic Republic of Madagascar
République Démocratique de Madagascar
Repoblika Demokratika n'i Madagaskar

CAPITAL: Antananarivo.

MONETARY UNIT: Malagasy franc (FMG). One franc equals 100 centimes. Coins come in denominations of 1, 2, 5, 10, 20, 25, 50, 100, and 250. Paper currency includes denominations of 500, 1,000, 2,500, 5,000, 10,000, and 25,000 FMG.

CHIEF EXPORTS: Coffee, vanilla, cloves, shellfish, sugar, petroleum products, clothing and textiles.

CHIEF IMPORTS: Manufactured and consumer goods, petroleum, food.

GROSS DOMESTIC PRODUCT: US$11.5 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$600 million (f.o.b., 1998 est.). **Imports:** US$881 million (c.i.f., 1998 est.).

COUNTRY OVERVIEW

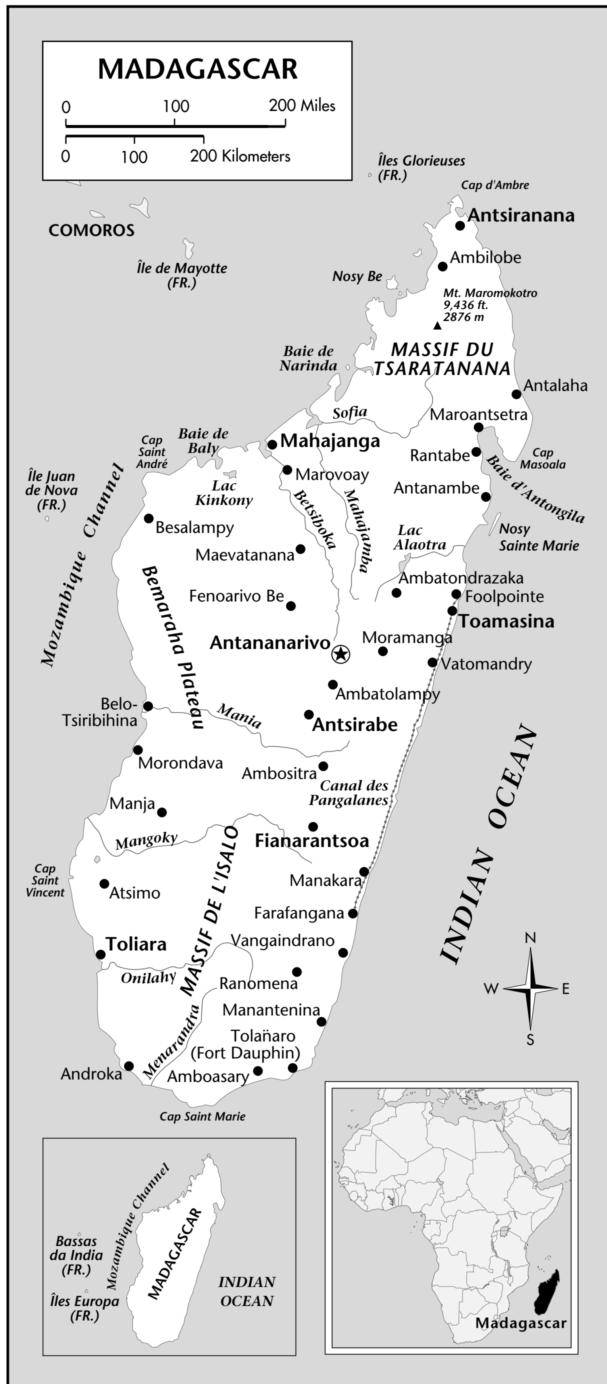
LOCATION AND SIZE. Madagascar lies in the southern Indian Ocean some 400 miles off Africa's eastern shore. With a land area of 587,039 square kilometers (226,656 square miles) Madagascar is a little less than twice the size of Arizona. It is also the world's fourth largest island, with a coastline of 4,827 kilometers (3,000 miles). Madagascar's capital is Antananarivo (population 2 million), located on its central plateau 1,468 meters (4,816 feet) above sea level. Other major cities include Fianarantsoa (population 440,000), inland in the southern part of the island; Taomasina (population 330,000), the principal port, located on the eastern seaboard; Antsiranana (population 320,000), at its northern-most tip; and Mahajanga (population 295,000), site of the country's second international airport. Madagascar's highest point is a mountain called Maromokotro (2,876 meters or 9,436 feet), located in the Tsaratanana Massif region along the island's central spine.

POPULATION. Demographic statistics for Madagascar are scarce and often unreliable, but a mid-2000 estimate by the U.N. Population Fund places its population at around 15.9 million. Although relative to its size this figure is below the average of its sub-Saharan neighbors, growth is brisk. With an annual birthrate estimated at 42.92 per 1,000 of population—around 3 percent per annum for the years 1995 to 2000—the fragility of Madagascar's environment makes this expansion a significant concern. The average life expectancy at birth of 54.95 years is relatively high by sub-Saharan standards, but poverty and malnutrition are nevertheless endemic, sanitation is very poor, and disease (especially cholera and malaria) is an ever-present threat. Some 27 percent of Malagasy (the people of Madagascar) lived in urban areas in 1998, a population segment which was growing at the rapid rate of 5.6 percent a year as rural inhabitants quit the countryside for the cities.

Ethnically, Madagascar is an unusual mix. Its 2 largest ethnic groups are the Indonesian-descended Merina (26 percent) and Betsileo (12 percent), who are historically concentrated in the central highlands, including the capital. Other groups include the Arab-African Betsimisaraka (15 percent) and Tsimehety (7 percent) of the east and north, respectively; and the Antandroy, of more purely (Bantu) African origin, in the south (5 percent). The prevalence of a unified language, the Malay-Indonesian Malagasy, has tended to work against sharp ethnic divisions, though there is some on-going chafing against Merina political domination. Religiously, 52 percent of Madagascar's people hold indigenous beliefs, 41 percent are Christian and 7 percent Muslim.

OVERVIEW OF ECONOMY

Although possessed of a temperate climate and variety of natural resources, Madagascar remains one of the poorest countries in the world. Its economic problems are daunting, and have been compounded by many years of



stagnation and decline. From 1971 to 1991 Madagascar dropped from the world's 30th poorest nation to its 10th poorest, with a fall in **GDP per capita** across the same period of 40 percent. Only in the late 1990s has Madagascar really begun to turn this trend around, but progress is expected to be slow, and major set-backs can still be expected.

Still predominantly agrarian, agriculture accounts for four-fifths of the workforce (mostly at subsistence level) and one-third of GDP. But population pressure combined with poor resource management has caused serious damage to Madagascar's ancient and highly delicate ecosystem, and deforestation and soil erosion are pressing concerns. By the late 1980s it was estimated that only 1 percent of the original wilderness remained.

Agriculture also suffers from droughts, locust plagues, and cyclones. A series of 3 particularly savage cyclones in early 2000 affected more than a million people and caused damage estimated by the World Bank to be near US$137 million. Growth, which had been forecast at 5.3 percent for 2000 (after a 4.7 percent rate in 1999), only reached 4.8 percent, leaving the country still crucially dependent on foreign aid and **debt relief**. The cyclones' devastating economic consequences, especially on **cash crops** such as coffee and vanilla, will be felt for years to come.

Other challenges include a limited and badly antiquated road system and rail network that are wholly unequal to the challenges of Madagascar's weather and terrain. The difficulty of transport, which in the monsoon months can leave large parts of the country inaccessible, is a major obstacle to commercial activity. But also inadequate is Madagascar's bureaucratic **infrastructure**. The civil service tends to be unresponsive and inefficient. And poor policing and corruption in the judiciary continue to render property and contract rights insecure. These factors are formidable disincentives for much-needed investment in the economy.

Madagascar's hope rests on energetic **restructuring** of its economy to reduce the **national debt**, stimulate the **private sector**, and encourage foreign development. Industries targeted as strategically central to this mission are Madagascar's fledgling manufacturing sector (especially garments and textiles) and its unique environment, with "**eco-tourism**" showing signs of real revenue promise.

POLITICS, GOVERNMENT, AND TAXATION

Colonized by France in the 1890s, Madagascar gained its independence on 26 June 1960 after a violent separatist struggle. Its first president, Philibert Tsirinan, was toppled in May 1972. In the 3 years of military rule that followed, Tsirinan's foreign minister, Didier Ratsiraka, emerged as the principal strongman and took the presidency officially in June 1975. Declaring the Democratic Republic of Madagascar, Ratsiraka closed all foreign military bases, **nationalized** the country's major industries, and opened relations with the Soviet Union and China. A drastically worsening economic situation forced Ratsiraka's Avant-garde de la révolution malagache (Arema) government in the 1980s to seek international help and institute a new monetarist reform agenda. Al-

though re-elected in March 1989, popular agitation for political **liberalization** had reached the point that, by 1992, Ratsiraka was forced to accede to a new pluralist, democratic constitution (pluralist societies are characterized by a variety of opinions voiced in a democratic context). In the first elections, under the constitution adopted later that year, he was voted out of office. He returned in 1996, however, after his successor, Albert Zafy, was impeached by parliament. The next presidential election is scheduled for 2001, and remains largely up in the air. Although the president's opposition is fragmented, and his IMF (International Monetary Fund)-sanctioned policies enjoy broad support, Ratsiraka himself is not especially popular; and he is also now very old. Madagascar has yet to resolve its unstable, and sometimes violent, political situation.

Madagascar's republic's laws are based on the French civil law system and traditional Malagasy rule, and a new constitution was adopted in 1998. The president of Madagascar is the chief of state and elected by direct vote for a 5-year term. The country now has a two-chamber legislature: the National Assembly and the Senate. The National Assembly is directly elected. The president and his cabinet appoint a prime minister. The country has nearly 30 active political parties.

Although the political consensus in Madagascar has generally favored fiscal discipline, it is only in the last 4 or 5 years that economic liberalization and monetary stabilization have been consistently and rigorously applied. Current policy is committed to minimizing **inflation**, servicing the national debt, stimulating the private sector, and diversifying the country's export base. The effects have been encouraging, with an average growth rate since 1995 of 3.2 percent.

Other initiatives include the divestment of state enterprises, with more than 40 slated for **privatization**, and the devolution of certain government powers to local councils, a measure to make government more efficient and accountable. Longer-term plans include reforming the justice system to combat corruption, and re-investing in education, which has become badly neglected in the last 20 years (falling from 4.4 percent of GNP in 1980 to 1.9 percent in 1998).

With tax evasion widespread, part of the new regime of fiscal reform has also been a more aggressive approach to taxation and revenue collection. This has seen revenues increase to 10 percent of GDP in 2000, but in an economy that is largely informal, the burden has tended to fall on the fragile business sector. Vocal protests from the Malagasy business community in 1999 forced the government to soften its stance and exposed the limits of fiscal reform. To bolster industry, plans are now afoot to reduce trade-based **levies**, currently the source of 60 percent of government tax revenue. Some of this shortfall will be picked up by the 20 percent **value-added tax**.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Underdeveloped and poorly maintained, Madagascar's inadequate infrastructure is a major obstacle to economic progress, restricting the exchange of goods and limiting development opportunities. The problem has been made even worse by an actual deterioration of the infrastructure in the 1970s and 1980s. As of 2000, only just over 11 percent of its 49,828 kilometers (30,968 miles) of roads are paved. During the rainy season, many of these are completely impassable, isolating large parts of the country. Rail is also in a perilous state, with a mere 885 kilometers (550 miles) of track, in 2 unconnected systems, and most of it in very poor repair. The introduction of private trucking licenses and the planned sale of the national railroad company should help, but the problem remains a fundamental one.

The poor condition of the land transport system has placed special emphasis on air and sea traffic. Madagascar has 15 ports, of which Tonmasina, Mahajanga, and Antsiranana are the most important. In theory, there are

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Madagascar	5	192	21	N/A	1	N/A	1.3	0.12	8
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
Mozambique	3	40	5	N/A	0	N/A	1.6	0.09	15

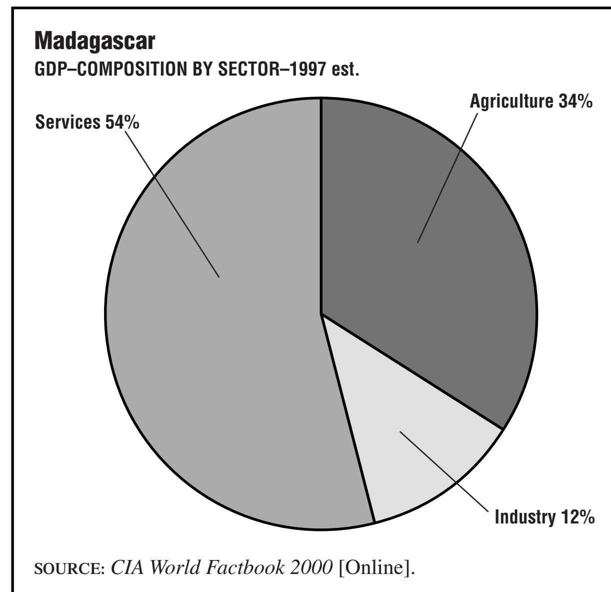
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

211 airfields, but only 30 of these are paved. There is an international airport at Ivato, outside Antananarivo. **Deregulation** of the air market has seen considerable expansion, with the appearance of competitors pushing down prices and increasing volumes, especially between Europe and Asia. The first half of 2000 saw an 11 percent jump in European passenger numbers over the same period in 1999, and a 69 percent increase in Asian passengers. Deregulation plans include the eventual privatization of Air Madagascar.

Telecommunications in Madagascar are currently inadequate. The landline network has barely been extended since 1960, and the vast majority of telephones are concentrated in the capital. With foreign aid, the country has installed a new digital switching system, however. Privatization of the national telecommunications **monopoly**, Telma, is underway, but is unlikely to generate the investment capital necessary to expand radically the customer base. The mobile telephone market, however, is highly competitive, with 4 operators active. Thanks to the USAID-funded Leland Initiative, Internet services can now boast 10 Internet service providers (ISPs).

Madagascar has 7 hydro-electric power stations and together these contribute two-thirds of its power output. But electricity makes up only 5 percent of total energy production; 82 percent of primary energy supply comes from bagasse (sugar cane residue), firewood, and charcoal, the use of which carries a high environmental cost. The development of Madagascar's extensive coal reserves has so far been frustrated by the poor road and rail system. Oil exploration is underway, but the country remains import-dependent.



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

Madagascar remains a firmly agrarian society, with agriculture generating about 32 percent of GDP and 70 percent of export earnings (1999). But the industry is limited by the prevalence of subsistence production and its orientation towards the domestic market, whereas its traditional export-focused crops, such as coffee, cotton, and spices, have been hurt by waning international prices. While there has been fruitful diversification into newer crops such as cassava (tapioca) and bananas, as well as fishing and aquaculture, agriculture alone cannot sustain future growth. Sectors which have become increasingly important are manufacturing and tourism, whose potential to generate foreign exchange earnings have made their development a government priority. But while innovative and productive steps have already been taken to encourage these sectors, and economic liberalization has helped to stimulate competitiveness, the shortage of investment capital has made progress tentative and halting.

AGRICULTURE

Agriculture forms the livelihood of the overwhelming majority of Malagasy. And yet, although agriculture is a vital export earner, the industry remains underdeveloped, accounting for only one-third of GDP—a level below that of its agrarian neighbors. Despite half the country being cultivable, only 5 percent is currently used for crop production, and only 16 percent of this is irrigated; most farmers eke out a subsistence living on small family plots. Poor transport systems and highly limited access to credit have also inhibited commercial development and discouraged investment in cash crops.

The main staple crop is rice, occupying about two-thirds of all available cropland. Despite a long-standing government goal of rice self-sufficiency, however, Madagascar remains a net importer. Traditional cash crops—most of which were introduced by the French in the 19th century—include coffee, cotton, sugar cane, vanilla, and cloves. But pressure from other producing countries has undermined Madagascar's market share in these commodities and cut into export earnings. Coffee continues to hold its own, accounting for around 8 percent of exports (US$42.5 million, est. 1998), as does cotton (4.1 percent), traditionally the second most important export crop. But vanilla and cloves have been badly hit by sagging world prices, shrinking from a traditional one-third export share to around 5 percent in 1999. Non-traditional crops have fared better and include cassava (the second major crop in terms of land used), corn, sweet potato, and bananas.

With some 50 percent of all Malagasy land used for herding, livestock farming (especially Zebu beef cattle) is another important export earner, though ownership patterns and social imperatives inhibit full commercializa-

tion. Timber is also significant. Although Madagascar's native reserves have been largely cleared for farming, there is heavy international pressure to conserve what is left; about 260,000 hectares of pine and eucalyptus forests are currently under cultivation.

Fishing is growing in importance and shows considerable promise. Prawn and tuna exports in particular are valuable export earners, and production is expected by 2001 to have increased by 25 percent over its 1995 levels, with 20 percent more jobs created. Shrimp farming is also taking off; other products include tilapia, black bass, trout, and lobster.

INDUSTRY

Industry is a fledgling sector in Madagascar, providing only 13.6 percent of GDP (1998), but one showing definite potential. Mineral deposits are substantial and largely unexploited. Gold and chromite are both mined extensively, as are, on a smaller scale, graphite, mica nickel, ilmenite, and marble. Iron and bauxite, as well as semi-precious stones (especially sapphires) are being developed, and have a combined export potential of up to US$380 million. The industry is not without its problems, however. Many of Madagascar's deposits are inside national parks and hence off-limits to development. Low investment is also a hindrance, as is—in the case of gold and gemstones—chronic smuggling.

Manufacturing is an area of some success, greatly stimulated by the formation of the export processing zone (EPZ) in 1996, which offers tax exemptions for export-focused industries. The project has grown to include 150 companies and has generated 80,000 jobs, producing 37.4 percent of Madagascar's foreign trade revenue. Its main products are clothing (48 percent), handicrafts (13 percent), and agro-processing (9 percent). Textiles are another important export, supported by Madagascar's cotton industry and low wage rates, and accounts for 15 percent of manufacturing production. Other products include plastics, pharmaceuticals, leather goods, footwear, and tobacco.

SERVICES

TOURISM. Madagascar's climate, beaches (4,827 kilometers—or 3,000 miles—of them), and unique ecology (Madagascar is home to many endangered species of flora and fauna) make tourism one of its most dynamic and promising sectors. The industry has the potential not only to create jobs and wealth, but to turn Madagascar's unusual and endangered environment into a productive asset. Interest is great, and two-thirds of the country's visitors come for eco-tourism. In 1998, tourists brought in US$92.2 million. But although visitor numbers are rising steadily (doubling since 1994), volume is still low. In 1997 Madagascar attracted less than a fifth of neighboring Mauritius's 536,000 visitors. Further development of the industry also faces significant difficulties. Air links to Europe and Asia are few and expensive, hotel facilities are sparse and inadequate, and investment is scarce. Government attempts to meet these obstacles have included rationalizing (removing inconsistencies and streamlining) the relevant laws, creating a coordinated tourist authority, and liberalizing the airline market.

FINANCIAL SERVICES. Limitations in the financial sector continue to impede growth. The nation's assets are controlled by the central bank and 5 commercial banks, the largest of which, BNI-Credit Lyonnais, has a total asset base of US$200 million. Few Malagasy, however, qualify for these banks' services. The problem is especially acute in the rural areas where only 1.5 percent of small farmers have access to credit; the agriculture sector itself receives only 5 percent of total lending. High interest loan rates and fees have also discouraged business borrowing. The lack of a stock exchange and shareholding culture have further restricted financing options.

RETAIL. Few in Madagascar can afford more than the bare essentials, and steady depreciation of the currency has eroded purchasing power even further. This combined with the poor condition of the country's transport network means that trade tends to be localized and retailing minimal. However, the opening of the economy has expanded the range of goods available somewhat, especially in the main urban centers like Antananarivo.

INTERNATIONAL TRADE

Trade continues to run heavily in Madagascar's disfavor, with imports exceeding exports by more than US$200 million. Although there are signs the situation may be improving, the disparity remains debilitating.

The main trading partner is Madagascar's old colonial patron, France, which in 1998 took 39.6 percent of its total exports, at a value of US$349 million. France in turn supplied 24.1 percent of its imports, mostly machinery

Trade (expressed in billions of US$): Madagascar

	Exports	Imports
1975	.302	.366
1980	.401	.600
1985	.274	.402
1990	.319	.571
1995	.368	.499
1998	.241	.514

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Madagascar

Malagasy francs (FMG) per US$1	
Nov 2000	6,656.3
2000	N/A
1999	6,283.8
1998	5,441.4
1997	5,090.9
1996	4,061.3

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Madagascar	364	344	277	276	238
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Mozambique	N/A	166	115	144	188

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

(25.7 percent), textiles and clothes (16.1 percent), chemicals (13.2 percent), and transport equipment (10.6 percent). Other buyers of Malagasy goods are Mauritius (6.9 percent), the United States (5.9 percent), and Germany (4.4 percent). Germany was also the source of 7.3 percent imports, while Iranian oil accounted for a further 7.1 percent.

Under the Lomé Convention, Madagascar enjoys preferential entry to European export markets. It is also a member of the 20-nation Common Market for Eastern and Southern Africa trade group (COMESA), whose long-term plans include monetary union and a common central bank. Madagascar has also applied to join the similarly aimed Southern African Development Community (SADC).

Distribution of Income or Consumption by Percentage Share: Madagascar

Lowest 10%	1.9
Lowest 20%	5.1
Second 20%	9.4
Third 20%	13.3
Fourth 20%	20.1
Highest 20%	52.1
Highest 10%	36.7

Survey year: 1993

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

MONEY

Madagascar's **external debt** stands at over US$3.3 billion, its annual deficit at around 4 percent of GDP (1999). This is some improvement over the previous 6 years, when the deficit had averaged in excess of 6 percent per annum, but it remains a heavy economic burden, and has put considerable pressure on its currency. Inflation has long been a problem, with an average of 60 percent as recently as 1994. But while efforts by Madagascar's central bank have seen this fall in 1998 to 6.4 percent, further progress is hindered by the high world oil price; and increased government spending saw this bounce back up to 14.4 percent in 1999.

Since the Malagasy franc was first floated in 1994 it has lost about half its value against the U.S. dollar. Although this has made imports more expensive, it has also enhanced Madagascar's export competitiveness. The Malagasy franc now sits at about 7,000 to the U.S. dollar.

POVERTY AND WEALTH

Chronic poverty is Madagascar's foremost burden. Its wage rates are amongst the lowest in the world, and, according to a 1993–94 survey, 70 percent of the country lived below even Madagascar's own baseline poverty level, and conditions had not improved by the end of the century. Average per capita GDP sits at US$250 per annum (1999), low even for sub-Saharan economies, and one-hundredth of France's GDP per capita. Although the economy continues to grow, the effects remain unfelt by the majority of the population, for whom disease and famine are continual blights.

Poverty levels are not helped by skewed distribution. Traditional Malagasy society is highly hierarchical, with a rigid ranking system according to ethnicity, age, and gender. The effect has been to rigidify social structures and to leave Madagascar's richest 10 percent controlling 35 percent of the country's wealth. Corruption and patronage too tend to concentrate wealth in the hands of the elite, though the planned devolution of governmental power to the regions may go some way to expanding the political class.

WORKING CONDITIONS

The Malagasy workforce is estimated to be around 7 million strong. Unemployment is officially low—around 2.8 percent in rural areas, 6.6 percent in the cities—but these figures are likely to be significantly underestimated. Although the rate has been slowly falling,

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Madagascar	61	8	4	2	2	5	18
United States	13	9	9	4	6	8	51
South Africa	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mozambique	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

more than half the workforce is still **underemployed**. At least in the short-term, the down-sizing of the **public sector** is likely to see more jobs lost. Hardest hit are the young; 22 is the average age of the unemployed.

Despite Madagascar's poverty and falling government investment in education, literacy remains relatively high (by sub-Saharan standards). More than 90 percent of children enroll in primary school, and 16 percent go on to secondary school. The literacy rate is 72 percent for men and 52 percent for women. The result is a generally adaptable workforce.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

c. A.D. 300–800. The first humans arrive in Madagascar, from Indonesia.

1642. French presence established.

1890. European powers recognize Madagascar as a French protectorate.

1944. Madagascar receives French overseas territory status.

1958. Madagascar becomes a self-governing republic within the French Community.

1960. Independence from France.

1972. Philibert Tsirinan, Madagascar's first president, is forced to resign after mass demonstrations.

1975. Didier Ratsiraka becomes Madagascar's second president.

1992. New Constitution enacted; Ratsiraka defeated in elections by Albert Zafy.

1996. Zafy impeached by parliament; Ratsiraka returns to office.

1999. Madagascar becomes eligible for U.S. debt relief.

FUTURE TRENDS

Madagascar remains desperately poor, and its people afflicted with malnourishment, endemic poverty, and disease. And yet there are signs that some cautious optimism may be in order. Progress has been slow and painful, but real. After many years of government control, new free market policies have been implemented and the government is slowly putting the productive sectors of the nation into private hands. And while climatic factors remain a wild-card threat, on-going attempts to diversify the economy and address poverty levels will help to reduce exposure. But much will depend on continued international support.

DEPENDENCIES

Madagascar has no territories or colonies.

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—Alexander Schubert

INTRODUCTION TO WORLD CURRENCY

The following insert contains color photographs of paper currency from around the world. Where possible, the most recent issue and lowest denomination was selected to show the bank notes of the countries represented in this encyclopedia. As of the year 2002, approximately 169 countries issued their own paper money.

Bank notes are more than a measuring system for value to be used as payment for goods and services. In many instances a banknote is a graphic reflection of a country's history, politics, economy, environment, and its people. For example, many bank notes depict plant life such as flowers and trees, as well as birds and other animals native to that geographic region. The 5-lats note of Latvia has a giant oak tree on the front, while the 25-rupee note of Seychelles and the 5-guilder note of Suriname both show flowers from the homeland. Birds adorn notes from São Tomé and Príncipe, Papua New Guinea, and Zambia. Large animals such as the mountain gorillas on the 500-franc note from Rwanda, the white rhinoceros on the 10-rand note from South Africa, and the bull elephant on the 500-shilling note of Uganda are commonplace.

Famous rulers and political figures from history are prevalent. Sir Henry Parkes, a famous 19th-century statesman, graces the front of the 5-dollar note from Australia; and Canada's Sir John Alexander MacDonald, a noted Canadian prime minister from the same time period, appears on the front of the 10-dollar Canadian note. Mieszko I, a medieval prince credited with being the founder of Poland in 966, is on the 10-zloty note from that country. Bank notes also reflect the power of more contemporary rulers, as exemplified by the image of Iraq's current president, Saddam Hussein, on that country's 50-dinar note, issued in 1994. Malaysia's paramount ruler and first chief of state, Tunku Abdul Rahman, is on the front of that country's 1-ringgit note and all notes of all denominations issued since 1967.

Architectural vignettes are common on world notes. Islamic mosques with minarets can be found on the 5000-afghani note from Afghanistan, as well as the 25-piaster note from Egypt, indicating the prevalent Islamic religious influence in those 2 countries. The 5-pound 1994 regular issue note from Ireland shows the famous Mater Misericordiae Hospital in Ireland, where Sister Catherine McAuley, founder of the Sisters of Mercy religious order, served in the area of health care. The depiction of religious figures is common on European notes. Examples include St. Agnes of Bohemia on the 50-koruna note of the Czech Republic, St. John of Rila on the 1-lev note of Bulgaria, and the Archangel Gabriel on the 50-denar note of Macedonia.

Artists, authors, scientists, and musicians are also honored on many bank notes. James Ensor (1860–1949), an innovative painter and etcher, is shown on the 100-franc note from Belgium, while Baroness Karen Blixen (pen name Isak Dinesen), the famed Danish author of *Out of Africa* is found on the 50-krone note of Denmark.

Several notes commemorate the new millenium, significant local events, or anniversaries. The front of the 2000-leu commemorative note from Romania has an imaginative reproduction of the solar system as a reference to the total solar eclipse of 11 August 1999. Another example of a commemorative note is the 200-rupee note from Sri Lanka. The note was issued 4 February 1998 to commemorate the 50th anniversary of independence as a self-governing Dominion of the British Commonwealth.

As of 2002, 15 countries did not issue or use their own paper currency, but allowed the bank notes of neighboring countries as well as U.S. currency to circulate freely in their local economies. Many of these countries are relatively small in size with economies to match. Countries such as San Marino, Monaco, Liechtenstein, and Vatican City are tourist-oriented and do not see a need to issue their own homeland currency. Five of these fifteen countries—namely Marshall Islands, Micronesia, Palau, Panama, and Puerto Rico—all use the U.S. dollar as their monetary unit of exchange. As of March 2001, Ecuador and El Salvador had joined the above-mentioned countries in adopting the U.S. dollar. Countries struggling with hyperinflation (uncontrolled inflation marked by the sharp devaluation of the homeland currency) may choose to use the U.S. dollar in place of their own currencies in an attempt to stabilize their economy by linking it directly to the strength and stability of the

U.S. economy. Countries that use U.S. dollars in conjunction with sound economic policies can usually expect to control and/or minimize inflation. The complete adoption of the U.S. currency has been more successful than the practice of pegging the value of local currency to the U.S. dollar according to a fixed ratio, an approach attempted recently by Argentina to disastrous effect. Even those countries that have not completely adopted the U.S. dollar as their currency often have economies operating freely with both their own national and the U.S. currencies. The strength of the U.S. dollar has also made it the currency of choice in the global black market.

Another trend that will probably continue into the future is the joining together of several neighboring countries to form a central bank issuing a common currency. The primary objective of these economic and monetary unions is to eliminate obstacles to free trade, creating a single unified marketplace. This grouping together tends to strengthen the economy and currency of the member countries as well as providing a cost savings in currency production. While such economic partnerships have occurred throughout history, more recent examples began in the early 1950s with the union of the East Caribbean States, followed by the Central African States, French Pacific Territories, and West African States. The most recent and highly publicized example is the European Monetary Union (EMU), composed of 12 European member countries—namely Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. On 1 January 2002, the EMU, through its newly formed central bank, replaced the participating countries' homeland currencies with a new common currency called the *euro*. An example of the 10-euro note is shown on the following currency insert pages. Those countries that had pegged their currencies to an EU member's currency prior to the euro's adoption (as several Francophone countries in Africa did with the French franc) now peg their currency to the euro.

It should be mentioned that, in contrast to this recurring trend of country unification for economic and monetary purposes, there are several countries with isolationist governments that have done just the opposite in order to limit the influence of the international community on their economies and populations. For example, Iraq and Syria have made it illegal to use or export their currency outside of their homelands. Several other nations embraced this isolationist attitude through the use of trade voucher and tourist certificates in place of currency, thus keeping their national circulating bank notes from being used or exported by visitors to their country. China, Bulgaria, and Poland are examples of countries that issued what they termed "foreign exchange certificates" for this specific purpose. However, this practice has largely been discontinued, with the exception of Cuba, which still uses a similar certificate first issued in the mid-1980s.

So what does the future have in store for the economies of the world? Trends indicate most countries in the world want free, open, and balanced trade with a strong, stable, and growing economy, free of hyperinflation. More countries are achieving this goal by unifying in regional economic partnerships such as the European Union, or by clearing the barriers to free trade through agreements such as NAFTA (North American Free Trade Agreement). As the use of the U.S. dollar increases throughout the Americas, some economists predict that this region will follow in the footsteps of Europe in terms of establishing a common currency under a central bank. The Asian and Middle-Eastern regions are also likely candidates for similar regional economic partnerships given the prevalence of established trade agreements already in existence among those countries. As the globalization of trade necessitates closer economic ties between countries, it is not inconceivable that a single central bank and common currency will eventually unite the countries of the world. While that development is still only a remote possibility at this point, there is little doubt that nations' increased dependence on international trade for economic prosperity will promote a currency policy conducive to closer trade ties and cross-border partnerships.

—Keith S. Bauman, professional numismatist
International Bank Note Society
American Numismatic Association
Professional Currency Dealers Association

Afghanistan

Albania

Algeria

Andorra
(used both Spanish and French currency until the adoption of the euro in January of 2002)

Angola

Antigua and Barbuda
(shares currency with other East Caribbean States)

Argentina

Armenia

Aruba

Australia

Austria
(adopted the euro as of January 2002)

Azerbaijan

The Bahamas

Bahrain

Bangladesh

Barbados

Belarus

Belgium
(adopted the euro as of January 2002)

Belize

Benin
(shares currency with other West African States)

Bhutan

Bolivia

Bosnia and Herzegovina

Botswana

Brazil

Brunei Darussalam

Bulgaria

Burkina Faso
(shares currency with other West African States)

Burma (Myanmar)

Burundi

Cambodia

Cameroon
(shares currency with other Central African States)

Canada

Cape Verde

Central African Republic
(shares currency with other Central African States)

Chad
(shares currency with other Central African States)

Chile

China

Colombia

Comoros

Democratic Republic of the Congo

Republic of the Congo
(shares currency with other Central African States)

Costa Rica

Côte d'Ivoire
(shares currency with other West African States)

Croatia

Cuba

Cyprus

Czech Republic

Denmark

Djibouti

Dominica
(shares currency with other East Caribbean States)

Dominican Republic

Ecuador

Egypt

El Salvador

Equatorial Guinea
(shares currency with other Central African States)

Eritrea

Estonia

Ethiopia

European Union (EU)

Fiji

Finland
(adopted the euro as of January 2002)

France
(adopted the euro as of January 2002)

French Guiana, Martinique, and Guadeloupe
(used the Fench currency until the adoption of the euro in January 2002)

French Polynesia

Gabon
(shares currency with other Central African States)

The Gambia

Georgia

Germany
(adopted the euro as of January 2002)

Ghana

Greece
(adopted the euro as of January 2002)

Grenada
(shares currency with other East Carribbean States)

Guatemala

Guinea

Guinea-Bissau
(shares currency with other West African States)

Guyana

Haiti

Honduras

Hong Kong

Hungary

Iceland

India

Indonesia

Iran

Iraq

Ireland
(adopted the euro as of January 2002)

Israel

Italy
(adopted the euro as of January 2002)

Jamaica

Japan

Jordan

Kazakhstan

Kenya

Kiribati
(uses the Australian currency)

North Korea

South Korea

Kuwait

Kyrgyzstan

Laos

Latvia

Lebanon

Lesotho

Liberia

Libya

Liechtenstein
(uses the Swiss currency)

Lithuania

Luxembourg
(adopted the euro as of January 2002)

Macau

Macedonia

Madagascar

Malawi

Malaysia

Maldives

Mali
(shares currency with other West African States)

Malta

Marshall Islands
(uses the U.S. currency)

Mauritania

Mauritius

Mexico

Micronesia
(uses the U.S. currency)

Moldova

Monaco
(used the Frency currency until the adoption of the euro in January 2002)

Mongolia

Morocco

Mozambique

Namibia

Nauru
(uses the Australian currency)

Nepal

The Netherlands
(adopted the euro as of January 2002)

Netherlands Antilles

New Zealand

Nicaragua

Niger
(shares currency with other West African States)

Nigeria

Norway

Oman

Pakistan

Palau
(uses the U.S. currency)

Panama
(uses the U.S. currency)

Papua New Guinea

Paraguay

Peru

Philippines

Poland

Portugal
(adopted the euro as of January 2002)

Puerto Rico
(uses the U.S. currency)

Qatar

Romania

Russia

Rwanda

San Marino
(used the Italian currency until the adoption of the euro in January of 2002)

São Tomé and Príncipe

Saudi Arabia

Senegal
(shares currency with other West African States)

Seychelles

Sierra Leone

Singapore

Slovakia

Slovenia

Solomon Islands

Somalia

South Africa

Spain
(adopted the euro as of January 2002)

Sri Lanka

St. Kitts and Nevis
(shares currency with other East Caribbean States)

St. Lucia
(shares currency with other East Caribbean States)

St. Vincent and the Grenadines
(shares currency with other East Caribbean States)

Sudan

Suriname

Swaziland

Sweden

Switzerland

Syria

Taiwan

Tajikistan

Tanzania

Thailand

Togo
(shares currency with other West African States)

Tonga

Trinidad and Tobago

Tunisia

Turkey

Turkmenistan

Tuvalu
(uses Australian currency)

Uganda

Ukraine

United Arab Emirates

United Kingdom

United States

Uruguay

Uzbekistan

Vanuatu

Vatican City
(used the Italian currency until the adoption of the euro in January of 2002)

Venezuela

Vietnam

Yemen

Yugoslavia

Zambia

Zimbabwe

MALAWI

Republic of Malawi

CAPITAL: Lilongwe.

MONETARY UNIT: Malawian kwacha (MK). One kwacha equals 100 tambala. Paper currency includes MK5, 10, 20, 50, and 100. Coins come in denominations of MK1, as well as 1, 2, 5, 10, 20, and 50 tambala.

CHIEF EXPORTS: Tobacco, tea, sugar, cotton, coffee, peanuts, wood products.

CHIEF IMPORTS: Food, petroleum products, semi-manufactures, consumer goods, transportation equipment.

GROSS DOMESTIC PRODUCT: US$9.4 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$510 million (1998 est.). **Imports:** US$512 million (1998 est.).

COUNTRY OVERVIEW

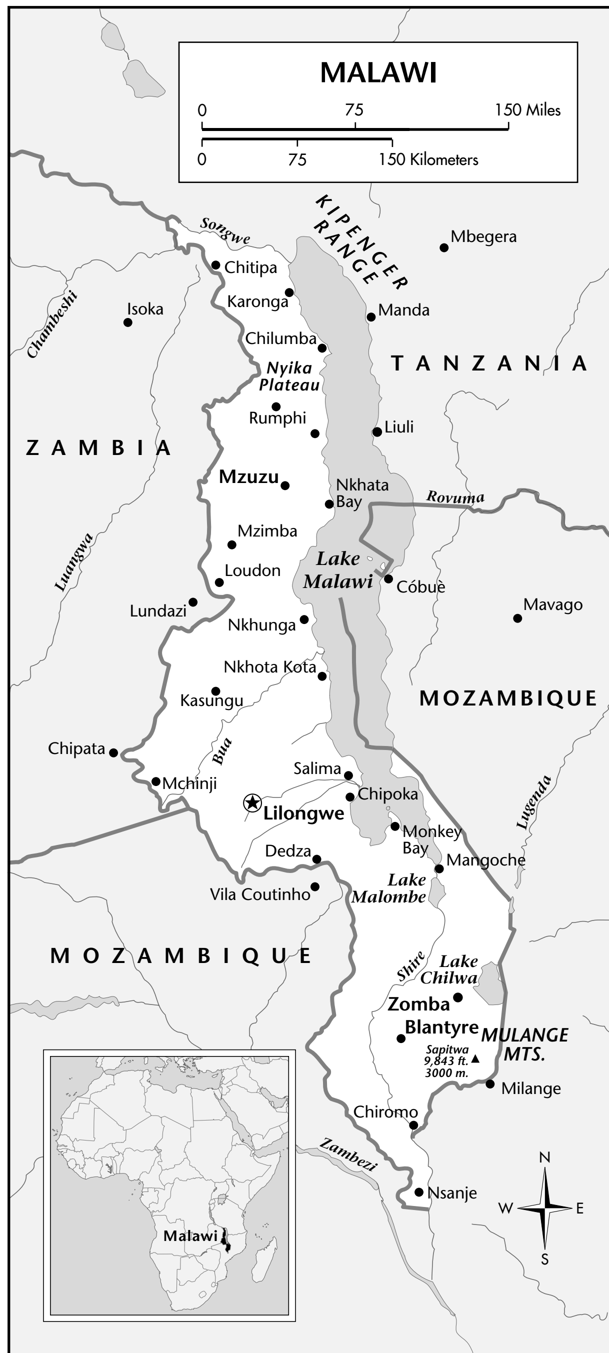
LOCATION AND SIZE. Malawi is located in southeast Africa, landlocked between Mozambique to the east and south, Zambia to the west, and Tanzania to the north. Malawi is separated from Mozambique and Tanzania to a large extent by Lake Malawi, which lies on the country's eastern edge. The immense extent of this lake (the third largest in Africa), which accounts for 20 percent of Malawi's 118,480 square kilometers (45,745 square miles) of total area, means that despite Malawi's inland location, the country has a sizeable coastal area.

Slightly smaller than Pennsylvania in area, Malawi's long, narrow shape was determined in part by the elongated plateau on which it sits and in part by British imperial whim. Mt. Sipitwa, the country's highest point, reaches 9,850 feet. The capital of Malawi is Lilongwe (pop. 442,000, 1999 est.); other urban centers include Blantyre (pop. 486,000, 1999 est.) and Mzuzu (pop. 88,000, 1999 est.).

POPULATION. A mid-2000 estimate of Malawi's population placed it at 10,385,849. Malawi's demographics, however, are complicated by the AIDS pandemic, which tends radically to skew its statistics. Hence the life expectancy at birth of the average Malawian is a very low 37.58 years. The proportion of the population under age 20 is 57 percent, and infant mortality runs to 122.28 deaths per 1,000, one of the worst in the world (the birth rate is 38.49 per 1,000). Despite a fertility rate of 5.33 children born per Malawian woman, population growth is only 1.61 percent per annum. Not all of this is attributable solely to AIDS, as disease and chronic malnutrition are also major causes of mortality. The scale of AIDS' impact can be understood, however, if Malawi's population figures are set against those, for example, of Madagascar, where the average lifespan is nearly 50 percent longer, the death rate is a mere third as high, and overall population growth is doubled. The United Nations estimated in 1999 that around 16 percent of all Malawians between the ages of 15 and 49 were HIV/AIDS infected. In the same year, the disease claimed 70,000 lives, with urban areas worst affected. The economic fall-out has been disastrous.

With 90 percent of Malawi's population living in rural areas, cities and towns have traditionally played a small part in the nation's life. This, however, is showing signs of changing, and between 1987 and 1998 the urban population grew by 4.7 percent.

Ethnically, Malawi is a tribal federation principally of Chewa, Tumbuka, Yao, and Ngoni peoples, and to a lesser extent Nyanja, Lomwe, Sena, Tonga, and Ngonde tribes, as well as various Asian and European groups. The national language (besides English) is Chichewa, with Chitumbuka predominating in the north. Religiously, 55 percent are Protestant, 20 percent Roman Catholic, 20 percent Muslim, with the remainder holding various indigenous beliefs.



OVERVIEW OF ECONOMY

One of the least developed countries in the world, Malawi remains fundamentally dependent on international aid, of which it receives about US$400 million annually. Attempts to turn its economy towards greater productivity and self-sufficiency face heavy obstacles at almost every level. The World Bank and the International Monetary Fund (IMF) are working with the Malawian government to improve economic growth through a program of **privatization** and other reforms. But progress will be difficult, due to a variety of problems that plague the country, including inadequate **infrastructure** and Malawi's dependence on fuel sources such as coal and firewood.

An overwhelmingly agrarian (farm-based) nation, at 44 people per square mile Malawi is also one Africa's most densely populated countries, and pressure to use available land is intense. This has not only led to serious deforestation as new land has been cleared for cultivation, but ever greater subdivision of existing farming plots. In 1986–87 the World Bank calculated 55 percent of rural households survived on less than 1 hectare of land; by 1993, estimates put this number at 78 percent. The consequences have included decreasing incomes and long-term environmental degradation. Since most of Malawi's agricultural income comes from its independent smallholders (individual farmers), this poses a serious problem.

Over-dependence on agriculture also leaves Malawi exposed to the region's erratic rainfall pattern, as well as to fluctuating world markets. Malawi's primary **cash crop** is tobacco, and without diversification, it will continue to be exposed to changes in the world tobacco market. Growth has therefore been irregular as Malawi's economic fortunes have bounced up and down. Although hitting annual GDP growth levels as high as 10 percent (1995), long-term growth has been considerably slower, averaging 3 percent between 1980 and 2000. Disciplined budget planning is difficult, and the resulting economic instability deters foreign and **private-sector** investment. Further, the country faces a substantial **foreign debt**, which continues to hold back efforts at prioritizing infrastructure improvements that are required for Malawi to achieve the 6 percent growth that, according to World Bank estimates, is necessary if poverty levels are to be reduced.

POLITICS, GOVERNMENT, AND TAXATION

Malawi became a British colony as the protectorate of Nyasaland in 1891. In 1964, after a decade of concerted anti-colonial activity, Malawi was granted its independence. Its prime minister at that time, Hastings Kamuzu Banda, remained the country's leader for the next 30 years, becoming successively president (1966) and president-for-life (1970), as his rule shifted from benign despotism (an authoritarian leader who respects human rights and rules in the best interests of his or her people) to dictatorial repression. Mounting political pressure in the late 1980s—leading to widespread strikes, demonstrations, and riots in 1992—eventually forced the 89 year-old president to concede elections in 1994, in which

he was defeated by Bakili Muluzi, leader of the free-market-promoting United Democratic Front.

The transition from Banda's one-party autocracy to a multi-party democracy has been relatively smooth. Under the U.S.-style 1994 constitution, the president still wields considerable power, appointing the 28-member cabinet and senior judges, but he is kept in check by an independent judiciary and legislature. The presidency and the 193 seats of the National Assembly are decided by direct popular election, and all Malawians over 18 years of age have the right to vote. The basic soundness of the new system was affirmed in 1999 when Malawi successfully conducted its second-ever elections (in which Bakili Muluzi was re-elected).

Nevertheless, Banda's long rule and his authoritarian and eccentric style of government have left a burdensome legacy. Challenges facing Malawi's new government have been to repair the country's strained diplomatic relations with its neighbors (Banda was ostracized in the region for his long-standing support of South African apartheid—a political and economic system based on the dominance of whites at the expense of African blacks), to restore the badly rundown economy, and to foster confidence in the political system, corrupted by years of Banda intrigue and cronyism. Progress has been slow. Corruption scandals are becoming more frequent, not only undermining the public's faith in democracy, but alienating Malawi's foreign donors.

The Muluzi government, however, is committed to the program of structural reform drawn up by the World Bank and the IMF, which is aimed at poverty reduction and economic growth. In addition to a renewed emphasis on education and health, the program includes tightening fiscal management, opening up domestic markets, privatizing public utilities, reducing the civil service (non-miltary government organizations), and improving conditions and opportunities for smallholder farmers by **liberalizing** the agricultural sector.

Tax reform has also been targeted, with more emphasis placed on **direct taxation**, in keeping with Malawi's traditional sources of revenue—**duties**, excises, and **levies**. But in an economy in which so much of the population lives at subsistence level, and in which so much trade is conducted informally, tapping this source of revenue is very difficult, and the burden of the new tougher stance has tended to fall disproportionately on the private sector.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Malawi's infrastructure is in urgent need of attention. Its road and rail networks are inadequate both in their quality and extent, a problem made more serious by the country's reliance on land transport to compensate for its lack of sea access. While the road system has been expanded by 44 percent since independence in 1964, Malawi's population in the same period has doubled; of its 28,394 kilometers (17,647 miles) of road, only 5,833 kilometers (3,265 miles) are paved (18.5 percent). The poor condition of the roads has contributed to Malawi having one of the worst road accident rates in the world—despite its very low car-to-person ratio of 2 per 1,000. Rail, too, is in considerable disrepair, having been very badly affected by Mozambique's long civil war in the 1980s and 1990s, which closed off Malawi's access to the Indian Ocean ports of Nacala and Beira, once the distribution hubs of 95 percent of all Malawian trade. Starved of this traffic, on which it relied heavily, Malawi's national railroad was forced into bankruptcy in 1993. However, the company's sale in 1999 to a U.S.-African consortium is aimed at bringing new investment and reviving services. Malawi has 788 kilometers (490 miles) of track, all of which is narrow gauge.

Malawi has 2 international airports—at Lilongwe and Blantyre—and is served by a variety of international carriers. Malawi has 44 total airports, only 5 of which

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Malawi	3	249	2	N/A	1	0.1	N/A	0.00	10
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1
Zambia	12	121	137	N/A	1	0.1	N/A	0.48	15

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

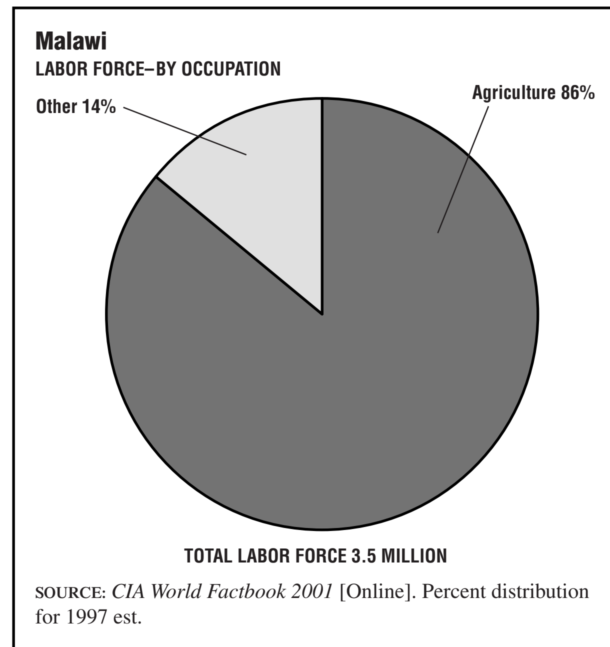
have paved runways. Between 100,000 and 200,000 passengers typically pass through each airport annually. The government plans to privatize Air Malawi and the introduction of a second airline is also being discussed.

Malawi's principal source of energy—providing an estimated 90 percent of all its energy needs—is wood fuel (firewood and charcoal), about 44 percent of which comes from non-sustainable sources. Demand is growing too, at a rate of some 6 percent per year, placing severe pressure on Malawi's already depleted forests. Electricity generation comes mostly from the 4 hydroelectric power stations on the Shire River begun in 1989. But irregular water flow on the river, especially in the dry season, and problems with silting (build up of sediment) often make power supplies unreliable, a problem particularly damaging to industry. Coal is imported to supplement local production, which because of underinvestment is mined below capacity. All petroleum stocks are imported.

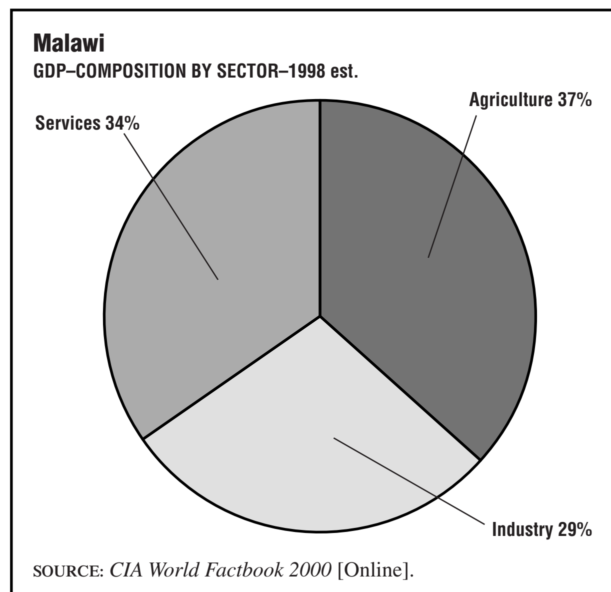
Telecommunications is also an underdeveloped sector, with a mere 45,000 landlines, or 1 for every 230 Malawians. There are hopes, however, to triple the number of lines by 2005 with the proceeds of the sale of the state-owned Malawi Telecom in 2001. A cellular system was launched in 1996, and the licensing of more networks is planned. Malawi had 1 Internet service provider as of 1999.

ECONOMIC SECTORS

Despite government hopes to expand the country's economic base, Malawi remains overwhelmingly dependent on agriculture, especially its primary cash crop, tobacco. But international movements to discourage cigarette smoking can only hurt this industry further, and its viability as a long-term vehicle of growth is unclear. In 1999 agriculture supplied 38 percent of GDP. Tourism, mining, and manufacturing have also been prioritized, but infrastructure problems make development difficult. Nevertheless, industry accounts for 19.2 percent of GDP (14 percent of this in manufacturing), and services 42.8 percent.



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1997 est.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

A lush climate and rich soil make Malawi well suited for agriculture, which is central to the country's economy and national life, occupying 86 percent of its workforce, and making up 38 percent of its GDP and 90 percent of its export earnings.

The main staple crop is maize, grown by smallholder farmers mostly at the subsistence level. Production varies, and depending on climate conditions, maize may be imported or exported. Sorghum, millet, pulses, root crops, and fruit are also grown. Another staple, as well as an important source of protein, is fish from Lake Malawi. The fishing industry accounts for about 200,000 jobs, but problems with pollution and over-fishing threaten to reduce yields.

Malawi's commercial farming sector is concentrated on large estates in the south and around Lilongwe. Its main product is tobacco, which typically accounts for between 50 percent and 70 percent of Malawi's export earnings. Formerly held back by government **price controls** and grower regulations, the liberalization of the industry in the 1990s has seen steady increases in profits for grow-

ers and a sharp rise in smallholder tobacco production, making Malawi one of the leading tobacco producers in the world. Nevertheless, the industry as a whole has been hard hit by the drop in world tobacco prices, which has cut tobacco export revenues from US$332 million in 1998 to US$218 million in 2000. As a consequence, Malawi's growers are being encouraged to concentrate on other traditional cash crops, such as tea and sugar, or diversify into new crops, such as paprika, macadamia, citrus fruits, vegetables, and cut flowers. Tea is Malawi's second most important cash crop, and Malawi is Africa's second largest producer of it. In 2000 tea accounted for about 10 percent of exports, or about US$44 million. Sugar is also significant, and made up about 6 percent of exports, or US$27 million.

INDUSTRY

Although a small and under-developed sector in Malawi, industry is nevertheless an important contributor to the country's GDP. But the burdens it struggles under are substantial. Hampered by the variability of the agricultural sector on which it is based, high transport costs, a small domestic market, and a poorly skilled workforce increasingly undermined by HIV/AIDS, Malawi's industries must also contend with a dependence on imported resources. This dependence largely robs the industrial sector of any benefit from successive depreciations of the kwacha and means Malawi's goods, despite low wage rates, often do not fare well against regional competitors.

The majority of Malawi's industrial activity (85 percent) comes from manufacturing, a sector that in 2000 generated around 14 percent of GDP. Malawian manufacturing is carried out by about 100 companies involved in agricultural processing, textiles, clothing, and footwear production. The concentration of this activity is another legacy of Hastings Banda's accumulation of wealth and power during the 30 years of his rule. The Press Corporation Limited (PCL), founded by Banda, is an example of how this legacy continues to distort Malawi's economic structure. A hugely diverse syndicate of brewing, clothing, oil, pharmaceutical, banking, and agricultural concerns with a total revenue equivalent to about 10 percent of GDP, PCL's **monopolies** in many industries further undermine competitiveness. **Nationalized** in 1997, the company is scheduled for dismantling and sale, although few of its assets are likely to attract the necessary interest.

Mining remains small-scale, and Malawi has no precious metals or oil, but ruby mining began in the mid–1990s, with Malawi the only source of rubies in Africa. Malawi also has deposits of bauxite, asbestos, graphite, and uranium. After the establishment in 1985 of a government mines department and a national mining agency to explore the feasibility of exploiting various minerals, bauxite and titanium reserves in the south were singled out for development. Although the supporting infrastructure is weak, some foreign investment has been attracted.

SERVICES

TOURISM. Malawi's ongoing battles against disease, poor sanitation, and infrastructure deficiency make it an unlikely tourist destination. And yet its tropical climate and scenic landscape have seen rapid gains in the industry, with visitor numbers climbing to 215,000 in 1999, a 20 percent increase from 1995. Although visitors do come from Europe and North America, most are South African and Zimbabwean, and most come for Lake Malawi. Efforts are being made to expand facilities and boost numbers, but without the injection of significant investment, there will be little impact. Negative publicity over the presence of the potentially fatal bilharzias bacteria in Lake Malawi and fears that the region may not be safe for travellers have also proved handicaps.

FINANCIAL SERVICES. In addition to its central bank, the Reserve Bank of Malawi, Malawi has 5 commercial banks. Although newer operators have begun to extend services, the sector remains basic and highly limited, with the 2 largest banks having no foreign shareholders or strategic foreign links. Lack of competition has kept charges high and most lending tends to be to government agencies, to the exclusion of private borrowers. A stock exchange was founded in 1994, and by 2000, there were 8 companies listed on it. But its small size and the absence of a speculative trading culture have kept activity to a minimum, and the exchange has not proved a source of business financing.

RETAIL. Because of Malawi's rural and subsistence-dominated economy, the purchasing power of most Malawians is minimal, hence retailing is sparse. Urban areas are better served, with a variety of small traders selling fabrics, shoes, paper and pens, and imported electrical equipment, and with a large contingent of informal street vendors. Most of the stores are operated by Malawi's minority Asian population, estimated to control of 30 percent of commercial activity.

INTERNATIONAL TRADE

Malawi's **balance of trade** has always been precarious. With 90 percent of its receipts coming from agricultural commodities, export accounts are highly sensitive to fluctuations in production levels and shifts in world market prices. Malawi is also vulnerable on its import side. The expense of freighting all of its imports overland is a continual drain (adding as much as 30

Trade (expressed in billions of US$): Malawi

	Exports	Imports
1975	.140	.253
1980	.295	.439
1985	.249	.285
1990	.417	.581
1995	.405	.475
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Malawi

Malawian kwachas (MK) per US$1	
Dec 2000	80.0946
2000	59.5438
1999	44.0881
1998	31.0727
1997	16.4442
1996	15.3085

SOURCE: CIA *World Factbook 2001* [ONLINE].

percent to the import bill), while droughts, which periodically force the government to mass-import basic foods, are a regular source of balance-of-trade shortfalls. Additional problems stem from Malawi's complete dependence on imported oil, which has caused particular difficulty as oil prices have risen. The net effect, despite government prioritization of a balanced budget, is a pattern of significant trade deficits. In 1999, however, the shortfall was only $2 million on exports of $510 million and imports of $512 million.

Of Malawi's exports in 1999, 15 percent went to South Africa, 9 percent each to the United States and Germany, and 7 percent to the Netherlands. Of Malawi's imports, 38 percent came from South Africa, 18 percent from Zimbabwe, 8 percent from Zambia, and 4 percent from Japan.

In 2000, Malawi joined 8 other African nations in the free-trade area of the Common Market for Eastern and Southern Africa (COMESA). Having removed its 30 percent import duty on goods from those 8 countries, it plans to remove all trade barriers by 2004. Free movement of labor and residency is scheduled for 2014, with full monetary union and a common central bank by 2025.

MONEY

Malawi's heavy trade imbalance is the source of its consistently high deficits and mounting debt. By the end of 1999 Malawi's total **external debt** stood at US$2.6 billion, a rise of 86 percent from the previous decade. Servicing this debt cost Malawi US$105 million in 1999, cutting drastically into the government's available funds for social services and development, and further widening the budget and **balance-of-payments** gaps. The instability that such over-runs cause in the Malawian economy has seen the value of the kwacha tumble and **inflation** soar. Riding at 45 percent in 1999, inflation is expected to remain above 30 percent until mid-2001, dropping to a hoped-for 15 percent by 2002. The kwacha is also expected to stabilize after a long period of freefall since its floating in 1994. From around MK15 per U.S. dollar in 1995, the rate dropped to MK43 in 1998 and MK80 in 2000; forecasts are for around for MK106 in 2002. Reducing the deficit and attacking the debt are top priorities for the government.

POVERTY AND WEALTH

Malawi is one of the poorest countries in the world, its poverty severe and deeply-rooted. According to the 1998 census, 78 percent of the economically-active population were **subsistence farmers**. Even by African standards, the plight of these farmers is grave, with literacy low, access to water and sanitation poor, and disease and malnutrition endemic. Malawi's National Economic Council estimated in 2000 that 65.3 percent of Malawians were below the poverty line, "unable to meet their basic needs."

Yet Malawi also has pockets of considerable wealth. The Banda regime's policy in the 1970s and 1980s of large-scale agricultural and industrial development focused government resources on commercial enterprises. This consolidated the country's tiny political-entrepreneurial elite and further widened the gulf between it and Malawi's subsistence sector. Post-Banda politics are more open, but the political class remains small—President Muluzi, for example, was a former cabinet minister of Banda's—and recent corruption scandals suggest that patronage and favoritism are still inherent in the system.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Malawi	157	169	161	152	166
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Zambia	641	551	483	450	388

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Malawi	50	13	7	2	6	9	13
United States	13	9	9	4	6	8	51
Dem. Rep. of Congo	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Zambia	52	10	8	2	11	3	14

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Attempts to equalize the economic imbalance include the establishment the Land Reform Commission in 1996. The commission's report, issued in 1999, has recommended the replacement of freehold land ownership with 99-year leases, and the return of customary land from government control to tribal chiefs. A US$25 million land redistribution scheme was begun in 2001, which aims to resettle between 17,000 and 21,000 people on 14,000 hectares of land.

WORKING CONDITIONS

Malawi's workforce numbers around 3.5 million, but most of these are subsistence farmers. Given the informality of most employment, it is impossible even to estimate unemployment and **underemployment** rates in the country. The proportion of wage and salary earners is a low 14 percent, and threatens to fall further as civil service down-sizing and privatization lay-offs take effect.

Growth and job creation are severely hindered by poor standards of education and low literacy levels. Only 58 percent of the adult population is able to read and write, and only 4.5 percent of primary school children advance to secondary level, a figure low even by the standards of Malawi's neighbors. The Muluzi government is committed to improving education, but the massive increases in enrollments it has spurred (in particular by removing school fees in 1994) have swamped the schools and eroded educational quality. The result is a workforce poorly adapted to most industrial and manufacturing jobs, and unsuited even for certain types of commercial farming.

Disease is another significant problem, intensified by the over-loading of the health system by the HIV/AIDS crisis. In 1999–2000 government spending on health care accounted for 2.8 percent of GDP—or US$5 spent per Malawian—a level which was radically insufficient. Poor sanitation (only 45 percent of the population has access to clean water) and malnutrition are also fundamental problems, and until they can be properly addressed—which will only be done with foreign help—the productivity of the Malawian workforce will remain badly crippled.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1891. The British establish Malawi, then called Nyasaland, as a protectorate.

1953. Formation of the Central African Federation of Nyasaland and Northern and Southern Rhodesia (now Zambia and Zimbabwe, respectively).

1962. Hastings Kamuzu Banda becomes prime minister.

1963. Malawi leaves the Central African Federation.

1964. Malawi gains independence from Britain.

1966. Malawi becomes a republic.

1970. Hastings Banda declared president-for-life.

1994. A new democratic, pluralistic Malawian constitution enacted (based on the U.S. Constitution); multiparty elections held for the first time; Bakili Muzuli ousts Hastings Banda.

1999. Bakili Muzuli re-elected as president in second free elections.

FUTURE TRENDS

Although Malawi has made important strides towards political openness and economic reform, its future remains troubled. Progress has been painfully slow, marred by corruption scandals in the government, and punctuated by economic crises that have upset the reform process. Finding itself in a delicate situation, the government is obliged to impose tough austerity measures to satisfy donors, but knows that doing so will carry a heavy political cost at home. Regionally, too, the uncertainty that Malawi faces—with Zimbabwe, the Democratic Republic of Congo, and Angola in various stages of turmoil—will require careful

negotiation. However, despite some voter disenchantment, the transition to democracy (still ongoing) has been smooth, and Malawi's political situation is secure. The government has established an Anti-Corruption Bureau to ensure tighter standards of accountability, and launched its "ten point" plan in 2000, promising more consistent adherence to reform measures. If agricultural yields continue to be good, if international aid donors continue to offer their support, and if the Malawian government continues to prioritize poverty reduction, Malawi's economic future holds some promise of hope.

DEPENDENCIES

Malawi has no territories or colonies.

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—Alexander Schubert

MALI

Republic of Mali
République du Mali

CAPITAL: Bamako.

MONETARY UNIT: Communauté Financière Africaine Franc (CFA Fr). CFA Fr1 equals 100 centimes. Notes include denominations of 500, 1,000, 2,500, and 10,000. Coins include 1, 5, 10, 25, 100, 250, and 500 denominations.

CHIEF EXPORTS: Cotton, livestock, gold, hides and leather, shea-nuts, fish.

CHIEF IMPORTS: Heavy machinery, transport equipment, construction materials, petroleum, foodstuffs, textiles, chemical products, consumer manufactured goods.

GROSS DOMESTIC PRODUCT: US$8.5 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$640 million (f.o.b., 1999 est.). **Imports:** US$650 million (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Mali is a landlocked country in West Africa covering an area of 1.24 million square kilometers (478,764 square miles), of which 1.22 million square kilometers (471,042 square miles) is occupied by land and 20,000 square kilometers (7,722 square miles) is occupied by water. Its border is 7,243 kilometers (4,500 miles) long. Of this, 1,376 kilometers (855 miles) in the northeast is shared with Algeria; 2,237 kilometers (1,390 miles) with Mauritania in the northwest; 419 kilometers (260 miles) with Senegal in the west; 858 kilometers (533 miles) with Guinea in the southwest; 532 kilometers (330 miles) with Côte d'Ivoire in the south, 1,000 kilometers (621 miles) in the south by Burkina Faso; and 821 kilometers (510 miles) in the southeast by Niger. The lowest point is at the Senegal river which lies 23 meters (75 feet) above sea level, while the highest point is at Hombori Tondo standing at 1,155 meters (3,789 feet) above sea level.

The northern half of Mali consists of desert, while the southern half is rain-fed land where most agriculture is undertaken without irrigation. Between these 2 areas lies the Sahel zone, where cultivation depends largely on the flooding of the river Niger which flows through the heart of the country, providing a vital waterway and source of fish. As the seasonal floods retreat, they leave behind pasture, on which thousands of livestock depend, desperate for food and water after a dry season lasting 8 months, as well as land for cultivation in an otherwise arid environment.

POPULATION. July 2000 estimates reported the population at 10.69 million, up from the April 1998 census figure of 9.79 million. The current rate of population growth is estimated at 3 percent per year, and this is particularly high, implying a fertility rate of 6.9 children per woman. Mali has a young population with only 3 percent estimated in 2000 to have been over 65 years while the 47 percent and 50 percent were under 15 years and between 15 and 65 years, respectively. Only 26 percent of the population lived in towns in 1998.

The main ethnic group is the Bambara, while minority groups include Songhai, Mandinka, Senoufo, Dogon, and Fula. The north is populated mainly by the nomadic Tuareg. By composition, the Mande (who include Bambara, Malinke, and Soninke) comprises 50 percent of the population, Peul 17 percent, Voltaic 12 percent, Songhai 6 percent, Tuareg and Moor 10 percent and others 5 percent. About 90 percent of the population are Muslim, 1 percent Christian and 9 percent follow traditional beliefs. French is the official language, although Bambara is spoken by 80 percent of the population.

OVERVIEW OF ECONOMY

Mali is among the 10 or so poorest countries in the world. The economy is a heavily dependent on agriculture, but the country's land is more than half desert or semi-arid. Most of the agriculture is restricted to the area irrigated by the floodwaters of the river Niger. About 80 percent of the **labor force** is engaged in farming and fishing and about 10 percent of the population is nomadic. The industrial activity in Mali is concentrated on agricultural processing and gold mining.

Economic planning since independence from France in 1960 has generally been incoherent and unsuccessful. Problems have been compounded by the fact that export prices fell relative to import prices between 1985 and 1994. But even though Mali remained heavily dependent on foreign aid (mostly from France), the economy was starting to show signs of improvement by 1997 from **liberalization** efforts suggested by the International Monetary Fund (IMF).

Mali is already sub-Saharan Africa's leading cotton producer, and cotton is the country's main export, which makes its economy particularly vulnerable to fluctuations in world prices for cotton. To reduce the economy's heavy dependence on cotton, the government has implemented an IMF-recommended **structural adjustment program** which aims to liberalize the economy and to make it more dependent on markets than on planning and state-owned enterprises.

The success of Mali's economic reforms and the 50 percent **devaluation** of the CFA franc in January 1994 led to an economic recovery in the late 1990s. Several **multinational corporations** increased gold mining operations between 1996 and 1998, and the government anticipates that Mali will become a major African gold ex-

porter in the near future. At the beginning of the 21st century, economic growth in Mali is expected to be faster than population growth, leading to steady improvements in living standards.

POLITICS, GOVERNMENT, AND TAXATION

In 1895, the territory called the Sudan (now known as Mali) became part of the French colony of French West Africa, and the local population began producing **cash crops**, mainly groundnuts, cotton, and gum arabic. The colony merged with Senegal in April 1959 to form the Federation of Mali, which became independent from France on June 20, 1960. When Senegal withdrew after only a few months, the Sudanese Republic was renamed Mali on 22 September 1960. President Modibo Keita declared the country a 1-party state, under the Union Soudanaise-Ressemblement Democratique Africain (US-RDA).

Keita's **Marxist** regime severed links with France and developed close relations with the Eastern bloc countries, especially the USSR. A coup in 1968 led to a military regime under Lieutenant (later General) Moussa Traoré. Traoré's dictatorship ended in 1991. By 1992, Mali's first democratic elections were held, and Alpha Oumar Konare, the leader of the Alliance pour la Démocratie au Mali (Alliance for Democracy in Mali, ADEMA), was elected president. Despite political difficulties, including several new prime ministers over the next few years and the disruption of several strikes, Konare won re-election in 1997. President Konare continued to push through political and economic reforms and to fight corruption but indicated in 1999 that he would not run for a third term.

There are 8 administrative regions: Gao, Kayes, Kidal, Koulikoro, Mopti, Segou, Sikasso, Tombouctou. The constitution was adopted on 12 January 1992, providing for 3 branches of government: executive, legislative, and judiciary. The executive is headed by the president elected by popular vote for a 5-year term. The legislature is a **unicameral** National Assembly of 147 seats to which members are elected by popular vote to serve 5-year terms. The legal system is based on the French civil law system and customary law, with judicial review of legislative acts in Constitutional Court (which was formally established on 9 March 1994).

Mali's level of government expenditure was 25 percent of the GDP in 1998, and revenues were 22 percent. This financial flow resulted in a **budget deficit** of just under 3 percent of the GDP, within the IMF guidelines, and in normal circumstances (that is, in the absence of a drought), the **inflation rate** should remain below 5 percent a year. Since the creation of a democratic government in 1992, the military has withdrawn from politics. In 1996, military expenditures were only 2 percent of the GDP.

Corporate profit tax rates are moderate at 35 percent, while smaller enterprises such as partnerships pay only 15 percent. Agricultural enterprises pay 10 percent, but small-scale family farms are not taxed. In cases of low profits or losses, a corporation tax of 0.75 percent of **turnover** is levied. There is an employment tax of 7.5 percent of the wage bill. A withholding tax of 18 percent is levied on interest and dividends paid abroad.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Mali's large geographical area and low income status makes maintenance of its **infrastructure** a major challenge. For an area of 1.24 million square kilometers (480,000 square miles), the country has a total 15,100 kilometers (9,383 miles) of roads of which only 1,827 kilometers (1,135 miles) are paved. About 729 kilometers (453 miles) of meter-gauge railway link Bamako to Senegal's railway through Kayes. Nearly 1,815 kilometers (1,127 miles) of waterways are navigable. In 1998, there were 28 airports, 6 of which had paved runways. The 1 major port is at Koulikoro on the river Niger.

Communications

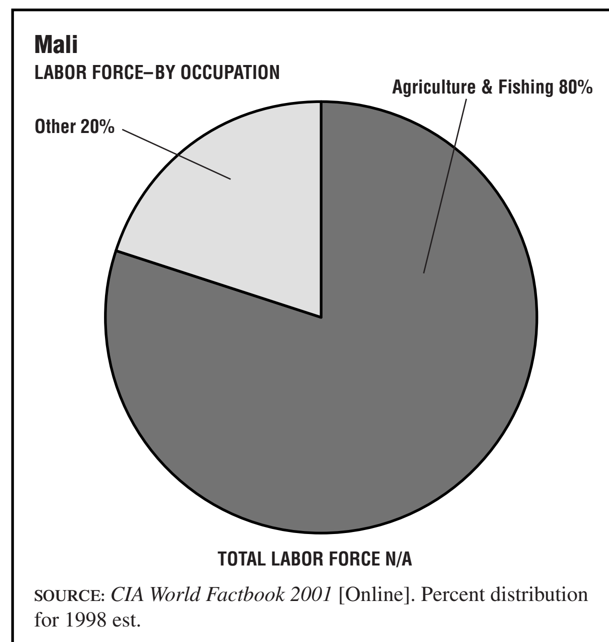
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Mali	1	54	12	0.0	0	N/A	0.7	0.01	10
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Mauritania	0	151	91	N/A	0	1.7	5.5	0.00	13

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

In 1998, approximately 62 percent of the country's electricity was obtained from hydro-sources while the remaining 38 percent was from fossil fuel with total production of about 310 million kilowatts hours (kWh). All the power generated was for domestic consumption, and none was imported.

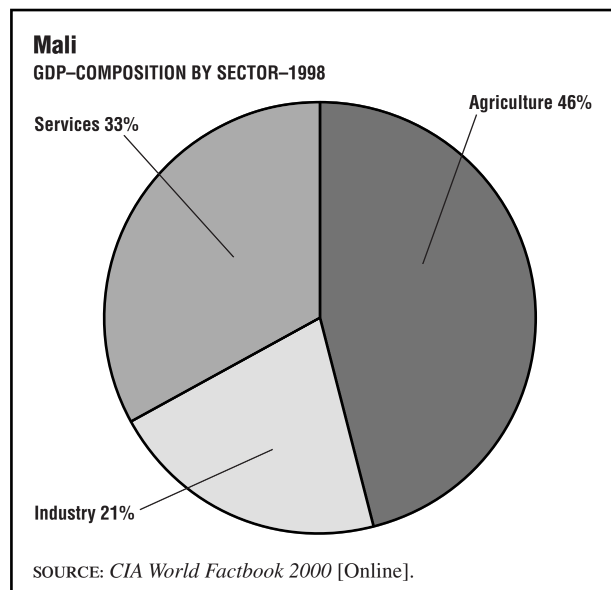
The domestic telephone system is poor but improving. The domestic network consists of microwave radio relays, land-lines, and radio telephone communications stations. Expansion of the microwave radio relay is in progress. There are 2 Intelsat satellite earth stations for international communication. In 1995, there was no mobile cellular phone system in the country, while there were only 17,000 land lines. In 1998, there were 7 shortwave, 14 FM and 1 AM radio broadcast stations. There was also 1 television broadcast station with 2 repeater stations in the country. There was only 1 Internet service provider in 1999.



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1998 est.

ECONOMIC SECTORS

Mali's economy, although potentially rich in natural resources, is still underdeveloped with poor infrastructure and almost 80 percent of its workforce engaged in the rural sector. In 1998, agriculture was the most important sector, providing 46 percent of GDP, with industry 21 percent, and services 33 percent. The sectors rely on narrow bases: agriculture on cotton and livestock; industry on gold; and services on the financial sector. The country has suffered frequent shortages of grain, and the droughts of 1969–74 and 1981–83 devastated the cattle herds in the north. Most of the agricultural production takes place in the south, with cotton production dominating, accounting for 39 percent of total export revenues in 1997. Industry is dominated by gold mining, which, together with diamonds, accounts for 31 percent of exports. Gold mining has expanded rapidly under a liberal investment code and industry's share of the GDP is expected to rise significantly in the immediate future.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agriculture and livestock husbandry have long been the backbone of the economy, accounting for about 45 percent of the GDP in 1998 and providing the bulk of export revenue. Arable land comprises of only 2 percent of which permanent pastures comprise 25 percent, forests and woodland 6 percent, and the rest other uses. Only 780 square kilometers (301 square miles) was irrigated in 1993. There are no permanent crops. The most disruptive natural hazard is drought. But despite drought, Mali has produced agricultural surpluses for many years. Other significant environmental issues include deforestation, soil erosion, **desertification**, inadequate supplies of drinkable water, and poaching.

Cotton is Mali's most significant crop; Mali is one of the largest producers of cotton in Africa, after Egypt and Sudan. Cotton production is almost all based on small-scale family farms, with village cooperatives in the south-east being coordinated by the highly influential **parastatal** Compagnie Malienne pour le Developpement des Textiles (CMDT), in which the French Compagnie Francaise pour le Developpement des Textiles (CFDT) owns a 40 percent share. While the World Bank has pressed for liberalization of the sector with a view to increasing farmers' returns, the CMDT has countered by

arguing that under the current system production has more than doubled since 1993.

Most Malian households depend on wood and charcoal for fuel, making the forestry sector of economic and ecological significance. With increasing population, the issue of deforestation will take on an increasing importance. Tree crop products, produced mostly by small-scale gatherers, include fruits (mainly mangoes), a wide range of traditional medicines, and shea-nut butter (karite). Export potential is considerable but is hampered by lack of investment in processing and packaging.

Fishing is mostly artisanal (small-scale) and is vulnerable to drought as well as changes brought about by dam construction and urban pollution run-off into rivers. It is mostly undertaken on the river Niger. The annual catch has amounted to roughly 100,000 metric tons in recent years, of which about 20 percent is exported mostly to urban centers in the Côte d'Ivoire, where a number of Malian fishermen and fish distributors have settled over the years.

Towards the end of the century, Mali has benefitted from a much more stable food supply than during the crisis years of the 1970s and 1980s, when Mali experienced 2 severe droughts. Since the late 1980s the government's role has been reduced to a regulatory one, but crises and slowdowns in supply remain a potential threat in a country as vulnerable to sudden climatic reverses as Mali.

Large-scale animal husbandry takes place mostly in the north and around the Niger inland delta, whereas most food and cash crops are produced in the southern regions. Livestock production is principally by **small-holders** and is thought to account for about 20 percent of the GDP in an average year. Livestock and meat product exports have suffered since the mid-1980s, mostly from unrestrained dumping by European Union countries of highly subsidized beef on West African coastal markets. Harassment from customs officials and a lack of refrigeration and bulk transport infrastructure have also constrained the sector.

INDUSTRY

Industry is becoming a significant sector of the economy consisting of mostly minor **consumer goods** production for local use and food processing, construction, and phosphate and gold mining. Natural resources also include kaolin, salt, limestone, uranium, and hydropower. There are known, but not exploited, deposits of bauxite, iron ore, manganese, tin, and copper. Industry contributed about 21 percent of the GDP in 1998. Artisanal mining and panning for gold and diamonds has been practiced in the south-west of the country for hundreds of years.

Before 1992, infrastructural weaknesses and corruption discouraged foreign investment in the sector. With the demise of the military Traore administration in 1991, a new mining code was adopted to encourage investment. Under the current tax regime, government reserves the right to take a stake of up to 20 percent in enterprises, tax profits at 35 percent, and **levy** royalties at 6 percent. Nevertheless, Mali's gold production has increased at one of the world's fastest rates, with output increasing almost 4-fold between 1994 and 1998.

Manufacturing remains comparatively unimportant, having declined throughout the 1980s and accounting for an average 3 percent of the GDP towards the end of the century. From the 1960s, inefficient parastatals produced basic consumer goods, and the **private sector** preferred to invest in trade. The sector was further handicapped by intensified competition from Côte d'Ivoire and by a flood of cheap smuggled consumer goods from Guinea and Nigeria in the years preceding the 1994 devaluation of the CFA franc.

Since the devaluation, efforts to attract manufacturing investment have had little success, although there have been signs of a move towards manufacturing among the leading local commercial families. The textiles sector has shown signs of revival, but it still faces stiff competition from industries in neighboring countries. A significant drawback to investment in the manufacturing sector is the higher production costs in Mali than in neighboring countries, owing to antiquated equipment and underdeveloped infrastructure.

SERVICES

While services have on average accounted for 43 percent of the GDP in the last decade, the service sector remains comparatively less diversified than Mali's other economic sectors. The service sector is dominated by financial services and tourism. The Dakar-based Banque Centrale des l'Afrique de l'Ouest (Central Bank of West Africa, BCEAO) acts as the central bank for Mali and 7 other West African Franc zone countries. The commercial banks include Banque Malienne de Credit et de Depots and the highly successful Bank of Africa-Mali. In this sector Mali faces the challenge of diversifying credit instruments in favor of small- and medium-sized enterprises which have historically relied on informal sources for loans.

Tourism has contributed little to the services sector, despite Mali's undisputed potential attraction for culture, adventure, and **eco-tourism**. Its attractions include Djenne, a UNESCO site of world heritage; Timbuktu, which although dilapidated still retains international allure; and the Bandiagara escarpement which is home to the Dogon. The Dogon are said to be one of the most ethnologically exotic and visually spectacular of all African traditional cultures.

Trade (expressed in billions of US$): Mali

	Exports	Imports
1975	.053	.176
1980	.205	.438
1985	.123	.299
1990	.358	.601
1995	.441	.770
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Mali	268	301	271	249	267
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Mauritania	549	557	511	438	478

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

INTERNATIONAL TRADE

Mali's trade balance has been in chronic deficit, although there has been an overall improvement since the early 1970s when exports typically represented only half of the value of imports. By 1985 the **trade deficit** was equivalent to over 85 percent of merchandise exports compared with an estimated 5 percent in 1999. In 1997, Mali for the first time achieved a slight trade surplus, although the trade balance slipped back into deficit in 1998. The problem seems to be low export-oriented investment outside the extractive (the withdrawal of natural resources by extraction with no provision for replenishing) sector. Furthermore, Mali remains heavily dependent on imports for machinery and **capital goods**. In 1997, the major export partners included Thailand (20 percent), Italy (20 percent), China (9 percent), Brazil (5 percent), while the main import sources included Côte d'Ivoire (19 percent), and France (17 percent).

MONEY

The unit of currency is the Communaute Financiere Africaine franc (CFA) which is equivalent to 100 centimes. It exchanged at CFAF647.25 for US$1 in January 2000 a depreciation from CFAF499.15 in 1995. Since 1 January 1999, the CFA franc has been effectively pegged to the euro at a rate of CFAF655.957 per euro. Mali left the CFA franc zone in 1962 and established its own currency, the Malian franc (Mfr), at par with CFA franc and its own central bank. However, smuggling and speculation rapidly undermined the new Malian franc forcing it to rejoin the CFA franc zone in 1967. It did not, however, rejoin the sub-regional monetary organization, the Union Monetaire Ouest-Africaine (West African Monetary Union, UMOA) until 1984.

POVERTY AND WEALTH

Mali's GNP per head, converted to U.S. dollars by using **exchange rates**, was US$250 in 1998. The **purchasing power parity** (PPP) method of conversion to U.S. dollars (which makes allowance for the low price of many basic commodities and services in Mali), put the level of the GNP per head at US$720. The CIA *World Factbook* estimated the **GDP per capita** at PPP at US$820 in 1999. All these measures place Mali among the poorest countries in the world.

In the period 1989–98, it was estimated that 73 percent of the population were below the US$1 per day poverty line—this is the second most severe incidence of poverty among the 174 countries for which data have been collected by the United Nations (UN). The Human

Exchange rates: Mali

Communauté Financière Africaine francs per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Mali

Lowest 10%	1.8
Lowest 20%	4.6
Second 20%	8.0
Third 20%	11.9
Fourth 20%	19.3
Highest 20%	56.2
Highest 10%	40.4

Survey year: 1994

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Mali	53	15	7	4	5	2	15
United States	13	9	9	4	6	8	51
Nigeria	51	5	31	2	8	2	2
Mauritania	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Development Index developed by the UN, combines income per head (using the PPP method), education, and health (as indicated by life expectancy). Mali ranks 165 out of 174 countries, firmly in the low human development category.

For most people in the rural areas, who herd family cattle or work small family farms, living conditions are barely subsistence level. Houses are made of wood frames with mud walls and hard earth floors. Their diet consists primarily of cooked cereals and milk, and is essentially meatless. They wear secondhand clothes which originate in Europe and are shipped to local markets. Water comes from wells; cooking is done over wood fires; lighting is from small kerosene wick lamps; and sanitation is provided by pit latrines. Children are unlikely to go to school, and there are no local health centers.

In the towns, for those with employment, conditions tend to be better. Lower middle-class individuals live in cement block, tin-roofed houses with concrete floors. There is electricity and water some of the time, and schools and dispensaries are nearby. The poor live in slums where their shelter is made of throw-away bits of cloth, cardboard, or plastic. They use pit latrines and communal water taps. In the city the poor may have better access to medical care and schools for their children, but these services are in high demand and may cost too much for poor people to use.

WORKING CONDITIONS

Agriculture and fishing occupy 82 percent of the labor force. Most of the labor force is engaged in production for small family farms or fishing enterprises which generate low incomes. Most working in this sector are below the dollar-a-day poverty line. Those in the industry and services sector are comparatively well off, having incomes more than 3 times the national average.

There is no minimum wage or working hours legislation that is applicable to agriculture and fishing, and the legislation for the rest of the economy has either been rendered irrelevant by **inflation** or is not enforced.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

300. Mali becomes part of the great Ghana empire of West Africa.

1076. Muslim Almoravids from Mauritania invade the Ghana empire and set up a capital at Kumbi 200 kilometers (124 miles) north of present-day Bamako.

1350. Sundiata Keita, leader of the Mandinka people, founds the Mali empire and converts to Islam as a gesture to his northern neighbors and trading partners.

1464. The Songhai, an Islamic empire originating in western Sudan, makes raids, eclipses the empire of Mali, and embarks on a systematic conquest of the Sahel.

1591. The Songhai empire collapses after an invasion from Morocco and an ensuing revolt by its subject peoples.

1880. French begin to subjugate the interior of Mali, then called Sudan.

1893. French appoint a governor to Sudan.

1959. Former French colony of Sudan merges with Senegal to form the Federation of Mali.

1960. Federation of Mali attains independence from France. Two months later, Senegal secedes. The Republic of Mali is proclaimed on 22 September led by President Modibo Keita with a single political party, Union Soudanaise-Ressemblement Democratique Africain (US-RDA). Keita's Marxist regime severs links with France.

1962. Mali withdraws from CFA franc zone.

1967. Agreement is reached with France for Mali's return to the CFA franc zone.

1968. Keita dissolves National Assembly. Young officers stage successful coup d'etat in November, suspending the constitution and banning all political activity. Lieutenant Moussa Traoré assumes the presidency.

1974. New constitution is approved by referendum providing for the establishment, after 5-year transition period, of a 1-party state.

1976. Union Democratiqe du Peuple Malien (UDPM) is announced as the new ruling party and the only legal party.

1977. Keita dies in detention. Hostile demonstrations from supporters of the old regime and proponents of multiparty democracy occurs.

1979. Presidential and legislative elections are held in June, with Traoré as sole candidate for presidency, winning 99 percent of the vote cast while a single list of UPDM candidates are elected to the legislature.

1981. Constitutional amendment increases the president's term from 5 to 6 years and decreases that of national assembly from 4 to 3 years. The Traoré government undertakes a program of economic liberalization in cooperation with the World Bank and western donors.

1982. Legislative election occurs in June with a single list of UDPM candidates.

1983. Severe drought occurs.

1985. Traoré is re-elected president as sole candidate with 98 percent of the vote cast.

1992. In January the Alliance pour la Démocratie au Mali (ADEMA) wins the country's first multiparty elections. In April Alpha Oumar Konare, ADEMA's leader, is elected president, and a cross-party government is formed.

1994. In January the CFA franc is devalued by 50 percent, raising prices of imports in local currency and reducing import quantities, while at the same time increasing the local revenue from sale of exports and increasing export quantities.

1997. First round of the legislative elections are won by ADEMA but annulled by the constitutional court because of badly organised ballotting, with ballot papers not available, polling stations not open at the designated times, and voters unsure of where they should vote. In the face of a widespread opposition boycott, Konare is re-elected in May. ADEMA wins the re-run of the legislative elections in August. The radical opposition comes together under the umbrella of the Collectif des Partis Politiques de l'Opposition (Collective of Political Opposition Parties, COPPO).

1999. Konare convenes a national forum which is boycotted by the opposition. ADEMA wins the majority of the country's seats in the second round of municipal elections, which are also boycotted by the opposition.

2000. Mali is granted **debt relief** under the Highly Indebted Poor Countries program.

2001. Railway from Bamako to the coast at Dakar in Senegal reopens. Dam at Tallo in central Mali to improve irrigation for rice cultivation is opposed by local and environmental groups.

FUTURE TRENDS

Much of Mali remains unsurveyed in any detail. Besides gold, the country is known to contain deposits of bauxite, manganese, zinc, copper, and lithium. Uranium in the north is not thought to be commercially viable, and the same might be true of iron-ore deposits near the Senegalese border. Surveys for viable diamond sources are underway in western Mali. Mali Diamond Exploration, owned by Ashton Mining of Australia and Mink Mineral Resources of Canada, is under license to explore for, and extract, diamonds in 36,000 square kilometers (13,900 square miles) of territory. With the right investment code and inflows, the mining sector is likely to be a significant driving force of the country's economic growth in the medium and long term.

Sound economic policies and cautious **monetary policy** look likely to ensure Mali will make progress. However, it is difficult to see how an expansion of the mining sector can **trickle down** to make a marked improvement in the prospects for the 80 percent of the population engaged in agriculture and fishing.

DEPENDENCIES

Mali has no territories or colonies.

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—Allan C. K. Mukungu

MAURITANIA

Mauritanian Islamic Republic
Al-Jumhuriyah al-Islamiyah al-Muritaniyah
République Islamique de Mauritanie

CAPITAL: Nouakchott.

MONETARY UNIT: Ouguiya (UM). One ouguiya equals 5 khoums. There are coins of 1 khoum and 1, 5, 10, and 20 ouguiyas, and notes of 100, 200, 500, and 1,000 ouguiyas.

CHIEF EXPORTS: Fish and fish products, iron ore, gold.

CHIEF IMPORTS: Machinery and equipment, petroleum products, capital goods, foodstuffs, consumer goods.

GROSS DOMESTIC PRODUCT: US$4.9 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$425 million (f.o.b., 1997). **Imports:** US$444 million (f.o.b., 1997).

COUNTRY OVERVIEW

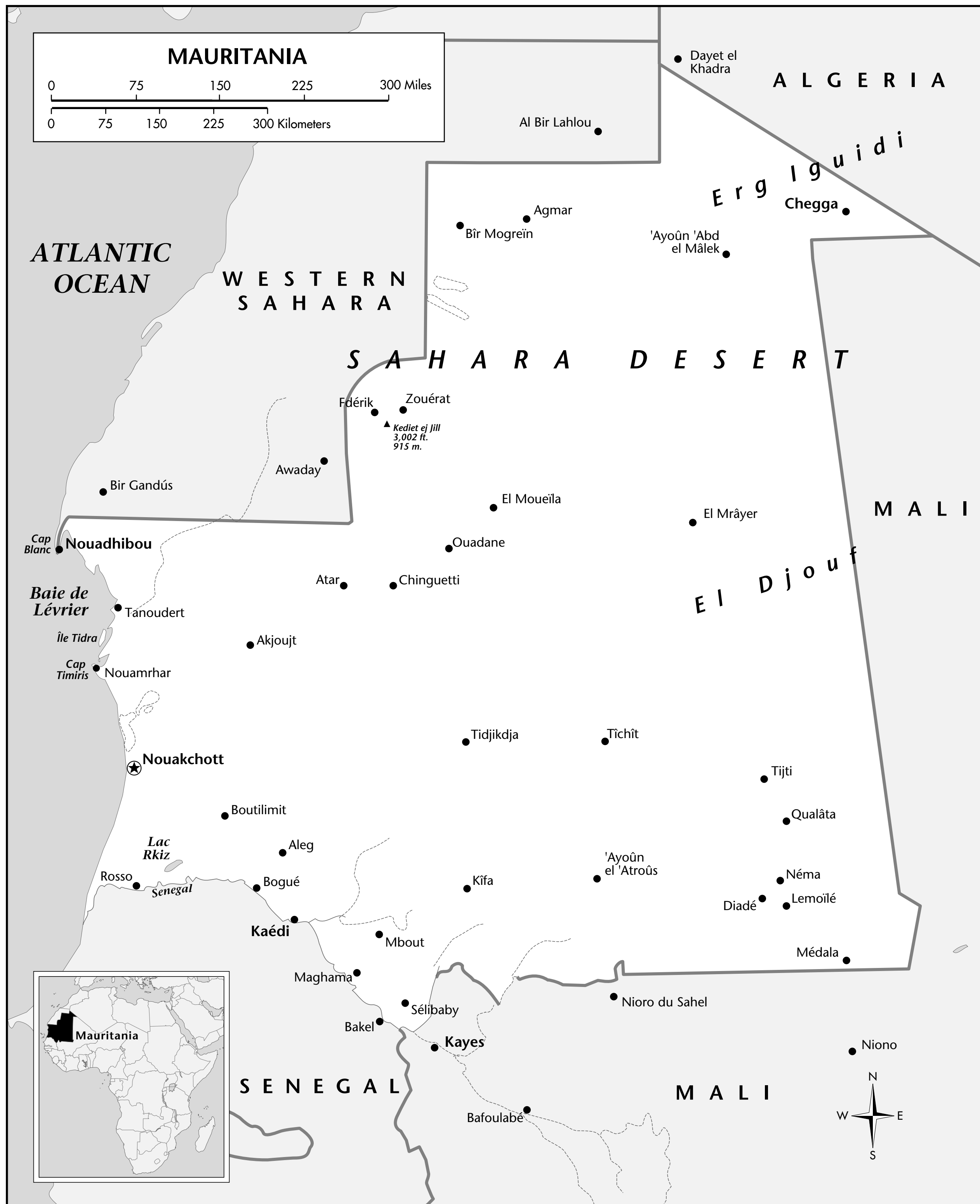
LOCATION AND SIZE. Located in northwestern Africa, bordered by Western Sahara (occupied by Morocco) and Algeria on the north, by Mali on the east and south, by Senegal on the southwest, and by the Atlantic Ocean on the west, the country has an area of 1,030,700 square kilometers (398,000 square miles), making it slightly larger than 3 times the size of New Mexico. Its total estimated boundary length is 5,828 kilometers (3,622 miles), including 754 kilometers (469 miles) of coast on the Atlantic Ocean. The capital, Nouakchott, is situated on the Atlantic coast in the southwest.

POPULATION. The population of Mauritania was 2,667,859 in 2000. Its average population density was 2 inhabitants per square kilometer (5.18 per square mile) in 1994, or the third lowest in the world. Deserts occupy 90 percent of the territory; 90 percent of the population lives in the south, along the Senegal River and the Atlantic Ocean. In 2000, the birth rate was 43.36 per 1,000 population, while the death rate equaled 13.97 per 1,000. With a fertility rate of 6.29 children born per woman, the population growth rate was 2.94 percent. The rapidly growing population is very youthful, with 46 percent below the age of 15 and 2 percent 65 or older.

Arabic-speaking Moors of Arab and Berber ancestry form 30 percent of the population, Arabic-speaking descendants of former slaves of mixed Moor and black African stock comprise 40 percent, and black Africans of the Wolof, Toucouleur (Peul), and Soninke groups constitute 30 percent. While the Moors are traditionally nomadic herders, the black Africans are engaged mostly in agriculture along the Senegal River. Communities are organized in some 150 distinct clans or tribes. Virtually all Mauritanians are Sunni Muslims. Arabic is the official language, though French and several African languages are also widely spoken. Sixty percent of the people lived in urban areas in 2000. The population of Nouakchott, the capital, was 1,070,000 in 1999; other major cities include Nouadhibou, Zouérat, and Kaédi.

OVERVIEW OF ECONOMY

Mauritania is among the world's poorest developing countries with a **gross domestic product (GDP) per capita** of just $478 in 1998, according to the **United Nations Development Program**. Since attaining independence from French colonial rule in 1960, primitive and low-productivity **subsistence farming** and herding continue to provide livelihood for the majority of the people. However, most nomads and many farmers have fled to the cities since the 1970s due to the spreading **desertification** of the land, caused by water depletion and locust attacks. Mauritania has deposits of iron ore, which contribute nearly half of its exports, and also copper ore, gypsum, and phosphates. The decline in demand for those products, however, has led to a decline in mining output and income in the 1990s. The coastal Atlantic has a rich fishing area but it is exploited by foreign interests.



Over the 1990s, drought, mismanagement, and waste of resources have contributed to the amassing of a large **foreign debt** (US$2.5 billion in 1997, or 226 percent of 1996 GDP) and the country remains dependent on foreign aid (US$227.9 million in 1995) and assistance. **Debt service** is a heavy burden; Mauritania has been qualified by the international community for **debt relief** as a heavily indebted poor country and seeks cancellation of

US$620 million of its debt. Foreign investment is scarce; France and Arab countries (mainly Algeria) are its largest sources. Since 1998, the government has pursued a reform initiative to cut budgetary costs, reduce the waste of resources, and reform the tax system. In 1999, the International Monetary Fund (IMF) approved a US$57 million enhanced structural adjustment loan to support its program.

POLITICS, GOVERNMENT, AND TAXATION

Mauritania won independence from France in 1960, and is now ruled under a republican constitution of 1991 which resembles that of France, with elements of Islamic sharia law. The constitution legalized opposition parties, but the 2 presidential elections since 1991 were flawed. Mauritania remains under an authoritarian, single-party regime. The president (Colonel Maaouya Ould Sid Ahmed Taya, in office since 1984, and reelected in 1997), is elected by popular vote for a renewable 6-year term. He appoints the prime minister and Council of Ministers (cabinet), who are subject to control by a **bicameral** parliament. The parliament consists of a 56-seat Senate, or Majlis al-Shuyukh, whose members are elected by municipal leaders to 6-year terms, and a National Assembly, or Majlis al-Watani, whose 79 members are elected by popular vote to 5-year terms.

The ruling party, the nationalist and formerly **socialist** Democratic and Social Republican Party (PRDS) of President Taya, controls 71 of the 79 seats in the National Assembly (as of early 2001), and 8 deputies represent other parties. The Union of Progressive Forces (UFP) is the most important opposition group but domestic politics is still tribally based. Mauritania experiences tensions between its black African minority and the Arabic-speaking Moor majority and has a generally ambivalent attitude towards neighboring black Africa.

The government's role in the economy is significant; economic growth and poverty reduction are key objectives of its policy, including **privatization** and reform in the banking sector, **liberalization** of the **exchange rate**, and reduction of trade and investment barriers. Since 1998, the government has also stressed market liberalization, sustainable development, poverty alleviation, education, and health improvement. It plans to modernize the administration, attract foreign investments, increase exports, and develop agriculture, mining, and fishing. Some state-owned companies (such as fish export marketing, petroleum, and insurance) have been privatized, and private initiative has been encouraged. Corruption is still a major problem, particularly in taxation, bank loans, government **procurement**, project management, traffic and vehicle control, and administrative services.

Given the poverty of the population, taxes on businesses form the bulk of the government's revenue. Since 1999, the number of taxes has been reduced from 5 to 4, with the introduction of a law that replaced 2 existing taxes that applied to imports. Customs formalities have been simplified, but the tax system is reckoned business-unfriendly. The import tax rate varies between 9 percent and 43 percent, and imports **value-added tax** (VAT) rates are from 5 percent to 14 percent. Importers consider import taxes high in comparison to other countries.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Mauritania's **infrastructure** is poor compared to its neighbors. The roads are dilapidated, particularly in the countryside; long distances and the difficult desert climate make their maintenance difficult. There are about 7,660 kilometers (4,760 miles) of roadways, 866 kilometers (538 miles) of which are paved, and 704 kilometers (460 miles) of railroad line for carrying iron ore from Zouérat to Nouadhibou. Several roads are under construction, and land conversion and road construction are a top priority for the government.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Mauritania	0	151	91	N/A	0	1.7	5.5	0.00	13
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Morocco	26	241	160	N/A	4	0.7	2.5	0.28	50

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

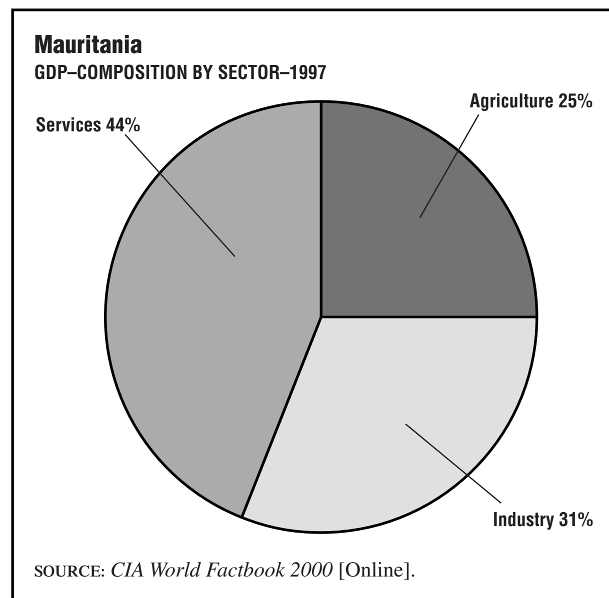
SOURCE: World Bank. *World Development Indicators 2000.*

The Chinese-built seaport in Nouakchott receives 85 percent of the country's imported goods. The second seaport in the northern center of Nouadhibou serves fish and iron exports. Other ports include Bogué, Kaédi, and Rosso on the Senegal River; there is ferry traffic on the Senegal River.

The air transport company, state-run Air Mauritanie, provides domestic and international services between Nouakchott, Casablanca, Dakar, Las Palmas, Bamako, and Banjul. With international airports in Nouakchott, Nouadhibou, and Néma, Mauritania is served by Air France, Air Afrique, Moroccan, Tunisian, Algerian, and Senegalese carriers.

Electricity production was 152 million kilowatt-hours (kWh) a year in 1998, with 80 percent coming from thermal plants and 20 percent from hydropower installations. Most companies have their own generators. Electricity consumption is 141 million kWh (1998). **Public-sector** energy output increased 25 percent between 1993 and 1997 to meet demand in Nouakchott and Nouadhibou. Mauritania relies on imports of fuel; alternative energy production, such as solar, is limited but growing. It receives 15 percent of electricity output from the Manantali dam on the Senegal river. The Societe Nationale d'Eau et d'Electricite, the state-run electricity and water **monopoly**, is improving its management, and the government plans to privatize it and has hired a consortium headed by the Hong Kong and Shanghai Banking Corporation to prepare the process. Power projects under construction include the extension of the Nouakchott electricity grid. Firewood fulfills one-half of household fuel demand but the European Union (EU) is promoting the distribution of gas bottles and burners to encourage people to convert to gas. To satisfy its demand for potable water, the government plans to renovate the sanitation network, encourage new well drilling in the countryside, and increase of Nouadhibou and Nouakchott's reservoir capacity.

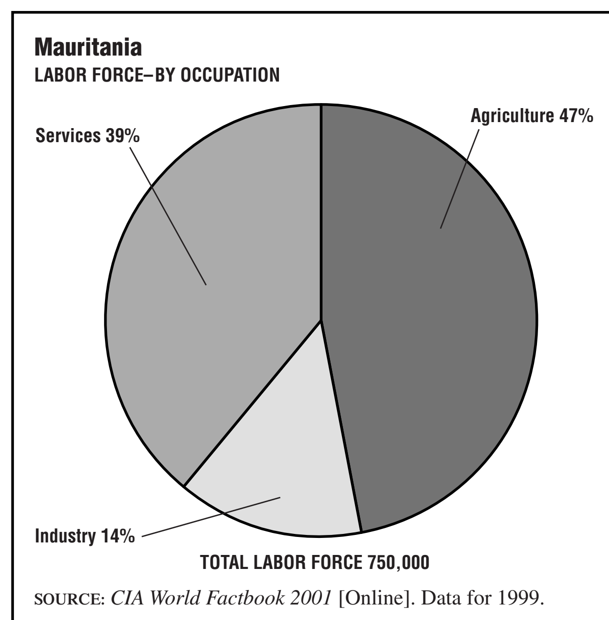
Mauritania has a poor telecommunications system with only 9,000 main lines in use in 1995, but it has undergone considerable expansion in the late 1990s. The first GSM wireless telephone system with 50,000 lines covering the Nouakchott and Nouadhibou areas was launched in 2000. The system operator, Mauritel—a **joint venture** between the Tunisian Telecommunications Company and local companies—won the $28 million license in competition with France Telecom and Spanish Starcelle. Privatization of the former state monopoly OPT (postal and telecommunications company) was launched in 1999 with the intention to create 3 separate units run by private operators. The Canadian company Sogema has been hired to reorganize telecommunications, and French Alcatel has captured market share with the installation of a new 10,000-line phone exchange in Nouakchott worth US$4.5 million. In 2000, the World Bank approved a US$10.8 million loan to the government for assistance in privatization and expanding access to communications.



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

Mauritania's GDP composition by sector in 1997 was as follows: agriculture, 25 percent; industry, 31 percent; and services, 44 percent. The relative stability of the various sectors over the years, however, disguises significant changes within those sectors. In agriculture, for instance, there was a 30 percent rise in crop output



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999.

between 1993 and 1997, while livestock and fishing declined by 40 percent. Mining production peaked in 1994 and has since dropped back to the 1993 level. Mining and fisheries contribute for 99.7 percent of the exports. The low population density does not support a diversified manufacturing sector, and industrial activities are located almost solely in Nouakchott and Nouadhibou, where the production growth rate was 7.2 percent in 1994. Growth in commerce, transport, and communications in the late 1990s compensated for declines in public sector services.

AGRICULTURE

Agriculture and herding employ 47 percent of the workforce, although its contribution to GDP is 25 percent due to its inefficiency. Most farmers are engaged in subsistence agriculture and never buy food outside their households. Farms produce dates, millet, sorghum, and root crops, while herders raise cattle and sheep. Fishing is the second largest foreign revenue source after mining. Along its 754 kilometer (469 mile) Atlantic coast, Mauritania has some of the richest fishing grounds in the world. The sector, however, is harmed by the lack of effective government policy, mismanagement, and limited technical ability to monitor and control the resources. In 1997, the government launched a reform to strengthen its control, increase the fishing areas, and encourage joint ventures with foreign companies.

There is very little arable land in Mauritania, while permanent pastures occupy 38 percent of the territory and forests and woodland cover just 4 percent. Mauritania's cereal production covers 35 percent of the country's needs (527,297 metric tons) and the food situation in 1999 called for massive imports and donor aid. The Senegal River valley has attracted local investors to regional dam projects relevant also to navigation, power generation, and distribution. The World Bank supports an irrigation program aimed at rehabilitating 11,000 hectares along the Senegal River and diversifying the crops. In 1998, the government adopted a long-term development strategy to guarantee food security and conserve natural resources by promoting private investment and introducing irrigation.

INDUSTRY

The mining of iron ore and gypsum and fish processing form the backbone of Mauritanian industry. In 1998, mining exports equaled $214 million, or 56 percent of total exports, a 23 percent increase from 1997, making the state-run mining company the largest foreign exchange generator. Mining is of greatest interest to foreign investors, and suppliers of mining equipment and services. Mauritania is trying to develop new natural resources, notably gold and oil. In 1998 and 1999, research contracts were signed with Canadian Rex Diamond Mining Corporation and Australian Ashton West Africa Property. Researchers have confirmed the presence of gold, phosphate, aluminum, and copper in several regions, and Australian Woodside Petroleum has reported positive results at its offshore drilling in Mauritanian waters.

The domestic market's lack of scale, skilled labor, and infrastructure, and its high utility costs and poor credit make Mauritania unattractive for foreign manufacturers. Manufacturing and handicrafts accounted for 4.4 percent of GDP in 1998 and are concentrated in Nouakchott and Nouadhibou. They include food processing, chemicals and plastics, building materials, and paper and packaging materials. Six companies account for 57 percent of investment and 40 percent of the 1,100 jobs in the sector. Of the 10 companies established in the 1980s in fish processing, 8 have failed due to high water and electricity costs, skilled labor shortages, poor infrastructure, and low hygiene standards.

SERVICES

Mauritania's financial sector is underdeveloped, although it has been **restructured** and privatized over the 1990s. It includes the Banque centrale de Mauritanie (the central bank, which issues currency and oversees **monetary policy**), and 5 commercial banks, the Banque nationale de Mauritanie, the Banque mauritanienne pour le commerce et l'industrie, the Banque al baraka mauritanienne Islamique, Chinguetti Bank, and the Generale de banque de Mauritanie. All banks are burdened by bad (irrecoverable) loans in the struggling fishing sector. The Saudi Al-Baraka firm, owning 85 percent of Al-Baraka Bank, and Belgium's Belgolaise bank, holding a stake at Generale, are the largest foreign shareholders in local banks. Government participation in the other banks is significant, but 2 of them are negotiating partnerships with foreign investors. There is 1 bank specialized in housing construction, 3 credit Agencies (Credit Maritime, Credit Agricole, and Mauritanie Leasing), and 2 private insurance companies. Since 1997, the government has encouraged popular saving agencies to diversify the sector and mobilize small savers' assets to promote investment.

Mauritania's **retail** trade is mostly traditional, represented by small family enterprises. It has a good tourist potential as the Banc d'Arguin reserve and ancient towns such as Chinguetti were declared World Heritage Sites by the United Nations Educational, Scientific and Cultural Organization. There are, however, very few facilities and the only international hotels are in Nouakchott.

Trade (expressed in billions of US$): Mauritania

	Exports	Imports
1975	.176	.161
1980	.194	.286
1985	.374	.234
1990	.447	.220
1995	N/A	N/A
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Mauritania

ouguiyas (UM) per US$1	
Dec 2000	250.870
2000	238.923
1999	209.514
1998	188.476
1997	151.853
1996	137.222

SOURCE: CIA *World Factbook 2001* [ONLINE].

INTERNATIONAL TRADE

Mauritania imports food, fuel, vehicles and spare parts, building materials, and clothes, and exports mainly iron ore, fish, and some gold. Its exports amounted to US$425 million in 1997, and are shipped mostly to Japan (24 percent), Italy (17 percent), France (14 percent), and Spain (8 percent). Imports in 1997 worth US$444 million, mostly machinery and equipment, petroleum products, **capital goods**, foodstuffs, and **consumer goods**, were purchased from France (26 percent), Spain (8 percent), Germany (7 percent), and the Benelux countries (7 percent). Mauritania's economic ties to black Western African countries have lost relative importance over the 1990s compared to those with the Arab countries of Northern Africa.

Mauritanians benefitted in the 1990s from the abolition of import monopolies on rice, wheat, flour, sugar, tea, and powdered milk, which improved the accessibility of food throughout the country. Credit restrictions, import taxes, and interest rates still hinder most importers. Mauritania is trying to promote trade, particularly with Arab countries. A **trade deficit** of 6.6 billion ouguiyas is growing, however, and reflects not only the weakness of the domestic economy but also increased debt repayments and the decrease in money transfers from Mauritanian workers abroad.

MONEY

Banking supervision has been strengthened during the 1990s to encourage bank **solvency** and the stability of local currency (with the support of the World Bank and the IMF) but interest rates have discouraged private investment. The government pursues price stability through fiscal and monetary restraint, promotes private credit agencies and institutional reform, encourages domestic and foreign investment, and encourages poverty reduction through higher wages. The foreign exchange system was liberalized in the 1990s and currencies can be obtained freely, but the central bank fixes exchange rates through a basket of currencies of the principal trading partners. In 1998, the central bank introduced incentives to encourage fish exporters to bring back their foreign currency and change them for ouguiyas, increasing the availability of foreign currencies, mainly U.S. dollars and French francs, in the market.

POVERTY AND WEALTH

Mauritania ranks among the least developed countries in the world with widespread chronic poverty among the nomadic herders, subsistence farmers, and the unemployed urban masses. Poverty is manifested not only in low income but also in limited access to basic services such as safe water, health care, and education. In 1990, it was estimated that 57 percent of the population lived below the poverty line and the country's **Gini index** (measuring economic equality, with 0 standing for perfect equality and 100 for perfect inequality) was close to 39, lower than the one in the United States but higher than in Europe. With the lowest 10 percent of earners responsible for 0.7 percent of the consumption and the highest 10 percent for 30.4 percent in 1988, Mauritania is still more equal than many of its African neighbors. The **inflation rate** was 9.8 percent in 1998. The country is heavily dependent on foreign aid and poverty reduction programs while corruption creates some large illicit fortunes. Economic inequality adds to interethnic and intertribal tension to

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Mauritania	549	557	511	438	478
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Morocco	956	1,114	1,173	1,310	1,388

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Mauritania

Lowest 10%	2.3
Lowest 20%	6.2
Second 20%	10.8
Third 20%	15.4
Fourth 20%	22.0
Highest 20%	45.6
Highest 10%	29.9

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

produce a very low level of human development, according to United Nations sources.

WORKING CONDITIONS

The **labor force** was estimated at 465,000 in 1981, but only 45,000 wage earners were reported in 1980, indicating that a vast number of people are employed in subsistence agriculture. By occupation, agriculture employed 47 percent, services 39 percent, industry 14 percent. Mass exodus to cities, low economic growth, and a growing uneducated young population are generating unemployment while there is a shortage of skilled workers, technicians, and managers in most sectors. The unemployment rate was officially 23 percent in 1995. But fully 50 percent of high school and university graduates are unemployed due to government hiring restraints and the stagnating **private sector**.

Workers have the right to associate and strike, but strikes are rare. There are 3 union confederations, Union of Mauritanian Workers (UTM), General Confederation of Mauritanian Workers (CGTM), and Confederation of Free Mauritanian Workers (CLTM). An employer-employee agreement, the 1974 Collective Labor Convention, establishes many employee benefits, including paid maternity leave. The workweek is 40 hours and the minimum wage is revised periodically by the unions, the employers, and the government. In 1998, the minimum wage was US$54 per month but in the private sector it was US$81.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

c. 1–1000 A.D. Berber nomads conquer the indigenous black population, dominating trade with the African kingdom of Ghana across the trans-Saharan trade routes.

c. 1100–1674. Almoravid Dynasty controls the trade in gold, slaves, and salt.

1674. Muslim Arabs conquer the country, becoming the upper class of society. Arabic becomes the official language.

1905. Mauritania becomes a French protectorate and later colony; slavery is legally abolished.

1958. The Islamic Republic of Mauritania is proclaimed.

1960. Mauritania gains independence from France; M. Ould Daddah is elected president.

1960s-70s. The economy expands thanks to newly discovered iron and copper deposits.

1975. Spain cedes the Western Sahara to Morocco and Mauritania, sparking a continuing conflict over the status of the region.

1978. President Daddah is toppled in a coup, and in 1979 Mauritania withdraws from the Western Sahara. Prime minister, later president, Mohamed Ould Haidalla institutes strict enforcement of Islamic law.

1984. Haidalla is deposed by Colonel Taya.

1989. Mauritania joins the Union of the Arab Maghreb, a North African political and economic union whose members include Morocco, Libya, Tunisia, and Algeria.

1989. Tensions with Senegal over agricultural rights along their border result in the **repatriation** of 100,000 Mauritanians from Senegal and the expulsion of 125,000 Senegalese from Mauritania.

1991. A new constitution is adopted, and opposition parties are legalized.

1997. President Taya is reelected president in a landslide election victory.

FUTURE TRENDS

Improving economic management is expected to gradually bring about positive developments in the economy, the infrastructure, and in the alleviation of poverty. The ruling PRDS party will likely win the October 2001 parliamentary elections and **real GDP** is expected to grow in 2001 at an annual rate of 6 percent. Mauritania's economic ties will be further redirected from West Africa to the Union of the Arab Maghreb (Algeria, Libya, Morocco, and Tunisia). Economic policies oriented toward liberalization and additional bank reforms are expected to improve the investment climate. The success of the telecom privatization is expected to attract new private funds and new businesses. Good relations with the IMF and the World Bank will continue to bring in international funds

for poverty reduction and development projects and strengthen the economy.

Prospects for increased mining output capacity, along with an increase in iron ore prices and the development of new mineral resources, may bring steady growth in mineral exports. The health of the fisheries industry depends to a large extent on market conditions in East Asia, particularly Japan, and may suffer from economic **recession** in that country. Domestic food production may benefit from occasional good seasons of rains but is still in jeopardy due to active desertification processes and will require extensive international aid. Environmental degradation, poor water supply and health services, unemployment, and a lack of basic education will continue to pose the most serious problems to the government in the foreseeable future.

DEPENDENCIES

Mauritania has no territories or colonies.

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—Valentin Hadjiyski

MAURITIUS

Republic of Mauritius

CAPITAL: Port Louis.

MONETARY UNIT: Mauritian rupee (R). One Mauritian rupee equals 100 cents. There are coins of 1, 2, 5, 10, 25, and 50 cents and 1 rupee, and notes of 5, 10, 20, 50, 100, 200, 500, and 1,000.

CHIEF EXPORTS: Clothing and textiles, sugar, cut flowers, molasses.

CHIEF IMPORTS: Manufactured goods, capital equipment, foodstuffs, petroleum products, chemicals.

GROSS DOMESTIC PRODUCT: US$12.3 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$1.7 billion (f.o.b., 1999). **Imports:** US$2.1 billion (c.i.f., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Mauritius is an island in the Indian Ocean, located 2,400 kilometers (1,491 miles) off the southeast coast of Africa. It has a total area of 1,860 square kilometers (781 square miles), and a coastline of 177 kilometers (110 miles). The Republic of Mauritius also includes the barely populated Agalega Islands and the Cargados Carajos Shoals, as well as Rodrigues (population 35,000). The capital, Port Louis, is situated on the west coast of the island, and has a population of approximately 136,000.

POPULATION. The population of Mauritius was estimated to be 1,179,368 in July 2000, with a population growth rate at 0.89 percent. The population is relatively young, with 26 percent of the population under 14 years of age, 68 percent between 15 and 64, and just 6 percent over the age of 65. The life expectancy for the population is 70.98.

Mauritian society is a heterogeneous one. The 2 main population groups are the ethnic Indians, who make up 68 percent of the population, and the Creoles, mixed race descendants of African slaves and colonial settlers, who comprise 27 percent. Other groups include Chinese (3 percent) and white Franco-Mauritians (2 percent). The ethnic Indians are further divided into Hindus and Muslims, with the Hindus being the majority. Nevertheless, the inhabitants of the island tend to view themselves as Mauritians first and foremost.

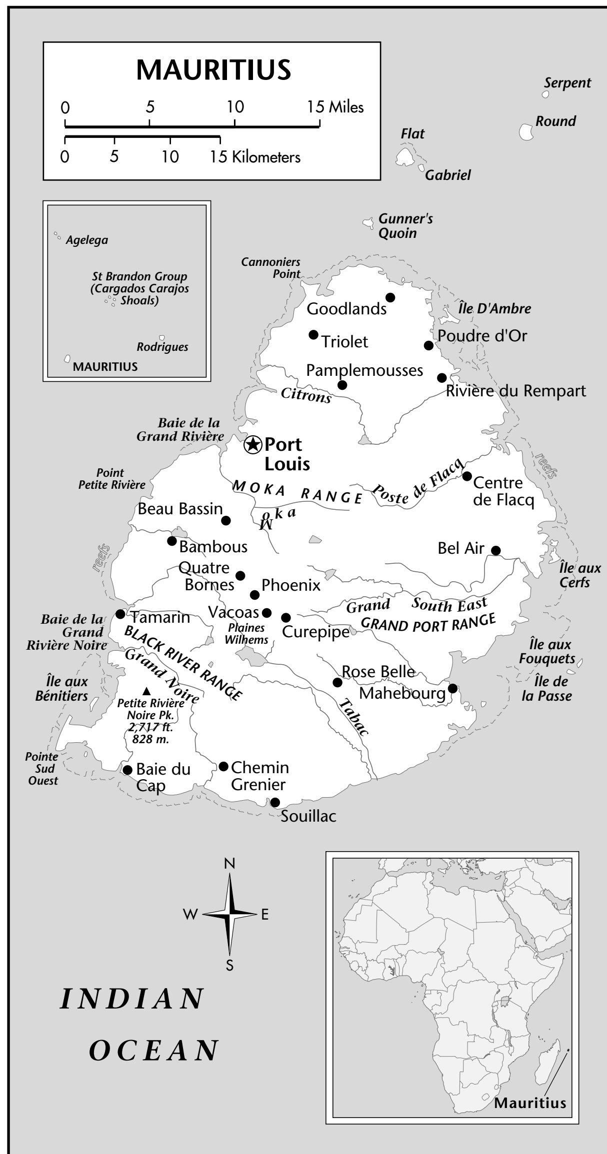
Given that Mauritius has such a small land surface, population growth and **immigration** are discouraged by the government. Population density is already very high, with 571 people per square kilometer (1,479 per square mile), compared with an average of 45 per square kilometer (117 per square mile) for the world as a whole.

OVERVIEW OF ECONOMY

From the 17th century, the Mauritian economy depended almost exclusively on sugar. Slaves were imported from Africa to work on the sugar plantations. After the abolition of slavery in the 19th century, plantations came to rely more on indentured Indian labor, whose ancestors today form the largest portion of the islands' population.

By the 1960s, Mauritius was still a monocultural economy (dependent on a single crop), and had to import many goods for local consumption. Unemployment was high, which created social tensions. In the mid-1960s, the Mauritian government began to follow a 2-pronged strategy of **import substitution** and export-oriented development.

Import substitution was promoted through the use of high **tariff** barriers to protect local industry from overseas competition. To encourage the production of goods for export, Export Processing Zones (EPZs) were established in 1971, following the successful Taiwanese model. The principle behind EPZs was to import semi-finished goods **duty**-free, to complete the manufacturing process in the EPZs, and then to **re-export** these goods. Clothing and textiles were the main manufactures produced by the EPZ sector.



The EPZ sector grew rapidly since its inception and attracted large amounts of foreign investment. This allowed for the rapid industrialization of the country. Nowadays, only 25 percent of export earnings come from sugar, while 40 percent are derived from manufacturing. Over the past twenty years, the economy has consistently achieved high rates of growth, resulting in a quadrupling of **GDP per capita** between 1970 and 1997. According to the World Bank, the economy of Mauritius has sustained a growth rate of about 5.5 percent since independence in 1968, and the country is currently classified among middle-income earners.

Besides manufacturing and sugar, the nation's other important economic sectors are tourism and financial services. With its white sands, coral reefs, and subtropical climate, Mauritius is an island paradise for tourists. Visitors come mainly from Europe and from South Africa. The hospitable nature of the Mauritian people also contributes to the island's attraction.

The island of Rodrigues has not seen the same level of development as Mauritius has—which is perhaps not so surprising when one considers that the 2 islands are 600 kilometers (373 miles) apart. Subsistence agriculture is the main economic activity on Rodrigues, with the principal crop being maize instead of sugarcane.

By the late 1990s in Mauritius, only about 5 percent of the population was living below the poverty line. However, challenges such as tariff reductions, rising wages, and limited growth prospects for the almost-saturated tourism industry have contributed to an increase in unemployment on the island, which in mid-2000 stood at 8 percent. This is rather disturbing for a country that had had **full employment** only a few years before.

A major factor which should not be overlooked in Mauritius's success is the political climate, which is characterized by stability and ethnic tolerance. Ordinary Mauritians have also demonstrated a strong work ethic, which has resulted in a highly productive **labor force**.

The debt levels both in terms of GDP and exports are manageable, hence Mauritius is not considered a highly indebted country. In June 1999, **external debt** was around 30 percent of GDP. There is a healthy balance between local and **foreign debt** positions, with local debt comprising over 80 percent of total public debt and the residual being foreign.

With respect to donor assistance, the World Bank notes that, due to the country's access to capital markets, official development assistance has declined considerably since 1990 and has become increasingly selective. Although donor assistance is important to supplement private capital flows, Mauritius is not dependent on foreign aid.

POLITICS, GOVERNMENT, AND TAXATION

Mauritius earned its independence from Britain in 1968, which had controlled the islands since 1810, and the Mauritians have continued to follow the British model of government. Mauritius is a parliamentary democracy based on the Westminster model, with elections being held once every 5 years. There is a 66-seat National Assembly, 62 of whose members are elected by direct popular vote, while 4 are appointed to represent minority interest. The National Assembly elects the president, who in turn selects the prime minister.

Although Mauritius is in general a peaceful society, its politics are somewhat capricious. In spite of the small size of the country, there are a fair number of political

parties. Most governments over the past twenty years have been coalitions, comprising 2 or more political parties. The major political parties are the Militant Movement of Mauritius (MMM), the Mauritian Social Democrat Party (PMSD), the Mauritian Labor Party (MLP), and the Militant Socialist Movement (MSM). Voting is based to a certain extent along ethnic lines. Although there are few significant differences among the major parties, the MMM tends to be more **socialist** in outlook and is favored especially by the Creoles, while the MLP's support-base is mainly Indian.

The elections in September 2000 resulted in a victory for an alliance of Anerood Jugnauth's Militant Socialist Movement and Paul Bérenger's Militant Movement of Mauritius. The alliance ousted Navin Ramgoolam's Mauritian Labor Party, which had gained power in 1995. Jugnauth, in power from 1982–1995, presided over the country's transformation from dependence on sugar to a modern, diversified economy. The MSM/MMM alliance has promised to tackle corruption and mismanagement of public finances (said to be the downfall of the Labor Party), but otherwise will continue with broadly similar policies to those implemented. The voter participation rate in the 2000 elections was high, with over 80 percent of registered voters turning up at the polls.

Taxation in Mauritius is relatively low, with tax revenue comprising only 17.7 percent of GDP in 1998. The highest **income tax** rate for individuals is 25 percent (recently reduced from 30 percent), while the corporate rate is 15 percent for manufacturing companies. Special tax incentives are available to certain kinds of companies, notably those classified as "offshore businesses" and those locating in the Export Processing Zone.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Infrastructure in Mauritius is well-developed. Roads are maintained in very good condition, with 1,834 kilometers (1,139 miles) out of a total of 1,910 kilometers (1,186 miles) of roads being paved. As of the year 2000, the road system is sufficient to hold the country's traffic volume. Less than one-tenth of the population own cars. Meanwhile, several road projects have been planned such as the extension of the roadway from Nouvelle France to Plaine Magnien, the implementation of the South Eastern Highway Project, and the construction of bypasses in areas such as Flacqs, Goodlands, and Triolet. There are no railways in Mauritius. Public transport by bus is reliable and efficient, however.

The harbor of Port Louis was provided with extra capacity in the late 1990s and has been repositioned to handle high traffic and goods volume. The country operates an efficient freeport, which handles about R9 billion worth of trade per year. In volume terms, this is estimated at around 13,000 tons. Mauritius aims to become a major transshipment center, given its location between Africa, Asia, and Australia.

There are currently 5 airports, with 2 of them having paved runways. The main airlines flying to and from Mauritius are Air Mauritius (the national carrier), British Airways, Air France, and South African Airways.

The country has a modernized telecommunications infrastructure. This will be further upgraded with the forging of a partnership with French Telecom. The latter took up a 40 percent (R6.6 billion) shareholding in the local Mauritius Telecoms in the year 2000. This public-private partnership is the first step towards a full **liberalization** of the industry, in accordance with standards set out by the WTO reform plan of the sector by 2004.

Internet access is reasonably widespread. At present the country has only 6 Internet providers, and over 534 Internet hosts. Countrywide, Internet use is available to about 40,000 people.

Mauritius is a net importer of oil and petroleum. These imports are in refined form and come through the State Trading Corporation. Despite its lack of natural resources, Mauritius is adequately provided for in terms of electricity. About 25 percent of its electricity is derived

Communications

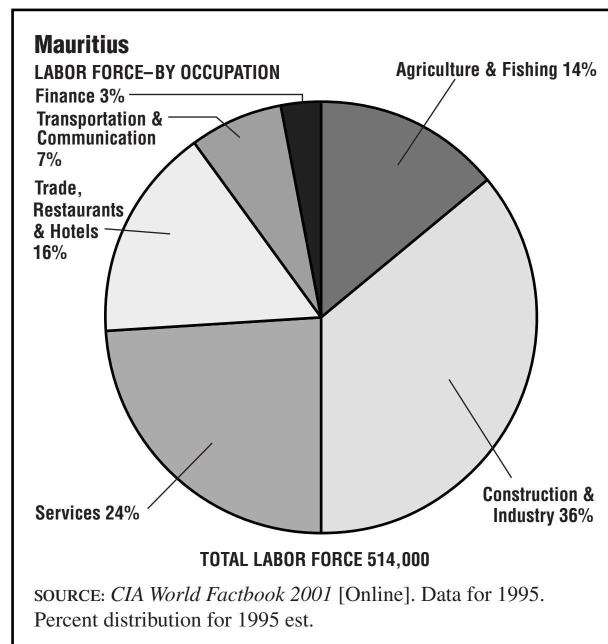
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Mauritius	75	368	226	N/A	53	24.5	87.1	4.56	55
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
Zimbabwe	19	93	30	N/A	4	N/A	9.0	1.19	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

from hydro-electricity schemes, and the rest from a combination of diesel-powered thermal stations and burning bagasse (sugarcane residue). For its energy, the country is dependent on supplies afforded by the government **parastatal** called the Central Electricity Board. Electricity production in the late 1990s stood at 34 million kilowatt-hours.

The government is currently looking for substitutive methods of generating energy using woody bio-mass, ethanol from sugarcane, and solar, wind, and sea wave power. Elsewhere efforts are in progress in the development of a renewable fuel plant near Port Louis. Commercial energy is derived from electricity (10.5 percent), coal (5.4 percent) and oil-derived products (84.1 percent).

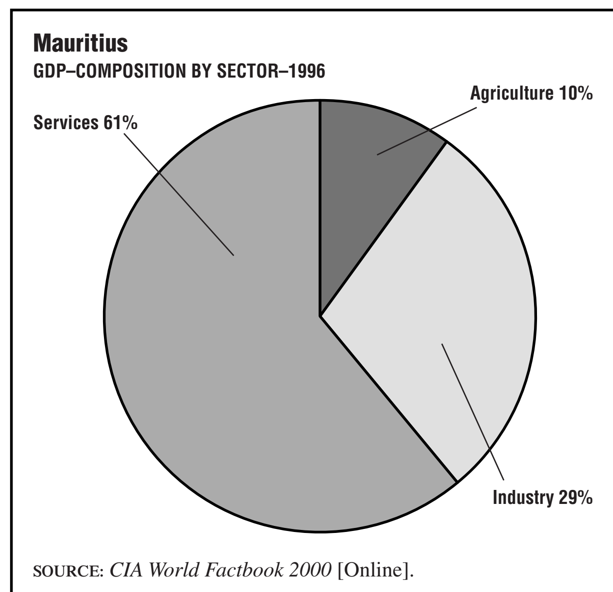


SOURCE: *CIA World Factbook 2001* [Online]. Data for 1995. Percent distribution for 1995 est.

ECONOMIC SECTORS

The importance of agriculture in the Mauritian economy has been declining over the past 3 decades. Agriculture made up 16 percent of GDP in 1970, declining to 12 percent in 1980, and finally to 9 percent in 1998. This reflects the decreasing dependence of Mauritius on sugar. Furthermore, the share of the labor force in agriculture is much smaller now than it was twenty years ago—29 percent of males and 30 percent of females worked in the sector in 1980, while only 15 percent of males and 13 percent of females did so in 1998. The industry is plagued by excess labor demand. According to reports by the Mauritius Cooperative Agricultural Federation, the reasons are that young unemployed people are not eager to work in the fields, and the population is aging.

Industry comprised 33 percent of GDP in 1998, up from 26 percent in 1980. More significantly, 25 percent of GDP came from manufacturing in 1998, compared with 15 percent in 1980. Much of this growth can be attributed to the expansion of the Export Processing Zone sector. The percentage of the male labor force working in industry has increased significantly, from 19 percent (1980) to 39 percent (1992–97). The increase has not been so large for females, however—40 percent in 1980 to 43 percent over the period 1992–97. This may in part reflect a diversification away from the textile industry, which tends to employ more females, towards more high-tech industries such as information technology.



SOURCE: *CIA World Factbook 2000* [Online].

Services made up 62 percent of GDP in 1980, but declined to 58 percent in 1998. The proportion of men working in the service sector has not changed much—46 percent in 1992–97, down from 47 percent in 1980. More females are now working in the service sector, however—45 percent in 1992–97, compared with 31 percent in 1980.

AGRICULTURE

SUGAR. Sugarcane is still the dominant crop, extending over 90 percent of the cultivated land surface of the country. Twenty-five percent of export earnings come from sugar cane. Per annum sugar production amounts to approximately 630,000 tons. Due to a bad drought, this figure shrunk to 580,000 tons in 1999. As a result the agricultural sector as a whole registered a growth rate of minus 25 percent during this year. The government stepped in to help assist sugar farmers badly hit by low harvest in 1999. It provided a grant of R5,000 per hectare to farmers who experienced losses due to drought and paid a premium for sugar purchase. Mauritius is prone to recurrent cyclonic weather, which can impact the sugarcane crop, and consequently economic growth.

Other sources of export revenue in the agricultural sector include tea, coffee, and tobacco. Tea production and exports decreased dramatically over the period 1995–2000, however. The production of onions, potatoes, maize, poultry, cattle, fish, pulses, bananas, and venison occurs on a small scale, largely for local consumption. Government is also supporting the development of biotechnology and hydroponics.

INDUSTRY

Mauritius's so-called "economic miracle" is largely due to the growth of the manufacturing sector since the inception of the EPZs. The EPZs attracted significant investment from abroad as foreign companies looked for cheaper locations for production. The reduction in unemployment experienced by Mauritius over the last 20 years can generally be attributed to the rapid growth of the EPZs.

The EPZs offer duty-free imports, lower tax rates, subsidized rates on electricity and other utilities, access to credit, favorable transport costs, and institutional support facilities.

Clothing and textiles still form the mainstay of Mauritian industry and dominate the EPZ sector. Mauritian clothing and textiles are competitive, both in terms of price and quality, in foreign markets such as Europe, United States, Japan, Australia, South Africa, and Scandinavian countries.

Growth in the EPZ sector has been slowing since the early 1990s, however, in terms of employment, new investment, and the number of enterprises operating in the sector. Most of the capital in the EPZs is now locally-owned, reflecting declining foreign interest. This is partly due to the fact that wages have risen as a result of full employment, and this in turn has pushed up production costs. Many Mauritian clothing and textile companies are re-locating to cheaper production locations, notably to the nearby island of Madagascar, with which it shares a common language (French) and, to some extent, culture. The focus is also shifting towards high fashion garments as competition in the global market becomes stiffer.

The Mauritian government is also trying to promote a shift towards more high-tech industries, such as electronics, software development, and light engineering. As of the late 1990s, however, Mauritius had not been able to attract the level of foreign investment into these sectors that it had been hoping for. Other industries in Mauritius include food processing (mostly sugar milling), chemicals, metal products, transport equipment, and non-electrical machinery.

SERVICES

TOURISM. Tourism is a big foreign exchange earner for Mauritius, which has marketed itself as an "exclusive" destination. About 5 percent of GDP is derived from the tourism sector, and revenues currently amount to US$100 million per annum. Most visitors come from Europe—66 percent of the market—with France and the UK providing 175,400 and 58,700 tourists, respectively. Africa's market share is 27 percent, with tourists coming mainly from South Africa and Reunion Island. About 17,111 people are employed in the tourism sector, 65 percent of these in the hotel industry. There are signs that growth in this sector is slowing: in 1999 the sector grew by just 6 percent, compared to double-digit figures prior to that.

FINANCIAL SERVICES. Over the past few years, the financial services sector has really stepped up its role in the economy, partly due to government support of the industry. To stimulate the development of the financial sector, the government provides tax incentives for financial institutions under the Pioneer Financial Services Scheme. To date, the industry has grown by over 62 percent, and comprises 13 percent of GDP. The aim is to develop the sector as a major financial center of international repute. Currently there are eleven **offshore banks**, which offer merchant banking, insurance, fund management, and securities services. Non-residents are the main customers of this sector, often U.S. companies with investments in India. A tax treaty between Mauritius and India creates tax advantages to companies with investments in India that channel their funds through Mauritius.

INFORMATION TECHNOLOGY. In early 2001, the government set out its National Information Technology Strategy Plan of establishing the information technology sector as a **free trade zone** with "digital parks." These parks will consist mainly of sophisticated telecommunications and IT infrastructure as well as enabling hassle-free access to the Internet. According to this plan, it is estimated that IT-penetration will increase to 50 percent and increase PC home ownership to 40 percent by 2005. The government still has to unveil its proposed package of financial incentives that will be offered in this regard.

INTERNATIONAL TRADE

Being a small island economy with few natural resources, trade is extremely important for Mauritius. Trade comprised 80 percent of GDP in 1970, increasing to 130 percent in 1998.

Mauritius's main export markets are the European Union (notably the United Kingdom, France, and Germany)

Trade (expressed in billions of US$): Mauritius

	Exports	Imports
1975	.298	.330
1980	.431	.609
1985	.436	.523
1990	1.194	1.618
1995	1.538	1.976
1998	1.734	2.183

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

and the United States. Its imports come mainly from South Africa, India, the European Union, and China.

TRADE AGREEMENTS. Up to the year 2000, Mauritius's major exports, sugar and textiles, have benefitted substantially from preferential trade agreements under which exports from Mauritius face lower duties than those goods from other countries. Most of Mauritius's sugar is now exported to the European Union (EU) under the Sugar Protocol of the Lomé Convention, which allows the country an export quota of 300,000 metric tons, at a price which is generally quite a lot higher than that paid on the world market. Mauritian textiles have also benefitted from preferential access to EU markets, and from the Multi-Fibre Agreement.

However, the Lomé Convention expired in 2000, and the EU has decided to level access to its markets for developing countries, which will erode the preferential treatment received by former EU colonies such as Mauritius. The annual quota assigned to the African, Caribbean, and Pacific (ACP) countries will now be reduced and it is expected that the price received for sugar exports will also fall. This move is expected to hit Mauritius hard, as it is among the top 3 sugar exporters to the EU.

The Multi-Fibre Agreement is being phased out and will come to an end in 2005. The agreement works on a bilateral quota system designed both to protect clothing and textile manufacturers in developed countries and facilitate market access for developing countries. The impact on Mauritius will depend on whether the developed countries continue to try to protect their textile industries. In any event, the termination of the Multi-Fibre Agreement (MFA) is expected to result in intensified global competition in the clothing and textiles industries. As mentioned above, Mauritian clothing and textile companies are already moving to cheaper production locations in order to enhance their competitiveness. The U.S.'s Africa Growth and Opportunities Act is expected to benefit the Mauritian clothing and textile industry, and may mitigate the impact of the phasing out of the MFA.

In the 1970s, Mauritius followed a policy of import substitution, which involved protecting certain domestic industries from outside competition by keeping tariffs at high levels. This policy reduced the country's reliance on outside imports. However, following the global trend, Mauritius began to open up its markets for imports in the 1980s. Mauritius is a member of the World Trade Organization (WTO), and is therefore committed to certain WTO agreements, designed to promote free trade among nations. Mauritius is a member of the Common Market of Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the Indian Ocean Commission.

MONEY

The country's central bank is the Bank of Mauritius, while the commercial banking system is dominated by 2 banks, the Mauritius Commercial Bank and the State Bank of Mauritius. There are a number of other, smaller, banks in operation, however. There is an extensive ATM network across the island, and ATM-sharing mechanisms are now in place. Progress has also been made with regard to developing a better, electronically-based, national payment system.

The Mauritian Rupee has decreased in the value relative to the U.S. dollar, with the decline being fairly marked over the period 1996–98, where it depreciated by an average of 10.5 percent per year. There have been no dramatic **devaluations** or currency crises in the history of the country, however. **Inflation**, too, has remained at manageable levels, averaging 7.6 percent between 1990 and 1999.

There are no exchange controls in Mauritius, which means that both foreigners and locals can take an unlimited amount of money out of the country if they wish to do so.

The Stock Exchange of Mauritius (SEM) has been in operation since 1989. Its **market capitalization** is currently around US$1,643 million, with 48 listed companies. There are a further 80 companies listed on the "over-

Exchange rates: Mauritius

Mauritian rupees per US$1	
Jan 2001	27.900
2000	26.250
1999	25.186
1998	22.993
1997	21.057
1996	17.948

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Mauritius	1,531	1,802	2,151	2,955	4,034
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Comoros	N/A	499	544	516	403

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

the-counter" market. The trading activity taking place has increased substantially over the years, although it is still low by international standards.

POVERTY AND WEALTH

All Mauritians have benefitted from the country's prolonged economic growth, particularly from the significant reduction in unemployment. A 1992 national survey found that 10.6 percent of the population was living below the poverty line. World Bank estimates put the poverty rate in 1999 at about 5 percent, however. These figures are difficult to compare across countries, since different countries have different definitions of poverty. Primary school enrolment is now close to 100 percent, up from 79 percent in 1980. Education and health care are free, and all Mauritians have access to safe water and sanitation. Life expectancy has also increased from 66 years in 1980 to 71 in 1998. According to the CIA *World Factbook*, life expectancy is now 75 years for females and 67 years for males.

However, poverty and wealth are still delineated to some extent along racial lines. Descendants of the French plantation owners still control a major portion of the economy, in spite of the fact that they only comprise 2 percent of the population. The Creoles, on the other hand, are the ethnic group which faces the greatest hardships. The recent increase in unemployment may rekindle the racial tensions which seemed to disappear during Mauritius's prosperous years.

WORKING CONDITIONS

Trade unions are permitted in Mauritius and trade union membership stood at 106,000 in 1995, representing about 29 percent of wage and salary earners. Trade union activity has decreased as the population has become wealthier and unemployment has declined. Over the period 1990–1995, there were between 4 and 9 strikes annually.

The steady rise in unemployment between 1996 and 1999 signifies that much still has to be done to improve the skills profile of the workforce. As of 2000, the demand for skilled workers outstripped the supply, especially in fields such as marketing, management, accounting, and computing.

Women make up about 27 percent workforce, a relatively low proportion by international standards, although female labor force participation has increased since 1980. Women earn on average about half of what their male counterparts earn. The state provides welfare payments for the unemployed, and there is a social aid scheme for poor families. There is also a national pension scheme.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1510. Portuguese visit Mauritius, then an uninhabited island.

1598. Dutch settle on the island, introducing sugar cane.

1710. Dutch leave the island for the Cape of Good Hope in South Africa.

1715. French occupy the island. The building of the harbor of Port Louis, which then becomes the capital, takes place.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Mauritius	21	8	13	3	13	10	32
United States	13	9	9	4	6	8	51
South Africa	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Comoros	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

1810. British conquer the island.

1814. Mauritius formally ceded to the British in the Treaty of Paris. However, most of the French settlers remain on the island and are allowed to keep their customs, religions, and laws. The French plantation aristocracy retain their economic prominence and few British people come to the colony.

1835. Britain abolishes slavery (slaves had mainly come from Madagascar, Senegal, and Mozambique), amid much resistance from French plantation owners. This leads to importation of about 500,000 Indian indentured laborers to work in the sugar cane fields. The rapid development of infrastructure takes place and the British begin to provide free primary education.

1860s. The sugar economy begins to decline, due to increased sugar production in other countries and resultant lower prices. The opening of the Suez Canal in 1869 shifts trade routes away from the Indian Ocean.

1917. Indenture system formally ends.

1959. First elections under universal suffrage are held.

1968. Mauritius achieves independence. The country adopts a constitution based on British parliamentary system. A few weeks before independence, violence between Creoles and Muslims leaves 25 people dead and hundreds injured.

1970. Enactment of the Export Processing Zones Act.

1971. The Militant Movement of Mauritius (MMM) calls a number of debilitating strikes. A coalition government led by the Mauritius Labor Party (MLP; headed by Sir Seewoosagur Ramgoolam) promulgates the Public Order Act which bans many forms of political activity. A state of emergency lasts until 1976.

1982. MMM-led government gains power in elections, with Anerood Jugnauth as Prime Minister and Paul Bérenger as Finance Minister.

1983. Ruling coalition breaks up and new elections are held. Jugnauth's new party, the Militant Socialist Movement (MSM), joins with the MLP and the Mauritian Social Democrat Party to win the election comfortably.

1991. A coalition between the MSM and MMM wins the elections.

1992. The constitution is amended to make Mauritius a republic with the British Commonwealth.

2000. Anerood Jugnauth is reelected president as head of a coalition between the MSM and MMM.

FUTURE TRENDS

The World Bank notes that Mauritius faces several challenges in the near future due to rising unemployment and increasing external competition for export markets. These are: to improve the economic growth rate through higher productivity, to raise skill levels through better education, to encourage investment in new industries, and to reform the civil service. Reform of the education system in particular is a priority, since an increasing number of young people are entering the job market without the requisite qualifications. At the same time, the government is focusing on small and medium-sized enterprises as a strategy for promoting economic growth and unemployment.

The recent setback in economic growth has spurred an internal campaign against poverty on the island, resulting in the establishment of the Mauritius Trust Fund. The Trust will use its US$1.5 million budget to fund over 270 projects across the island and also in the neighboring Rodrigues Island. These projects are directed at infrastructure, education, social cohesion through social and cultural programs, as well as coordination of different programs of action. Also, the combined efforts of the Mauritian Women and Family Welfare Ministry are spreading a message to women to end poverty through education.

For business, however, the mood is optimistic. It is estimated that close to 53 percent of the population expects the volume of production and services to increase in the year 2001, according to local surveys.

DEPENDENCIES

Mauritius has no territories or colonies.

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—Rosalind Mowatt

MOROCCO

Kingdom of Morocco
Al-Mamlakah al-Maghribiyah

CAPITAL: Rabat.

MONETARY UNIT: Moroccan dirham (Dh). One Moroccan dirham equals 100 centimes. There are coins of 1, 5, and 10 dirhams, and 10, 20, and 50 centimes. Notes come in denominations of 10, 20, 50, 100, and 200 dirhams.

CHIEF EXPORTS: Phosphates and fertilizers, food and beverages, minerals.

CHIEF IMPORTS: Semi-processed goods, machinery and equipment, food and beverages, consumer goods, fuel.

GROSS DOMESTIC PRODUCT: US$105 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$7.6 billion (f.o.b., 2000 est.). **Imports:** US$12.2 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Morocco is located in the northwestern corner of the African continent. It is bordered by the Atlantic Ocean to the west, the Mediterranean Sea to the north, and Algeria to the east and southeast. The Strait of Gibraltar separates it from Spain at its northern tip. Its southern border is the Sahara Desert. With an area of 446,550 square kilometers (172,413 square miles) and a coastline of 1,835 kilometers (1,140 miles), Morocco is slightly larger than California. Morocco's capital city, Rabat, is located in the northwest of the country overlooking the Atlantic Ocean. Other major cities are Casablanca on the Atlantic Ocean, Marrakech (the business capital) in the center, and Tangier in the north, on the Strait of Gibraltar.

POPULATION. Morocco's population was estimated at 30,122,350 in July of 2000, an increase of 1.2 percent from the 1990 population of 24,043,000. In 2000, Morocco's birth rate stood at 24.6 births per 1,000, while the death rate was reported at 6.02 per 1,000. The majority of the population are Muslim. Almost one-third of the population are Berbers, who are mostly concentrated in the Rif and Atlas mountains. Morocco has a sizeable community (1.7 million) of expatriates living abroad, mostly in France, Spain, and Italy.

The growth rate of Morocco's population has slowed down since the 1990s, averaging 1.6 percent between 1995 and 1999, down from 2.5 percent in the preceding decade. With a projected growth rate of 1.4 percent between 2000 and 2015, the population is expected to reach 41 million by 2029. The population is generally young, with some 23 percent under the age of 15. Like people in many developing countries, a majority of Moroccans live in urban areas. The population of urban areas has grown significantly since the 1960s. Casablanca, Marrakech, and other major urban centers are home to some 54.5 percent of the country's people.

OVERVIEW OF ECONOMY

Morocco's domestic economy is relatively diversified. The agricultural sector plays an important role, accounting for 15 to 20 percent of the GDP, depending on weather conditions. In 1999, the sector accounted for 15 percent of the GDP and employed some 50 percent of the **labor force**. The sector's output, however, varies from one year to another, due to its dependence on rainwater for irrigation. The largest contributor to the GDP is the services sector. The well-developed tourism and services sectors accounted for 52 percent of the GDP and employed 35 percent of the labor force in 1999. The expanding industrial sector has also become a major contributor to the GDP in recent years, accounting for 33 percent of the GDP in 1999. Industrial exports include textiles, clothing, shoes, and, most important, raw phosphates and processed products, including phosphoric acid and fertilizers. Morocco is the world's largest exporter of

raw and processed phosphates, but the phosphates sector contributes only 3 percent to the GDP. The fishing sector is also important, employing some 300,000 people.

Morocco entered the 20th century as a colony divided between France and Spain, with France dominating the larger area. It continued to be under French control during World War II, and its demands for independence were not recognized until 1956, when Sultan Mohammed V was declared king of Morocco. Spain relinquished its claims over Morocco around the same time but retained a small number of cities and territories. Mohammed's son, Hassan II, who succeeded his father in 1961 and ruled until 1999, is considered the father of modern Morocco.

Morocco is primarily a free-market country with some state control. The government has significantly reduced its role in the economy since the 1990s, removing trade barriers and selling several state-owned enterprises.

Despite occasional political violence, it has a fairly stable, multiparty political system headed by the king, and it enjoys the strong political and economic support of the United States and the European Union. Economic growth has been sluggish since the 1990s, partly as a result of dependence on agriculture, which has been affected by recurring droughts. The GDP real growth rate was estimated to be 0.8 percent in 2000. Mining, mostly of phosphates, is concentrated in Khourigba, Youssoufia, and the Western Saharan mine of Boucraa. Manufacturing, **retail** trade, and services are centered in urban centers, mostly Rabat and Casablanca.

Neither the agricultural sector nor the emerging industrial sector is capable of providing enough jobs to counteract Morocco's long-standing high unemployment rate. The problem of unemployment especially high among university graduates is exacerbated by the rapid population growth. Unemployment reached 19 percent in 1998; by contrast the unemployment rate in the United States in 1999 was 4.2 percent. Unemployment in urban areas is estimated to be higher than 22 percent. Although the government has made it a priority issue, unemployment will present a serious challenge for some time to come.

Morocco's **foreign debt** in 1999 was estimated at US$18.7 billion. About 50 percent is owed to state creditors within the Paris Club, a group of developed countries that extends credit and loans to developing countries, 30 percent is owed to international institutions, and 15 percent is owed to commercial banks, while the remaining 15 percent is owed to other creditors. The largest fraction of the Paris Club debt is with France (48 percent), followed by Spain and the United States, who each account for 15 percent. **Debt service** represents 24.5 percent of exports of goods and services. The country's debt burden has declined steadily since the mid-1990s: In 1992, Morocco rescheduled its debt to the Paris Club, and in 1996, the French and Spanish governments agreed to relieve part of the country's debts by converting them into investments.

Morocco's economic difficulties—trade imbalance and high unemployment—are offset by tourism receipts, **remittances** from its migrant workers abroad, and foreign investments. Some 2.35 million tourists visited the country in 1999, an 18-percent increase over the preceding year. Also in 1999, Moroccan workers, mostly in Europe, contributed some US$1.94 billion, a decline of 1.6 percent over the preceding year. Income from foreign investments tripled that year, mostly as a result of the sale of a mobile-phone license to a Spanish company.

Government bureaucracy is a major impediment to the conduct of business in Morocco. Bureaucratic inefficiencies permeate all government ministries and the commercial court system. Corruption is widespread at all levels of the **public sector**, largely as a result of low wages and difficult living conditions.

POLITICS, GOVERNMENT, AND TAXATION

After independence from France in 1956, a hereditary monarchy was established, which is now headed by King Mohammed VI, who succeeded his father and ruler of 38 years, King Hassan II, in July 1999. The country has had a multiparty system and an elected legislature since the 1970s. Morocco has more than a dozen legal political parties. The Constitutional Union (UC) Party and the National Rally of Independents (RNI) are the 2 largest. Both are conservative and pro-monarchy and together traditionally provide a near majority in parliament to back the government. Although the king tolerates the opposition, he is quick to suppress groups on the political fringe. Even members of legal political groups, such as the small, leftist Party of Progress and Socialism (PPS), have been targeted periodically for crackdowns by security forces.

Ultimate power rests with the king, who is chief of state and appoints the prime minister, all cabinet ministers, and all supreme-court judges. A new constitution, designed by the late King Hassan II in 1996 and approved by a public referendum that same year, established a **bicameral** parliament, replacing the previous system in which two-thirds of a 333-member **unicameral** parliament (Majlis Anouwab) were elected by popular vote. Under the new constitution, all members of parliament are now elected.

A program to reform the economy was launched in 1992 with the help of the World Bank. The objective was to **privatize** state-owned companies, enhance the country's economic management, raise productivity, and reduce its soaring **budget deficit**. The program gained new momentum under the government of Abderrahmane Youssoufi, who has served as prime minister since 1998. The current government, a coalition of **socialist**, left-of-center, and nationalist parties and, for the first time in years, opposition parties, has launched a campaign to reform business laws and regulations and draft a new labor law. The judicial system and intellectual property rights legislation have already been revamped. Overall, however, the pace of Morocco's privatization program has been rather slow; only 60 out of 114 state companies identified for privatization in 1993 had been privatized by 2001. Plans are underway to sell off the government's shares in Maroc Telecom and Banque Centrale Populaire, the largest bank, primarily to a group of foreign investors.

Taxes and custom **duties** are a major source of government revenue, accounting for 42 percent of income. Customs duties account for 14 percent of revenue, while

direct taxation accounts for the remaining 28 percent. Morocco's tax system, reformed in 1984, consists of a wide variety of taxes including the 20 percent **value-added tax** (VAT), which was instituted in December 1985, a 35 percent corporate tax, general **income tax** and return-on-shares tax, effective since December 1986.

One of the major items on Morocco's international agenda is its claim to the Western Sahara. The region is a vast stretch of inhospitable land containing large phosphate reserves. Ever since former colonial power Spain abandoned the region in 1975, it has been the site of an insurgency led by the pro-independence Popular Front for the Liberation of Saquia Al Hamra and Rio De Oro (Polisario). A United Nations vote on the future of the territory, originally scheduled for January 1992, has been repeatedly deferred due to unresolved arguments over voter eligibility and registration.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Morocco enjoys one of the most highly developed infrastructures in Africa. The country is served by a network of 57,847 kilometers (35,946 miles) of primary and secondary roads, of which 30,254 kilometers (18,800 miles) are paved. With growing numbers of licensed automobiles, the road system, especially in urban areas, has become highly congested. According to official statistics, road accidents claim up to 3,000 lives annually. Plans are currently underway to modernize the country's railway system, which plays an important role in the transport of phosphates and their derivatives.

Morocco has 70 airports, 11 of which are major and quite modern, and efforts are underway to modernize all of them in 2001. The largest of them, an international airport just south of Casablanca, offers flights to several destinations in Europe, the United States, Canada, the Middle East and Africa. It is serviced by more than 50 airlines that bring in most of the country's tourists. Rabat has 24 ports, which handle 98 percent of the Morocco's foreign trade. The port of Casablanca is a world-class port and the second largest in Africa. In addition to goods, Morocco's ports also service tourist ferries to and from Spain and France.

Electrical power is provided by the state-owned Office National de L'électricité (National Office of Electricity, ONE). Despite the recent discovery of modest amounts of oil reserves in Morocco, most electricity is produced from imported fuels, mainly from Saudi Arabia. Morocco's total power capacity is estimated at 13.16 billion kilowatts, 124 million of which are imported, mainly from Spain. Power shortages are common. The government is planning to build additional power plants and boost electric capacity by the end of 2010 to meet the increasing demands of industrial projects and extend electric services to currently unserved rural areas. About 80 percent of Morocco's rural areas are not electrified, and it is estimated that some 12 million rural inhabitants live without electricity.

Telecommunications services in Morocco are thoroughly modern and have greatly improved since the mid-1990s. Most telephone service is provided by the state-owned Maroc Telecom and Meditel, the country's two largest telephone companies. The country had 1,455,853 phone lines at the end of 1999. Mobile service is also available. In 1999, Morocco had 27 Internet Service Providers.

ECONOMIC SECTORS

Morocco's economic sectors reflect the diversified and growing base of the economy. Its economy depends on output from the agricultural sector, rich fisheries, growing tourist and manufacturing industries, and a dynamic telecommunications sector.

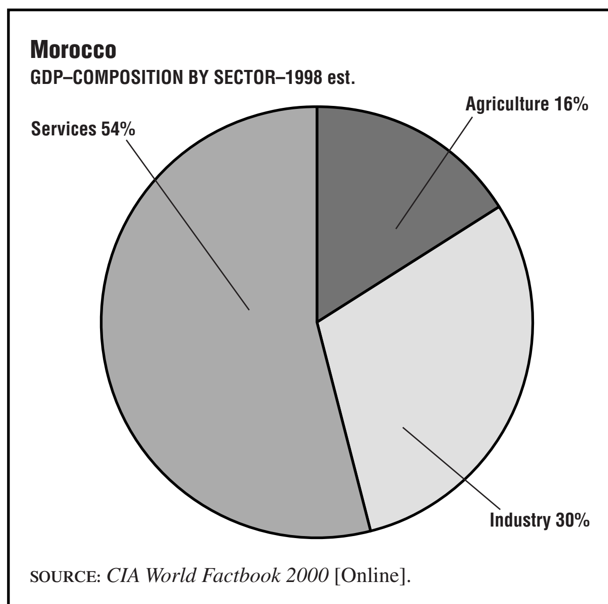
In 1999, the agricultural sector accounted for 15 percent of the GDP and employed some 50 percent of the

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Morocco	26	241	160	N/A	4	0.7	2.5	0.28	50
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Egypt	40	324	122	N/A	1	0.5	9.1	0.28	200
Algeria	38	241	105	0.0	1	0.2	4.20	0.01	20

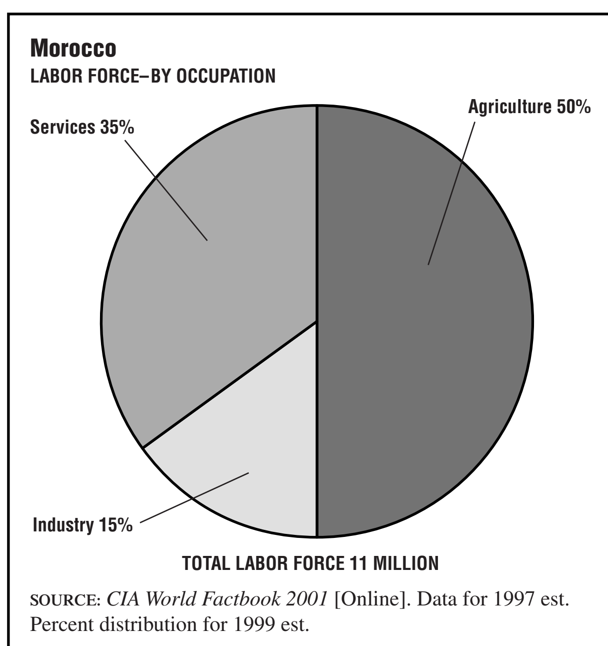
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

labor force. The sector's output varies from one year to another due to its dependence on rainwater for irrigation; in a good year, it can account for 20 percent of total the GDP. The largest contributor to GDP is the services sector. The well-developed tourism and services industries accounted for 52 percent of the GDP and employed 35 percent of the labor force in 1999. The expanding industrial sector has also become a major contributor to GDP in recent years, accounting for 33 percent of the GDP and employing 15 percent of the workforce in 1999. The most important industrial exports are raw phosphates and processed products, including phosphoric acid and fertilizers, but Morocco also exports textiles, clothing, and shoes. Although Morocco is the world's largest exporter of raw and processed phosphates, the phosphates sector overall contributes only 3 percent to the GDP. The fishing sector is also an important sector of the economy, employing some 300,000 people.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997 est. Percent distribution for 1999 est.

Despite its diverse and vibrant economic base, Morocco's economic growth has been sluggish since the mid-1990s, mainly due to its dependence on rain-fed agriculture and other structural problems that affect economic performance, such as bureaucratic red tape and a soaring budget deficit. Recognizing these structural problems, the government has moved to **deregulate** the telecommunications sectors and to privatize several state-owned companies.

AGRICULTURE

FARMING. The labor-intensive agricultural sector is largely underdeveloped and inefficient, as a result of the high cost of energy, credit, and land, and a scarcity of investment. Only 1 million hectares of a total of 8.7 million hectares of cultivated land are irrigated. About 90 percent of the land, mostly comprised of small land holdings, is dependent on rainwater. A small fraction of the cultivated land, some 1 million hectares is comprised of modern export-oriented farms that produce 80 percent of Morocco's citrus and wine production, 33 percent of its vegetable output, and 15 percent of its cereals production. These irrigated farms, concentrated in the Gharb plain around Fez and Meknes, the Doukkala plain around Casablanca, and the Beni Mellal and Berkane areas, also produce tomatoes, potatoes, and beet and cane sugar, as well as oil and olive oil for export. In addition to legal agricultural products, Morocco is a major producer and exporter of cannabis (marijuana), which is mostly concentrated in the northern Rif region.

Major agricultural products include dairy products, meat, fruit, and vegetables, in which Morocco is self-sufficient. Morocco is also a producer of grains, which are grown on 68 percent of the cultivated land, plus sugar, oils and tea, but production is rarely sufficient to meet domestic demand. As a result, and depending on annual winter rainfall, Morocco imports the bulk of its cereals. According to the EIU, harvests range from around 10 million to under 2 million metric tons annually and have averaged 5.8 million metric tons since 1990. Agriculture production has dropped significantly since 1998, due to drought conditions, prompting the government to increase customs duties on wheat imports to protect local farmers.

FISHERIES. The fishing industry is also a major contributor to the economy, accounting for an average of

US$600 million in export earnings. Morocco's fishing industry is underdeveloped and is forced to compete with European companies. It is also overexploited, which has prompted the government to impose periodic bans on the harvesting certain types of fish. Since 1997, the government has been attempting to revamp and upgrade the fishing industry. Several new ports, at Dakhla, Boujdour and Layoun, among other places, are to be built as part of the plan, and the government is reportedly seeking **joint ventures** with foreign investors, mainly in Japan and France, to replace the government's fisheries agreement with the European Union, which expired at the end of 1999.

INDUSTRY

MINING. Phosphates account for 95 percent of Morocco's output by volume. mining. Phosphates, raw and manufactured, are the country's main exports, managed by the state-owned Office Cherifien des Phosphates. The export of phosphates and phosphate products accounted for US$1.4 billion in 1999, or about 18.5 percent of total earnings from exports. With three-quarters of the earth's phosphate reserves after the United States and Russia (11 billion metric tons of known reserves and 58 billion metric tons of probable reserves), Morocco is the world's third largest producer of phosphates and the largest exporter of phosphate rock. Phosphates are mined in Khourigba, Youssoufia, and the Western Saharan mine of Boucraa and Benguerir. A new mine at El Gantour, south of Rabat, will soon start production. Phosphate revenue has increased steadily since 1996, the first profitable year for the industry, reaching US$44 per metric ton in 1999, up from US$33–35 per metric ton in 1993–95. Mining and processing capacity have increased steadily over the past years, and a 30-percent expansion is planned in 2001. Since 1996, the government has shifted focus toward marketing its phosphate products through joint ventures with foreign companies, mainly French and Belgian.

In addition to phosphates, Morocco is a major producer and exporter of industrial minerals and base metals. It produces silver, zinc, cobalt, copper, fluorine, lead, barite, iron, and anthracite. In contrast to the state-controlled phosphate sector, the extraction and processing of most of these minerals is in private hands, and efforts are currently underway to privatize the rest, especially the silver and lead mines, by 2002. A comprehensive survey of minerals across the country is also underway with the help of French, British, South African, and Canadian companies

MANUFACTURING. The manufacturing sector is an important and growing contributor to the Moroccan economy. The sector has steadily grown by an average of 1.9 percent a year between 1994 and 1998. Production increased by 2.8 percent in 1999 and is likely to maintain that upward trend in 2001. The government adopted a new investment law in 1981 to encourage domestic and foreign investment in the industrial sector. These efforts gained added momentum with the launch of the privatization program in the early 1990s. A plan to modernize the sector and upgrade existing companies to meet European standards was launched in 1997. These efforts have been largely successful in attracting foreign investment. Major U.S. companies, such as Microsoft, Compaq, and Oracle, have a presence in the country.

Manufacturing industries are mainly concentrated in Casablanca, Fez, Rabat, Tangier, and Settat. In recent years, considerable investment has been made in cement works and sugar factories to meet the major part of local demand. Plans are also underway to develop steel production in the city of Nador and the production of chemicals and fertilizers in the El Jadida region. Morocco's industrial base consists mostly of food processing, textiles, pharmaceuticals, and the processing of phosphate rock into phosphoric acid and fertilizers. Since the early 1980s, the output of textile production, mostly done under contract with European companies, has grown by 5 times, from US$120 million in 1980 to US$570 million in 1990. Growth in the clothing sector slowed down in the late 1990s, due to declining domestic purchasing power and lower world demand, but the sector is expected to continue to grow in the future. The pharmaceutical industry, which mostly relies on imported raw material, is also a growing sector, although most of its output is consumed domestically.

SERVICES

TOURISM. Tourism is important to the health of the Moroccan economy, generating approximately US$1.98 billion and employing some 600,000 people in 2000. Tourism is Morocco's second greatest foreign-currency earner after remittances by Moroccan expatriates and has been identified as the second most important growth sector in the country. The tourism sector's growth, however, has been stifled by a combination of factors, including the lack of investment in hotel capacity and personnel training. Regional events, such as the civil war in neighboring Algeria, have also adversely affected the sector, as evidenced in the decline in the number of tourists in 1991 out of concerns about the spillover of the conflict into Morocco.

Since the mid-1990s, however, the government has moved to revitalize the sector by attracting foreign capital, rescheduling part of hotel debts, and reducing the tax burden. The government also plans to set up a special tourist police force to insure safety. Several state-owned hotels were sold to private investors, mainly foreign companies from France and the United Kingdom. Worldwide

hotel chains, such as the Sheraton, Hilton and Intercontinental, have a presence in Morocco, but the majority of hotels are locally owned. The government has been actively encouraging the development of tourism, mainly in the cities of Agadir and Marrakech. As a result, a 10 percent increase in the number of tourists visiting the country was recorded in 1998. Plans are currently underway to double the number of tourists to 4 million and raise gross revenue to US$6 billion by 2005.

FINANCIAL SERVICES. Morocco's banking system is comprehensive. Despite government efforts since the early 1990s to reform the financial sector and improve banking regulations, restrictions continue to be in place, especially on the movement of capital. The conversion of the dirham into a **fully convertible currency**, originally set for 1997, has also been delayed. Morocco requires the majority shares in commercial banks to be owned by Moroccans. Most of the country's 14 commercial banks are partly owned by European banks. Since 1996, foreign banks have been able to buy and sell foreign currency at market rates, due to the new interbank foreign exchange market set up that same year.

Morocco has a single stock exchange, the Bourse Valeurs de Casablanca, which is the third largest in Africa after South Africa and Cairo. The market, managed by 13 brokerage companies, was privatized in 1996 and has been regulated by an independent commission since. Although full foreign participation in the market is allowed, foreign investments constitute only 10 percent of overall investment. At the end of 1999, the Casablanca stock exchange recorded a 5.2 percent correction, largely due to previous overvaluation. Efforts were underway in 2001 to attract foreign investment by upgrading its **infrastructure**.

CONSTRUCTION. The construction sector is one of the fastest growing sectors of the economy. Growth in this sector has been fueled by public works (construction by the government) and the private construction of affordable housing units to alleviate the chronic shortages in housing, especially in urban areas. In 1994, the government launched an ambitious construction project to build 200,000 housing units. Although the program has failed to reach its target, the construction activity is likely to continue. New internationally funded initiatives were announced in 1999. These include a US$80 million project funded by the U.S. Agency for International Development to construct new housing to replace shantytowns in major cities and a US$75 million construction project to rehabilitate the city of Fez.

RETAIL. Morocco has a poorly developed retail sector. While the major cities sport a variety of retail stores, including fast-food franchises such as McDonald's, which operate alongside souks (traditional markets), most towns in the interior of the country have small family-owned shops, farmers' markets, and temporary roadside stands.

INTERNATIONAL TRADE

Over the past several decades, Morocco has relied more and more on imports, and has maintained a steady trade balance as a result. The value of imports in 1999 was estimated US$12.2 billion, but exports were estimated to be only US$7.6 billion in 2000. **Capital goods** (industrial and semi-finished products) account for well more than half of Morocco's imports, followed by food and beverages, **consumer goods**, and fuel. Morocco's export base is diversified, with phosphates and phosphate byproducts being the largest contributor, accounting for one-third of exports. Textiles and leather items come in second place, followed by fish and fish products.

Morocco exports and imports most of its goods from the European Union, with France being its largest trade partner, providing one-fifth of total imports and accounting for one-quarter of exports. Spain comes in second place, followed by the United States, Italy, and Saudi Arabia. Morocco initialed a free-trade accord with the European Free Trade Association in 1997, which stipulates the elimination of trade barriers in industrial goods by 2010.

The substantial and growing trade imbalance that Morocco endured over the years has been partially offset by tourist receipts and remittances sent home by Moroccans working abroad. Morocco is a member of the World Trade Organization, which has stipulated that **tariffs** on goods be lifted. The government has moved to gradually reform the trade sector and remove barriers to export by approving a new foreign trade law that minimizes the state's role in the export of goods and that **liberalizes** import practices. The government's dependence on tariffs largely explains its reluctance to proceed with the implementation of trade reform. As a result, Morocco continues to run a **trade deficit** that forces it to borrow heavily to pay for its consumption.

Trade (expressed in billions of US$): Morocco

	Exports	Imports
1975	1.543	2.567
1980	2.493	4.164
1985	2.165	3.849
1990	4.265	6.800
1995	6.881	10.023
1998	7.219	10.262

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Morocco

Moroccan dirhams per US$1	
Jan 2001	10.590
2000	10.626
1999	9.804
1998	9.604
1997	9.527
1996	8.716

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The value of the Moroccan dirham has remained relatively stable since 1990, trading at an average of 8.54 against the U.S. dollar between 1990 and 1996. Until 1996, the central bank, Bank Al-Maghrib, set the **exchange rate** of the dirham against a group of currencies of its main trading partners. Since 1996, the government has allowed the exchange rate to fluctuate within certain limits based on the same group of foreign currencies. European currencies in the mix carry a larger weight than other currencies. This arrangement makes the dollar more volatile than the European currencies against the dirham. As a result of a stronger dollar, the value of the Moroccan dirham has depreciated by an average of 19 percent against the dollar, while the euro has fallen more than 27 percent against the dollar since January 1999. The government has refused to **devaluate** the dirham. In January 2000, the exchange rate was 10.051 dirhams to US$1.

POVERTY AND WEALTH

Living standards in Morocco are low by international standards and have declined continually since the early 1990s. As a result, the number of Moroccans living below the poverty line has risen sharply in the last decade. Although poverty levels dropped to 13 percent in 1991, some 19 percent of the population lived below the poverty line in 2000. Despite widespread poverty, uneven development has led to the emergence of an affluent class that controls most of the country's wealth and enjoys an elevated standard of living. In 1998, the wealthiest 20 percent of Moroccans controlled 46.6 percent of the country's wealth, while the poorest 20 percent controlled only 6.5 percent of wealth.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Morocco	956	1,114	1,173	1,310	1,388
United States	19,364	21,529	23,200	25,363	29,683
Egypt	516	731	890	971	1,146
Algeria	1,460	1,692	1,860	1,638	1,521

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Morocco

Lowest 10%	2.6
Lowest 20%	6.5
Second 20%	10.6
Third 20%	14.8
Fourth 20%	21.3
Highest 20%	46.6
Highest 10%	30.9

Survey year: 1998–99

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Poverty is more widespread in rural areas than in urban areas. Some 36 percent of Moroccans living in rural areas are poor, while poverty affects 24 percent of urban dwellers. Children under 15 are the most heavily impacted by poverty. Inequality in the distribution of wealth coincides with geographical regions. Historically, the Casablanca-Rabat axis has been more prosperous and has received more government attention than the predominantly mountainous northern provinces and the Western Sahara region. Although the latter region has received government attention since the 1990s because of its phosphate deposits, the northern provinces, which include the Rif Mountains, home to 6 million Moroccans, have been largely neglected. This region is a haven for the cultivation of cannabis. In 1998, the government launched a program to develop the northern region, largely with international help. Spain has shown particular interest in the development of the region, since its underdevelopment has fueled illegal **immigration** and drug trafficking across the Strait of Gibraltar.

The uneven development among Morocco's regions has also fueled a cycle of rural-urban migration that has shown no signs of slowing down. Currently, an estimated 60 percent of population live in urban areas, 35 percent higher than the urban population of 1971. Low standards of living have also forced many young Moroccans to seek employment opportunities abroad, especially in Spain and other parts of Europe.

Both Moroccan rural and urban poor have suffered from a long decline in the quality of social services, especially educational and medical. Despite this deterioration, 50 percent of primary-level students are enrolled in

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Morocco	33	11	16	5	15	6	16
United States	13	9	9	4	6	8	51
Egypt	44	9	7	3	17	3	17
Algeria	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

schools, and a government-funded system insures that all Moroccans have access to adequate health care.

Although the government continues to subsidize basic consumer goods and health products, the middle and lower classes have seen their living standards erode since the 1980s. The government's awareness of the political implications in a complete lifting of **subsidies** has slowed down the pace of the implementation of IMF-mandated price deregulation.

WORKING CONDITIONS

In the last few decades, Morocco's labor force has been growing at the very fast rate of 300,000 per year. In 1999, Morocco's labor force stood at 11 million, up from 8.9 million in 1990. The official unemployment rate for 1998 was 19 percent, a figure that is believed to be higher than unofficial figures. The CIA *World Factbook* estimated that the unemployment rate was 23 percent in 1999. Unemployment rates have risen in recent years as a result of the **restructuring** of the economy, which has forced many companies to reduce the number of employees.

Morocco's labor force generally lacks proper job training and secondary education, which explains why much of the younger workforce cannot expect high-paying jobs. Despite higher rates of school enrollment since the 1960s, illiteracy in Morocco is one of the highest in the Arab world, standing at 56.3 percent in 1998 (69 percent for women and 43.3 percent for men). The educational sector remains overburdened and understaffed, and shortages in technical skills are viewed as a major impediment to business operations. The official unemployment rate in urban areas for 1999 was 22 percent, up from 17 percent in 1997. Unemployment remains especially high in urban areas, especially for women and for all workers under 34 years of age. Unemployment is also higher for university graduates and diploma holders.

Moroccan trade unions played a crucial role in the independence movement. Approximately 450,000 workers are unionized, mostly in the public sector, representing 5 percent of the labor force. The influence of the Moroccan labor union movement has shrunk considerably since independence. The once powerful movement is comprised of 17 trade-union federations, but real political clout is in the hands of 3 unions only. Although labor laws protecting the right of workers have been in place for decades, regulations are rarely enforced, and working conditions in Morocco are far from ideal. Labor actions, strikes, slowdowns, and protests frequently disturb work life, and are often met with repressive governmental actions and police brutality.

The government of Morocco supports workers' rights promoted by the International Labor Organization (ILO) and has set conditions governing industrial and human relations and established minimum-wage standards. The 5-day 48-hour workweek is the standard. The government-mandated minimum wage in the public sector is approximately US$165 a month. The government provides social-security benefits that include a retirement pension and pay for on-the-job injuries. Wages have increased steadily over the last few years and are expected to increase again, as the 2001–02 budget has allocated US$10 billion for public sector workers' salaries and bonuses. However, it was not until the late 1990s had the rate of increase in public wages has exceeded the rate of **inflation**.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1904. France and Spain conclude a secret agreement that divides Morocco into zones of French and Spanish influence, with France controlling almost all of Morocco and Spain controlling the small southwestern portion, which became known as Spanish Sahara.

1906. Algeciras Conference takes place. The sultan of Morocco maintains control of his lands, and France's privileges are curtailed.

1912. The sultan of Morocco, Moulay Abd al-Hafid, permits French protectorate status.

1953. Sultan Mohammed V is deposed by the French and replaced by his uncle.

1955. Sultan Mohammed V returns to power as a result of popular pressure.

1956. France and Spain recognize Morocco's independence.

1961. Sultan Mohammed's son, Hassan II, ascends to the throne.

1976. Spain withdraws from Western Sahara.

1979. Mauritania withdraws from the rest of the Western Sahara. The rebellious Polisario Front wages a war for independence and clashes with Moroccan police.

1981. King Hassan agrees to a ceasefire in Western Sahara.

1992. Government launches economic reform program.

1996. Association Accord is signed with the European Union.

1997. Parliamentary elections take place.

1998. King Hassan appoints a new leftist government headed by Prime Minister Abderrahmane Youssoufi.

1999. King Hassan II dies; his son, Prince Sidi Mohammed is crowned King Mohammed VI.

FUTURE TRENDS

Morocco entered the 21st century in economic decline. For much of the last century, state control of the economy had reduced the economy to shambles. However, the economic reform programs of the early 1990s have set the stage for partial economic recovery. Some progress has been achieved as the government has curtailed spending, increased privatization, reduced trade barriers, and stopped direct credit and foreign exchange allocation. In addition, Morocco's trade position should improve as its major trade partners in Europe experience growth and the economic recovery in Asia.

The pace of Morocco's economic reform program, however, has been rather slow. Despite major reform efforts, the public sector continues to be an important force in the economy. Long-term challenges include servicing the country's **external debt**, further privatizing state-owned enterprises, and attracting foreign investment. More important, the government is faced with the daunting challenge of improving living standards, which have steadily declined over the last few decades, creating new job prospects for the youth, who account for over 50 percent of the population. If left unresolved, the problem of unemployment may potentially become a source of political instability and a credible challenge to the regime.

DEPENDENCIES

Morocco has no territories or colonies.

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—Reem Nuseibeh

MOZAMBIQUE

Republic of Mozambique
República de Moçambique

CAPITAL: Maputo.

MONETARY UNIT: Mozambican metical (Mt). There are 100 centavos in 1 Mt. Coins include denominations of 1, 5, 10, 20, 50, 100, 500, 1,000, and 5,000 meticais and notes of 50, 100, 500, 1,000, 5,000, 10,000, 20,000, and 100,000 meticais.

CHIEF EXPORTS: Prawns, cashews, cotton, sugar, citrus, copra and coconuts, and timber.

CHIEF IMPORTS: Food, clothing, farm equipment, petroleum, and transport equipment.

GROSS DOMESTIC PRODUCT: US$18.7 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$300 million (1999 est.). **Imports:** US$1.6 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in southeast Africa, Mozambique has a total area of 801,590 square kilometers (309,493 square miles)—an expanse which is slightly less than twice the size of the state of California. The coastline of the country, which spans 2,470 kilometers (1,535 miles) along the entire eastern frontier, borders the Mozambique Channel and the Indian Ocean. To the north of Mozambique lies Tanzania, to the northwest Malawi and Zambia, to the west Zimbabwe, and to the southwest South Africa and Swaziland. Maputo, the capital of Mozambique, is situated at the pointy southern tip of the country's territory, not far from the South African and Swaziland border.

POPULATION. From 1975 to 1998, the population of Mozambique grew at an average annual rate of 2.6 percent, increasing substantially from approximately 10.5 to 18.9 million. With a current annual growth rate of 1.7 percent, the population should reach 25.2 million by 2015. In order to restrain this growth, the government announced a population control policy in 1997. Among other things, the plan seeks to disseminate information on different forms of birth control. One of the major impediments, however, is that most people in rural areas must have large families in order to have more workers to till the family plots. According to a 1997 census, approximately 70.8 percent of the population live in rural areas, where poverty is rampant and birth control limited.

The current birth rate in Mozambique is 37.99 births per 1,000 persons, while the death rate is 23.29 deaths per 1,000 persons (2000 est.). The high death rate reflects, in part, a growing HIV/AIDS epidemic. The Health Minister Aurelio Zihao, for example, estimated that approximately 250,000 Mozambicans died as a result of AIDS in 1999, though most of these deaths were not registered as HIV/AIDS related. Zihao states that the major causes behind the HIV/AIDS epidemic are poverty, unemployment, illiteracy, and the low status of women. The educational campaign sponsored by the Health Ministry targets vulnerable groups, such as soldiers, long-distance truck drivers, students, poorly educated women, street children, migrant mineworkers and their wives, and prostitutes. The government at large has been criticized for not taking an active role in the HIV/AIDS campaign.

With 43 percent of the population aged 14 years and younger, 54 percent aged between 15 and 64 years, and only 3 percent aged 65 years and over, the population of Mozambique is relatively young. A young population may offer opportunities in terms of an expanding **labor force** and thus a potentially expanding economy. If economic decline accompanies labor force growth, however, the results will be higher unemployment and exacerbated poverty.

Approximately 99.66 percent of the Mozambican population belong to one of the many indigenous (local) ethnic groups, such as the Shangaan, Chokwe,

Manyika, Sena, and Makua. Europeans comprise a marginal 0.06 percent of the population, while Euro-Africans and Indians respectively account for 0.2 percent and 0.08 percent. In terms of religion, 50 percent of Mozambicans are adherents of indigenous religious systems, 30 percent are Christians, and 20 percent are Muslims. The official language of Mozambique is Portuguese, though most Mozambicans express themselves primarily in one of the numerous local languages that are spoken.

OVERVIEW OF ECONOMY

Although the Portuguese participated in the trading networks of southeastern Africa as early as the 16th century, they did not establish hegemonic (total) colonial dominance over the territory that now comprises Mozambique until the early 20th century. By the mid-1920s, the Portuguese succeeded in creating a highly exploitative and coercive settler economy, in which Africans were forced to work on the fertile lands taken over by Portuguese settlers. African peasants mainly produced **cash crops** designated for sale in the markets of the colonial metropole (the center, i.e. Portugal). Major cash crops included cotton, cashews, and rice. The little industrial development that did occur throughout the 1950s and early 1960s was based primarily on British and South African capital.

In 1975, a coup in Portugal led to the overthrow of the fascist dictatorship that governed the nation, and thus an end to the colonial wars that raged in the various Portuguese African colonies since the early 1960s. Mozambique became an independent nation and the Frente de Libertacao de Mocambique (FRELIMO), the **socialist** guerrilla organization that had fought the colonial war against Portugal, assumed power. Over the next several years, FRELIMO pursued numerous socialist policies, including **nationalization** of land and large industries, centralized planning, and heavy funding for the educational and health sectors. At the same time, the government encouraged the large network of cantinas (tiny shops), which were owned by Portuguese settlers, to remain in the hands of the **private sector**. The exodus (mass departure) of the Portuguese following independence facilitated the takeover of the cantinas by Mozambicans. Unfortunately, the exodus, which totaled 250,000 Portuguese, also led to a huge loss of professionals, productive machinery, and skilled workers.

By the early 1980s, Mozambique became what Joseph Hanlon—author of *Peace Without Profit: How the IMF Blocks Rebuilding in Mozambique*—called a "Cold War battlefield." The term refers to the situation in which socialist Mozambique was forced to fight a lengthy civil war against a counterinsurgency movement of opportunistic Mozambicans named RENAMO, funded and directed by the neighboring capitalist economies of South Africa and Zimbabwe. (The cold war was defined by animosity between capitalist and socialist world powers, and though there was never an outright military conflict between the former and the latter, each respectively funded counterinsurgency movements against governments they disfavored.) The racist governments of South Africa and Zimbabwe feared that a successfully ruled African socialist system might send a message of revolution and self-rule to blacks in contemporaneous white-ruled African countries, such as their own. Under the socialist paranoia of the Reagan administration, the United States also provided support to RENAMO, which sustained a brutal civil war against FRELIMO until a Peace Accord was signed in October 1992.

According to Hans Abrahamsson and Anders Nilsson, authors of *Mozambique The Troubled Transition: From Socialist Construction to Free Market Capitalism*, RENAMO's methods of recruiting soldiers consisted mainly of coercing peasants to join their forces through threats, torture, and killing. RENAMO's war against the government led to the death of more than 1 million Mozambicans, not to mention a total loss of the economic and social gains that had been achieved in the late 1970s. In 1989, UNICEF estimated that the country's **GDP** was only half of what it would have been without the war.

The political pressure of the ideologically charged civil war, in conjunction with the excruciating need for aid and funds to finance imports, compelled FRELIMO to negotiate its first structural adjustment package (SAP) with the World Bank and the International Monetary Fund (IMF) in 1986 (commonly referred to as the Bretton Woods Institutions or International Financial Institutions—IFIs). The series of SAPs that followed thereafter, required **privatization** of major industries, less government spending, **deregulation** of the economy, and trade **liberalization**. The SAPs, therefore, have essentially focused on the implementation of an unfettered free market economy.

Today, the economy of Mozambique continues to be dominated by agriculture. Major exports include prawns, cotton, cashew nuts, sugar, citrus, copra and coconuts, and timber. Export partners, in turn, include Spain, South Africa, Portugal, the United States, Japan, Malawi, India, and Zimbabwe. Imports, such as farm equipment and transport equipment, are **capital goods** that are worth more than agricultural products, hence Mozambique's large **trade deficit**. The country also imports food, clothing, and petroleum products. Import partners include South Africa, Zimbabwe, Saudi Arabia, Portugal, the United States, Japan, and India. In the past several years, the value of imports outweighed the value of exports by 5 to 1 or more—a factor that obliges Mozambique to depend heavily on foreign aid and loans by foreign commercial banks and the Bretton Woods Institutions (BWIs). In 1995 alone, Mozambique received $1.115 billion in aid. In 1999, the total **external debt** stood at $4.8 billion. Fortunately, in the same year significant economic recovery did occur, as the **real GDP** growth rate reached 10 percent.

POLITICS, GOVERNMENT, AND TAXATION

The legislative branch of the Mozambican government consists of a **unicameral** Assembly of the Republic,

whose members are elected by popular vote to serve 5-year terms. The executive branch includes an elected cabinet and both a president, elected by popular vote to serve a 5-year term, and a prime minister, appointed by the president. Judges of the Supreme Court are also appointed by the president.

Since independence, Mozambique has been governed exclusively by FRELIMO. The ruling party formally abandoned its **Marxist** ideological orientation in 1989 and a new constitution in 1990 provided for multiparty elections and a free market economy. RENAMO entered the political life of the nation as a legitimate political party following the UN-negotiated peace accord in 1992. Despite its ignominious (shameful) political origins, RENAMO has been able to draw upon strong internal dissatisfactions with FRELIMO, caused by extreme poverty and unemployment, to garner a considerable amount of support from the local population. Since the establishment of the peace accords and subsequent development of RENAMO from a military force into a political party, there is little ideological difference between the 2 major parties, with both adhering to a free market and pluralistic orientation. In the most recent elections of 1999, FRELIMO won 133 of the 250 seats in the Assembly. In the same elections, RENAMO formed a coalition with several smaller parties, each of which did not respectively receive the 5 percent of the popular vote needed to win parliamentary seats by themselves, thereby acquiring the 117 remaining Assembly seats. Since 1986, the FRELIMO leader Joaquim Alberto Chissano has presided as president. Presidential elections are scheduled to be held in 2004.

The vast majority of government revenue comes from taxation. In 1999, for example, tax revenue accounted for a total of 92.4 percent of government income—14.0 percent derived from taxes on income and profits, 58.6 percent from taxes on goods and services, and 16.9 percent from taxes on international trade (**tariffs**). Businesses in Mozambique are taxed at rates of 35 percent, 40 percent, or 45 percent on annual net profits, depending upon their size. In terms of **income tax**, there are 4 tax brackets in Mozambique. All those that make less than Mt600,000 are exempted from taxation, persons who make between Mt600,001 and Mt2,400,000 are taxed at 10 percent, those that make between Mt2,400,001 and Mt9,600,000 are taxed at 15 percent, and all those that make more than Mt9,600,001 are taxed at 20 percent. All goods and services with a few exceptions, such as medical services and drugs, are taxed at a rate of 17 percent. Although the income taxation system is progressive, the high taxation on goods and services is retrogressive as it affects the poor much more than the rich, who can afford to pay such fees. Moreover, in addition to the general taxes on goods and services, there are also certain **excise taxes** levied on specific products, such as alcohol and fuel. Excise taxes are set at 20 percent, 35 percent, 50 percent, and 75 percent, depending upon the particular product.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Infrastructure in Mozambique is generally poor and inadequate, especially in the many areas heavily affected by the war. The country has approximately 30,400 kilometers of highways, 5,685 kilometers of which are paved. Large sections of the remaining 24,175 kilometers of highway are virtually impassable during the rainy season. The World Bank is currently implementing an $850 million program to rebuild the road network, along with the coastal port system.

In addition to the road network, there is a total of 3,131 kilometers of railway, as well as 170 airports, although only 22 have paved runways (est. 1996). Major rail lines connect to South Africa, Malawi, and Zimbabwe. The latter 2 countries are dependent upon railway links with Mozambique since they are landlocked and must access Mozambican ports to send exports and receive imports.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Mozambique	3	40	5	N/A	0	N/A	1.6	0.09	15
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
Tanzania	4	279	21	0.0	1	N/A	1.6	0.05	25

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Recently, the Caminhos de Ferro de Mocambique (CFM), a government **parastatal** that formerly had **monopolistic** control of all ports and the railway, announced a private management concession to be awarded for management of the central railroad system. The system includes a link from Beira to Zimbabwe and the Sena line. The latter, which is critical to the development of the Zambezi River as it facilitates the export of cooking coal from Moatize in Tete Province, is in complete disrepair. As much as $500 million may be needed to reconstruct the Sena line.

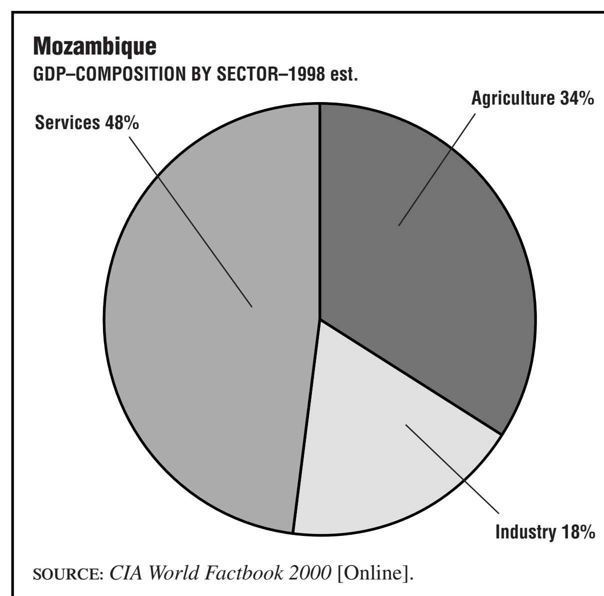
There are a total of 6 ports and harbors in Mozambique, with the largest being the port of Beira. The port came under the control of the Dutch company Cornelder in 1999 following a **joint venture** concession with the CFM, and has undergone considerable reparation in recent years. Unfortunately, the port has suffered a decline in business activity due to the failing Zimbabwean economy. Moreover, the selling of ports and other means of production and infrastructure to foreign companies means that large portions of profits will be exported out of the country. At the same time, however, the country is in a bind because it does not have the money to pay for reparations and renovations itself (hence the privatization of the Sena line). Additionally, as Joseph Hanlon emphasizes in his book *Peace Without Profit,* there is also a considerable amount of pressure being exerted upon Mozambique to privatize by the IFIs.

Mozambicans consume a total of 1.018 billion kWh of electricity, 385 million kWh of which are imported from abroad. A full 75 percent of internal electricity production comes from hydro, while the remaining 25 percent is derived from fossil fuel. Located exclusively in the major cities, there is no electricity in the smaller towns and villages. The parastatal Electricidade de Mocambique (EDM) maintains a monopoly on the management of the backbone of the national grid. The EDM, which also controls the water supply system, however, has recently awarded a concession for the private management of the water supply system in 5 major cities. Privatization of the water supply can lead to decreased accessibility, as there is no governmental guarantee of fair pricing. As such, if rates to access water increase, the poor will have to cut their water intake.

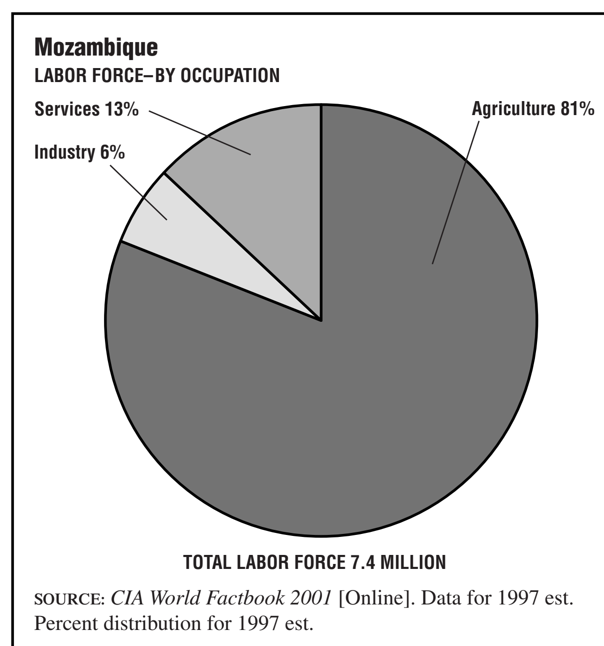
Privatization has also characterized recent developments in the telecommunication sector, which has traditionally been monopolized by the government-owned national telephone company (TDM). The introduction of legislation legalizing the privatization of the telecommunication sector in 1999 led to the transformation of the TDM into a public enterprise with 100 percent of the shares owned by government. The government is currently selecting a strategic private investor to whom it can sell a 30 percent share, with the most likely candidate being the Portuguese firm Telecom. In 1999, there were only 4.0 telephone mainlines per 1,000 people, a dismal contrast to the United States where there were 640 mainlines per 1,000 people in 1996.

ECONOMIC SECTORS

Like most African countries, the economy of Mozambique was decisively shaped in the colonial period. As Allen Isaacman—author of *Cotton is the Mother of Poverty: Peasants, Work, and Rural Struggle in Colonial Mozambique, 1938–1961*—states, the Portuguese



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997 est. Percent distribution for 1997 est.

relationship with Mozambique was determined by its need for a large labor force to produce raw materials. Consequently, Portuguese colonial policies coerced peasants into exporting agricultural products to the mother country, while preventing them from developing their own forms of manufacturing and industry. Today, the Mozambican economy remains structurally locked into the position of agricultural exporter, with the manufacturing sector holding a limited, albeit increasingly important, economic role. With increased urbanization, the service sector has become the most important contributor to GDP, though the vast majority of Mozambicans continue to labor in the agricultural sector of the economy.

AGRICULTURE

In 1998, the agricultural sector engaged approximately 81 percent of the Mozambican labor force and contributed 34 percent of GDP. Mozambique's major agricultural products include cotton, cashew nuts, sugarcane, tea, cassava, corn, rice, tropical fruits, beef, and poultry. Agricultural exports include prawns, which are a type of shellfish similar to large shrimp, cashews, cotton, sugar, copra (a coconut product), citrus, coconuts, and timber.

As part of FRELIMO's socialist legacy, all land is owned by the state. The latter, in turn, leases parcels of land to individuals and companies for up to 50 years, with an option to renew. The system is designed to protect the small family farm sector, which provides employment for 90 percent of the agricultural population. According to the *IMF Country Report Number 01/25,* 98.9 percent of the rural poor in Mozambique own land, with an average of 2.5 hectares per household. Many **small holder** farmers can only produce enough for subsistence (survival) purposes, while others are able to produce a surplus to sell on the market. Land tenure is a highly politicized issue and it is unlikely that FRELIMO will privatize land ownership any time soon. Estate production is confined mostly to the sugar sector, though there are some large agro firms maintaining commercial operations of cotton, copra, citrus, and maize production.

Though the vast majority of Mozambicans work in the production of cash crops, prawns from the fishing industry have become the country's single most important export (1998 est.). According to the U.S. Department of State *FY 2000 Country Commercial Guide*, prawns, which comprise 40 percent of all export revenue, have contributed an average of $70 million per year to the economy over the past several years. Commercial fisheries involved in catching and exporting prawns usually boast large-scale operations, many of which are foreign-owned. A small amount of local unlicensed fishers also engages in selling prawns, though the government is seeking to crackdown on such illegal operations.

Until very recently, cashews were Mozambique's most important agricultural export. Indeed, throughout the colonial period, Mozambique was the world's leading cashew producer. Although cashews continue to play an essential role in the economy, with exports increasing, for example, from 33.4 thousand tons in 1994 to 58.7 thousand tons in 1998, the cashew sector has suffered severely from declining prices on the international market. International prices for agricultural products are determined by world supply and demand in a given year, factors over which Mozambican farmers have no control. In January 2001, international prices for cashews plummeted to US$2/lb., their lowest level in over a decade.

Cotton-producing farmers have also been seriously affected by declining international prices in recent years. Cotton, which is currently Mozambique's third most important agricultural export, reached a post-war peak production of 117,000 tons in the 1998 crop season. One of the major factors promoting increased cotton production was the advent of the out-grower scheme, in which large agro-industries provided small farmers with advice and productive inputs and bought their crops. According to the Economist Intelligence Unit's April 2001 *Country Report*, a sharp fall in international prices in 1999 led to a 52 percent decline in cotton production as many small holder producers exited the market. On the positive side, production in 2001 is estimated to rebound significantly to 80,000 tons or more, though there is no telling how stable production will remain, given the inherent instability of international agricultural pricing.

International pricing is not the only factor that affects the stability of the agricultural sector. Weather conditions are a second, albeit just as important, element determining productive output. In 2000, for example, production of corn—Mozambique's most important crop produced for domestic consumption—fell to 1,019,000 tons from 1,246,000 tons the year before. The productive decline related largely to devastating floods, which lasted from January to March. Conversely, debilitating droughts also frequently afflict the country, and 2 crippling droughts in the post-war period alone led to severe declines in agricultural production. Such weather imbalances lead to oscillating (fluctuating) patterns of production, which, in addition to destabilizing export revenue, severely restrict the country's ability to gain self-sufficiency in food production. Further exacerbating the problem, only 4 percent of all land in Mozambique is arable. As a result of these problems, the country must import large amounts of rice and wheat every year.

INDUSTRY

Although only 6 percent of the Mozambican labor force is engaged in the manufacturing sector, industry ac-

counted for 18 percent of GDP in 1998. Major industries in Mozambique include food, beverages, chemicals (fertilizer, soap, paints), petroleum products, textiles, cement, glass, asbestos, and tobacco. Virtually all manufacturing is located in the major urban areas of Maputo, Beira, and Nampula.

The value of the manufacturing sector as a whole has increased impressively throughout the past several years. In 1995, for instance, the sector was valued at Mt2,059,608, whereas this figure more than doubled to Mt4,584,352 in 1999. The food-processing and beverage industries have been of paramount importance to this increase, with each respectively growing in value from Mt573,660 and Mt348,064 in 1995, to Mt1,189,610 and Mt1,604,142 in 1999.

As the U.S. Department of State's *Background Notes on Mozambique* points out, most manufacturing industries have either recently been privatized or are currently undergoing privatization under the guidance of the SAPs. While the World Bank and the IMF argue that privatization will lead to increased efficiency since enterprises formerly-dependent upon government **subsidies** will have to become viable competitors, Mozambicans generally lack the credit necessary to purchase such enterprises and replace their highly outdated equipment. Consequently, foreign firms rich in capital have taken over many enterprises, though they have not always been successful in revamping productivity. Indeed, the inability to increase the productivity of many manufacturing industries prompted several multi-national companies, including the Portuguese Barbosa e Almeida, which took over parts of the glassmaking industry, to recently sell shares back to the Mozambican government. On the whole, however, the record of foreign takeovers has been more or less positive for the investors.

In 2000, **foreign direct investment** (FDI) in Mozambique, which is mostly in the manufacturing sector, equaled $730 million. South Africa and Portugal, respectively accounting for 63 percent and 14 percent of all FDI, are the largest foreign investors. The United States, the Netherlands, and Hong Kong are also significant investors. Major U.S. firms with a strong market presence in Mozambique include Coca-Cola and Colgate-Palmolive.

A second development that has severely affected the manufacturing sector is trade liberalization. While liberalization may offer Mozambican industries increased access to foreign markets, it may also force them to compete with more efficient foreign counterparts in the domestic economy. The so-called recent "cashew wars" exemplifies this latter possibility. The metaphorical wars centered on the elimination of tariff barriers blocking the exportation of unprocessed cashews. Such tariffs have existed in order to ensure protection for industries involved in processing cashews—high tariffs on exportations of unprocessed cashews means that cashews will inevitably be processed before leaving the country. The World Bank, however, has argued that the cashew-processing industry is inefficient and that it must face competition from abroad. As part of its SAP, the World Bank forced Mozambique to begin phasing out tariffs in 1996, despite the protests of the government, the World Bank's major adversary in the cashew wars. The results of the liberalization process were disastrous. According to the Integrated Regional Information Network (IRIN), a United Nations humanitarian information unit, by 2000, half of the cashew-processing industry's 12,000 workers were laid off, while 10 of the largest cashew-processing factories were closed due to a lack of supplies. The cashew-processing sector, which, in 1987, accounted for 31 percent of Mozambique's export earnings and employed about 25 percent of the country's workforce, has diminished in annual productive capacity from an average of Mt200,000 during the 1980s, to a current low of Mt50,000.

Despite some natural reserves of coal and titanium, mining in Mozambique is negligible. The one exception is the massive Mozal aluminum smelter outside of Maputo, which reached a full production capacity of 250,000 tons per year in December 2000. Mozal, a subsidiary of the South African company Billiton, employs 1,000 Mozambicans and represents the country's largest economic project to date. Mozal has created beneficial spillover effects (positive links) in the Mozambican economy, mainly in the form of new port facilities needed to handle the import of alumina and export of aluminum ingots. Once more, however, the profits earned by Mozal are lining the pockets of foreigners rather than the Mozambican populace. In his book, *Peace Without Profit*, Joseph Hanlon maintains that many observers are referring to the escalating foreign domination of the economy as the "recolonization" of Mozambique. On February 13, 2001, workers at the Mozal smelter, angered at the superior terms offered to foreign managers, engaged in an illegal one-day strike.

SERVICES

Accounting for approximately 48 percent of GDP, the service, or tertiary sector, is the most valuable area of economic activity in the Mozambican economy. Approximately 13 percent of the labor force is engaged in the service sector (est. 1998), though this figure does not take into consideration the many people that work in the **informal sector**. The largest contributor to the service sector is business, which constituted 19.5 percent of GDP alone in 1999. The business class consists of a small elite, whose main activities are trading and distribution. Other important service activities include finance, tourism,

transport, communication, and **retail**. The latter, which includes a small number of restaurants and stores in the urban centers, is dominated by small-scale street vendors, many of whom form part of the informal sector. Informal sector activities include carpentry, motor vehicle repair, tailoring, **hawking**, and selling various fruits, vegetables, and other commodities. Recent studies, such as those conducted by researchers of the Centro de Estudos Africanos of the University Eduardo Mondlane in Mozambique, indicate that informal activity has increased substantially as a result of SAP-related cuts to the social sector, unemployment and rising food prices. Unfortunately, the burden caused by these developments has been shouldered unequally by women, who have taken the responsibility of ensuring the survival of the family. In 1994, as much as 75 percent of all women in Maputo were forced to participate in the informal sector in order to earn their chief incomes. Such women make as little as $0.20 a day, plus food.

As a result of the destruction caused by the civil war, there is a massive lack of shops and service activities in the rural areas. Moreover, the rebuilding of the retail sector in the rural areas has been slowed by a banking sector that is reluctant to provide capital to prospective entrepreneurs with very few assets. Though there are many international donor agencies funding rural service-related income-generating projects, the pace of reconstruction remains protracted (delayed).

On the whole, tourism is a relatively marginal component of the Mozambican economy. Indeed, restaurants and hotels accounted for a meager 1.2 percent of GDP in 1999—a slight increase from 1995, when they constituted 0.7 percent of GDP. At the same time, however, there is a strong potential for the development of the tourism sector, given the country's long coastline with superb beaches, the existence of several attractions of historical interest, and the great diversity of flora and wildlife.

FINANCIAL SERVICES. There are a total of 8 banks in Mozambique, in addition to the central bank, the Bank of Mozambique. All of these banks, many of which were controlled by the government prior to mid-1990s, are now part of the private sector. The Banco Comercial de Mocambique (BCM), which has a considerable presence across the country, dominates commercial banking. The government controlled BCM until 1996, when it was sold to a consortium led by the Portuguese Banco Portugues Mello. The government still retains a 49 percent share in the BCM, though it plans on selling its shares. Despite these plans, the government was forced to authorize the issuing of $39 million in **treasury bills** as part of an effort to recapitalize the BCM, along with the Banco Austral, to prevent each from becoming insolvent. Both banks have large loan portfolios that have proved unrecoverable. The Banco Austral, Mozambique's second largest bank, was sold to a consortium led by Southern Berhad Bank of Malaysia in 1997, though the government retains a 40 percent share, which it also plans on selling.

With a share capital of $30 million, the Banco Internacional de Mocambique (BIM) is the third largest bank in the country. In January 2000, the Banco Comercial Portugues, the parent company of BIM, acquired Grupo Mello, the parent company of BCM. Consequently, 2 of the largest banks in Mozambique are now controlled by 1 bank in Portugal. Other important banks include the Portuguese-owned Banco Comercial e de Investimento and the Portuguese-South African Banco Standard Totta.

In addition to the network of banks, there are also several investment agencies operating in the Mozambican financial market, including the International Finance Corporation and the Commonwealth Development Corporation. Moreover, in 1999, a small stock exchange was established in Maputo with the assistance of the Lisbon stock exchange.

INTERNATIONAL TRADE

Like most countries in sub-Saharan Africa, Mozambique's international economic transactions are based on the exportation of agricultural commodities in exchange for capital goods. Since the international terms of trade accord higher value to the latter, Mozambique routinely suffers from a **balance of payments** deficit, hence, in part, its constant need to borrow money from the IFIs and wealthy foreign governments. The balance of trade deficit varies widely, depending upon, among other things, the market success of agricultural export commodities in a given year (as we have seen, this, in turn, depends on both weather conditions and international commodity prices). In 1995, for instance, the deficit stood at $552.7 million, while this figure increased dramatically to $930.9 million in 1999. In 2000, the gap between the value of imports vis-à-vis exports increased even more, with the latter outnumbering the former by more than 5 to 1.

Trade (expressed in billions of US$): Mozambique

	Exports	Imports
1975	.198	.411
1980	.281	.800
1985	.077	.424
1990	.126	.878
1995	.168	.784
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Mozambique's principal exports include prawns, cashews, cotton, sugar, copra, citrus, coconuts, and timber. The value of exports designated to the wealthy countries of the Organization of Economic Cooperation and Development (OECD), including Japan, the Netherlands, Portugal, Spain, the United Kingdom, and the United States, decreased considerably throughout the second half of the 1990s, dropping from $60.7 million in 1995, to $37.3 million in 1999. This decrease in export value, reflects, in large part, declining terms of trade and the market exit of peasant producers resulting therefrom (as was recently the case in the cotton sector). Conversely, the value of exports designated to African countries, mainly South Africa and Zimbabwe, increased somewhat during the same period—from $23.6 million in 1995, to $26.2 million in 1999. Increased trade between the countries of southern Africa has been facilitated by a rehabilitation of transportation infrastructure in Mozambique. With 16 percent of exports reaching the South African market, that country is Mozambique's second largest export partner, second only to Spain (17 percent).

Mozambique's chief imports include food, clothing, farm equipment, petroleum, and transport equipment. The value of imports from the OECD countries has also decreased considerably, falling from $46.7 million in 1995, to $27.2 million in 1999. This precipitous decline may reflect increased trade diversion (a redirecting of trade) towards South Africa, which increased its share of imports designated to Mozambique from $25.9 million in 1995, to $57.2 million in 1999. In 2000, South Africa accounted for 55 percent of all Mozambican imports.

As part of the country's structural reforms, the Mozambican government has promoted significant trade liberalization in recent years, simplifying its tariff structures and applying an average tariff of 13.8 percent to countries accorded most-favored nation status. Mozambique's tariffs are among the lowest import **duties** in southern Africa. While the international financial institutions and Western governments in general tend to support trade liberalization, it may have negative effects for a country like Mozambique that depends on agricultural exports in exchange for higher **value-added** capital imports. If Mozambican manufacturing firms cannot compete with their foreign counterparts, reduction of trade protection measures, such as tariffs, will simply lead to the retardation of the Mozambican industrial sector. The disastrous effects of tariff reduction on the cashew-processing industry is a case in point. The results of such negative developments might be further entrenchment of the agricultural sector in the economy, and thus the prolonging of the unequal trading patterns that sustain the country's severe balance of trade deficit. In such a context, it is hardly likely that Mozambique will benefit from the pro-trade idea of specializing in exporting products it produces comparatively better than other nations, and in importing those that it does not.

Mozambique is a member of the World Trade Organization (WTO) and the Southern African Development Community (SADC)—a regional trading agreement among 14 countries in southern Africa designed to lower tariff barriers between member countries. While it is difficult to justify completely free trade between wealthy and poor countries since they cannot compete from a level playing field, some argue that free trade between developing countries can be beneficial. The argument is based mainly on the idea that free trade between developing countries enables them to benefit from economies of scale in a more equitably competitive context. Still, more *relatively* developed countries, such as South Africa in the SADC, the most powerful economy in all of Africa, might benefit disproportionately due to their more competitive positioning.

MONEY

SAP-induced reforms in 1992 instituted a free **floating exchange rate** policy in Mozambique, with the value of the metical thereafter being determined by its supply and demand in international money markets. Prior to the reform, the Mozambican government followed a fixed exchange regime in which the metical was pegged to the U.S. dollar at a specific rate, subject to alterations only to rectify substantial distortions (severe imbalances between the market value of the metical against the U.S. dollar and the official value of the metical against the U.S. dollar).

Since the introduction of the free floating exchange regime, the metical has consistently depreciated vis-à-vis the U.S. dollar, meaning it takes increasingly greater quantities of meticais to equal the value of 1 U.S. dollar. In 1995, the **exchange rate** averaged Mt9,024.3 per US$1, with the rate depreciating to an average of Mt12,775.1 per US$1 in 1999, and an average of Mt13,392.0 per US$1 in 2000. The EIU expects that the rate will average at Mt16,225 per US$1 in 2001, and

Exchange rates: Mozambique

meticais (Mt) per US$1	
Jan 2001	17,331.0
2000	5,199.8
1999	12,775.1
1998	11,874.6
1997	11.543.6
1996	11,293.8

SOURCE: CIA *World Factbook 2001* [ONLINE].

Mt17,280 per US$1 in 2002. The substantial **devaluation** that occurred in 2001 reflects, in large part, a weakening economy affected by flooding and declining agricultural productivity.

While currency depreciation may be positive for the exporting sectors of the Mozambican economy, since less foreign money is needed to buy Mozambican exports which thereby renders them more attractive, it has the adverse effect of increasing the prices of imports. Imports become more expensive since more meticais are needed to purchase them. For a food-importing nation like Mozambique, increases in the prices of essential imports, such as wheat, can have negative consequences on the poorest segments of the society, who cannot afford to pay increased prices. In their zeal for export-led economic growth, however, the IFIs, which routinely apply pressure on sub-Saharan governments to continuously devalue their currencies, fail to take this negative affect into account.

POVERTY AND WEALTH

Though the vast majority of Mozambicans live in abject poverty, a small elite consisting of traders, politicians with business ties, foreign managers, and professionals working in the financial sector enjoy a life of luxury in the urban centers. This elite has benefited from the privatization and liberalization reforms associated with the SAPs, as they have largely displaced the state in the ruling positions of the economy. Unfortunately, policies such as the liberalization of the foreign exchange market, which enables business executives to easily acquire foreign currency, have increased the propensity of the elites to buy most of their commodities from sources abroad. Indeed, the Mozambican elite is particularly notorious for spending its money on the importation of luxury goods, rather than reinvesting in and supporting the local economy. As Joseph Hanlon notes, the elite travel extensively and identify more with the wealthy of western countries than they do with the Mozambican poor.

In contrast to the tremendous wealth of the small elite, the majority of Mozambicans find it difficult to provide for their basic needs. The **United Nations Development Program**'s (UNDP) human development index (HDI) listings, which arranges countries according to their overall level of human development, ranks Mozambique 168th out of a total of 174 nations. The HDI, a composite index (one that assesses more than one variable) that measures life expectancy at birth, adult literacy rate, school enrollment ratio, and **GDP per capita**, is indicative of a country's general social and economic wellbeing. As such, Mozambique's HDI ranking demonstrates that the country is one of the least developed in the entire world.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Mozambique	N/A	166	115	144	188
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Tanzania	N/A	N/A	N/A	175	173

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Mozambique

Lowest 10%	2.5
Lowest 20%	6.5
Second 20%	10.8
Third 20%	15.1
Fourth 20%	21.1
Highest 20%	46.5
Highest 10%	31.7

Survey year: 1996–97

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Although there are no recent statistics for public expenditure on education, UNDP statistics on support for the health sector indicate that the Mozambican government has considerably reduced its already meager health expenditure. In 1990, for instance, the government spent 3.6 percent of GDP on the health sector, whereas this figure dropped to 2.1 percent in 1998. Such cuts reflect so-called austerity measures induced by the SAPs, designed to decrease government spending to "free" revenue for **debt-servicing**. Comparatively, the United States spent 6.5 percent of GDP on health in 1998. The vast majority of Mozambicans, for their part, spend their meager incomes on the basic necessities of life, such as food, rents, clothing, fuel, and transportation. As a result of a declining economy and a deepening of poverty, however, Mozambicans consume somewhat less food calories on a daily basis then they did thirty years ago. In 1970, the average Mozambican consumed 1,896 calories, with this figure declining to 1,832 calories in 1997. Americans, in contrast, consumed on average 2,965 calories in 1970 and 3,699 calories in 1997. This is not surprising, considering the increase in the **gross national product** (GNP) per capita has been grossly outweighed by mounting **inflation** in the past 10 years. The UNDP estimates that the annual growth rate in GNP per capita between 1990 to 1998 was 3.5 percent, while the average annual rate of inflation during the same period was 41.1 percent. Fortu-

nately, inflation stabalized at 3.8 percent in 1998, though the GNP per capita in **purchasing power parity** (adjusted to compensate for the different pricing of goods and services in Mozambique in relation to the United States) the same year leveled at a paltry US$740.

WORKING CONDITIONS

In 2000, the total working population of Mozambique was estimated at 8 million. Since most Mozambicans work in the uncertain conditions of the agricultural sector, however, only 17 percent of this total earn regular wages. In terms of gender differences in the division of labor, women tend to work overwhelmingly in service-based activities, particularly in the informal sector. Furthermore, women tend to suffer from a double work-day, being forced out of economic necessity to engage in income-earning activities during the day, and then being responsible for the domestic household tasks at night.

There are 2 major trade union federations in Mozambique, collectively representing approximately 200,000 workers and 13 unions. The largest federation, the Organization of Mozambican Workers (OTM), was established following independence. The OTM was directly controlled by the government until 1994, at which time it officially declared itself free of any political party affiliation. Legislation passed in 1991 broke the OTM's legal monopoly over trade union activity. Immediately thereafter, a separate federation, the Free and Independent Union of Mozambique (SLIM), was established by 3 OTM-breakaway unions.

The Constitution permits workers to strike, with the exception of government employees, police, military personnel, and employees engaged in other essential services (which include sanitation, firefighting, air traffic control, health care, water, electricity, fuel, post office, and telecommunications). Numerous strikes have occurred over the past several years, many of which, according to the U.S. Department of State, are centered on issues related to privatization, salaries, and increases in wage levels. In accordance with the 1991 Labor Law, there are no known instances of employers seeking retribution against striking workers.

Children under the age of 16 years are prohibited from working in the wage economy. Since there is such a high adult unemployment rate—estimated at 50 percent—there are few violations of this law. Children often work on family farms and in the informal sector, however, in order to financially assist their parents. The harsh reality is that if children do not engage in activities to assist their parents in generating income, the family will not have enough money to eat.

Although Mozambique has a minimum wage, which averaged at $40 per month in 2000, it is not adequate to support even a small family of 3. Consequently, most workers rely on earning additional income in the informal sector, in addition to growing corn and vegetables on small plots of land for personal consumption. The legal limitation of a workweek for workers in the non-agricultural sector is 44 hours, while employees are entitled to 1 rest day per week. Despite detailed legally defined health and safety standards, reports indicate that violations of such standards are commonplace. In 1995 alone, 524 major accidents occurred in the building, timber, and mining sectors.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

11TH CENTURY. Arab and Swahili traders settled along the coast of present-day Mozambique. The Kiswahili language developed as the most used language for trade between the newcomers and the Bantu inhabitants of the interior. Sofala became a particularly important gold and ivory exporting center.

16TH CENTURY. Following Vasco da Gama's visit to Mozambique in 1498, the Portuguese began extending their influence along the coasts of East Africa. Though they succeeded in establishing their commercial dominance on the coast of Mozambique, their presence in the interior was severely limited. Portuguese traders engaged in selling gold, ivory, and slaves.

17TH CENTURY. Several Portuguese adventurers eventually founded feudal kingdoms in the interior, where they created large estates called *prazos* on which Africans were forced to work. Though the *prazeros*—the owners of the estates—were theoretically subordinate to the Portuguese crown, they ruled their kingdoms ruthlessly and autonomously.

1752. Mozambique became a separately administered Portuguese territory, under the head of a captain-general.

1820s. The Portuguese were displaced from southern Mozambique by groups of Nguni-speaking people from South Africa, though they still retained nominal colonial control.

1880s. The ignominious scramble for Africa commenced among the European powers, and Portugal's claims to Mozambique were officially recognized. The British and the Portuguese subsequently established treaties demarcating colonial zones in southern and eastern Africa.

1890–1920. Portugal forcefully established its hegemony over the entire Mozambique region in a series of wars against the African populace. Thereafter, a

coercive economy was established in which Africans were forced to labor on lands taken over by whites in the production of export crops.

1950–1975. Throughout the 1950s, a nationalist anti-colonial sentiment developed, eventually crystallizing in the united-front movement called FRELIMO. The latter commenced a guerrilla war against the Portuguese in 1964, which, in conjunction with a coup d'etat in Portugal that placed an anti-colonial regime in power, enabled Mozambique to achieve independence in 1975 under the leadership of Samora Machel. A massive exodus of Portuguese settlers followed, leaving the country with a complete lack of professional expertise and productive machinery.

1975–1992. FRELIMO implemented a socialist economy based on extensive nationalization of industry, state-controlled land reform, and a heavily supported social sector. By the 1980s, Mozambique became a "Cold War battlefield" in which RENAMO, a counter-insurgency organization funded by the racist regime in South Africa, waged war against the government. After much destruction and the complete dissolution of the economy, a truce was implemented between RENAMO and FRELIMO in 1992. The former subsequently became a legitimate political party and was integrated into a newly created multi-party democratic system.

1990s. Under the leadership of Joaquim Chissano—Machel's successor—FRELIMO abandoned its Marxist orientation. The World Bank and the IMF, which had established limited control over Mozambique as early as 1984, fully imposed their **structural adjustment programs**, emphasizing mass privatization, trade liberalization, currency devaluation, foreign investment, and stabilization policies. Though a certain amount of economic growth has occurred throughout the "SAP era," there has also been an increase in poverty and a foreign take-over of the economy.

FUTURE TRENDS

The economic and political trends that have characterized Mozambican development since the peace accords of 1992 are symptomatic of the larger trends that have prevailed throughout most of sub-Saharan Africa. In the main, SAPs have failed to solve the longstanding problems of unemployment, mass poverty, balance of payments deficit, insecure informal employment, debt, inequality, and lack of access to essential social services. In many cases, these problems have actually been exacerbated by inappropriate policies, such as reckless privatization and trade liberalization. Although the country experienced a considerable rate of growth throughout the 1990s, much of this growth has disproportionately benefited a small minority of business elites, and can be attributed to the termination of the civil war and the massive increase in foreign investment. As for the latter factor, it is debatable how beneficial a role FDI will play in the development of the Mozambican economy.

Politically, the cessation of the civil war and the more or less successful integration of RENAMO into the political system represents a positive development. If the economic situation as experienced by the vast majority of the Mozambican populace continues to deteriorate, however, the sustainability of the democratic process might be jeopardized. Already, the U.S. State Department has warned that political unrest and discontent are increasing in the country. The IMF and World Bank's recently touted Heavily Indebted Poor Countries (HIPC) initiative—which substantially reduces the debt and debt-servicing obligations of severely poor nations—is a first step in the reformation of the largely negative role that the IFIs have played in sub-Saharan economies. It will take much more than this initiative, however, to dramatically alter the course of development of African countries. True development will not occur until free-market panaceas (cure-alls) are discarded and a more contextual development scheme—one which possibly includes a strong role for the state—is promoted by the international community.

DEPENDENCIES

Mozambique has no territories or colonies.

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—Neil Burron

NAMIBIA

Republic of Namibia

CAPITAL: Windhoek.

MONETARY UNIT: Namibian dollar (NAD). One dollar equals 100 cents. There are coins of 1 and 5 dollars, and bills of 10, 50, 100, and 200 dollars. The Namibian dollar is linked on an equal basis to the South African rand, which is also accepted as currency in Namibia.

CHIEF EXPORTS: Diamonds, copper, gold, zinc, lead, uranium, cattle, fish products, karakul skins.

CHIEF IMPORTS: Foodstuffs, petroleum products and fuel, machinery and equipment, chemicals.

GROSS DOMESTIC PRODUCT: US$7.1 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$1.4 billion (f.o.b., 1999 est.). **Imports:** US$1.5 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

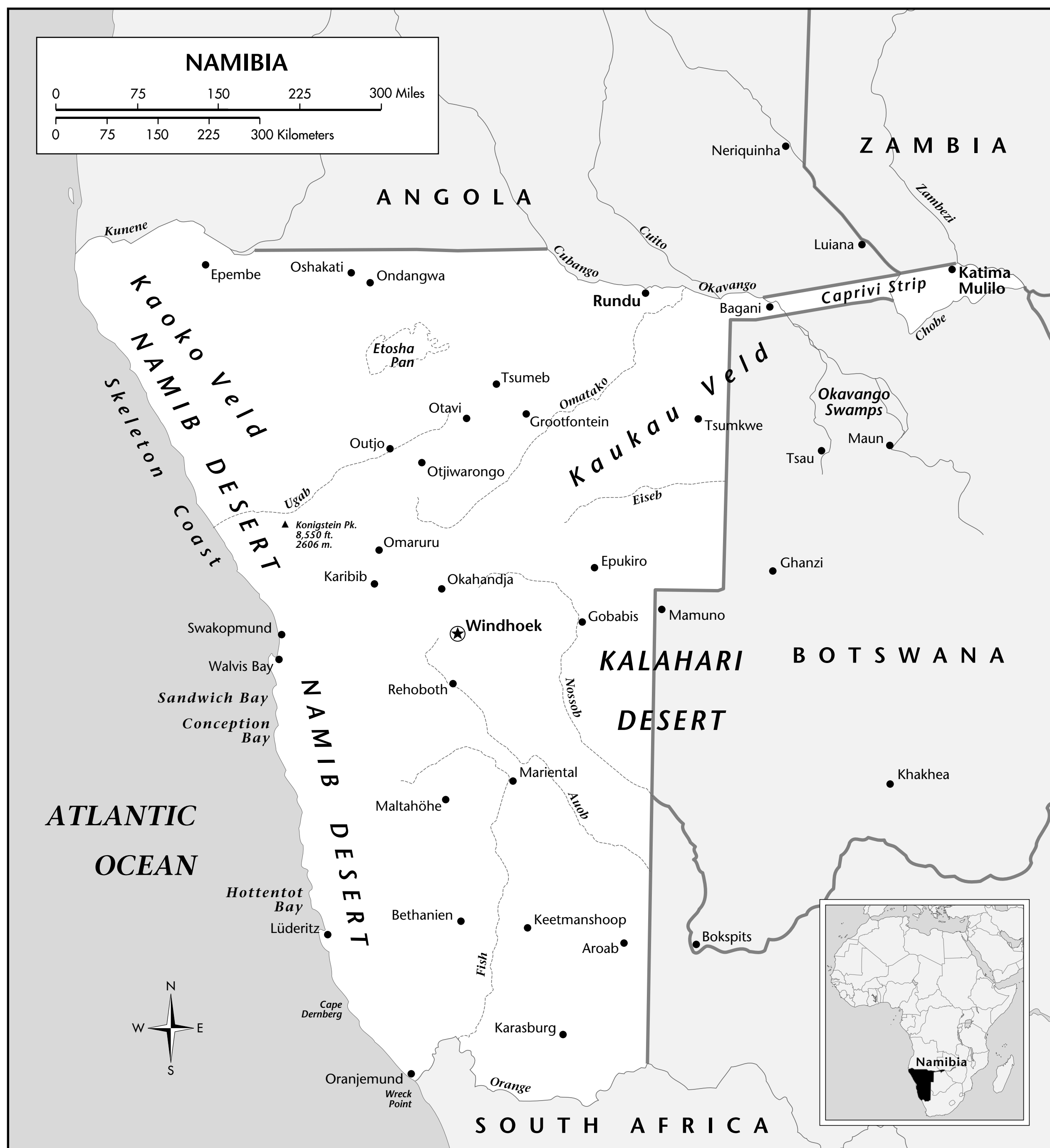
LOCATION AND SIZE. The Republic of Namibia lies across the Tropic of Capricorn in the south of Africa and covers an area of 824,292 square kilometers (318,259 square miles), making it slightly more than half the size of Alaska. It is bordered by South Africa to the south and southeast, Botswana and Zimbabwe on the east, Angola on the north, and the South Atlantic Ocean on the west. The Caprivi Strip, a narrow extension of land in the extreme northeast, connects it to Zambia and Zimbabwe. The country is divided into 3 broad zones: the Namib desert to the west; the Kalahari desert to the east; and the Central Plateau. The plateau—made up of mountains, rocky outcrops, sand-filled valleys, and undulating upland plains—covers over 50 percent of the land area. The plateau includes Windhoek, the capital, and slopes eastwards to the Kalahari basin and northward to the Etosha pan, the largest of Namibia's saline lakes.

POPULATION. Namibia's population was estimated to be 1.771 million in 2000, with a birth rate of 35.23 per 1,000 people in 2000 (down from 43 in 1970). The average annual growth rate was about 2.7 percent between 1970–90, falling to 2.5 percent between 1990–97. Population density is extremely low overall, at about 2 people per square kilometer (5.18 per square mile), and 35 percent of the population lives in urban areas. The urban growth rate averaged 5.7 percent annually between 1980–96. Life expectancy in 1997 was estimated at 56 years (up from 48 years in 1970). The population was young, with 43 percent below the age of 15 and just 4 percent above the age of 65.

The Ovambo and Kavango people together constitute over 60 percent of the population. Other groups are the Herero, Damara, Nama and the Caprivians. The San (Bushmen)—who are among the world's oldest surviving hunter-gatherers—have lived in this territory for over 11,000 years. The Basters who settled in Rehoboth in 1870 stem from marriages between white farmers and Khoi mothers in the Cape area. The "Cape Coloreds," immigrants from South Africa, tend to live in urban areas. Of the white group of approximately 90,000, about 50 percent are of South African and 25 percent of German ancestry, about 20 percent of the latter Boer "sudwesters" (longer established immigrants) with a small minority of British ancestry. The population is mostly Christian. English is the official language but is first or second language to only about 20 percent of the population.

OVERVIEW OF ECONOMY

With a **gross domestic product (GDP) per capita** of US$1,940 in 1998 (**purchasing power parity** of US$4,300 in 1999), Namibia is relatively prosperous in the African context, where the average is US$480 per head. This comparative wealth reflects a large and fairly diversified mining sector. Namibia's economy is export-driven, focussing mainly on mining and fish processing. Since independence, exports of diamonds, uranium, zinc, and fish products have grown significantly.



Rural people, however, remain largely unaffected by the growth of modern economic activities in their country and generally support themselves through subsistence agricultural activities and herding. According to UN reports, Namibia has one of the most uneven distributions of income in the world, meaning that the average income for the white minority is significantly higher than that for the majority black population. The reason for this imbalance lies in the economic structure that was imposed by colonial history. Ranches were established as white settlers displaced Africans on two-thirds of the viable farmland, an outcome that is beginning to concern the government following the land-issues explosion in Zimbabwe. The government's current objectives are to raise per capita income, to develop the **private sector**, and to encourage manufacturing activities and tourism. It is also committed to restraining growth in public spending.

The economy remains narrowly based, growth being determined largely by mining and agriculture, especially

fishing. The mining sector generates high incomes but is not well integrated with the rest of the economy. About 90 percent of the goods produced in Namibia are exported, and about 90 percent of the goods used in the country, including about one-half of the food, are imported. Despite frequent drought, large ranches generally provide significant exports of beef and sheepskins.

During the early 1980s, Namibia experienced a deep economic **recession**, intensified by war, severe drought, and low world prices for the country's mineral products and for sheepskins. In real terms, output declined by more than 20 percent over the period 1977–84, representing a fall of about one-third in real purchasing power. From the mid-1980s there was a modest economic recovery. The GDP increased by 3 percent in 1986 compared with a decline of 0.8 percent in 1995, and there were further increases in the following year until 1989 when it declined by 0.6 percent. This sluggish rate of growth was due to a number of factors, including depressed international prices for the country's mineral products, a corresponding decline in mining production, and poor performance of the South African economy, to which the Namibian economy is closely linked.

The 1990s have been better. The **real GDP** increased by 5.1 percent in 1991 and 3.5 percent in 1992 owing primarily to higher diamond output and increases in the output of the fishing and construction sectors. The GDP grew by 6.6 percent in 1994 after a decline of 2.0 percent in 1993, by 3.3 percent in 1995, and 2.9 percent in 1996. It slowed down to 1.8 percent in 1997 largely due to the impact of adverse climatic conditions on agriculture and fishing. The government estimated the GDP growth of 2.6 percent in 1998, with considerable advancement in the fishing and manufacturing sectors partially offset by the adverse impact of the Asian economic crisis on the mining sector.

POLITICS, GOVERNMENT, AND TAXATION

At the end of World War II South Africa set out to make Namibia into a South African province, initiating a decades long struggle on the part of people living in Namibia to claim independence. The fight for independence was led by the South West Africa People's Organization (SWAPO). In 1977, a UN contact group comprising the 5 western members of the security council—the United Kingdom, France, the United States, Canada, and West Germany—began to negotiate for Namibia's independence directly with South Africa and SWAPO. In 1978, South Africa announced its acceptance of the contact group's settlement proposal. However, in May of that year, South African forces attacked SWAPO's refugee transit camp at Cassing in South Angola, leaving 600 dead, and the settlement was abandoned.

Independence discussions continued for 10 years and, during this period, South Africa began to ease its grip on Namibia, allowing a transitional government of national unity (a coalition of 6 parties) to take control of internal affairs from June 1985. In November 1989, UN-supervised elections were held, and Dr. Sam Nujoma was elected and inaugurated as the president of Namibia in February 1990. One month later, on 21 March 1990, Namibia attained independence. Nujoma has been re-elected in 1995 and 1999. SWAPO has continued to have an overall majority of seats in National Assembly, with 55 seats in 1999 compared to the opposition's 17. The largest opposition party is the Congress of Democrats (COD) with 7 seats. In the National Council SWAPO has 21 seats, and 6 seats are held by the 2 opposition parties. The largest opposition party in the National Council is the Democratic Turnhalle Alliance of Namibia (DTA) with 5 seats.

The constitution provides for a multiparty democracy in a unitary state. The president is head of state and government and commander-in-chief of the defence forces. Elected by direct universal adult suffrage at intervals of not more than 5 years, the president must receive more than 50 percent of the votes cast.

The president appoints the government, the armed forces chief of staff, and members of a public service commission, but the National Assembly may revoke any appointment. The president may dissolve the National Assembly and may also proclaim a state of emergency and rule by decree, subject to the approval of the National Assembly.

There is a bi-cameral legislature. The National Council with 26 members is chosen from the elected regional councils. The National Assembly has 72 elected members and up to 6 nominated but non-voting members serving for a maximum of 5 years. The National Assembly can remove the president from office by passing an impeachment motion with a two-thirds majority. The prime minister is leader of government business in the National Assembly.

The constitution includes 25 entrenched clauses regarding fundamental human rights and freedoms. There is no death sentence nor detention without trial, and the practice and ideology of apartheid is expressly forbidden. Private property rights are guaranteed. Amendments to the constitution can only be made by two-thirds majorities in both houses.

Namibia raises most of its government revenue from trade taxes (customs **duties** and export **levies**), and 30 percent of the public income came from these sources in 1993. Sales taxes and taxes on incomes each raised 29 percent of the total, and the remaining government revenue (12 percent of the total) came from surpluses on

government-owned enterprises (10 percent) and other taxes (1 percent).

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Namibia has an immense network of 64,800 kilometers (40,267 miles) of roads but only 7,800 kilometers (4,847 miles) are paved. A 4,600 kilometer (2,858 mile) tarred highway network links most of the economically-significant areas and neighboring countries. The Trans Caprivi Highway and the Trans Kalahari Highway were 2 long-haul road projects completed in the late 1990s to run through Botswana to South Africa. These arteries enable Namibia to provide land-locked central African countries with an outlet to the sea, as well as reducing journey times to Johannesburg, South Africa.

The 2,382-kilometer (1,480-mile) railway network was established under German colonial rule and much-needed upgrading was underway by the mid-1990s. A total of 1.8 million tons of freight were transported by rail in 1996–97, of which 70 percent was national traffic. Rail passenger numbers dropped from 159,000 in 1992 to 82,000 in 1994 but recovered to 124,000 in 1996 as a result of more investment and better services.

Namibia Shipping Lines was established in 1992 under the transport **holding company** Trans-Namb in a **joint venture** with South Africa's Unicorn line. The Namibia Port Authority in 1996 launched a 4-year (US$77 million) plan to modernize and extend the facilities at Walvis Bay and Lüderitz. Walvis Bay, the nation's only deep-water port, is the main export outlet, handling around 2 million tons of cargo a year, 20 percent of which is containerized. Petroleum products constitute the largest import category, salt the largest export category. Use of Lüderitz, Namibia's second operating port, has also increased, due to a rise in fishing activities. A third harbor is planned for Mowe Bay, north of Walvis. This would also serve the fishing fleet.

Air transport is important because of Namibia's size. Air Namibia, the national carrier, is another subsidiary of Trans-Namib. Since independence, a regional and international flight network has been set up, in addition to already established domestic routes. There are more than 135 airports, 22 of which have paved runways, including the international airport outside Windhoek.

Namibia in 1999 was a net energy importer, obtaining half its electricity from South Africa. It produced 1.198 billion kilowatt-hours of electricity in 1999, about 98 percent of which came from hydroelectric plants, but the country had to import over 600 million kWhs of electricity to supply its needs. Mining is a heavy energy consumer but most households still have no access to commercial energy supplies. Commercial energy is mainly obtained from imported oil and South African coal. The larger population centers in the north and northeast are being connected to the national electricity grid.

Drilling by Shell in the offshore Kudu gas field confirmed the presence of very significant reserves that would make the country a net exporter of energy. Development of the field began in 1998 with the first gas scheduled for production in the early 2000s.

Namibia maintains a free press. There were 19 newspapers, including the pro-government, but independent, daily newspaper in 1996. There are 9 radio stations which cover 80 percent of the population, and the 1 television network covers 45 percent of the population, all under the control of the Namibia Broadcasting Corporation. There is growing competition from South Africa. TV broadcasts are in local languages as well as English. There were 143 radios, 32 TV sets, and 19 PCs per 1,000 people in mid-1998.

There is an efficient postal service. The telephone system was upgraded and extended under a US$31 million investment program in 1993–97. There were some 80,000 telephone and 5,000 fax subscribers in 1997. A fully automated digital network was in operation by 1997.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Namibia	19	144	37	N/A	12	N/A	18.6	11.73	6
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
Angola	11	54	14	N/A	1	N/A	0.8	0.00	10

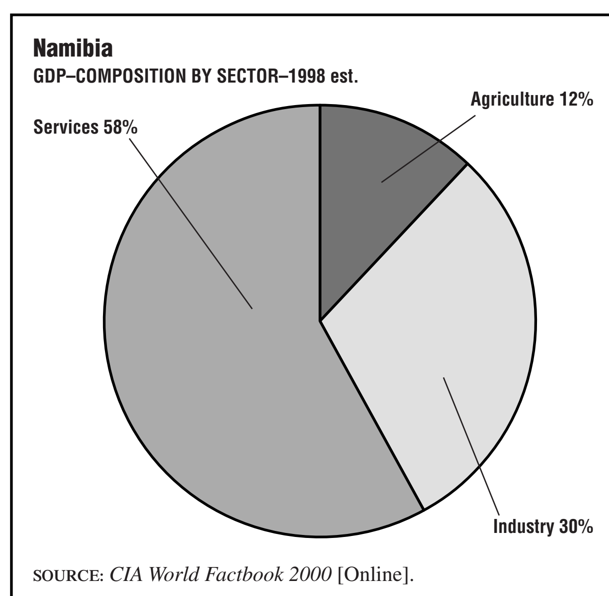
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

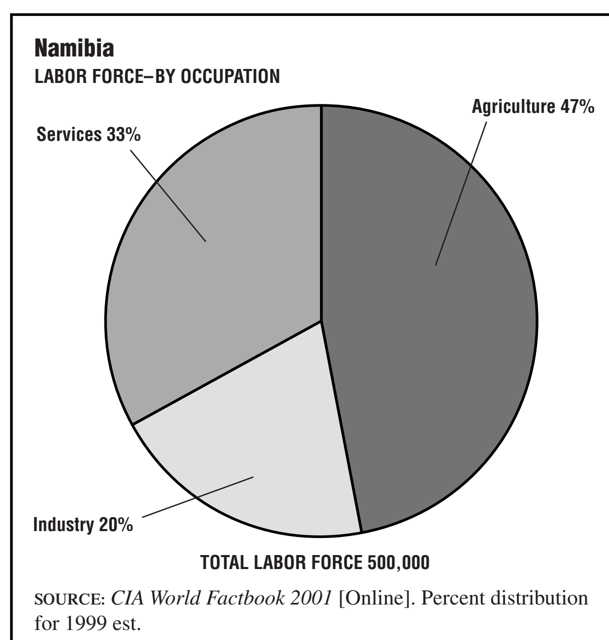
Telecom Namibia has set up a GSM standard cellular telephone network, in conjunction with 2 Swedish companies. There were 58 main telephone lines and 8 mobile phones per 1,000 people in 1997.

ECONOMIC SECTORS

The economy remains narrowly-based, growth being determined largely by mining and agriculture, with the fishing sub-sector of agriculture being particularly important. Agriculture accounted for 12 percent of the GDP and 47 percent of employment in 1998, industry 30 percent of the GDP (of which mining was 13 percent) and 25 percent of employment, with services providing 58 percent of the GDP and 28 percent of employment.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1999 est.

AGRICULTURE

Agricultural output (including fishing) grew by 1.8 percent a year in the 1980s and by 4.0 percent a year between 1990 and 1997. Agriculture and fishing together contributed 12 percent of the GDP in 1998, but animals and meat products contribute 16 percent of export earnings (1998), and around 70 percent of the population are directly or indirectly dependent on farming for their livelihood. In 1997, about 227,000 cattle and 954,000 sheep and goats were produced. The food crops are millet, sorghum, maize and some wheat. Namibia imports up to 50 percent of its food needs.

Since independence, the government has planned to combat the inequitable system of land ownership, with huge ranches co-existing with marginal communal **subsistence farming**. A commercial land reform act passed in 1994 allows the buying-up of empty or underused commercial farms for redistribution to communal farmers. The droughts of 1991–92 and 1994–95 severely affected cattle grazing and cereal production, necessitating widespread food relief.

Fishing contributed 4 percent of the GDP in 1998 while fish and fish products comprised over 30 percent of Namibia's export earnings. The main fish species are pilchard, mackerel, and hake. A 370-kilometer (230-mile) **exclusive economic zone** has been established, halting over-fishing of deep-water species by foreign trawlers. Despite the growth in fish export value, the fish catch declined after 1993's record 784,000-tonne haul to 488,000 tonnes in 1997.

INDUSTRY

Overall, the industrial sector—which includes mining, manufacturing, construction, electricity, water, and gas—generated 34 percent of the GDP in 1998.

Mining contributed 13 percent of the GDP and is the largest source of export earnings. Namibia has great mineral wealth including diamonds, uranium, copper, zinc, gold, and silver. Diamond production was about 1.4 million carats in 1998, contributing more than a third of foreign exchange earnings.

Before the country's independence in 1990 large areas of Namibia were opened to oil and gas prospecting, but as yet there have not proved to be major reserves of either fuel source. On-shore reserves are becoming depleted but off-shore output has risen quickly, helped by new mining technology.

Uranium production grew by 45 percent in 5 years to 1998, with 3,257 tons of uranium oxide mined in 1998. It is estimated that the large Rossing uranium mine has deposits to last until 2020. Copper production fell from 30,000 tons in 1994 to 8,000 tons in 1998, but a new copper mine at Haib started production in 1999 with a projected output of 115,000 tons annually. Moreover, sea salt is produced from coastal brine pans at Walvis Bay and Swakopund.

Although large zinc deposits were discovered in 1976, the technique needed to extract the metal from the ore has only recently been developed. Zinc production has been rising from the mid-1990s. It was confirmed in November 1998 that the Skorpion mine and refinery were to be developed with a projected output of 150,000 tons of refined zinc and an expected contribution to the GDP of 5 percent.

In 1998, manufacturing generated 17 percent of the GDP, and it was mostly located in the capital, Windhoek, and in some of the coastal towns. The sector comprises mainly processing of agricultural products for export and for domestic consumption. Fish processing is particularly important, and it makes up a quarter of the output of the manufacturing sector. Other important activities include the processing of meat and dairy products, beer and soft-drink production, metal fabrication (particularly the production of cans for fish), wood products, chemicals (particularly paints and plastics), and garment and leather goods manufacture.

Electricity is generated from a hydroelectric installation at Ruacana and from a coal fired station in Windhoek. When Ruacana water levels are high, electricity is exported to South Africa, and when the water levels are low, electricity is imported. There are some off-shore gas reserves at Kudu, and it is hoped these can be developed to diversify Namibia's sources of electricity generation

SERVICES

This sector contributed up to 58 percent of the GDP in 1998. The sector comprises business services and financial services, government services, community and personal services, and other services.

The financial sector includes the central bank, the Bank of Namibia, whose role is to issue notes and coins, act as banker for the commercial banks and the government, hold the country's reserves of gold and foreign exchange, regulate the financial sector, and act as lender of last resort to the banks when they run short of cash. Bank Windhoek, Commercial Bank of Namibia, First National Bank of Namibia, City Savings and Investment Bank, Namibia Post Savings Bank, and Standard Bank of Namibia are commercial banks, taking deposits from the public and lending to individuals and businesses. The Agricultural Bank of Namibia specializes in lending to the farm sector. Electronic and automatic banking are very advanced, and Namibia has benefitted from South African expertise in these areas in the period prior to independence.

Wholesaling and retailing and personal services depend on the general growth of the economy and have grown steadily in recent years. One feature is the prevalence and efficiency of large-scale supermarkets and department stores, all of which are managed by South African companies. Such stores only exist in the very largest of the cities, however.

Tourism has grown strongly during the 1990s, generating receipts of US$210 million in 1997 (12 percent of exports of goods and services) from 410,000 visitors, mainly from South Africa and Germany. Tourist attractions include wildlife parks and nature reserves (comprising in all 102,000 square kilometers or 12 percent of the land area in 1994), such as the famous Etosha Park, and spectacular desert scenery.

INTERNATIONAL TRADE

Namibia's economy is export-driven. Exports comprise 45 percent of the GDP by value and totaled US$1.4 billion in 1999. Exports of goods and services grew at 2.5 percent annually between 1965 and 1997. The main exports are diamonds, uranium, copper, zinc, gold, fish, fish products, cattle, sheep, goat and meat products. The principle destinations of exports are the United Kingdom (43 percent), South Africa (26 percent), Spain (14 percent), France (8 percent), and Japan (3 percent).

Namibia relies heavily upon imports to meet its needs, with 48 percent of the GDP being spent on goods produced outside Namibia and imports totaling US$1.5 billion in 1999. The principle imports are beverages, food, tobacco, fuel, vehicles, transport equipments, machinery, electrical goods, clothing, footwear and industrial raw materials. Imports are sourced primarily from South Africa (84 percent), with some goods coming from Germany (3 percent), the United States (2 percent), and Japan (2 percent).

The trade balance is continually in deficit, by somewhere between US$270 million in 1997 to US$100 million in 1999. There is also a deficit on the services account on the **balance of payments**, and these 2 deficits combined equal between US$60 million and US$140 million a year. These 2 deficits are covered by receipts from foreign investment in Namibia and from aid, the latter equivalent to about 5 percent of the GDP, or about US$155 million in 1997.

Exchange rates: Namibia

Namibian dollars per US$1	
Jan 2001	7.78307
2000	6.93983
1999	6.10948
1998	5.52828
1997	4.60796
1996	4.29935

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The Namibian dollar (NAD) is at par with the South African rand and has been affected by the rand's decline in value on the world currency exchanges. The rand was approximately at par with (equal in value to) the U.S. dollar in 1982, but by 2001 the rand (and the Namibian dollar) had depreciated to NAD8.224=US$1. The Namibian dollar is part of a de facto rand area of countries which peg the value of their currencies to the rand; this rand area includes Swaziland and Botswana. The **inflation rate** has been showing gradual improvement as the country settles into independence, with the rate falling steadily from 10 percent a year in 1995 to around 5 percent in 2000.

Namibia had a stock exchange founded in the early 1900s, in the southern town Lüderitz. It quoted companies that were established in the great diamond rush, reached a peak in 1910, but closed when the diamond rush was over. During the period of administration by South Africa, companies in Namibia were quoted on the Johannesburg Stock Exchange. At independence in 1990, it was decided to establish a stock exchange, and it finally opened in 1992, growing from 4 listed companies and 1 stockbroker at inception, to 36 listed companies and 7 stockbrokers in 2000.

POVERTY AND WEALTH

The GDP per capita (according to the purchasing power parity conversion which allows for the low price of many basic commodities in Namibia) stood at $4,300 in 1999, which places Namibia near the top of the lower middle-income countries in the world ranking. In the mid-1990s surveys indicated that 35 percent of the population were below the US$1 per day poverty line. About 49 percent of the **labor force** is employed in agriculture, most of which is subsistence farming, and the greatest incidence of poverty is in the rural areas. The high incidence of poverty, despite the relatively high levels of income per head, is an indication of the considerable inequality between the (mostly white) workers in the mining sectors and the rest of the workforce.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Namibia	N/A	2,384	2,034	1,948	2,133
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Angola	N/A	698	655	667	527

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

The rural poor work by tending family cattle or caring for small family-owned farms under harsh living conditions. They live in wood frame houses with mud walls and hard dirt floors. Mostly they eat cooked cereals and drink milk from their livestock, and rarely, if ever, eat meat. Their clothes are secondhand pieces which came from Europe and were bought in local markets. Water comes from wells, with some piped water in villages; cooking is done over wood fires and lighting is from small kerosene wick lamps, although there is electricity in the larger villages. Sanitation is provided by pit latrines. Still, there is primary education for 90 percent of the children, and dispensaries in villages provide basic health care.

In the towns, for those with employment, conditions tend to be better. Lower middle-class people may live in cement block houses with tin roofs and concrete floors. They have electricity some of the time, and water. Schools and hospitals are nearby. The poor live in slums where they have created rude shelters out of throw-away cloth, cardboard, or plastic. They use pit latrines and communal water taps.

WORKING CONDITIONS

The labor force comprised around 500,000 people in 1997, of which 41 percent were female and 20 percent were aged 10–14 (34 percent in 1980). The labor force grew at 2.4 percent a year between 1980 and 1997. Around 16,500 people enter the labor market each year. A high proportion of the workforce remains illiterate and unskilled. Agriculture provides employment for nearly half the workforce. Excluding subsistence farmers, the government is the biggest employer, accounting for over 70,000 jobs (18 percent of the workforce). There were 8,000 employed in the armed forces in 1995 (1.3 percent of the labor force).

In the colonial period a stream of African migrant workers came from the rural areas of Namibia and nearby countries such as Angola, Botswana, and Zambia. The development of the early mines and ranches depended on these sources of cheap labor. In the diamond and uranium

mines, where profits have been high and the wage bill a small proportion of costs, the situation has changed, and these enterprises now pay the highest wages in the country. Elsewhere, particularly on the ranches, wages remain extremely low.

Unemployment figures have little significance in Namibia. There are very few with no work at all. Estimates in 1977 indicated that those who are unemployed or **underemployed** make up between 30 percent to 40 percent of the workforce, but this is almost all underemployment. There is no unemployment benefit, and those who do not work rely on support from charities or their families. Many people would like a modern sector job, but eke out an existence on family farms or in casual **informal sector** activities (such as **hawking**, portering, and scavenging) in the urban areas.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1884. South West Africa (SWA) is declared a German protectorate.

1915. South African troops defeat Germans and occupy SWA during World War I (1914–18).

1920. SWA is mandated to South Africa by the League of Nations.

1925. South Africa grants limit self-government to the territory's white inhabitants.

1945. The United Nations (UN) calls for Namibia to become a UN Trusteeship but is rebuffed by South Africa.

1950. The International Court of Justice (ICJ) rules that SWA remain under an international mandate.

1957. The Ovamboland People's Congress (OPC) is formed, with its main objective being the securing of independence for Namibia.

1958. OPC is renamed Ovamboland's People's Organization (OPO) and in 1960 becomes the South West Africa People's Organization (SWAPO) under the leadership of Sam Nujoma.

1966. The UN General Assembly terminates South Africa's mandate over SWA, placing it under UN control. South Africa ignores this and extends its apartheid laws to SWA. SWAPO launches an armed struggle against the South African regime in Namibia.

1968. The United Nations renames the country Namibia.

1971. The ICJ rules that South Africa's claims to Namibia are invalid.

1973. The UN General Assembly recognizes SWAPO as the sole legitimate representative of the Namibian people.

1978. The Democratic Turnhalle Alliance of Namibia (DTA) wins elections boycotted by SWAPO and a South African-backed internal government is established. The UN Security Council adopts Resolution 435, which calls for Namibia's independence.

1988. The terms of Resolution 435 are finally set in motion as part of a tripartite agreement formally signed by Angola, Cuba, and South Africa.

1989. In UN-supervised elections held in November SWAPO wins 41 seats in a 72-member Constituent Assembly; the DTA wins 21 seats. In December the Constituent Assembly introduces proposals for a draft constitution.

1990. On 9 February, the constitution is formally adopted. Sam Nujoma is elected as the country's first president, and SWAPO forms a government. On 21 March, Namibia becomes independent, the Constituent Assembly becomes the National Assembly, and the president assumes executive powers. In March, Namibia becomes a full member of the Southern Africa Customs Union (SACU), the UN, Organization of African Unity, and the Commonwealth.

1995. Sam Nujoma is elected president for a second term, and SWAPO forms government.

1999. Sam Nujoma elected president for a third term, and SWAPO forms government.

FUTURE TRENDS

Namibia's economic fortunes will continue to be dominated by neighboring South Africa for the foreseeable future. It is part of the Common Monetary Area (CMA) with Lesotho, South Africa, and Swaziland, and a member (with Botswana, Lesotho, South Africa, and Swaziland) of the Southern Africa Customs Union (SACU). CMA membership provides stability of **exchange rates** between the member countries and encourages trade between them, and SACU, by abolishing **tariffs** and other trade restrictions between members, also encourages trade. Its abundant mineral reserves and rich fisheries are expected to form the basis for Namibia's future economic prosperity.

The economy is expected to expand in the coming years owing to factors such as expanded output of offshore diamond mining, resumption of copper mining, and increased fish catches. Economic advancement has hitherto been accomplished primarily by the extractive (the withdrawal of natural resources by extraction with no provision for replenishment) industries and these benefits have

yet to filter to the wider economy in terms of increased employment and more equitable income distribution.

Namibia has moved from colonial rule to independence with relatively little economic or social upheaval and has introduced public economic policies and physical **infrastructure** that should lead to long-term development and growth. The democratic process is well established, the government is secure, and the stability of the political process and the business environment is well established.

DEPENDENCIES

Namibia has no territories or colonies.

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—Allan C. K. Mukungu

NIGER

Republic of Niger
République du Niger

CAPITAL: Niamey.

MONETARY UNIT: Communauté Financiaire Africaine Franc (CFA Fr). One franc equals 100 centimes. CFA franc notes are in denominations of 500, 1,000, 2,500, 5,000, and 10,000 notes, and coins of 1, 5, 10, 25, 50, 100, and 250 francs.

CHIEF EXPORTS: Uranium, livestock and animal products, cowpeas, and onions.

CHIEF IMPORTS: Consumer goods (cereals, petroleum products), and intermediate and capital goods.

GROSS DOMESTIC PRODUCT: US$10 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$385 million (f.o.b., 1999). **Imports:** US$317 million (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Niger is a landlocked West African country. It is bordered by Algeria and Libya to the north, Nigeria and Benin to the south, Mali and Burkina Faso to the west, and Chad to the east. Niger is about 600 kilometers (373 miles) from east to west at its widest point and about 400 kilometers (248 miles) north to south, and it extends into the Saharan desert. Niger's land area is 1,267,000 square kilometers (48,919 square miles), almost twice the size of Texas. Naimey, the capital city, is in the southwest, and both it and Agadez have international airports.

POPULATION. The population is estimated at 10,355,156 in July 2001. Of Niger's 10 main ethnic groups, the Hausa accounted for 56 percent of the population in 1998. They were followed by the Djerma-Songhai (22 percent), the Fula (8.5 percent), the Tuaregs (8 percent), the Kanouri (4 percent), with Toubous, Arabs and Gourmatche making up 1 percent of the population. About 80 percent of Nigeriens are Muslim. The official language is French, but Djerma and Hausa are also spoken.

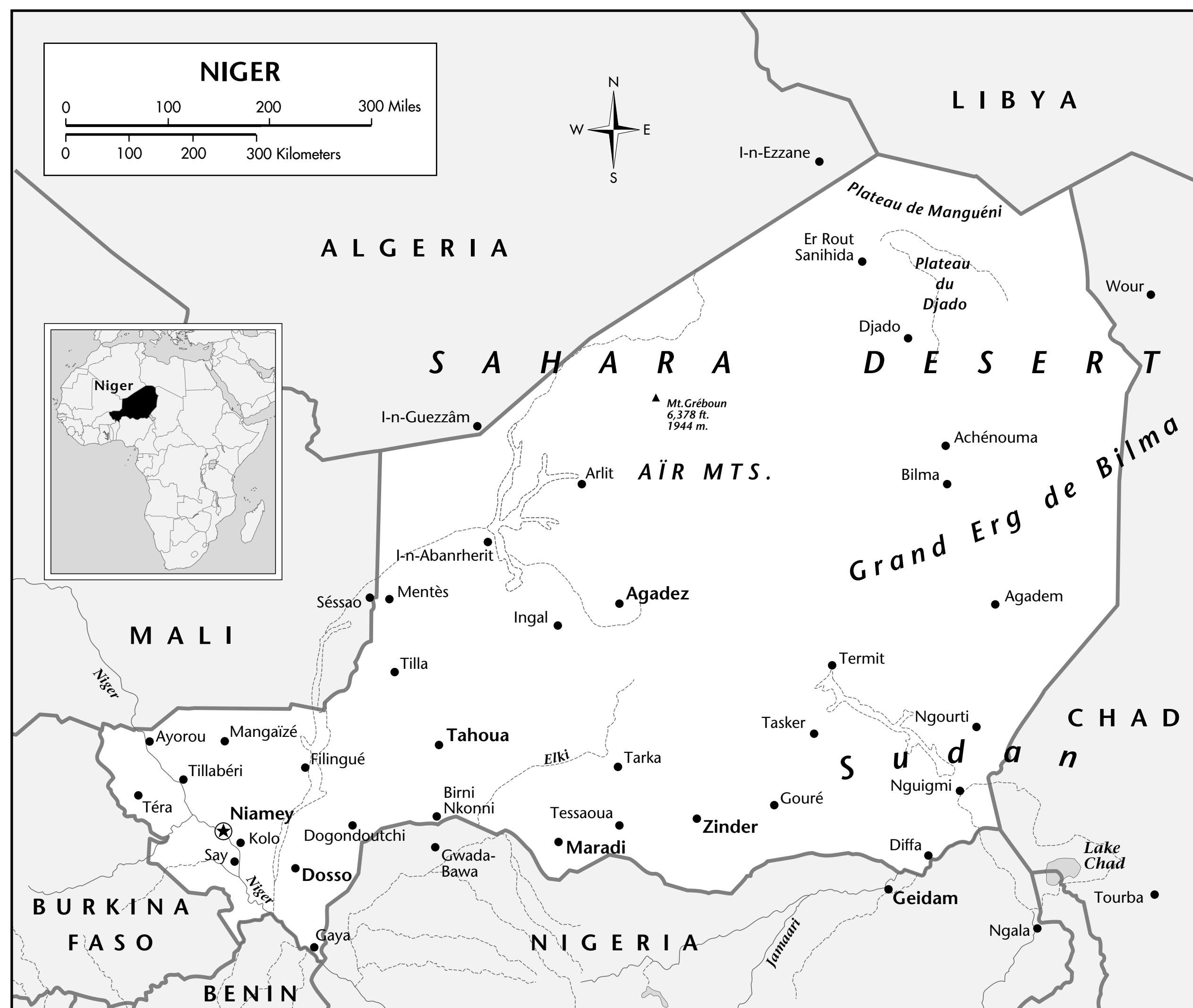
The vast majority of the population lives in rural areas (81 percent), but urban populations are growing at a rate of 5.7 percent per year. The population is estimated to be growing at 3.2 percent per year, and the United Nations estimates the population in 2025 will be 22.4 million. This figure is mainly due to the high fertility rate of 7 children born per woman (2000 estimate), although this rate is falling.

OVERVIEW OF ECONOMY

Niger has a predominantly rural and poorly diversified economy, which is very vulnerable to outside factors (including swarms of locusts, drought, the exhaustion of natural resources, and world prices). Some improved prosperity was experienced in the 1970s due mainly to revenue from uranium. The decline in world uranium prices, the lack of rainfall, poor governance, and economic turmoil in a major trading partner, Nigeria, led to an economic decline in the 1980s. In the 1990s there was a modest improvement, with the **gross national product** (GNP) per head rising at 0.8 percent a year.

Niger is one of the 20 or so poorest countries in the world. The GNP per head measured by the **exchange rate** conversion is US$190 (in the United States, by way of comparison, it is US$29,340 per head). The **purchasing power parity** conversion (which makes allowance for the low price of many basic commodities in Niger) estimates the GNP per head at US$830. Similarly, the **gross domestic product** (GDP) per head was estimated at US$1,000 in 2000.

The economy depends heavily on agriculture, which accounted for 40 percent of the GDP in 1998. More than 90 percent of the population depends on subsistence agriculture (even urban dwellers maintain strong links to the countryside) and on the export of uranium. The main food



crops are groundnuts, millet, sorghum, cassava, rice and cowpeas, and cotton is grown for industrial use. Livestock reared includes cattle, sheep goats, and poultry. Industry, which provides 18 percent of the GDP, is small and consists mainly of uranium mining, the manufacturing of construction materials, textiles, the processing of agricultural products and brewing and soft drinks. In 1998 **retail** and wholesale trade, hotels and restaurants generated 17 percent of the GDP, transport and communications 5 percent, and with the rest of the services sector 20 percent.

Such low income means that 84 percent of total expenditure in Niger goes to consumption. Saving is very low at 3 percent, and, even with international aid, this in turn limits investment to 10 percent of the GDP—barely enough to maintain the capital stock at its current level. This means that worn-out machinery can be replaced and buildings, roads, ports, and airports kept in repair, but no increase in these can be made available. As more machinery and **infrastructure** are necessary for economic growth, production stagnates.

The major challenges are to restore flows of foreign aid (which have been cut as a result of the period of military rule from 1998 to 1999) and to implement the **liberalizing** reform program demanded by the international donors. The major demands on the public purse are to pay 40,000 civil servants and service the country's **external debt**. The government has pleaded for the early resumption of aid, and although some bilateral aid has been forthcoming, institutional and multilateral aid has been far more problematic. The prime minister has sought to reassure donors that poverty is the government's main concern, and the revival of the $580 million poverty eradication policy has won support from some key donors.

The government has instituted a series of economic reforms, mainly in the area of public finances, by streamlining the civil service, accelerating **privatization**, and increasing revenue collection. The government has also in-

troduced many redundancies (duplication designed to prevent failure of the entire economic system because of the failure of one component). A weakness is the narrowness of the tax base, which extends to no more than a third of the country's economic activities. Most trade is dominated by a dozen families, who are widely suspected of avoiding taxes. Despite more than a decade tax reforms backed by the International Monetary Fund (IMF), little has improved, with fiscal revenue less than 10 percent of the GDP. But with the threat of civil unrest, the government finds it difficult to increase taxes while decreasing public wages. Thus deficits have been covered by creating **arrears**, putting a strain on donor relations.

Only 3 out of 12 major public companies have been sold in the period from 1996 to 1999, but to appease the IMF the government has declared that it is determined to continue to privatize. Sonitextil (textiles) has been sold to a Chinese corporation; Olani (milk production) has been sold to a private Nigerian company; Société Nationale de Ciment (SNC) (cement) has been sold to a Norwegian company. However, the disposal of further services (including the post service, petrol, and electricity) looks to be held up by a lack of external funding to prepare these sectors for privatization.

Niger has never suffered the same high rates of **inflation** as some of its neighbors, due to its membership of the Franc Zone (the use of a **fully convertible currency**, the CFA franc, pegged to the French franc) and the tight monetary and fiscal rules imposed by the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO). However, the **devaluation** in 1994 of the CFA franc was a major inflationary problem for Niger, which imports most of its manufactured **consumer goods**. The government struggled to bring remuneration in the **public sector** under control, which delayed a new agreement being signed with the IMF. However, the government's efforts to curb inflation were successful in bringing inflation down to 36 percent , rather than seeing it reach the feared 100 percent. Inflation began to slow in 1995 and became negative in 1999 due to an excellent harvest.

POLITICS, GOVERNMENT, AND TAXATION

France took little interest in developing Niger during its colonial rule from the start of the 20th century until 1959, when uranium deposits were discovered. Independence was gained a year later and Hamani Diori became the first president. Widespread political corruption and drought in 1968 and 1969 brought civil disorder, at which point the army intervened. Lieutenant Colonel Seyni Kountche then ruled through the Conseil Militaire Supreme (CMS). Shortly before his death in 1987, he tried to create a legitimate face for the CMS by introducing a National Charter. His successor, Aly Saibou, proposed a single-party constitution, that was passed in a 1989 referendum. The only legal party was then the National Movement for Developing Society (MNSD).

Internal social and political pressure built up in 1990–91 with demands for a multi-party state. Aid donors also began exerting force to move Niger towards democracy. Saibou eventually heeded the calls, and in 1991 a national conference was called, leading to a multi-party constitution. Legislative elections were held in 1993, and the MNSD gained 29 of the 83 seats, while the opposition Alliance de Forces de Changement (AFC) won 50 seats and formed the new government. Mahamane Ousmane, the AFC's candidate, was elected president the following month. However, the government soon ran into problems. Unrest, following the 1994 devaluation of the CFA franc led to the prime minister's resignation, fresh elections in 1995, and a period of limited cooperation between the MNSD leader, the prime minister and the president. Although achieving little in this period, the government did manage to sign a peace agreement with the Tuareg (a nomadic trading people, operating across Niger, Nigeria, Burkina Faso, Senegal, and Mali, with whom there had been armed conflict) to prevent further insurgencies.

In 1996 the army chief of staff, Colonel Ibrahim Mainassara, seized power. A new multi-party constitution was introduced, followed by an election, which Mainassara won amid malpractice protests. The opposition boycotted the legislative election and formed the Front pour la Restauration et la Defense de Democratie (FRDD) to denounce Mainassara's manipulation of the electoral process and to demand new elections. In 1997 and 1998 there were union and student demonstrations, which resulted in violent clashes with the government. Unrest in the armed forces and Tuareg insurgency created further problems for the new government.

It was hoped that the participation of FRDD in the 1999 local elections would usher in a new era of reconciliation. However, administrative muddle and indecisive results marred the election. President Mainassara was shot and killed 2 months later by members of the presidential guard. A new military council was formed by the chief of the presidential guard, Major Daouda Wanke, who became president. This military coup cost Niger much international goodwill, and many donors froze payments. Wanke was forced to announce elections and a new constitution in 1999 and stepped down with constitutional immunity from the law.

Presidential and legislative elections were held in late 1999. The new president, Mamadou Tandja, a retired colonel, won 60 percent of the vote in the second round of elections, and his MNSD, together with the Convention Democratique et Sociale (CDS), holds a majority of

seats in parliament. Elections were deemed to be satisfactorily free and fair, leading to the resumption of donor aid, although political stability is still very fragile. General army discontent over wages and conditions could well lead to a mutiny or coup. In addition, social unrest, spurred by union protests over the non-payment of salaries, has continued. The European Union, whose aid is frozen, is backing demands for an inquiry into assassinations which implicate Major Wanke.

A referendum on the present constitution (the fifth in recent years) received 90 percent of the vote on a 30 percent turnout in 1999. The constitution seeks to share power between the president and the prime minister, and the president is elected for a period of 5 years. The parliament is also elected for 5 years. The president may dissolve the assembly once in a year and picks the prime minister from a choice of 3 selected by a parliamentary majority. The constitution allows for a 7-member constitutional court, which interprets the constitution and validates electoral results; an electoral commission to supervise and organize elections; an economic, social and cultural council (which is in charge of examining relevant bills) and a media watchdog, the Communication Council. In May 2000 a high council of national defence was created to run the armed forces.

The discontent of the Tuareg and other communities has died down, following the deal that was brokered in 1995. The rebellion cost hundreds of lives, affected infrastructure, and stopped promising tourism in the desert town of Agadez. By mid-1999, most Tuaregs had turned in their weapons, in return for jobs in the armed forces or other sectors. Following these developments tourism has picked up in Tuareg areas. However, the government now faces problems from the Toubou community in the east.

Most of the 11 privately-owned papers suffered harassment, closures, and arrests under the Mainassara regime. The only private FM radio station also reported harassment. The state controls most radio and television broadcasts. But a more moderate press law was enacted in 1998.

Niger raises less than 10 percent of the GNP in tax revenue and received a further 2 percent in surpluses from state-owned enterprises, mainly **monopolies**. About 25 percent of government spending goes on social services (which includes health and education), about 15 percent on military equipment and the armed forces, with the remainder absorbed by general public sector administration.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Despite much donor funded improvement, the transport system remains inadequate, with only 8 percent of the 6,800 kilometers (4,225 miles) of roads being paved, although international road transport has improved with the completion of the Zinder-Agadis Road (part of the Trans Sahara highway). Although there remains no railway network in Niger, there is an emphasis on increasing access to the sea via waterways through neighboring states to the south.

There are international airports at Naimey and Agadez, and 25 other towns have airports or landing strips. Naimey is the busiest airport and is served by several regional and international carriers.

There are about 14,000 telephones in Niger, and most main towns have public telephones. The international telephone service links Naimey to Nigerian and French installations. There are an estimated 38,000 televisions and 500,000 radios in use in Niger.

In the energy sector there have been substantial rises in fuel prices, by more than 20 percent, in 2000. This rise has increased prices throughout the economy by making transport and electricity more expensive, although output is these sectors has remained more-or-less unchanged. Domestic electricity is mainly thermally generated, with some rural solar energy. Electricity consumption rose to

Communications

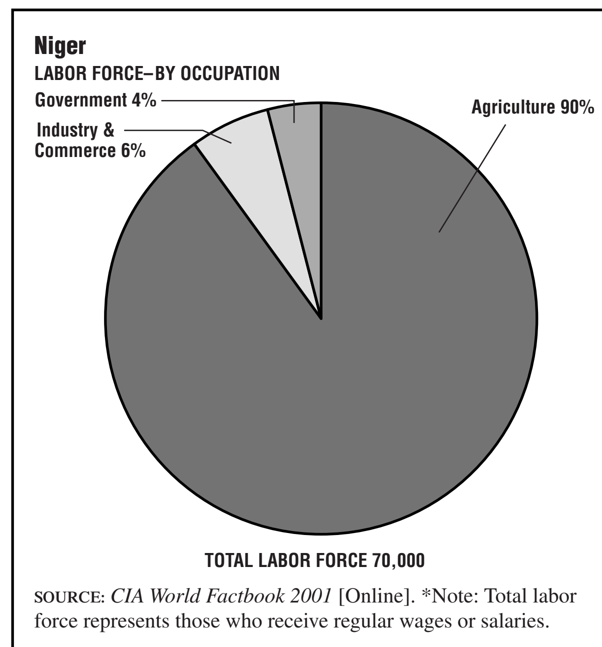
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Niger	0	69	27	N/A	0	N/A	0.2	0.03	3
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Chad	0	242	1	0.0	0	0.0	N/A	0.00	1

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

268 million kilowatt hours (kWh) in 1998, but production, due to poor maintenance of installations was a mere 28 million kilowatt hours. The rest is bought from Nigeria, but the country has suffered frequent power cuts due to rationing of the supply from Nigerian. A new hydroelectric dam has been proposed 180 kilometers from Naimey. The government petrol company, Sonidep, and the state electricity company, Nigelec, have been slated for privatization.

Sonichar (a **parastatal**) began opencast coal mining in Anou Arraren in 1981 to provide fuel for the local power plant and provide energy for the uranium mines and industry near Arlit, as well as the towns of Agadez and Tchirozine. Reserves stand at 6 million metric tons, and production has been 150,000 metric tons per year since 1983.

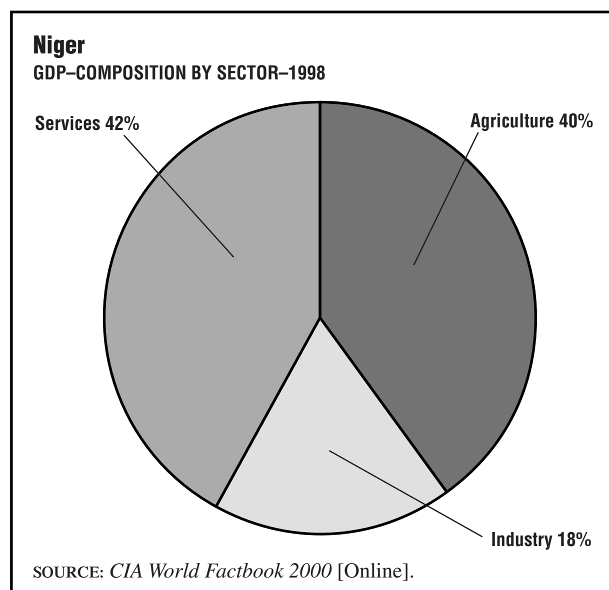


SOURCE: *CIA World Factbook 2001* [Online]. *Note: Total labor force represents those who receive regular wages or salaries.

ECONOMIC SECTORS

Niger depends most on agriculture, for both output and employment, and this fact reflects Niger's low level of development. Agriculture (including hunting, forestry, and fishing) employed 90 percent of the population in 1998 and provided 40 percent of the GDP. This is a much higher reliance on agriculture for production than is general in Africa, where, on average, 17 percent of the GDP comes from farming. The involvement of the **labor force** in agriculture, too, is well above the African norm, where on average 68 percent of the workforce are engaged in farming.

Industry (including mining, manufacturing, construction and power) employed 4 percent of the population (in Africa generally, it is 9 percent) and produced 18 percent of the GDP (the all-Africa figure is 34 percent). Services generated 42 percent of the GDP in 1988 (compared with Africa generally at 50 percent) and employed 6 percent of the working population (whereas the all-Africa figure was 23 percent).



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Niger's food supply problems have eased due to excellent harvests from 1998 to 2000. Food crop production (mainly millet, sorghum, paddy rice, and pulses) has benefitted from regular rains and has helped keep consumer price inflation low. However, production is very vulnerable to rainfall, disease, and pests. Famines are a constant fear and are exacerbated by poor food storage, despite measures taken since the droughts of the 1970s and 1980s.

Cereal imports vary between 10 percent and 40 percent of yearly requirements, although in millet and sorghum Niger is self-sufficient. About 44,000 metric tons of rice and 39,000 metric tons of wheat are imported to meet needs every year. with rice coming from Asia and other cereals coming from the West African region.

Most cultivating farms are family **smallholdings**. Livestock rearing is undertaken in arid areas and provides 10–15 percent of the GDP. After uranium, live cattle is the largest export, mainly to Nigeria. Niger's other export crops (cotton, ground nuts, and cowpeas) are also mainly exported to Nigeria but have suffered with the collapse of world oil prices and the consequent downturn of the Nigerian economy (Nigeria's exports are more than 95 percent oil) since 1985.

INDUSTRY

Modern manufacturing accounts for less than 1 percent of the GDP, and mainly consists of soaps and detergents, bottled drinks, and the processing of agricultural products. Two Chinese companies purchased an 80 percent stake in the textiles company, Sonitex, in 1997, and output of Sonitex fabrics totalled 5.6 million meters in 1998. Niger also has a 35,000 metric ton capacity cement plant, and several smaller factories supply local markets with metal goods and construction materials.

Uranium mining began in 1971 in the open desert near Arlit. In 1998 output was 3,561 metric tons per year, making Niger the third largest producer in the world. Mines are operated by Cominak and Somair (two private companies), though the government maintains an interest through the national mining office, Oranem. Technical support is provided by the French company, Cogema, which has a contract until 2003. New agreements from 1995 allow Somair to exploit new reserves at Takriza and Toumou, which total 15,000 metric tons. Cominak and Somair produce roughly 2,000 and 1,000 metric tons per year respectively, but both have suffered from reduced revenue due to the fall in the world price of uranium. As a result Somair has more than halved its workforce to 400, and Cominak is also expected to introduce retrenchments

After positive exploration surveys, gold production is expected to stimulate the mining sector. Revision of the mining code in 1993 to offer a 5-year **income tax** break for larger companies and no import **duty** on mining equipment makes a very appealing package for foreign investors, and several companies have moved into the Liptako area. Recent seismic surveys for copper, lithium and molybdenum also produced promising results. Cassiterite is also currently mined at a few small sites.

SERVICES

Between 1988 and 1992 4 banks collapsed: the development bank, Banque de Developpement de la Republique du Niger (BDRN), and commercial banks. Remaining are 2 development banks along with 10 other banks and financial sector institutions. The development banks borrow on international capital markets and lend to large scale business enterprises and public sector projects. The commercial banks and savings banks take deposits from the public and lend to individuals and smaller business enterprises. The commercial banks are also engaged in foreign exchange dealing.

The transport sector is very underdeveloped. There is no railway, and the Niger River is only navigable for 3 months of the year when rain increases the water level. Almost all freight travels by road along the borders with Nigeria, Benin, Burkina Faso, and Mali. The most northerly point reached is Agadez, 300 kilometers (186 miles) from the Nigerian border, with minimal transport in the northern half of the country. There are 27 airports, of which 9 have paved runways.

Retail and wholesale distribution is undertaken by small traders predominantly in open-air markets where a wide range of foodstuffs, second-hand clothing imported from Europe, and household utensils fabricated from scrap metal, are on sale.

Niger has considerable tourism potential which was starting to expand in the 1980s. Then Tuareg rebellion closed the main attractions, such as Agadez, the capital of the desert zone. Since the peace agreement with the Tuareg in 1995, the number of tourists has begun to increase, mainly to the Tenere Desert, the Air Mountains and the Niger River, reaching 55,000 in 1999. The tourist experience focuses on the attractions of desert life and the exotic nomadic groups, such as the Tuareg, who inhabit the arid regions.

INTERNATIONAL TRADE

Niger runs a continuous deficit in merchandise trade, with exports in 1997 at US$300 million and imports at US$441 million. This deficit is met by international aid, mostly from France.

Niger's exports in 1995 were mainly uranium (49 percent), livestock and meat products (17 percent), and cowpeas (7 percent). Most of Niger's exports, mainly the uranium, went to France (74 percent), Côte d'Ivoire (8 percent), and Nigeria (3 percent).

Imports in 1995 were dominated by consumer manufactures (62 percent), machinery and vehicles (20 percent), cereals (10 percent), and fuels (8 percent). France provided most of Niger's imports with 19 percent of the total, and other sources of imports were Cote d'Ivoire (12 percent), Germany (2 percent), and Japan (2 percent).

In 1994 devaluation of the CFA franc enhanced the profitability of exports and discouraged imports. Conse-

Trade (expressed in billions of US$): Niger

	Exports	Imports
1975	.091	.101
1980	.566	.594
1985	.259	.369
1990	.283	.389
1995	.287	.374
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Niger

Communaute Financiere Africaine francs (CFA Fr) per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Niger

Lowest 10%	0.8
Lowest 20%	2.6
Second 20%	7.1
Third 20%	13.9
Fourth 20%	23.1
Highest 20%	53.3
Highest 10%	35.4

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

quently the **trade deficit** fell to half its 1980 level, and in 1997 it stood at US$141 million. Trade with Nigeria, which is Niger's biggest regional trading partner, has improved greatly since the 1994 devaluation. However, much of this trade, as in the case of other neighbors, is smuggled across unsecured land borders and goes unrecorded.

MONEY

Niger is part of the 8-member UEMOA, and the currency is the CFA franc. Niger's Central Bank (BCEAO) holds the monetary reserves of all member states and is obliged to hold 65 percent of foreign reserves at the French treasury. France in turn guarantees convertibility of the CFA franc within UEMOA. The BCEAO issues currency notes and regulates credit expansion throughout the region. The CFA franc was pegged to the French franc at 50: 1 from 1948 but because it was overvalued in the late 1980s it was devalued to CFA franc 100:1 French franc. With France having joined the European Monetary Union, the CFA franc is now tied to the euro at 655.959:1.

POVERTY AND WEALTH

Rural people eke out a slim, almost life-threatening existence tending their herds or their small farm plots. Their houses are made of wood with dirt. They eat mostly cooked cereal and milk, but they rarely eat meat. Their clothes are secondhand, sent from Europe to be sold in local markets. Water comes from wells, cooking is done over wood fires, and lighting is from small kerosene wick lamps. Sanitation is provided by pit latrines. Children are unlikely to go to school, and there are seldom operating health facilities close-by.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Niger	298	328	242	235	215
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Chad	252	176	235	228	230

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

In the towns, for those with employment, conditions tend to be better. The lower middle class lives in housing made of cement blocks with tin rooftops and concrete floors. There is electricity and water some of the time. Moreover, schools and dispensaries are close. The poor live in slums where they construct their shelters from scraps of material, plastic, and rusty metal sheets. They use pit latrines and communal water taps. Urban poor have better access to medical care and schools for their children, but there are shortages of these facilities, and often the charges are too high for a poverty-stricken family to afford.

Niger is a low income country, and 61 percent of the population were below the US$1 per day poverty line in 1992, with the incidence of poverty greatest in the rural areas. Niger is ranked 173 out of 174 countries in the United Nations Human Development Index.

Average life expectancy is estimated at 47 years, and this age is a significant improvement on the 1970 figure of 38 years. Infant mortality is estimated at 125 deaths per 1,000 births (in the United States the rate is 7 per 1,000) and 320 children out of every 1,000 will die before the age of 5. There are 3 doctors and 70 nurses per 100,000 people.

AIDS is a growing problem, and the Ministry of Health estimated that there were 93,008 sufferers in 1998, with 5,378 deaths attributed to the disease. A National Commission to combat AIDS was set up in 1987. However, Islamic groups still oppose the promotion of condoms.

Niger's educational provision outside towns is rudimentary, and class sizes are universally large. There is 1 university at Naimey, as well as several small colleges. However, they are very under-funded, and close frequently due to student or teacher strikes over grants and salaries. Adult literacy was 14 percent in 1997, primary school enrollment was 24 percent, and secondary was 9 percent. There is also a large disparity between men and women in terms of access to education, with almost twice as many males enrolled as females.

WORKING CONDITIONS

The total labor force in 1998 was estimated at 5 million, of which 44 percent were women. Most children aged 10–14 have to work, and 45 percent of children in this age group were in the labor force. Children start helping with farm work from as early as 5 years of age. The public sector employs 39,000 (and is the only significant formal employer), while small shops and industry account for a few thousand jobs, as does mining. The rest of the population makes a living in agriculture, on small family farms, or in herding livestock. Gender disparities are high: while 41 percent of women work, only 8 percent hold administrative or managerial positions, and they account for only 8 percent of professional and technical workers.

The unemployment rate has little meaning in Africa. There are no social security provisions, and those without work or support from families or charities cannot survive. For much of the year in **subsistence farming** there is relatively little work to do, and this is shared among the family members. During planting and harvesting, there is more work to be done, and everyone is more fully occupied, but even in these periods, there may be more than enough labor to do the tasks, and the work is again shared. Since people share the farm work it appears that all of them have occupations in agriculture, but these workers are not engaged full time for all the year, and hence there is some "disguised unemployment." In the urban area those without formal sector jobs and any family or charitable support survive by casual **hawking**, portering, and scavenging.

The number of people earning regular wages or salaries is 70,000. There is a formal minimum wage. The government, under IMF pressure, has been streamlining the civil service, and government employees have lost their jobs, which will undoubtedly bring the government trade union trouble.

Trade unions in Niger are strong, with around 70 percent of public sector workers and more than 50 percent in the **private sector** unionized. The unions are militant, and strikes, which often lead to civil unrest, are not uncommon and have brought down governments. The present government, much like those of the past, faces much pressure from the public sector unions, which as well as protesting over pay arrears, have also opposed privatization, with support from students.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1900. Niger becomes a French colony.

1958. Niger is allowed internal self-government.

1959. Uranium deposits are discovered.

1960. Niger becomes fully independent with Hamani Diori as the first president.

1969. Drought and civil disorder disrupt the country, and the army takes control under Lt-Col. Seyni Kountche.

1987. Kountche dies, and Col. Aly Saibou assumes the presidency.

1989. Single-party constitution is passed by a referendum.

1991. Multi-party constitution introduced.

1993. Mahamane Ousmane is elected president.

1994. CFA franc is devalued, raising the domestic prices received for exports and increasing export volumes, while at the same time increasing import prices and reducing import volumes, these 2 factors combining to reduce the trade deficit.

1996. Col. Ibrahim Mainassara seizes power.

1999. Mainassara is shot and Major Dauda Wanke becomes president. Later, Wanke steps down, and Mamadou Tandja is elected president.

FUTURE TRENDS

On the political front, President Tandja faces militant unions who are demanding a year's salary arrears, and the opposition has become increasingly confrontational. A fashion fair has provoked Islamic fundamentalism. Political stability is still under threat as Tandja's government moves towards strong-arm tactics to clamp down on protests and civil disorder in 2001. Civil unrest serves to discourage both domestic and foreign investment, and strikes and demonstrations seriously impair economic progress.

Niger continues to participate in regional developments, such as the free trade initiatives of the Economic Community of West African States (ECOWAS) and UEMOA, but they will have limited impact as so little of Niger's trade is with neighboring countries.

The economy depends heavily on the fortunes of the agriculture sector and on the volume of the output of uranium, and the price received for it. With drought a chronic problem and minimal investment, it is to be expected that agriculture will continue to stagnate. There are no immediate prospects that the world will increase its demand for nuclear power, and the prospects are for a continuation of the depressed price for uranium and no significant increase in production from Niger's uranium sector. Niger faces the prospect of continuing economic stagnation and greater reliance on the international community for aid to maintain living standards at even their depressed current levels.

The IMF is hoping to approve new loans, but the government will struggle to meet the required conditions. The World Bank has approved a $35 million loan to help fiscal reforms and to cover the trade deficit. Inflation pressures will grow due to the increases in petroleum prices. Electricity cuts have been less frequent, but lack of rain may lead to food shortages following the 2000–01 season. In terms of international aid, the European Union has started disbursement of $48 million worth of loans, and other European countries have also begun significant disbursement of funds in Niger.

DEPENDENCIES

Niger has no territories or colonies.

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—Jack Hodd

NIGERIA

Federal Republic of Nigeria

CAPITAL: Abuja.

MONETARY UNIT: Naira (N). 1 naira equals 100 kobo. Coins in denominations of 1, 5, 10, 25, and 50 kobo, and notes in denominations of 5, 10, 20, and 50 naira are issued.

CHIEF EXPORTS: Petroleum and petroleum products, cocoa, rubber, lumber, and peanuts.

CHIEF IMPORTS: Machinery, chemicals, transport and electronic equipment, manufactured goods, food, and live animals.

GROSS DOMESTIC PRODUCT: US$110.5 billion (purchasing power parity, 1999 est.).

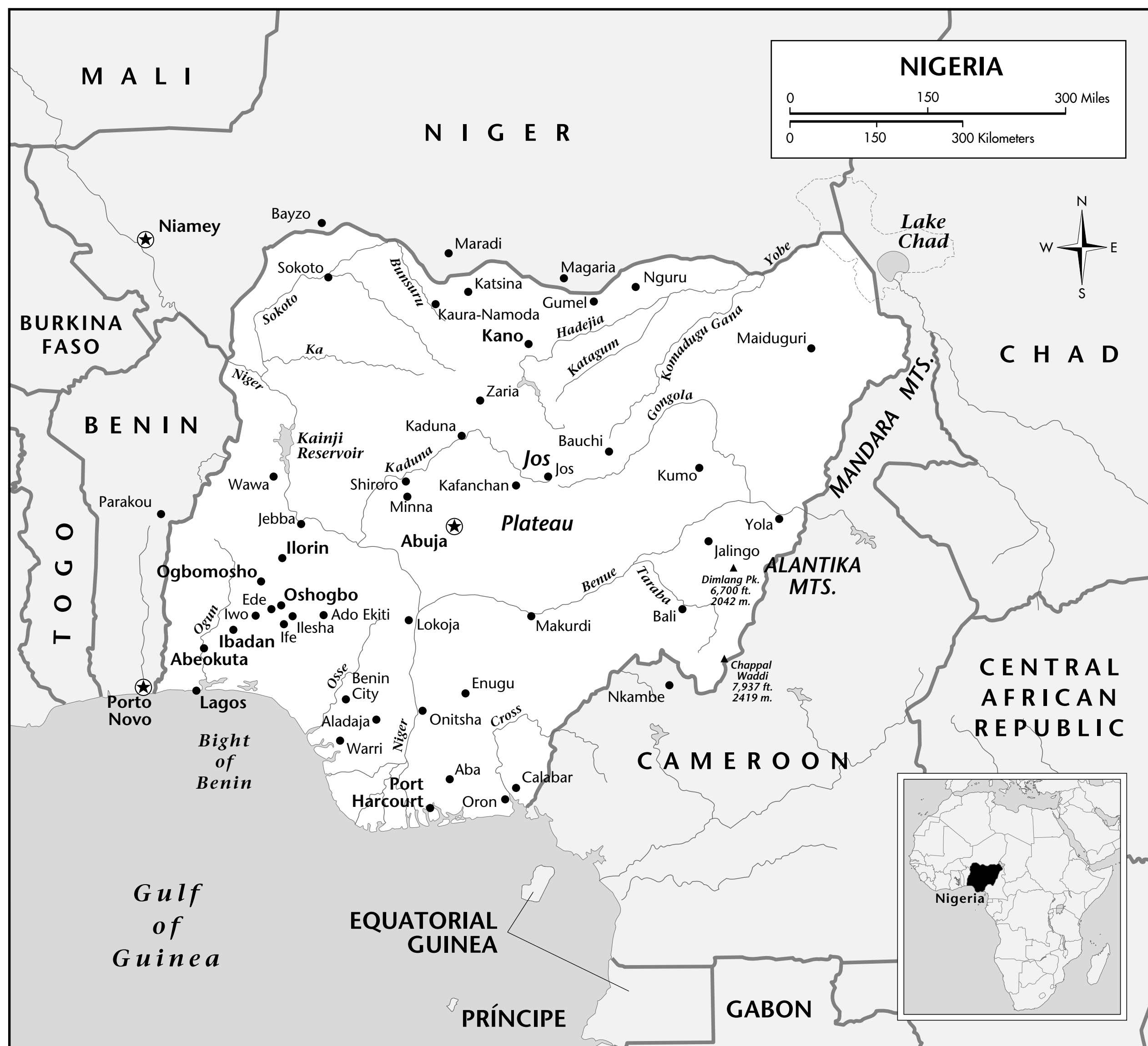
BALANCE OF TRADE: **Exports:** US$13.1 billion (f.o.b., 1999). **Imports:** US$10 billion (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Nigeria is located in Western Africa, and borders the Gulf of Guinea, between Benin on the west and Cameroon on the east. It has a compact area of 923,768 square kilometers (356,376 square miles). The country's land mass extends from the Gulf of Guinea in the south to the Sahel (the shore of the Sahara Desert) in the north. Comparatively, Nigeria is slightly more than twice the size of California, or the size of California, Nevada, and Arizona combined. Abuja, the capital city of the Federal Republic of Nigeria, replaced the former capital city, Lagos, in December 1991, because of its more central location, among other reasons. Lagos remains Nigeria's commercial capital. Other major Nigerian cities include Ibadan, Kaduna, Kano, Maiduguri, Jos, Port Harcourt, Enugu, Calabar, and Aba.

POPULATION. Accurate population counts for Nigeria are difficult to obtain because such figures are tied directly to representation in the National Assembly and distribution of national wealth; therefore, they are often skewed by groups vying for political or economic advantage. In the absence of an accurate census, it is impossible to determine how many people live in Nigeria beyond rough estimates. The population of Africa's largest country was estimated at 123,337,822 in 2000. This figure represents an increase of 39.36 percent over the 1991 population census figure of 88.5 million, which was hotly debated and widely believed to have been an undercount. In the year 2000, the birth rate was estimated at 40.12 per 1,000, while the death rate was estimated at 13.72 per 1,000. With a projected annual population growth rate of 2.67 percent between 2000 and 2015, Nigeria's population is expected to increase to 156,269,020 in the year 2015. Excess mortality due to AIDS, lower life expectancy, and higher infant mortality and death rates might reduce this projected figure.

The density of population in Nigeria is among the highest in Africa. It ranges from 100 persons per square kilometer in the northeastern and west-central regions to more than 500 persons per square kilometer in the south and northwestern regions. The population is largely young. According to a 2000 estimate of the age structure, the largest segment of the population (53 percent) comprised individuals who are between 15 and 64 years old. This percentage included 33,475,794 males and 32,337,193 females. The second largest segment (44 percent) were between 0 and 14 years old and included 27,181,020 males and 26,872,317 females. The smallest segment (3 percent) were individuals 65 years and older, including 1,729,149 males and 1,722,349 females. The estimated sex ratio of the total population in 2000 was 1.02 males to 1 female while life expectancy at birth for the total population was 51.56 years: 51.58 years for males, and 51.55 years for females. The government hopes that the expansion of education, especially among women, and the availability of birth control information, including family planning, will help to control the population growth. Nigeria has received assistance from the United States Agency for International Development (USAID) to develop and implement its



programs on family planning and child survival. In 1992, Nigeria added an HIV/AIDS prevention and control program to its existing health activities.

Nigeria is a plural or multinational state, with 250 ethnic or nationality groups. The most populous and politically influential of the nationality groups include the Hausa-Fulani (29 percent) in the north, the Yoruba (21 percent) in the southwest, the Igbo (18 percent) in the southeast, and the Ijaw (10 percent) in the Niger Delta. This characteristic ethnic composition gives Nigeria a rich diversity in customs, languages, religious and cultural traditions. It also compounds Nigeria's political and economic problems. Although the people are primarily rural dwellers, Nigeria, like other post-colonial African countries, has been urbanizing rapidly. In the year 2000, nearly 25 percent of the Nigerian population were urban dwellers. At least 24 cities have populations of more than 100,000. Lagos, the largest city, had a population of 9.8 million in 1995, 12.5 million in 2000, and is projected to have a population of 25 million in 2015.

OVERVIEW OF ECONOMY

As of 2001, the most conspicuous fact about Nigeria's economy is that the corruption and mismanagement of its post-colonial governments has prevented the channeling of the country's abundant natural and human resources—especially its wealth in crude oil—into lasting improvements in **infrastructure** and the construction of a sound base for self-sustaining economic development. Thus, despite its abundant resources, Nigeria is poorer today than it was at independence in 1960. Still one of the less developed and poorer countries of the world, it has the potential to become a major economic power if

the leaders resolve to learn from past mistakes and to harness the country's rich natural and human resources for a productive and sustained effort to promote economic development.

Before the country was colonized by Britain, during the second half of the 19th century, the various nationality groups that currently make up Nigeria were largely an agricultural people. They were food self-sufficient and produced a variety of commodities that were exported overseas. British colonial administrators amalgamated (joined together) the nationality groups in 1914 into a larger economy for exploitation for the benefit of British industrial classes. Under colonial rule, Nigeria remained an agricultural country, exporting raw materials to Britain and importing from it finished goods. Therein lay the origins of the dependence of Nigerian economy on commodity markets of the industrialized Western world for its foreign exchange. While the industrialization of the country was discouraged, rudimentary foundations for a modern Nigerian economy, however, were laid. Colonial economic policies shaped future independent Nigeria's economy, particularly in marketing, labor supply, and investment. The process of colonial rule and formal economic exploitation ended in 1960 but left Nigeria a relatively strong but undiversified economy. Thereafter, Nigerians were poised to remedy this defect and to build a self-sustaining Nigerian economy comprising agricultural, industrial, and service sectors.

From independence in 1960, the state took up the direction and planning of economic growth and development. Education was progressively expanded at all levels to reduce the rate of illiteracy and to provide the requisite skills and **labor force** for development. Infrastructure of roads and communication networks were constructed far beyond what was inherited from colonial rule. Hydroelectric dams were built to generate electricity. Secondary industries and automobile assembly plants were established to create more employment opportunities. Because of the paucity (small number) of indigenous (native or local) private capital, these activities were undertaken and financed by the government, often with foreign assistance from such countries as Britain and the United States. Foreign oil companies, such as Shell-BP, Exxon-Mobil, Chevron, Agip, and Texaco, operate in partnership with the government in the oil sector, the mainstay of Nigeria's economy. The capital-intensive oil sector provides 95 percent of Nigeria's foreign exchange earnings and about 65 percent of its budgetary revenues.

Because the established, government-owned industries and businesses were often inefficient and corrupt, productivity was low at best. In particular, mismanagement and corruption were endemic (characteristic of) in the successive governments and throughout the nation. However, the gravest problem was caused by the government's decision to stress the industrial sector above all others. Caught in a web of competing demands for scarce resources, the officials took the path of rapid, large-scale industrialization at the expense of the agricultural sector, as well as light manufacturing. They directed the bulk of investment capital towards the promotion of what Western advisers captioned "industrial take off." This decision to abandon the known—agriculture—for the unknown—rapid large-scale industrialization—was a fundamental error. The capital and the skill needed for rapid, large-scale industrialization were not sufficiently available. Thus, an unskilled workforce and insufficient funds severely handicapped the industrial sector. Also, Nigeria's neglect of the agricultural sector aggravated already problematic food shortages. Nigeria had raised enough food to meet domestic needs during its colonial period and in the decade following independence. However, it experienced food shortages in the 1970s and 1980s, which necessitated the importation of food from foreign countries. Among the imports were palm oil (from Malaysia), of which Nigeria had been the world's largest producer and exporter, and rice (from the United States) which was considered less nutritious than Nigerian brown rice. Once Africa's largest poultry producer, Nigeria lost that status because of inefficient corn production and a ban on the importation of corn. Furthermore, it is no longer a major exporter of cocoa, peanuts, and rubber.

Several forces compounded the problems of the agricultural sector. The migration of labor from the rural areas to the urban centers reduced the traditional agricultural labor force. Ecological constraints such as poor soil, erosion, drought, and the absence of agricultural research added to the problem. Other constraints on agricultural production include the use of antiquated technology due to a lack of capital, the low status given to agriculture in the education of the youth, inefficient marketing, an inadequate transportation infrastructure, lack of refrigeration, trade restrictions, under-investment due to unavailability of credit, low prices, and unstable pricing policies which resulted in farmers literally subsidizing urban dwellers and other sectors of the economy. In addition to these handicaps, import constraints limit the availability of many agricultural and food-processing plants. In general, land tenure discourages long-term investment in technology and modern production techniques.

The problem of food shortages and imports was addressed in the late 1970s and early 1980s. In the late 1970s the military government of Olusegun Obasanjo embarked upon "Operation Feed the Nation." His civilian successor, President Shehu Shagari, continued the program as the "Green Revolution." Both programs encouraged Nigerians to grow more food, and urged unemployed urban dwellers to return to the rural areas to grow food crops. The government provided farmers with

fertilizers and loans from the World Bank. The food situation has stabilized, although Nigeria still imports food. A related problem which has not been completely resolved is the pollution of water in the Delta region and Ogoniland by oil companies. Water pollution disrupts farming efforts and has been a source of friction between farmers on one side and the national government and the oil companies on the other.

The oil boom which Nigeria experienced in the 1970s helped the nation to recover rapidly from its civil war and at the same time gave great impetus to the government's program of rapid industrialization. Many manufacturing industries sprang up and the economy experienced a rapid growth of about 8 percent per year that made Nigeria, by 1980, the largest economy in Africa. The growth, however, was not sustained. The new oil wealth did little to reverse widespread poverty and the collapse of even basic infrastructure and social services. The iron and steel industry, started with the help of the Soviet Union, still has not achieved a satisfactory level of production. The oil boom also provoked a shortage of labor in the agricultural sector as members of the rural workforce migrated to jobs in the urban construction boom and a growing **informal sector**. When the price of crude oil fell and corruption and mismanagement still prevailed at all levels, the economy became severely depressed. The urban unemployment rate rose to 28 percent in 1992, and crime also increased as 31.4 percent of the population lived below the poverty line.

Nigeria's debts mounted as administrators engaged in external borrowing and subsidized food and rice imports and gasoline prices. In the 1980s, economic realities forced Ibrahim Babangida's military regime to negotiate a loan with the World Bank and to reschedule Nigeria's **external debts**. His regime undertook an economic **structural adjustment program** (ESAP) to reduce Nigeria's dependence on oil and to create a basis for sustainable non-inflationary growth. However, external borrowing to shore up the economy created more problems than it alleviated. Much of the borrowed money never reached Nigeria. The portion that reached the country often went towards abandoned or nonperforming **public sector** projects. External loans escalated Nigeria's debts to US$30 billion during the Babangida regime and consumed external earnings in **debt servicing**. Similarly, the ESAP prescribed by the International Monetary Fund (IMF) failed to advance the economy, and aggravated the problems of **inflation** and unemployment. It caused a reduction of state spending on education and health care. Continuing political instability due to Babangida's annulment of the presidential election results in June 1993 and the subsequent authoritarian rule of Sani Abacha (1993 to 1998) made the general economic situation worse. The gross corruption by the Abacha regime and its violations of people's fundamental rights turned Nigeria into an international pariah for 6 years, and thus discouraged foreign investment in the economy. Many industries and manufacturing companies could not obtain raw materials and closed down. Others operated under severe handicaps, including rampant power outages and refined petroleum scarcity. Not enough had been done in the years of plenty to diversify the economy or to sustain the development. Military coups (military overthrow of civilian governments) and political instability worsened the situation.

There was considerable optimism in May 1999 when Oluseguan Obasanjo became Nigeria's civilian president. Many hoped that he would lift Nigeria from the verge of economic bankruptcy. One of Obasanjo's objectives to that purpose was to secure **debt relief** from Nigeria's foreign creditors. However, these creditors insisted that Nigeria's wealth of untapped resources provided the means for the country to pay off its debts, and refused to cancel its debts of US$30 billion.

In spite of some opposition, Obasanjo embarked upon a program of **privatizing** some **parastatals** in order to reduce corruption, promote efficiency, and raise productivity. He introduced an anti-corruption bill which passed through the legislature, and recovered some of the revenues that had been stolen from the country and deposited in Western banks. The **inflation rate**, which was estimated at 12.5 percent at the start of his administration, was estimated at 6.6 percent in 2000. Significant exports of liquified natural gas started in 1999, and increased crude oil prices in 2000 provided his administration with additional revenues. So far, however, he has been unable to bring about economic recovery. Industrial capacity utilization appears to have diminished. Worse still, infrastructural facilities, including the National Electric Power Authority (NEPA), continue to be in a state of disrepair. Expected massive inflow of foreign investment, on which the government had hinged its economic revival program, failed to materialize. This is in part because of the high cost of doing business in Nigeria and a lack of transparency in economic decision-making in the country. In addition to these realities, the unemployment situation in the country remains unchanged months after the restoration of civilian government. In fact, it has worsened among university graduates and ranged from 30 to 40 percent in 2000. Political uncertainties due to ethnic and religious conflicts between Muslims and Christians, and constant feuding between the president and the legislators aggravate the economic climate. Widespread armed robbery and a crime syndicate known locally as 419 prey on foreign nationals, further hindering foreign investment and tourism. The country's economy needs the collective efforts of the president and the National Assembly as well as more definite measures to address its ills in order to foster its recovery and growth. Currently, funds available to the

government are insufficient to meet the needs of all sectors of the economy at once. External investors can contribute through long-term investment and **joint ventures** in Nigeria's large national market. Crude oil, the price of which rose sharply recently, remains a very considerable asset. Properly managed, it could provide a solid platform for more sustained Nigerian development and prosperity in the 21st century and beyond.

POLITICS, GOVERNMENT, AND TAXATION

Nigeria is a federal republic currently under a strong presidential administration, a National Assembly made up of 2 chambers—a Senate and a House of Representatives—and a judiciary. It has 36 administrative divisions known as states. Each of the states is divided into local governments. Thus, Nigeria has 3 tiers of government: national, state, and local.

Nigeria emerged from British colonial rule with a multi-party system deemed essential to democratic governance. However, those political parties were not differentiated or distinguished from each other by any political or economic ideology. Rather, they were essentially ethnic and regionally based, and were preoccupied with promoting ethnic and regional interests. Two of the largest parties, the Northern Peoples Congress (NPC) and the Northern Elements Progressive Union (NEPU), represented and championed the interests of the predominantly Muslim Northern Nigeria. The other leading parties, the National Council of Nigerian Citizens (NCNC) and the Action Group (AG), pursued the interests of the southeast and southwest where they were respectively based. The primary interest of the political parties was thus to use Nigeria's constitutional set up, together with the country's national wealth and power, to promote ethnic and regional security and well-being rather than a national end. Thus, upon independence from Britain in 1960, the 4 leading political parties preoccupied themselves with acquiring control of Nigeria's national wealth and power rather than distributing the nation's power and resources equitably among its nationality groups. This issue continues to dominate Nigerian politics in spite of the formation of more comprehensive national parties in the late 1970s and early 1990s.

The politics of ethnic and regional security play a key role in Nigeria's political and economic development as well as its role in Africa and the world in general. It is the major source of growing political crisis in Nigeria. It undermines the selection of responsible and responsive national leadership by politicizing ethnicity. National leaders are recruited on the basis of their ethnicity and region, rather than their ability, experience, and vision. Hence, Nigeria's political and economic performance falls below par in comparison with other countries of comparable size and resources. The primacy of ethnicity has resulted in periodic outbreaks of violence between Nigerian people groups; this violence, in turn, supports military governments that rule with an iron fist in order to maintain order in Nigeria's tense political climate. Census enumeration for economic planning and electoral representation has fallen victim to the same ethnic politics as people groups claim bloated population numbers in order to secure more government funding and representation. It is also often the factor that determines the location of industries and development projects rather than feasibility studies or viability of the location.

Nigeria has been under 3 civilian administrations and 7 military regimes since its political independence from Britain in 1960. After the independence elections in 1959, an NPC-NCNC coalition ruled the country with Sir Abubakar Tafawa Balewa of the NPC (the senior partner) as the prime minister. In mid-January 1966, Sir Abubakar and a few of his associates were killed in a poorly executed but popular military coup after a succession of political crises, violence, and repression which Sir Abubakar could not or refused to stop. The leader of the coup, Major Kaduna Nzeogwnu, portrayed the deposed leaders as corrupt individuals who sought to keep Nigeria permanently divided so they could remain in office.

The 15 January 1966 military coup established Nigeria's first military government under General John T.U. Aguiyi-Ironsi. Like most of the leaders of the coup that overthrew Abubakar's government, Aguiyi-Ironsi was an Igbo from southeastern Nigeria, which immediately raised the suspicions of the Muslim leaders and soldiers of northern Nigeria. They saw the coup as a plot to impose Igbo-domination on Nigeria, and resentment in northern Nigeria against Aguiyi-Ironsi grew fast. His corrective policy of centralization of power became an excuse for a counter-coup by northern soldiers that put a northerner, Yakubu Gowon, in power on 29 July 1966. Initially, Gowon's regime was uncertain and unstable. It witnessed an orgy of ethnic bloodletting in which about 30,000 Igbo residents in northern Nigeria were slaughtered. Attempts to **restructure** Nigeria into a confederation failed. In May 1967 as Colonel Obumegwu Ojukwu, governor of Eastern Nigeria, contemplated the breakaway of the region, Gowon issued a decree dividing Nigeria into 12 states—6 in the North, 3 in the East, and 3 in the West and Midwest. On 30 May 1967 Ojukwu declared the Eastern region the Sovereign Republic of Biafra. Consequently, a 30-month Nigeria-Biafra War began in July 1967. The war ended in January 1970 when Nigeria forced Biafra's surrender.

Achievement of post-war reconciliation and reconstruction goals was remarkably smooth, facilitated by the oil boom of the early 1970s. However, Gowon suspended

the country's normal political activities beyond his promises and the expectations of eager politicians. In addition, he was unable to curb widespread corruption as well as a scandalous and excessive import of cement that clogged the port of Lagos (then Nigeria's capital). Consequently, he was overthrown in a bloodless coup on 29 July 1975 by General Murtala Muhammad.

In February 1976 Muhammad, who had already initiated a plan for a return to civilian rule over a period of 4 years, was himself assassinated in an attempted coup later that year. He was succeeded by his second-in-command, General Olusegun Obasanjo. In the same year, 7 additional states were created, bringing the total to 19. By 1996, 17 others were carved out. Meanwhile, Obasanjo strictly observed the set schedule for a return to civilian rule. An assembly elected to draft a new constitution completed the task in 1978. The constitution was published on 21 September 1978. On the same day the ban on political activity was lifted, leading to the formation of 5 political parties. In 1979, the political parties competed in a series of elections for state and national offices. Shehu Shagari, a northern Muslim and member of the National Party of Nigeria (NPN), was elected as president. Thus, after a transition period of 3 years Obasanjo transferred political power in October 1979 to a civilian administration led by Alhaji Shehu Shagari.

President Shagari's administration marked the beginning of Nigeria's Second Republic. His administration was a coalition of 2 political parties—the National Party of Nigeria (NPN, senior partner) and the Nigerian Peoples Party (NPP). Under the administration, the characteristic politics of ethnic and regional security that ruined the First Republic re-emerged. The coalition collapsed in 1981. Internal dissension, corruption, and abuse of power by the administration became manifest and weakened the moral authority of the government.

Senior military officers overthrew Shagari's government on 31 December 1983. The officers accused the government of widespread corruption, waste, and mismanagement of the economy, making Nigeria a "beggar nation." From 1984 to 1998, Nigeria experienced socioeconomic and political subjugation under 3 successive military dictators: Muhammadu Buhari (1984 to 1985), Ibrahim Badamosi Babangida (1985 to 1993), and Sani Abacha (1993 to 1998). The series of dictators caused further decline in the Nigerian economy as unprincipled, unproductive, corrupt, and weak political elites partnered with the military to smother any opposition and banish all democratic liberties and opportunities in the country. A planned return to civilian government in 1993 did not take place. On 23 June 1993 Babangida nullified the election of Moshood Abiola, a Yoruba businessman from southwest Nigeria as president on 12 June. Faced with riots, in which 100 people were killed, and lack of support from the military, Babangida stepped down on 26 August and installed a military-backed interim government headed by another southwestern Nigerian businessman, Ernest Shonekan. Shonekan, who received little or no public support because he was perceived as a strategic tool of the military, was to rule until new elections, scheduled for 1994. He was unable to deal with Nigeria's ever-growing economic problems and was removed on 17 November 1993 by Sani Abacha, who then assumed full political authority.

Abacha quickly dissolved all democratic political institutions and replaced all elected governors with military officers. He promised to return the government to civilian rule but refused to disclose a timetable. Faced with domestic and external criticism for his measures, Abacha called for elections for delegates to a Constitutional Conference. Most Nigerians boycotted the elections which were held in May 1994. Leaders of the major opposition group, the National Democratic Coalition (NADECO), were arrested when they attempted to reactivate disbanded democratic institutions. In 1997 Abacha inaugurated a period of transition to civilian rule and promoted the emergence of 5 political parties. Soon, however, he decided instead on a program of self-succession; he created and financed a youth movement and other paid political sycophants (flatterers) to advocate his self-succession. He manipulated the 5 political parties to adopt him as their candidate for the presidency. Thus, the national election that had been planned for August 1998 was to become a referendum (a decision by the general population) on Abacha's self-succession. Every measure of opposition against the plan was foiled, while lavish national resources were spent to promote it. The referendum on Abacha's self-succession did not take place, however. On 7 June 1998, Abacha died suddenly, the nation was told, from natural causes. While he ruled, Abacha had committed human rights abuses, significantly impaired the authority and independence of the judiciary, imprisoned his critics, looted the national treasury, and failed to tackle the nation's economic problems.

Upon Abacha's death, General Abdulsalami Abubakar was selected by the military leadership to succeed him. Abubakar worked to calm the tempers of an agitated nation and promised to end military dictatorship through a genuine transition to civilian rule by the end of May 1999. He proceeded to release Abacha's political prisoners, including journalists and human rights activists. He reached an understanding to release Moshood Abiola—the presumed winner of the 12 June 1993 presidential election annulled by Babangida—from detention. However, Abiola died of a heart attack in August before he could be released. In a further move, Abubakar dissolved the 5 Abacha-regime political parties. In their place emerged 15 others, only 3 of which—People's Democratic Party (PDP), All People's Party (APP), and the

Alliance for Democracy—were certified to contest the elections at local, state, and national levels. The elections were completed at all levels by February 1999. The PDP won a majority of the seats in both chambers of the National Assembly as well as 21 of the country's 36 governorships. Olusegun Obasanjo, a former military head of state and a PDP candidate, won the presidential election. On 5 May 1999, Abubakar proclaimed by decree a constitution which went into effect on 29 May 1999. On the same day Obasanjo was inaugurated as the president of the Third Republic of Nigeria.

His administration faces formidable political and economic problems. Leaders of the southern states persistently demand a sovereign national conference to restructure the federation. The governors, especially those of the oil-producing states, demand a new formula for revenue allocation. Leaders of the northern states complain of neglect and inadequate allocation of resources and national offices to their region. Infrastructure of roads, especially in the south, is in disrepair. There is a growing income disparity, and a constant shortage of electricity and gasoline. Lax security and widespread armed robbery have triggered demands for regional control of security and resources. Ethnic and religious clashes discourage foreign investment and worsen the enormous rate of unemployment. Critics have described Obasanjo's government as unimaginative in dealing with these issues.

From independence in 1960 to the present, Nigerian governments, whether civilian or military, have not differed substantially on their economic policy. Each supported the concept of a mixed economy—a public sector controlled by the state and a **private sector** or free enterprise—and state intervention in such social sectors as education and health. This was in accord with the system of economy inherited at independence from Britain. In 1962, 2 years after independence, Sir Abubakar's government inaugurated a 6-year development plan. The plan mapped Nigeria's transition from an agricultural economy to a mixed economy whose bases were agricultural expansion and limited industrial growth.

Broad in its scope, the economic development plan sought to achieve national economic objectives, such as faster growth and higher levels of average material welfare. The plan included economic forecasts, policies towards the private sector, and a list of proposed public expenditures. Nigerian political leaders determined the general objectives and priorities of the plan, but the main authors of the actual document were foreign (Western) economists. The national government became heavily involved in carrying out the plan because it was unable to generate local private investment to raise sufficient capital for development. The Western advisors discouraged increased taxes on the wealthy and called for foreign assistance—about 50 percent of the public-sector investment—in carrying out the plan.

After the civil war, the military regime of Yakubu Gowon instituted a second development plan for the years 1970 to 1975. The plan sought to promote reconstruction after the civil war, to restore the nation's productive capacity, and to achieve a measurable degree of self-reliance. In 1972 the government issued the first of Nigeria's indigenization decrees that forbade aliens to invest in specified enterprises and reserved participation in certain trades to Nigerian citizens. At that time, about 70 percent of commercial firms operating in Nigeria were foreign-owned. In 1975, as a follow-up to the indigenization decree, the federal government bought 60 percent of the **equity** in the marketing operations of the major oil companies in Nigeria. It rejected full **nationalization** as a means of promoting its program of indigenization. After the overthrow of Gowon in 1975, a third development plan (1975 to 1980) was begun. Stimulated by the oil boom of 1974, the plan sought to expand agriculture, industry, transport, housing, education, health facilities, water supply, rural electrification, and community development. These objectives were not fully achieved because of inflation in minimum wage and administrative salaries awarded by the Udorji Commission and decline in projected oil revenue.

The slump in oil revenue caused the civilian administration of Shehu Shagari to delay the start of the fourth development plan (1981 to 1985). Falling oil revenues, cost of increased food imports, and the inability of the local governments to carry out their responsibilities threatened and undermined the plan. The overthrow of the civilian government of Shagari by Muhammadu Buhari in 1985 delayed the fifth development plan. In 1989, General Babangida, who had overthrown Buhari in 1985, abandoned the idea of a 5-year national development plan. In its place he introduced a 3-year "rolling plan" between 1990 and 1992, anticipating a more comprehensive 15- to 20-year plan. Because of rapid change and economic uncertainty, such rolling plans were to be revised at the end of each year and new estimates, targets, and projects were to be added. Babangida's rolling plan sought to reduce inflation and naira **exchange rate** instability, achieve food self-sufficiency, maintain infrastructure, and reduce the adverse effects of economic structural adjustment he had imposed on the nation. His rolling plan did no better than previous 5-year plans to promote Nigeria's economic development. The current civilian administration of Obasanjo is emphasizing a private-sector-led economy and "market oriented" economy. So far, it has done little to create a solid enabling environment in spite of its anti-corruption campaign aimed at injecting transparency and accountability into economic decision-making.

Nigeria derives its budgetary revenues primarily from petroleum profit taxation, import and excise **duties**, and

mining rents and royalties. Petroleum taxation accounts for 65 percent of the budgetary revenues. As of May 2000 the tax rate for assessable petroleum profit was 85 percent. In March 1995, the government established a new **tariff** structure levying taxes on imported goods, ranging from 5 to 60 percent. Import tax is non-preferential and applies equally to all countries. Import duties are either specific or *ad valorem* (**value-added tax**, VAT) depending on the commodity. In 2000 the VAT rate was 5 percent. Import duties are collected by the Nigerian Customs Service in association with government-appointed accounting/auditing firms and paid into the federal treasury through selected banks, such as First Bank of Nigeria, Public Limited Company (PLC); Union Bank of Nigeria, PLC; and United Bank for Africa, PLC.

Other sources of revenue include: companies' **income tax** (30 percent of assessable profit), capital gains tax (10 percent of capital gains), various types of licenses, and personal income tax. Employees "pay as they earn." Such taxes are deducted at monthly pay periods by employers for the federal treasury. In 2000 the tax rate varied from 5 to 25 percent of cumulative or total taxable income. Prior to the 1970s, self-employed people, including well-to-do traders and business people, paid virtually no income taxes. The government sought to collect the taxes by introducing tax clearance certificates. Individuals had to produce such certificates, proving that they had paid their taxes, before receiving government benefits, holding public office, or receiving passports for foreign travel.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Nigeria has a fairly extensive infrastructure of roads, railroads, airports, and communication networks. The road system is by far the most important element in the country's transportation network, carrying about 95 percent of all the nation's goods and passengers. Currently, many of the roads are in disrepair because of poor maintenance and years of heavy traffic.

ROADS. The road system was started in the early 1900s under British colonial rule essentially as a feeder network for newly completed railroads. Two trunk roads running from Lagos (southwest) and Port Harcourt (southeast) to Kano (north central) were built. These were followed by the construction of several east-west roads, 2 north and 2 south of the natural division created by the Niger and Benue Rivers. The major purpose was to transport goods from the interior to the coast for export.

After independence in 1960, expansion of the road system to facilitate access to state capitals and large towns became one of the major areas of government investment. In 1978, an expressway was constructed from Lagos to Ibadan. Later, a branch of the Lagos-Ibadan expressway was extended to Benin City. By 1980 another expressway connected Port Harcourt to Enugu. Similar expressways connected major cities and commercial centers in the north. Thus, by 1990 Nigeria had 108,000 kilometers (67,112 miles) of roads. Of this total, 30,000 kilometers (18,642 miles) were paved, 25,000 kilometers (15,535 miles) were gravel, and 53,000 kilometers (32,935 miles) were unimproved earth.

Much of the road system is in disrepair and barely useable. Massive traffic jams are very common in the large cities. There are also long delays in the movement of goods. Highway accidents and deaths are frequent, and number more than 30,000 and 8,000, respectively.

RAILROADS. Railroads provide Nigeria's second means of transportation. The rail system consists of 3,500 kilometers (2,175 miles) route of 1.067 meters (3.5 feet)

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Nigeria	500,000 (2000)	26,700	AM 82; FM 35; shortwave 11	23.5 M	2 (1999)	6.9 M	11	100,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Dem. Rep. of Congo	21,000	8,900	AM 3; FM 12; shortwave 1 (1999)	18.03 M	20 (1999)	6.478 M	2	1,500 (1999)
Cameroon	75,000	4,200	AM 11; FM 8; shortwave 3	2.27 M	1 (1998)	450,000	1	20,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

gauge. Two main lines of the single-track railroad system connect the coast with the interior. One line runs from Lagos (southwest) to Kano (north). The Lagos-Kano line was extended to Nguru, a cattle-raising region, in 1930. The other line runs from Port Harcourt (southeast) to Kaduna (north). A branch line runs from Zaria to Kaura Namoda, an important agricultural area in the northwest. The Port Harcourt-Kaduna line was extended to Maiduguri (northeast) in 1964. The rail system is operated by the Nigeria Railway Corporation. The system suffered a progressive decline because of inadequate funding, poor maintenance, and declining profit.

INLAND WATERWAYS. Inland waterways totaling 8,575 kilometers, (5,329 miles) and consisting of Niger and Benue Rivers and smaller rivers and creeks, provide Nigeria's third internal transportation network. Water transportation of goods and services using boats and canoes is essential and common in riverine areas of Nigeria where road construction is difficult. In the 1980s the government invested funds in building river ports, hoping that increased passenger traffic on the nation's inland waterways would relieve the strained highway system. A major problem involves the fluctuations in the water level during the dry season, which hinder the movement of canoes.

PORTS. Ports provide facilities for exports and imports. The port in Lagos handles the majority of cargo flowing in and out of the country by ship; other important ports include Port Harcourt, Calabar, and the delta port complex of Warri, Sapele, Koko, and Alesa Eleme. In addition to these port complexes, 2 specialized tanker terminals at Bonny, near Port Harcourt, and Burutu, near Warri, handle crude oil exports.

AIR TRAVEL. Nigeria has 72 (1998 estimate) airports, 36 of which have paved runways. Three major international airports—Murtala Muhammad International at Lagos, Aminu Kano International at Kano, and another at Port Harcourt—offer regularly scheduled international flights. Nigeria Airport Authority manages the airports. Nigeria Airways provides domestic service between the international airports and other Nigerian cities. On 26 August 2000, Nigeria and the United States signed an "Open Skies Agreement" to expand and enhance the overall aviation partnership between the 2 countries. Among others, the agreement provides for a direct flight between Lagos and John F. Kennedy Airport in New York. It is hoped that the direct flight will boost Nigeria's tourism sector and develop Lagos as a gateway to Africa.

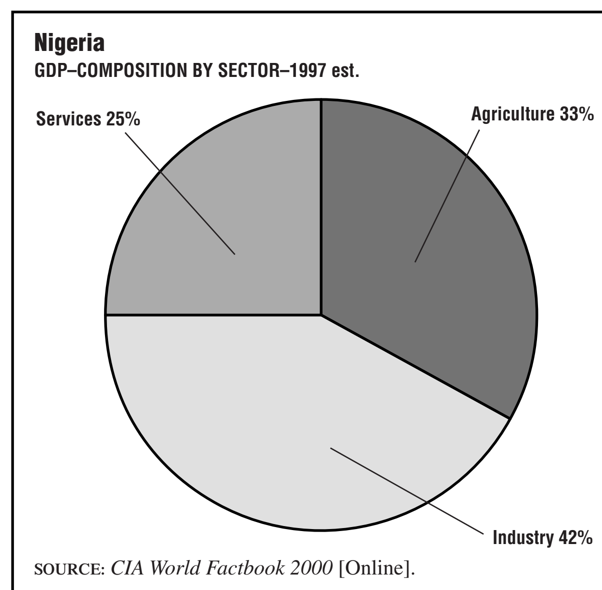
ELECTRICAL POWER. Electrical power for industrial and household purposes is supplied by Nigeria's National Electric Power Authority (NEPA). The state-owned corporation, nicknamed "Never Expect Power Always" by Nigerians, is very unreliable, with daily shortages and blackouts. In 1998 its production of 14.75 billion kilowatts from fossil fuel (61.69 percent) and hydropower (38.31 percent) was highly inadequate to meet the nation's industrial and household needs. As a consequence, businesses and manufacturers operate well below capacity, while thousands of Nigerians in urban centers and rural areas buy their own power generators.

TELECOMMUNICATIONS. Telecommunications services provide high quality links internally and to the rest of the world. The government is pursuing an ambitious telecommunications expansion program. It plans to increase Nigeria's mobile and wire lines from year 2000 numbers of 700,000 to over 4 million functional telephone lines by 2002. Nigerian Telecommunications Limited (NITEL) was the nation's sole carrier until 1993 when 8 private firms were approved to be connected to its switching system so as to provide services to various Nigerian zones.

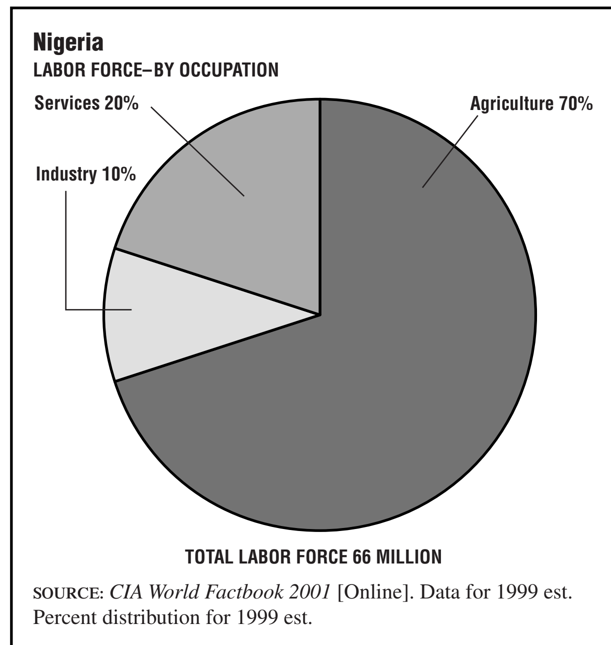
Virtually all Nigerian localities receive broadcasts from one of 65 AM radio stations, and more than a dozen cities from FM radio stations. Shortwave broadcasts from overseas and 6 local transmitters are received throughout the country. Television services are available to most urban areas as well as rural areas with rural electrification. According to World Development Indicators (2000), 223 per 1,000 Nigerians owned radios (1997), while 66 per 1,000 owned television sets (1998). While there were 5 Internet service providers, less than 20 percent of the Nigerian urban population used the Internet in 1999.

ECONOMIC SECTORS

Despite the availability of natural resources, population, and domestic markets, all sectors of the Nigerian economy performed below their potential during the nation's first 40 years of independence. The structure of



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999 est. Percent distribution for 1999 est.

the economy remained stagnant (unchanged) and over-dependent on the oil sector. The largely subsistent agricultural sector failed to keep up with rapid population growth, forcing the one-time food exporter to import food. Inter-sectoral linkages remain weak, and the rate of unemployment remains high and problematic.

Most observers of the Nigerian scene—domestic as well as foreign—attribute the poor performance and the over-reliance on the oil sector to a variety of reasons, including political instability, prolonged authoritarian rule by the military, poor **macroeconomic** management, inadequate infrastructure, and external financing. In November 1996, the military ruler Abacha set up the VISION 2010 Committee which looked into the general situation and recommended targets for year 2010. No tangible progress has so far been made.

The civilian administration of Obasanjo has proposed substantial reform in its economic policy for 1999 to 2003. The main thrust of the reform is to **deregulate** the economy and to disengage the state from activities which are private-sector oriented, leaving the state to act as a facilitator. The plan also concentrates on the provision of incentives, policy, and infrastructure essential to the private sector's role as the engine of growth. The administration's industrial policy seeks to generate productive employment and raise productivity, increase export of locally manufactured goods, create a wider geographical dispersal of industries, attract foreign investment, and increase private sector participation. The policy places highest priority on the agricultural sector—to achieve both poverty reduction, especially in rural areas, and sufficiency in food production and surplus for use as industrial raw materials for export. Other areas of high priority include manufacturing industries, solid minerals, oil and gas, small and medium enterprises, and tourism. Also, the industrial policy includes partial privatization of government-owned enterprises in such sectors as telecommunications, electricity generation and distribution, petroleum refining, coal and bitumen production, and tourism, in which citizens as well as foreigners may freely participate.

AGRICULTURE

Although it depends heavily on the oil industry for its budgetary revenues, Nigeria is predominantly still an agricultural society. Approximately 70 percent of the population engages in agricultural production at a subsistence level. Agricultural holdings are generally small and scattered. Agriculture provided 41 percent of Nigeria's total **gross domestic product** (GDP) in 1999. This percentage represented a normal decrease of 24.7 percent from its contribution of 65.7 percent to the GDP in 1957. The decrease will continue because, as economic development occurs, the relative size of the agricultural sector usually decreases.

Nigeria's wide range of climate variations allows it to produce a variety of food and **cash crops**. The staple food crops include cassava, yams, corn, coco-yams, cowpeas, beans, sweet potatoes, millet, plantains, bananas, rice, sorghum, and a variety of fruits and vegetables. The leading cash crops are cocoa, citrus, cotton, groundnuts (peanuts), palm oil, palm kernel, benniseed, and rubber. They were also Nigeria's major exports in the 1960s and early 1970s until petroleum surpassed them in the 1970s. Chief among the export destinations for Nigerian agricultural exports are Britain, the United States, Canada, France, and Germany.

A significant portion of the agricultural sector in Nigeria involves cattle herding, fishing, poultry, and lumbering, which contributed more than 2 percent to the GDP in the 1980s. According to the UN Food and Agriculture Organization 1987 estimate, there were 12.2 million cattle, 13.2 million sheep, 26.0 million goats, 1.3 million pigs, 700,000 donkeys, 250,000 horses, and 18,000 camels, mostly in northern Nigeria, and owned mostly by rural dwellers rather than by commercial companies. Fisheries output ranged from 600,000 to 700,000 tons annually in the 1970s. Estimates indicate that the output had fallen to 120,000 tons of fish per year by 1990. This was partly due to environmental degradation and water pollution in Ogoniland and the Delta region in general by the oil companies.

Decline in agricultural production in Nigeria began with the advent of the petroleum boom in the early 1970s. The boom in the oil sector brought about a distortion of the

labor market. The distortion in turn produced adverse effects on the production levels of both food and cash crops. Governments had paid farmers low prices over the years on food for the domestic market in order to satisfy urban demands for cheap basic food products. This policy, in turn, progressively made agricultural work unattractive and enhanced the lure of the cities for farm workers. Collectively, these developments worsened the low productivity, both per unit of land and per worker, due to several factors: inadequate technology, acts of nature such as drought, poor transportation and infrastructure, and trade restrictions.

As food production could not keep pace with its increasing population, Nigeria began to import food. It also lost its status as a net exporter of such cash crops as cocoa, palm oil, and groundnuts. According to U.S. Department of State FY2001 *Country Commercial Guide,* Nigeria's total food and agricultural imports are valued at approximately US$1.6 billion per year. Among the major imports from the United States are wheat, sugar, milk powder, and consumer-ready food products.

Efforts since the late 1970s to revitalize agriculture in order to make Nigeria food self-sufficient again and to increase the export of agricultural products have produced only modest results. The Obasanjo administration, however, has made agriculture the highest priority of its economic policy.

INDUSTRY

MINING. The oil industry dominates Nigeria's mineral development, making petroleum the most important sector of the Nigerian economy. Nigeria produces 2.3 million barrels of crude oil per day (2000). It is Africa's largest oil producer, contributing 3.0 percent to the global production, and is the world's sixth largest oil exporter. Its proven reserves are estimated at 20 billion barrels, enough to last 40 years at the current rate of production. Continuing exploration is expected to raise the total to more than 25 billion. Nigeria is a member of the Organization of Petroleum Exporting Countries (OPEC).

The state-owned Nigerian National Petroleum Corporation (NNPC) cooperates with foreign oil companies such as Shell, Mobil, Elf, Agip, Chevron, and BP in its oil industry. The parastatal was recently restructured as part of a general policy to commercialize state concerns and encourage private-sector participation in them.

Crude oil (11 percent of production) is refined in Nigeria in 4 refineries which seldom meet the country's demands. Hence, there is constant shortage of fuel. Crude oil is also the nation's largest export to such countries as the United States and Japan. Petroleum products accounted for two-thirds of Nigeria's energy consumption in the 1990s. Domestic consumption of crude oil was 250,000 barrels per day.

During the process of oil exploration, vast reserves of natural gas—estimated at 100 billion standard cubic feet—were discovered. They are the largest reserves found so far in Africa. In 1988, Nigeria produced 21.2 billion cubic meters per day with 2.9 billion cubic meters used by National Electric Power Authority and other domestic customers, 2.6 billion cubic meters used by foreign oil companies, and 15.7 billion cubic meters wasted through flaring. In 2000 Nigeria began to export Liquefied Natural Gas (LNG), an increasingly important sector which is expected at some point to surpass oil as the nation's major source of revenue. Nigerian Liquefied Natural Gas Ltd., a subsidiary of the NNPC, had signed agreements in 1992 with 4 countries—United States, France, Italy, and Spain—for supplies of LNG.

Nigeria's emphasis on the oil industry resulted in the neglect of other sectors of the mining industry. Recently, however, interest has rekindled in solid minerals such as coal, tin, iron, columbine, gold, uranium, tantalum, marble, and phosphates. Many other commercially-viable solid minerals have yet to be exploited. All solid minerals are owned by the federal government. Prospecting licenses, mining leases, quarrying licenses, and leases are granted by the Ministry of Solid Minerals Development, established early in 1995 to boost non-oil exports. The National Fertilizer Company of Nigeria operates a fertilizer complex at Onne (Rivers State). Coal production had declined as industries and trains shifted to the use of oil, gasoline, and diesel, but in 1991 2 joint ventures began operations for its mining and export. A total of 60,000 tons were exported to England in 1991. The solid minerals are attracting foreign interest for potential exploitation. In addition to the development of the solid minerals noted, Nigeria engages in processing industries for such products as palm oil, peanuts, rubber, wood, hides, and skins.

MANUFACTURING. The manufacturing sector in the Nigerian economy is dominated by **import substitution**—light industries designed to produce goods that previously had been imported. The Nigerian Enterprises Promotion decrees (1972, 1977, and 1981) shifted the manufacturing sector from foreign majority ownership in the 1960s to indigenous (local) majority ownership in the mid-to-late 1970s by limiting foreign ownership shares in various industries. As a result, a few civil servants, military leaders, business people, and professionals became considerably wealthy through the purchase of the relinquished foreign-owned shares. The third development plan (1975 to 1980) envisaged a rapid phase of industrialization, emphasizing heavy industries such as iron, steel, and petrochemicals, as well as such consumer durables as automobiles. Automobile assembly plants were established in 1978 by Leyland, Peaugeot, Volkswagen, Fiat, and Daimler-Benz. Major industrial projects during the third development plan included 3 new

oil refineries, 2 pulp and paper mills, an iron and steel complex, 2 liquefied natural gas plants, 3 sugar refineries, and 3 new cement factories. Their productivity was low. The iron and steel complex remained incomplete.

The fourth development plan (1981 to 1985) placed high priority on the manufacturing sector in order to promote rapid development and transformation of the economy. The extant manufacturing industries concentrated on **consumer goods**: food products, mineral distillation and beer brewing, textiles, cement, building materials, glass, footwear, furniture, chemical products, ceramics, and small appliances. They produced a range of goods but did not substantially increase employment or industrial growth.

Manufacturing industries are among the Obasanjo administration's priority areas of industrial investment. The administration favors industries which can rapidly be supported by locally-produced raw materials. The government also hopes to support food-production programs through local manufacture of chemicals, equipment, and light commercial vehicles. It will also focus on industries with multiplier effect such as flat-sheet mills and machine tools industry, including foundries and engineering industries for spare-parts production. The administration invites local and foreign investors in the priority areas.

The manufacturing sector suffers from a number of constraints including low demand for locally-made goods such as textiles and footwear, and the poor state of social and economic infrastructure typified by power and water shortages. However, Nigeria's manufacturing capacity utilization rose from 34 percent in 1998 to 36 percent in 1999.

SERVICES

TOURISM. Tourism in Nigeria is highly undeveloped, considering the West African nation's available tourist resources: land, climate, vegetation, people and their festivals, abundant art treasures, national monuments, ports, traditional sports, and music. Recognizing the potential revenue the nation could generate from tourism, the government decided in 1991 to develop and promote tourism into an economically viable industry. The thrust of its policy was to "make Nigeria a prominent tourism destination in Africa, generate foreign exchange, encourage even development, promote tourism-based rural enterprises, and generate employment."

An institutional framework was put in place, namely the Federal Ministry of Commerce and Tourism, to pursue the objectives and maintain links with the state governments on funding and monitoring of a nation-wide tourism infrastructure. The government provided incentives to encourage domestic and foreign investors to participate in the venture. For example, the sector was accorded preferred-sector status, qualifying it for **tax holidays** and import-duty exemption on tourism-related equipment. Upon the inauguration of the Third Republic, President Obasanjo accorded the industry an additional boost by creating a separate Ministry of Tourism and Culture with Chief Ojo Madueke as its minister.

The boost notwithstanding, many impediments stand in the way of a tourist industry in Nigeria. Warnings issued by foreign governments on the dangers of travel to Nigeria scare tourists. Violent crime by individuals in police and military uniforms, as well as by ordinary criminals, is an acute and constant problem. Frequently, harassment and shakedowns of foreigners and Nigerians by uniformed personnel and others occur throughout the federation. Fake business and other advance-fee scams target foreigners worldwide and pose dangers of financial loss and potential physical harm. Other barriers to a successful tourist industry include inconsistent regulations, widespread corruption and crime, crumbling roads and bridges, erratic telephone service, frequent shortages of fuel, electricity and water, and social unrest in some parts of the country.

FINANCIAL SERVICES. Regular banking services in Nigeria began in 1892 when the country's first bank was established. By 1952 there were 3 foreign-owned banks (the Bank of British West Africa, Barclays Bank, and the British and French Bank) and 2 indigenous banks (the National Bank of Nigeria and the African Continental Bank). A central bank, demanded by members of the Nigerian Federal House of Assembly in 1952 to help promote economic development, was established and operational on 1 July 1959. Similar to central banks in Western Europe and North America, the Central Bank of Nigeria establishes the Nigerian currency, controls and regulates the banking system, serves as banker to other banks in Nigeria, and carries out the government's economic policy in the monetary field.

Despite the tendency of Nigerians to prefer cash to checks for business and debt settlements, the banking system has expanded to include 90 banks in 2000 in 3 categories: commercial, merchant, and industrial or development banks. In addition to these categories, there are many mortgage and community banks, insurance companies, pension funds, and finance and leasing companies active in Nigeria. A drastic decline in the number of financial houses, commercial banks, and mortgage and community banks began in 1995 because of distress in the financial sector.

RETAIL. Nigeria has one of the best-developed and most extensive **retail** industrial sectors in sub-Saharan Africa. This is due to its large population located in many large commercial centers, such as Lagos, Ibadan, Kano, Port Harcourt, Aba, and Onitsha, in addition to hundreds of

smaller towns with more than 200,000 inhabitants. There are also hundreds of trading corporations, financial institutions, and a great variety of small business enterprises, many in the informal sector, along with thousands of large market (and roadside stands) in urban as well as rural areas.

The commercial centers house a variety of retail stores, restaurants, and secular and Christian bookshops that cater to the commercial and household needs of traders and residents. Nigerians now dominate the wholesale and retail trade which in colonial days had been virtually controlled by foreign companies from metropolitan Western Europe, Lebanon, Syria, and India. Nigerian women are playing an increasing role in the retail and distribution sector.

INTERNATIONAL TRADE

Nigeria exports primarily petroleum and other raw materials such as cocoa, rubber, palm kernels, organic oils, and fats. It imports secondary products such as chemicals, machinery, transport equipment, manufactured goods, food, and animals. The dependence on oil and a few other commodities for export caused Nigeria to become especially vulnerable to world oil price fluctuations.

During the colonial years, Britain was Nigeria's leading trading partner. After independence, Nigeria diversified its trading partners. It now trades worldwide with about 100 countries. The United States replaced Britain as the primary trading partner in the 1970s. However, Britain remains Nigeria's leading vendor, selling the former colony more than 14 percent of its imports in the 1990s. Other major trading partners are Germany, France, the Netherlands, Canada, Japan, Italy, and Spain. Nigeria's meager trade with Eastern Europe and the former Soviet Union declined even further after the collapse of Euro-**Communism** and the breakup of the Soviet Union in the early 1990s. Nigeria's trade with sister African countries—mainly with other West African members of the Economic Community of West Africa (ECOWAS, created in 1975)—was only about 4 percent of its total trade in 1990.

Prior to 1966, Nigeria had a persistent **trade deficit**. The rapid growth of petroleum as an export commodity reversed the trend between 1966 and 1977. Sluggish international demand for Nigerian crude oil renewed the trade deficit from 1978 to 1983. Severe import restrictions and an economic structural adjustment program (ESAP) adopted to address the economic breakdown brought about trade surpluses from 1984 to 1986, and again in 1990. Monies sent home by Nigerian residents overseas helped to cushion the drastic effects of the deficit and the ESAP-induced decreased government spending on the population.

MONEY

The naira, Nigeria's currency, declined rapidly after the military deposed the civilian administration of Shehu Shagari on 31 December 1983 at the time of depressed oil prices. In 1981 N1.00 was worth US$1.67. By 1986 the value of N1.00 had tumbled to US$0.64 (N1.56 equals US$1.00). It declined further in 1987 and has continued a downward spiral. In 1995, under the Babangida regime's policy of "guided deregulation" of the foreign exchange market, the official rate—N22.00 to US$1.00—became available only to the government. All individuals and organizations had to meet their foreign exchange needs from an Autonomous Foreign Exchange Market (AFEM).

The prevailing AFEM rate in 1999 was N100.00 to US$1.00. Obasanjo abolished the parallel official rate of N22.00 to US$1.00 upon his inauguration in May 1999. Since then the exchange rate has risen to N120.00 to US$1.00 (October 2000).

POVERTY AND WEALTH

Despite Nigeria's enormous resources and potential, poverty is widespread throughout the nation. Its basic indicators place it among the 20 poorest countries of the

Trade (expressed in billions of US$): Nigeria

	Exports	Imports
1975	7.845	6.041
1980	25.968	16.660
1985	12.548	8.877
1990	13.670	5.627
1995	34.179	34.488
1998	37.029	43.798

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Nigeria

nairas (N) per US$1	
Jan 2001	110.005
2000	101.697
1999	92.338
1998	21.886
1997	21.886
1996	21.884

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Nigeria	301	314	230	258	256
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Cameroon	616	730	990	764	646

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Nigeria

Lowest 10%	1.6
Lowest 20%	4.4
Second 20%	8.2
Third 20%	12.5
Fourth 20%	19.3
Highest 20%	55.7
Highest 10%	40.8

Survey year: 1996–97

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

world. Nigeria has been in stagnation and relative decline since 1981, from a per capita GDP of US$1,200 in 1981 to about US$300 in 2000. In 1992, 34.1 percent of the population was below the poverty line, according to the CIA *World Factbook 2000*; about 70 percent fell below that line in 2000, according to the World Bank.

For many Nigerians the quality of life has declined rather than improved since independence 40 years ago. By contrast, the standard of living for a few privileged Nigerians—military officers and their civilian associates, corrupt politicians, and big contractors—has improved substantially. The average salaried worker cannot earn enough to support a family because of inflation and rises in food prices and transportation costs. The national minimum wage of N5,500 (about US$55.00) per month, adopted by the federal government but rejected by most of the states, falls far short of what is needed to cover housing, food, education, health care and transportation. The material condition of women, who comprise 50 percent of the population, is even worse than that of men because the welfare of women in general, including education, political participation, and workforce, had been neglected over the years until recently. The incidence of prostitution of Nigerian women within and outside the country has therefore increased. It is no wonder, given these prevailing conditions, that hypertension has become a major sickness among Nigerians since the 1980s.

Housing and living facilities for the wealthy are very similar to those available to their counterparts in countries of the western world. Middle and lower-level income groups in the urban and rural areas live in individual houses or crowded flats (apartments). Rural dwellers live in cement or mud block houses with tin or thatched roofs, and have no running water for the most part. Water and electricity services in the major cities are erratic. Water supplies in many rural areas are infested with disease-carrying worms, while electricity services, under government auspices, are seldom available.

There is, therefore, much despair throughout Nigeria, a situation that has led to a "brain drain" from the country to other nations of the world. Much of the despair can be linked to the abysmal quality of life of the average Nigerian, and also to the huge income disparity between the poverty-stricken masses and the few well-to-do Nigerians. Mismanagement and corruption on the part of the government squandered the nation's wealth, and fostered an atmosphere of violence and instability that makes it very difficult to attract foreign investors. Unfortunately, the legislative and executive arms of the present civilian rule include leaders from the corrupt and wasteful regimes of Babangida and Abacha who helped create that climate. Their presence casts doubt over the

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Nigeria	51	5	31	2	8	2	2
United States	13	9	9	4	6	8	51
Dem. Rep. of Congo	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cameroon	33	12	8	2	9	8	28

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

nation's ability to rise above its tumultuous past into a brighter future.

The economic situation—the abject poverty and the high rate of unemployment especially—has not improved since Obasanjo became president in May 1999, despite his administration's Poverty Alleviation Program. His critics argue that the program consists merely of direct cash transfer to politically selected beneficiaries. The gap between the rich and the poor continues to widen. Segments of the nation continue to complain about their marginalization (being left at the margin or neglected), while others are favored. Armed robbery and wide-spread insecurity persist.

WORKING CONDITIONS

Nigeria had an estimated labor force of 42.844 million in 1999. Women comprised 36 percent of that force, which included talented and well-educated entrepreneurs. The estimated unemployment rate in 1992 was 28 percent. In 2000 the estimated unemployment rate increased to 32 percent. Secondary school graduates and women make up the largest proportion of the unemployed. The unemployment rate among the urban youth had hovered around 40 percent since the 1990s. Many college graduates have remained without **full employment** since the late 1980s. The government, including federal, state, and local units, is the largest employer outside the agricultural sector.

With the exception of employees classified as essential—members of the armed services, the police force, firefighters, Central Bank employees, and customs and excise staff—Nigerian workers may form or join trade or labor unions. They may strike to obtain improved working conditions and benefits and bargain collectively for higher wages. In 1999 about 3.5 million non-agricultural workers belonged to 42 recognized trade unions under a single national labor federation.

The first labor union—the civil service union—emerged in 1912. By 1950 the number had grown to 144 with more than 144,000 members, and 300,000 in 1963 affiliated with 5 central labor associations. Because of a series of labor problems and the meddling of politicians between 1963 and 1975, the military government dissolved the central unions and decreed only 1 central unit, the Nigerian Labor Congress, in 1976. In 1977 11 labor union leaders were banned from further union activity. A 1978 labor decree amendment reorganized more than 1,000 previously existing unions into 70 registered industrial unions under the Nigerian Labor Congress. In addition to the recognized trade unions, women's organizations, mostly professional and social clubs, collectively seek to improve women's conditions and participation in the economic and political life of the nation. Journalists, university professors, and students have their own organizations also as interest groups.

Nigerian labor laws prohibit forced or compulsory labor. They also prohibit the employment of children under 15 years of age in commerce and industry and restrict other child labor to domestic or agricultural work. Many children, however, **hawk** goods in markets and junctions of major roads and streets in the cities and assist their parents in trade and commerce. In 1974 the military government changed the work week from 35 to 40 hours by decree and stipulated payment for extra work done over the legal limit. Employers are required by law to compensate employees injured at work and dependent survivors of those who died in industrial accidents.

Strikes or industrial actions by workers tend to be frequent in Nigeria. Although plagued by leadership struggles, ideological differences, and regional ethnic conflicts, the Nigerian Labor Congress has been able to organize or threaten nationwide workers' strikes, demanding the retention of government **subsidies** on petroleum products, minimum wages, and improved working conditions. Public health doctors organized in 1985; several labor unions in 1998 protested the austerity measures of the Structural Adjustment Program. Similar actions were taken by the Academic Staff Union of Nigerian Universities (1986, 1988), the National Union of Nigerian Students (1986, 1989, 1990s), and the National Union of Petroleum and Natural Gas Workers (1997).

Conditions for workers in Nigeria are far from ideal. Civil servants and employees of private companies (foreign) have relatively good offices and facilities, health care, and wages, but that is not the case for most of the others. Conditions in the pre-collegiate schools and the universities have deteriorated markedly because of repression, underfunding, and irregular payment of salaries. Protests or industrial actions by trade union leaders often resulted in detention. A number of university students were killed by the police, and the universities shut down following students' protests and riots. Some doctors and professors lost their jobs because of industrial action. In addition, income inequalities between the rulers and bureaucrats on the one hand and masses of workers on the other, poor wages, and late payment of salaries demoralize workers. Furthermore, they adversely affect their standard of living, health, and work productivity. The poor conditions contribute to the pervasive corruption in Nigeria and the use of the country as a conduit for drug trafficking.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1861. King Dosumu of Lagos cedes the territory to Britain which becomes a British Crown colony.

1865. The British establish a consulate at Lokoja.

1887–1900. Various parts of what later became Nigeria are brought under British colonial rule as protectorates of Southern Nigeria and Northern Nigeria.

1903. The Sokoto-based Fulani Empire becomes part of the British Protectorate of Northern Nigeria.

1906. The colony of Lagos merges with the Protectorate of Southern Nigeria.

1914. For budgetary and administrative convenience, the Colony of Lagos and Protectorate of Southern Nigeria are merged with the Protectorate of Northern Nigeria as the Colony and Protectorate of Nigeria.

1922. The Clifford Constitution allows for Africans to be elected into the Legislative Council in Lagos.

1936. Nigerian Youth Movement emerges as precursor of political parties.

1937. Shell Oil Company begins oil exploration in Nigeria.

1939. Governor Bourdillion divides Southern Nigeria into Eastern and Western provinces, later to become Eastern and Western regions.

1944. The National Council of Nigeria and Cameroon emerges (becomes National Council of Nigerian Citizens in 1961).

1946. Sir Arthur Richards' Constitution goes into effect.

1949. The Northern People's Congress is formed.

1950. The Action Group (Party) is formed.

1951. Macpherson Constitution goes into effect.

1954. The Lyttleton Constitution, establishing Nigeria as a federation of 3 regions—Eastern, Western, and Northern—goes into effect.

1959. Elections, in preparation for independence, are held; an NPC-NCNC coalition government is formed with Sir Abubakar as prime minister.

1960. Nigeria becomes independent (1 October).

1963. Nigeria becomes a republic (1 October).

1966. Military overthrows Abubakar government. Major-General Ironsi is installed and is later assassinated and succeeded by Lt. Colonel Yakubu Gowon.

1966–79. Military rule; Gowon (overthrown 29 July 1975), Murtala Muhammed (assassinated 1976), succeeded by Olusegun Obasanjo.

1967–70. Eastern Region declares independence as Republic of Biafra, precipitating Nigeria-Biafra War which ends January 1970 with the defeat of Biafra.

1979–83. Second Republic with civilian rule under Shehu Shagari.

1983–93. Prolonged military rule; Muhammed Buhari overthrows the Shagari administration; is ousted (1985) by Ibrahim Babangida.

1993. Presidential election (won by M.K.O. Abiola) is annulled by Babangida (23 June) who retires and appoints businessman Shonekan as interim ruler. Abacha ousts Shonekan (17 November) and inaugurates a brutal regime.

1998. Abacha dies of natural causes. His successor, General Abubakar, inaugurates transition to civilian rule. Local government elections are held.

1999. Gubernatorial elections are held 9 January, National Assembly elections are held 20 January, and presidential elections follow 27 February. Obasanjo is inaugurated 29 May as president of the Third Republic.

FUTURE TRENDS

Nigeria's prospects for sustainable economic growth are mixed. Despite current hardships, Nigeria represents an important market in Africa with its vast human and natural resources. Its revenues from both the recent and ongoing recovery in oil prices and the export of liquified natural gas should help to rebuild the nation's shattered socio-economic infrastructure. The anti-corruption legislation, rigorously enforced, should help to restore transparency and accountability into economic decisions, which would boost national and international investor confidence in the nation. The **liberalized** rules for foreign investment and initiatives by the Obasanjo government to privatize some state-owned enterprises and promote tourism should help the nation move steadily towards targeted growth.

Nigeria has many impediments on its road to sustainable development. Earnings from non-oil exports are unlikely to improve significantly because of the high cost of production. Acrimony between the executive and legislative arms of the government continue relentlessly to the detriment of collective and decisive action. Painful and costly fuel shortages, caused by the inability of Nigeria's dilapidated refineries to produce anywhere near capacity, immobilize the nation. Inter-ethnic and religious conflicts continue to take their tolls in human lives and physical assets of the nation. Unemployment, especially among college graduates, has reached intolerable levels. Armed robbery and crime constitute a present danger to the economy. These impediments must be more determinedly addressed to enhance Nigeria's chances for growth and development.

DEPENDENCIES

Nigeria has no territories or colonies.

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—F. Ugboaja Ohaegbulam

RWANDA

Republic of Rwanda
Republika y'u Rwanda

CAPITAL: Kigali.

MONETARY UNIT: Rwanda Franc (RFr). One Rwanda franc equals 100 centimes. There are coins of 1, 5, 10, 20, and 50 francs and notes of 100, 500, 1,000, and 5,000 francs.

CHIEF EXPORTS: Coffee, tea, hides and skins, cassiterite, pyrethrum.

CHIEF IMPORTS: Food, machinery and equipment, steel, petroleum products, cement and construction material.

GROSS DOMESTIC PRODUCT: US$5.9 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$70.8 million (f.o.b., 1999 est.). **Imports:** US$242 million (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of Rwanda is a landlocked country located in central Africa. It is bordered on the east by the Democratic Republic of the Congo, with which it shares the shores of Lake Kivu; on the north by Uganda; on the west by Tanzania; and on the south by Burundi. Rwanda is a small country with an area of 26,338 square kilometers (10,169 square miles). Comparatively, Rwanda is about the size of the state of Maryland. The capital city of Kigali is in the center of the country.

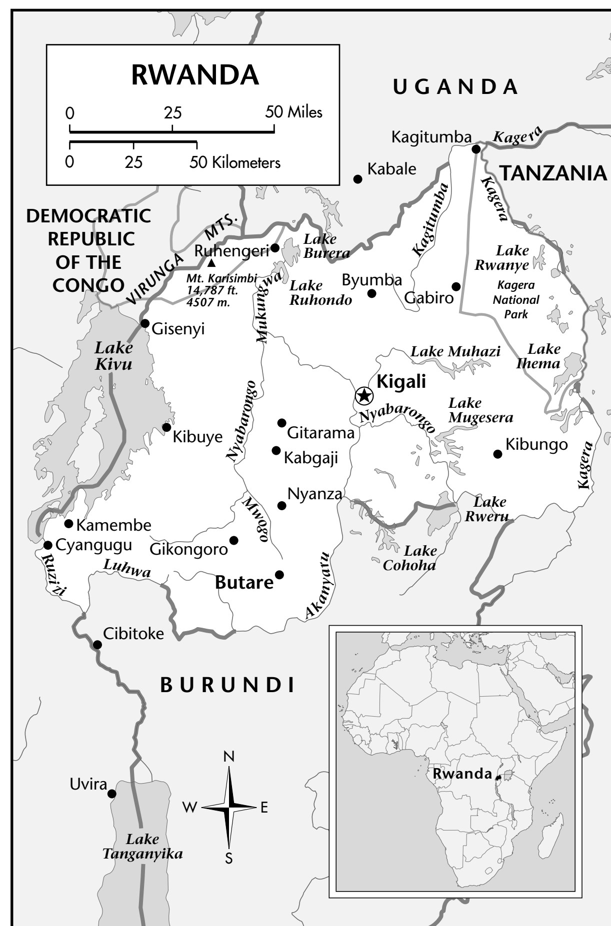
POPULATION. Rwanda's population was estimated at 7,229,129 in 2000. Already the most densely-populated country in Africa, Rwanda's population is growing at a rate of 3 percent annually, according to the U.S. State Department. At this rate the population is expected to reach 11.2 million by 2012, despite the fact that huge numbers of Rwandans are dying from AIDS-related illnesses. In 2000, there were approximately 34.78 births per 1,000 people. The fertility rate in Rwanda is high. An average Rwandan mother gives birth to 5 children in her lifetime. But this statistic is tempered by the fact that approximately 12 percent of Rwandan babies die at birth. The average Rwandan's life expectancy is equally dismal; on average, Rwandan males live to 38.58 years old and the average female has a life expectancy of 40.13 years.

Rwanda is populated by 3 ethnic groups: Hutu (84 percent), Tutsi (15 percent), and Twa, or Pygmoid (1 percent). Rwandans are predominantly Christian. Some 65 percent of the population is Roman Catholic, while 9 percent is Protestant. About 25 percent of the population practices indigenous and other beliefs, with only 1 percent being Muslim. Rwanda has 3 official languages: Kinyarwanda, French, and English. Kiswahili (an offshoot of Swahili) is spoken primarily in the country's commercial centers. Rwanda is one of the most densely populated countries in Africa, with 317 persons per square kilometer on average (or 820 people per square mile).

OVERVIEW OF ECONOMY

The single biggest factor in Rwanda's recent economic history is the 1994 genocide (see Politics, Government, and Taxation). In that year, Rwanda's ethnic majority, the Hutus, committed genocide against the Tutsi minority. The casualties of that genocide numbered more than half a million Tutsis. The genocide devastated Rwanda's already fragile economy by further impoverishing its population and unraveling its social fabric. The economy shrank by 50 percent within a year of the genocide, and per capita incomes dropped to US$80 a year.

Since the 1994 genocide, however, Rwanda has made significant headway in rehabilitating its economy. Annual **gross domestic product** (GDP) growth rates hit 37 percent in 1995, 12 percent in 1996 and 1997, and 10 percent in 1998. **Inflation** fell from its 1994 highs and government revenues increased. Agricultural production reached pre-war levels by 1998, though there is little new investment in this sector. Moreover, nearly 40 percent of the



industries operating in 1994 have not resumed operations. Economic growth slowed in 1999, thanks to low prices for Rwanda's major exports and rising world oil prices.

Today, Rwanda remains a poor country dependent on agricultural production and foreign aid. It is primarily a rural country and about 90 percent of its population works in subsistence agriculture, and 65.3 percent of the population lived below the poverty line in 1998. Its main exports, coffee and tea, account for 70 percent of exports. Rwanda receives 75 percent of its budgetary requirements from foreign aid organizations. The Rwandan government, the International Monetary Fund (IMF), and the World Bank have agreed to a **privatization** program that is expected to invigorate Rwanda's economy. Future growth in Rwanda's economy, however, will depend on continued political stability, assistance from the IMF and the World Bank, and the strengthening of world coffee and tea prices.

POLITICS, GOVERNMENT, AND TAXATION

Rwanda's politics have long been colored by conflicts between the nation's 2 dominant ethnic groups, the Hutus and the Tutsis. In 1959, the Hutu ethnic majority toppled the ruling Tutsi king. After the king fled, the Hutus killed thousands of Tutsis, and more than 150,000 Tutsis fled into exile in neighboring countries. The children of these exiled Tutsis eventually formed a rebel group, the Rwandan Patriotic Front (RPF), and in 1990 returned to Rwanda to wage war against the Hutu government. This war, along with the assassination of Rwanda's Hutu President Juvenal Habyarimana and certain economic upheavals, compounded ethnic tensions which erupted in 1994. The Hutus massacred more than half a million Tutsis and some moderate Hutus (some estimates indicate that the number of dead was closer to 1 million). That same year, the RPF defeated the FAR (the Hutu regime's army) and the Interhamwe (the Hutu militia group that spearheaded the Tutsi genocide) and took military control of the country. The Tutsi ascension to power sparked a massive exodus of Hutus from Rwanda. Once defeated, the Hutus feared Tutsi retribution and approximately 2 million Hutu refugees, including armed members of the ex-FAR and Interhamwe, poured into the Democratic Republic of the Congo (the Congo) and trickled into Burundi, Tanzania, and Uganda. Most of these refugees have since returned to Rwanda. But the ex-FAR and the Interhamwe remain in the Congo and continue to threaten Rwanda's stability.

In 1991, the primarily Hutu Rwandan government ratified a constitution that provided for a multiparty democracy, a limited executive term, and independent legislative and judicial branches. In 1994, however, the Rwandan Hutu government collapsed and the Tutsi RPF seized power. Once it assumed control, the RPF prohibited all political parties that were determined to have participated in the Tutsi genocide. A multiparty Transitional National Assembly was installed to preside over a 5-year transition from military to civilian rule. In 1995, the Transitional National Assembly adopted a new constitution that was essentially a combination of the 1991 constitution and peace agreements signed after the 1994 war. In 1999, the government extended the transition period for another 5 years because ethnic tensions remained too high to hold elections.

Though still in the transition period, Rwanda held special elections in 2000 that gave Major General Paul Kagame of the RPF the presidency. Kagame received 81 of 86 votes from members of the National Assembly, who represent a variety of political parties. Kagame is expected to rule until regular elections can be held.

There are at least 4 factors that impede Rwanda's economic growth. First, Rwanda's economy depends far too much on foreign aid and will continue to do so for the near future. Currently, 75 percent of the Rwandan government's budget is financed by foreign aid. Second, the government expends a considerable percentage of its

resources reintegrating the returning refugees into the folds of Rwandan society. This expenditure continues to divert from the Rwandan economy resources that could improve the country's **infrastructure**. Third, the government also spends much of its resources supporting rebel groups at war in the Congo. This funding could be diverted to invest in the economy. Fully 25.6 percent of the government's budget went toward the support of the Rwandan Patriotic Army in 2000, according to the U.S. State Department. Finally, Rwanda's prison population has swelled to 100,000, and the government expends considerable sums to house the inmates who were convicted of perpetrating the 1994 genocide.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Rwanda has a fairly good road system with approximately 14,900 kilometers (9,258 miles) of roads. For the most part, the primary roads are well maintained. But feeder roads have deteriorated due to the war, excessive loads by heavy-duty trucks, and a 1997 flood. Currently, though, the World Bank is providing financing for road rehabilitation and new construction in certain parts of the country.

Rwanda lacks a railroad system, although it is linked to the Ugandan-Kenya railroad system by road. Since Rwanda is landlocked, most of its international trade is transported through the Kenyan port of Mombasa. Rwanda has several airports, but the main international airport is in Rwanda's capital, Kigali.

The cost of electricity in Rwanda is exorbitant. Electricity in Rwanda costs 3 to 4 times that of neighboring countries. It therefore costs businesses more money to manufacture goods and as a result, the manufacturing sector has failed to attract significant foreign investment. To address this problem, the Rwandan water and energy utility company, Electrogaz, will be privately managed as early as 2001. Eventually, the Rwandan government intends to privatize Electrogaz. The Rwandan government, in conjunction with the **private sector**, is considering alternate sources of energy, such as harnessing the reserves of methane gas found in Lake Kivu.

Rwandatel, the government-owned telephone company, is the sole wire-based telephone company operating in Rwanda and is also the exclusive Internet service provider. There were only 15,000 main telephone lines in use in 1995, primarily in the capital area. To date, Internet service has proven unreliable and expensive. Thus, the Rwandan government intends to establish an agency that will privatize Rwandatel and **liberalize** the telecommunications sector. MTN Rwandacell provides mobile phone service to certain areas of the country. Additionally, 2 radio stations and 1 television station operate from Kigali.

ECONOMIC SECTORS

Rwanda's economy is dominated by the agricultural sector, which contributes 44 percent of GDP and 70 percent of exports, and employs 9 out of 10 of the country's workers. In 1998, agricultural exports accounted for US$36.5 million. Most of Rwanda's population is engaged in some form of subsistence agriculture, producing goods for their own consumption and not for sale.

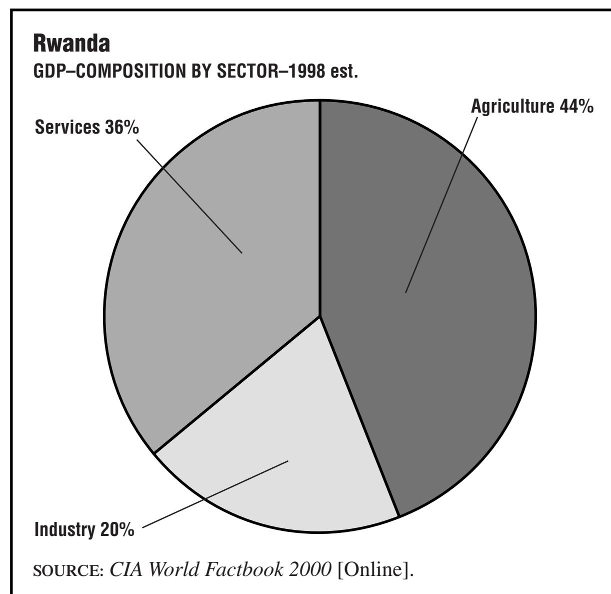
Roughly 10,000 workers are employed in the industrial sector, which represents 20 percent of the country's GDP. The industrial sector is composed of small- to medium-sized companies, whose capital rarely exceeds US$1 million and which produce primarily food-related

Communications

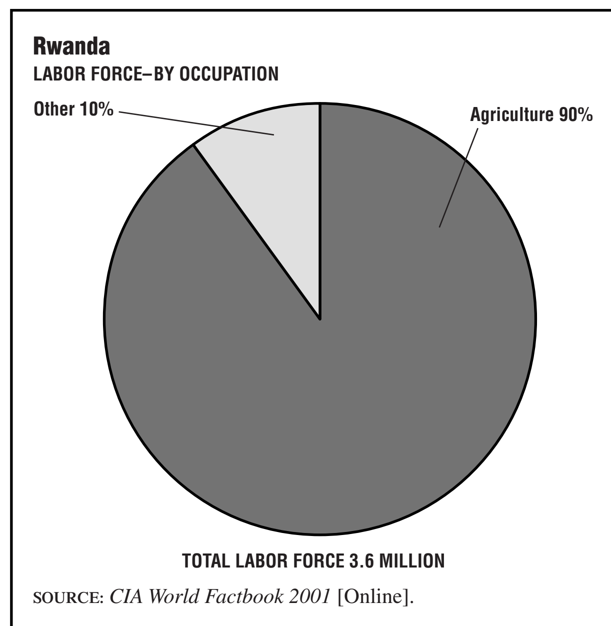
Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Rwanda	15,000 (1995)	N/A	AM 0; FM 3; shortwave 1	601,000	2	N/A	1	1,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Dem. Rep. of Congo	21,000	8,900	AM 3; FM 12; shortwave 1 (1999)	18.03 M	20 (1999)	6.478 M	2	1,500 (1999)
Burundi	16,000	619	AM 2; FM 2; shortwave 0	440,000	1 (1999)	25,000	1	2,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

products. After the war, the industrial sector came to a halt. Since then, the Rwandan industrial sector has only been able to resume 40 percent of its pre-war levels. The services sector represents just 36 percent of GDP. Financial services are weak, and tourism nearly nonexistent thanks to the country's reputation for violence.

AGRICULTURE

The Rwandan people depend on subsistence agriculture for survival, but do produce several key crops for export. The crop that generates the most foreign exchange is coffee. In 1999, about 14,500 metric tons of coffee were produced. Most coffee is grown on small farms by independent farmers. Tea is the other major export, and Rwanda also produces pyrethrum, plantains, maize, soybeans, sugar cane, wheat, beans, cassava, sweet potatoes, and sorghum. The country has approximately 980,000 goats, 500,000 cattle, 270,000 sheep, and 80,000 pigs.

INDUSTRY

MANUFACTURING. The manufacturing sector primarily produces beer, soft drinks, hoes, cigarettes, soap, wheelbarrows, cement, plastic pipe, mattresses, textiles, and roofing materials. Most manufacturing is geared toward **import substitution**—providing goods that must otherwise be imported. Like every other sector, industry came to a halt in 1994, but had returned to 75 percent of its capacity by mid-1997.

MINING. After agricultural products, minerals generate the most foreign exchange. Rwanda has significant reserves of cassiterite (tin ore), wolfram (tungsten ore), gold, and beryl. But due to a drop in the global price of cassiterite in 1986, this metal ceased to be mined. In 1987, the wolframite mines suffered the same fate. Since 1991, some cassiterite and wolframite began to be exported, but not at their pre-1987 and 1991 levels. The mining of other mineral ores was also gravely disrupted by the 1994 genocide and have also yet to reach their pre-1994 levels of production.

Efforts have been made to explore the possibility of producing methane that is emitted from Lake Kivu, but these have yet to reach their potential. Because it is a mountainous country with many rivers, Rwanda has the capacity to produce hydroelectric power, and is currently exploring hydroelectric projects with neighboring Burundi and the Democratic Republic of the Congo.

SERVICES

Most tourists go to Rwanda to see its mountain gorillas. However, Rwanda's tourism came to a halt during the 1994 war. There is hope that if Rwanda continues to benefit from its current levels of stability, the hotel and restaurant industry (the primary beneficiaries of tourism) will grow as tourism resumes its pre-war levels.

The banking system has been liberalized by the government, and there are few barriers to the flow of foreign exchange. Rwanda has a central bank and 5 commercial banks, 1 development bank, and a credit union system. In 1999, the Rwandan parliament passed a new set of liberalization measures that in part ensure that the private banks operate under the close supervision of the National Bank of Rwanda. All in all, the progress is encouraging, given Rwanda's recent history and the continuing con-

Trade (expressed in billions of US$): Rwanda

	Exports	Imports
1975	.042	.099
1980	.072	.243
1985	.131	.298
1990	.110	.288
1995	.054	.237
1998	.063	.287

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Rwanda

Rwandan francs per US$1	
Jan 2001	432.24
2000	389.70
1999	333.94
1998	312.31
1997	301.53
1996	306.82

SOURCE: CIA *World Factbook 2001* [ONLINE].

flict in the neighboring Congo. **Retail** services improved in the late 1990s as returning Rwandan refugees opened a variety of small enterprises.

INTERNATIONAL TRADE

Rwanda's main export partners are Brazil, Germany, Belgium, Pakistan, Spain, and Kenya. Most of Rwanda's coffee and tea are shipped to Germany and other European countries. Rwanda's main import partners are Kenya, Tanzania, the United States, the Benelux countries, and France. Rwanda imported motor vehicles, textiles, fuels and machinery. In 1998, Rwanda generated US$58 million in exports, but imports cost Rwanda more than US$240 million that same year.

Tea and coffee continue to be the country's most important exports. In 1999, they represented 70 percent of Rwanda's exports. Lately, Rwandan businesses have been exploring other agriculturally-based exports that would be equally suited to the country's small farms, steep slopes, and cool climates. The feasibility of many of these new proposals to expand the agriculture industry is limited by the country's high transportation costs.

Although Rwanda's primary partners have been African and European countries, recently there have been significant purchase imports from the United States. Northrop Grumman sold a US$16 million commercial radar system and Lucent Technologies made a sale of US$25 million for a wireless air loop telephone system. It remains to be seen whether Rwandan-U.S. trade will continue.

MONEY

The local currency is the Rwandan franc, and it is allowed to float freely on the world currency market. The **exchange rate** in 1998 was 312 Rwandan francs for 1 U.S. dollar. The National Bank of Rwanda is the country's central bank and determines **monetary policy** for the country. Inflation, which had been extremely high following the 1994 war, has since been stabilized and was about 5 percent in 2000.

POVERTY AND WEALTH

Rwanda is, by all measures, a poor country. The 1994 war obliterated the country's economy, social fabric, human resource base, and institutions. Almost 90 percent of the population lives on less than US$2 per day and half of its population lives on less than US$1 per day. Government statistics indicated that 65.3 percent of the people lived below the poverty line in 1998.

Though the Rwandan government reports that 87 percent of the population lived within 2 hours walking distance of a health care facility in 1996, the quality of the Rwandan people's health is quite poor. Life expectancy is low, and malnutrition is high. Malaria and respiratory diseases—which are rarely the cause of death in more developed countries—are the biggest killers in Rwanda. Not only are the people unhealthy, they are also poorly educated. According to government reports, only 46 percent of Rwandan teachers are qualified, teaching materials are poor, and drop-out rates are high. Only 7 percent of eligible students were enrolled in secondary schools in 1998.

In an effort to curb Rwanda's poverty, the IMF, the African Development Bank (ADB), and the World Bank have taken certain steps to assist Rwanda in its efforts towards economic recovery. Thus, in 1998 the IMF approved

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Rwanda	233	321	312	292	227
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Burundi	162	176	198	206	147

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Rwanda

Lowest 10%	4.2
Lowest 20%	9.7
Second 20%	13.2
Third 20%	16.5
Fourth 20%	21.6
Highest 20%	39.1
Highest 10%	24.2

Survey year: 1983–85

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

the Poverty Reduction and Growth Facility, the ADB approved a structural adjustment credit of US$20 million, and the World Bank agreed to provide US$75 million to Rwanda. These efforts are designed to reduce rural poverty, pave the way for private sector growth, and promote prospects for national reconciliation by opening up economic opportunities to all Rwandans.

WORKING CONDITIONS

The Rwandan constitution permits professional associations and labor unions, and the Rwandan government generally respects this right. Rwanda has no uniform minimum wage, and wages vary in accordance with the position. In any event, the vast majority of wages paid to workers in Rwanda are insufficient to support a decent standard of living for a worker and his or her family. The majority of families supplement their earnings by working in subsistence agriculture. Pressured by labor unions, the Transitional National Assembly has considered creating a new labor code to provide protections for workers but, as with much else in Rwanda, completion of this work awaits greater political and economic stability.

Women make up 54 percent of the Rwandan population, but discriminatory practices in education and employment have meant that women bear a disproportionate brunt of the poverty in the country. The government has plans to craft laws to protect the rights of women, but these laws are still pending as of 2001.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1894. The first European, German Count Von Geotzen, visits what is present-day Rwanda.

1918. Following World War I, Rwanda becomes a protectorate of the League of Nations under Belgian rule.

1926. The Belgian colonizers issue identity cards distinguishing the Tutsis from the Hutus.

1959. The Hutus rebel against the Belgian colonizers and the Tutsi elite, forcing the Tutsi monarch and more than 150,000 Tutsis to flee the country.

1961. Rwanda is established as a republic. The Party of the Hutu Emancipation Movement (PARMEHUTU) wins a majority of the seats in the National Assembly, and the assembly votes against the return of the Tutsi king.

1962. Belgium grants Rwanda independence, and the PARMEHUTU party changes its name to the Democratic Republican Movement whose leader, Gregoire Kayibanda, becomes the country's president.

1963. Exiled Tutsis unsuccessfully attempt to take over Rwanda, and the Hutus respond by massacring the Tutsis.

1973. General Juvenal Habyarimana topples President Kayibanda, accusing him of favoring southern Hutus, and suspends all political activities.

1975. Habyarimana creates the National Revolutionary Movement for Development (MRND) as the country's lone political party.

1978. President Habyarimana is given another 5-year term in single-party elections and a new constitution is ratified. Habyarimana is reelected in 1983 and 1988.

1989. Coffee prices plummet, famine increases, and the country turns to the World Bank for assistance. Following a World Bank reform plan, Rwanda liberalizes trade, divests state enterprises, devalues the Rwandan franc, and reduces government **subsidies**.

1990. Central African nations and Belgium send troops to Rwanda to help the Habyarimana regime defend itself against an attack from a rebel group of Tutsi exiles from Uganda.

1991. A new constitution is ratified that states Rwanda is a multiparty democracy.

1992. The price of coffee continues to plummet and Rwandan coffee trees are uprooted because coffee growers are unable to earn a living. The World Bank imposes more privatization, with proceeds going to service Rwanda's **external debt**. Ethnic tensions between Hutus and Tutsis rise.

1994. President Habyarimana dies after his plane is shot down. The Hutus set out to massacre all Tutsis within the country, and hundreds of thousands of Tutsis are killed. An external Tutsi rebel group, the Rwandan Patriotic Front, takes control of Rwanda, and forms the Transitional Government of National Unity to oversee a return to normalcy.

1996. The Rwandan government tacitly supports a rebel, Laurent Kabila, from Zaire (now the Democratic Republic of the Congo) to assist in securing Rwanda's border from the Interhamwe and ex-FAR operating from the Congo. Rwanda backs Kabila's efforts to overthrow the government of the Congo. At the same time, huge numbers of refugees who had fled during 1994 return to the country.

1998. President Kabila expels Rwanda's forces from the Congo and Rwanda in turn supports rebel groups in the Congo seeking Kabila's ouster.

2000. Major General Paul Kagame, a Tutsi, is elected president of Rwanda in a special parliamentary vote, but the government is still considered to be in transition.

FUTURE TRENDS

After the 1994 war and genocide, the Rwandan government focused on establishing peace within its territory and **repatriating** refugees, mostly from the Congo. The Rwandan economy, as a result of the war, had reached rock bottom. In 1995, the GDP rebounded by 37 percent after the cessation of hostilities allowed the Rwandan citizenry to return to its normal affairs. This normalization of the Rwandan economy continued in 1996 and resulted in a GDP growth of 15.8 percent. That year, the agricultural sector grew by 10 percent, livestock production by 17 percent, and the manufacturing sector by 25 percent. In 1998, Rwanda set upon an ambitious privatization program encouraged by the World Bank and also signed an Enhanced Structural Adjustment Facility with the IMF, both of which were designed to provide order to the economy and encourage economic growth. This same year, Rwanda's economy grew by 9.5 percent and in 1999 by 5.9 percent. Unfortunately, the country experienced a drought which caused extensive crop failure in 2000. The economy, however, is still expected to grow by at least 5.8 percent for the next 3 years. After the 1994 war, inflation had risen to 64 percent. Since then, inflation has come down to around 5 to 7 percent. Admirably, by 1998, the country's GDP surpassed its pre-war level.

Rwanda faces 2 major threats to its continued economic progress: its support of the rebel groups at war with the government of the Congo, and HIV/AIDS. With respect to the first threat, the IMF blames Rwanda's poor coffee production on the fact that Rwanda has diverted indispensable resources needed for coffee production to fund the rebel groups operating in the Congo. Particularly, the IMF contends that unless funding for the rebel groups ceases, Rwanda will be unable to finance the replacement of the aging Arabica trees with newer high-yield trees, and if that is not done, Rwandan coffee production will continue to fall. Both the IMF and the European Union have warned Rwanda that if it does not keep its military expenditures below 2 percent of GDP, they may curtail their funding. With respect to the second threat, 11 percent of the rural Rwandan population is infected with the AIDS virus and that number is growing exponentially. If the Rwandan government fails to implement effective prevention and treatment programs, Rwanda may begin to experience very severe strains on its labor and budgetary expenses.

Prior to 2000, Rwanda had fallen behind in some of its external debt repayments in some bilateral agreements. But as of 2000, Rwanda was not in **arrears** to either the World Bank or the IMF. Based on this good credit, the IMF has approved a 3-year program with total disbursements of US$56.3 million. Equally important to Rwanda's continued progress is the fact that the IMF and the World Bank have stated that Rwanda qualifies for **debt relief** under the Highly Indebted Poor Countries program. But these donors, however, made clear that this debt relief is contingent on Rwanda disentangling itself from the Congo war.

DEPENDENCIES

Rwanda has no territories or colonies.

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—Michael David Nicoleau and Raynette Rose Gutrick

SÃO TOMÉ AND PRÍNCIPE

Democratic Republic of São Tomé and Príncipe
República Democrática de São Tomé e Príncipe

CAPITAL: São Tomé.

MONETARY UNIT: Dobra (Db). One dobra equals 100 centimos. There are coins of 50 centimos and 1, 2, 5, 10, and 20 dobras, and notes of 50, 100, 500, and 1,000 dobras.

CHIEF EXPORTS: Cocoa, copra, coffee, palm oil.

CHIEF IMPORTS: Machinery and electrical equipment, food and live animals, petroleum products.

GROSS DOMESTIC PRODUCT: US$169 million (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$4.9 million (f.o.b., 1999 est.). **Imports:** US$19.5 million (f.o.b., 1999 est.).

COUNTRY OVERVIEW

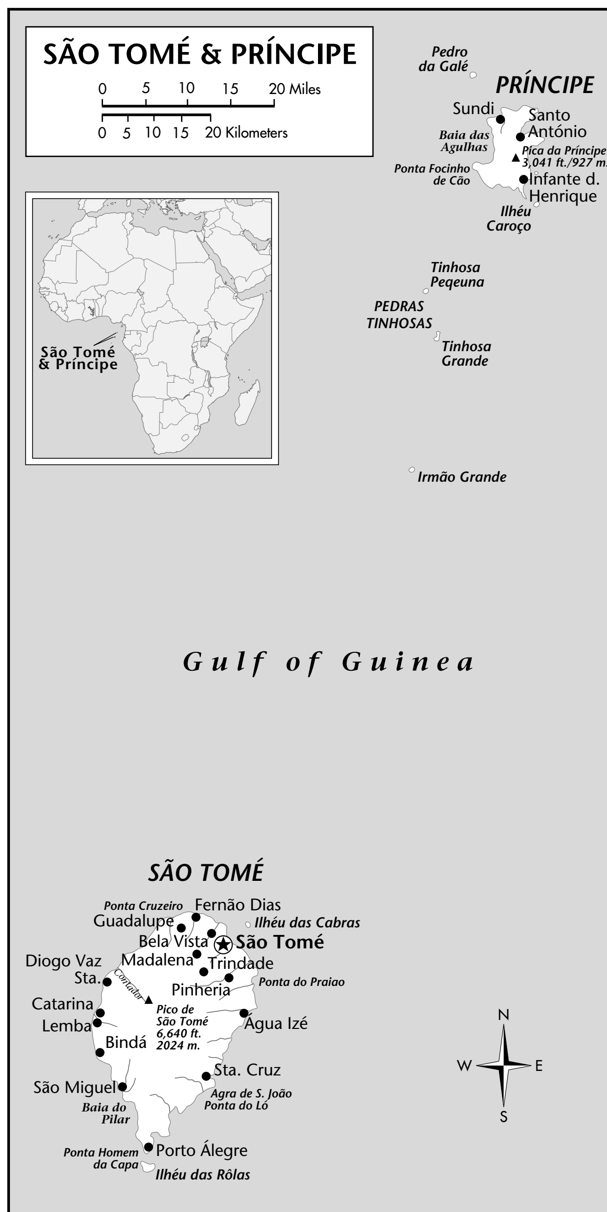
LOCATION AND SIZE. São Tomé and Príncipe is located in the Gulf of Guinea 290 kilometers (180 miles) west of Gabon, which is located on the western edge of Africa. The 2 mountainous main islands of the republic are São Tomé and Príncipe; other rocky islets include Caroco, Pedras, and Tinhosas off Príncipe Island, and Rolas off São Tomé Island. The islands are the tips of an extinct volcanic mountain range and make up one of Africa's smallest countries. The country has an area of 1,001 square kilometers (386.5 square miles). The coast line is 209 kilometers (130 miles). Comparatively the area of São Tomé is more than 5 times of the size of Washington, D.C. The capital city of the country, São Tomé, is located on the northeastern coast of the island of São Tomé.

POPULATION. The population of São Tomé and Príncipe was estimated at 159,883 in July 2000. In 2000, the birth rate stood at 42.98 per 1,000, which is quite high. The death rate in the same year was 7.76 per 1,000, giving an annual average population growth rate of 3.16 percent. The life expectancy at birth is 65.25 years for total population, 63.84 years for males and 66.7 years for females. The population density in 1997 was 135.5 per square kilometers (351 per square mile). Ninety-five percent of the country's population lives on the island of São Tomé and 46 percent of the population lived in urban areas in 1996. São Tomé and Príncipe is a country of young people with 48 percent of the population below the age of 14, and just 4 percent of the population older than 65.

The country's population is very diverse and represents mainly descendants from different parts of the African continent. Ethnic groups include mestico, angolares (descendants of Angolan slaves); forros (descendants of freed slaves); servicais (contract laborers from Angola, Mozambique, and Cape Verde); tongas (children of servicais born on the island); and Europeans (primarily Portuguese). Roughly 80 percent of the islanders are Christians, with representatives of the Roman Catholic, Seventh-Day Adventist, and Evangelical Protestant faiths. The official language of the republic is Portuguese; however, Lungwa São Tomé (a Portuguese creole) and Fang (a Bantu language) are widely used as well.

OVERVIEW OF ECONOMY

Presently São Tomé and Príncipe is in the process of diversifying its economy, which was dependent on cocoa production since the 19th century. After achieving independence in 1975 the nation adopted a **socialist** economy, imposing state control over major sectors of economy. The islands were mainly producing cocoa on the state-owned farms, and cocoa remains the main export commodity. Fishing and forestry are also important economic activities of São Toméans. The islands have no mineral resources with the exception of oil discovered in its territorial waters in 1998. The manufacturing sector is mainly limited to production of textiles, beer, soft drinks, and soap to cover the local demand. The country imports up to 90 percent of its food requirements, machinery, and petroleum products.



In the early 1980s São Tomé and Príncipe proclaimed itself a non-aligned state and started establishing trade links with non-socialist countries. In attempting to diversify its economy in the early 1990s, São Tomé requested international financial assistance. This economic development assistance was offered to the republic under conditions of economic **liberalization**, **privatization**, administrative reforms, and changes in the financial sector. During the 1990s the government increasingly relied on external sources to finance its liberalization program designed by the International Monetary Fund (IMF) and the World Bank.

According to a World Bank report, in 1999 São Toméan outstanding debt reached US$296 million, compared to US$135 million in 1989. This made about US$1,851 of debt per person, including infants, in 1999. The country is one of the largest recipients of aid per capita in the world; nonetheless, corruption and mismanagement undermined the administration of aid. The country sees its economic future in the development of offshore oil reserves and the expansion of tourism, which is not yet fully established. Beginning in 1993 the nation also sought to establish **free trade zones** to attract foreign investors and further develop the country's shipping and manufacturing sectors.

POLITICS, GOVERNMENT, AND TAXATION

São Tomé and Príncipe became a colony of Portugal in 1522 and was administered by Portugal for the next several hundred years. A liberation movement emerged in the 1960s, resulting in the creation of the Movement for the Liberation of São Tomé and Príncipe (MLSTP) in 1972. Based in Gabon and led by Dr. Manuel Pinto da Costa, the MLSTP led the country to independence following a military coup in Portugal in 1974. The new Portuguese administration oversaw the peaceful transition to independence over the course of the next year.

After declaring independence on 12 July 1975, Dr. Manuel da Costa became the country's first president. The ruling MLSTP party adopted a socialist economic program, providing state ownership and direction of all the islands' industries. There were several unsuccessful coups and attempts to overthrow the regime of President da Costa, yet da Costa maintained close links with the **communist** bloc countries amid worsening economic conditions.

The severe drought of 1982 prompted President da Costa to change his priorities in international relations. In 1984 the president proclaimed São Tomé and Príncipe a nonaligned state. This meant that the government adopted a strategic and political position of neutrality towards the major powers aligned with the United States and the U.S.S.R. Most of the Soviet, Cuban, and Angolan advisers had to leave the country. New international links were established with neighboring African states and Portugal. The initial attempts to reduce state control over the economy halted after the minister of Planning and Commerce and the minister of Foreign Affairs and Co-Operation were dismissed.

In August 1990 a referendum indicated that 72 percent of the electorate (90.7 percent of participating voters) favored a newly drafted constitution. The new constitution declared the republic as a sovereign, independent, unitary, and democratic state. The MLSTP lost its dominating role as the new constitution allowed a multi-party system. At new National Assembly elections on 20 January 1991 the MLSTP was defeated. It obtained only 21

seats in the 55-seat **unicameral** National Assembly, while the opposition Party for Democratic Convergence (PCD) secured 33 seats. The remaining seat was won by the Partido Democratico de São Tomé e Príncipe—Coligacao Democratico de Oposicao (PDSTP-CODO). Miguel Trovoada of the PCD was chosen as president and retained that role in elections in 1996.

Members of the National Assembly are elected for 5-year terms in free and fair multi-party elections. The president of the republic is elected to a 5-year term by direct election. The president names the prime minister from a name submitted by the party holding a majority in the National Assembly. The prime minister then names the 14 members of the cabinet. In 2001 Miguel Trovoada was the president and Guilherma Posser da Costa was the prime minister. The next presidential election will be held in July of 2001 and the next legislative election will be held in 2003.

There are 4 types of taxes imposed by the government on imported goods: an 8 percent transaction tax; import **duties** ranging from 0 percent on basic foodstuff and pharmaceuticals to between 6 and 50 percent on alcoholic drinks and 10 and 66 percent on petroleum products; a 3.5 percent customs duty; and a consumption **excise tax**, which varies significantly on different types of goods (from 0 percent on basic foodstuff to 250 percent on tobacco) and is levied on the after-tax value on goods.

In the late 1980s, the new government requested international assistance in order to improve the economic situation. The new economic policy included economic liberalization, currency **devaluation**, price liberalization, and privatization. Drastic economic measures imposed by the IMF and the World Bank as part of the economic recovery programs led to a significant decline in the living standards of people. According to the *EIU Country Report,* **inflation** ballooned from 35.5 percent in 1996 to 68.5 percent in 1997. However, the annual **inflation rate** was reduced to 10.5 percent in 1999, and the annual GDP growth rate grew from 1.0 percent in 1997 to 3.0 percent in 2000.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

São Tomé and Príncipe have a limited network of 320 kilometers (198 miles) of roads, two-thirds (218 kilometers, or 135 miles) of which is paved. There were 4,581 light vehicles registered in 1994, 561 heavy vehicles, 299 tractors, and 815 motorcycles. There is no public transportation on the islands and no rail network.

There are 2 main seaports: 1 at São Tomé city and another at Santo Antonio on Príncipe island. The republic has 10 ships, but Dutch and Portuguese ships serve the links with Gabon, Portugal, and the Netherlands. The seaports are managed by the state. Although the seaports have been modernized, the maritime shipping of goods is irregular and total shipping traffic is limited due to the absence of a deep-water seaport. In 2000, there were plans to build a deep-water seaport at Agulhas Bay on Príncipe island.

There are 2 main airports, in São Tomé and Santo Antonio. Both have been recently modernized. The US$16 million modernization of the international airport in São Tomé was financed by the African Bank of Development and was completed in 1992. The airports are owned jointly by the government (35 percent), Portugal (40 percent), and France (25 percent). Domestic and regional lines are served by Portugal, Angola, and Gabon. The country's lone airline, Air São Tomé e Príncipe, owns only 1 airplane.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
São Tomé & Príncipe	3,000	6,942	AM 2; FM 4; shortwave 0	38,000	2	23,000	2	500
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Nigeria	500,000 (2000)	26,700	AM 82; FM 35; shortwave 11	23.5 M	2 (1999)	6.9 M	11	100,000
Equatorial Guinea	4,000 (1996)	N/A	AM 0; FM 2; shortwave 4	180,000	1	4,000	1	500

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

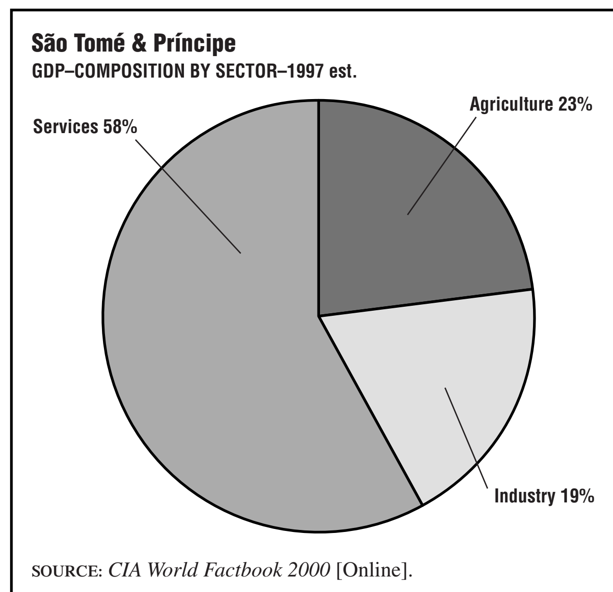
SOURCE: CIA *World Factbook 2001* [Online].

Electricity production in 1998 of 15 million kilowatt hours (kWh) comes from 2 main sources, imported fossil fuel (which generates up to 47 percent of total power) and hydroelectric power (up to 53 percent) generated from the nation's abundant water supply. However, only 53 percent of households have electricity and there are regular power cuts.

Local telephone service is served by the former state-owned Companhia Santomense de Telecomunicacoes (CST), over half of which has been sold to Radio Marconi of Portugal. There were 3,000 telephones lines in 1995. The international lines were improved with international financial assistance. CST tried to compete with Swedish Bahnhof Internet in providing Internet services in the country. In July 1999 Bahnhof Internet became the owner of the country's top Internet domain and it planned to introduce a satellite connection to the Internet. In 1997 the island nation had 2 television stations serving some 23,000 sets.

ECONOMIC SECTORS

The São Toméan economic sectors are influenced by its size and geographical position. The agricultural sector is mainly export-oriented and devoted to cocoa production, so that the country relies heavily on imports of food. Agricultural production is extremely sensitive to weather and prices in the international market; therefore, part of the government's policy of economic diversification is further development of fishing and tourism. Tourism is a growing sector and has been considered a priority for future development. The industrial sector is very limited. All told, agriculture contributes 23 percent of GDP in 1997, industry contributed 19 percent, and services contributed 58 percent.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

São Tomé and Príncipe is an agricultural country. According to the World Bank, in 1997 the agricultural sector contributed 23.3 percent of the GDP and provided employment for 39.6 percent of the economically active population. The agricultural sector mainly produces cocoa, which constituted 86 percent of export revenues in 1997. It also produces coffee, copra, coconuts, and palm oil. Since almost all agricultural production of the country is export-oriented, it has to import foodstuff. By the mid-1990s it imported almost 90 percent of its food requirements. The government accepted a program to develop **smallholder** farms since 1993 in order to diversify agricultural production. However, inadequate training, poor road quality, and limited access to markets hinder this development.

FISHING. Fishing is another important economic activity of São Toméans. The annual total catch of fish is estimated at about 3,000 tons. About 90 percent of the total local catch is provided by 2,300 fishermen. The country's 160,000 square kilometer Exclusive Economic Zone (EEZ) has a potential to produce about 12,000 tons of fish per year. The EEZ—created by the United Nations Convention of the Law of the Sea and completed in 1982—allows coastal nations to claim a territorial sea of up to 12 nautical miles and an exclusive economic zone of up to 200 nautical miles. The government uses this potential to receive its second largest source of foreign exchange by issuing fishing licenses to foreign fishing fleets. The government has prioritized the development of this sector as part of its economic diversification policy, but awaits significant foreign investments for development to be realized.

FORESTRY. The country had considerable forest resources, but these are in the process of being depleted. In 1995 São Toméans produced 8,500 cubic meters of trunks and 3,150 cubic meters of processed timber. Severe deforestation of the country speaks for itself: the rain forest cover dropped to 28 percent of the land area and about 30 percent of the rain forest is secondary forest. New legislation was introduced in the 1990s to protect the rain forest. The government also plans to create national parks to protect the land, which should contribute to plans to boost tourism.

INDUSTRY

São Toméan industry is very small. It includes manufacturing, power generation, and light construction. In 1997 this sector contributed 18.7 percent of the GDP and employed 15.8 percent of economically active population. There are no mineral resources on the island except the discovery of oil in the territorial waters (in the Gulf of Guinea) in 1998, the development of which will de-

pend on agreements with Gabon, Nigeria, and Equatorial Guinea.

Small manufacturing plants that produce only items for local consumption such as beer, textiles, soap, and bread represent the manufacturing sector. Most of the enterprises were under state control in the 1970s and 1980s. While the state would like to privatize these and all other industries, it is awaiting significant investments of capital and management expertise before it can relinquish control.

SERVICES

The services sector contributed about 58 percent of the GDP and employed 33.6 percent of economically active population in 1997. The banking system in the republic is underdeveloped and notorious for its corruption scandals. In 1999 there were several arrests in Belgium when some individuals tried to cash in false bonds. After the arrests the government was forced to dismiss the governor of the Banco Central de São Tomé e Príncipe, the bank's administrator, and its administrative board.

TOURISM. A big potential for the country lies within the fast-growing tourism sector. Fantastic mountain scenery, breathtaking beaches, and unique species of flora and fauna are big attractions for tourists. However, high airfares, the extreme isolation of the islands, and underdeveloped **infrastructure** discourage potential tourists, although there were considerable improvements in telecommunications and hotel accommodations in recent years. This sector attracts the largest portion of foreign investments. While in the early 1980s there was only 1 hotel, in 1996 there were already 9 hotels and 9 guesthouses with a total of 520 beds. In 1996, 2,000 tourists visited the country bringing US$2 million in revenue; in 1998 there were about 6,000 foreign visitors who brought US$4 million.

INTERNATIONAL TRADE

São Toméan international trade relies mostly on the export of cocoa that gives up to 86 percent of the earnings. According to *The CIA World Factbook,* it also exports copra, coffee, and palm oil to the Netherlands (51 percent), Portugal (6 percent), and Germany (6 percent). Exports totaled US$4.9 million in 1999.

The country depends heavily on food imports, mainly from Portugal. It also imports machinery, electrical equipment, and petroleum products. The main import partners are Portugal (26 percent), France (18 percent), Angola, Belgium, and Japan. Angola is the main source of petroleum products. Imports in 1999 totaled US$19.5 million.

Trade (expressed in billions of US$): São Tomé & Príncipe

	Exports	Imports
1975	.007	.011
1980	.017	.019
1985	.006	.010
1990	.004	.021
1995	.005	.029
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: São Tomé and Príncipe

dobras (Db) per US$1	
2001	N/A
Dec 2000	2390.04
1999	7,119.0
1998	6,883.2
1997	4,552.5
1996	2,203.2

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The value of the São Toméan dobra has decreased steadily against the U.S. dollar with the implementation of the economic adjustment program and the devaluation of currency. Throughout the late 1990s the dobra collapsed 5-fold within 4 years. In 1995 US$1 was equal to 1,420.3 dobras; by 1999 that figure rose to 7,200 dobras. Though the diminishing value of the dobra was meant to spur exports, it also caused high inflation in the country, which translated in a higher cost of goods for São Toméans. Before the start of economic reforms in the 1990 the inflation rate was about 44.8 percent (1989); it went down to 27.4 percent in 1992 and up again to 68.2 percent in 1997.

POVERTY AND WEALTH

São Tomé and Príncipe is an agricultural country with the majority of its population living in rural areas and plantations with poor quality roads, no electricity, and little access to medical help and education. The deeply indebted government of São Tomé and Príncipe cannot afford to spend more on health and education for its people. Spending on health declined over the years and constitutes slightly more than 10 percent of total expenditures. In 1992 all São Toméan hospitals and medical centers had 556 beds and 66 practicing doctors. Although the life

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
São Tomé and Príncipe	N/A	N/A	N/A	365	337
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Equatorial Guinea	N/A	N/A	352	333	1,049

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

expectancy is relatively high for an African country, there are about 40,000 cases of malaria infection per year as well as numerous cases of respiratory and diarrheal diseases. There were also 32 registered AIDS cases, although it is estimated that the actual figure is higher.

The education sector receives about 10–15 percent of total budget expenditures. There were 69 primary and 10 secondary schools in 1997. Although the average adult literacy rate was 73 percent in 1991, one-third of the population between the ages of 6 and 20 never went to school. The network of secondary and tertiary institutions is inadequate; there are also shortages of school equipment, textbooks, and properly trained teachers. Although there is some foreign financial assistance directed into education, it cannot cover all of the problems.

WORKING CONDITIONS

The crawling growth of wages for workers could not keep up with the growing inflation, and the real value of wages has plummeted significantly since 1987. Constant demonstrations of angry people prompted the government to increase the wages in spite of criticism from the IMF. The **public-sector** wages were increased by 200–300 percent in 1997 and the teachers' wages were up by 100 percent in 1998. A threat of a strike came from the civil servants' union (Sindicato da Funcao Publica), who demanded an increase in minimum monthly wages from 40,000 dobras ($6) to 350,000 dobras ($52.50). Just finding a job in the country is difficult, however, for estimates of unemployment run as high as 50 percent.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

c. 1471. Portuguese explorers discover uninhabited islands of São Tomé and Príncipe.

1522. The islands become a Portuguese colony, and are eventually populated with slave labor from the African continent.

1800s. Two **cash crops**—cocoa and coffee—are introduced to the islands.

1876. Slavery is officially abolished.

1951. São Tomé and Príncipe become an overseas province of Portugal.

1975. São Tomé and Príncipe achieve independence from Portugal and select Manuel Pinto da Costa as president.

1984. São Tomé is proclaimed a nonaligned state, ending its special relationship with other socialist states.

1987. The constitution is amended to allow universal adult voting.

1990. A new constitution is approved by referendum and allows multi-party politics.

1991. First multi-party elections.

1994. Príncipe is granted political and administrative autonomy.

FUTURE TRENDS

São Tomé has a history of coups, demonstrations, and strikes by people whose expectations for economic improvement are crushed by economic stagnation, high inflation, low salaries, and constant disagreements between the legislature and the president. The government's attempts to attract international financial aid in the 1990s resulted in accepting a "shock therapy" approach to economic reorganization, which led to the further deterioration of the quality of life in the country. However, IMF projections on poverty reduction efforts suggest that inflation may be reduced to 3 percent annually and that GDP may grow by 4 percent as early as 2001. Should these projections prove true, and should the government succeed in its 2 great economic projects—offshore oil extraction and the expansion of tourism—it is possible that São Tomé and Príncipe may correct its longstanding economic woes. The single biggest question is whether the cash-poor country can attract enough foreign investment to allow it to realize its dreams.

DEPENDENCIES

São Tomé and Príncipe has no territories or colonies.

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—Alfia Abazova

SENEGAL

Republic of Senegal
République du Sénégal

CAPITAL: Dakar.

MONETARY UNIT: Communauté Financière Africaine franc (CFA Fr). There are coins of 1, 2, 5, 10, 25, 50, 100, and 500 CFA francs, and notes of 50, 100, 500, 1,000, 5,000, and 10,000 CFA francs.

CHIEF EXPORTS: Fish, groundnuts (peanuts), petroleum products, phosphates, cotton.

CHIEF IMPORTS: Foods and beverages, consumer goods, capital goods, petroleum products.

GROSS DOMESTIC PRODUCT: US$16 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$959 million (f.o.b., 2000). **Imports:** US$1.2 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. A relatively small country located in West Africa, Senegal has a total area of 196,190 square kilometers (75,748 square miles), making it slightly smaller than the state of South Dakota. Water composes 4,190 square kilometers (1,618 square miles) of this area, while the coastline, which borders the North Atlantic Ocean, stretches for 531 kilometers (330 miles). Senegal is bordered to the north by Mauritania, to the east by the Republic of Mali, to the south by Guinea and Guinea-Bissau, and to the west by the Atlantic Ocean. The country of Gambia juts out below the central part of the Senegalese coast, creating a finger-like enclave that penetrates deep into Senegal. Dakar, the capital of Senegal, is located on the northern coast.

POPULATION. In July 2000 the population of Senegal was estimated at 9,987,494. The growth rate was estimated at 2.94 percent per year, with a birth rate of 37.94 births per 1,000 people, and a death rate of 8.57 deaths per 1,000 people. The population of Senegal is young, with 45 percent under 14 years of age, 52 percent between the ages of 15 and 64, and only 3 percent above 65. A young population can benefit the economy because there are fewer elderly people to care for. Yet it creates pressure on the economy to continually expand to create new employment opportunities for new entrants to the **labor force**. In 2000, the World Bank stated that 125,000 people were expected to join the Senegalese labor force every year, creating a major impediment to the country's developmental efforts. Therefore, the Senegalese government has adopted a population control policy designed to limit the birthrate of Senegalese women. The importance of reducing Senegal's high fertility (5.21 children born per woman) will be a difficult challenge for a country that is socially conservative and resistant to using birth control.

Like many African countries, the people of Senegal are ethnically diverse. Of the many ethnic groups that make up the Senegalese population, 43.3 percent are Wolof, 23.8 percent Pular, 14.7 percent Jola, 3 percent Mandinka, 1.1 percent Soninke, and 1 percent European and Lebanese. Several smaller ethnic groups compose the remaining 9.4 percent of the population. The country is mostly Muslim, with 92 percent of the population followers of Islam. Followers of several indigenous religions constitute about 6 percent of the population, while the remaining 2 percent are Christian, mostly Roman Catholic. French is the official language of the country, though many people speak indigenous languages such as Wolof, Pulaar, Jola, or Mandinka.

OVERVIEW OF ECONOMY

Throughout the latter part of the 19th century, the area that now comprises the country of Senegal, along with several other regions in West Africa, came under the colonial domination of France. As a French colony

until 1960, Senegal based its economy on the exportation of peanuts. Though the dominance of the peanut industry led to a monocultural economy, the administrative apparatus constructed by the French created a demand for a locally educated elite to occupy these positions. The national elite that developed, and which has identified with French history and culture, took control of Senegal after independence in 1960.

Though Senegal has remained dependent on its peanut exports, the economy has diversified since independence. In the late 1960s and 1970s the state contributed to economic diversification by establishing public enterprises to fuel industrial growth. By 1974 there were 87 such enterprises but the government's emphasis on industry brought bias against the agricultural sector. The state controlled the purchasing of all agricultural produce to feed the masses of people flocking from rural to urban areas in search of employment. Under this state-controlled system, peasant farmers were paid for their produce at prices lower than its real worth.

In the late 1970s, the prices paid on the international market by importers of peanuts and phosphate increased, helping to improve the situation of the peasants. Phosphate was Senegal's second most important export. The prosperity that accompanied the elevation in international prices for Senegal's major exports was short-lived, however. Deterioration in the world price of peanuts, along with an increase in world prices for oil, a resource that Senegal imported heavily, led to an economic crisis in 1978.

By the early 1980s, Senegal was undergoing a first wave of reforms of structural adjustment as a condition of receiving badly needed loans from both the International Monetary Fund (IMF) and the World Bank (WB). Structural adjustment, as the name implies, meant that

Senegal was obliged to change certain "structures" within its economy, which the IMF and the WB viewed as inefficient to economic prosperity. The state was criticized for playing too great a role in the economy, creating corrupt enterprises (involving bribery in return for contracts) that drained state funding.

Many of Senegal's major exports, including peanuts, cotton, and fish, come from the agricultural sector. The modern, or non-agricultural, sector, which includes chemical industries, phosphates, petroleum refining, manufacturing, and tourism, is concentrated in Dakar and along the coastal belt. Senegal imports foods, beverages, **capital goods**, **consumer goods**, and unrefined petroleum products (such as crude oil). Because of historical ties between the 2 countries, France remains Senegal's largest trading partner.

Senegal has a huge **trade deficit**. In 2000 export revenue equaled US$959 million, while the costs of imports totaled US$1.3 billion. The country depends heavily on foreign assistance, which represented about 42.8 percent of the government's budget in 1994. Besides France, the European Union (EU) and Japan are major donor countries. The United States Agency for International Development (USAID) provides about US$30 million annually in assistance. Senegal has borrowed heavily, both from international financial institutions such as the WB and the IMF, and from commercial banks. In 1998 the country's debt amounted to US$3.4 billion.

Unemployment has been a long-standing economic problem for the people of Senegal. Though figures vary, several official estimates during the 1980s placed the unemployment rate between 20 and 30 percent. The CIA *World Fact Book* estimates that about 40 percent of all urban youth are unemployed. This situation has contributed to deep-seated urban problems such as juvenile delinquency and drug addiction.

POLITICS, GOVERNMENT, AND TAXATION

Senegal is a democracy where people can vote in elections at age 18. They elect a president every 7 years as the head of state who, in turn, appoints a prime minister to head a government. The Council of Ministers, or cabinet, is appointed by the prime minister in consultation with the president. The **unicameral** legislature, the National Assembly, has 140 members who serve a 5-year term. The judiciary has 3 parts: the Constitutional Court, the Court of Appeal, and the Council of State. The legal systems are based on French civil laws and are in need of strengthening as an institution. There is respect in both theory and practice for civil liberties, including freedom of speech, press, association, movement, and democratic electoral procedures. The military, on which the state spent US$68 million in 1997, includes an army, airforce, navy, and a national security police force that is non-political and highly professional.

Senegal is recognized as one of the most democratic and politically stable countries on the continent of Africa. Unlike many other African states, Senegal has never experienced revolution or a military coup, yet, as Frederic C. Schaffer argues in his book *Democracy in Translation: Understanding Politics in an Unfamiliar Culture*, Senegal's democracy is imperfect. Since its independence, a single-party rule has dominated, and the government has been accused of being corrupt and authoritarian. Furthermore, discontent in the rural Casamance region has led to an ongoing internal rebellion by the Movement of Democratic Forces of the Casamance (MFDC). The MFDC represents forces in the Casamance who feel marginalized and neglected by government policies.

After Senegal gained independence in 1960, the Senegalese government was headed by the Socialist Party (PS) until the presidential elections of March 2000. The current president, Abdoulaye Wade, represents the Democratic Party, though the Socialist Party still dominates the National Assembly. The Senegalese Socialist Party promotes a mixed economy in which both the market and the state play significant roles, unlike other **socialist** parties in the developing world that adhere to the **communist** ideals of complete state control of the economy. Before the 1980s, the PS insisted on a much greater economic role for the state, but as the Senegalese economy has become more **liberalized**, support for state control has diminished.

The WB and the IMF have made demands on Senegal to liberalize its economy in return for loans they have granted since the 1980s. They argue that state controls in the economy have proved inefficient because of the inability of **parastatals** (state-owned enterprises) to compete internationally with their privately-owned foreign counterparts. Many such enterprises have been **privatized**, although the state still dominates the telecommunications, transport, mining, and electric power industries. The state remains the country's largest employer and consumer.

While the Senegalese Democratic Party (PDS) makes up the largest opposition party, there are many other political parties, 26 in all, representing ideologies across the political landscape. According to the U.S. State Department *Country Commercial Guide*, opposition parties are personality-driven, relying on the charisma of their leaders rather than concrete ideas. Most parties differ little from the ruling PS about economic matters.

Taxation is the chief source of government revenue. In 1997 92.8 percent of revenue came from taxes, broken down as follows: 28.1 percent from income and property tax, 36.7 from taxes on goods and services, 25.2 percent

from import tax, and 9.1 percent from taxes on petroleum products. Personal **income tax** is progressive, meaning those who earn more money must pay a higher percentage of tax than those who make less money. There are 10 tax brackets, or categories of taxable income. Those who make less than 600,000 CFA francs are not obligated to pay income tax.

Because of economic contraction in the early 1990s, the inability of many firms to compete and survive in a freer market led to a shrinking tax base for the government. Government was forced to rely on strict revenue measures, such as heavy taxation on petroleum imports. According to the World Bank, this caused harmful results to companies that depend on petroleum imports, forcing many to close or join the **informal economy**.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

For a developing nation, Senegal has a well organized **infrastructure** compared to most other African countries. The World Bank estimated that in 1995 there were 507 kilometers (315 miles) of paved road per million people. The CIA *World Fact Book 2001* notes that there are 14,576 kilometers (9,058 miles) of highway, 4,271 kilometers (2,653 miles) of which are paved. Although the railway system is somewhat antiquated, it carries more than 3 million tons of cargo per year. The railway network, which extends across 906 kilometers (563 miles), links the major cities to Dakar and provides services between Senegal and Mali. The port in Dakar is one of the few African ports with a floating dry dock, a container terminal, and container service. Despite the wide range of services, port charges are high and service is inefficient. There are also ports and harbors in Kaolack, Matam, Podor, Richard Toll, Saint-Louis, and Ziguinchor.

According to the U.S. Department of State *Country Commercial Guide*, the airport at Dakar is one of the principal international airports in West Africa, handling a variety of aircraft on its 2 runways. The airport serves more than 24 international airlines, handling 1.5 million passengers per year and moving more than 20,000 metric tons of international airfreight. There are direct flights to Europe and North America, along with frequent flights to several African countries. Secondary airports are located in the regions of Saint-Louis, Tambacounda, and Ziguinchor. In total, there were 20 airports in 1999.

The parastatal Senelec supplies electricity in Senegal, though the electric power market is open to foreign investment. France has invested heavily in this sector of the economy. Senegal produces 1.2 billion kilowatt hours (kWh) of electricity per year, all of which is created domestically by fossil fuel. Therefore, the country has no need to import electricity from abroad. To meet the rapidly growing demand for increased capacity, Senelec is actively seeking upgrades to its existing power-generating capabilities.

The telecommunications sector is dominated by Sonatel, another parastatal. In 1996 there were only 11 phone lines per 1000 people, compared to 640 phone lines per 1000 people in the United States. Access to the Internet is severely restricted. In 1996 there were 0.31 Internet hosts per 1000 people, but in the United States there were 442.11 Internet hosts per 1000 people. Sonatel hopes to modernize the telecommunications industry by digitizing its current network and installing a fiber optic network and cellular telephone system. As in the case of the electricity market, France has also invested heavily in telecommunications. The competitive advantage of French firms in this sector relates, in part, to concessional funding (funds are granted in exchange for specific contracts) given by the French government to the Senegalese government for the modernization of the telecommunications network.

ECONOMIC SECTORS

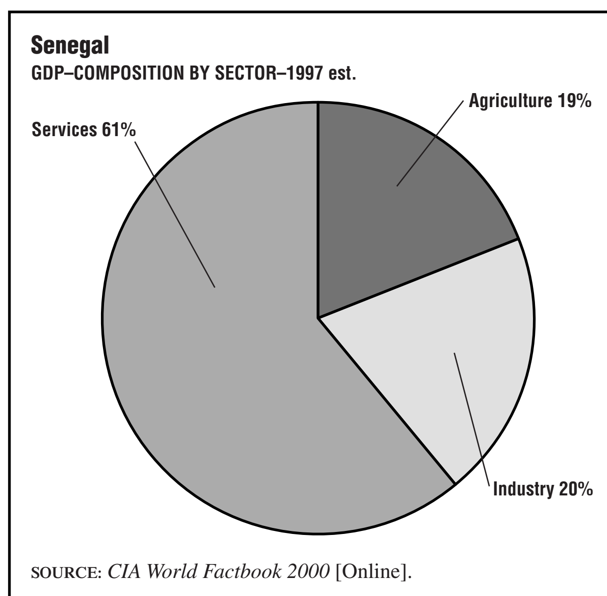
Senegal's economic sectors reflect the traditional nature of the society. Since most Senegalese live in the countryside, the agriculture sector provides employment for most of the population. Moreover, agricultural products comprise Senegal's most important exports. Because

Communications

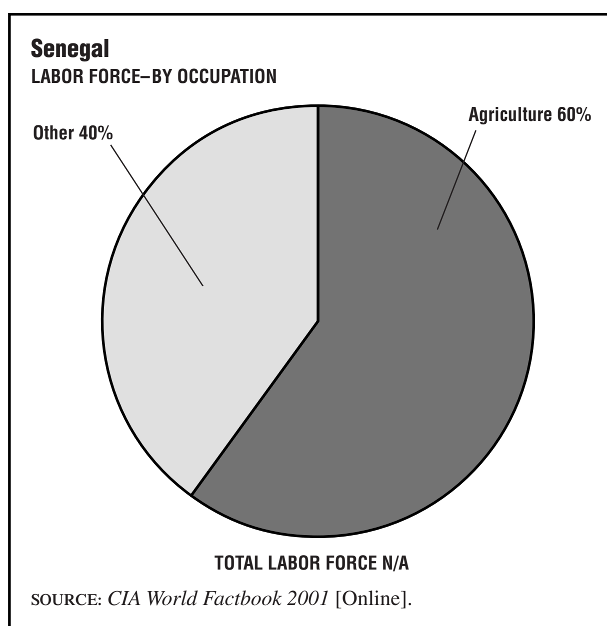
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Senegal	5	142	41	N/A	2	N/A	11.4	0.28	30
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Guinea	N/A	47	41	0.0	3	0.4	2.6	0.00	5

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

these products are generally worth less than manufactured goods or services, the industrial and service sectors generate a larger percentage of **gross domestic product** (GDP) than the agricultural sector. While agriculture provided 19 percent of GDP in 1997, the industrial sector and the services sector provided 20 percent and 61 percent, respectively, in 1997.

AGRICULTURE

The agricultural sector occupies the largest percentage of the population, employing 60 percent of the Senegalese labor force. The sector includes farming, livestock husbandry, fishing, and forestry. It accounts for about 19 percent of the country's GDP. The most important agricultural activity in Senegal is peanut production. Other important primary products produced for the domestic market include millet, corn, sorghum, rice, cotton, tomatoes, green vegetables, cattle, poultry, pigs, and fish. Besides peanuts, primary exports include fish and cotton.

With agricultural production playing such a dominant role in the Senegalese economy, the country is susceptible to destructive natural forces such as declining rainfall and **desertification**. Countries that rely heavily on agriculture are similarly vulnerable, but the problems are particularly severe in Senegal, a semi-arid country in which rainfall can vary considerably from year to year. Moreover, only 12 percent of all land is arable (capable of supporting agriculture). The prices of agricultural commodities in the international market are similarly dependent upon natural forces. If there were to be heavy rainfall in all peanut-producing countries, the international supply of peanuts would be high, leading to a decrease in the international price for peanuts because of the abundant supply. Since it is impossible to predict the situation in any given year, fluctuating prices are a constant threat and source of insecurity for agricultural nations like Senegal.

Groundnut production takes up 42 percent of all cultivated land, providing income for more than 1 million people. Each year, Senegal produces thousands of metric tons of peanuts, with output depending on rainfall. In 1990, about 703,000 metric tons were produced, while output in 1997 was much less at 545,000 metric tons. Senegalese research authorities found oscillating patterns of rainfall over a 40-year period on the groundnut basin. In 1989 the level of rainfall was 7,785 millimeters (30.9 inches), while in 1999 it was only 507 millimeters (20 inches). Furthermore, the sector continues to suffer from a shrinking market, with world demand for peanuts showing a steady decline. Production is also being affected by natural environmental factors, such as soil depletion. Exports of peanut products provided US$20 million in income in 1994.

The Senegalese government has made efforts to reduce dependence on groundnuts by diversifying cash and food crops, by expanding cotton, rice, sugar, and market-garden produce. While the output of each crop has risen sharply over the past 20 years, the annual average output of rice (150,000 tons) fails to meet even domestic demand, which runs at about 500,000 tons. Since rice is the major staple of the urban population, Senegal is forced to import rice from abroad, mostly from the Far East. Several small and medium-sized development projects, supported by foreign aid, were adopted throughout the 1990s to increase the area of irrigated land that is needed to grow rice. The traditional food sector, which consists

of millet, sorghum and maize, has increased its overall output since the mid-1970s, though fluctuations because of the level of rainfall are the norm.

FISHING. The fishing industry is one of the most important areas of primary sector activity in Senegal. In 1994 the industry accounted for 8.5 percent of the GDP, employed 200,000 persons, provided 27.3 percent of total exports, and earned US$240 million. Favorable world prices and competitive pricing because of the 1994 currency **devaluation** boosted fishing exports. The output of fishing, or "fish-catch," reached 486,800 metric tons in 1997. This figure demonstrates the exceptional growth of the fishing industry in recent years, considering that total output for 1991 was only 387,800 metric tons. According to the U.S. State Department *Country Commercial Guide*, the development of the fishing sector is hampered by an aging and outmoded fleet, the threat of over-fishing (thereby depleting supply), and stiff competition from South Asia in international fish markets.

Livestock and forestry are less important contributors to the country's GDP. Forestry has shown little growth over the years, comprising only 0.8 percent of the GDP in 1991 and marginally less in 1998 (0.6 percent of the GDP). Livestock has figured more prominently. In 1991 it included 6.9 percent of the GDP and 7.0 percent in 1998.

INDUSTRY

The secondary economic sector, that is, the sector that converts primary goods into finished products and is more commonly referred to as industry, accounted for 20 percent of Senegal's GDP in 1997. The 2 major industrial activities are mining and manufacturing.

MINING. Mining output in Senegal is primarily calcium phosphates. In 1994 phosphate and phosphate products accounted for 19 percent of total merchandise export earnings, producing US$162 million in export revenue. While Europe has traditionally been the major importer of Senegalese phosphates, the U.S. State Department *Country Commercial Guide* notes that new markets in Asia and Africa have recently developed. Despite its importance as an exporting industry, however, phosphates have not played a large role domestically. Phosphate mining accounts for less than 2 percent of Senegal's GDP. The industry provides important jobs, but only about 2,000 are available. Production of phosphates has also decreased over the past several years. In 1991 phosphate production reached 1,546 metric tons, whereas figures for 1998 were much less at 1,087 metric tons. This reflects diminishing reserves of phosphates and illustrates how environmental or geographical factors can influence a country's economy.

MANUFACTURING. Manufacturing is an important component of the secondary sector, accounting for 12.5 percent of GDP. Senegalese industries process a range of commodities that includes food, textiles, wood products, chemicals, construction materials, machinery, equipment, electricity, and water. Food ranks as the most important economic contributor, accounting for 43.1 percent of all industrial manufacturing output. Food production consists of fish canning, oil milling, and sugar refining. Textiles, along with clothing and leather, account for 12.3 percent of all manufacturing output. Senegal's textile industry is the most important in black francophone (French-speaking) Africa, with 4 cotton-ginning mills and spinning, weaving, dyeing, and printing plants. Chemical industries are the third largest contributor and account for 11.4 percent of output. Senegal produces refined petroleum, fertilizers, pesticides, plastic, and rubber materials. Industrial production grew 7 percent in 1998, indicating that industrial manufacturing offers important prospects for future economic growth.

SERVICES

The tertiary or service sector is the most productive sector in the Senegalese economy. It accounted for 61 percent of the GDP in 1997. Commerce, which is centered in Dakar and other urban areas, is the largest component of tertiary activity. In 1991 commerce made up 22.7 percent of the GDP, though the contribution diminished slightly by 1998, accounting for 21.1 percent of the GDP. Commerce included the buying and selling of commodities and services, and banking and finance.

TOURISM. Known for its mild climate, multiple beaches, and great sport fishing, Senegal has long been a tourist destination for European travelers, particularly the French. The high season runs from December to February, when Senegalese weather is most inviting. In recent years, the tourist industry has skyrocketed. In 1991 about 269,300 tourists visited Senegal, contributing 37.9 billion CFA francs to the economy. By 1997 the number of visitors reached 341,500 and contributed 80 billion CFA francs to the economy. Tourism is now one of Senegal's major sources of foreign currency earnings, which are vital for meeting the country's import bills. Although most tourists are French, there has been a rise in vacationers from other European countries and from North America. Most of the impetus towards growth in the tourism industry has come from the **private sector**. The government has hardly invested in tourism over the past 10 years and sold off many state-owned hotels to the private sector.

FINANCIAL SERVICES. As a member of the West African Economic and Monetary Union (UEMOA), Senegal shares its currency, the CFA franc, with 6 other member countries: Benin, Togo, Mali, Côte d'Ivoire, Burkina

Faso, and Niger. The CFA franc is issued by the West African Central Bank. The commercial banking sector has a long history in Senegal, which has 8 banks, all of them established prior to the 1990s. The largest banks are French, reflecting the historical link between the French and Senegalese economies. The Société Generale de Banques du Senegal (SGBS), the largest commercial bank, with total deposits and borrowing equaling 152,099 million CFA francs, is an affiliate of the Société Generale de Banques of France. The Senegalese government does not own any shares in the bank. The other commercial banks are owned by private and foreign (French) shareholders, the major exception being the Caisse Nationale de Crédit Agricole du Senegal.

RETAIL. Besides a few large French-owned import-export firms that are involved in retailing, there are many competitive small-scale traders specializing in the wholesale and **retail** distribution of fabrics and consumer goods. In the past, Lebanese merchants were the interface between French trading companies and the Senegalese population. They are gradually being replaced by Senegalese merchants selling popular consumer goods, such as textiles and electronics. There are also a limited number of larger retail stores, such as supermarkets, which deal in imported goods. Since the currency devaluation in 1994, however, these stores are threatened by the high costs of imports.

Because of the few employment opportunities offered in the formal economy, many Senegalese have turned to the informal sector to survive. The informal sector remains unregulated and untaxed because it operates outside the administrative framework of the government. The sector's activities are not criminal, but "extra-legal," meaning they are legitimate and not controlled. Informal activities range from selling fruit on street-corners to selling sophisticated high-tech stereo equipment. There are about 30,000 small businesses in the informal sector, employing about 57,000 persons, according to 1995 estimates. Sandaga, a sprawling unregulated market in the heart of Dakar, is the capital's principal distribution center for manufactured goods such as textiles, footwear, cosmetics, food, and electronic equipment.

INTERNATIONAL TRADE

Senegal suffers from a trade deficit. In 1991 the value of the country's exports equaled 79.6 billion CFA francs, although the value of imports equaled 100 billion CFA francs. In 1997 the value of exports grew far greater, equaling 177.8 billion CFA francs. Yet, the value of imports continued to outpace exports, growing to about 226.4 billion CFA francs. In 2000, the trade deficit reached US$341 million on exports of US$1.3 billion and imports of US$959 million.

Trade (expressed in billions of US$): Senegal

	Exports	Imports
1975	.461	.583
1980	.477	1.052
1985	.562	.826
1990	.762	1.220
1995	.969	1.243
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Senegal relies heavily on **primary commodities** such as groundnut products, phosphates, fish, and cotton for its export revenue. Though France remains Senegal's largest trading partner, its share of Senegal's exports has declined steadily over the past decade. In 1990, about 34.4 percent of Senegal's exports went to France. By 1999, however, this figure had declined to 17 percent. Other important trading partners include India (17 percent), Italy (12 percent), Spain (6 percent), Mali (6 percent), and Côte d'Ivoire (4 percent). Over the years the amount of trade to the major industrialized European countries has dropped, shifting instead to Asian or other African countries. A recent publication by the United Nations Committee on Trade and Development (UNCTAD 2000) indicates that the industrial countries are importing less from the African continent. UNCTAD attributes this decline to the inability of African countries to compete with Latin American and Asian countries for the markets of the developed world. Senegal now exports predominantly to other developing countries. Many of these countries are African, the most significant of which are Cameroon, Côte d'Ivoire, Mali, Mauritania, and Nigeria. Developing countries purchased 67.6 percent of Senegal's exports in 1998 (January-June). This figure doubled over an 8-year period from 1990, when developing countries only accounted for 34.3 percent of all Senegalese imports.

Trade between Senegal and its West African neighbors has been facilitated through 2 regional trading organizations: the Economic Community of West African States (ECOWAS), which consists of 16 member-states, and the West African Economic and Monetary Union (UEMOA). The latter is a more integrated regional trading arrangement so that the 7 francophone states that share the same currency enjoy closer economic relationships and cooperation. UNCTAD suggests that most of the recent increase in trade between West African countries can be attributed to increased demand for primary commodities by the larger countries in the region.

Although Senegal exports primarily to developing countries, it continues to import most of its foreign goods

from industrialized nations. France provided a majority of imports in 1999, with 30 percent. Other major importers are Nigeria (7 percent), Italy (6 percent), Thailand (5 percent), Germany (4 percent), and the United States (4 percent). Senegal imports from industrial countries because it requires many capital and consumer goods that it cannot produce itself. Imported capital goods are important to manufacturing industries, while luxury consumer goods are in high demand by Senegal's wealthy elite. Since neighboring African countries lack the modern industrialized economies necessary to produce high quality capital and consumer goods, Senegal must look to the developed world for such commodities.

MONEY

Throughout the 1980s and early 1990s, Senegal suffered extreme economic difficulties characterized by sustained **recession** and under-utilized capacity (which means that the working age population was not used to its full potential). One of the symptoms of the troubled Senegalese economy was a chronic **balance of payments** deficit. The WB and the IMF, therefore, contested that Senegal should devalue its currency, which would lower the price of its exports and make its products more attractive to the international markets. Devaluation would make the Senegalese economy more competitive and help to rectify the balance of payments problem.

On the eve of the devaluation in January 1994, the Senegalese currency, the Communauté Financière Africaine franc (CFAF), was valued at 50 CFA francs to 1 French franc. Devaluation converted this figure to 100 CFA francs to 1 French franc. Since 1 January 1999, the CFAF has been fixed to the euro (the currency of the EU countries) at a rate of 655.957 CFA francs per euro, a rate which reflects the devaluation of 1994. This connection causes the value of the CFA franc to adjust to the value of the euro in international foreign exchange markets. In January 2000 the CFA franc-dollar exchange was 647.25 CFA francs to 1 U.S. dollar.

Although WB contends that devaluation stimulated growth in the export-oriented sectors of the Senegalese economy, and in the economy as a whole, it has also brought negative results. Devaluing the **exchange rate** increases the amount of currency needed to pay for imports. For the urban poor, who are dependent upon imported food, the cost of food has escalated. Since the urban poor are already malnourished, devaluation has been detrimental to the nation's well-being. Moreover, Senegal continues to run a balance of payments deficit, despite its more competitive position in the international market.

POVERTY AND WEALTH

Like many African countries, poverty is rampant in Senegal. Also, **GDP per capita** has actually declined over the past 25 years. The GDP per capita in 1975 was US$609 and by 1998 it had fallen to US$581 (at 1995 U.S. dollar exchange rates). In the same year, the GDP per capita in the United States was US$29,683. The United Nations Development Programme (UNDP), which classifies countries according to their human development index score (HDI), ranked Senegal 155th out of 174 countries in 1998, while the United States ranked third. The HDI is a composite index that examines specific figures on education, health, and standard of living. Senegal's low ranking reflects the country's low development in these areas, consistent with its overall poverty.

Exchange rates: Senegal

Communauté Financière Africaine francs per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Senegal	609	557	561	572	581
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Guinea	N/A	N/A	N/A	532	594

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Senegal

Lowest 10%	2.6
Lowest 20%	6.4
Second 20%	10.3
Third 20%	14.5
Fourth 20%	20.6
Highest 20%	48.2
Highest 10%	33.5

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Senegal	46	13	13	3	15	3	7
United States	13	9	9	4	6	8	51
Nigeria	51	5	31	2	8	2	2
Guinea	29	18	5	2	9	16	21

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

The people of Senegal, like many of the poor across the world, spend much of their money on getting the necessities of life, such as food. The UNDP estimates that food averages 52 percent of Senegalese household consumption compared to the United States, where food only accounts for 8 percent of household consumption. For this reason, the Senegalese are vulnerable to increases in the price of basic foods. Because food is the highest priority, little money is left over to pay for other necessities such as clothes and shelter. The poor make up most of the urban population and live in run-down areas or makeshift shanty towns thrown together on land that is not paid for. Saving to escape the conditions of poverty is not an option, since the poor must spend all their money to survive.

The poverty of most of the Senegalese people stands in marked contrast to the wealth of the country's small elite. After independence, the elite comprised a few Senegalese businessmen in the private sector, influential politicians, government ministers, university professors, and political **cadres** (in this case, members of the Socialist Party) who worked for parastatals. As Sheldon Gellar notes in his book *Senegal: An African Nation Between Islam and the West*, the elite group is predominantly male, urban, highly educated, politically connected, and able to afford European-style living standards. Perks include the ownership of cars, modern appliances, nice villas or apartments, the provision of good schooling and higher education for their children, and opportunities to travel abroad. In the rural areas, Muslim clerics, known as marabouts, make up a wealthy agricultural elite. Gellar also notes that structural adjustment plans have increased the inequality between the Senegalese elite and the masses. While the standard of living for the poor has declined, the nation's wealthy continue to prosper.

WORKING CONDITIONS

Senegal maintains a comprehensive labor code that defines legal regulations about workers' rights and employer obligations. According to the U.S. Department of State *Country Report on Human Rights in Senegal (1998)*, most Senegalese workers fall outside the laws of the labor code because they work in the informal or agricultural sectors. The law only applies to the non-agricultural formal sector. Moreover, certain regulations, such as those relating to safety standards in the work place, are neither adequately monitored nor enforced by the government. Because most workers are unskilled and uneducated and there are few employment opportunities in the economy, workers usually find themselves unable to contest violations of labor code standards. Thus, working conditions are often sub-standard.

Under the Senegalese constitution, the minimum age for employment is 16 years for apprenticeships and 18 years for all other activities. The government has strictly enforced this article of the constitution in the formal sector, though child labor is common in the agriculture and informal sectors. Most families in these sectors are so disadvantaged that all family members must work, regardless of age.

After independence, Senegal ratified the International Labor Convention No. 87, regarding freedom of association and protection of the right to organize. Senegal also ratified convention No. 48, which provides rights to organize and bargain collectively. Senegal has a long history of organized trade unions. Nearly all workers in the industrial sector of the economy are unionized. The principal labor unions are the National Confederation of Senegalese Workers (CNTS) and the National Union of Autonomous Labor Organizations of Senegal (UNSAS). The CNTS is an umbrella union that organizes individual unions into a collective framework. The PS established it in 1968 after the National Union of Senegalese Workers was dissolved due to its opposition to government policies. Under President Leopold Senghor's program of "responsible participation," CNTS leaders were given important party and government posts. Despite being allied with the PS, the union has often disagreed with government policies. In 1986, changes in the labor code provided more room for employers to lay off workers and caused a great deal of agitation from CNTS supporters.

In recent years, trade unions and political persuasions united to protest government policies. In September 1993, the Intersyndicale (a broad trade union coalition headed by the CNTS that also includes independent unions and those close to the major opposition parties) led a one-day general strike to protest the government's decision to cut state employee salaries by 15 percent. The decision to cut the salaries was made in compliance with IMF and WB demands for greater cutbacks in government spending. UNSAS, the second most important union in the coalition, broke away from Intersyndicale after the organization decided to negotiate with the government following the general strike. UNSAS has supported a less compromising stance towards unpopular government policies, making it difficult for the union to work with its less militant counterparts.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

4TH CENTURY A.D. The first centralized state in what becomes the Senegal region, the Tekrur kingdom, develops in the Senegal River valley.

1040. Zenaga Berbers from the north establish an Islamic monastery, probably along the Senegal River. The monastery subsequently became the base of the Almoravids, who converted many of the region's people to Islam.

13TH CENTURY. The Tekrur kingdom falls under the dominance of the Mali Empire, which is centered to the east. During the same period, the Jolof kingdom arises on the northwestern savanna, conquering the Wolof inhabitants. Thereafter, various Muslim states and kingdoms rise and fall in the northern grasslands and central savannas of present-day Senegal, contributing to a tradition of centralized states and rigid social hierarchies.

1444. Portuguese navigators become the first Europeans known to visit the area of present-day Senegal and Gambia. Until the end of the 16th century, the Senegambian region is the most important source of slaves for the transatlantic slave trade.

1659. The French establish a slave-trading post on the island of Saint-Louis at the mouth of the Senegal River, while the British establish a base around the Gambia River. These divisions later result in the independent nations of English-speaking Gambia and French-speaking Senegal.

1840s. Peanuts become the major trade commodity of interest for the French operating in Senegambia. In the coming decades France conquers the Wolof and Serer states in order to exert greater control over the peanut trade.

1886. With the decisive conquest of Cayor State, the French more or less control all of present-day Senegal, with the exception of the Casamance, which was not fully subjugated until the 1920s.

1890–1919. Beginning in the 1890s, a Senegalese urban elite that identifies with French culture and customs develops. In 1914, these elites are given the vote, and the urban areas in Senegal are allocated 1 seat in the French National Assembly. Blaise Diagne becomes the first African deputy. In 1919, he founds the Republican Socialist Party, the first western-style political party in the region.

1929. Lamine Gueye, Diagne's major political opponent, founds the Senegalese Socialist Party, with links to the French Socialist Party.

1930s. The decline in global demand for peanuts as a result of the global economic depression leads to increased hardship and poverty in Senegal.

1945. The French government extends the vote to rural Senegal, which gains a seat in the French assembly alongside that of the urban areas. Gueye wins the election for the urban seat while his protégé, Leopold Sedar Senghor, wins the rural seat. Senghor later breaks with the socialists and founds his own party, the Senegalese Democratic Bloc (BDS).

1956–59. France permits limited self-government within its African colonies. In 1957, the socialists merge with the BDS to form the Senegalese Progressive Union (UPS), which subsequently wins a strong majority in the 1959 national elections. Popular demands for complete independence from France increase, and the UPS negotiates with the French government for independence as part of a Mali Federation.

1960. On 4 April, the Mali Federation, which combines present-day Senegal and Mali, becomes independent, but the federation is short-lived. Rivalry between Senegal and Mali soon leads to its dissolution, and in August 1960, Senegal becomes an independent state with Leopold Senghor as president.

1962. A power struggle between President Senghor and Prime Minister Mamadou Dia leads to the latter's imprisonment and the banning of opposition parties.

1968. Lack of political debate leads to student protests and union strikes, which are routinely crushed by the army.

1970–75. The rapid rise in the cost of imported oil, combined with drought in the Sahel region, creates an economic crisis.

1973. The West African Economic Community (CEAO) of 7 francophone states is established to facilitate trade between member states.

1975. Senegal joins the Economic Community of West African States (ECOWAS), an organization of 16 West African states designed to facilitate trade and development between members.

1976. The government releases Dia from prison, and a new constitution permits 3 political parties.

1977. Senghor wins the first contested presidential elections since 1963.

1980. As Senghor's popularity declines due to economic stagnation, the president announces his resignation.

1981. Senghor's protégé, Abdou Diouf, takes office. Under the auspices of the World Bank and the International Monetary Fund, Diouf gradually replaces the Socialist Party's ideology of state-led "African Socialism" with a free-market oriented policy. Senegal and Gambia proclaim a regional alliance, the Senegambian Confederation.

1984. Discontent in the rural Casamance region of Senegal leads to the beginning of an internal rebellion by the Movement of Democratic Forces of the Casamance (MFDC).

1989. The Senegambian Confederation is disbanded due to Gambian fears of absorption into Senegal.

1994. The West African Economic and Monetary Union (UEMOA) is established to replace the CEAO. The CFA franc, the common currency of UEMOA, is devalued by nearly 100 percent.

2000. Abdoulaye Wade, from the Democratic Party, is elected president, making him the country's first non-socialist president since the country gained independence in 1960.

FUTURE TRENDS

Like many African countries and developing nations, Senegal enters the 21st century with deep-seated economic difficulties. Several economic plans and strategies that have been pursued by the Senegalese government since independence have failed to generate sustained economic development. Mass unemployment, continued dependence on agricultural exportation for foreign revenue, a widening trade deficit, and chronic poverty continue to characterize the Senegalese economic situation. The recent emphasis on privatization and free-market competition has thus far failed to break the pattern. Structural adjustment plans have helped to contain macro-economic instability (in the form of **inflation**), but they have not improved the impoverished conditions of the masses. Structural adjustment and the emphasis on the free-market has created greater inequality and increased hardship for the poor.

However, the situation in Senegal is not entirely bleak. On the political front, the victory of a Democratic Party candidate in the 2000 presidential elections indicated that Senegal might be progressing toward a more open and less authoritarian democracy. Economically, the various regional integration schemes developed in West Africa may provide an impetus for Senegal and other West African nations to experience economic growth. By providing preferential access to member states, such regional schemes can cushion West African nations against competition from the more competitive outside world.

DEPENDENCIES

Senegal has no territories or colonies.

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SEYCHELLES

Republic of Seychelles

CAPITAL: Victoria.

MONETARY UNIT: Seychelles rupee (SRe). There are coins of 1, 5, 10, 20, and 50 cents. One Seychelles rupee equals 100 cents.

CHIEF EXPORTS: Fish, cinnamon bark, copra, petroleum products (re-exports).

CHIEF IMPORTS: Machinery and equipment, food products, petroleum products.

GROSS DOMESTIC PRODUCT: US$590 million (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$91 million (f.o.b., 1998). **Imports:** US$403 million (c.i.f., 1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Seychelles are a group of islands in the Indian Ocean about 925 kilometers (575 miles) northeast of Madagascar. The country consists of 115 small islands with a total land area of 455 square kilometers (176 square miles) and a total coastline of 491 kilometers (305 miles). The territory of the Seychelles is about 2.5 times the size of Washington, D.C. The country consists of 2 groups of islands, the largest being the Mahe group in the northern part of the archipelago, comprised of 40 granite rock islands (the largest are Mahe, Praslin, La Digue, Silhouette, Fregate, and North) with hilly interiors rising up to 900 meters (2,953 feet). The other group consists of about 65 small coral islands spread over a wide area of ocean south of the Mahe group. Mahe Island, with a total area of 153 square kilometers (59 square miles) is home to the capital city Victoria (pop. 40,000, 1997). The strategic importance of the Seychelles group is derived from its location in the Indian Ocean on the sea route from South Africa to the Indian subcontinent, which was a major route before the Suez Canal was opened in 1869.

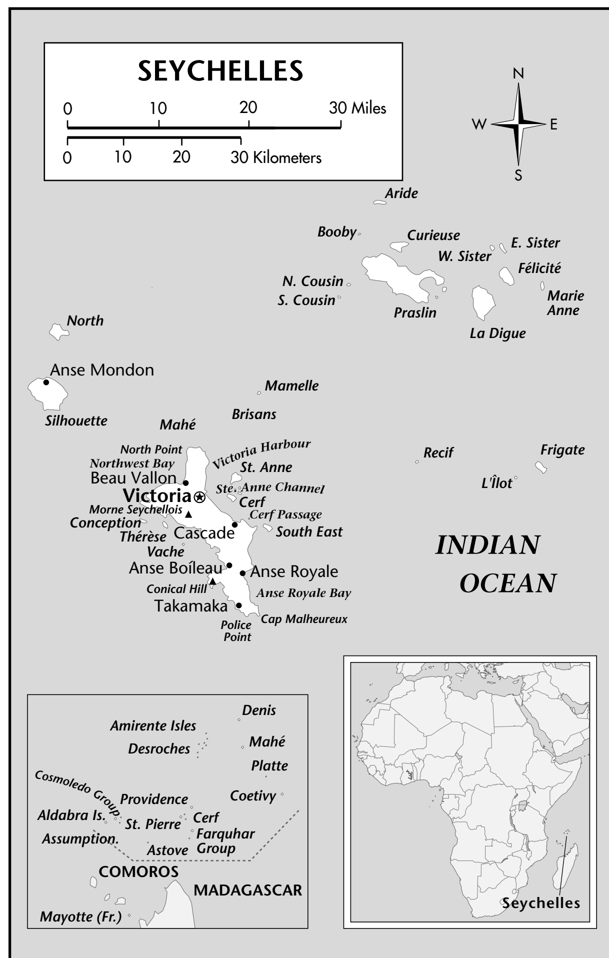
POPULATION. The population of the Republic of Seychelles was estimated at 79,326 in July 2000, an increase of around 16 percent from 68,598 in 1987. In 2000 the birth rate stood at 17.99 per 1,000 and the death rate at 6.74 per 1000. The estimated population growth rate is 0.49 percent, a low rate attributed mainly to the high **emigration** rate of 6.3 per 1,000. Life expectancy at birth is 64.87 years for males and 76.12 years for females. It is expected that the country's population will reach 100,000 by 2020.

The diverse population is composed of 3 major ethnic groups: French settlers, freed slaves of African descent, and Indians brought to work on the plantations. Creoles (mixture of Asian, African, and European) make up 89.1 percent of the population, Indians make up 4.7 percent, and Malagasy (from Madagascar) make up 3.1 percent. There are also small minorities of Chinese (1.6 percent) and European (1.5 percent) origin. Some 29 percent of the population is below the age of 14, and 6 percent is older than 65. A majority of the country's inhabitants, 56.1 percent, lives in urban areas.

Limited natural resources and scarce land forces the government of the Seychelles to limit inflow of immigrants and to control population growth. In the 1980s there was sizable emigration of the people from islands due to economic difficulties and political instability. In the early 1990s many of them returned home when the Seychelles government significantly **liberalized** the political and economic environment and allowed opposition parties.

OVERVIEW OF ECONOMY

Tourism, agriculture and fishing, and industry are the 3 main sectors of the Seychelles economy. The current structure of the country's economy was formed during the 1970s and 1980s and underwent drastic changes in the 1990s. Despite government efforts to encourage agricultural and industrial development, tourism remains the



dominant sector in the country's economy. It provides most of the country's revenue and employment, and it maintains a positive image of the archipelago as an exotic and desirable destination.

France acquired the uninhabited islands in 1756 and populated them with French settlers and slaves from the African continent. In 1814, after the Napoleonic wars in Europe, Great Britain established its control over the Seychelles, administering them from Mauritius. The islands were important to British trade routes, due to their strategic location halfway between the Cape of Good Hope (South Africa) and the Indian subcontinent. This strategic importance diminished somewhat after the opening of the Suez Canal in 1869. In 1903 the Seychelles became a Crown Colony, but its extremely limited resources and remote location isolated the country from the major events of the 20th century.

Since the 1970s, 2 factors have impacted the economic and social life of the Seychelles: mass-market international tourism—an international airport opened in 1971—and independence in 1976, which ushered in a period of centralized planning. A government led by France Albert Rene introduced state control over major sectors of the economy, and the first centralized 5-year plan was introduced in 1985, modeled after the **socialist** economies of Eastern Europe. This plan created around 30 **parastatals** (state-controlled enterprises) covering all sectors of economic activities. With the demise of the Soviet Union and of state socialism in the early 1990s, the Seychelles government initiated elements of a free-market economy under the guidance of the International Monetary Fund (IMF) and World Bank. Most state enterprises, with the exception of public utilities and transport, were **privatized**, and the government attempted to increase foreign investments by developing the country as an international "offshore" financial-services center. The economic development program in the 1980s and 1990s increasingly relied on external borrowing, although the country managed to reduce its total **external debt** from US$474 million in 1979 to US$166 million in 1989. In 1999 the external public debt was estimated by the IMF at US$188.5 million (31 percent of the GDP), compared with US$153 million (26 percent of the GDP) in 1997. These figures are very high for a small country of 79,000 people, leading to fiscal and external imbalances and to the growing burden of external debt servicing.

POLITICS, GOVERNMENT, AND TAXATION

Since achieving independence from the United Kingdom in 1976, the Seychelles political scene has been dominated by the intense competition between 2 political parties and personalities, the right-centrist Seychelles Democratic Party (SDP) and the leftist Seychelles People's United Party (SPUP). Immediately after independence, Sir James Mancham of the SDP became the first president and France Albert Rene of the SPUP became prime minister. The coalition unraveled after a 1977 coup by Rene that forced Mancham into exile. In 1979, the constitution of 1976 was replaced by a significantly revised one that replaced the multiparty system with a one-party state. The SPUP, renamed to the Seychelles People's Progressive Front (SPPF), became the only political party in the country. Rene was elected president in 1979 and survived several coup attempts. In a dramatic political turn, the one-party political system was abandoned in 1992 under a new constitution that restored multiparty rule and saw Mancham return from exile to lead the SDP once more. Support of the SDP gradually declined with the rise of another opposition party, the Seychelles National Party (SNP, formerly the United Opposition), led by Wavel Ramkalawan. In elections for the 35-seat legislature in 1998, the SPPF won 61.7 percent of the vote, SNP won 26.1 percent, and the SDP won only 12.1 percent. Rene also won reelection as president. Despite this political tumult, elections and transitions of power have been peaceful.

Under President Rene, Seychelles introduced a socialist economy with state control over economic activities and 5-year national development plans, though the government also sought financial assistance from England and France. The main aims of the government policy were the diversification of the national economy, development of agricultural and manufacturing industries, the production of goods for domestic consumption and for export, and increase of **hard currency**. Most tax revenues in the Seychelles are derived from the net income or profit of a business. This tax is paid by resident and non-resident business owners on a graduated scale that ranges from 0 percent of the first SRe24,000 of income up to 40 percent of higher levels of income. Imported products, including alcohol and cigarettes, are also taxed. In 1998 trade taxes accounted for 44 percent of total revenues.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The Seychelles has a well-established **infrastructure** in the northern Mahe group of islands, but not in the remoter group of coral islands to the south. After independence, the government made considerable efforts to expand its infrastructure in order to attract upper-middle-class tourists from Europe and North America. The concentration of the population in the capital of Victoria and in the few main islands made this task easy. In 1999, the major islands were served by a network of 424 kilometers (263 miles) of roads, of which 370 kilometers (230 miles) were paved. The country restricts car ownership through an annual quota system for auto imports. It is estimated that the total number of registered vehicles reached 9,394 in 1999. None of the islands have railways, and the islands' public transportation system relies on a bus fleet.

The country has 6 airports with paved runways and 8 with unpaved runways. The international airport at Pointe Larue was opened in 1971. The national air carrier, Air Seychelles, regularly flies to Frankfurt, London, Milan, Paris, Rome, and Zurich in Europe, as well as to Dubai, Johannesburg, Mauritius, Nairobi, and Singapore. It operates a small fleet of 4 light aircraft servicing the inter-island routes and a fleet of Boeing aircraft for inter-continental flights. The islands are also served by some international air-carriers, including the British Airline, Kenya Airways, Aeroflot, Air Mauritius, and others. The main port and harbor is Victoria. The state-controlled operator uses ferries to link Mahe with Praslin and La Digue. Private schooners are also available for trips to some islands.

The Seychelles has no oil, gas, or coal resources and relies solely on imported petroleum. Only Mahe, Praslin, and La Digue islands have electricity; total power production was around 125 million kW in 1998, and there was a plan to build a new 50 mW thermal station.

Telecommunication services in the Seychelles have been under intensive reconstruction since the early 1990s. According to the local authorities, there were 19,635 telephone lines and a rapidly growing number of mobile phone subscribers (16,316 in 1999), although the CIA *World Factbook* lists considerably lower numbers of phone usage. The country had 1 Internet service provider (ISP) hosting 818 accounts in 1999.

ECONOMIC SECTORS

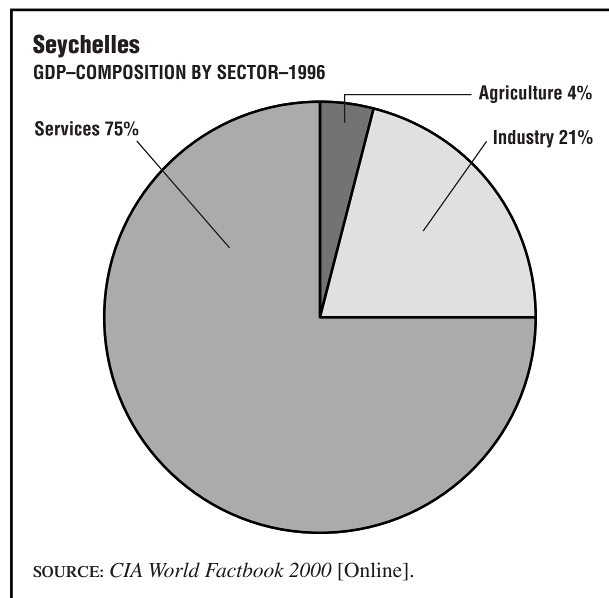
Economic development in the Seychelles is limited by its geographic isolation, lack of natural resources, and a small population. The country heavily relies on international tourism from European and North American countries. The number of tourists arriving to the Seychelles

Communications

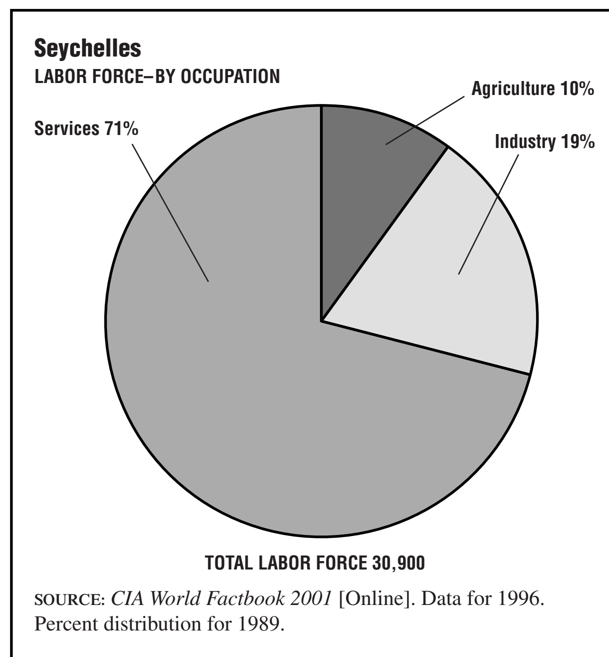
Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Seychelles	19,635	16,316 (1999)	AM 1; FM 2; shortwave 2	42,000	2	11,000	1	5,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
South Africa	5.075 M (1999)	2 M (1999)	AM 14; FM 347; shortwave 1	13.75 M	556	5.2 M	44	1.82 M
Mauritius	223,000	37,000	AM 5; FM 9; shortwave 2	420,000	2	258,000	2	55,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1996. Percent distribution for 1989.

rose steadily from the 1970s until the middle of the 1990s, and declined slightly afterwards. While employment in tourism-related industries dominates **private sector** employment, the largest single employer is the government, which employed 9,989 people, or 32 percent of the **labor force**, in 1999.

Manufacturing, which in 1999 accounted for 28.8 percent of total GDP according to *Seychelles in Figures 2000*, is the fastest-growing sector of the national economy, with an average annual growth rate of 4.8 percent between 1979 and 1989, while services were growing at an average annual rate of 2.8 percent. Services accounted for 68 percent of GDP in 1999, however, and employed 57 percent of the population in 1998. During the 1990s, the agricultural sector experienced a gradual decline and by 1999 contributed only 3.2 percent of GDP. Large investments into expansion of the manufacturing and other sectors led to considerable **balance-of-payment** deficits and foreign-exchange shortages.

AGRICULTURE

Agriculture and forestry have limited importance for the Seychelles, accounting for just 3.2 percent of GDP in 1999 and providing employment for 7 percent of the labor force (including fisheries). The country produces copra, cinnamon bark, and tea for export in very small quantities and depends on the world prices on these products. The country exported 214 tons of cinnamon bark and 236 tons of green leaf tea in 1999. However, it has to import cereals and some other foodstuff in order to meet the consumer needs of the local population and tourists. During the last few years there was an attempt to expand fruit and vegetable production for the local market. The government has also invested considerably in forestry in order to increase the country's lumber resources for domestic consumption.

Fishing is an important sector of the Seychelles economy. The country's **exclusive economic zone** extends 320 kilometers (200 miles) beyond its coastal area, which provides control of over 1 million square kilometers (386,100 square miles) of the Indian Ocean. The local population is engaged in catching fish for local consumption and for export while the government benefits from licensing fishing in its territorial waters and from payments by foreign vessels. In 1987 the first tuna-canning factory was opened in the country. Exports of canned tuna have been growing steadily, from SRe169 million in 1996 to SRe541.5 million (US$102 million) in 1999. The prawn-producing sector expanded rapidly in the early 1990s with its exports reaching SRe34.1 million (US$6.5 million) by 1998. Liberalization and opening of the country's economy attracted some foreign investments in the 1990s. In 1995 the U.S.-based H. J. Heinz Company established control over the tuna-processing plant and pledged US$15.4 million in investments and 900 jobs.

INDUSTRY

The industrial sector in the Seychelles is small and domestically oriented, accounting for 28.8 percent of the GDP and providing employment for 23 percent of the labor force in 1999, according to *Seychelles in Figures 2000*. During the 1980s the government heavily invested in the manufacturing sector, and by 1999 the country

was producing beer (6,000 tons), soft drinks (10,500 tons), cigarettes (70 million), and some other consumer products.

Mining has played an insignificant role in the national economy, although some experts believe that the seabed around the Seychelles is rich in various natural resources. However, the current development technologies do not allow exploration or extraction of these natural resources that could yield commercially viable profits.

SERVICES

TOURISM. Since the 1970s, tourism has dominated the national economy as its single most important sector, providing direct employment (hotels and restaurants) for 3,829 people or 12.4 percent of the workforce, according to *Seychelles in Figures 2000*. Including secondary employment, these figures rise to 9,797 people or 32 percent of the workforce. In 1998 an estimated 128,000 tourists visited the country, contributing SRe584 million (US$111 million) to the economy. The island nation offers a total of over 4,700 hotel rooms. The Seychelles promotes itself as the "Dream Destination," offering upmarket services to international visitors seeking the charms of a tropical island paradise, mainly from France, Germany, and Britain. The government plans to redefine the national tourism strategy in 2001.

FINANCIAL SERVICES. The services sector was controlled by the state throughout the 1980s, until the economic and financial liberalization in the 1990s. The Central Bank of Seychelles (CBS) is fairly efficient according to international standards, although it lacks independence from the government. The largest local bank is the Development Bank of Seychelles. In 1999 there were also 4 international banks in the country: Barclays Bank (UK), Banque Française Commerciale-Ocean Indien (France), Bank of Baroda (India), and Habib Bank (Pakistan). In 1995 the government established the Seychelles International Business Authority (SIBA) and opened the Seychelles International Trade Zone (SITZ) in an attempt to develop the country as an international "offshore" financial-services center.

RETAIL. The **retail** sector is developed to meet the demands of foreign tourists. This sector is dominated by small and medium-sized retail shops where visitors and local consumers can buy a wide variety of products and souvenirs.

INTERNATIONAL TRADE

The Seychelles' international trade has fluctuated considerably after the country achieved independence in 1976 due to its sensitivity to world prices and economic conditions in main trade-partner countries. The country incurs **trade deficits** because it imports all machinery and equipment, and a wide range of **consumer goods**, including foodstuffs, and fuel. The government addresses the problem by imposing certain restrictions on imports through the Seychelles Marketing Board (SMB) and by promoting self-sufficiency.

Trade (expressed in billions of US$): Seychelles

	Exports	Imports
1975	.006	.032
1980	.021	.099
1985	.028	.099
1990	.056	.186
1995	.053	.233
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

The country's economy is so small that the construction of even a single plant or hotel might significantly improve the country's statistics: the opening of a tuna-canning plant in 1987 boosted exports by 160 percent. Britain is the Seychelles' traditional primary trading partner, followed by France, Germany, and South Africa. In 1998 exports reached US$91 million, while imports reached US$403 million. The trade balance deficit was US$312 million. The Seychelles' government is working to improve the **current-account balance** deficit with assistance from the IMF.

MONEY

The Seychelles rupee has been remarkably stable since 1979, when it was linked to the IMF's special drawing rights (SDR). This fixed link was abandoned only in 1997 in favor of a free **exchange rate**. The exchange rate for the Seychelles rupee rose slowly from 4.762 per U.S. dollar in 1995 to Sre5.306 in 1999. The average rate of consumer **inflation** was around 6.5 percent in 1999, compared to 2.6 percent in 1998.

Exchange rates: Seychelles

Seychelles rupees (SRe) per US$1	
Nov 2000	6.0397
2000	5.6009
1999	5.3426
1998	5.2622
1997	5.0263
1996	4.9700

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Seychelles	3,600	4,882	4,957	6,297	7,192
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Mauritius	1,531	1,802	2,151	2,955	4,034

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

The Seychelles has one of the highest standards of living when it is compared to countries in continental Africa. In 1999 the **GDP per capita** was equivalent to US$7,500 (estimated at **purchasing power parity**). During the first 2 decades after independence in 1976, the government attempted to reduce social polarization through state control over economic activities and by creation of the parastatals. Education has been accessible to the majority of the population, and the literacy rate is 84.2 percent. However, since the middle of the 1990s there has emerged evidence of increasing diversification of incomes and social polarization.

WORKING CONDITIONS

In 1999 the Seychelles labor force consisted of 30,786 people, according to *Seychelles in Figures 2000,* and the unemployment rate was around 11.0 percent. The labor market is heavily regulated, which requires all those working or seeking work to register with the government. Permission from the National Workers' Union is required for all dismissals or changing of jobs. In recent years, however, there has been some liberalization of the labor market, especially in conjunction with the opening of the Seychelles International Trade Zone in 1995. The government-controlled parastatals traditionally provided employment for almost half of the economically active population, although their role decreased in the late 1990s. Independent trade unions have been allowed since November 1993.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1756. France takes over the uninhabited islands.

1814. Great Britain establishes control, administering from Mauritius.

1903. The Seychelles become a Crown Colony.

1964. The socialist-oriented Seychelles People's United Party (SPUP) is established.

1976. Republic of Seychelles declares its independence within the Commonwealth. The first constitution is introduced.

1976. Sir James Mancham of the right-center Seychelles Democratic Party (SDP) becomes president.

1977. France Albert Rene stages a coup.

1977. The SPUP is renamed the Seychelles People's Progressive Front (SPPF).

1979. Second constitution is introduced, making the Seychelles a one-party political system; Rene is elected president; Seychelles rupee is linked to the IMF's special drawing right (SDR).

1981. Attempted overthrow of socialist government by mercenaries disguised as tourists.

1985. The first 5-year National Development Plan (NDP One) is introduced.

1986. Attempted coup by former Minister of Defense.

1991. Return to multiparty political system.

1993. Third constitution is adopted; Mancham returns from exile after legislative elections.

1995. Economic Development Act (EDA) introduced in attempt to attract offshore financial services; establishment of the Seychelles International Trade Zone (SITZ).

1997. Abandonment of the fixed link between the Seychelles rupee and the IMF's special drawing right (SDR).

1998. Rene and his supporters win in legislative elections.

FUTURE TRENDS

Despite the steady economic growth since the 1970s, and the contributions of tourism to revenues, the economic future of the Seychelles is far from certain. As a niche market in the tourism industry, it has to compete with neighboring Mauritius, Madagascar, and Comoros, which offer cheaper tourist services. Decay of the barrier reefs due to global warming might lead to the erosion of many small islands. The country needs to further diversify its economy by reducing its over-dependence on the tourism sector while preserving its standards of living and its political stability.

DEPENDENCIES

Seychelles has no territories or colonies.

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—Alfia Abazova, MILS

SIERRA LEONE

Republic of Sierra Leone

CAPITAL: Freetown.

MONETARY UNIT: Leone (Le). One leone equals 100 cents. Leone notes are available in denominations of 1, 2, 5, 10, 20, 50, 100, 500, 1,000, 2,000, and 5,000. Coins are in denominations of Le50 and 100.

CHIEF EXPORTS: Diamonds, rutile, cocoa, coffee, fish.

CHIEF IMPORTS: Foodstuffs, machinery and equipment, fuels and lubricants, chemicals.

GROSS DOMESTIC PRODUCT: US$2.7 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$65 million (f.o.b., 2000 est.). **Imports:** US$145 million (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Sierra Leone is located in West Africa, bordering the North Atlantic Ocean, with an area of 71,740 square kilometers (27,925 square miles) and a total coastline of 402 kilometers (250 miles). The country shares a border with Guinea in the north and east and with Liberia in the southeast. In comparative terms, Sierra Leone is in area about half the size of the U.S. state of Illinois. Freetown, the capital city, is located in the western part of the country.

POPULATION. The population of Sierra Leone was estimated in 2000 to be roughly 5.2 million. Exact figures for the country are impossible to find because a civil war has ravaged the country since 1991. Since the beginning of the war, it is estimated that some 2.5 million people have been displaced as refugees, mostly to Guinea and Liberia. Sierra Leone has an annual population growth rate of 3.6 percent, a birth rate of 45.6 per 1,000, and a death rate of 19.58 per 1,000, according to 2000 estimates.

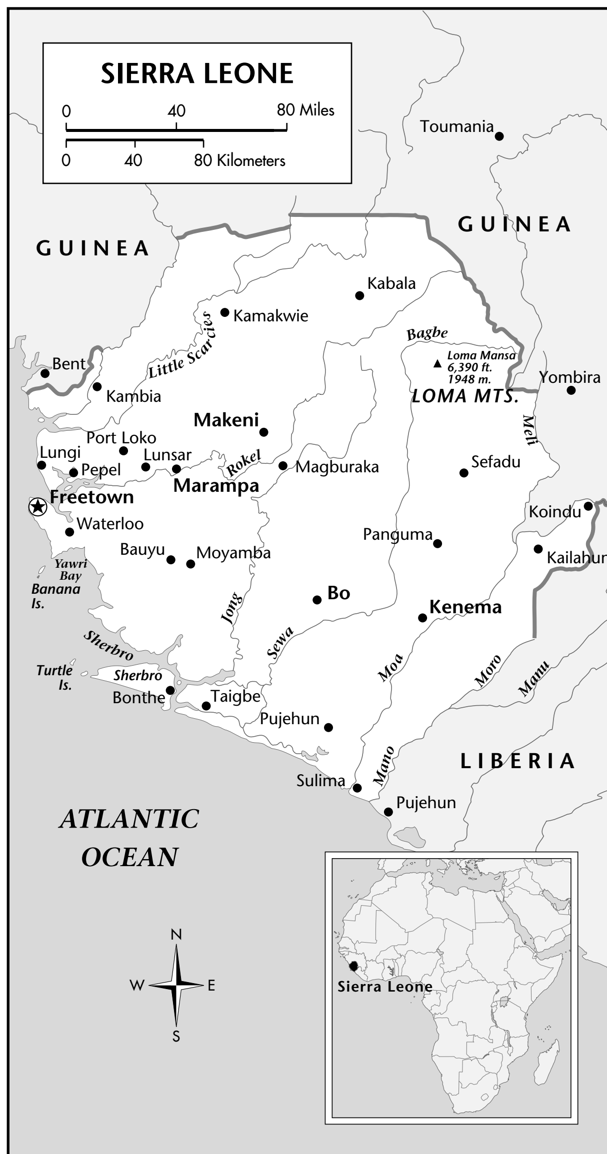
Most of the population (99 percent) is of indigenous African descent. There are roughly 18 different native African ethnic groups. The largest, the Mendes and the Temnes, each make up roughly 30 percent of the entire population. The other groups account for about 39 percent, with the Krio (or Creole), Lebanese, and Indians making up about 1 percent. The Krio are descendants of freed slaves from Britain, North America, the Caribbean and re-captives from slave ships, who were settled in Freetown when it became a British colony in 1808.

Although English is the official language, it is only spoken by government officials and a limited number of educated Sierra Leoneans. Mende and Temne are spoken in the south and north, respectively. Krio, a mix of English and African languages, is spoken by the Krio, who make up an estimated 10 percent of the population. Although a small percentage of the population speaks Krio, the language is understood by an estimated 95 percent of the population, according to the *World Factbook.*

The population of Freetown was estimated at over 1.2 million in 1994. Many rural people fled to the city to escape the rebel Revolutionary United Front (RUF) that is responsible for a campaign of terror involving hundreds of random amputations (cutting off of hands, legs, ears, etc.), rapes, murders, and lootings.

OVERVIEW OF ECONOMY

Sierra Leone is an extremely impoverished country with an economy primarily based on agriculture and mining. Although the country is richly endowed with natural resources and minerals—especially diamonds—a decade-long civil conflict has brought most production to a near standstill. Sierra Leone has large areas of fertile land, but the vast majority of farmers engage only in **subsistence farming**. Of the **cash crop** agricultural production that continues during the internal conflict, the most significant



products are palm kernels, palm oil, cocoa and coffee, and food crops including rice (the main food crop), cassava, corn, millet, and peanuts.

Sierra Leone has vast deposits of diamonds, gold, rutile, and bauxite. Diamonds make up the country's principal export. However, diamonds have become more of a curse than a blessing for Sierra Leone. The civil war that has been raging for the past 10 years has mainly been a struggle for control of the diamond fields. Illicit diamond mining has provided money for the rebels to continue the war, and has made it difficult to realize peace in the country.

The country's economy has been steadily declining since the 1960s, with severe stagnation and **recession** since the early 1980s. Between 1980 and 1990, the World Bank put the country's average GDP growth rate at 0.6 percent, decreasing to -3.3 percent between 1990 and 1996, and falling to -3.6 percent in 1996. The civil war is the main reason for the steady decline. Although a brief ceasefire in the late 1990s brought hope to the economy, the resumption of fighting by 1999 caused more damage to the country. The *World Factbook* estimated that **gross domestic product** (GDP) at **purchasing power parity** was US$2.7 billion in 2000. The disruption of the war has reduced Sierra Leone to one of the poorest countries in the world.

POLITICS, GOVERNMENT, AND TAXATION

Sierra Leone gained its independence on 27 April 1961 as a constitutional monarchy within the British Commonwealth. When its first leader, Sir Milton Margai, passed away in 1964, the competitive political struggles between the Sierra Leone People's Party (SLPP) led by Albert Margai, and the All People's Congress (APC) led by Siaka Stevens, heightened the ethnic cleavages (divisions) within the country. Since independence, the recurrent political divide has been expressed regionally in the Krio descendants of the original Freetown settlers and the indigenous people of the hinterland (interior of the country); the Temne-dominated northern province and the Mende-dominated region of the southeast; an economically powerful immigrant Lebanese and Afro-Lebanese group and the indigenes; and a traditional group of native rulers and a modern, mostly urban, Western-educated elite.

The SLPP held power until the general elections of 1967, which were won by the APC. The 1967 coup d'état (take-over of the government), however, prevented the APC from governing until April 1968 when a counter-coup restored civilian rule. In 1971, Sierra Leone was proclaimed a republic and a new republican constitution was adopted in which the head of state, Siaka Stevens, became executive president. In a new constitution adopted in 1978, Sierra Leone became a 1-party state, although it had been in practice a 1-party state as far back as 1973. In 1985, Siaka Stevens handed over power to the commander of the armed forces, Major-General Joseph Momoh.

As president, Joseph Momoh initially announced sweeping reforms. He also implemented IMF donor prescriptions (policies and regulations) aimed at **privatization**, attracting foreign investments, and urging more efficient domestic revenue collection. He worked with the IMF to resume stabilization (efforts to strengthen the economy) programs that had been interrupted during the Siaka Stevens regime. Other changes targeted the export of gold, diamonds, and fish products, which severely undermined the privileged position of Lebanese and Afro-

Lebanese merchants who had long **monopolized** these economic activities. For example, foreign firms like LIAT Construction and Finance Corporation were given the authority to redirect production and profits through the formal (legal) economy to the benefit of the entire nation. The Lebanese population and politicians engaged in private mining of diamonds were discouraged from doing so through tougher restrictions and laws. Tougher laws such as longer prison sentences and stiff fines were also passed to curb smuggling of minerals, as well as more vigorous searches by customs officers at airports and at border crossings. The aim was to increase revenue collection by the government, and end the dominance of the informal (illegal) economy of smuggling, corruption, and private mining of minerals by influential groups in the country.

During the early years of President Momoh's tenure, he seemed to have ensured government control of the economy, especially in the area of diamonds. For example, in 1986–87, official diamond exports were 280 percent higher than 1985–86 figures. Similarly, foreign reserve holdings of the Bank of Sierra Leone rose to $7.6 million by the end of 1986, from a mere $196,000 in November 1985 when Momoh assumed the presidency.

The sweeping economic reforms angered the influential business community and resulted in an attempted coup in March 1987. Perhaps due to the fear of another coup attempt, the enforcement of drastic economic reforms slowed down after March 1987. A financial crisis in the 1980s, coupled with misrule and government corruption, as well as the difficulties caused by the effects of a civil war in neighboring Liberia, led to a coup d'état in April 1992. The coup was led by a group of young army officers, who selected 27-year old Captain Valentine Strasser to be the head of state. Captain Strasser led the country's Military Supreme Council of State until he was deposed in January 1996 because of his opposition to national elections that would hand over power to a civilian government.

Ahmed Tejan Kabbah of the SLPP won the elections held in February 1996 and set about forming a government of national unity. Another coup in 1997 overthrew the elected government, which went into exile in Guinea. The rebels then controlled the country until 1998, when the elected government was returned to power with the help of armed forces from Nigeria. Although a peace agreement was signed between the warring parties in 1999, fighting continues between the government and the rebels.

Corruption at all levels has destroyed the effectiveness of taxation in Sierra Leone. Individuals with strong ties to politicians often evade taxation—they end up not paying taxes either because they bribe the tax officials or threaten them with loss of their jobs. The strong political, economic, and ethnic ties based on favoritism, bribery, and corruption, among top members of the ruling political party use up state resources and thereby deprive the bureaucracies of funds for national development. According to William Reno in his book *Corruption and State Politics in Sierra Leone,* President Stevens is said to have used up to 70 percent of state revenues for "preferred (untaxed) concessions in diamond mining areas to political allies who were essential to his effort to resist local demands for greater revenue allocations."

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The civil war has disrupted any improvements to the country's **infrastructure** for nearly a decade. The road system is in serious need of repair, as the lack of resources has led to neglect. The small railway system is used very infrequently because the mines it leads to have been closed. Air transport in Sierra Leone is focused on the International Airport at Lungi, which, prior to the war, served many airlines, such as KLM, British Airways, and the regional airlines.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Sierra Leone	4	253	13	0.0	0	0.5	N/A	0.14	2
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Cote d'Ivoire	17	164	70	0.0	6	N/A	3.6	0.25	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

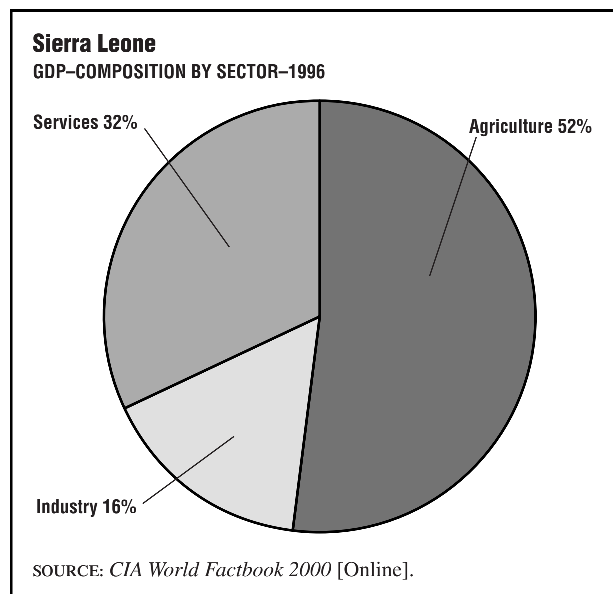
Electricity supply is very unreliable in Freetown. There are constant outages as the old generators break down. However, it is estimated that the nearly-completed Bumbuna hydroelectric power project will be capable of providing electricity to most of the country. Its completion is dependent on the end of the war.

Sierra Leone's ports have provided important access to trade. The Port of Freetown has been an important center of trade for many countries. The natural harbor at the mouth of the Sierra Leone River is one of the world's finest; it affords 21 square kilometers (8 square miles) of anchorage for large ships. Bonthe and Pepel are 2 additional ports used in the export of goods.

The telephone system in Sierra Leone is not an advanced or extensive system. In 1997, Sierra Leone had roughly 17,000 main telephone lines in use, and in 1999 there were 650 mobile telephones. The telephone system was enhanced by a satellite earth station which offered up to 70 channels. Despite the limited resources available, Sierra Leone has made considerable progress in expanding its links with neighboring countries through the Pan-African Telecommunications Network (PANAFTEL) since independence. External services are handled by Sierra Leone External Telecommunications Services (SLET).

ECONOMIC SECTORS

Sierra Leone, since the mid-1980s, has been considered by the United Nations as the country most seriously affected by adverse economic conditions. Sierra Leone is virtually a failed state characterized by a severe decline in educational, health, transportation, and other services.



SOURCE: *CIA World Factbook 2000* [Online].

The **private sector** dominates the country's free market economy, with subsistence agriculture contributing the most. Agriculture made up the greatest portion of GDP in 1999: 43 percent, according to the *World Factbook.* The country could be self-sufficient in foodstuffs, but the destabilizing effects of the civil war has driven most farmers of cash crops from the land.

Diamond mining is the nation's most important source of foreign currency, but its percentage contribution to total foreign earnings has declined from 65 percent in the mid-1970s to less than 20 percent in the 1990s. The decline is the result of a combination of smuggling, unfavorable prices for developing country commodities, depletion of resources, and the effects of the war. The *World Factbook* reported that industry contributed 26 percent of GDP in 1999 and services contributed 31 percent.

AGRICULTURE

Since over 60 percent of the population of Sierra Leone is usually engaged in agriculture, during the 1970s efforts were made by the government to increase productivity in food crops and achieve self-sufficiency, especially in rice production. However, the government's emphasis on cash crops, and overall poor agricultural planning tends to relegate agriculture to a secondary role. Rice accounts for approximately 40 percent of the value of the output of food crops. Other food crops include cassava, millet, sorghum, peanuts, beans, and corn, among others. Livestock (cattle, goats, and sheep) and fishing are also of importance to the economy.

According to *Background to Sierra Leone,* a 1980 publication of the Sierra Leone government, agricultural development was a priority in the 1970s. Accordingly, the government launched a series of Integrated Agricultural Development Projects (IADPs) aimed at maximizing agricultural production in individual regions of the country. The projects included a detailed study of a region's agricultural need and potential, as well as assistance to small farmers. Farmers were encouraged to use fertilizers and equipment together with advice on improved methods of cultivation. However, the economic dislocation of the 1980s, coupled with the war of the 1990s, have effectively undermined progress in agricultural development. Little has been done to improve the sector at the beginning of 2000.

INDUSTRY

MINING. Sierra Leone is endowed with many mineral resources. Prospects for minerals began in 1926 and reserves of iron, gold, diamonds, platinum, chromite, bauxite, and rutile (a titanium ore) were quickly found. The

first diamond was discovered in 1930 and mining began 2 years later. Bauxite mining began in 1963 and reserves are estimated at nearly 50 million tons with a high alumina content of 55 to 56 percent. Exploitation of the estimated 170 million tons of rutile started in 1967. The country has one of the world's largest deposits of rutile. At the height of production in the 1970s, Sierra Leone was ranked as the fourth largest producer of gem diamonds in the world.

The country's civil unrest has caused serious problems in the mining sector. All mining permissions have been suspended since January 2000. Although diamonds and rutile have historically played major roles in Sierra Leone's economy, the war has caused legitimate mining production to virtually cease and has increased smuggling of diamonds from the country. In addition, the exploration of potentially valuable amounts of gold and bauxite in the country has been interrupted.

MANUFACTURING. Sierra Leone's manufacturing sector is one of the smallest in all of Africa. Manufacturing industries are very few and still in a stage of infancy in Sierra Leone due to the lack of financial support available during the civil strife. The manufacturing businesses are mainly raw materials processors and light manufacturers for the domestic market. Items processed are mostly palm kernels and rice. Other manufacturing industries produce a variety of goods including salt, knitwear and other clothing, paint, oxygen, plastic footwear, nails, soap and cosmetics, and a wide range of furniture. Sierra Leone also has a refinery for imported petroleum. The continuing trouble in this sector is indicated in the small number of new manufacturing businesses that opened recently. In 1998, only 0.5 percent of the country's new businesses were involved in manufacturing or construction, according to the Sierra Leone News Agency.

SERVICES

TOURISM. Prior to the outbreak of the war in 1991, serious tourist development took place. The center of attraction was the Cape Sierra district bordered by Lumley Beach. Many modern hotels catered to the tourist population. In 1978, the Bintumani Hotel was built, equipped with 300 beds and a conference center. The Cape Sierra Hotel and the Mammy Yoko Hotel are also located in the Lumley Beach area. Within the city, the main hotels are Brookfields and the Paramount. However, many of these hotels have been damaged by the war or have been transformed as lodgings for soldiers.

Sierra Leone is also home to historic Bunce Island, once a slave trading post. Freetown itself is part of the Freetown Peninsula endowed with unspoiled beaches, nature trails, and historic buildings. The number of tourists has been dramatically reduced because of the war.

FINANCIAL SERVICES. Sierra Leone was chosen as the site for the West African Clearing House, which was established in Freetown in 1975. Banking was first introduced to the country in 1898 by the then Bank of West Africa, which later became the Standard Bank of Sierra Leone. It was followed in 1917 by Barclays. The nation's first indigenous commercial bank, the Sierra Leone Commercial Bank, Ltd., was opened in 1973 and is entirely government-owned. Sierra Leone's banking system is supervised by the Bank of Sierra Leone, which serves as the central bank and therefore controls, maintains, and regulates the nation's money supply and foreign reserves.

Of major importance to the nation's economic growth is the National Development Bank, founded in 1968. Its function is to provide finance in the form of loans or **equity** capital to many development projects in agriculture, agro-based industry, and industry. However, the ongoing civil strife, especially the 1997 coup d'état that toppled the civilian government of President Tejan Kabbah, seriously dislocated these financial services. Barclays Bank, for example, ceased operations in the country, and the Treasury Building was severely damaged by fire.

RETAIL. Sierra Leone is a land of petty traders and street **hawkers**. Many indigenous people engage in **retail** with items as varied as food commodities, clothing, and building materials, among others. According to *Background to Sierra Leone,* over 8 percent of the country's working population is engaged in retail and wholesale distribution.

INTERNATIONAL TRADE

Over the years, the value of Sierra Leone's exports has steadily declined as the value of imports has risen, forcing the country to bear the burden of an increasing **trade deficit**. In 1998 exports were valued at $17 million, and imports totaled $92 million. The *World Factbook* estimated that exports had increased to US$65

Trade (expressed in billions of US$): Sierra Leone

	Exports	Imports
1975	.118	.185
1980	.224	.427
1985	.130	.151
1990	.138	.149
1995	.025	.135
1998	N/A	.095

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

million and imports to US$145 million by 2000. Chief trading partners for exports are the United States, Britain, Belgium, Italy, the Netherlands, and Germany. Leading sources for imports are the United States, Britain, Italy, Nigeria, the Netherlands, Indonesia, and Germany. Despite some successful efforts to increase the output of agricultural productivity and diversify exports, Sierra Leone's balance of visible trade has still been unfavorable. The balance of trade has also suffered from an increase in short-term debts, and the deterioration of terms of trade related to the sharp increases in the price of petroleum products and manufactured goods from the industrial world. These increases exceeded those of agricultural produce, diamonds, and bauxite.

Prior to the war, the domestic market was favored by the growing tourist trade, while the policy of non-discriminatory **tariffs** served the interests of consumers by keeping prices relatively low. The National Trading Company set up in 1971 with government financial assistance, also ensured the maintenance of competitive prices on the home market, and the promotion of indigenous enterprise in commerce.

MONEY

The value of the leone has been declining since the early 1980s. The leone was formerly linked to the pound sterling. Its value is now determined largely by the export earnings of the country. Since the country does not earn a great deal from its external trade, the IMF and the World Bank constantly encourage the country to reduce government spending in order to maintain a balanced budget. The Sierra Leone economy has undergone several IMF economic and financial policies aimed at improving the value of the leone in relation to other currencies of the world. A stronger leone is supposed to translate into a stronger economy. However, the outcome has often been high **inflation** (a weak currency in terms of **exchange rates**) and a great deal of leone fluctuations, mostly downwards.

Exchange rates: Sierra Leone

leones (Le) per US$1	
Jan 2001	1,653.39
2000	2,092.13
1999	1,804.20
1998	1,563.62
1997	981.48
1996	920.73

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Sierra Leone	316	320	279	279	150
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Dem. Rep. of Congo	392	313	293	247	127

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

Sierra Leone, like many developing states, is a land of gaping inequalities where national income is concerned. According to *The World Development Report,* 1999–2000, in 1989 the richest 10 percent of the population had 43.6 percent of the national income, whilst the poorest 20 percent of the population had 1.1 percent of the national income. The access to national income and resources tends to be heavily weighted in favor of ruling party leaders, cabinet ministers, and those with political ties to the president.

According to Earl Conteh-Morgan and Mac Dixon-Fyle, authors of *Sierra Leone at the End of the Twentieth Century,* by the mid-1980s, the level of poverty in the country was such that "state hospitals and clinics suffered heavily through a lack of supplies, modern equipment, and motivated employees. This sector also suffered nonpayment of inadequate government salaries. The consequence was that many officials were forced to corruption diverting drugs and medical equipment or putting them into private use." In other words, Sierra Leone, by the mid-1980s was already a failed state. Central government ministers and bureaucracies simply centralized and monopolized important functions, and thereby public revenues. In the process, they deprived the local authorities of adequate revenues and responsibilities nec-

Distribution of Income or Consumption by Percentage Share: Sierra Leone

Lowest 10%	0.5
Lowest 20%	1.1
Second 20%	2.0
Third 20%	9.8
Fourth 20%	23.7
Highest 20%	63.4
Highest 10%	43.6

Survey year: 1989

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Sierra Leone	47	9	9	3	13	8	12
United States	13	9	9	4	6	8	51
Nigeria	51	5	31	2	8	2	2
Liberia	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

essary to nurture grassroots local development and a democratic culture. The lack of funds and the continued centralization of authority by the central government meant that such basic but necessary functions as garbage collection, maintenance of public toilets, and supervision and maintenance of public markets, were eventually abandoned. Even Freetown, the capital, suffered a decrease in the scope of service deliveries. In the 1980s, it was described by many observers as increasingly developing into overgrown and overcrowded shantytowns with crumbling buildings, open drains, and deteriorating, chaotic roads.

By the late 1980s and long before the eruption of civil strife, political and economic deterioration in Sierra Leone had become extreme. Between 1980 and 1985 incomes per capita declined by an average of roughly 6 percent per annum. The **inflation rate** reached 80 percent by the end of the 1980s. Loss of morale and significant economic deprivation was the consequence for government workers, teachers, and others dependent on government salaries. Often deprived of salaries for months on end, many resorted to **informal economic** activities as a way to supplement their meager or nonexistent incomes. The most popular form of economic activity became petty trading for the mass of people, and the more influential obtained import licenses and involved their relatives in trading activities. Private vehicles were often used for commercial purposes, either as taxis or to transport goods.

Deterioration and dilapidation was not just confined to the roads and streets, but were found in the classrooms as well. Teachers lacked even chalk for writing on the board. Windows, roofs, and furniture not only deteriorated, but were, in many schools, absent. As a result, the quality of education decreased substantially from the primary level to college. The consequence for higher education has been a massive brain drain of lecturers and school teachers to neighboring African states, to international organizations, and to the West.

WORKING CONDITIONS

Since the early 1980s, the Sierra Leone **labor force** has been shrinking due to a combination of factors such as worsening economic conditions that affected most developing countries in the 1980s, the decline in the price of raw materials in the world market, misrule in the form of embezzlement of funds by government officials, and the effects of IMF conditions such as the freeze on hiring and the laying off of thousands of civil servants, in order to reduce the size of government.

In 1981, before the downward slide into massive unemployment, the country had an estimated 1.369 million workers with most found in agriculture (65 percent), followed by industry (19 percent), and services (16 percent). However, in 1985 there were only 65,000 wage earners. The struggle for good working conditions by trade union activists has been an integral part of relations between government and labor. Trade unionism began in Sierra Leone as early as 1914 with the formation of a union among temporary customs workers. In 1971 an act of Parliament guaranteed the right of workers to industrial action upon due notification. According to law, minimum pay rates and maximum hours should be regulated every 2 years and the government is committed to upholding the right of workers to form unions and bargain for better pay and good working conditions. Politicians have often undermined the effectiveness of labor unions through co-optation of the leaders—bribing the leaders, or enticing them with better job offers, so that they drop their demands for pay raises and better working conditions. In the early 1980s, for example, both the leaders of the Sierra Leone Labor Congress (SLLC), and the president of the Sierra Leone Teachers' Union (SLTU) were appointed members of parliament in order to separate them from the unions, which would, in turn, end their activism. Working conditions are still far from ideal. Government employees get meager salaries, and often go unpaid for several months. The uncertainty of government jobs means that many workers engage in petty trading in order to survive.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1495. Portuguese establish a fort on the site of modern Freetown, a base for traders in gold, ivory, pepper, and slaves.

1672. British Royal African Company establishes 2 trading depots, 1 on Bunce Island and 1 on York Island.

1787. The first settlers (freed slaves) arrive from Britain and establish a self-governing "Province of Freedom."

1808. Freetown becomes a British colony.

1896. The British impose a protectorate on the hinterland of the country (the interior of the country was declared an overseas territory of the British Crown).

1926. Prospecting for minerals starts, and by 1930 employs over 16,000 workers.

1949. Sierra Leone Produce Marketing Board (SLPMB) set up to exert government control over agricultural marketing and production.

1960. Development of Industries Act passes as a result of the government's construction of the Wellington Industrial Estate in the suburbs of Freetown.

1961. Sierra Leone becomes an independent nation within the British Commonwealth.

1963. Central Bank of Sierra Leone set up.

1971. Sierra Leone becomes a republic, casting off the last vestige of colonialism, with Siaka Stevens as the first executive president.

1978. Sierra Leone becomes a republican 1-party state on 14 June 1978, with the All People's Congress (APC) as the sole party.

1980s. The continent-wide African economic crisis affects Sierra Leone, adversely resulting in high inflation and chronic unemployment.

1991. The internal economic dislocation (massive unemployment and high inflation), coupled with the spillover of the Liberian civil war, plunges Sierra Leone into civil strife perpetuated by the Revolutionary United Front (RUF) rebels.

1999. The RUF and the Sierra Leone government sign the Lome Peace Accord that allows the deployment of over 12,000 UN peacekeeping troops in the country.

2000. Despite the peace accord, internal fighting continues.

FUTURE TRENDS

Sierra Leone entered the last decade of the 20th century as a failed state, culminating in the outbreak of civil strife in 1991. The anarchy has resulted in massive suffering, displacement of people, and deaths in the hundreds of thousands. However, if the Lome Peace Accord is successfully implemented and future governments manage the mineral and agricultural wealth of the country wisely, Sierra Leone could become another Singapore. Britain is currently engaged in training a new army and a new police force for the country. Although the United Nations' peacekeeping operation has experienced some difficulties, including some of their troops being taken hostage by rebels, it is still hoped that the peacekeeping mission will help to bring an end to the civil strife.

DEPENDENCIES

Sierra Leone has no territories or colonies.

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—Earl Conteh-Morgan

SOMALIA

CAPITAL: Mogadishu.

MONETARY UNIT: Somali shilling (SH). One shilling equals 100 cents. There are coins of 1, 5, 10, and 50 cents and 1 shilling, and notes of 5, 10, 20, 100, 500, and 1,000 shillings. The self-declared Republic of Somaliland introduced its own currency, the Somaliland shilling, in 1995. U.S. dollars are the most widely used currency.

CHIEF EXPORTS: Livestock, bananas, fish, hides and skins, myrrh.

CHIEF IMPORTS: Petroleum products, foodstuffs, fertilizers, machinery and parts, transport equipment, manufactured goods.

GROSS DOMESTIC PRODUCT: US$4.3 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$187 million (f.o.b., 1998 est.). **Imports:** US$327 million (f.o.b., 1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Somalia, formerly known as the Somali Democratic Republic, is a coastal country covering a land area of 637,657 square kilometers (246,199 square miles) and a water area of 10,320 square kilometers (3,985 square miles), with a land-bordered circumference of 2,366 kilometers (1,470 miles). It has a coastline of 3,025 kilometers (1,880 miles) stretching along the Indian Ocean to the southeast and along the Gulf of Aden in the southern mouth of the Red Sea to the north. These coastal features give the region the name the Horn of Africa. To the north, Somalia faces the Arabian Peninsula with which it has had centuries of commercial and cultural interaction. To the northwest it shares a border with the Republic of Djibouti (58 kilometers, or 36 miles), to the west by Ethiopia (1,626 kilometers, or 1,010 miles) and southwest by Kenya (682 kilometers, or 424 miles).

The capital is Mogadishu, which in 1987 had a population of 1 million, followed by the other major towns of Hargeysa, with 400,000; Kismaayo, with 200,000; Marka, with 100,000; and Berbera, with less than 100,000. Since the 1991 outbreak of civil strife, the northern region—formerly a British colony—has formed an internationally unrecognized de facto autonomous country, Somaliland, with Hargeysa as its capital.

Somalia is principally desert. There is a monsoon in the northeast from December to February, with moderate temperatures in the north but very hot in the south. From May to October the southwest monsoon brings irregular rainfall. Between monsoons it is generally very hot and humid. Somalia is divided into 3 main topographical regions. The northern region is somewhat mountainous with high plateaus ranging from 900 meters (2,953 feet) above sea level to peaks at 2,450 meters (8,038 feet) above sea level in the northeast. The second region extends south and west to the Shabeelle river and hosts a plateau elevated to a maximum of 685 meters (2,247 feet) above sea level. The third region lies between the Jubba and Shabeelle rivers and is a low agricultural land that also extends into a low pastureland lying southwest of the Jubba river toward the Kenyan border. The country's main drainage is provided by the Shabeelle and Jubba rivers, which originate in Ethiopia and flow toward the Indian Ocean, although the Shabeelle dries before reaching the ocean. These rivers are not navigable by commercial vessels, but they do supply irrigation. Despite its long coastal shoreline, Somalia has only 1 natural harbor, at Berbera.

POPULATION. Determining the population of Somalia has long been a difficult task. According to the February 1975 population census, the population of Somalia was 3,253,024 (excluding adjustment for undercounting), while the February 1986 census recorded it at 7,114,431, implying a doubling of the population over the decade. According to the United Nations (UN) estimates, the mid-year population increased from 7,875,000 in 1985 to 10,217,000 in 1997. However, the *CIA World Factbook* estimated the population in 2000 as 7,253,137. All such estimates were derived by extrapolating from official censuses taken in 1975 and 1986 by the Somali government. Such estimates are complicated by the large number of nomads and by refugee movements in a country that has been racked by war and famine for a decade.

Nearly 50 percent of the population are nomadic, moving mainly in the central and northern areas, where drought is an ever-present threat. Almost all the nomadic clans are accustomed to grazing on both sides of the border with Ethiopia. About 28 percent of the population are settled farmers, mostly in the southern areas between the Jubba and Shabeelle rivers. The population profile was estimated in 2000 as 44 percent in the 0–14 years age group, 53 percent between 15 and 64 years, and 3 percent in the 65 years and over age group.

Before the 1991 civil conflict, population density averaged 12 people per square kilometer (31 per square mile) but was unevenly distributed. The areas of greatest rural density were the settled zones adjacent to the Jubba and Shabeelle rivers, a few places between them, and several small areas in the northern highlands. The most lightly populated zones were in northeastern and central Somalia, but there were some other sparsely populated areas in the far southwest along the Kenyan border.

OVERVIEW OF ECONOMY

Most economic activity was disrupted by the breakdown of the Somali state in 1991. Before this disaster, Somalia was one of the world's poorest countries, but it had been making modest progress despite the absence of mineral or hydro resources and limited fertile agricultural land. The breakdown of the state and the immersion of

the country in nearly a decade of civil war has devastated the economy and distanced the country from the international community.

Agriculture is the country's most important sector, comprising some 60 percent of the GDP, with livestock accounting for about two-thirds of the value of agricultural output and about two-thirds of export earnings. Livestock is produced mainly by nomadic groups who make up perhaps 50 percent of the total population. Bananas are also exported. Sugar, sorghum, and corn are the other main agricultural crops. Fish are harvested by small-scale methods for local consumption. The industrial sector has always been small, at around 10 percent the GDP, and its output has probably contracted faster than the rest of the economy, so it now produces perhaps 5 percent of the GDP. It comprises some agricultural processing, but the simple manufactures, such as soap, soft drinks, and **consumer goods**, have almost all closed down as the result of the ongoing conflict. The lack of security has impeded international aid programs, and there is continual fear of food shortages throughout the country and famine when harvests fail through drought. In normal circumstances the people are industrious and enterprising, and many Somalis have fled to neighboring countries where they have established successful enterprises, particularly in the transport sector, remitting money back to Somalia, which has been an important feature of the population's survival over the past decade.

Somalia was formerly a **socialist**-oriented economy that was undergoing market-oriented structural adjustments until 1991. These policies were designed to allow more sectors of the economy to have production, sales, and prices determined by the market, rather than regulated by the government. Major features of the program were to allow the **exchange rate** to be determined by supply and demand for foreign exchange, to allow banks to set interest rates for both depositors and borrowers, to end controls on prices of commodities, and to transfer state-owned enterprises to private ownership. **Privatization** of wholesale-trade and financial sectors was largely completed by 1991, and although economic growth was sporadic and uneven across the sectors, average living standards were being maintained in the face of a population growth rate of around 2.9 percent a year. Since the overthrow of President Siad Barre in 1991, however, the country has had no viable central government, and national economic planning has been haphazard or nonexistent.

POLITICS, GOVERNMENT, AND TAXATION

The Somali people have a strongly established common culture, but the Somalis are divided into a number of clans. Most Somalis identify themselves first with their clan and then with the Somali people. These divided loyalties have given rise to Somalia's current problems.

The Somali Republic was formed on 1 July 1960 as the result of a merger of British Somaliland, which became independent from the United Kingdom on 26 June 1960, and Italian Somaliland, which became independent from an Italian-administered United Nations trusteeship on July 1, 1960. A coalition government was formed by the Somali Youth League (SYL) and the 2 leading northern political parties, with Dr. Abd ar-Rashid Ali Shirmake, a leading SYL politician and member of the Darod clan, as first prime minister, and a single legislative body.

The initial problems of combining the previous colonial administrations were eased by shared Somali cultural ties, and for the first years of the country's existence internal conflicts among clans were secondary to ongoing efforts to extend the boundaries of the new state to include Somali communities in Ethiopia, French Somaliland (present-day Djibouti) and northern Kenya. Liberation movements were established for this cause in each of the neighboring territories. It soon became obvious that these efforts were bound to fail, however, and political efforts turned to addressing the problems of Somali peoples resident in other countries—and to internal conflict.

Abd ar-Rashid Ali Shirmake was elected president in 1967, but in October 1969 he was assassinated in the course of factional violence, leading to a coup d'etat. A Supreme Revolutionary Council (SRC) formed an army and police officers announced that it had acted to preserve democracy and justice and to eliminate corruption and clanism and that the country was to be renamed the Somali Democratic Republic to symbolize these aims. Army commander and president of the SRC Major General Jalle Mohamed Siad Barre became head of state. For nearly 30 years Barre led Somalia as a socialist state, but economic stability was continually disrupted by internal dissent and by troubled relations with neighboring Ethiopia. On 27 January 1991, the United Somali Congress (USC) ousted the regime of Siad Barre, and the country descended into anarchy and widespread banditry based on clan feuding.

Since the overthrow of the Barre regime, politics in the country have been in a state of chaos. Clan-based political parties have seized different areas of the country and have fought each other over control of disputed regions. No one clan has a national base of support. While chaos has been the norm in much of Somalia throughout the decade, some orderly government has been established in the northern part. In May 1991, the elders of clans in former British Somaliland established the independent Republic of Somaliland, which, although not recognized by any government, maintains a stable existence, aided by

the overwhelming dominance of the ruling clan and the economic **infrastructure** left behind by British, Russian, and American military assistance programs. In 1998 neighboring Puntland, in the northeast of the country, declared its autonomy and has also made progress towards reconstructing a legitimate, representative government.

Over the course of Somalia's troubled decade, several foreign relief efforts have been attempted in the country. From 1993, a 2-year UN humanitarian effort (primarily in the south) was able to alleviate famine conditions, but when the UN withdrew in 1995, having suffered significant casualties, order still had not been restored. In February 1996, the European Union (EU) agreed to finance the reconstruction of the port of Berbera in Somaliland. Since then, other aid projects have been undertaken by the EU and by an Italian non-government organization.

In August 2000, delegates at a 3-month peace conference in Djibouti formed the National Transitional Assembly and elected Abdulkasim Sala Hassan as the new president of Somalia. Although the new administration has made progress in creating the beginnings of an army to establish law and order and has taken up residence in Mogadishu, Somalia still faces real difficulties. The warlords of the various feuding clans are unwilling to give up their positions as powerful and feared leaders controlling substantial resources gathered through protection, looting, and extortion. They are heavily armed, and they need to be offered a way to show support for the fledgling government. Another challenge for the new government is the problem of its relations with the administrations in Somaliland and Puntland. An agreement to allow these areas to secede would allow them to gain international recognition and thus aid, while allowing the rest of former Somalia to the south to concentrate on its internal security problems.

Somalia once had a 4-tier court system based on Western models. Under Barre, separate National Security Courts operated outside the ordinary legal system and under direct control of the executive and were given broad jurisdiction over offenses defined by government as affecting state security. These were abolished in 1991, and no organized court system exists in the country. The Republic of Somaliland uses the pre-1991 penal code.

With no effective government, there is no formal taxation. However, warlords exact payments from businesses in return for not harassing them and provide some protection against the predations of others. Surprisingly, some observers report that the lack of government has contributed to positive developments in the economy, as entrepreneurs have been freed to develop their business free from government intervention and bureaucracy. Most economic transactions are conducted in U.S. dollars, thus easing the problems of the utter instability of the Somali shilling.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Somalia has a deteriorating infrastructure that has seen little improvement in the last decade. One paved road extends from Berbera in north through Mogadishu to Kismaayo. Roads of all categories totalled 22,100 kilometers (13,733 miles) in 1996, of which 2,608 (1,621 miles) kilometers were paved. Many of the improved earth roads were frequently impassable in rainy seasons. Highway infrastructure is insufficient to open up isolated areas or to link the regions. The country has no railroads.

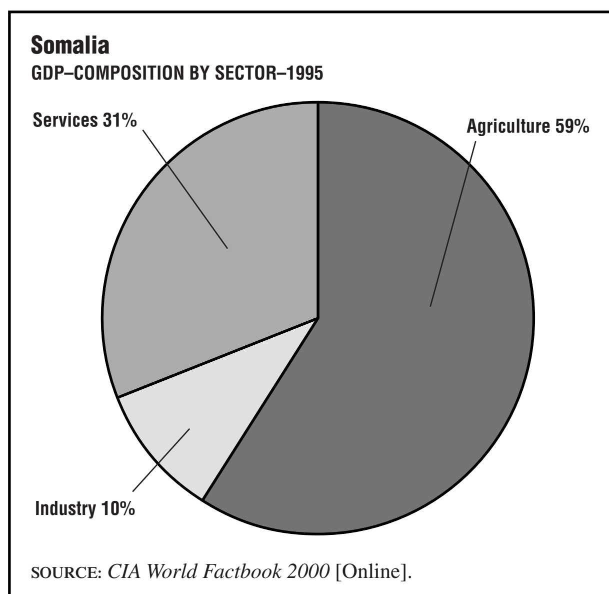
Somalia has 8 paved civilian airfields and fewer than 20 additional widely-scattered gravel airfields. The international airport is at Mogadishu. In 1990 a domestic service linked Mogadishu with 7 other Somali cities

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Somalia	N/A	N/A	AM 0; FM 0; shortwave 4	470,000	1	135,000	1	200
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Dem. Rep. of Congo	21,000	8,900	AM 3; FM 12; shortwave 1 (1999)	18.03 M	20 (1999)	6.478 M	2	1,500 (1999)
Ethiopia	157,000	4,000 (1999)	AM 5; FM 0; shortwave 2 (1999)	11.75 M	25 (1999)	320,000	1	7,200

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].

served, in part, by Somali Airlines, which owned 1 Airbus 310 in 1989. There was no scheduled service in existence in 1992.

Electricity is produced entirely from diesel and petrol powered generators, with all the fuel imported. In 1998, it was estimated that 265 million kilowatt hours (kWh) were supplied, all from privately-owned generators. There is some hydroelectric potential on Somalia's rivers, but thus far it has remained unexploited and is likely to remain so until Somalia's security and stability become better established. Poor people, and most of the population outside the towns, rely on wood for cooking and kerosene oil-lamps for light.

There are 4 major ports—deepwater facilities at Berbera, Mogadishu, and Kismaayo and a lighterage (for transportation of goods on flat-bottomed barges) port at Marka—and a minor port at Maydh. A port modernization program that was launched in the latter half of 1980s with U.S. aid significantly improved cargo handling capabilities at Kismaayo and increased the number of berths and deepened the harbor at Berbera.

The public telecommunications system was completely destroyed or dismantled by the civil war factions; all relief organizations depend on their own private systems. Recently, local cellular telephone systems have been established in Mogadishu and in several other population centers. International connections are available from Mogadishu by satellite.

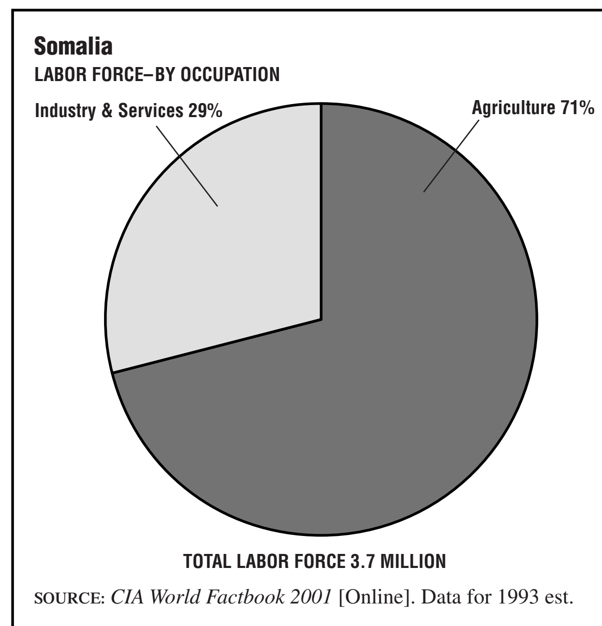
ECONOMIC SECTORS

Somalia's economy is mainly based on **subsistence agriculture** comprising livestock herding and to a lesser extent a simple form of hoe-agriculture. Attempts to introduce modern techniques of animal husbandry and agriculture have been only partially successful. Agriculture was estimated to comprise of 59 percent of the GDP in 1995—with livestock alone contributing 41 percent of the GDP—services 31 percent, and industry 10 percent. Current estimates are that a higher proportion of GDP comes from agriculture, with services slightly reduced, and a much diminished role for industry.

AGRICULTURE

The Somali economy is traditionally based principally on the herding camels, sheep, and goats, with cattle more prevalent in the southern region. Agriculture still provides for the subsistence needs of 75 percent of the population and furnishes a substantial export trade in live animals, skins, clarified butter, and canned meat. After independence in 1960, exports of these items rose dramatically and, until 1988, outstripped the other main export, bananas, which accounted for 40 percent of the total value of exports in that year. In 1982 exports of livestock products accounted for about 80 percent of Somalia's total export earnings. In 1989, livestock products accounted for 49 percent of the GDP. However, Somali agriculture is at the mercy of periodic droughts, the worst of which have led to high levels of famine and starvation.

Before 1972 fishing along the Somali coast was mainly a small-scale subsistence activity, but by 1980 it was coming to be recognized as one of the country's leading economic activities. During the 1974–75 drought, some 12,000 nomads were settled and encouraged to organize themselves into fishing co-operatives, which showed considerable promise. Although fish production



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1993 est.

more than doubled, fish was still not a significant feature of the Somali diet.

INDUSTRY

Prior to 1991, there was a small manufacturing sector, based primarily on the processing of agricultural products, and consisting of a few large state enterprises, hundreds of medium-sized private firms, and thousands of small-scale informal operations. Large-scale enterprises were dedicated mainly to the processing of sugar, milk, and hides and skins. Overall manufacturing output declined during 1980s as a result of inefficient state enterprises failing under market conditions. Manufacturing activity was further curtailed by civil war and collapse of the Somali state. By 1990 manufacturing ceased to play a significant role in economy and is currently about 5 percent of GDP.

At 0.3 percent of the GDP in 1988, mining's contribution to the economy was negligible, despite substantial deposits of gypsuman hydrite, quartz and piezoquartz, uranium, and iron ore. Gold deposits are suspected but not confirmed.

SERVICES

In the south of the country banking is re-emerging in the form of private ventures. The Barakaat Bank of Somalia, for example, was established in Mogadishu in October 1996 by a group of small businessmen who also run a telephone company and postal and computer services. Similarly, the Somalia-Malaysian Commercial Bank was opened in Mogadishu in April 1997 by a group that also runs the Somali Telecommunications Service. In most other parts of the country financial services are provided by less formalized money-changers.

Somalis living outside the country are currently the most significant source of foreign investment. In Somaliland, a central bank has been established (Central Bank of Somaliland), but no other formal financial institutions exist. Informal facilitators typically charge 5–10 percent commission on transfers from abroad. In August 1999 the Central Bank of Puntland became operational in Boosaaso.

Somalia's **retail** trade, which was hit hard by the civil war, is supplied largely by the **informal sector**. Mogadishu's main market, Bakara, offers a wide range of consumer goods and weaponry. Tourism is non-existent.

INTERNATIONAL TRADE

Up-to-date reliable information on the international trade of Somalia is hard to discover, thus much of what is presented here is based on the structure before 1991. Somalia's foreign **trade deficit**, which was almost entirely financed by foreign aid, increased to around US$300 million in 1987. The trade balance remained negative throughout 1980s and early 1990s. The last reliable reported figures were for 1990, when exports were US$130 million and imports US$360 million. Surprisingly, there has not been much material change in the decade since those statistics were released: estimates for 1998 were that exports were US$87 million and imports US$327 million. The main difference is that prior to 1991, the trade deficit was met by aid receipts, while currently it is covered by **remittances** from the Somali diaspora.

Export composition has remained largely unchanged, consisting of mainly agricultural raw materials and food products with livestock and bananas the principal items, followed by hides and skins, fish and fish products, and myrrh. The major destination for Somali exports is Saudi Arabia, with 57 percent, followed by the United Arab Emirates (15 percent), Italy (12 percent), and Yemen (8 percent) in 1997.

Somalia's principal imports are food, transportation equipment, heavy machinery, manufactured consumer goods, cement and building materials, fuels, iron and steel. Djibouti was the main supplier of imported goods in 1997 with 20 percent, followed by Kenya (11 percent), Belarus (11 percent), India (10 percent), Saudi Arabia (9 percent), and Brazil (9 percent).

MONEY

The Somali shilling is the currency issued by the government prior to 1991. It has depreciated sharply since then: in 1989 the rate was SH252 to US$1, and by 1999 the rate was SH2,600 to US$1. It is most surprising that the currency is still in circulation at all as, until 2000, there has been no government to enforce the currency as legal tender (the acceptance of the currency in making payments). U.S. dollars are widely used for anything other than small transactions.

Exchange rates: Somalia

Somali shillings per US$1	
Nov 2000	11,000
Jan 1999	2,620
Nov 1997	7,500
Jan 1996	7,000
Jan 1995	5,000
Jul 1993	2,616

Note: The Republic of Somaliland, a self-declared independent country not recognized by any foreign government, issues its own currency, the Somaliland shilling.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Somalia	600	N/A	600	600	600
United States	28,600	30,200	31,500	33,900	36,200
Dem. Rep. of Congo	400	N/A	710	710	600
Ethiopia	N/A	530	560	560	600

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

The self-declared Republic of Somaliland started issuing its own currency, the Somaliland shilling (SoSh), in January 1995, which was set at SoSh80 to US$1.

POVERTY AND WEALTH

Without official data or coordinated collection and collation of available information, it is hard to give realistic indications of the situation. However, the **UN Development Program**'s 1994 Human Development Report ranked Somalia 165th out of 173 countries in terms of its Human Development Index, which combines income levels with educational attainments and life expectancy. According to the World Bank, health standards in Somalia before the 1991 were among the worst in the world. It was estimated that there was 1 doctor for every 20,000 people (in the United States it was 1 doctor for every 470 people), and 1 nurse for every 1,900 persons (in the United States it was 1 nurse for every 70 persons). Only 2 percent of births were attended by a health professional, whereas in the United States nearly 100 percent of births were so attended. In 1990 average life expectancy at birth was 46 years, the infant mortality was about 123 per 1,000 live births (in the United States it is 7 per 1,000). The adult literacy rate was 27 percent.

WORKING CONDITIONS

Despite a series of wage increases over the previous 3 years, in January 1990 salaries for the highest-grade public employees were still only SH8,000 (US$16) per month and the lowest grade received SH1,200 (US$2.40). Consequently all civil servants needed additional sources of income to meet their basic needs. In the absence of a central government, the civil service has ceased to function after 1991.

Subsequently the 75 percent of the population in the rural areas were engaged in a desperate struggle to survive. Those in the urban areas were better off, and the thugs involved in the looting and extortion that go hand-in-hand with clan fighting have enjoyed relatively high living standards, albeit accompanied by high risks.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1840. European colonization of the Horn of Africa begins, and the traditional area of the Somali people is divided among 5 states: the British Somaliland protectorate, Italian Somalia, French Somalia (present day Djibouti), the Ethiopian province of Ogaden, and northeastern Kenya.

1886. Britain declares a protectorate over northern Somalia.

1936. Italy establishes a colony in the southern region, Italian Somaliland.

1941. The Italian colony is captured by British forces and placed under military administration during World War II.

1950. Italian Somaliland becomes the UN Trust Territory of Somalia and is placed under Italian administration for a 10-year transitional period prior to independence.

1959. The Trust Territory's first general elections based on universal adult suffrage are held. The Somali Youth League (SYL) wins 83 of the 90 seats in the Legislative Assembly.

1960. British Somaliland becomes independent on 26 June. On 1 July the former Italian Somaliland unites with the former British Somaliland as the Somali Republic. A coalition government is formed by the SYL and the 2 leading northern parties, with Dr. Abd ar-Rashid Ali Shirmake, a leading SYL politician and member of the Darod clan, as the first prime minister.

1964. SYL secures majority seats in Assembly elections. However, a split in the party leads to appointment of a new Darod prime minister, Abd ar-Razak Hussein, leaving the party seriously divided.

1967. Shirmake is elected president and forms a government.

1969. Shirmake is assassinated in the course of factional violence; Major General Mohamed Siad Barre of the Supreme Revolutionary Council (SRC) becomes president.

1972. Mass literacy campaign is launched, leading to the adoption of Somali as the national language.

1974. Somalia joins Arab League.

1975. Land is **nationalized**: farmers receive holdings on 50-year renewable leases from the state.

1976. Under Soviet influence, the Somali Socialist Party is established. Siad Barre **restructures** the West-

ern Somali Liberation Front (WSLF) and allows it to operate inside Ethiopia in an effort to claim Ethiopian territory.

1977. Somalia and the Soviet Union break off relations when the Soviet Union backs Ethiopia in the ongoing conflict between Somalia and Ethiopia. Somali forces retreat from Ethiopia, and Somalia seeks to align itself with Western countries.

1980. The United States is permitted to use air and naval facilities at Berbera.

1986. Siad Barre is re-elected president, but his regime is soon faced with unrest in the northeast and northwest of the country.

1989. Forces opposed to Barre form the United Somali Congress (USC) in exile, in Rome, Italy. The USC military wing, headed by Gen. Mohamed Farah Aideed, sets up base in Ethiopia. Siad Barre announces that opposition parties can contest elections scheduled before the end of 1990 and that he would relinquish power.

1990. After an insurgency in the northwest, the USC captures Mogadishu. Siad Barre flees with the remnants of his army and the USC attempt to take power, but the country descends into clan-based civil war. The self-declared "Republic of Somaliland" declares independence.

1991. A UN force led by the United States tries to establish peace in Mogadishu.

1994. United States withdraws troops after a gunbattle with Somali gunmen leaves hundreds dead or wounded.

1995. The United Nations withdraws from Somalia. General Aideed is elected president by his USC faction but is not recognized by anyone else. Somaliland introduces its own currency.

1996. Aideed is killed by cross-fire during a skirmish. Leadership of USC passes to Aideed's son, Hussein Mohamed Aideed.

1997. Autonomy is declared for the northeastern province of Puntland.

2000. Delegates (excluding any official representatives form Somaliland and Puntland) meet in Djibouti, form a National Transitional Assembly, and elect Abdulkasim Sala Hassan as president, but clan-based fighting continues in Mogadishu.

FUTURE TRENDS

Economic progress in Somalia depends on the re-establishment of peace, security, and stability. Otherwise there will be no significant investment, qualified and talented Somalis will continue to make their lives elsewhere, and the bulk of the population will continue in a wretched struggle for survival.

There are some international observers who argue that the relatively stable areas of Somaliland and Puntland in the north should be allowed to secede and receive recognition from the international community so that they can receive aid and begin to make steady progress. There is great opposition to this move, however, in the south, and it seems that such acts will only be internationally acceptable if they are agreed to by all parties (as with the secession of Eritrea from Ethiopia). The priority of the new government will be to establish its authority in the south, and the autonomy of Somaliland and Puntland will be allowed to continue in the immediate future. But the future of Somaliland and Puntland in the new Somalia will have to be addressed at some stage.

Despite the creation of a new army, it will be immensely difficult for the new government of President Hassan to establish law and order in the face of hostility from the clan-based militias, who have declared that they do not recognize the new government. The militias cannot be crushed by force, and some place must be found for them in the new order in Somalia if peace is to be established. As of 2001 the country remains in a state of terrible disorder.

DEPENDENCIES

Somalia has no territories or colonies.

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—Allan C. K. Mukungu

SOUTH AFRICA

Republic of South Africa
Republiek van Suid-Afrika

CAPITAL: Pretoria (administrative); Cape Town (legislative); Bloemfontein (judicial).

MONETARY UNIT: South African rand. One rand equals 100 cents. There are coins of 1, 2, 5, 10, 20, and 50 cents and 1 rand. There are notes of 2, 5, 10, 20, 50, 100, and 200 rand.

CHIEF EXPORTS: Gold, diamonds, other metals and minerals, machinery, equipment.

CHIEF IMPORTS: Machinery, foodstuffs and equipment, chemicals, petroleum products, scientific instruments.

GROSS DOMESTIC PRODUCT: US$369 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$30.8 billion (f.o.b., 2000 est.). **Imports:** US$27.6 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. South Africa is situated at the southern tip of the continent of Africa. Ranging from west to east across its northern border are the neighboring countries of Namibia, Botswana, and Zimbabwe; Mozambique lies to the east, as does the small nation of Swaziland, which is nearly encircled by South Africa. Another small nation, Lesotho, lies entirely within the borders of South Africa, in the east central region. Total land borders measure 4,750 kilometers (2,952 miles). South Africa has a coastline of 2,954 kilometers (1,836 miles), with the cold Atlantic Ocean on the west coast and the Indian Ocean on the east coast. The area of the Republic of South Africa is approximately 1,219,912 square kilometers (471,008 square miles), making it slightly less than twice the size of the state of Texas, or slightly bigger then Holland, Belgium, Italy, France, and Germany combined. The capital of Pretoria is located in the northeast central area of the country. Other major cities include Cape Town, Port Elizabeth, and Durban on the coast, and Johannesburg, Soweto, and Bloemfontein in the interior of the country.

POPULATION. The last official census taken in South Africa in 1996 revealed a population 40,582,573 people. In 2001, estimates are that the population of South Africa has grown to 43,586,097. The population of South Africa can be divided into the following main racial groups: Africans (blacks), whites, coloreds (mixed-race descendants of early white settlers and indigenous people), and Asians. The general indication is that the proportion of Africans has slowly been increasing and the proportion of whites decreasing. The proportion of Asians and coloreds has remained quite constant. In 1996, Africans made up 76.6 percent of the population, whites made up 10.9 percent, coloreds 8.9 percent, and Asians 2.6 percent; the remaining 0.9 percent represented a variety of races.

The population growth rate for the entire population is a very low 0.26 percent. The birth rate in South Africa was estimated at 21.12 per 1,000 people in 2001, and the birth rate was estimated at 16.77 per 1,000 people. It is likely that the fertility and mortality figures could change due to the HIV/AIDS epidemic. The spread of HIV/AIDS in South Africa was very rapid in the 1990s. United Nations (UN) estimates indicate that currently 1 in 8 adult South Africans is infected with HIV. The epidemic has exacted tremendous social and economic costs. By affecting the population's most productive age group, it hampers the labor supply.

About 64 percent of the South African people live in urban centers, and that number is expected to grow because more people move to urban areas every year. The migration rate creates increasing demands on municipal services such as sanitation, water provision, safety, security, as well as schools, hospitals, and recreational facilities.

The population of South Africa is young, with 32 percent of people between the age of 0 and 14, 63 percent between 15 and 64, and only 5 percent over the age of

65. Life expectancy is fairly low, at 48.09 years for the entire population, 47.64 for males and 48.56 for females.

OVERVIEW OF ECONOMY

Emerging from a long period when it was a pariah nation because of its racial policies, South Africa is an attractive emerging economy that is both modern and diversified. Paradoxically, the country still exhibits many of the characteristics of a less developed nation, including a distorted distribution of wealth and a thriving **informal sector** economy whose interactions are outside the law. The agricultural, industrial, and service sectors are well developed, however, and government plans to improve services and economic access to the poor and dispossessed offer the promise of modernizing the lagging elements of the economy.

The dominant forces which shaped South Africa's economy in the modern era exhibited themselves in 8 main periods. From 1910 to 1922, British influence dominated in economic and political terms, and a racially-segregated community was structured. When economic nationalism was born from 1922 to 1933, white mineworkers and farmers tried to establish a **welfare state** in South Africa. Between 1933 and 1948 English political power dominated again, and industrialization in South Africa occurred with less government interference. From 1948 to 1960 was the period of Afrikaner ascendancy (Afrikaners were the descendants of the original Dutch and German settlers). Between 1960 and 1973,

black urbanization became important as a strong social force, and attempts were made to impart further institutional force to apartheid (the nation's official policy of racial segregation) via the homeland policies of President Verwoerd. The sixth period, between 1973 and 1984, was characterized by industrialization and the realization that the racial policy was economically damaging to the country. The seventh period stretches from 1984 to 1994, and can be seen as a period of transition during which economic growth decreased, mainly due to economic **sanctions** placed on South Africa by many nations. The eighth period started when apartheid ended and a democratic election took place in April 1994. The new government elected at this time initiated economic reforms intended to establish South Africa as a dynamic and more internationally competitive economy.

The free elections of 1994 became possible thanks to changes that had been occurring for years, as the government slowly removed many of the barriers to black political and economic participation. A new constitution, approved in 1993, followed by a plea by African National Congress (ANC) president Nelson Mandela (the nation's foremost black political leader) for foreign nations to lift sanctions led to a pledge of US$850 million in economic aid for South Africa by the International Monetary Fund (IMF). International financing sources saw the IMF funding as a signal to international investors that South Africa was a safe place in which to invest. International investment bankers and large Wall Street investment companies began trading with South Africa, thus opening the way to the current economic era.

The development of the South African economy has seen a long-term transfer from production based on agriculture to production based on industries. Once this transition had been made there was a period of sustained accumulation of physical and human capital. Consumers' spending patterns changed from spending on basic items and essential goods to spending on diverse manufactured and luxury items.

The nation's geography and topography have a significant influence on the country's economic development. The fact that South Africa has vast mineral resources is one of the reasons for its economic survival. In many cases, the country possesses large percentages of the world's known reserves of certain minerals, for example 88 percent of platinum group metals, 83 percent of manganese, and 72 percent of chromium reserves.

Since its early history, South Africa was shaped by its location on major global trade routes. In fact the country's oldest city, Cape Town, grew from a catering station for passing ships, established almost 350 years ago by the Dutch East India Company. Given that relationships between South Africa and other African countries have improved, the country's location on the African continent has earned it the title, "Gateway to Africa." South Africa has a rich variety of natural assets, making it an important **eco-tourist** destination. The wide variety of habitats accommodate numerous animal species.

South Africa has vast farmlands and climatic conditions that are ideal for agricultural activities. Even though South Africa has an erratic climate, its relatively large supply of arable land and modern methods employed in commercial agriculture are major reasons why it is largely self-sufficient in food supply.

Despite many good economic indicators in South Africa, though, the crime rate has risen to unacceptable levels. Particularly the high occurrence of violent crimes has led to the widespread belief that the police, judicial system, and correctional services are unable to cope with the problem. Large-scale **black-market** activities further fuel the crime wave in South Africa. Affirmative action, high taxes, and the rising crime rate have contributed to a renewed skills drain as many highly trained workers leave the country, a movement of workers the government needs to stop in order to preserve and develop the tax base. The loss of economically active persons in professional, technical, and managerial positions is particularly discomforting. Moreover, in South Africa, AIDS is a fast growing problem. More than 3.2 million South Africans are infected and living with the disease, with an estimated 1,500 infections taking place everyday. This health crisis is slowing South Africa's economic development because it decreases the number of people who can work.

POLITICS, GOVERNMENT, AND TAXATION

The political system of South Africa was reshaped following the 1994 elections. The African National Congress (ANC), which won the elections, governed under an interim constitution with the Inkatha Freedom Party (IFP) in what was known as the Government of National Unity (GNU). The GNU created a new constitution, which was signed into law by President Nelson Mandela on 3 February 1997. Under the new constitution, the South African Parliament has 2 houses, a National Assembly and a National Council of Provinces. The National Assembly has 400 members who are elected under a system of "list **proportional representation**." Voters cast their ballot for a party, which in turn selects the actual members. The National Council of Provinces has 90 members, 10 each from the 9 provinces. Of the 10 delegates from each province, 6 are permanent and 4 are rotating.

The executive president is selected by the ruling party in the National Assembly. The president then selects a cabinet of 28 ministers who must be approved

by the National Assembly. The judicial system is topped by a constitutional court and a supreme court of appeals, which rule on constitutional and nonconstitutional matters, respectively. The 1997 constitution provides for a bill of rights which protects the basic human rights of all South African citizens. Because of the high crime rate the general feeling in South Africa is that the legal/court system is insufficient. This belief causes economic instability, which discourages foreign investors from investing in the country. Due to low long-term foreign investments, the growth of the South African economy has slowed.

South Africa has many political parties but is dominated by just a few. In the 1999 elections, the African National Congress gained the vast majority of the seats in parliament, with 266. The ANC formed a coalition with the Inkatha Freedom Party, which gained 34 votes. The Democratic Party (DP), with its 38 seats, and the New National Party, with its 28 seats, formed an opposition coalition called the Democratic Alliance. In 1999 the ANC's Thabo Mbeki was elected president.

As the ruling and most powerful party in South Africa, the ANC has had to balance a number of difficult challenges in managing the economy. On the one hand, the ANC wished to honor the alliance it made with the South African Communist Party (SACP) and labor federation COSATO for the purposes of the 1994 election. This alliance would imply that government policies will be characterized by **Marxist** tendencies, favoring the **nationalization** of industry, collective ownership of land, equalization of after-tax income, and direct intervention in the economy. However, the realities of trying to rule over a modern economy while at the same time addressing the problems of decades of racial inequity have pushed the ANC in other directions. The ANC has since dropped its commitment to nationalizing industries and has in fact **privatized** a number of state-owned firms. Reflecting its still growing commitment to a free market economy, the ANC has committed itself to maintaining fiscal discipline, an anti-inflationary **monetary policy**, and a stable **exchange rate**, and the relaxation of exchange controls. The ANC also hopes to lower import **tariffs**, to expand tax incentives, and to privatize some **public sector** assets. Perhaps the more pressing of the jobs before the government, however, are the dual tasks of providing for the nation's many impoverished or economically disadvantaged people and dealing with the growing problem of violence and corruption.

The ANC government supports an open economy and has attempted to enter into a variety of trade agreements to ease international trade. The openness of the economy makes the country highly dependent on events in the outside world. This fact was clearly illustrated by the Asian economic crisis and by the increased price of oil after 1999; both events affected the South African economy negatively.

The government **levies** a variety of taxes, which together amounted to 24.1 percent of the GDP in 2000–01. The largest share (43 percent) of tax revenues come from individuals, who pay a progressive **income tax** that ranges from 18 to 42 percent. Corporate taxes contributed 10 percent of the total. **Indirect taxes**, such as customs and excise **duties**, a **value-added tax**, a fuel levy, and stamp duties and fees, account for 40 percent of revenues. The government has committed itself to lowering the tax burden on individuals in the coming years.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Compared to the rest of Africa, South Africa has a good **infrastructure**, including a highly developed network of some 358,596 kilometers (222,831 miles) of roads (only 17 percent of which are paved, however) and 21,431 kilometers (13,317 miles) of rail track. There are a number of international and national airports; a highly developed system of bulk water supply; a power supply **parastatal**, ESCOM, that supplies

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Namibia	19	144	37	N/A	12	N/A	18.6	11.73	6

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

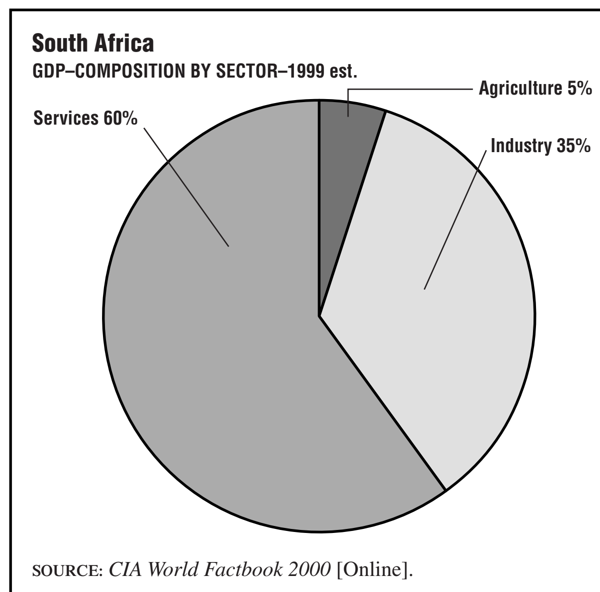
SOURCE: World Bank. *World Development Indicators 2000.*

roughly half of Africa's electricity at rates that are among the cheapest in the world; a telephone utility company, TELKOM, that provides services for about 4 million main telephones and network links for one of the fastest growing cellular telephone industries in the world; and broadcasting services. However, the infrastructure in the areas occupied by the black majority is generally undeveloped or badly maintained. The Spatial Development Initiative (SDI) program provides the **private sector** with unique opportunities to exploit the potential of under-utilized areas by identifying public-private partnerships in bulk and municipal infrastructure projects.

South Africa's modern and extensive transport system plays a very important role in the national economies of several other African states. A number of countries in Southern Africa use the South African transport infrastructure to trade. Private motorcars are an important mode of personal travel. In 1998, there were some 6.55 million registered motor vehicles, of which more than 3.8 million were motorcars. Minibus-taxis provide a vital service to nearly 50 percent of South Africa's commuters. More than 480 taxi associations are operating throughout the country. SPOORNET, the largest railroad operator in Southern Africa, has 3,500 locomotives and 124,000 wagons. There are 30 international airports, where the necessary facilities and services exist to accommodate international flights. About 15 million passengers use these airports every year. SAA, Com Air, Sun Air, SA Express, and SA Air Link operate scheduled international air services within Africa and to Europe, Latin America, and the Middle and Far East.

Telecommunications, the lifeline of modern business and industry, is one of the fastest growing industries in South Africa. With a growth rate of 45 percent prompted largely by the introduction of cellular telephones and the partial privatization of TELKOM, this sector is a vital component in the strategy to modernize and increase international competitiveness.

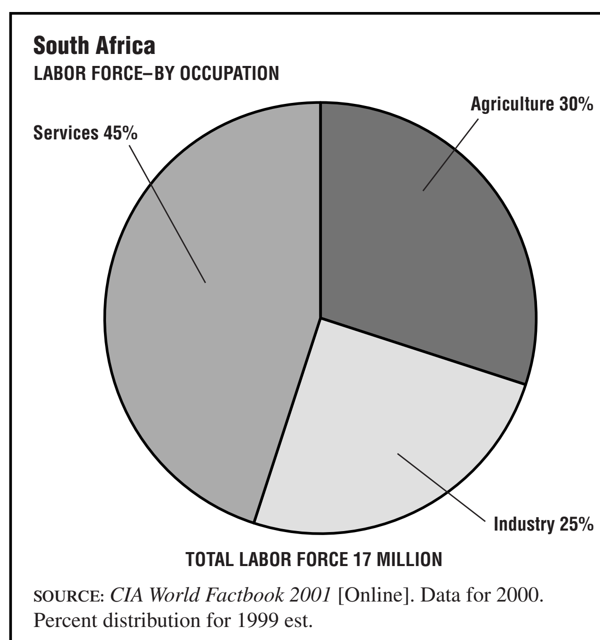
South Africa has approximately 5.3 million installed telephones and 4.3 million installed exchange lines. This figure represents 39 percent of the total lines installed in Africa. By November 1998, more than 1.5 million South Africans were using the Internet with service providers increasing their customer base by 10 percent a month. A 1-channeled television service was introduced on 5 January 1976. Currently, the South African Broadcast Corporation (SABC) offers 3 television channels in 11 languages. It also operates 2 pay-television channels, broadcasting into Africa by satellite. About 14 million adults watch SABC television daily, making South Africa the country with by far the largest television audience on the continent.



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

In the primary sector South Africa's abundant natural resources, especially in the mining and agriculture-based categories, provide noteworthy opportunities for companies to add value prior to export. Export earnings associated with the **value added** to primary products represented 29 percent of total exports in 1995, as compared to 21 percent in 1988, indicating that South African companies are learning to extract more economic value from their natural resources. On average, the contribution of the primary sector to the GDP grew at less than 1 percent per year from 1960 to 1985, and at a negative rate



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1999 est.

after 1980. However, forecast assumptions yield a positive growth rate for the next 10 years. This sector (agriculture, forestry, fishing, mining, and quarrying) contributed 12 percent to the GDP in 1997.

The secondary sector had stronger growth than the primary sector in the period after 1960. However, due to economic adversity during the struggle against apartheid, the average annual growth rate was only 0.5 percent. This sector (manufacturing electricity, gas, water, and construction) contributed 31 percent to GDP in 1997. Although the tertiary sector showed slower growth than the primary and secondary sectors in the entire period since 1960, its growth was higher after 1980, propped up by government spending. It is expected that this sector will grow at an average rate of about 3.0 percent per year to 2005.

The tertiary sector (trade, catering, accommodation, transport, storage, and communications) is expected to grow at roughly the same rate. The lackluster domestic demand should be countered by the rapidly expanding tourist industry. Rising tourism should boost passenger transport, while technological improvements should continue providing impetus to the communications industry.

Financial and business services have been growing at above-average rates and should continue to do so as the traditional and informal sectors become more formalized and make use of these services. Community and social services and general government services are unlikely to show high real growth, due to the expected tight fiscal situation.

AGRICULTURE

In monetary terms, agriculture's share of the economy has long since been outstripped by those of the mining and secondary industries. In 1960, agriculture contributed 11.1 percent of the GDP, down from about 20 percent in the 1930s. By 1999, however, agriculture's share of the GDP had dropped to 5 percent. Despite the farming industry's declining share of the GDP, it remains vital to the economy, development, and stability of the Southern African region. The various sectors of the industry employ approximately 1 million people, or 30 percent of the workforce.

Agriculture in South Africa has changed radically in recent years. Formerly, it was a highly regulated sector with **subsidies** and financial concessions available to farmers. But farming has been **deregulated** since the 1980s, and the agricultural sector is now expected to respond to free market conditions. Farmers seek the most competitive suppliers and purchasers and are increasingly using the South African Futures Exchange to exchange futures contracts and hedge prices for their products.

South Africa has what is known as a dual agricultural economy. On the one hand, there is a well-developed commercial sector; on the other hand, the majority of people engaged in agriculture are involved in subsistence-oriented practices in rural areas. In the predominantly white-controlled commercial sector, applied research and improved farm management have nearly doubled agricultural production during the past 30 years. Currently, South Africa is not only self sufficient in virtually all major agricultural products but in a normal year is also a net food exporter, making it 1 of 6 countries in the world capable of exporting food on a regular basis. Because South Africa's summer harvest season coincides with winter in the Northern Hemisphere, the country is well positioned to supply agricultural goods to a number of wealthy countries in the more developed world.

South Africa has developed 1 of the largest man-made forestry resources in the world. These plantations cover more than 1.4 million hectares with exports accounting for 35 percent of total **turnover** of forestry products. The 2 private pulp and paper manufacturers rank among the largest companies of their kind in the Southern hemisphere.

About 13 percent of South Africa's surface area can be use for crop production. Some 1.3 million hectares are under irrigation. The most important factor limiting agricultural production is the availability of water. Rainfall is distributed unevenly across the country. Almost 50 percent of South Africa's water is used for agricultural purposes.

The largest area of farmland is planted in maize, followed by wheat and, on a lesser scale, sugar cane and sunflowers. About 15,000 farmers produce maize, mainly in the northwest, the northwestern, northern, and eastern Free State, the Mpumalanga Highveld and KwaZulu-Natal midlands. Local consumption of maize amounts to approximately 6.5 million tons, and surplus maize is usually exported. Wheat is produced in the winter rainfall areas of the western Cape and the eastern parts of the Free State. The 1998–99 season yielded 1.5 million tons. Barley is produced mainly on the southern coastal plains of the western Cape, accounting for more than 98 percent of locally produced barley. The 1998–99 season yielded 215,100 tons. Sorghum is cultivated mostly in the drier parts of the summer rainfall areas. Groundnuts are grown in the northern province, Mpumalanga, the northern Free State, and the northwest.

South Africa is the world's tenth largest producer of sunflower seeds with an annual harvest of between 186,300 and 780,000 tons. South Africa is also the world's tenth largest sugar producer. The bulk of the sugar crop is cultivated on the frost-free coastal areas and the KwaZulu-Natal midlands. However, about 10 percent is grown under irrigation in the southern parts of

Mpumalanga. Deciduous fruit trees are grown mainly in the western Cape, as well as in the Langkloof Valley in the eastern Cape. This industry's export earnings represent 21 percent of the country's total earnings from agricultural exports.

South Africa's wine and spirits industry is one of the most developed in the world. About 4,500 grape producers had 103,300 hectares of land under cultivation, making South Africa the 20th largest wine growing area in the world. The average size of the country's harvest is around 900 million liters, ranking it seventh in the world. Exports of South African wine grew from 23 million liters in 1991, to 50 million liters in 1994, and to 100 million liters in 1998. The industry provides income to 3,000 cooperative cellar staff and 45,000 farm workers.

Citrus production is largely limited to the irrigated areas of the northern province, Mpumalanga, the eastern and western Cape and KwaZulu-Natal. Pineapples are grown in the eastern Cape and northern KwaZulu-Natal. Other subtropical crops such as avocados, mangos, bananas, litchis, guavas, pawpaws, grenadillas, and macadamia and pecan nuts are produced mainly in Mpumalanga and the northern province. About 40 percent of the country's potato crop is grown in the higher-lying areas of the Free State and Mpumalanga. About two-thirds of the country's total potato crop is produced under irrigation. In terms of gross income to the grower—apart from potatoes—tomatoes, onions, green mealies, and sweet corn are probably the most important crops.

Cotton, produced mainly in the northern province, constitutes 74 percent of the natural fiber and 42 percent of all fiber processed in South Africa. About 75 percent of local production is harvested by hand. Virginia tobacco is produced mainly in Mpumalanga and the northern province. There are more than 1,000 growers in the country who produce an annual average of 33 million kilograms on about 24,000 hectares of land. The crop represents 173 different grades of Virginia and 5 different grades of Oriental tobacco.

Rooibos tea is an indigenous herbal beverage produced mainly in the Cederberg area of the western Cape. There are some 280 producers, and about 580 tons of tea are exported annually. Ornamental plants are produced throughout the country. They include nursery plants, cut flowers, and potted plants. The industry creates jobs for about 15,000 people. Proteas are the country's top export flowers.

Livestock is farmed in most parts of South Africa, though the numbers vary according to climatic conditions. The 1998 estimates for head of cattle and sheep are 13.8 million and 29.3 million, respectively. South Africa normally produces 85 percent of its meat requirements while 15 percent is imported from Namibia, Botswana, and Swaziland. In 1998, 1.7 million heads of cattle were slaughtered, and the gross value of the red meat industry was estimated to be about R4,954 million. Most sheep are fine-wooled Merinos (50 percent). The Dorper, a highly productive, locally-developed mutton breed for arid regions, and the Merino account for most of South Africa's mutton production. Marketing of wool is free of any intervention. The indigenous meat-producing Boer goat accounts for about 40 percent of all goats, and the angora goat, used for mohair production, for the remaining 60 percent. South Africa has about 3,500 angora farmers. Compared with the extensive cattle and sheep industries, the poultry and pig industries are more intensive and are located on farms near metropolitan areas. The predominant pig breeds are the South African landrace and the large white. South Africa accounts for 80 percent of world sales of ostrich products, including leather, meat, and feathers. In October 1997, Parliament approved legislation to allow the export of breeding ostriches and fertile eggs, which was previously forbidden. Dairy farming also occurs throughout South Africa.

The volume of agricultural production has been erratic in the last decade primarily because of severe droughts. The country is, however, still self-sufficient as far as most primary foods are concerned, with the exception of wheat, oilseeds, rice, tea, and coffee.

INDUSTRY

In 1999, industry provided approximately 30 percent of the GDP and employed 25 percent of the workforce.

MINING. South Africa has a natural competitive advantage in both mining and adding value to mined products thanks to its immense concentrations of reserves of important minerals, its low cost coal-based electricity supply, its excellent infrastructure, developed skills and technology base, and the entrepreneurial abilities of its people. South Africa's mineral wealth is found in its diverse and extensive geological formations. The unique Witwatersrand Basin contains a considerable portion of the world's gold reserves, as well as uranium, silver, pyrite, and osmiridium. It also yields some 98 percent of South Africa's gold output. The Bushveld Complex, a sill-like geological feature occupying about 50,000 square kilometers (19,300 square miles), contains more than half of the world's chrome ore and platinum-group metals (PGMs). It also contains vanadium, iron, titanium, copper, nickel, and fluorspar. South Africa holds the world's largest reserves of ores of manganese (possessing 80 percent of the total world reserves), chromium (68 percent), PGMs (56 percent), vanadium (45 percent), gold (39 percent), and alumino-silicates (37 percent). It is also the leading holder of reserves of ores of vermiculite, andalusite, zirconium, titanium, antimony, fluorspar, and phosphate rock.

As a result of this large reserve base, South Africa is the world's leading producer of PGMs, vanadium, and vermiculite, contributing about 50 percent of the world's total of these commodities. South Africa is also the largest world supplier of alumino-silicates, chrome ore, ferrochromium, and gold, for which its contribution ranges between 20 and 60 percent.

The domestic market for most of these minerals is relatively small, so South Africa's mineral industry is strongly export-oriented. For example, South Africa provides 96 percent of world exports of vermiculite, 76 percent of vanadium, 55 percent of alumino-silicates, 53 percent of ferrochromium, 47 percent of PGMs, 41 percent of chrome ore, and 27 percent of manganese ore and ferro-manganese. For these commodities, as well as for gold, it is also the world's largest exporter. The more notable imports into South Africa in 1997 were diamonds, precious metals, alumina, certain ferro-alloys, nickel, coking coal, phosphate rock, sulphur, magnesite, and magnesia. With some gold mines exceeding a depth of 3,000 meters (10,000 feet), the South African mining industry has become a world leader in developing deep-level mining technology.

In 1997, some 695 mines and quarries employed about 552,000 people, many of whom are workers from neighboring countries, representing about 10.5 percent of all workers in the non-agricultural, formal sectors of the economy. More than R18.1 million was paid out in wages. Over the past 5 years, South Africa's goldmines have been plagued by low productivity, diminishing reserves in some mines, and labor unrest. More than 25,000 workers have lost their jobs through retrenchments in the industry since 1987. On 8 July 1999, the gold price slumped to US$257.20 per ounce, the lowest in 20 years. During 1998, 370 miners were killed, and during 1997–98, 6,064 were injured in mine accidents. Through the Rand Mutual Assurance Company, the mining industry provides care and compensation in the case of accidents. The medical infrastructure of the industry includes group hospitals in all the mining areas, as well as clinics and stations on mines for emergency treatment. The Mine Health and Safety Act of 1996 was put into operation on 15 January 1997 to protect mine workers.

ENERGY. The energy sector is critical to the South African economy, contributing about 15 percent of GDP and employing about 250,000 people. South Africa's energy resource base is dominated by coal. Many of the deposits can be exploited at extremely favorable costs, and as a result, a large coal-mining industry has developed. In fact, South Africa ranks as the world's fifth largest coal producer. In addition to the extensive use of coal in the domestic economy, large amounts are exported. South Africa is the second largest exporter of steam coal. South Africa produces 5,000 to 1 million tons of coal per month. About 55 percent of South African coal-mining is done underground. The coal-mining industry is highly concentrated, with 3 companies, namely Ingwe, Amcoal, and Sasol, accounting for 80 percent of local production.

South Africa has 1 nuclear power station in operation. The Eskom nuclear power station, Koeberg, is located in the western Cape and operates 2 reactors with a capacity of 1,840 megawatts. Nuclear power contributed 6.87 percent of the country's electricity supply in 1999; the remainder was supplied by fossil fuels, both coal and petroleum.

South Africa consumed some 21 billion liters of liquid fuels in 1998. About 36 percent of the demand is met by synthetic fuels (synfuels) produced locally, largely from coal and a small amount from natural gas. The rest is met by products refined locally from imported crude oil. Sasol is the largest petrochemical corporation in the country. Apart from limited gas and oil reserves in the Mossel Bay area, the country does not have significant commercially exploitable gas or crude oil reserves. In addition to coal gas and liquid petroleum gas, South Africa produces about 1,237,000 tons of gas and 250,000 tons of condensate liquid fuels.

South Africa, which supplies two-thirds of Africa's electricity, is one of the 4 cheapest electricity producers in the world. About 92 percent of South African electricity is produced from coal, with generation dominated by the utility Eskom. It is the world's fifth largest electricity utility, with an installed generating capacity of about 39,870 MW. All told, South Africa produced 186.903 billion kilowatt hours (kWh) of electricity in 1999.

MANUFACTURING. Exports of manufactured goods experienced growth between 1988 and 1995. The driving forces behind this growth included the introduction of the General Export Incentive Scheme (GEIS) and consecutive phases of the motor industry development scheme; the real depreciation of the Rand; excess manufacturing capacity as a result of **recessionary** conditions forced on the domestic markets after 1985; and the opening up of international markets as sanctions subsided from the early 1990s. The average annual growth rates in the real output of the manufacturing subgroups from 1995 to 2005 are expected to vary between 0.5 percent in the cases of tobacco products and leather products to 7.5 percent in the case of plastic products. Other industries with good growth potential are industrial chemicals, rubber products, and paper.

The basic iron and steel industry is relatively important within South African manufacturing. There are unprecedented opportunities for growth and prosperity in the global steel industry across the globe, the common thread being privatization and free market focus. The already privatized South African steel industry will have

to position itself to compete in the global steel economy and to provide goods for the increasingly segmented market. Possibilities are links with overseas producers and greater specialization, which will bring about greater exports as well as imports of steel products.

SERVICES

TOURISM. In the context of the country's economic and political transformation, tourism has been accepted by the government, business, and labor as one of the key drivers for job growth, wealth creation, and economic empowerment. After years of isolation, South Africa has emerged as a highly attractive tourist destination.

There are some major strengths operating in South Africa's favor which can facilitate further growth in tourism. Among the top tourist attractions are Victoria and Alfred Waterfront in Cape Town, Cape Point, Table Mountain, the wine region in the western Cape, and numerous other attractions. South Africa attracts more tourists than any other country in Africa. The country's scenic beauty and wildlife remain the biggest attractions for international tourists. Tourism is the fourth biggest industry in South Africa, supporting some 1,200 hotels, 2,000 guesthouses, and 8,000 restaurants. Between January and August 1998, there were 871,414 foreign visitors to South Africa. During 1998, economic conditions, in particular the devalued rand, made South Africa one of the cheapest places in the world to visit.

According to a report released in September 1998 on the direct and indirect effect of tourism on South Africa's economy, the tourism industry provided jobs to more than 737,600 people. It was estimated that the number could increase to 1.25 million by the year 2010.

The fastest growing segment of tourism in South Africa is ecological tourism (eco-tourism), which includes nature photography, bird-watching, botanical studies, snorkeling, hiking, and mountain climbing. Village tourism is becoming increasingly popular, with tourists wanting to experience South Africa in the many rural villages across the country.

With tourism currently contributing approximately 5 percent of GDP against an international norm of between 8 and 9 percent, the potential for significant growth in international tourism and its contribution to GDP is immense.

FINANCIAL SERVICES. South Africa has a well-developed financial system. Legislation governing the financial sector has been streamlined to meet international norms and provides for the introduction of major foreign financial institutions into the local market. The banking industry in South Africa currently has 55 banks, including 12 branches of foreign banks, and 4 mutual banks are registered with the Office of the Registrar of Banks. Furthermore, 60 foreign banks have authorized representative offices in South Africa. Several major groups dominate the South African banking sector: ABSA Group Limited, Standard Bank Investment Corporation Limited, First National Bank Holdings Limited, and Nedcor Limited. These groups maintain extensive branch networks across all 9 provinces and together hold 70 percent of the total assets of the banking sector.

The major banks offer a wide range of services to both individual and corporate customers. A single relationship banking, with its emphasis on universal banking, instead of isolated services, has gained importance. Nevertheless, several banks specialize in providing merchant banking services, securities underwriting, or services in other niche areas.

On 31 December 1998, the 55 registered banking institutions collectively employed 123,272 workers. Their offices (including both branches and agencies) totaled 3,251, that is, approximately 1 office for every 13,000 inhabitants. If the 2,442 post offices through which the Postbank offers its services are included, banking services are provided at some 5,693 offices throughout the country, or 1 location for every 7,500 inhabitants.

Several new banks have been registered, and competition has intensified, both among banks and between banks and other financial service providers. As a result, the assets held in the banking sector have expanded rapidly, from R39 billion in 1980 to R654 billion in December 1998.

The Johannesburg Stock Exchange (JSE), formed in 1887 and a member of the Federation of International Stock Exchanges since 1963, is the tenth largest stock exchange in the world by **market capitalization**. The South African Futures Exchange (SAFEX), established in 1990, trades in **equity** futures contracts, options on equity futures, and a variety of other futures contracts.

The growing momentum in the field of public-private partnerships in project financing and the emergence of powerful black economic empowerment groups continue to drive innovation and efficiency in this sector.

Including the contributions of other services, the services industry provided 65 percent of the GDP in 1999 and employed 45 percent of the workforce.

INTERNATIONAL TRADE

South Africa's trade and industrial policy is moving away from a highly protected, inward looking economy towards an internationally competitive economy, capitalizing on its competitive and comparative advantages. For years, South Africa's ability to trade with the outside world was severely limited by the sanctions placed on

Trade (expressed in billions of US$): South Africa

	Exports	Imports
1975	8.719	8.226
1980	25.525	19.598
1985	16.293	11.319
1990	23.549	18.399
1995	27.860	30.555
1998	26.322	29.268

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

the country by most developed countries as a punishment for South Africa's commitment to apartheid. With the end of apartheid in the early 1990s, international trade has expanded dramatically so that in 2000 international trade constituted 16 percent of the GDP.

South Africa's economy is still largely reliant on the export of primary and intermediate commodities to industrialized countries. However, manufactured goods account for about 70 percent of exports to Africa. Net gold exports are responsible for a large part of foreign exchange earnings. Earnings from this source, however, fluctuate with the shifting international gold price. Imports mainly consist of **capital goods**, raw materials, semi-manufactured goods (approximately 76 percent of total trade imports), and consumer commodities.

South Africa maintains formal trade relations with various countries by means of treaties, trade agreements, and membership in international trade institutions. The centerpiece of South Africa's foreign economic policy is the Southern African Development Community (SADC), comprising Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia, and Zimbabwe. The government's key policy objective is to strengthen trade and investment linkages between South Africa and the other SADC countries.

Trade with SADC countries increased dramatically during the period 1988 to 1997. At present, the ratio of South Africa's exports to imports to SADC countries stands at 6:1. Exports to the region are concentrated in high value-added sectors, such as minerals and base metals, chemicals, machinery, transport equipment, and food and beverages. The most important SADC purchaser of South African exports is Zimbabwe, followed by Mozambique, Zambia, Mauritius, Malawi, Angola, and Tanzania. Zimbabwe is also the largest source of imports, followed by Malawi, Angola, Zambia and Mozambique. The member states of the SADC are negotiating a Free Trade Agreement (FTA) to strengthen trade, investment, and industrial linkages within the region.

Europe is the biggest source of trade for South Africa. In fact, 7 out of 10 of South Africa's top trading partners are European countries. Britain is South Africa's largest single trading partner. British exports to South Africa were worth R14 billion in 1998 while South African exports to Britain totaled R22 billion. Trade between Germany and Africa rose in 1997: German exports to South Africa were valued at DM5.9 billion in 1997, while German imports from South Africa were up almost 16 percent to R9 billion in 1998. There has been a steady increase in bilateral trade between France and South Africa, and at the end of 1998, France was the fifth largest supplier of goods to South Africa. South African exports to France totaled more than R2 billion. Bilateral trade between South Africa and Switzerland is worth R6.384 billion a year. Almost 400 Swiss companies are represented in South Africa. Italy is one of the top 5 major trading partners of South Africa, with the 2-way trading relations amounting to R8 billion in 1997. In March 1999, South Africa concluded an historic trade agreement with the European Union (EU) that will result in the abolition of tariffs on more than 90 percent of trade between the 15 EU countries and South Africa within 12 years.

The United States is another of South Africa's largest trading partners. South Africa is a beneficiary of the U.S. Generalized System of Preferences (GSP), which grants duty-free treatment for more than 4,650 products. South Africa's exports to the United States increased from R5.2 billion in 1993 to R14.8 billion in 1998. South Africa also has important trading relations with Japan, South Korea, and countries in South America.

In 2000 South Africa enjoyed a **trade surplus** of US$3.2 billion on exports of US$30.8 billion and imports of US$27.6 billion.

MONEY

The South African rand was a very strong currency until the early 1980s. Due to political unrest the rand declined slowly but was controlled artificially by the government. After the first democratic elections in April

Exchange rates: South Africa

rand (R) per US$1	
Mar 2001	7.60
2000	6.93983
1999	6.10948
1998	5.52828
1997	4.60796
1996	4.29935

SOURCE: CIA *World Factbook 2001* [ONLINE].

1994, the value of the rand dropped dramatically. In 1996 the South African rand was valued at R4.30 per U.S. dollar, but by May 2001 the rand was valued at R7.90 per U.S. dollar. The very weak rand causes imports to South Africa to be very expensive and almost unaffordable. However, the devalued rand does make it far easier to export South African products, which seem a bargain to foreign buyers.

The South African financial sector is very modern and can be compared with the best banking systems in the world. The central bank in South Africa is the South African Reserve Bank. The South African Reserve Bank is responsible for monetary policy, and for ensuring that the South African money and banking system is sound, meets the requirements of the community, and keeps abreast of developments in international finance.

South Africa has one of the oldest stock exchanges in the world. The Johannesburg Stock Exchange (JSE) was established on 8 November 1887. The JSE provides a market where securities can be freely traded under a regulated procedure. It not only channels funds into the economy but also provides investors with returns on investments in the form of dividends. All buying and selling of stocks on the JSE is done via computer.

POVERTY AND WEALTH

Due to South Africa's history of apartheid, a period when blacks were oppressed both politically and economically, the country's poverty and wealth profile is highly skewed to favor the white population. According to a study conducted in 1995, whites in South Africa, with per capita income of US$32,076, made 11.8 times more per capita than blacks (who had a per capita income of US$2,717), 5.1 times more than people of mixed-race (with an income of US$6,278), and 2.5 times more than Asians (with an income of US$12,963). In fact, South Africa has one of the most unequal distributions of wealth and income in the world. Recent research indicates that 40 percent of the households with the lowest income in South Africa earn less than 6 percent of total income, while the 10 percent with the highest income earn more than half the total income. The average income of the top-earning 20 percent of the households is 45 times that of the bottom earning 20 percent.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
South Africa	4,574	4,620	4,229	4,113	3,918
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Namibia	N/A	2,384	2,034	1,948	2,133

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: South Africa

Lowest 10%	1.1
Lowest 20%	2.9
Second 20%	5.5
Third 20%	9.2
Fourth 20%	17.7
Highest 20%	64.8
Highest 10%	45.9

Survey year: 1993–94

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

The general population has high expectations of improvement in their quality of life, particularly concerning housing, education, healthcare, jobs and income. These expectations are the result of election promises by the ANC alliance, formalized in the so-called Reconstruction and Development Program (RDP). The RDP came into being as an ANC election document in the run-up to the 1994 election, and reflected the party's then dominant commitment to state intervention in the economy. According to the U.S. Department of State's *Background Notes: South Africa,* "The RDP was designed to create programs to improve the standard of living for the majority of the population by providing housing—a planned 1 million new homes in 5 years—basic services, education, and health care."

In 1996, as the government shifted to embrace free-market economic practices, it announced new plans to deal with poverty under a market-driven plan called *Growth, Employment and Redistribution: A Macroeconomic Strategy.* This plan took the a more market-based approach to economic improvement, using fiscal and trade policy to create jobs and lending less direct government aid to the impoverished.

WORKING CONDITIONS

South Africa has 17 million economically active people but a high unemployment rate of 30 percent in 2000. The unemployment problem is mainly related to structural factors, such as the high rate of population growth and the existence of large sectors of the economy that are poorly developed. The new government has pledged to reduce inequality in the job market by means of affirmative action in favor of non-whites, the disabled, and women. It has begun with a vigorous program of affirmative action in the public sector. A strong influx of

illegal aliens from neighboring countries, particularly since 1990, has added to the rapid growth rate of the domestic population and the high unemployment rate. According to news reports, the ranks of squatters and criminals have been swelled by illegal aliens.

Affirmative action policies, high tax rates, and the rising crime rate have all helped to drive more highly skilled workers out of the country. The net loss of economically active persons in professional, technical, and managerial positions is very disturbing. Exact figures are difficult to determine, however, because many South Africans leave the country permanently without stating it clearly.

Both governments elected since 1994 have taken steps to secure and protect the rights of workers, especially black workers, in the South African economy. Among the rights listed in the Bill of Rights in the 1996 constitution were provisions guaranteeing workers the right to fair labor practices, the right to collective bargaining, the right to strike, and other labor friendly practices. Since that time, the government has created a number of laws friendly to workers, including a Labor Relations Act (which sets parameters for workplace bargaining and entrenches the right to strike); the Basic Conditions of Employment Act (which prescribes the maximum number of hours in a work week, leave, and overtime pay provisions, etc.); the Employment Equity Act (which sets out to eliminate discrimination in the workplace on the basis of gender, race, or disability); and the Skills Development Act (which aims to improve the general skills level throughout industry).

According to the U.S. Department of State *Country Commercial Guide for FY2000: South Africa,* "In 1997 there were 3.4 million union members in South Africa, or nearly 35 percent of the economically active population" (with the latter using a lower figure of 9.8 million workers used by the International Labor Organization). "The largest labor federation, the 1.8 million-strong Congress of South African Trade Unions (COSATU), is in a formal alliance with the African National Congress (ANC) and the South African Communist Party (SACP)." Many union leaders play a prominent role in government, contributing to the generally labor friendly reputation of the government. Unions have used strike threats to persuade employers to pay higher wages, and unions are particularly strong in the mining and industrial sectors. However, the recent tendency of the government to favor free market solutions to economic problems has led to tensions with organized labor.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1652. The first Dutch settlement is established on the Cape of Good Hope by the Dutch East India Company. In the coming decades, French Huguenots, the Dutch, and Germans establish settlements along the coast. Eventually, they go to war with indigenous peoples to establish their claims to the land.

1795–1803. First British occupation of the Cape, leading to tensions between the British and the Afrikaners, the name for the original European settlers in the area.

1806. Second British occupation of the Cape occurs.

1814. Holland cedes the Cape to Britain.

1836. Afrikaner farmers, known as Boers, undertake a "Great Trek" to establish settlements in the South African interior. They battle the native Zulus for control of the area. The Zulus retain control of some parts of the interior until 1879.

1847–49. British immigrants arrive in Natal, and soon sugar is grown in the area.

1852–54. The independent Boer Republics of Transvaal and Orange Free State are created, straining relations with the ruling British.

1869. Diamonds are discovered near Kimberley.

1880–81. The first Anglo-Boer War is fought between British troops and Afrikaner settlers (Boers).

1886. Gold is discovered in the Witwatersrand region of the Transvaal.

1887. Johannesburg Stock Exchange (JSE) is established

1899–1902. The second Anglo-Boer War breaks out, with the British gaining control of the Boer republics.

1910. The 2 republics and British colonies become the Union of South Africa, a self-governing dominion of the British Empire with Louis Botha as prime minister.

1912. Native blacks establish the South African Native National Congress (SANNC), which later becomes the African National Congress (ANC), to protest the creation of laws and practices based on color.

1927. Compulsory segregation is announced.

1930. White women get to vote.

1948. The victory of the National Party (NP) in all-white elections leads to the creation of a strict policy of white domination and racial separation known as "apartheid."

1950–52. Passage of strict racial laws.

1960s. Following protests in the town of Sharpeville that leave 69 black protestors dead and hundreds injured, the ANC and the Pan-African Congress (PAC) are banned and ANC leader Nelson Mandela is imprisoned in 1962 on charges of treason. From this time on-

ward the ANC functions as an illegal but powerful opposition force for black rights in South Africa.

1961. The nation leaves the British Commonwealth and becomes the independent Republic of South Africa.

1984. Revisions to the constitution give colored and Asian people a limited role in the national government, but power remains in white hands.

1990. Following years of mounting black protest and increasing sanctions against South Africa because of apartheid, President F.W. De Klerk announces the unconditional release of Nelson Mandela from prison and the legalization of the ANC, PAC, and other anti-apartheid groups.

1991. The so-called "pillars of apartheid"—the Group Areas Act, Land Acts, and Population Registration Act—are officially rescinded.

1994. First democratic elections take place in April under a new constitution. The ANC wins a majority in the legislature and elects Nelson Mandela as president.

1996. National Party pulls out of the Government of National Unity (GNU). First official census occurs in post-apartheid South Africa.

1999. In the country's second democratic elections the ANC increases its majority in the legislature and selects Thabo Mbeki as president.

FUTURE TRENDS

South Africa's GDP is expected to grow at a modest rate of 3.0 percent a year in the decade from 1996 to 2005, well higher than the 1.7 percent annual growth registered in the years of economic adversity from 1975 to 1995. However, economic problems inherited from that period and the challenges of the political transformation will prevent the growth rate from reaching levels associated with more vigorous growth.

South Africa should enjoy a high level of **foreign direct investment** in the coming years, especially in comparison to the near total lack of such investment during the years when it was an outcast nation due to its apartheid policies. Years of underinvestment in infrastructure and housing among disadvantaged communities, coupled with government social spending targets set in the RDP, are likely to lead to a relatively high average growth rate of 6.5 percent in government expenditures. Even though unemployment is expected to increase, labor unions are likely to persist in demanding wage and salary increases to compensate them for **inflation** in the recent past. Both exports and imports are likely to be stimulated by trade **liberalization**.

Long-term interest rates are expected to remain high because of inflation and continued deficit spending by the government. Monetary discipline and the globalization on the money market will also keep upward pressure on short-term interest rates. The current political transformation makes it very difficult to forecast trends in the financial system, however.

As with any major political and economic transition, problems of adjustment are evident in the incidence of crime and violence in the major metropolitan centers. The concerns of foreign visitors are shared by all South Africans and are addressed by a comprehensive national crime prevention strategy focusing on all components of the criminal justice system. Solutions are also provided by the resurgence of urban renewal and re-development projects in the inner city areas of Johannesburg, Durban, and Cape Town, public works and programs in underdeveloped areas, and community development projects linking the youth to meaningful income generating opportunities.

Against the background of a rapidly transforming national economy, striving to expand and increase its competitive edge in world markets, the South African government has implemented a variety of incentive programs aimed at easing and accelerating the transition to competitive and sustainable manufacturing industries. These programs are geared to provide support for training and education, technology development, competitive prices for manufacturing inputs, and investment in competitive machinery and equipment.

A level of economic liberalization has accompanied South Africa's political transformation and is reinforced by a **restructured** civil society. The new constitution provides a solid foundation for political stability as a key cornerstone to long-term real economic growth.

DEPENDENCIES

South Africa has no territories or colonies.

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—Wilma Viviers, A. Tromp, and L. Campbell

SUDAN

Republic of the Sudan
Jumhuriyat as-Sudan

CAPITAL: Khartoum.

MONETARY UNIT: Sudanese dinar (SDD). One Sudanese dinar equals 100 piastres. There are bills of 10, 25, 50,100 and 1,000SDD.

CHIEF EXPORTS: Cotton, sesame, livestock, groundnuts (peanuts), oil, gum arabic.

CHIEF IMPORTS: Foodstuffs, petroleum products, manufactured goods, machinery and transport equipment, medicines and chemicals, textiles.

GROSS DOMESTIC PRODUCT: US$35.7 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$1.7 billion (f.o.b., 2000 est.). **Imports:** US$1.2 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Sudan is located in North Africa. Sudan borders the following countries: Central African Republic (1,165 kilometers, 724 miles), Chad (1,360 kilometers, 845 miles), Democratic Republic of the Congo (628 kilometers, 390 miles), Egypt (1,273 kilometers, 791 miles), Eritrea (650 kilometers, 404 miles), Ethiopia (1,606 kilometers, 998 miles), Kenya (232 kilometers, 144 miles), Libya (383 kilometers, 238 miles), and Uganda (435 kilometers, 270 miles). Sudan is the largest country on the African continent; its total area is 2,505,810 square kilometers (966,710 square miles), making the country slightly larger than one-quarter the size of the United States. The 853-kilometer (530-mile) long coastline borders the Red Sea and lies between Egypt and Eritrea. The Sudan's capital, Khartoum, is located in the central part of the country, on the Nile river.

POPULATION. The population of Sudan was estimated at 35,079,814 in July 2000 and represents a net growth of 2.84 percent in comparison with 1999. Estimates increased to 36,080,373 by July 2001. The birth rate stood at 37.89 per 1,000 and the death rate at 10.04 death per 1,000 in 2001. In 1975, the total population was estimated at 16 million, in 1998 at 28.3 million, in 2001 at 36.1 million, and in 2015 it should reach 39.8 million.

The Sudanese population is highly diverse, consisting of about 19 different ethnic groups and almost 600 subgroups. Most of the inhabitants are of black African origin (52 percent), 39 percent are Arabs, 6 percent Beja, and 3 percent foreigners and other small national groups. Cultural conflicts between the black Africans, who live mostly in the south, and the Arabics, who live mainly in the north, have been the source of many internal struggles within the country. The official language is Arabic, which is spoken by about 60 percent of the population. An estimated 115 tribal languages are spoken as well, including Nubian, Ta Beawie, Nilotic, and Nilo-Hamitic. English and several Sudanic languages are also spoken.

The population is relatively young: while 45 percent are younger than 14 years old, only about 2 percent are older than 65. A majority of the population (69 percent) lives in the rural regions, while 31 percent live in the urban areas. The average population density is 9.8 per square kilometer (25.4 per square mile). The highest density is in the western and some southern provinces of the country, while the northern part of the country is rarely inhabited.

Population development and assessment is complicated by a continuing civil war and famine. Many people fall victim to the conflict or die as a result of the famine or diseases, and some of them escape to find asylum in Chad or Uganda. The average life expectancy is estimated at 55.85 years for men and 58.08 years for women. The literacy rate is 58 percent for men and 35 percent for women.

OVERVIEW OF ECONOMY

For the past 2 decades, Sudan has suffered from a violent civil war, chronic political instability, devastating

drought, weak world commodity prices, decreases in **remittances** from abroad, and counterproductive economic policies. Agriculture is the largest portion of the economy, accounting for 39 percent of the **gross domestic product** (GDP) and employing nearly 80 percent of the workforce. Other important areas of the **private sector** include trading and the processing of agricultural products. Sluggish economic performance over the past decade, attributable to declining annual rainfall, has kept per capita income at low levels. A large **foreign debt** and huge **arrears** continue to cause economic difficulties.

In 1990, the International Monetary Fund (IMF) took the unusual step of declaring Sudan non-cooperative because of its nonpayment of arrears to the Fund. After Sudan backtracked on promised reforms in 1992–93, the IMF threatened to expel Sudan from the Fund. To avoid expulsion, the Sudanese government agreed to make token payments on its arrears, to **liberalize exchange rates**, and to reduce **subsidies**. By 2000, the government had partially implemented these measures. The government has also tried to develop the oil sector, and, working with foreign partners, the country is now producing approximately 150,000 barrels per day. But the continuing civil war and the country's growing international isolation has inhibited growth in the nonagricultural sectors of the economy.

In addition to civil strife, Sudan has an economy which suffers from the country's geographic location. Sudan belongs to the Sahel belt of Africa along the Sahara Desert, which comprises some of the poorest countries in the world. The dry climate in the central parts of the country makes economic and agricultural performance difficult. The main agricultural activities concentrate, therefore, in Khartoum, Port Sudan, or around the Nile River.

In 1999, the government changed its economic behavior and started implementation of IMF programs, including **privatization** and economic liberalization. It decreased subsidies on some products, which consequently led to a 30 percent increase in the price of chicken and beef and a 20 percent increase in the price of oil and petrol. **Foreign direct investments**, mainly from rich Arab countries, have enabled oil pipelines and extraction accessories construction, producing an estimated oil income for 2000 of US$300 million. The reforms have sparked the economy. The GDP growth was predicted to be 7 percent in 2000.

The privatization program was expected to include some of the largest state-controlled companies, including the state airlines Sudan Air, the state energy giant NEC, the irrigation system Al-Gezira, the sugar factories, and the maritime transport providers. French energy company, Electricité de France, has already expressed its interest in NEC, and 1 consortium (group) from South Korea was pursuing the purchase of the irrigation system. The future regulation of the private sector remains unclear. The legislature has not laid firm regulations for the private sector and some financial experts fear that that may limit the activities of private companies and allow **monopolies** in some sectors. The uncertainty surrounding the legislation for the private sector has stalled foreign investment in the country.

POLITICS, GOVERNMENT, AND TAXATION

Before independence in 1956, Sudan had been a British-Egyptian condominium (under the common governance of both countries). Since independence, Sudan's political situation has been very unstable. Sudan experienced several coups d'etat and conflicts. There is a clear difference between the predominantly Arab and Muslim north side and the predominantly African south, which has a population of mainly Christians and followers of indigenous religions. The cultural differences between the groups has led to an ongoing conflict within the country.

Since independence, the northern population has dominated politics, filling more governmental posts and gaining official authority. Shortly after independence, southerners, upset by the strict Islamic penal code (which included amputations for stealing and public beatings for alcohol possession) that had been added to the country's laws and the deterioration of the economy, began a civil war to gain independence for the south.

The country experienced its first coup d'etat in 1958, another in 1964, and yet another in 1969. The coup of 1969 brought Jaafar al-Nimairi to power and started Sudan's cooperation with the countries of the **Communist** block. Nimairi shaped Sudan's government around the idea of National **Socialism** and patterned his administration after his idol Abd al-Nasser in Egypt. Nimairi established the Arab Socialist Union and included the Communist Party in a government coalition. He also gave a great deal of autonomy to the south. In 1971, Communists tried to overtake the government, but Nimairi remained in power with help of the army.

Until this conflict, all the revolutions and coups d'etat in Sudan were bloodless. This one changed the course. Nimairi had the Communist leaders executed. He also turned away from the Communist block and sought better cooperation with the rich oil-producing countries of the Persian Gulf, mainly Saudi Arabia. Under Nimairi, Sudan actively tried to attract more foreign direct investment (FDI) and studied which areas of the economy should be targeted. Agricultural production, especially grains, topped the list for FDI; some even expected that Sudan could become the main grain supplier for all Arab countries. Sudan's first oil deposits were also found, which led to conflicts with the south over the proposed oil revenues distribution.

But economic growth did not come to Sudan; by the 1980s, the economy had deteriorated and the living standards of the vast majority of the population plunged to very low levels. In addition, in 1983 Nimairi again changed his ruling policy, this time to a radical Islamism and Islamic fundamentalism. He tried to implement the Islamic legislative system "Sharia in praxis," which included such extreme punishments as cutting off a hand for theft or stoning to death for fornication. He also canceled autonomy for the south.

Civil war erupted, displacing nearly 2 million people. The war practically split the country in 2. The larger northern part of Sudan remained under the official control of the Muslim pro-governmental army. The south was controlled by the Sudan People's Liberation Army led by John Garang. But the division was unstable, and by 1985, another coup removed Nimairi's regime from power. The new government was led by Sadiq al-Mahdi, an Oxford University graduate and an intellectual. Al-Mahdi sought normalization of the political situation and revitalization of the economy. However, he did not succeed in finding compromise with the rebelling south, and another coup overthrew his administration in 1989.

The 1989 coup installed a one-party system led by the National Islamic Front (NIF). Umar al-Bashir became

the official head of the state and prime minister. Hasan al-Turabi became the second most important political figure since 1989 as the leader of the NIF and the spiritual Islamic leader of the country. The new regime was marked by a hard dictatorship, prohibition of any political activities that would not be in accordance with official propaganda, suppression of any opposition, and support for international terrorism.

The only country that continues to have good relations with Sudan is Iran, its main financial supporter. Sudan has served as a vanguard and loyal agent of Iranian interests in the region. Through Sudan, many extremist Islamic and fundamentalist movements were supported in neighboring Egypt, Ethiopia, Uganda, and other countries. Therefore, the relations with those countries deteriorated, and Sudan remained totally isolated. The country once granted asylum to the international terrorist leader Osama bin Laden. The extremist Islamic and fundamentalist leadership of the country forced the population to follow its religious instructions and introduced hard Islamic laws which led to uprisings among other religious groups and sharpened the fights for independence in the south. Sudanese leaders introduced more violence to the country when they blamed neighboring countries (Egypt, Ethiopia, Eritrea, and Uganda) for giving support to the Sudan People's Liberation Army, which led to border conflicts with those countries.

By the 1990s, Sudan was so isolated that its economic situation became unsustainable. In addition, some changes in the Iranian political scene occurred that led to policy changes towards Sudan. The new Iranian government did not want to be connected with Sudan's support for international terrorism and pressed the Sudanese government to change its political course. In 1996, the terrorist Osama bin Laden was expelled from Sudan. Negotiations with the opposition leaders, including former country leaders Sadiq al-Mahdi and Jaafar al-Nimairi, started. However, the political change was not sufficient. In 1997, the United States imposed economic **sanctions** that forbid U.S. companies from investing in Sudan.

In 1998, the NIF was reorganized as the National Congress (NC) and the country adopted a new constitution and legislature allowing political activities and official registration of other parties. This new legislature came into force in 1999 and other political parties were formed at that time, including the National Democratic Alliance (NDA; the Alliance consists of the Umma Party and Democratic Unionist Party), Sudan People's Liberation Movement (SPLM), Sudan People's Liberation Army (SPLA), Muslim Brothers, People's Social Party, and the Liberation Party.

This change in the policy brought about conflict between the president Umar al-Bashir and the religious leader and chairman of the parliament, Hasan al-Turabi. In December 1999, Umar al-Bashir dismissed the parliament and declared a state of emergency. Al-Turabi summoned protest demonstrations, but with little success. Al-Turabi was excluded from the official policy and formed his own opposition group called the Popular National Congress.

In December 2000, there were presidential and parliamentary elections. Umar al-Bashir gained 86 percent of the votes and the ruling National Congress of President Umar al-Bashir won 97 percent of the seats. Nevertheless, most of the opposition representatives, including al-Turabi, boycotted the elections, saying the elections were manipulated and rigged. The political situation is, in spite of Bashir's victory, still not clear or stable. Negotiations with the south, for example, have not been fruitful.

Until the recent time, the government had a dominant role in the country's economy. All key sectors were totally controlled by the state authorities, with the exception of some small activities and agriculture. The taxation policy of the government was always very unstable and obscure. The state budget has been in permanent deficit. Financial experts, however, expect this to change now that the government has started a privatization and liberalization process.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The **infrastructure** is at a relatively low level because of the bad economic situation and internal conflicts. Some parts of the country (mainly in the south) are cut off from the modern world, leaving some villages totally isolated. The total railways length is 5,500 kilometers (3,418 miles). However, because of the conflict in the south and long time neglect, the quality of the rail tracks is very poor. Therefore, only about one-fifth of its length could be used. Narrow single track railways from the beginning of this century are prevailing. The main railway leads from Wadi Halfa through Khartoum to El Obeid, from Khartoum to Port Sudan and from El Obeid to Nyala in the southern part of the country. In 1997, new railways were finished connecting Muglad and Abu Jabra. All railways are managed by the state-run Sudan Railways Corporation.

There are 50,000 kilometers (31,070 miles) of roads in Sudan, but the quality is commonly very poor. Many of the roads are located in the desert and are not passable during the rainy seasons. Only the road connecting Khartoum and Port Sudan is covered by asphalt. Bus connections are between these 2 cities and Kassala. Gravel roads connect Khartoum with Port Sudan, Atbara, Dongola, and Gedarif. The connections are commonly very bad and transport facilities very old. The Iranian gov-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Sudan	27	271	87	0.0	0	0.6	1.9	0.00	5
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Egypt	40	324	122	N/A	1	0.5	9.1	0.28	200
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

ernment is financing the construction of connections between Rabak and Juba. Taxi services are available in big cities, but donkeys and camels are often used in villages. To improve the infrastructure, the government opened road construction to the private sector in 1998. According to contracts with Saudi Arabia, 250 kilometers (155 miles) of new roads between Khartoum and Port Sudan should be finished in 20 years. Another project, which should bring 126 kilometers (78 miles) of roads between Khartoum and Wad Medani in 20 years, involves the cooperation of the United Arab Emirates.

Besides roads and railways, water is also an important transport route in Sudan. The Nile River is the main source of some 5,310 kilometers (3,300 miles) of water transportation routes. There are some ports, including Khartoum, along the Nile and others, including Port Sudan and Sawakin, along the Red Sea. The main sea port is Port Sudan. The country has 4 merchant marine ships.

Sudan Airways owns 2 Boeing 707s, 2 Boeing 737–200s, 4 Fokkers, and 3 Airbus planes. Major airports are in Khartoum and Port Sudan, and there are some minor airports throughout the country. Of the country's 61 airports, 12 have paved runways. There is 1 heliport.

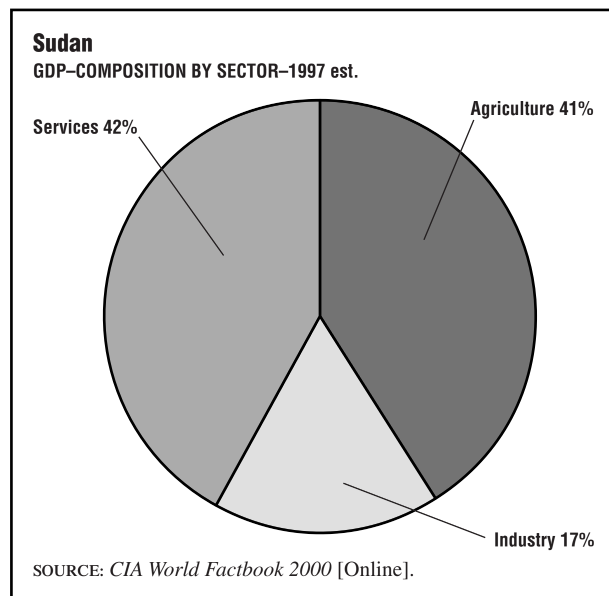
Sudan has not established a comprehensive power supply for the country. Khartoum uses 87 percent of the country's energy. The country's own energy producing power is not sufficient and is complicated by the conflict in the south. Sometimes, the opposition groups have stopped the power stations providing Khartoum with energy and have endangered the city. Hydroelectric power stations in Roseires, Sennar, and Khaslun Al Gibra provide 250 megawatts (MW), 15MW and 12MW of electric energy. The capacity changes during the year. Dips in power supply are caused by river pollution from heavy materials and mud in the raining seasons that requires turbines to be repaired. When the hydroelectric plants slow their production for repairs, heating plants located around Khartoum supply energy, but their total capacity is only 150MW. The government plans construction of 2 new hydroelectric power stations. The Merowe project located 300 kilometers (186 miles) north of Khartoum should have 10 generators, each of them producing 110MW. The Kajbar project should supply 80MW. In addition, a heating plant that will produce 200MW is planned to be built near Khartoum. Negotiations regarding possible non-traditional power station construction are being held with some German companies. Such power stations could use solar or wind energy.

The telephone system in Sudan is well equipped by regional standards, but barely adequate and poorly maintained by modern standards. There were about 75,000 fixed telephone lines in use (serving 6,000 inhabitants) in the 1990s, but the *World Factbook* estimated that there were 400,000 by 2000. About 40 percent of the fixed lines are in Khartoum. Cellular communications started in 1996, and there were about 3,000 mobile phones by the end of the 1990s and nearly 20,000 by 2000. In 1997, an agreement between the Sudanese government and French company Alcatel for telephone net modernization was signed. A Sudan-South Korean consortium (including Sudatel and Daewoo companies) is constructing mobile phone facilities for Khartoum, Omdurman, and Wad Medani. The target is to gain 1.5 million users by 2003.

Other means of communication include radio, television, and computers. There are 7.55 million radios in use and 2.38 million televisions (141 per 1,000 people). There were 12 AM stations, 1 FM, 1 shortwave, and 3 television stations in 1997. There was only 1 Internet service provider by 2000, and only 2 of every 1,000 inhabitants owned a personal computer.

ECONOMIC SECTORS

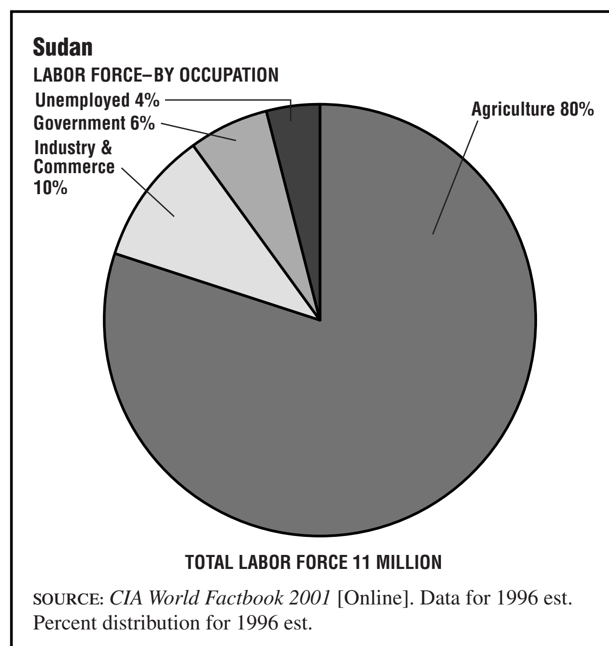
Sudan belongs to a group of the poorest and least developed countries in the world. Its economy is very sluggish and underdeveloped. Sudan's civil war and political instability have caused havoc on the country's



SOURCE: *CIA World Factbook 2000* [Online].

economic sectors. There are labor shortages for almost all the categories of skilled employment. The most recent **labor force** estimation is from 1996 and measured the workforce at 11 million. Of that 11 million, 4 percent (or 440,000) were officially registered as unemployed. Some estimate that the real unemployment rate is nearly 30 percent, however. Most of the population survives on **subsistence agriculture**. Industry is limited to some textile and foodstuffs manufacturing facilities, which operate at very low standards.

Since the late 1990s, the government has been trying to improve the economic prospects of the country. If it succeeds in breaking international isolation, mitigating the inner conflict, and attracting more investment, the country could experience significant growth. There were plans for developing the petrochemical and chemical industry, improving textile manufacturing, and attracting tourism. But by 2001, little progress had been made.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1996 est. Percent distribution for 1996 est.

AGRICULTURE

The agricultural sector is the most important economic sector in the country. It created 39 percent of the GDP, employed about 80 percent of population, and contributed 80 percent of the country's exports in the late 1990s. Cotton is the main agriculture export item, although its export volumes have been decreasing recently. The lack of any marketing or developed market policy is evident. The government has suggested the end of export taxes in order to promote more agriculture products in the future. Other agricultural products include sesame seeds, sorghum, and gum arabic.

Sudan's climatic conditions, mainly the rainy seasons, enable double annual harvests (in July and November) in the southern parts of the country. Most of the agricultural activities are concentrated near the Nile River. The Al Gezira irrigation system that is located between the White and the Blue Nile Rivers (both rivers merge to form the Nile River) is the most important agriculture project and, according to some statistics, is also the largest artificially irrigated region in the world. As the irrigation system has been put in place, sorghum, wheat, and groundnuts have been planted instead of cotton in an effort to make Sudan self-sufficient in foodstuffs.

Animal husbandry represents a very important part of the national economy, as well. Its production increased during recent years as a result of better veterinary treatment, better credit policy, and higher prices in the market.

Fishing is another important sector of the national economy. The average yearly production averages around 33,000 tons, from which sea fish represent about 1,500 tons. Perch is the most important fresh-water fish, which is caught mostly in the Nile River.

INDUSTRY

Sudanese industry accounted for an estimated 17 percent of GDP in 1998. The small size of the country's industrial sector is a result of chronic problems, including lack of skilled labor force, raw materials, and investments. These problems are most apparent in the textile and foodstuff industries, as well as in the production of sugar. If these problems were resolved, Sudan could dramatically reduce its reliance on imports.

About 80 percent of the industrial sector is privately-owned. The main industries are: tannery and leather pro-

duction, weaving mills, spinning mills, gum arabic production, paper mills, minerals, ores, and raw materials extraction. The tannery industry creates 6 percent of the country's exports. It contains production of raw furs for export and local market, furs for the footwear industry, belts production, and artificial leathers. There are 7 big tanneries and 290 traditional manufacturers in Sudan. The furs and leathers are manufactured in 72 factories, and the yearly production of shoes amounts to 12 million pairs.

The textile industry is the oldest one in the country. Weaving and spinning mills are supported by the government that has spread the motto, "Let's wear what we produce ourselves." There is a large gap between production and consumption, however. Production amounts to 2,000 tons of combed cotton yarn: 235 million meters of textile fabrics, 5 million pieces of clothing, 1 million cover blankets, and 400 tons of cotton bandages yearly. By the end of the 1990s, plans were in place to increase investment incentives that would boost production capacities, to invest in new technologies, and to build spare parts factories. In 1999, an agreement with a Chinese consortium was signed that could lead to a new cooperation in textile factories reconstruction.

Sudan is the biggest producer of arabic gum that is extracted from the resin of Senegalese acacia trees. Its production covers 80 percent of the world consumption. The gum is used in foodstuffs, the chemical industry, cosmetics, pharmaceuticals, and lithography.

Sudan has 2 paper mills producing 2 tons of paper every year. Because Sudan has access to all the materials necessary for production (wood, papyrus, and other raw materials) and a cheap labor force, it is expected that investments in this sector will grow in the future.

Foodstuffs production include sugar, beef, poultry, fish, and others. Sugar production is very important to Sudan. Sudan is the third largest producer of sugar in Africa, after South Africa and Egypt. The yearly production is estimated at 450,000 tons in the late 1990s, up from 100,000 tons in 1980. The government plans enlargement of crop fields near the Nile River. The biggest country producer is White Nile Sugar Co. The Kenana Sugar Company is an excellent example of how the government wants **joint ventures** and investments to spur growth in the industrial sector. The growth of the Kenana Sugar Company prompted the government to open its state-owned Sudanese Sugar Company to private investment at the beginning of the millennium.

There are large deposits of copper, gold, chrome, iron ore, lead, wolfram, zinc, uranium, diamonds, marble, talc and plaster. The gold production is estimated at 6 tons yearly and is realized by 2 joint ventures: first, Sudan-Chinese and, second, Sudan-French. Total gold deposits are expected to contain 37 tons. Copper extraction is to be set in the future in cooperation with the British Western Cordofan.

Oil deposits were found in the 1960s and 1970s and Sudan started its extraction in the 1980s. Most of the oil deposits are located in the southern part of the country. Disputes over how the oil revenues would be used fueled the civil conflict and made construction of extraction facilities and a pipeline difficult. Many times, opposition groups have blasted some of the pipelines and cut production.

Oil extraction and export in Sudan has benefitted from cooperation with foreign companies. Foreign oil consortiums from China, Malaysia, Canada, Qatar, and Austria are operating in the country. (The United States has imposed sanctions against the country so large U.S. oil companies have withdrawn from Sudan.) A pipeline from the oilfields in the south to Port Sudan along the Red Sea was completed in 1998, and the country exported its first oil in 1999. The yearly oil production is expected to reach 1 million barrels in 2005. This result, however, depends also on the political climate and evasion from attacks. Besides this there are still some unchecked fields where new deposits are expected. Oil refineries are already established in Port Sudan, El Obeid, and Abu Gabra.

A petrochemical factory is being built 30 kilometers (19 miles) south of Khartoum in cooperation with China. Its yearly production should be 2.5 million tons. Gas deposits were detected in the Red Sea shelves, where 7 sources are being drilled.

SERVICES

The service sector's contribution to the GDP suffered in the early and mid-1990s but appeared to be improving by the end of the decade. In 1996, services accounted for 40.6 percent of the GDP, but services in 1999 accounted for only 34.4 percent. By 1998, services had increased to 44 percent of the GDP, according to the *World Factbook.* Services include commerce and commerce services, restaurants and hotels, finance and insurance, transport and communications, and government offices.

TOURISM. Revenues from tourism could play a more important role in the future, but their contribution to the state budget is now very poor because of the low quality and standards. To increase revenues, the government, in coordination with the International Monetary Fund, has privatized many accommodations and tourist facilities. The government plans to enlarge usage of the Red Sea for special tourism activities, including wind surfing and diving possibilities. There are plans for the construction of new hotels, restaurants, and camps as well as tourist agencies. The Nile River could also be used for water sports.

The country has a total hotel capacity of 17,990 beds. The total number of hotels is 45, with another 48 in construction. There are 3 tourist resorts, 8 youth hostels, and 2 tourist camps. There are 3 five-star hotels in Khartoum (the Hilton, Grand Holiday Villa, and Palace), 1 four-star hotel (Meridien), and 5 three-star hotels. Khartoum and Port Sudan have the most accommodations.

Development of the tourism sector is complicated by the conflict in the south of the country and the unstable political situation. The government had difficulty attracting tourists and had difficulty getting Sudan added to the lists of world famous tourist places. Although the number of tourists is expected to grow in the future, Sudan could hardly attract as many tourists as neighboring Egypt at the end of 1990. Without a more stable political climate, Sudan will not be able to attract increasing numbers of tourists.

INTERNATIONAL TRADE

Sudan has long had an adverse foreign trade balance. Foreign trade has been negatively influenced by the civil war and international isolation. In August 1999, Sudan started exporting oil. Nearly 70 percent of the oil production is exported. In 1999–2000, the country experienced its first **trade surplus**. That surplus rose to US$500 million in 2000 on exports of US$1.7 billion and imports of US$1.2 billion.

Foodstuffs are the most important import into Sudan. But steel and alloy products were the main industrial items having been imported to Sudan. Their imports accounted for US$76.6 million. Spare parts import accounted for US$88.3 million, audio and video devices for US$43.1 million, refrigerators for US$112.2 million, personal cars for US$30.2 million, lorries and trucks for US$38.7 million, and buses for US$6.8 million.

Export and import policy has recently been liberalized. In the past, the country was isolated, and foreign trade was highly restricted. Since the early 1990s, trade policy has been more open. All import prohibitions were removed with the exception of alcoholic beverages, drugs, hazard playing machines, weapons, and ammunition. Foreign trade has been especially encouraged in 2 **free zones**: the Red Sea Free Trade Zone and the Al Gaili Free Zone.

Trade (expressed in billions of US$): Sudan

	Exports	Imports
1975	.438	.887
1980	.543	1.576
1985	.374	.771
1990	.374	.619
1995	.556	1.219
1998	.596	1.915

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Sudan

Sudanese dinars per US$1	
Jan 2001	257.44
2000	257.12
1999	252.55
1998	200.80
1997	157.57
1996	125.08

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The Sudanese dinar has declined in value as a consequence of the civil war and political instability in the country. Until the late 1990s, the Sudanese pound (an old currency) was commonly used as well. In July 1999, the Sudanese Central Bank made the formal declaration that all dealings in the Sudanese pound should stop.

The Central Bank—Bank of Sudan—regulates the **liquidity** of other banks and governs the financial aspects of national development programs. The bank has 11 branches. Although the banking system has been centralized in the past, changes in the economic policy of the country has led some to expect that the banking sector will be liberalized in the future. There are 29 other banks in Sudan with a total of 671 offices.

Sudan has 1 stock exchange, the Khartoum Stock Exchange, which was started in 1994, even though plans for a Sudanese stock exchange began in 1962. The Khartoum Stock Exchange is one of the only stock exchanges to work under the rules of the Islamic *Sharia.* One of the primary objectives of the stock exchange is to promote savings and to infuse the private sector with the capital it needs to grow. There are 8 brokers for the stock exchange.

POVERTY AND WEALTH

Sudan is one of the poorest countries of the world. Most of the population lives in unbelievably hard conditions. One of the Sahel countries, Sudan is located in the Sahara desert. Hard climate conditions and lack of natural resources were always responsible for the poor life conditions. But the country's political instability and internal conflict has increased the poverty.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Sudan	237	229	210	198	296
United States	19,364	21,529	23,200	25,363	29,683
Egypt	516	731	890	971	1,146
Dem. Rep. of Congo	392	313	293	247	127

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

The southern parts of the country are practically isolated and it is very hard to estimate the level of poverty in those territories, although it is known that many people are dying of hunger or diseases. It is difficult for international aid or health-care organizations to provide care for southern Sudanese because of the civil war.

Most of the population is nourished from subsistence agriculture. Food is so scarce that during droughts lives are endangered. The isolationist policies of the totalitarian regime deprived the country of foreign direct investment, as well. The result was that only sporadic international humanitarian aid reached some of the poorest regions for many years. Historically, the United States has been the most important donor of financial aid to the south.

To escape the difficult conditions, many people have fled the country. The people of relative wealth in Sudan live in Khartoum, Port Sudan, and near the Nile River, where the conditions are a bit better. Only small groups of people loyal to the regime would be considered "rich."

According to the *Human Development Report 2000,* 26.6 percent of the population is not expected to survive to more than 40 years of age. Comparatively, in Egypt the number is only 9.9 percent and in China 7.7 percent. The early death of so many Sudanese can be traced to the violence but also the lack of basic necessities. About 27 percent of the population do not have access to safe water (in Egypt, 13 percent); 30 percent have no access to health services (in Egypt, 1 percent). For children under the age of 5, 34 percent are underweight (in Egypt, 12 percent). The *World Factbook* estimated that the **GDP per capita** at **purchasing power parity** in 2000 was US$1,000. All of these numbers underscore the difficulty of most people's lives in Sudan.

WORKING CONDITIONS

The working conditions in Sudan are very difficult to measure. Although the *World Factbook* estimated the unemployment rate to be 4 percent in 1996, some believe the real unemployment is much higher, perhaps even 30 percent. Estimating unemployment is impeded by the lack of official registration, the fact that women are isolated in their homes as housekeepers, and the isolation of southern regions.

Sudanese nationals once made up a very skilled workforce. Since the British colonial era, education has been given a high priority. Many Sudanese succeeded at the best British schools and universities. Sudanese were known as intelligent and educated people. Unfortunately, during the years of political instability and conflicts, education deteriorated and most of the skilled people fled the country. There are no chances for skilled people to succeed in Sudan. The salaries are very low and political loyalty is the main criterion for creating a successful career. You can find more Sudanese intellectuals, doctors, engineers, and specialists in New York; Washington, D.C.; London; or Paris than in Khartoum or other parts of Sudan.

Of the Sudanese in Sudan, 80 percent work in agriculture, 10 percent in industry and commerce, and about 6 percent in government offices. Working conditions in the rural areas are very undeveloped and resemble medieval times. Children also commonly work.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

7TH CENTURY. The territory is conquered by Arab fighters and added to the Arab-Islamic empire.

1820–21. Mohammed Ali conquers the areas and incorporates it with Egypt. Gold extraction and slavery flourish.

1885–98. Mohammed Ahmed al-Mahdi, an Islamic spiritual leader, brings independence to Sudan.

1898. Sudan is conquered and proclaimed a Egyptian-British condominium. The British dominate the ruling of the government.

1956. Independence is declared.

1958–64. Ibrahim Abbud becomes president. Abbud prohibits political parties and starts the Islamisation of the country. Arabic is introduced as an official language, replacing English. First conflicts with the south begin. In 1964, Abbud resigns after mass protests.

1964–69. Relative stability, prosperity, and parliamentary democracy come to Sudan.

1969. Jaafar al-Nimairi organizes a coup d'etat. Nimairi grants wide autonomy to the south but follows socialistic and nationalistic policy influenced by the Communist countries.

1971. Communists try to overthrow the government, but Nimairi's forces defeat them, and Nimairi orders

the leaders to be executed. Nimairi breaks off relations with the Communist countries in favor of cooperation with conservative Islamic oil producing countries of the Persian Gulf.

1983. Nimairi introduces Islamic law into the civil legal system. Autonomy for the south is terminated and the economy deteriorates. The civil war starts.

1985–89. Sadiq al-Mahdi, descendant of the legendary Mohammed Ahmed al-Mahdi, overthrows Nimairi. Al-Mahdi's regime brings relative stability and some economic growth to Sudan. But Al-Mahdi is unable to stop the conflict in the south.

1989–99. Umar al-Bashir overthrows al-Mahdi's regime and institutes a dictatorship. Hasan al-Turabi, the Islamic spiritual leader and chairman of the parliament, becomes the second most important state official. Together, al-Bashir and al-Turabi enforce one of the worst totalitarian regimes in the world. Strict Islamic laws and fundamentalist rules are implemented. Sudan supports international terrorism. The civil war rages in the south. Sudan is practically isolated internationally.

1996. Bashir is popularly elected as president of Sudan.

2000. Bashir is popularly elected for a second term as president.

FUTURE TRENDS

The future of Sudan is uncertain. Even though Bashir won 2 democratic elections, the opposition to his government seems to be growing. His main opponent, Turabi, boycotted the elections in 2000 and is actively seeking coalitions with other strong leaders, including Sadiq al-Mahdi and John Garang. The coalition of more parties and more autonomy for the south is necessary for any kind of positive development in the future.

Sudan has an urgent need for foreign direct investment. Without it, Sudan will hardly be able to survive. Sudan needs to stop its isolationist policies and seek cooperation with other countries. Even though the government is seeking such changes, it is unlikely that much improvement will happen under the current government. It is more likely that the government of Sudan will change and open the country to relative democracy and a more open economy.

Sudan has experienced some positive changes: it has improved relations with its neighbors, mainly Egypt and Libya, and mutual cooperation agreements have been signed with these countries. In addition, the country has started to cooperate with the International Monetary Fund, and the economy is implementing liberalization and privatization policies. Sudan's focus on these policies combined with more oil extraction and exploration are the most encouraging trends for future.

DEPENDENCIES

Sudan has no territories or colonies.

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—Tomas Strnad

SWAZILAND

Kingdom of Swaziland

CAPITAL: Mbabane (administrative and judicial) and Lobamba (royal and parliamentary).

MONETARY UNIT: The lilangeni (E); the plural is emalangeni. One lilangeni equals 100 cents. There are coins of 1, 2, 5, 10, 20, and 50 cents, and 1 lilangeni, and notes of 2, 5, 10, 20, and 50 emalangeni. The lilangeni is on par with the South African rand, which is also accepted as legal tender in the country.

CHIEF EXPORTS: Sugar, citrus, canned fruit, soft drink concentrates, textiles, wood pulp, cotton yarn, refrigerators.

CHIEF IMPORTS: Manufactured goods, machinery, transport equipment, food, chemicals, fuels.

GROSS DOMESTIC PRODUCT: US$4.44 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$881 million (f.o.b., 2000). **Imports:** US$928 million (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Swaziland is a small landlocked country in southern Africa, with an area of 17,363 square kilometers (6,704 miles), extending 176 kilometers (109 miles) north to south and 135 kilometers (84 miles) east to west. By comparison, it is slightly smaller than the state of New Jersey. It shares a border of 105 kilometers (65 miles) to the east with Mozambique and is otherwise surrounded by South Africa, with which it shares a total border of 430 kilometers (267 miles). It is divided from east to west into 4 well-defined regions: the High-Veld, Middle-Veld, and Low-Veld, and the Lubombo plain and escarpment. Their height ranges from the High-Veld in the west which rises to 1,850 meters (6,070 feet) and the Low-Veld which stands at only 300 meters (985 feet) above sea level. The country is traversed by rivers and streams, making it one of the most well-watered areas of southern Africa.

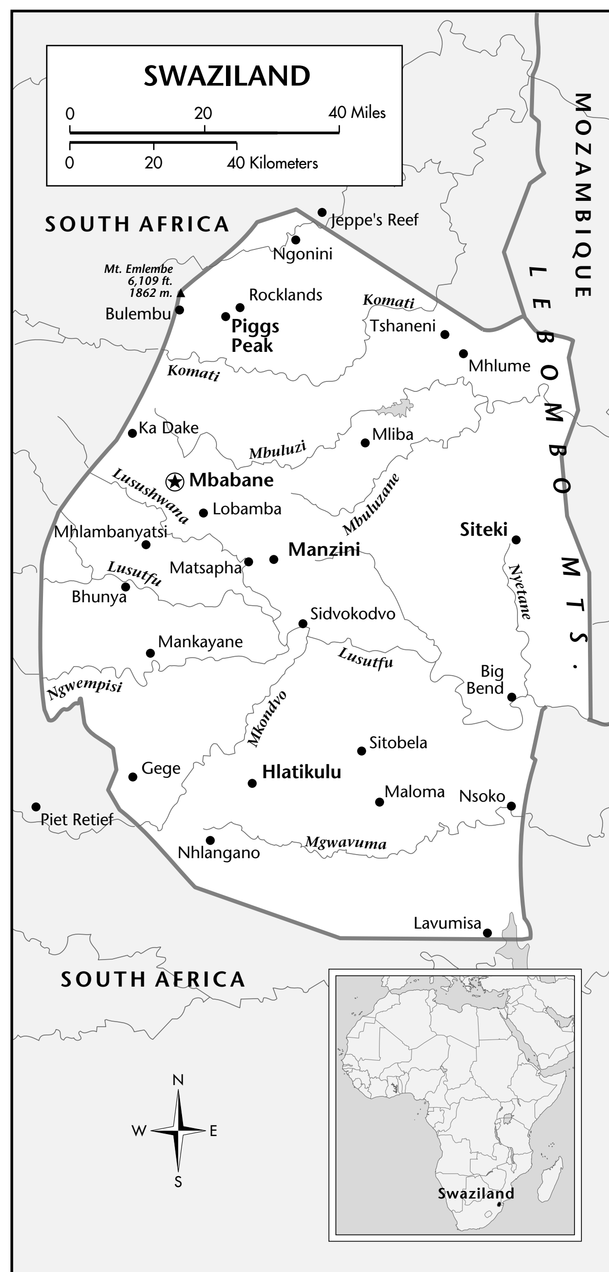
POPULATION. In 2001, the population was estimated at 1,101,343. The population has risen from 906,000 in 1997, and from 712,313 in 1986. The population grew at 2.9 percent annually between 1970–90 and 2.8 percent between 1990–97, while life expectancy in 2001 was 60 years (though the CIA *World Factbook* reports a figure of 38.62 years). The population growth rate in 2001 was 1.83 percent, based on a birth rate of 40.12 per 1,000 and a death rate of 21.84 per 1,000, all based on 2001 estimates. About 33 percent of the population live in urban areas. It is a relatively young population with more than half of the population below 20 years of age.

Around 90 percent of the population are Swazi (although there are around 70 district groups), and most of the rest are Zulu, Tonga, Shangaan, European, and people of mixed descent. Large numbers of Mozambicans fled to Swaziland to escape the civil war in their country, but **repatriation** was completed in 1993 following a return to peace in Mozambique. About 77 percent of Swazi are Christian, with the rest practicing Islam or traditional faiths. English is an official language and the language of government and business, and is widely spoken alongside siSwati, the other official language.

OVERVIEW OF ECONOMY

Swaziland has one of the highest per capita income levels in Africa, although it is, after the Gambia, the smallest state on the mainland of the continent. According to the CIA *World Factbook,* Swaziland's **gross domestic product (GDP) per capita** in 2000 was estimated at US$4,000 at **purchasing power parity**, high enough to rank Swaziland as a middle-income country.

Swaziland experienced slow growth in the 1980s and early 1990s, a period much influenced by world **recession** and then political changes in South Africa, but there were still increases in the **gross national product** (GNP) per head of 2.3 percent a year over the period 1980 to 1993. Swaziland has, over the longer period, had one of the most liberal policies towards foreign and private investment in all of Africa. Its vulnerability lies in heavy



export dependence on soft drink concentrate and sugar cane and on the strong economic links with South Africa which provides imports, an export market, investment, and employment.

Since the late 1980s the country's economic situation has improved noticeably. The economy has grown more rapidly and foreign investment expanded. A significant part of the food produced is now sold to the European Union (EU). This improvement—initially a direct consequence of trade **sanctions** against South Africa which forced the EU to turn to Swaziland as an alternative source of food supplies—has allowed the manufacturing sector to increase in importance, contributing 20 percent of the GDP by 1991 and helping the country raise its economic growth rate to 3.5 percent per year.

There is a dual administration of Swaziland's official resources. The communal land resources (known as Swazi National Land or SNL) and the minerals, are managed by Tibiyo Taka Ngwane, an independent institution created by Royal Charter in 1968 and not responsible to Parliament. The non-communal land and all the other resources are subject to the legislation of Parliament.

Swaziland is committed to a free market economy and private ownership: **nationalization** is illegal. The Swaziland Investment Promotion Authority was set up in 1997 to encourage the growth of private business. Investment accounted for 34 percent of the GDP in 1997, and **foreign direct investment** was 5.7 percent of the GDP, both very high figures. The government wants to encourage the expansion of industrial sites. The Swaziland stock exchange was established in 1990 and by the late 1990s had 6 companies listed and a **market capitalization** of US$129 million.

POLITICS, GOVERNMENT, AND TAXATION

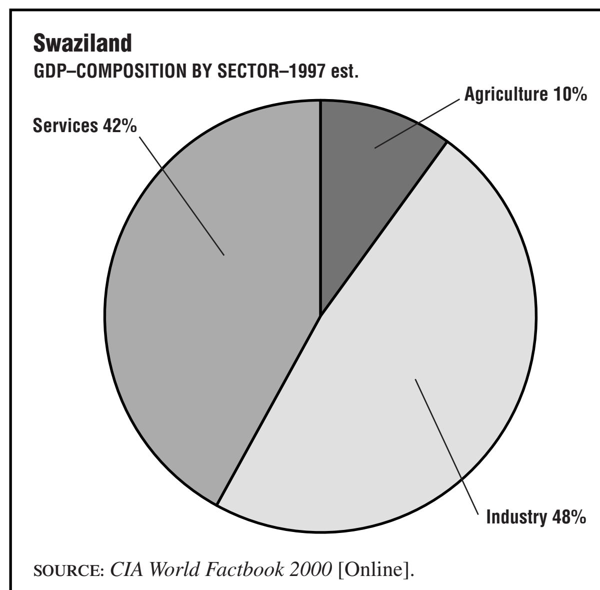
Swaziland, a British protectorate since 1867, became independent on 6 September 1968. The Kingdom of Swaziland is an absolute monarchy. The king appoints the prime minister and the council of ministers (cabinet) and can legislate by decree. A new constitution was launched in 1968. However, in 1973 the king repealed the constitution, abolishing Parliament and all political parties.

A system of government with elections for local councils, who then chose their representatives in the National Assembly, was introduced in 1978, creating a 2-tier form of representative government which was reformed in 1993 to allow the introduction of secret ballots and the direct election of National Assembly members. The vote was granted to all citizens over the age of 21 who were not insane or had not committed serious crimes. There are 30 senators, of whom 20 are appointed by the king and 10 elected by the National Assembly. The National Assembly consists of 65 deputies, of whom 55 are directly elected from candidates nominated by the local councils and 10 appointed by the king.

In 1998 government revenues amounted to 27 percent of the GDP. The most recent year for which tax revenue data are available is 1987, when taxes on income, profits, and capital gains generated 38 percent of government revenue, domestic taxes on goods and services 11 percent, export **levies** and import **duties** 42 percent, other taxes 1 percent, and non-tax revenue 7 percent.

The corporate **income tax** is 37.5 percent. Small mining companies with net income below the equivalent

of around US$2,500 are taxed at 27 percent. There is a withholding tax of 15 percent on dividends paid overseas, and dividends paid to residents are taxed at 10 percent. There are tax breaks for companies producing for export, and for companies with staff training programs.



SOURCE: *CIA World Factbook 2000* [Online].

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Swaziland has a good road network with 3,000 kilometers (1,864 miles) of roads, 28 percent of which were paved by 1997. In 1997, there were 78,900 motor vehicles licensed, 4,320 of which were government-owned. Rail service is for freight only. The Kadaka-Goba line links up with Mozambique's Maputo line (providing Swaziland with access to the sea), and since 1986 there has been a direct heavy-duty connection between Mpaka and South Africa. Matsapha International Airport is 8 kilometers (5 miles) from Manzini. The national airline, Royal Swazi National Airways Corporation, operates flights throughout the region.

Swaziland generates its power from coal and hydropower. Oil and the coal used for domestic energy generation are imported from South Africa. Swaziland Electricity Board imports over 80 percent of its electricity from South Africa and generates the balance from diesel and hydropower. In 1998 Swazis consumed 198 million kilowatt hours (kWh) of electricity. On-site power generation takes place at the large sugar and wood pulp plants (from waste sugar cane or scrap wood), but they only generate for their own needs. Wood is still an important fuel for the rural population.

English language dailies are *The Times* of Swaziland and *The Swami Observer.* There were 27 daily newspapers in 1996. The Swaziland Broadcasting Service runs several radio stations, broadcasting in siSwati and English. There is a television channel, run by the Swaziland Television Authority (STA), which covers 80 percent of the population and 60 percent of the country. STA has a **monopoly** in the TV rentals market. There were 170 radios and 23 TV sets per 1,000 people in 1996.

All the main population centers have post offices. International direct dialing is available. The telephone network comprises 14 digital, 5 analog, and 3 manual exchanges. There were 33,500 telephone main lines in use in 2000, in addition to 20,000 cellular phones.

ECONOMIC SECTORS

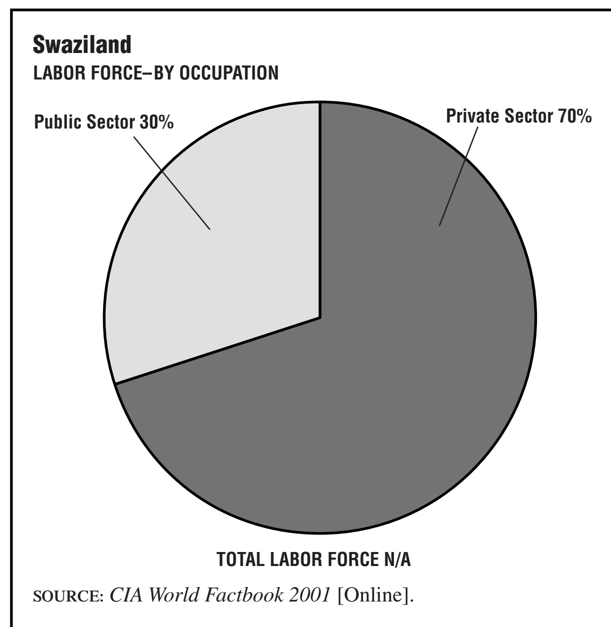
The economy of Swaziland depends on soft drinks concentrates and sugar cane for export revenue and on South Africa, which provides significant trade investment and employment. However, Swaziland has one of the best

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Swaziland	33,500 (2000)	30,000 (2000)	AM 7; FM 6 (2000)	155,000	10 (2000)	21,000	3	4,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
South Africa	5.075 M (1999)	2 M (1999)	AM 14; FM 347; shortwave 1	13.75 M	556	5.2 M	44	1.82 M
Lesotho	20,000	1,262 (1996)	AM 1; FM 2; shortwave 1	104,000	1 (2000)	54,000	1	1,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

business environments in Africa as a result of its liberal policies towards foreign and private investment since independence. In 2000, the composition of Swaziland's GDP was as follows: agriculture, 10 percent; industry, 46 percent; and services, 44 percent.

AGRICULTURE

Agriculture's share of the GDP fluctuates with the fortunes of the harvest, accounting for 10 percent of the GDP in 2000, 13 percent in 1998, and 11 percent in 1994. The chief products are sugar, wood pulp, maize, citrus, and pineapples. About 44 percent of land is held on a free-hold basis (that is, the ownership is for an indefinite period in which the owner is free to buy and sell the land), mainly by non-Swazis. Large estates controlled mainly by Europeans produce the sugar, citrus fruits, and forestry products that dominate exports. The remainder of the land, known as Swazi Nation Land (SNL), is farmed on a small-scale by 70 percent of the population, in many cases on a part-time basis. The land is held in trust by the king. All Swazis are entitled to land, which is allocated by the chiefs according to traditional procedures.

Sugar used to be the mainstay of the economy until it was overtaken by fruit concentrates. However, it remains the country's largest source of employment. Maize, the country's staple food, and cotton are the main products of SNL farmers. Large-scale cotton production is being introduced as the Royal Swaziland Sugar Corporation begins to diversify into this crop. Oranges and grapefruit are grown for export on large estates, mainly controlled by Europeans, and mainly in the Low-Veld area.

Unbleached wood pulp is 1 of Swaziland's main export earners. Plantations cover 6 percent of the country, mainly in the High-Veld. Nearly two-thirds of this is made up of Usutu forest, one of the largest man-made forests in the world. The Usutu forest consists mainly of pine and eucalyptus and alone provides about 12 percent of the world supply of wood pulp. The Usutu pulp company is the country's largest employer. Indigenous industry produces mining and construction timber and furniture from local wood, some of which is exported.

Cattle are the traditional sign of wealth, and 80 percent of the cattle population remains in the hands of Swazi **smallholders**. The traditional nature of cattle raising has led to the slow development of the meat industry, as there is a strong resistance to offering cattle for slaughter. Domestic milk production is increasing and beef, tinned and frozen, is exported to the EU and South Africa.

INDUSTRY

The industrial sector is dominated by agro-industries involving local sugar, wood pulp, citrus and other fruit, cotton, and meat. Swaziland has been successful in attracting investment from Coca-Cola (which opened a concentrate plant in 1986) and Cadbury (which opened a new sweets factory in 1989). These, combined with continued investment from the Far East (4 Taiwanese-owned textile plants were opened in 1986), and investments in the mid-1990s in refrigerator production, means that the manufacturing sector continues to grow. However, there has been some domestic unrest caused by low wages.

Mining has fallen in importance since the 1960s, contributing only about 1 percent of the GDP in 1997–98. High-grade iron ore was exhausted by 1978, and health concerns have reduced the world demand for asbestos. Asbestos mining (by a **joint venture** between the government and a South African Company, HVL Asbestos) is nevertheless the principal mining activity. Production was 27,700 tons in 1998, and most of this was exported. Deposits are mainly in the High-Veld.

The diamond mine at Dvokolwako closed at the end of 1996. A new coal mine at Maloma in the south of the country opened in 1993 which produces mainly anthracite for export to Europe (203,100 tons in 1997 and 410,000 tons in 1998). It replaced the now closed Mpaka Mine as the main source of coal. Stone is quarried at 3 centers, and production is increasing. Local construction and roads industries take all stone production.

SERVICES

The services sector is very significant to the Swazi economy, comprising 44 percent of the GDP in 2000, up

from 37 percent in 1994. Government services accounted for 20 percent of the GDP in 1996–97, and amounted for the majority of services production. **Private sector** services were dominated by tourism giant, Swazi Spa Holdings (a subsidiary of Sun International, a South African Hotel group). Tourism is mostly on a package-tour basis, and most visitors come from South Africa. The attractions are wildlife, splendid scenery, and casino facilities. Tourist arrivals numbered 322,000 in 1997, generating receipts of about US$7 million.

Exchange rates: Swaziland

emalangeni (E) per US$1	
Jan 2001	7.7803
2000	6.9056
1999	6.1087
1998	5.4807
1997	4.6032
1996	4.2706

Note: The Swazi lilangeni is at par with the South African rand; emalangeni is the plural form of lilangeni.

SOURCE: CIA *World Factbook 2001* [ONLINE].

INTERNATIONAL TRADE

With a small economy, Swaziland does not have enough domestic demand to provide a basis for a wide range of production. Therefore, it must import a variety of goods. Imports typically outweigh exports, as they did in 2000 when imports were valued at US$928 million and exports at US$881 million.

The country's main exports are soft drink concentrate, sugar, citrus, canned fruit, textiles, wood pulp and refrigerators; the main imports are manufactured **consumer goods**, machinery, transport equipment, food, chemicals, and fuels. South Africa was far and away the dominant trading partner, taking 65 percent of exports and providing 84 percent of imports in 1998. Other major export destinations were the European Union (EU) (12 percent), Mozambique (11 percent), and the United States (5 percent). Other major importers were the EU (5 percent), and Japan and Singapore (2 percent each).

MONEY

The lilangeni is maintained at par with the South Africa rand, as it is in the de facto rand area involving Swaziland, South Africa, Namibia, and Botswana. The rand was on par with the U.S. dollar in the early 1980s, but has since lost value, very rapidly at times in the latter 1990s. In mid-2001, the lilangeni stood at E8.27:US$1. In March 1995, a 2-tier financial system (which allowed a different **exchange rate** for certain transactions) was ended with the abolition of the financial rand, making the currency more vulnerable to international reaction to political developments in South Africa.

POVERTY AND WEALTH

Swaziland is a lower middle-income country, with a **GDP per capita** in 2000 of US$4,000 using the purchasing power parity conversion factor (which makes allowance for the low price of certain basic commodities in Swaziland). There are no figures for the incidence of poverty, but the number of under-weight children would suggest around 14 percent below the dollar-a-day poverty line. Most of those in poverty obtain their livelihoods from the agriculture sector, and they do not have enough income to provide the barest minimums of food, clothing, and shelter. Income is very unequally distributed, with the poorest 20 percent receiving 2.7 percent of total income in 1998, and the richest 20 percent receiving 64 percent. The poorest groups in the rural areas live in traditional dwellings with timber frames and mud walls, thatched roofing, and a beaten earth or polished cow dung floor. Water comes from a well, sanitation is by pit latrine, cooking is done over a wood fire, and lighting comes from a kerosene lamp.

The poor in the urban areas live in shanty dwellings constructed from timber, plastic sheeting, cardboard and

Trade (expressed in billions of US$): Swaziland

	Exports	Imports
1975	.199	.180
1980	.369	.623
1985	.180	.324
1990	.557	.663
1995	.957	1.105
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Swaziland	1,073	1,046	1,035	1,446	1,409
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Lesotho	220	311	295	370	486

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Swaziland

Lowest 10%	1.0
Lowest 20%	2.7
Second 20%	5.8
Third 20%	10.0
Fourth 20%	17.1
Highest 20%	64.4
Highest 10%	50.2

Survey year: 1994

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

rusty scrap metal sheets. Water is obtained from a communal tap, sanitation is by pit latrine, cooking is done over charcoal, and kerosene lamps provide light. The wealthier groups live in modern houses with cement block walls and tin roofs, with electricity, piped water, and either a sewage system or a septic tank.

The UN's Human Development Index, which combines measures of income, health, and education, put Swaziland at 112 out of 174 countries in 1998, and this placed it in the medium human development category, one of the few African countries to achieve this status. Thus Swaziland has a level of development with relatively few of its population in poverty (more than 50 percent are in poverty in some countries), and has good basic education provisions, with 95 percent of children in primary school and 85 percent in secondary school, and sound health facilities which allow a life expectancy of 60 years (in the rest of Africa it is 49 years).

WORKING CONDITIONS

In 1997, about 113,000 people were employed in Swaziland: 57 percent in the private sector, 28 percent in the **public sector**, and 15 percent in the **informal sector**. An additional 13,000 Swazis worked as miners in South Africa. About 22 percent of the **labor force** is recorded as unemployed. However, the unemployment rate has little meaning in Africa, for it relates to those registering as looking for jobs in the urban areas as a percentage of the formal labor force. The largest part of the labor force in Swaziland, 60 percent, is in the agricultural sector, much of it in small-scale family farms outside the formal sector.

With no social security provisions, those without work or support from families or charities cannot survive. For much of the year in **subsistence farming** there is relatively little work to do, and what work there is is shared among the family members. During planting and harvesting, there is more work to be done, and everyone is more fully occupied, but even in these periods, there may be more than enough labor to do the tasks, and the work is again shared. Everyone sharing the work appears to have an occupation in agriculture, but in fact workers are not engaged full time for all the year, and hence there is some disguised unemployment.

There is a Federation of Trade Unions in Swaziland. Minimum wage levels are set, but the level is low, particularly for female agricultural workers, to avoid creating unemployment.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1867. Swaziland formally becomes a British protectorate.

1961. The Union of South Africa breaks relations with Britain and toughens racial segregation policies (known as apartheid). Britain accelerates the decolonization process in the region, and Swaziland is granted internal autonomy.

1868. Swaziland gains independence from Britain. King Sobhuza II is recognized as head of state and governs with 2 legislative chambers.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Swaziland	25	7	9	6	13	8	32
United States	13	9	9	4	6	8	51
South Africa	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lesotho	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

1972. Swaziland holds its first parliamentary elections; the traditionalist Imbokodvo National Movement wins.

1973. King Sobhuza II declares the constitution unworkable, dissolves parliament, and prohibits political parties and trade unions. The Royal Defence Forces are reactivated.

1977. Elections to Parliament are held under the local council system.

1982. King Sobhuza II dies. The powers of head of state are transferred to Queen Mother Dzeliwe, who is named regent. In a power struggle, traditionalists gain the upper hand.

1983. Prime Minister Prince Mabandla Dlamini, head of the liberal faction, is dismissed and replaced by conservative Prince Bhekimpi Dlamini. The Queen Regent is presented with document transferring most of her power to the Liqoqo, a traditional advisory body. On her refusal to sign, she is ousted in favor of Ntombi, mother of the heir apparent, Prince Makhosetive. Ntombi is installed as Regent, and power rests with the Liqoqo.

1986. Prince Makhosetive is installed as King Mswati III at the age of 18, and the Liqoqo is abolished.

1987. King Mswati III dissolves parliament in September, 1 year early. In November, elections are held and a new cabinet is appointed.

1992. In February the People's United Democratic Movement (PUDEMO) declares itself an opposition party, which is illegal.

1993. More than 50 opposition activists are arrested, including leaders of PUDEMO and the Swaziland Youth Congress (SWAYOCO). The local council system of indirect elections ends, and direct elections are held.

1996. PUDEMO announce plans for a campaign of protests and civil disobedience following the government's failure to respond to demands for the installation of a multi-party system and for the adoption of a constitution that would restrict the monarch to symbolic role in government.

1997. In mid-October the Swaziland Federation of Trade Unions (SFTU) calls for countrywide strikes in support of demands for democratic reform after talks with the government fail to produce any agreement. Support for strikes is low as a result of the limited success of earlier strikes.

FUTURE TRENDS

The Swaziland economy will for the foreseeable future continue to be heavily reliant on the South African economy as well as regional economic organizations such as the Southern African Customs Union and the Southern African Development Cooperation. Its small size and landlocked location make any changes in economic partnerships difficult to envisage. Even with greater regional integration, the dependence on South Africa will continue as South Africa has the largest manufacturing sector in southern Africa, as well as sophisticated financial expertise, and the ability to provide effective management for its investments in neighboring states.

Nevertheless, to exploit the benefits of regional integration and maintain economic stability, Swaziland is being pressured to speed-up its **privatization** program, upgrade **infrastructure**, and improve the regulation of the financial sector. The political maneuverings have to date been seen as having little effect on the economy. However, there is no doubt that Swaziland will receive more aid and international cooperation if the awaited constitutional review recommends a bill of rights, the introduction of a multiparty democratic system, and the reversion of the king to the role of constitutional monarch.

DEPENDENCIES

Swaziland has no territories or colonies.

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—Allan C. K. Mukungu

TANZANIA

United Republic of Tanzania
Jamhuri Ya Muungano Wa Tanzania

CAPITAL: Dodoma. In 1996, the capital was officially moved from Dar es Salaam to Dodoma. The National Assembly now meets regularly in the new capital, though most government ministries are still located in Dar es Salaam. Slowly, government ministries are being relocated to Dodoma.

MONETARY UNIT: Tanzanian shilling (TSh). One shilling equals 100 cents. Coins include 5, 10, 20, and 50 cents and 1, 5, 10, and 20 shillings. Notes include 10, 20, 50, 100, 200, 500, and 1,000 shillings.

CHIEF EXPORTS: Coffee, manufactured goods, cotton, cashew nuts, minerals, tobacco, sisal.

CHIEF IMPORTS: Consumer goods, machinery and transportation equipment, industrial raw materials, crude oil.

GROSS DOMESTIC PRODUCT: US$23.3 billion (purchasing power parity, 1999 est.).

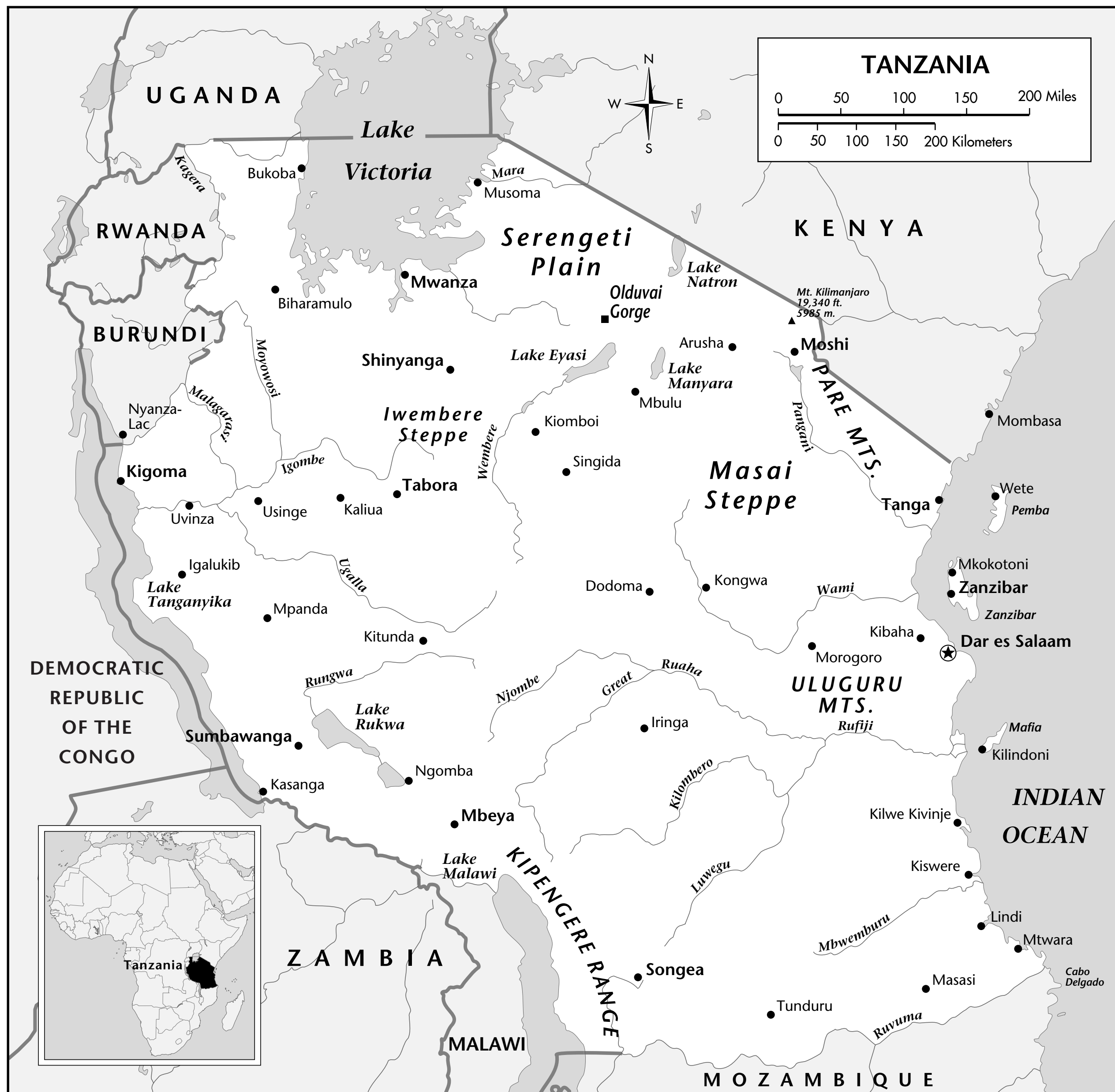
BALANCE OF TRADE: **Exports:** US$828 million (f.o.b., 1999 est.). **Imports:** US$1.44 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. A relatively large country located in East Africa, Tanzania has a total area of 945,087 square kilometers (364,900 square miles), rendering it slightly larger than twice the size of California. The area of Tanzania includes the islands of Mafia, Pemba, and Unguja; the latter 2 form a semi-autonomous region called Zanzibar that is part of an official union with the republic of Tanzania. With a coastline that spans 1,424 kilometers (883 miles), the eastern part of Tanzania borders the Indian Ocean, while to the north lies Kenya, to the northeast Uganda, Rwanda, and Burundi, to the west Zaire, to the southwest Zambia, and, finally, to the south, Malawi and Mozambique. The former capital of Tanzania, Dar es Salaam, is situated slightly to the north of the central point along the coastline of the Indian Ocean. The new capital, Dodoma, is located slightly to the north of the center of the country.

POPULATION. In 1975, the total population of Tanzania stood at 15.9 million. Since then, the population has grown exponentially, reaching a total of 35.3 million in July 2000. Joe Lugalla, author of *Crisis, Urbanization, and Urban Poverty in Tanzania: A Study of Urban Poverty and Survival Politics,* attributes the rapid population growth to increased life expectancy, a high birth rate accompanied by a declining rate in infant mortality, better health care, the availability of clean water, and better nutrition. With a birth rate of 40.17 births per 1,000 people and a death rate of 12.88 deaths per 1,000 people, the current population growth rate, estimated at 2.3 percent (1997), is still quite significant. Indeed, by 2015, the population will reach approximately 47.2 million. In order to contain this growth, the Tanzanian government adopted an official population policy in 1992. The policy, which came into effect in 1995, emphasizes measures designed to increase the general standard of living of the population. It is argued that one of the major causes of population growth is poverty, as families are obliged to have large families in order to increase familial income. The age structure of Tanzania is relatively young, with 45 percent of the population aged between 0 and 14 years, 52 percent aged between 15 and 64 years, and only 3 percent aged 65 years and over. More than 80 percent of the population of Tanzania resides in rural areas.

In terms of ethnicity, 99 percent of the population of mainland Tanzania is of native African descent—95 percent of which belong to one of the more than 130 tribes that form part of the Bantu group of people. The remaining 1 percent consists of those of Asian, European, and Arab descent. The population of Zanzibar is slightly more diverse, with a higher percentage of Arab and mixed



Arab and native African people. Conversely, religion in Zanzibar is more homogeneous (less diverse), with 99 percent of the population adhering to Islam. On the mainland, 45 percent of the population is Christian, 35 percent Muslim, and 20 percent categorized as adherents to indigenous religious systems (ones that are unique to the region). The official languages of the country are English and Kiswahili, the latter being a Bantu-based language with strong Arabic influences. The first language of most people, however, is usually one of the numerous local Bantu languages that are commonly spoken. English is quite prevalent in the business community, and Arabic is widely spoken in Zanzibar. Kiswahili, incidentally, has become the common language of central and eastern Africa.

One of the most daunting problems that the population of Tanzania confronts is the high incidence of HIV/AIDS. According to data released by the European Union on 2 December 2000—World AIDS Day—it is estimated that 1.3 million people in Tanzania have AIDS. This figure does not include the number of people that are afflicted with HIV, the condition that almost inevitably causes the fatal AIDS disease. That same day, President Mkapa announced the formation of the Tanzanian National AIDS Commission (TanAIDS), which will seek to implement the country's national strategy to respond to the HIV/AIDS epidemic. Of course, as in many African countries, the success of an AIDS policy, however well concocted, will depend on the ability of the government to address the structural conditions that

facilitate the spread of HIV/AIDS, such as poverty and inequality.

OVERVIEW OF ECONOMY

The area that now comprises Tanzania came under the colonial dominance of Britain and Germany in the late 1880s and early 1890s. Britain assumed complete control of the area, which, at the time, was called Tanganyika, following the allied defeat of Germany in World War I. As a British colony, the economy of Tanganyika was based primarily on the production of **cash crops**, such as coffee, tea, and sisal, designated for consumption in the markets of the British metropole (the colonial power).

In 1961, Tanganyika achieved independence under the leadership of the Tanganyika African National Union (TANU), headed by Julius Nyerere. In 1964, Zanzibar, which was also a British colony, joined Tanganyika as a semi-autonomous island in a political union called the republic of Tanzania. As president of the republic, Nyerere worked with the TANU party to create a **socialist** society and economy. Policies directed towards realizing socialism in the economic sphere revolved around the complete public ownership of the economy, including all firms, factories, and industries. After 1967, the government also controlled the regulation, production, marketing, and distribution of agricultural cash crops, the country's major source of economic activity.

According to Khapoya, the author of the *African Experience,* the government's practice of economic control lost popular support with the intrusive "villagization" policies, in which numerous communities of rural Tanzanians were forced off their sacred ancestral lands and into new "development villages" that were better served with roads and other **infrastructure**. The development of a strong social sector, financed chiefly through aid from the Scandinavian countries, did not offset the resentment felt by many Tanzanians as a result of the villagization policies. Peasant resentment translated into a decline in productivity, which, in conjunction with the soaring increase of oil prices in the late 1970s, placed severe strains upon the Tanzanian economy.

To add to these problems, Tanzania was forced to spend US$500 million on a war effort aimed at repelling an invasion launched by neighboring Ugandan dictator Idi Amin in 1979. As a result of these economic strains, the Tanzanian government was obliged to borrow heavily from both foreign commercial banks and International Financial Institutions (IFIs), such as the World Bank and the International Monetary Fund (IMF).

By the early 1980s, the IFIs demanded that Tanzania implement a **Structural Adjustment Program** (SAP) designed to decrease the role of the government in the economy while increasing the role of the free market, in order to reschedule its debts and qualify for continued foreign aid. Though Nyerere himself refused to accept the SAP, his resignation as president in 1985 opened the way for his successor, Ali Hassan Mwinyi, to accept and implement the SAP reforms in 1986. Ten years later, an Enhanced Structural Adjustment Facility (ESAF) arrangement was made with the IMF, which focused on a major **privatization** campaign of selling state-owned enterprises to the **private sector**.

The economy of Tanzania continues to be based primarily on agricultural activity. Since the value of agricultural goods, which constitute Tanzania's major exports, is lower than the value of manufactured and consumer products, which comprise the country's major imports, the country runs a severe **balance of trade** deficit. The trade deficit, in turn, means that Tanzania must continue to borrow money in order to pay for its imports. In 1999, for example, the total debt stood at US$7.7 billion. According to the U.S. Department of State, the servicing of the debt absorbs about 40 percent of total government expenditures. In addition to loans, Tanzania is dependent upon foreign aid. In 1997 alone, Tanzania received US$963 million in aid. Most of Tanzania's exports are directed towards the markets of the European Union (EU), while aid also comes predominately from the countries of the EU.

POLITICS, GOVERNMENT, AND TAXATION

The legislative branch of the Tanzanian government consists of a **unicameral** National Assembly elected by popular vote. There is also a House of Representatives in Zanzibar, which makes laws specifically for the semi-autonomous island. The executive branch of the government consists of a president, who is both chief of state and head of government, and a cabinet, whose members are appointed by the president from among representatives in the National Assembly. Zanzibar elects a president who is head of government for matters internal to the island. The legal system is based on English common law, while the judicial branch of the government comprises a Court of Appeal, and a High Court, whose judges are appointed by the president. The army is considered more or less apolitical (not involved in politics), and the country has never experienced a coup d'etat (political overthrow).

Throughout most of Tanzania's post-independence history, the country has been a one-party democracy, dominated by the Chama Cha Mapinduzi (CCM, or the "Revolutionary Party"). The CCM emerged in 1977, following the consolidation of TANU and the Afro-Shirazi

Party, the ruling party in Zanzibar. Prior to the merger, candidates of the respective parties possessed the sole right to compete for electoral office. Similarly, until 1992, when the state decided to introduce a multi-party system, all persons wishing to hold electoral office had to be members of the CCM party.

In 1973, the TANU government announced its decision to relocate the capital from Dar es Salaam to Dodoma—an urban bastion of TANU/CCM support. The official reason given to explain the move related to Dodoma's central geographical position in the country and thus its symbolic national importance. The move did not take effect until 1996, however, when an appropriate building to house the National Assembly was finally constructed.

Under the leadership of Nyerere, the ideology of TANU and its CCM postdecessor was a particular variant (version) of African socialism called Ujamaa, which emphasized the central role of the extended family. According to Nyerere, prior to the colonial period in Africa, African communities based on networks of extended families were relatively egalitarian and free of exploitative relationships. Although Nyerere's argument may have actually been a romanticization of the past, it nonetheless served to inform the Ujamaa vision of a return to the communal egalitarian ethos of the past within a context of a partially modern (industrial) socialist society.

The first general multi-party elections in Tanzania were held in October-November 1995. The CCM candidate, Benjamin W. Mkapa, won the presidential election, while the CCM party gained a majority of seats in the parliamentary elections. Mkapa, reelected for a second term in 2000, has more or less abandoned the old socialist ideology of the party, promoting, rather, a free market economy in line with the structural reforms supported by the World Bank and the IMF. With 244 seats in the National Assembly out of a total of 269, the CCM continues to dominate Tanzanian politics. The 2 major opposition parties, the Chama Cha Demokrasia na Maendeleo (CHADEMA) and the Civic United Front (CUF), respectively have 4 and 15 seats. While the former is more or less a centrist party that advocates constitutional democratic reform, the latter is a regionalist party from Zanzibar.

Though many observers, such as the U.S. State Department, have declared Tanzania an island of political stability in East Africa, the reelection of the CCM in the House of Representatives in Zanzibar has engendered considerable political violence. The CCM's victory in the 2000 elections was marred (tainted) by electoral irregularities that led to the re-running of polls in 16 constituencies. International observers condemned the format of the ballots that were used and the CUF denounced the elections as illegitimate. Since the elections took place, clashes between police and CUF supporters have occurred in Zanzibar and Pemba, leaving at least 30 people dead.

In terms of government revenue, import **duties** are the major source of government income, accounting for 31.7 percent of total revenue in the 1996 **fiscal year**. Consumption taxes are the second most important, while **income taxes** are the third, accounting, respectively, for 26.8 percent and 24.3 percent of total revenue during the same period.

There are a total of 12 income tax brackets, leading to a steeply **progressive taxation** system in which those that earn low incomes pay a lower percentage of income tax than those that earn higher incomes. For example, the lowest tax bracket, which consists of people that earn less than 20,000 shillings per month, are exempted from taxation because their incomes are considered too low, whereas the highest tax bracket, comprised of individuals who earn more than 700,000 shillings per month, pay 35 percent of their income to taxes. At the same time, however, the high sales taxes and **excise taxes** levied on goods and services, which form part of consumption taxes, strongly affect the poor. Excisable goods, for instance, such as alcoholic beverages and petroleum products, are subjected to excise tax rates as high as 30 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

According to the U.S. State Department, infrastructure in Tanzania is extremely poor. In terms of the road network, for instance, only 3,704 kilometers (2,296 miles) of a total of 88,200 kilometers (54,684 miles) of highway is paved. Paved highways link Dar es Salaam to Tunduru, Dodoma, Tanga, and Arusha. The remaining 84,496 kilometers (52,388 miles) of highway is unpaved, making it extremely difficult to reach certain areas from Dar es Salaam, such as Lindi and Mtwara, during the rainy season. At the same time, many rural roads are virtually impassable, as seasonal washouts are commonplace. Although the road network has suffered as a result of many years of government debt-related negligence, funds allocated for road maintenance and rehabilitation have increased in the past 10 years.

With a combined total of 3,569 kilometers (2,213 miles) of railway track, there are 2 railway systems that operate independently in Tanzania. In addition to operating the internal railway network, the Tanzania Railways Corporation (TRC) connects the country with Uganda, Kenya, Burundi, and Rwanda. Many parts of the TRC railway network are in need of major repairs. The Tanzanian/Zambian Railway Authority (TAZARA), in contrast, connects the port of Dar es Salaam with Zambia. Following the end of apartheid (the system of racial segregation in South Africa that prompted many countries to

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Tanzania	4	279	21	0.0	1	N/A	1.6	0.05	25
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1
Kenya	9	104	21	N/A	0	N/A	2.5	0.19	35

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

restrict economic ties with the country), the amount of income generated by TAZARA, in addition to the port of Dar es Salaam, has drastically declined as a result of new competition with the South African Railway system and the South African ports of Durban and Port Elizabeth.

There are a total of 11 airports in Tanzania with paved runways. Dar es Salaam International Airport, Kilimanjaro International Airport, and the Zanzibar Airport handle international air traffic. Several international airlines provide transportation to countries around the world, while the Tanzanian airline, Air Tanzania, has regional and domestic routes across Southern Africa.

The Tanzanian Electric Supply Company (TANESCO) supplies the country with electricity, 95 percent of which is derived from hydroelectric power. As a result of this dependency, power shortages often occur in times of regional drought. The government has taken measures to diversify energy sources, including support for projects to develop the Songo Songo natural gas reserve and the Mchuchuma coal fields.

Telecommunications infrastructure in Tanzania is considerably underdeveloped. With only 4.5 telephone mainlines per 1,000 people (est. 1999), telephone services are highly unpredictable and extremely expensive. The situation contrasts sharply with the United States, where there are 640 telephone lines per 1,000 people (est. 1996). In conjunction with the international donor community, the Tanzanian government has sought to ameliorate the situation through increased investment for telecommunications infrastructure. In 1999, the international donor community commenced sponsorship of a 5-year, US$250 million program to rehabilitate and expand the existing telephone network.

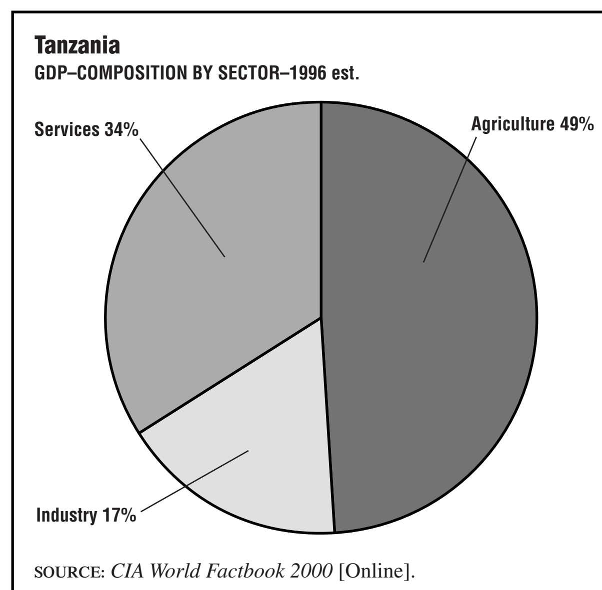
ECONOMIC SECTORS

Agriculture is by far Tanzania's most important economic sector, in terms of both employment provision and contribution to GDP. Unfortunately, the large degree of dependency on this sector renders the Tanzanian economy particularly vulnerable to adverse weather conditions and unfavorable prices in international **primary commodity** markets. The exceptionally low level of industrial development makes the negative economic impacts associated with agricultural dependency all the more severe.

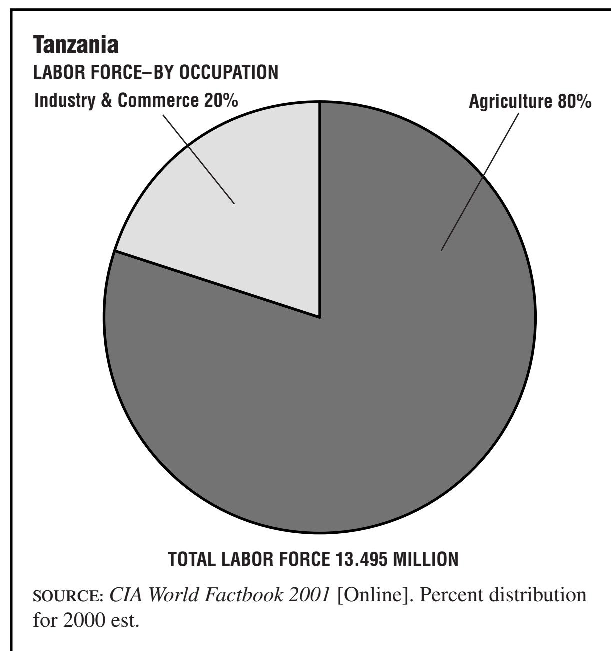
Industry and mining are relatively small areas of economic activity, though many observers, such as the U.S. State Department, believe that the mining sector offers important prospects for economic growth.

AGRICULTURE

As the pillar of both the domestic and the export economy, the agricultural sector in Tanzania engages 80 percent of the **labor force**, which equaled approximately 13.495 million in 1999, while providing 49 percent of the



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 2000 est.

country's GDP (est. 1996). Agricultural products include coffee, sisal, tea, cotton, pyrethrum, cashew nuts, tobacco, cloves, corn, wheat, cassava, bananas, and vegetables. Livestock production includes cattle, sheep, and goats. Agricultural output remains predominately based on **small holder** production, as opposed to estate cultivation, though the latter does account for some sisal, tea, coffee, tobacco, rice, wheat, and wattle (construction material made of tied-together poles or sticks) production. Cash crops, such as coffee, tea, cotton, cashews, sisal, cloves, and pyrethrum account for the vast majority of export earnings. Maize, paddy, wheat, and cassava are produced for domestic consumption.

In terms of agricultural exports, coffee constitutes the most important cash crop. According to the IMF, coffee accounted for 17.7 percent of Tanzania's total exports in 1996. At 16.3 percent of total exports, cotton was the second most important cash crop, followed by cashew nuts (12.7 percent), tobacco (6.4 percent), tea (2.9 percent), and sisal (0.7 percent). In Zanzibar, the major cash crop is cloves, 90 percent of which are produced on the island of Pemba. The major importers of Tanzania's agricultural exports consist of the EU countries, especially the United Kingdom, Germany, and the Netherlands.

In the past, the agricultural sector was completely controlled by the government. While **liberalization** of the sector has rapidly occurred, there are still government marketing boards that set quasi-official (semi-official) prices for certain crops. Purchasers are not forced to abide by the set prices, but often feel compelled to because most peasants normally support the prices the government establishes. This has led to some conflict, and most recently a dispute has emerged between cashew producers and cashew exporters over the government-set prices. While the former supports the prices, the latter argues they are unreasonable. The Economist Intelligence Unit (EUI) argues that the quasi-official prices are detrimental to agricultural growth, as they cause confusion and conflict. At the same time, however, the government argues that they apply pressure on private purchasers to pay fair prices for different crops. Despite the pressures of **deregulation** in the agricultural sector, the government has not made plans to abandon the quasi-official pricing system.

The February 2001 Tanzania Country Report issued by the EIU forecasts that GDP growth in Tanzania will equal 5.3 percent in 2001 and 5.9 percent in 2002. Not surprisingly, this growth will be led by the production of traditional agricultural commodity exports. While growth in GDP represents a positive development, the cash crop basis of this growth renders it largely unsustainable. In other words, Tanzania is currently experiencing a period of favorable production conditions, which, due to the volatile (frequently changing) nature of the weather, are guaranteed to change, for better or worse.

Production patterns in Tanzania and other agriculturally based developing nations oscillate (rapidly increase and decrease) dramatically, according to the shifting weather conditions in a given harvest year. In the past 10 years, for instance, maize production in Tanzania has varied considerably, ranging from a high of 2,638 produced tons in 1995–96, to a low of 2,107 tons in 1996–97. Though maize production is largely for domestic consumption, the same unstable patterns of production characterize agricultural crops designated for exportation, as both are subject to the debilitating effects of drought and flooding during the rainy season.

The volatile prices of agricultural commodities on international markets exacerbate (make worse) the instability of countries such as Tanzania that are highly dependent upon cash crop exports. For example, in any given year, the international prices of a commodity such as coffee can increase or decrease considerably, depending upon how much or how little all coffee-producing countries collectively produce. If there is a large international coffee harvest, prices will diminish, as competition will increase. The same holds true in the opposite direction.

Another major inhibiting factor working against the sustainability of growth generated by agricultural production relates to the small amount of existing arable land in Tanzania. Only 4 percent of all land is arable, with only 1 percent suitable for permanent crops. To make matters worse, Tanzania currently confronts issues of soil degradation, deforestation, and **desertification**. For all these reasons, it is imperative that Tanzania develop the other sectors of its economy.

INDUSTRY

MINING. Accounting for approximately 17 percent of GDP (est. 1996), industry plays a small, albeit important role in the Tanzanian economy. As a subdivision of industry, the mining sector alone constitutes about 5 percent of GDP. At the same time, however, both industry in general and mining in particular engage a relatively small percentage of the labor force. Indeed, the industrial sector combined with the commercial sector provides employment for only 20 percent of the labor force.

The country is endowed with a wide variety of mineral deposits, including gold, diamonds, salt, gypsum, gemstones, iron ore, natural gas, phosphates, coal, nickel, and cobalt. Many of these minerals are exported to other countries, and mining, excluding petroleum products, accounted for 7.3 percent of export earnings in 1996. In the same year, petroleum products comprised 2.1 percent of export earnings.

As in the case of agricultural produce, however, mining output and output of refined minerals seems to oscillate considerably from year to year. In 1989, for example, 617,000 tons of petroleum products were produced, whereas in 1992, 3 years later, this figure plummeted to 55,900 tons. Similarly, 3,200 tons of aluminum were produced in 1993, while this figure dropped to 1,100 in 1995. According to the U.S. State Department, some of the impediments that prevent effective exploitation of mineral resources include a lack of capital, poor infrastructure, bureaucratic inefficiency, and limited technology.

Under the auspices of the IMF and World Bank sponsored SAPs, Tanzania has enthusiastically promoted **foreign direct investment** in the mining sector, effectively reversing its strong regulatory policies. Though few foreign mining firms are actually in operation, many **multinational corporations** (MNCs) (firms that operate in several countries) are beginning to look upon prospects in Tanzania favorably. Recently, there have been several developments with a Canadian company, Tanganyika Oil, which owns 75 percent of an oil concession in Mandawa, 250 kilometers (155 miles) south of Dar es Salaam.

Some critics, such as Chachage Seithy L. Chachage, author of the essay "New Forms of Accumulating in Tanzania: The Case of Gold Mining," which appeared in *Mining and Structural Adjustment: Studies on Zimbabwe and Tanzania,* severely criticize Tanzania's new policy of openness. Chachage argues that the government is on the path of creating an "economy of plunder," in which the benefits of the country's rich minerals will accrue to foreigners rather than Tanzanians. At the same time, the government is in an extremely difficult position, as it lacks the resources to exploit the mineral reserves itself. This incapacity is largely related to the limited money the government has to invest in economic projects because of the large burden imposed by **debt servicing**.

MANUFACTURING. According to the U.S. Department of State, Tanzania's industrial, or manufacturing sector, is one of the smallest in Africa. The main industrial activities include producing raw materials, **import substitutes**, and processed agricultural products. Specific areas of activity include production of cement, soft drinks, corrugated iron sheeting, food processing, chemicals, leather products, and textiles.

Once again, manufacturing activities seem to oscillate in their respective output capacities. In 1991, for example, 85.2 million square meters of textiles were produced, whereas 5 years later, in 1995, the output had deteriorated to 33.4 million square meters. The production of iron sheets similarly suffered decline. In 1993, for instance, 25,800 tons of iron sheets were produced, while in 1996, the figure dropped to 6,400 tons. Production of cement is one area of industrial activity that has escaped this negative pattern. Notwithstanding a huge increase in output in 1991, production has increased at a steady pace, growing from 589,100 tons in 1989, to 725,800 tons in 1996.

One of the major factors contributing to industrial instability relates to persistent power shortages caused by low rainfall. Since Tanzania is almost entirely dependent upon hydroelectricity, low rainfall translates into low water levels in hydroelectric dams. In November 2000, the Ministry of Energy and Minerals was obliged to announce the temporary introduction of power rationing, intended to reduce electricity consumption by about 35 percent until the beginning of the next rainy season in January 2001.

Government involvement in the industrial sector, as in all spheres of economic activity, has steadily declined since the early 1990s. The Presidential Parastatal Sector Reform Commission (PSRC), an integral component of the SAPs, continues to scrutinize **parastatals** and push for privatization. By June 1998, 201 firms of the 398 parastatals singled out by the PSRC experienced privatization. It is argued that private firms are more efficient and competitive than parastatals, as they must depend on profit rather than guaranteed government financing in order to continue operation.

SERVICES

TOURISM. Tanzania's tourism sector, which, according to the U.S. State Department, is growing at a rate of more than 8 percent per annum (est. 1999), is one of the country's most important sources of foreign currency. Currently, most of the tourism sector investment is concentrated in the northern part of the country in the so-called

Northern Safari Circuit (Ngorongoro Crater, Serengeti Plains, and Lake Manyara). There, a number of internationally acclaimed hotels provide services to tourists from around the world, particularly Europeans.

Numerous government initiatives have sought to increase investment in the Southern Circuit (Selous Game Reserve, Mikumi and Ruaha National Parks) as well. Though service facilities and infrastructure in this area are poor, the area's diverse wildlife renders it an ideal location for further tourist development. The international donor community has helped finance the rehabilitation of infrastructure in the Southern Circuit, thereby complementing efforts put forward by the Tanzanian government. The government, for its part, recently established the Tanzanian Tourism Board (TTB) to oversee tourist development in the country, though it has renounced its previous policy orientation of controlling the tourist market.

FINANCIAL SERVICES. Legislation passed in August 1991 led to a fundamental **restructuring** of the banking system in Tanzania. Prior to the legislation, the government exercised a complete **monopoly** over the banking sector. Under the old system, the Bank of Tanzania acted as the central bank, while the government-run National Bank of Commerce (NBC) accounted for over 75 percent of the country's financial transactions. Although the Bank of Tanzania has retained its functions, which include the administration of the exchange control, the NBC has been subdivided with the creation of a separate National Micro-finance Bank (NMB). Both the NBC and the NMB are in the process of being privatized.

Since the banking legislation was passed, several private banks have registered with the Bank of Tanzania. In addition to some domestic financial institutions, numerous foreign banks have established operations, including Citibank of New York, Stanbic Bank of South Africa, Standard Charter Bank of Great Britain, EuroAfrican Bank, Akiba Commercial Bank, and Exim Bank.

INTERNATIONAL TRADE

Despite numerous Structural Adjustment Programs designed to increase exports and encourage growth and investment, Tanzania has suffered from a chronic negative **balance of payments** since the late 1970s. Moreover, instead of progressively diminishing, the balance of payments deficit has actually increased. Indeed, in the past 5 years, the country's deficit has grown from US$297.5 million in 1997, to US$528.5 million in 1999.

Tanzania's major exports include coffee, cotton, tea, sisal, tobacco, cashew nuts, and minerals. Together, agricultural exports accounted for 56.8 percent of all exports in 1996, while manufactured products only constituted 16.5 percent of exports. In the same year, the countries of the EU collectively purchased the largest percentage share of Tanzanian exports (42 percent). Interestingly, however, Tanzania's dependence on Europe as a market for exports has substantially declined, as other regions, such as Asia and Africa, have become more important. In 1989, Africa accounted for 4.2 percent of all exports, while Asia accounted for 22.9 percent. By 1996, these figures respectively rose to 11.5 percent and 27.4 percent.

Trade (expressed in billions of US$): Tanzania

	Exports	Imports
1975	.374	.780
1980	.511	1.252
1985	.247	1.324
1990	.415	1.027
1995	.639	1.619
1998	.674	1.454

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Tanzanian imports range the gamut of products, including machinery, transport and equipment (**capital goods**); oil, crude oil, petroleum products, industrial raw materials (**intermediate goods**); and finally, textiles, apparel, and food and foodstuffs (**consumer goods**). In 1996, capital goods comprised 36 percent of imports, intermediate goods 38 percent, and consumer goods 26 percent. Countries of the European Union are the major sources of imports, though their importance has declined considerably as the importance of Asian and African countries have concomitantly increased. In 1989, the EU (then the European Community) accounted for 58.4 percent of Tanzanian imports, Africa 3.9 percent, and Asia 13 percent. By 1996, the figures respectively changed to 42 percent, 11.5 percent, and 27.4 percent. Important African and Asian trading partners (for both exports and imports) include Japan, India, Hong Kong, China, Singapore, Kenya, Zambia, and Burundi.

One of the major criticisms of the IMF/World Bank sponsored SAPs is that trade liberalization will lock countries like Tanzania into a pattern of sustained agricultural exportation at the expense of industry and commerce. At the most basic level, reduction of barriers will mean countries with emerging manufacturing industries will have to compete with much more competitive and efficient manufacturing industries from abroad. The result could be a long-term structural entrenchment of the only economic area in which Tanzania and similar countries can compete internationally: the agricultural sector. This is disadvantageous because international terms of trade accord higher prices to products that contain **value added** (meaning that they undergo a degree of manufacturing),

such as capital goods, than those that contain less or no value added, such as agricultural commodities. Thus, a country like Tanzania that depends, in large part, upon agricultural exports and higher value added imports, will suffer from a negative balance of trade.

This seems to be precisely the situation in Tanzania, where even the pro-trade Economist Intelligence Unit attributes the recent deficit increase to weak international commodity prices for coffee and tea, 2 of the country's most important exports. The free trade rationale that all countries will benefit by individually trading that which they produce more efficiently than their counterparts conspicuously overlooks this crucial dilemma.

At the same time, however, trade liberalization at the regional level may offer positive benefits for participating countries as it can potentially enable them to realize the gains of competition and specialization in an environment characterized by a more level playing field. In other words, if 2 countries such as Tanzania and Mozambique partake in free trade, the competition will be more even, thereby enabling each to exchange a wide array of products, including manufactures and industrial commodities. This, in turn, will facilitate increased production capacity, preparing them to compete more effectively at a global level. Currently, Tanzania is a member of 2 separate regional trading arrangements (RTAs): the East African Community and the Southern African Development Community. The former includes Tanzania, Kenya, and Uganda; the latter comprises Tanzania, Zaire, Zambia, Malawi, and Mozambique.

MONEY

The value of the Tanzanian currency, the shilling, is determined by a free **floating exchange rate** system based on supply and demand in international foreign exchange markets. This means that if the shilling is in high demand in international exchange markets, its value will accordingly increase in relation to other currencies. The value of the shilling, like many other currencies, is normally expressed against the value of the U.S. dollar. Over the past several years, this value has steadily depreciated. In 1995, for example, the **exchange rate** was 574.76 shillings for 1 U.S. dollar. In January 2000, the exchange rate rose to 798.9 shillings for 1 U.S. dollar.

According to the Economist Intelligence Unit, one of the major factors behind the depreciation of the shilling relates to the decline in international commodity prices for the agricultural cash crops on which the export economy depends. The EIU forecasts a further depreciation of 5.1 percent in 2001, increasing to 12.4 percent in 2002. The poor will doubtlessly experience the ramifications of the depreciation process more than any other group, as a devalued shilling means that more money will be needed to purchase needed imports from abroad, such as food and other consumer products.

POVERTY AND WEALTH

Although a small segment of Tanzanians with secure access to employment in the public and business sectors enjoy a relatively high standard of living, the vast majority of Tanzanians live in poverty. Indeed, the **United Nations Development Programme**'s (UNDP) human development index (HDI) listings, which arranges countries according to their overall level of human development, ranks Tanzania 156th out of a total of 174 nations. The HDI, a composite index (one that assesses more than one variable) that measures life expectancy at birth, adult literacy rate, school enrollment ratio, and **GDP per capita**, is indicative of a country's general social and economic well-being. As such, Tanzania's HDI ranking demonstrates that the country is one of the poorest and least developed in the world.

Under the socialist policies of Julius Nyerere, the Tanzanian government focused heavily on achieving social **equity** through the development of a strong health and education sector. Inequality in the early years of Ujamaa was mainly the result of the colonial legacy in which some peasants were connected to the cash crop export economy while others were not. Those that lived in areas favorable for cash crop production enjoyed a slightly higher standard of living than their subsistence peasant

Exchange rates: Tanzania

Tanzanian shillings (TSh) per US$1	
Dec 2000	803.34
2000	800.41
1999	744.76
1998	664.67
1997	612.12
1996	579.98

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Tanzania	N/A	N/A	N/A	175	173
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Kenya	301	337	320	355	334

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Tanzania

Lowest 10%	2.8
Lowest 20%	6.8
Second 20%	11.0
Third 20%	15.1
Fourth 20%	21.6
Highest 20%	45.5
Highest 10%	30.1

Survey year: 1993
Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

counterparts. Though Nyerere's social policies were generous, they were unsustainable in a context of economic crisis and negligible growth. Moreover, many critics, such as Enos S. Bukuku, the author of *The Tanzanian Economy: Income Distribution and Economic Growth,* argue that Nyerere's development policies promoted the modern, nascent industrial sector, at the expense of agriculture. The result was actually increased poverty in the countryside, and the creation of a few highly skilled and highly paid jobs associated with the parastatals and policies of import substitution industrialization.

Today, the cleavage (division; in this case economic) between the general peasantry and those with higher-paying jobs in the urban centers persists, though this type of inequality is characteristic of most countries that are still in the throes of the development process. According to the CIA *World Factbook*, the poorest 10 percent of the Tanzanian population consume a marginal 2.9 percent of total national consumption, while the richest 10 percent consume 30.2 percent. In 1998, the GNP per capita in Tanzania was estimated at a paltry US$220, whereas the GNP per capita in the United States was US$29,240 in the same year.

Social policy in Tanzania is currently guided by the so-called "Vision 2025," a comprehensive framework emphasizing 7 priority areas linked to overall poverty reduction. In 2000–01, the Tanzanian government allocated its budget amid these 7 priority areas as follows: education (23.2 percent), health (8.4 percent), roads (6.4 percent), agriculture (1.0 percent), judiciary (1.0 percent), water (0.6 percent), and HIV/AIDS (0.6 percent). While the government's coherent strategy is a welcomed development, the IMF notes that it needs work in some areas, including education, promotion of agricultural/rural development, gender strategies, and a more comprehensive approach to HIV/AIDS and the environment.

The vast majority of Tanzanians spend their meager incomes on the basic necessities of life, such as food, rent, clothing, fuel, and transportation. Very little is spent on entertainment and recreation, which are considered luxuries for those that live in considerable poverty. To make matters worse, in the past 10 years the increase in the GNP per capita has been grossly outweighed by mounting **inflation**, which means that Tanzanians are having an increasingly difficult time purchasing the commodities essential for human existence. The UNDP estimates that the annual growth rate in GNP per capita between 1990 to 1998 was 0.4 percent, while the average annual rate of inflation during the same period was 24.3 percent.

WORKING CONDITIONS

The Tanzanian labor force stood at 13.495 million in 1999. Although recent statistics on the level of unemployment are unavailable, a 1991 statistical abstract produced by the Tanzanian Bureau of Statistics stated that the unemployment rate in rural and urban areas was 2.2 percent and 10.6 percent, respectively. The higher unemployment rate in the urban areas results from both a lack of economic prospects and a much higher rate of population growth. This latter factor, in turn, stems chiefly from a high rate of rural to urban migration, caused, in large part, by the migrant perception that urban employment is generally higher paying.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Tanzania	67	6	5	4	12	6	0
United States	13	9	9	4	6	8	51
Dem. Rep. of Congo	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kenya	31	9	21	2	8	3	26

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Confronted with the reality of limited opportunity in the urban areas, however, many migrants are obliged to find work in the **informal sector** of the economy, which consists of the wide range of activities that are unregulated and untaxed by the government. Those that work in the informal sector do not enjoy the various employment protections afforded by the government. On the contrary, many informal sector participants, considered nuisances, confront harassment and intimidation by police and government officials. Joe Lugalla, author of *Crisis, Urbanization, and Urban Poverty in Tanzania: A Study of Poverty and Survival Politics,* argues that the informal sector is vital for the livelihoods of the urban poor and that government restrictions and harassment are therefore regressive. Instead, the government could encourage informal activity by abolishing restrictions such as requirements to operate in fixed premises and other bureaucratic restrictions which prevent licensing for certain activities.

The right of association for workers in the formal sector is recognized by the Tanzanian Constitution, though the government-created Tanzanian Federation of Trade Unions (TFTU) is the only trade union organization in the country. The TFTU, which represents 60 percent of workers in industry and government, is comprised of 11 independent trade unions that have the right to separate from the federation and collect their own dues. If this were to happen, however, 5 percent of the dues must be legally contributed to the TFTU.

All workers are permitted to join unions, but "essential" workers are not permitted to strike. In total, only 25 percent of Tanzania's wage earners are organized in trade unions, with most agricultural workers remaining unorganized. Moreover, the right to strike is only granted following complicated and protracted mediation and conciliation procedures. According to the U.S. Department of State, frustrated workers have staged impromptu, illegal, wildcat strikes and walkouts pending resolutions. The Tanzanian's Security of Employment Act of 1964 prohibits discriminatory activities by employers against union members and employers found guilty of such activities are legally required to reinstate workers.

The Tanzanian Constitution prohibits forced labor and work by children under 12 years of age in the formal wage sector in both rural and urban areas. At the same time, children are permitted to work on family farms or in herding domestic livestock. Young persons between the ages of 12 and 15 may engage in industrial employment but only between the hours of 6 a.m. to 6 p.m. Government enforcement of the minimum working age and of regulations governing the rights of young workers, however, is highly inadequate and has reportedly declined with increased privatization. Approximately 3,000 to 5,000 children engage in seasonal employment on various cash crop plantations. They are often paid less than their adult counterparts and are subjected to hazardous and detrimental conditions, especially on sisal plantations. An additional 1,500 to 3,000 children work in unregulated gemstone mines, while thousands assist their parents in unregulated piecework manufacturing in the informal sector. The ugly reality is that for many families suffering from acute poverty, children must work simply in order for the household to survive.

Although there is a legal minimum wage in Tanzania, which equals approximately US$30 per month, it is not always sufficient to provide an adequate standard of living for a worker and family. Consequently, many workers must depend on the extended family, or a second, or even third, job. There is no standard legal workweek for non-government employees, though most employers retain a 6-day, 44- to 48-hour workweek. An occupational health and safety factory inspection system is managed by the Ministry of Labor and Social Welfare and Youth Development to monitor implementation of the several laws that regulate safety in the workplace. Its effectiveness is severely limited. Workers have the right to take an employer to court through their TFTU branch for failure to comply with health and environmental standards, though they cannot remove themselves from dangerous situations without jeopardizing their employment.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

EARLY CENTURIES A.D. Bantu farmers migrate to Southern Africa from the west and south, largely displacing the original ethnic groups that used a click-tongue language similar to that of South Africa's Bushmen and Hottentots.

8TH-12TH CENTURY. Arab, Persian, and Indian traders and immigrants build several highly developed cities and trading states along the coast, including Kibaha, a settlement that held ascendancy until the Portuguese destroyed it in the early 1500s.

1498–1506. The Portuguese explore the East African coast and claim control over the entire area. Control is nominal, however, and the Portuguese are driven out by the early 18th century.

MID-19TH CENTURY. European exploration of the interior begins, led by German missionaries and English explorers.

1840. Sultan Seyyid Said of the Omani Arabs moves his capital from Muscat to Zanzibar, promoting a lucrative trade in slaves and ivory.

1876. The British succeed in forcing Said to abolish the slave trade.

1884. Karl Peters, head of the Society for German Colonization, concludes a series of treaties with chiefs from the interior, establishing a German protectorate over the area.

1886–1890. Anglo-German agreements are negotiated that delineate British and German spheres of influence in the interior. Also, Zanzibar becomes a British protectorate, administered through an Arab sultan.

1905–07. The Maji Maji rebellion against European rule erupts, resulting in a total of 120,000 African casualties from fighting or starvation.

1918. The United Kingdom assumes complete control of Tanganyika.

1954. Julius Nyerere establishes the nationalistic Tanganyika African National Union (TANU).

1956. The Afro-Shirazi Party is founded in Zanzibar, led by Abaid Karume.

1959. The United Kingdom agrees to grant Tanganyika internal self-government and Nyerere becomes chief minister of the new government.

1959. Tanganyika achieves full independence and soon after becomes a republic within the Commonwealth with Nyerere as president.

1963. Zanzibar achieves independence.

1964. Tanganyika forms a union with Zanzibar, thereby creating the United Republic of Tanzania and embarking on a path towards the realization of socialism based on the ideology of *Ujamaa.*

LATE 1970s. Soaring oil prices in conjunction with Ujamaa's villagization policies seriously undermine the economy.

1977. TANU and the Afro-Shirazi Party merge into the Chama Cha Mapinduzi.

1977. Idi Amin's Ugandan invasion of Tanzania costs the Tanzanian government US$500 million to repel, exacerbating the severe economic situation.

1985–86. Nyerere is succeeded by Ali Hassan Mwinyi, who accepts the International Monetary Fund's and World Bank's Structural Adjustment Package (SAP) in order to qualify for further borrowing and a rescheduling of debt payments. The SAP focuses on acquiring **macroeconomic** stability, privatizing the economy, and export promotion.

1995. The first multi-party elections are held, resulting in a CCM victory.

1995. The Enhanced Structural Adjustment Facility is negotiated with the IMF, emphasizing rapid privatization of parastatals.

FUTURE TRENDS

Like many African states and other developing countries, Tanzania has adopted 2 diametrically opposed models of economic organization that have mutually failed to launch the country on a path of sustainable economic development. Indeed, the socialist policies advanced by Nyerere under the rubric of Ujamaa created a weak economy heavily dependent upon aid and loans from foreign countries, international financial institutions, and commercial banks. The free-market policies advanced by Nyerere's successors under the auspices of the IFI-sponsored SAPs have equally failed to rectify the endemic economic crisis.

While a degree of macroeconomic stability has been achieved, especially in the realm of containing inflation, a growing negative balance of payments, a continued dependence on the exportation of weak agricultural commodities, a mammoth debt, and an enormous degree of poverty continue to characterize the economic situation in Tanzania. If nothing else, the major lesson that can be drawn from the Tanzanian experience is that solutions to economic problems based on unbending principles of ideology are bound to fail in one way or another.

While the Tanzanian government continues to base its policies on free market panaceas (cure-alls), the recent IMF and World Bank's Heavily Indebted Poor Countries Initiative (HIPCI), which reduces the debt-servicing obligations of Tanzania and other heavily indebted poor countries, may enable the government to spend more money on needed social services. The aim of the HIPCI is in fact to accomplish exactly that, with the ultimate intention of creating a more educated labor force and thus a more skilled economy. This is certainly a step in the right direction, though it is doubtful that such a measure will succeed on its own.

DEPENDENCIES

Tanzania has no territories or colonies.

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—Neil Burron

TOGO

Togolese Republic
République Togolaise

CAPITAL: Lomé.

MONETARY UNIT: Communauté Financière Africaine franc (CFA Fr). The CFA franc is tied to the French franc at an exchange rate of CFA Fr50 to Fr1. One CFA franc equals 100 centimes. There are coins of 5, 10, 50, 100, and 500 CFA francs, and notes of 500, 1,000, 2,000, 5,000, and 10,000 CFA francs.

CHIEF EXPORTS: Ginned cotton, coffee, cocoa, phosphate.

CHIEF IMPORTS: Consumer goods, foodstuffs, petroleum products.

GROSS DOMESTIC PRODUCT: US$8.6 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$400 million (f.o.b., 1999 est.). **Imports:** US$450 million (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Togolese Republic is situated in West Africa. It is a narrow rectangle of land which extends north from the Bight of Benin, on which it has a small coastline of 50 kilometers (31 miles). To the west lies Ghana, to the east is Benin, and Burkina Faso borders on the north. It has a land area of 56,785 square kilometers (21,925 square miles), making it slightly smaller than West Virginia. Lomé, the capital city, is situated on the coast and is the only city with an international airport.

POPULATION. In mid-1999 the United Nations estimated Togo's population at 4.5 million. With an average annual population growth of 2.6 percent, the population is projected to grow by the year 2025 to 8.5 million. Some 31 percent of the population lives in towns, which have an urban growth rate of 4.8 percent. Togo has a young age profile, with half the population aged less than 14 years. Life expectancy in Togo is 48.8 years. Although infant mortality is down from 110 per 1,000 births in 1980 to 70 in 1995, it remains high. (In the United States, by way of comparison, the rate is 7 per 1,000 births). Fertility rates remain high, with an estimated average of 6.05 children born per woman. The country's workforce stands at 1.74 million and this comprises about 41.7 percent of the population.

The largest ethnic group, the Ewe, live predominantly in the south and on the coast, and have cross-border ties to Ghana. Also in the south live the Mena and the Ana. The Kabre people are concentrated in the Kozah and Binah prefectures of the Kara region in the north. The Losso and Tchokossi live in north Lamba. The Bassar inhabit Central Kotokoli and Kotokoli, and have strong links to northern Ghana. The population is 10 percent Muslim, one-third Christian, and the remainder follow traditional beliefs.

OVERVIEW OF ECONOMY

Togo is a small economy in terms of the total value of its output. This is because the population is small, at around 4.5 million, and the **GDP per capita** in 1999 was very low at US$1,700 a year (by way of comparison the U.S. figure is US$33,900 per capita). The population is growing rapidly, at 3.4 percent a year, which adds to the problems of generating higher incomes. Most people (66 percent of the total) depend on agriculture for their livelihoods, mostly from small family farms. The economy of Togo has not performed well in recent years. Output has increased less rapidly than population, and average living standards have fallen. The agriculture sector has performed better than industry and services, however, and agricultural output per person has increased in recent years.

Togo is by all accounts a severely underdeveloped country. Low income levels mean that most income is devoted to subsistence, and more than 80 percent of GDP

goes to private consumption. Savings (7 percent of GDP) and investment (13 percent of GDP) are both low. But underdevelopment is more than just a matter of income levels. The United Nations (UN) includes education and health as well as income in its Human Development Index, and the problems in both these areas helped place Togo 145th out of the 174 countries listed by the Human Development Index in 1998.

There are, however, some bright spots in Togo's economic picture. Mineral exploration in 1998 showed oil deposits in Togo waters, which may be exploited if shown to be viable. Hoping to attract investment, the government inaugurated what it calls an "industrial **free zone**" (actually, a free trade zone) with fiscal benefits in exchange for company guarantees on export levels and employment. And electricity imports fell after the completion in 1988 of a hydroelectric dam, built in conjunction with Benin.

In 1994, Togo embarked upon a strategy to achieve currency and other fiscal stabilization in consultation with the IMF. This program has been delayed due to political instability. The IMF has also since been very critical of the government's loss of momentum in tightening public finances. In the lead-up to the election in 1998 the government overspent, which meant the **budget deficit** grew to 6.7 percent of GDP, well outside the IMF guidelines of 3 percent of GDP. There is pressure to establish effective control of the budget and to reduce **public sector** wages, with spending reallocated to poverty alleviation and other high priority issues. Despite efforts to rationalize and broaden the tax system, heavy deficits were still recorded. In the 2000 budget many cutbacks were made. Health spending decreased by 16.3 percent, defense spending decreased by 17.7 percent, presidential office spending decreased by 32.7 percent, and expenditures by the prime minister's office decreased by 51.1 percent. However, the government is still dependent on foreign aid to cover the US$40 million deficit.

Togo is a member of the CFA Franc Zone, with its currency linked by a **fixed exchange rate** to the French franc. This provides a convertible currency with other countries that share the CFA franc and **exchange rate** stability. However, in order to achieve this, Togo has agreed to give control of its **monetary policy** to the regional central bank of the CFA Franc Zone, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). Since more rapid **inflation** makes it difficult to maintain the fixed exchange rate, the money supply is under the control of the BCEAO. The BCEAO changed its 1980s policy of expansion and started to restrict credits to the private and government sectors in the early 1990s, which meant a slowdown in the growth of the money supply. As inflation fell after a 1994 **devaluation** of the currency, BCEAO was able to ease its monetary policy by reducing interest rates from 19.5 percent (1994) to 6 percent (1997). In 1998 BCEAO raised interest rates to 6.25 percent and increased commercial bank minimum **reserve ratios** (which restrict the banks' ability to lend) to forestall inflation. In 1999 the CFA franc became tied to the

euro (the European Union's common currency) at a rate that reflected the euro's relationship to the French franc. A smooth transition meant that the BCEAO was able to cut interest rates to 5.75 percent, making it easier for people and business to borrow money.

Steady economic growth in the 1970s (averaging about 4 percent) gave way to low growth in the 1980s, with GDP growth becoming less than population growth, leading to a reduction in GDP per capita. Political and social unrest in the early 1990s meant that GDP contracted by 3.7 percent in 1992 and 13.7 percent in 1993. The situation was aggravated by depressed world commodity markets and an economic crisis in the West African Franc Zone.

After a return to relative domestic normality and devaluation in 1994, the economy had a positive, if patchy, recovery. **Real GDP** increased by 16.7 percent in 1994 (albeit from a very low base), 6.8 percent in 1995, and by 9.7 percent in 1996. Growth fell back to 4.3 percent in 1997, but it became negative in 1998 (at -1.3 percent) due to the energy crisis. GDP growth rallied in 1999, on the back of a good harvest, to 3.5 percent. This improvement partly reflected higher phosphate production, but manufacturing, which is still state dominated, suffered due to weak demand and inefficiency.

On average, consumer inflation is normally around 5 percent or less. In 1994 the CFA devaluation caused inflation to rise to approximately 40 percent, although it fell back down over the next 2 years. Inflation then rose again to 8.7 percent in 1998 due to an increase in the **value-added tax** (VAT), higher oil and food prices, and increased government spending. By 2000, however, inflation had settled to the targeted 3 percent, and is expected to remain at this level.

POLITICS, GOVERNMENT, AND TAXATION

Politics have been dominated since 1967 by President Gnassingbé Eyadema, Africa's longest-serving head of state. Despite the introduction of a multi-party system in 1992 and elections in 1994, democracy still seems a long way off. The 1998 elections were boycotted and were deemed flawed by outside observers. A process of national reconciliation was forced on the president by the donor community, and talks with opposition groups resumed with a promise of a re-run of elections in 2000. Most bilateral and multilateral aid remains frozen, and the country has had a poor human rights record.

Togoland was originally a German protectorate from 1884 until the end of World War I. Britain and France split Togoland after the war and ruled under a League of Nations mandate. The western sector was controlled by Britain as part of the Gold Coast, which went on to become Ghana. French Togo became independent in 1960. The first leader, Sylvanus Olympio, was assassinated in 1963, and the army appointed a civilian, Nicolas Grunitzky, to rule. Four years later the army overthrew Grunitzky, and Colonel Eyadema took over control of the government. Eyadema formed the Rassemblement du Peuple Togolese (RPT) party in 1971 and drew civilian **technocrats** into government. Cabinet reshuffles in the late 1970s were designed to add legitimacy to the military regime.

A constitution based on universal suffrage was introduced in 1979, but the RPT remained the only legal party. After demonstrations and international pressure, Eyadema called a national conference in April 1991. A transitional government was appointed with opposition representation and was led by a lawyer, Joseph Koffigoh. However, the new government came under attack from the president's armed forces. Trade unions and opposition parties launched a general strike in 1992 which lasted for 9 months. A quarter of a million Togolese took shelter in neighboring countries from massacres perpetrated by the armed forces. The presidential election in 1993 was held amid further violence. The opposition boycotted the presidential election, only a third of the electorate voted, and all international observers (with the notable exception of France) rejected Eyadema's victory.

There was a legislative election in 1994. Two opposition parties gained 43 seats out of 81 in the assembly and hence the majority. The pro-Eyadema parties gained 37 seats, with Koffigoh's party winning only 1 seat. The major opposition party, the Union of Forces for Change (UFC), boycotted the election. Eyadema maintained supremacy by convincing the opposition leader, Edem Kodjo, to form an RPT-dominated government. In 1996 Kodjo was thrown out and a technocrat with links to Eyadema took control.

In the lead-up to the 1998 election there were opposition protests, social unrest, and military repression, although not nearly on the same scale as in the early 1990s. After chaos on election day, during which vote-counting stopped, the multi-party election was abandoned and Eyadema was proclaimed the winner. However, this led to violent demonstrations in Lomé. All 5 major opposition party leaders supported the claim of Gilchrist Olympio (son of the former leader and head of the UFC) that he won with 59 percent of votes. International observers condemned the result.

Legislative elections were held again in 1999. There is a National Assembly of 81 seats, with members elected for 5-year terms. The main opposition parties boycotted the election and the RPT gained all but 3 seats. There was much international pressure, including European Union threats to strike Togo off the Lomé Convention (a

European Union aid program which compensates certain African and Pacific countries when the prices of their export products fall on world markets). This led to the government and opposition having reconciliation talks, mediated by the European Union and other bodies. A framework agreement was signed in July 1999 to hold a new election by March 2000, with an independent electoral commission. Disagreements have delayed this election, which may not take place until late 2001.

Eyadema remains in power with the support of the army. He has stated that he will not run in the 2004 election, although he has been known in the past to change his mind.

Government revenue comprises around 30 percent of GNP. Of this, about a third comes from taxes on incomes, profits, and capital gains, and a further third from customs **duties**. Of the rest, about 15 percent comes from **indirect taxes** on goods and services, and 14 percent is generated by government enterprises (mainly the surpluses from the phosphate sector).

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Togo's main port and growing road transport sector have an important role in the sub-regional economy. The commercial and transport sector earns 35 percent of Togo's GDP. Togo has 9,600 kilometers (5,965 miles) of roads, 1,600 kilometers (994 miles) of which are paved. The World Bank has introduced a US$200 million transport **infrastructure** program, which was instituted in 1997. Parts of the 700 kilometer (435 miles) north-south road (the main road to Burkina Faso) have already been rehabilitated. The main east-west road which links Togo to Benin and Ghana also has money earmarked for rehabilitation. The railway network is limited and needs modernizing. There are 275 kilometers (171 miles) of track leading from Lomé to Blitta, and 262 kilometers (163 miles) from Kpalimé to Aného.

Lomé's deep-water port has benefitted from undercapacity in other countries and competes successfully within the region. In the 1970s the port grew rapidly, reflecting increased trade with Niger, Burkina Faso, and Mali. Togo's social upheaval and a general regional economic downturn has led to a trade slump, with **re-exports** dropping from 2.7 million metric tons to 1.1 million metric tons in 1993. Under a government **privatization** program, new installations are planned, including computerization to speed up loading and unloading in order to make the port competitive.

Telecommunications are operated by Togo Telecom, which is a **parastatal**. Togo Telecom sought to increase the number of telephone lines in the country from 21,500 in 1998 to 30,400 in 2000. The company has been slated for privatization since 1997. One of its subsidiaries, Togocellulaire, manages the digital network, which had 6,000 subscribers by the end of 1998.

Apart from the government-run *Togo Presse*, there are several outspoken opposition newspapers. Since 1998 privately-owned television and radio stations have been allowed to operate alongside the parastatals.

In a US$400 million agreement with Nigeria, Ghana, and Benin in 1999, Togo hopes to find a solution to its energy supply problems. A gas pipeline will supply industry and power stations in recipient countries, which should reduce Togo's dependence on Ghana's unpredictable hydroelectricity supply. The pipeline should be in operation by 2002, and is funded by ECOWAS, the World Bank, the United States, and Italy, and will be managed by Chevron Oil of the United States. The problems of Togo's dependency on Ghana for energy were highlighted in 1998, when it received less than 5 percent of its requirements for electricity, severely disrupting the economy.

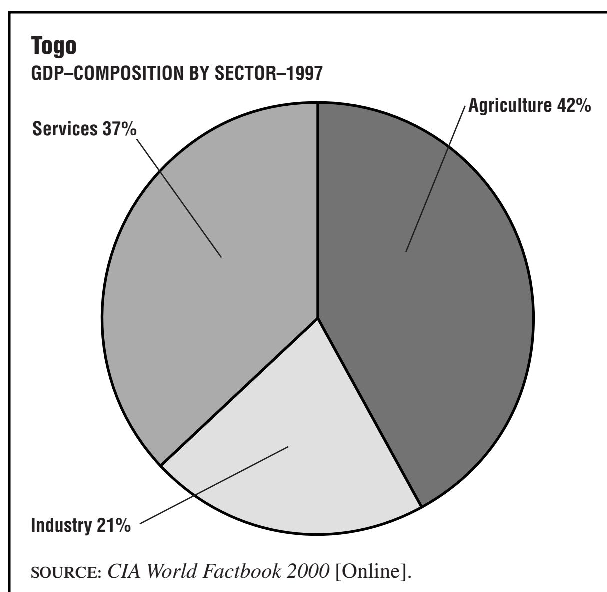
CEET, the Togolese electricity company, still relies heavily on Ghana. The hydroelectric dam that is jointly owned by Togo and Benin has produced output only sporadically. In 1996 CEET produced 35.1 million kilowatt-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Togo	4	218	18	N/A	2	4.1	6.8	0.17	15
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Nigeria	24	223	66	N/A	0	N/A	5.7	0.00	100
Benin	2	108	10	N/A	1	0.2	0.9	0.04	10

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

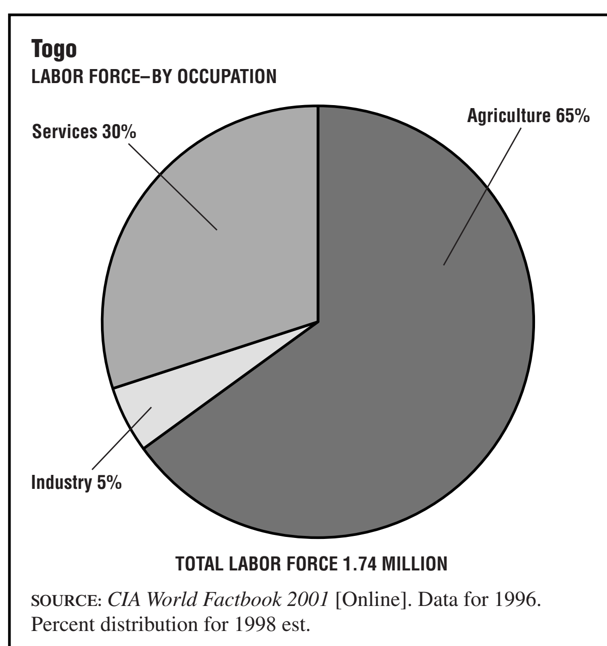


SOURCE: *CIA World Factbook 2000* [Online].

hours, but 349.3 million kilowatt hours (kWh) were required. CEET has also been earmarked for privatization.

ECONOMIC SECTORS

The agricultural sector provided 42.1 percent of Togo's GDP in 1997, and was responsible for 65 percent of employment. Core food crop production and livestock rearing make up most of the sector's output. Togo is self-sufficient in beans, ground nuts, yams, cassava, and sweet potatoes. Roughly 20 percent of cereals are imported. Export crops—including cotton, coffee, and cocoa—account for 20 percent of agricultural output.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1996. Percent distribution for 1998 est.

The industrial sector is dominated primarily by phosphate production, which is the principal foreign exchange earner. The sector provided 21 percent of GDP in 1997 and employed 5 percent of the active population. Industry in Togo is also involved in agro-processing, construction, and energy. The government has recently set up a small Export Processing Zone in Lomé, which is designed to lure foreign companies who can take advantage of relaxed labor laws and hold large foreign exchange accounts.

The services sector (which includes commerce, transport, and tourism) provided 37 percent of GDP and 30 percent of employment in 1997.

AGRICULTURE

Agriculture is the most important sector to most Togolese. It employs two-thirds of the active population, who predominantly work on small land holdings. Food crops (mainly cassava, yams, maize, millet, and sorghum) account for two-thirds of production, and are mostly used domestically. Togo's **cash crops** are mainly cocoa, coffee, cotton, and to a lesser extent, palm oil. These cash crops provide a valuable return for small farmers, and they provide 40 percent of exports. Some foodstuffs need to be imported. The main imported foodstuff is rice, although production has increased 6-fold since the mid-1980s. Production increased by 9.1 percent in 1999 due to good weather, although depressed world prices for exports affected Togo (especially in cotton).

Agricultural exports are dominated by cotton. The cotton production sector employs 230,000 people, predominantly small farmers. Cultivation has expanded rapidly since the mid-1980s. Output has quadrupled from the 1985–1986 season to 200,000 metric tons in 1998, stabilizing at 190,000 metric tons in the 1999–2000 season. About 163,420 hectares were under cotton cultivation during the 1999–2000 season. Soil degradation is likely to become a problem.

Most farmers are under contract to the state-owned marketing board, Sotoco. In 1995 Sotoco lost its **monopoly** on processing and the external marketing of cotton, and a private company, Sicot, was given export and processing rights. Sotoco still has a dominant purchasing position and is the sole provider of fertilizers and pesticides. Several new ginning plants opened in the late 1990s, and they should be running at full capacity by early 2001.

Cocoa and coffee production appear less important than cotton, but unrecorded cross-border trade distorts the figures. Togo's production of these 2 commodities is small compared to its neighbors, producing 13,000 metric tons of coffee and 9,000 metric tons of cocoa in 1998.

The state-owned OPAT was in charge of marketing, processing, and exporting until 1996, when private companies were introduced.

INDUSTRY

Togo is the world's fourth-largest phosphate producer. Phosphate is a mineral used to produce fertilizers. Reserves are estimated at 260 million metric tons of first-class phosphate and 1 billion metric tons of carbonate phosphate. Deposits were found in 1952 not far from Lomé. The good geological characteristics and geographical position led to a low cost for extraction.

Established in 1974, the parastatal OTP has a monopoly on phosphates. Annual production was around 3.3 million metric tons in 2000, and OTP employed 2,200 people. After expansion during the 1980s, the industry suffered in the 1990s. In 1993 production was only 1.79 million metric tons, and prices bottomed at US$33 per metric ton, putting the company on the verge of bankruptcy. The devaluation of the CFA franc in 1994 restored the profitability of the phosphate industry. In 1997 output was 2.69 million metric tons, which realized US$110 million, though production fell in 1998 to 2.24 million metric tons. Although the industry looks good in the short term, it is likely to face growing international competition, especially as world phosphate fertilizer demand is falling. After World Bank negotiations, 40 percent of the OTP is to be privatized, mainly to outside investors.

The overvaluation of the CFA franc in the early 1990s hit the industrial sector hard. In addition, it was not helped by the political instability of the early 1990s, when industry's GDP contribution fell by a fifth. Once order was restored, and following the devaluation in 1994, industry's GDP contribution grew by 26 percent, and 20 percent in 1995, before settling to around 5 percent growth in 1997. Industrial activity recovered in 1998 after 2 bad years, despite the 1994 devaluation boost. The privatized construction sector led the recovery. In November 1999, the International Finance Corporation (IFC), the agency of the World Bank which lends to the **private sector**, announced a US$6 million loan to the building materials sector.

A duty-free "Export Processing Zone" was launched in 1989, and now includes 41 industrial units, which involve a US$50 million investment and 7,000 new jobs. It has attracted international interest, predominantly French, and advantageous terms for foreign investors if they export 80 percent of their production and give jobs to Togolese.

SERVICES

A recent World Bank report shed doubt on the stability of Togo's banks, once thought to be amongst the most stable in West Africa, following the crises of the 1990s, during which period many banks suspended activities. The commercial banks, already faced with falling deposits and increased lending, also had to absorb public sector deficits in the early 1990s. Weak capital flows and stagnant exports led to a US$24 million decrease in bank assets by 1990–94. Credit grew by US$12 million in the same period, reflecting increased lending, while the government indebtedness increased by US$19 million. This meant that banks had to borrow heavily from BCEAO. The 2 state-owned banks fared the worst, and accounted for 74 percent of all lending and 62.5 percent of all deposits. The rest of the sector is shared between a variety of foreign banks, including French and Belgian interests.

In 1993, the hotel industry included 4,163 beds and employed 1,309 people. During the problems of the 1990s, hotel occupancy dropped to less than 20 percent of capacity. International arrivals halved, and visitors stayed on average only 3.5 nights. The 80,000 arrivals were a record in 1996, although many of these were business travelers and returning Togolese. Several state-owned hotels have been slated for privatization, and the government has allowed foreign leasing of the more prestigious hotels.

INTERNATIONAL TRADE

For the past 20 years Togo has had a net **trade deficit**, reaching $50 million in 1999, with exports at US$400 million and imports at US$450 million. Exports and imports both contracted in 1992 and 1993, but in 1994 the currency devaluation boosted agricultural exports, which meant that the trade deficit fell to $37 million from US$111 million in 1993. The main destinations for exports in 1994 were France, Benin, Ghana, and Canada, while imports came from France, Germany, Côte d'Ivoire, and China.

In 1998 trade revenue from cotton and cocoa fell, despite an increase in the volume exported, due to unfavorable world prices. However, phosphate exports increased both in terms of volume and revenue collected.

Trade (expressed in billions of US$): Togo

	Exports	Imports
1975	.126	.174
1980	.338	.551
1985	.190	.288
1990	.268	.581
1995	.208	.386
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Togo

Communauté Financière Africaine francs per US$1	
Jan 2001	699.21
2000	711.98
1999	615.70
1998	589.95
1997	583.67
1996	511.55

Note: From January 1, 1999, the CFA Fr is pegged to the euro at a rate of 655.957 CFA Fr per euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Re-exports increased in 1998 (as in every year since 1994), and accounted for 20 percent of exports in 1998. France is historically the main importer of goods, but the suspension of aid led to a decrease in French imports and an increase in Chinese imports. However, the published data underestimate cross-border trade with Benin, Ghana, and Nigeria, much of which goes unrecorded.

MONEY

Togo is part of the 8-member Union Economique et Monetaire Ouest-Africaine (UEMOA) and uses the CFA franc. The BCEAO issues currency notes and regulates credit expansion throughout the region. The CFA franc was pegged to the French franc at a 50:1 exchange rate from 1948, but was overvalued in the late 1980s; the 1994 devaluation dropped the value to a 100:1 exchange rate. With France having joined the European Monetary Union, the CFA franc is now valued at CFA Fr 655.959 to 1 euro.

POVERTY AND WEALTH

Togo is a poor country; GDP per capita stood at $1,700 in 1999, and 32 percent of the population was thought to be living below the poverty line (according to 1987–89 estimates).

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Togo	411	454	385	375	333
United States	19,364	21,529	23,200	25,363	29,683
Nigeria	301	314	230	258	256
Benin	339	362	387	345	394

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Education provisions have deteriorated in Togo in recent years. The one university, the University of Benin, was established in 1970. Originally designed for 6,000 students, it currently is trying to cope with 17,000, which has led to many campus demonstrations. A second university is planned in Clara, Eyadema's hometown, but its development is at a standstill due to the political situation.

Education has suffered during the 1990s due to demographic pressures and the freeze on hiring civil servants. A World Bank-sponsored scheme to provide 6,000 primary-level educators is under way. Despite these problems, Togo has traditionally had good education standards for a sub-Saharan African country. The **United Nations Development Program** (UNDP) put adult literacy in Togo at 53.2 percent in 1997, with 82.3 percent of primary school age children attending school and 58.3 percent of children of the appropriate age attending secondary school. The government provided 24.7 percent of the money required for education. However, gender imbalances are rife throughout the education system. Roughly 43 percent of males and only 31 percent of females are literate in Togo, according to the U.S. Department of State.

Togolese health care has struggled due to a lack of resources and population growth. The number of AIDS cases is expected to increase up to 2005, when the number of new cases is expected to stabilize and then begin a slow fall, although this depends on the success of AIDS education programs. In 1993 there were 6 doctors and 31 nurses per 100,000 population, and this figure is unlikely to change in the near future. Regional disparities are huge, as 50 percent of all medical staff work in the capital. Infant mortality stands at 78 deaths per 1,000 live births, and 125 children per 1,000 die before the age of 5. The maternal mortality rate stands at 640 per 100,000. In 1997 there were 185 AIDS cases per 100,000.

WORKING CONDITIONS

A Labor Tribunal is provided for in Togo's judicial system. The Collectif des Syndicates Independents (CSI) was founded in 1992 and is a coordinating body for labor organizations. The other main trade union in Togo is the Confederation Nationale des Travailleurs de Togo (CNTT), which was affiliated with the RPT party until 1991. The trade unions can be militant in Togo, as was shown in a 9-month general strike in 1992.

In the 1990 budget a mere US$1.2 million was spent on social security and welfare. Togo has no minimum wage. The **labor force** was estimated at 2 million in 1998, of which 40 percent were women. Unemployment figures have little significance in Togo. There are very few people with no work at all, but few people work at what is considered **full employment**, and much work is informal or subsistence labor. There are no unemployment benefits,

and those who do not work tend to rely on support from charities or their families. Many people would like a modern sector job, but eke out an existence on family farms or in casual **informal sector** activities in the urban areas.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1884–1919. Togoland is a German protectorate.

1919. Britain and France take Togoland from Germany during World War I; they split the country—with France ruling French Togoland—and rule under a League of Nations mandate.

1960. On April 27, the newly named Republic of Togo becomes independent, and Sylvanus Olympio is elected president under a provisional constitution.

1963. President Olympio is assassinated by army officers, and Nicolas Grunitzky leads a provisional government as prime minister and, later, as president.

1967. President Grunitzky's government is overthrown by the military, and Colonel Etienne Gnassingbé Eyadema takes control.

1972. Eyadema is reelected to the presidency in a national referendum in which he is the only candidate.

1979. Eyadema is reelected once more in elections in which he is the only candidate. A new constitution provides for a national assembly which will consult with the president, but Eyadema holds all the power.

1991. Facing pressure from pro-democracy protestors, Eyadema agrees to a transitional government leading up to free elections. Kokou Joseph Koffigoh is selected as prime minister, and Eyadema's powers are limited.

1992. Fearing that Eyadema will not relinquish power, trade unions and opposition parties launch a general strike, which lasts for 9 months and decimates Togo's economy.

1993. Presidential elections are held, but alleged fraud keeps many opposition parties and voters away. Eyadema wins with 96 percent of the votes and declares the success of democracy in Togo.

1994. Multiparty legislative elections are held, giving parties opposed to Eyadema's RPT control in the legislature. Edem Kodjo is named prime minister but has little power in a country that is still dominated by Eyadema.

1994. The CFA franc is devalued, leading to a surge in exports for Togo.

1998. Presidential elections are again boycotted by the opposition and deemed flawed by outside observers. Eyadema retains presidency.

1999. CFA franc becomes tied to the euro. Legislative elections are won by Eyadema's RPT.

FUTURE TRENDS

It is very difficult to have economic progress without a platform of political stability, as both domestic and foreign investors are unwilling to risk their resources unless they are confident that they will be secure. In the Togolese context, the lack of consensus over the operation of the political system between the government and the opposition parties is the main worry for international donors and the business community. Until these matters are resolved, Togo cannot expect to make progress in improving the living standards of its people.

Disagreements between the opposition and the ruling parties may lead to such a delay that new legislative elections (to replace the elections in 1999, widely seen as flawed) may not be carried out until the end of 2001. European Union aid will resume if new elections are seen to be free and transparent. It is likely that the United States and the IMF will follow suit. The government plans to restore stability to public finances, including the banking and financial sectors, and to revive the privatization process. Real GDP is expected to grow to 3.5 percent in 2001, and 3.8 percent in 2002, thanks to external assistance. Assuming a satisfactory harvest and a downturn in oil prices, inflation is forecast to fall to 2 percent in 2001 and 1.5 percent in 2002. Aid inflow means Togo's economy can be expected to improve between 2001 and 2002.

Following international pressure, a national independent electoral commission will oversee the 2001 election. The president has strengthened his international position through the presidency of the Organization of African Unity (OAU). A joint UN and OAU investigation is underway into the murder of political opponents in the 1998 election.

Though there has been little increase in revenue, a decrease in public expenditures has resulted in a lower deficit. In 2000 the economy was recovering from the 1998 **recession**, helped by an agricultural upturn and by the fact that the OAU summit was held in Lomé. Cotton output is estimated to have fallen to 110,000 metric tons in 2000 due to uneven rainfall, but cereal and coffee production both increased in the 2000–2001 season. The new Togo, Benin, and Nigeria power scheme should improve Togo's power situation.

DEPENDENCIES

Togo has no territories or colonies.

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—Jack Hodd

TUNISIA

Republic of Tunisia
Al-Jumhuriyah at-Tunisiyah

CAPITAL: Tunis.

MONETARY UNIT: Tunisian dinar (TD). One Tunisian dinar equals 1,000 millimes. The notes in circulation are 5, 10, 20, and 30 dinars, and there are coins of 5, 10, 20, 50, 100, and 500 millimes, and 1 dinar.

CHIEF EXPORTS: Textiles, machinery, electrical equipment, phosphates, chemicals, olive oil, hydrocarbons.

CHIEF IMPORTS: Textiles, mechanical and electrical equipment, vehicles, petroleum and derivatives, iron and steel, plastics, cereals.

GROSS DOMESTIC PRODUCT: US$52.6 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$5.750 billion (1998). **Imports:** US$8.338 billion (1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. Situated in northern Africa, Tunisia is bordered by Algeria on the west and Libya on the southeast and by the Mediterranean Sea on the north, where it has a coastline of 1,148 kilometers (713 miles). Tunisia has an area of 163,610 square kilometers (63,169 square miles), making it slightly larger than the state of Georgia. Its capital city of Tunis is located on the country's northern coastline.

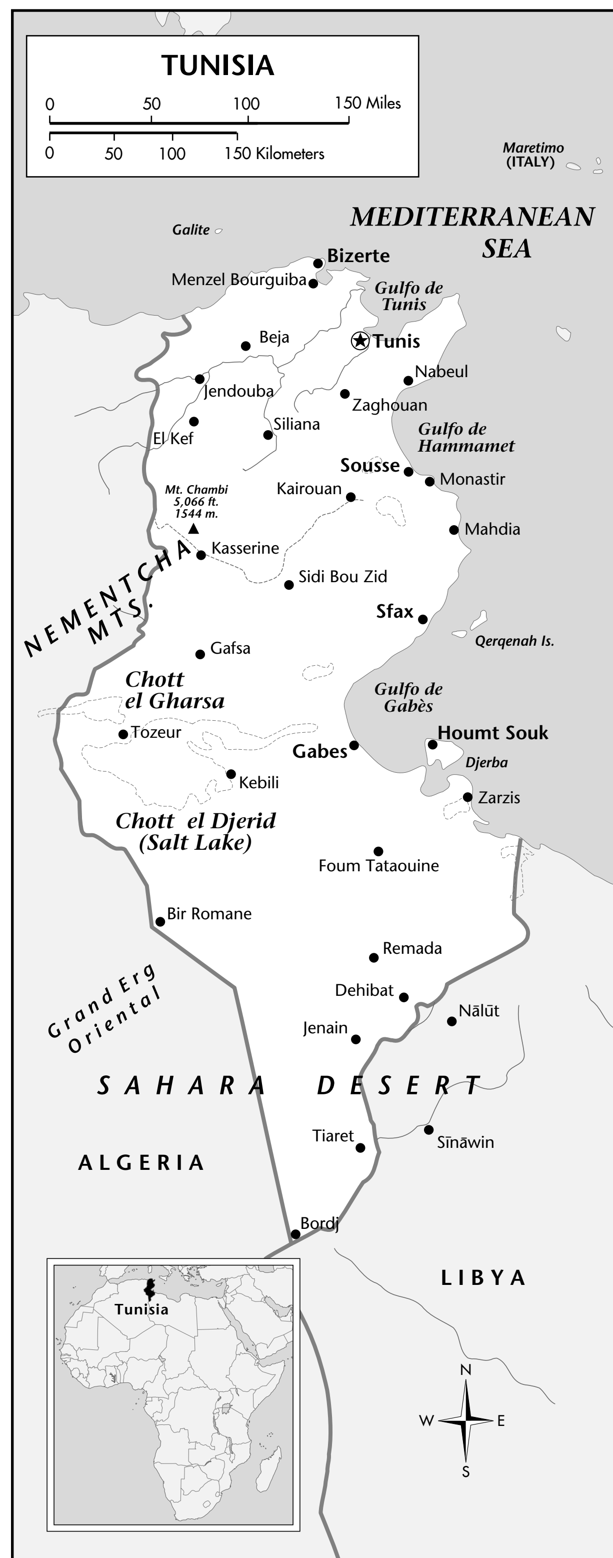
POPULATION. Tunisia's population was estimated at 9,593,402 in 2000, compared with 8,790,000 in the 1994 census. In 2000 the birth rate was 17.38 births per 1,000 population while the death rate was 4.98 deaths per 1,000 population. The population is expected to reach 11.2 million by 2015 with a projected annual population growth rate of 1.17 percent.

The Tunisian population is almost entirely of Arab descent (98 percent). Europeans make up 1 percent of the population, and Jewish and other ethnic groups make up the rest. Tunisia's population is young: 30 percent of the people are below the age of 14, and only 6 percent are older than 65. The population is increasingly concentrated along the eastern coast, with 43 percent either living in the capital city or on the mid-eastern and northeastern coasts. There has been a large population shift from the countryside to the cities due to increased job opportunities in the urban areas; since 1984, 86 new towns have been created.

Tunisia was the first Arab country to initiate nationwide birth-control programs. Since the creation of the Department of Family Planning and Population in 1966, the birth rate has fallen sharply, from 3 percent in 1966 to 1.17 percent in 2000. This drop is the result of an increase in the standard of living, widespread access to education, and improved health care. The number of women who are entering the **labor force** increased by 12 percent in 2000, and women's rights are actively promoted.

OVERVIEW OF ECONOMY

When Tunisia achieved its independence from France in 1956, a 1-party state was established by President Habib Bourguiba. During his 31-year tenure, economic policy focused on state ownership and high levels of protection from outside competition. At this time the economy was based primarily on agriculture, oil, and phosphates. Although this degree of government control led to inefficiency and waste, the economy remained stable due to revenue from the export of oil and phosphates during the 1960s and 1970s. The collapse of the price of oil in the 1980s meant that Tunisia could no longer rely on oil as its principal source of foreign exchange. Tunisia's agricultural and tourism sectors deteriorated simultaneously. Under advice from the International Monetary Fund (IMF), Tunisia promptly adopted a 3-pronged program of structural adjustment: to reduce the size of the **public sector**, to reduce **tariff** barriers, and to create a stable **macroeconomic** climate.



Following the adoption of the adjustment program in 1986, the Tunisian economy has shifted from being largely state-controlled to being based on market principles. The economy is now diverse, with a large services sector, a healthy tourism industry, and a growing manufacturing sector. Despite these improvements, the Tunisian government is still faced with a serious unemployment problem. In 2001, there were 480,000 unemployed Tunisians, or 15.4 percent of the workforce.

As the economy improved, the amount Tunisia received in Official Development Assistance more than halved, from US$559 million in 1990 to US$278 million in 1995. Since 1996, the European Union has been the main source of assistance, with France, Italy, and Germany as the main donors. Tunisia's **external debt** remains high, having risen from US$3.5 billion in 1980 to US$11.078 billion in 1998. Most of this debt is owed to private creditors, and the Tunisian government has issued international bonds (financial notes promising repayment of a given amount by a given date, plus interest).

POLITICS, GOVERNMENT, AND TAXATION

After gaining independence from France on 25 March 1956, Tunisia became a republic headed by President Habib Bourguiba, who promptly assumed the title, "president for life." Since his ascension to office, Tunisia has been largely a 1-party state. The president's left-wing party, the Socialist Destourien Party (PSD), is dominated political life and punished its opponents with censorship and imprisonment. The 1960s saw a short-lived **socialist** experiment that finally gave way to increased economic **liberalization** in the 1970s under the influence of Prime Minister Hedi Nouira. By the middle of the 1980s, the state started to face serious problems as the ailing Bourguiba became increasingly unable to effectively rule the country. Bourguiba's presidency was marked by serious economic instability towards the end of the 1980s, followed by serious civil unrest. A party called the Islamic Movement (MTI), an effective organization with a large base of support, challenged the government's stability. In response to this movement, the president appointed General Zine al-Abidine Ben Ali, a former head of the security services, to be the minister of the interior. His main task was to dismantle the MTI. Following thousands of arrests and the successful dismantling of the MTI, the president appointed Ben Ali the prime minister.

According to the terms of the Tunisian Constitution and based on the opinion of a team of medical doctors who declared Bourguiba unfit to govern, Prime Minister Zine El Abidine Ben Ali assumed the **duties** of president on 7 November 1987. Ben Ali started to dismantle the old oppressive regime by allowing increased freedom of the press, releasing political prisoners, and legalizing political parties. The PSD party was renamed the Rassemblement Constitutionnel Democratique (RCD) and legislation was passed implementing a multi-party system.

Today there are 6 legal opposition parties in Tunisia, but most of them lack the necessary resources to be effective, and they are still prohibited from criticizing government policies. President Ben Ali's government has brought with it economic and political stability, focusing extensively on health care, women's rights, and education. Despite these reforms, Tunisia is still essentially a 1-party state.

The principle source of revenue for the Tunisian government is taxation. According to the EIU Country Profile, more than 50 percent of government revenues come from **direct taxation** and 40 percent from domestic or foreign borrowing. In 2000, the corporate rate of taxation in Tunisia was set at 35 percent, except for those businesses involved in the fishing, agriculture, or handicraft industries, which are taxed at a 10 percent rate. Normal business expenditures such as depreciation (the decline in value of a physical asset as it is used over time), social security contributions, and costs are deductible. Due to generous government incentives, exporting businesses are exempt from all major taxes in Tunisia. Personal **income tax** is paid on a progressive basis ranging from 15 to 35 percent. Non-residents have to pay tax only on income earned from Tunisian sources. There is a 17 percent **value-added tax** (VAT) on sales that is applicable to most items and transactions.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Since 1995 the Tunisian government has invested heavily in the country's **infrastructure**. There are 20,000 kilometers (12,428 miles) of good-quality roads linking all parts of the country; 18,226 kilometers (11,326 miles) of these roads are paved. Having such roads is a considerable feat given that Tunisia is a large country with differing and often inhospitable terrain. There is only 1 modern highway in the country, but a second (from Tunis to Bizerte) is under construction and is expected to be completed by 2002. After 1996, there was a rapid growth in the number of licensed vehicles, which has led to heavy congestion and pollution. The government has made plans to modernize the railway system that is operated by a company called SNCFT. The railways have traditionally transported phosphates and fertilizers, although the number of passengers has been increasing by about 5 percent a year. Still, the SNCFT ran at a loss throughout 2000. There are a total of 2,168 kilometers (1,347 miles) of rail lines in the country.

There are 6 international airports in Tunisia: Tunis-Carthage, Monastir-Skanes, Jerba-Zarzis, Tozeur-Nefta, Tabarka, and Gafsa. The national airline, Tunisair, flies to many European and Middle Eastern countries with the exception of Israel. In turn, most European and Middle Eastern carriers fly into Tunis. The Tunis-Carthage airport has a capacity of 4.5 million passengers a year. There are 8 commercial seaports and 22 smaller ports within Tunisia, known for their inefficient customs officers and bad links to railways and roads.

Tunisians receive their electricity from the state-owned company, Société Tunisienne de l'Electricité et du Gaz (STEG), which can produce 1,974 megawatts of power at full capacity. More than 90 percent of the country's electricity is generated by this company. There are 29 radio stations and 19 television stations. Telecommunications services in Tunisia are poor, rates are high, and Internet use is not common. According the EIU Country Profile 2000, the country had only 30,000 Internet users at the beginning of 1999 and only 2 government-controlled Internet service providers.

ECONOMIC SECTORS

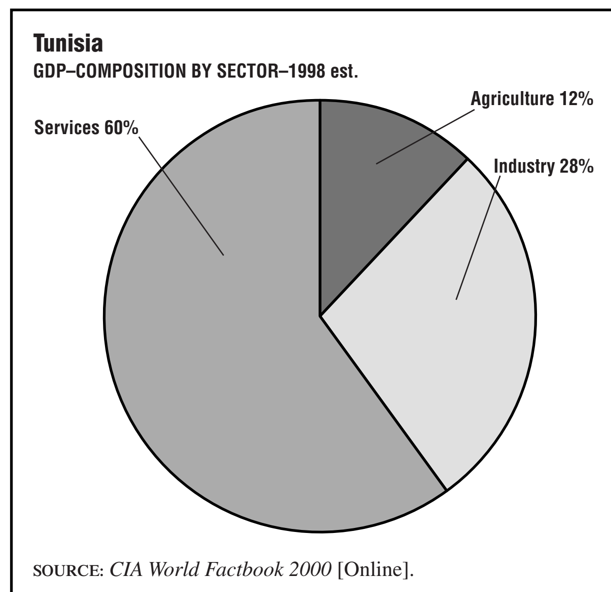
The Tunisian economy is a diverse one with services contributing 60 percent of **gross domestic product** (GDP) in 1998 and industry contributing 28 percent. In the 1960s and 1970s, when there was heavy state control, oil and phosphates were central to the economy. These sectors have diminished in importance since the 1980s with increases in the manufacturing of textiles and

Communications

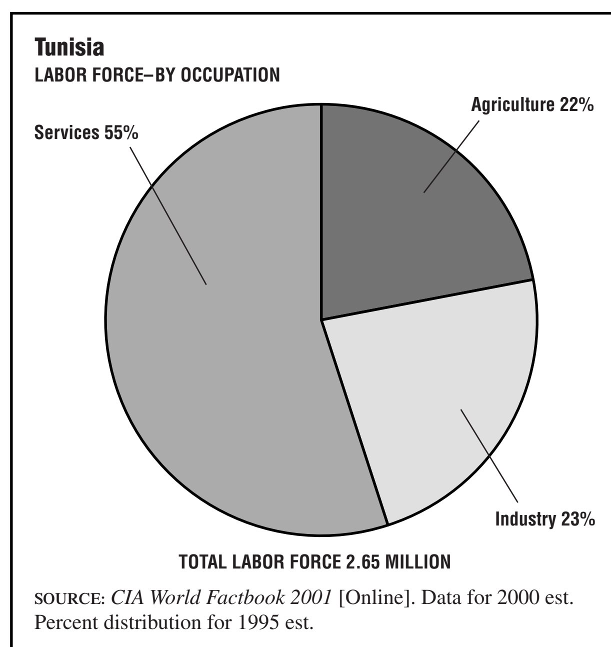
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Tunisia	31	223	198	N/A	4	3.4	14.7	0.06	30
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Egypt	40	324	122	N/A	1	0.5	9.1	0.28	200
Libya	14	233	126	0.0	3	N/A	N/A	0.00	7

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1995 est.

electrical equipment. The agricultural industry employs nearly a quarter of the labor force, but its output is dependent upon the weather; during drought years this sector's contribution to GDP can fall from 16 percent to 12 percent, the contribution in 1998.

AGRICULTURE

Agricultural output is central to the Tunisian economy, accounting for 12 to 16 percent of the GDP, depending on the size of the harvest. This sector provided jobs for 22 percent of the country's labor force in 1998. The 2 most important export crops are cereals and olive oil, with almost half of all the cultivated land sown with cereals and another third planted with more than 55 million olive trees. Tunisia is one of the world's biggest producers and exporters of olive oil, and it exports dates and citrus fruits that are grown mostly in the northern parts of the country. The center of the country is used largely to raise cattle, the Sahel region is famous for its olive groves, and the southern part of the country is known for its date production. Tunisia remains one of the few Arab countries which is self-sufficient in dairy products, vegetables, and fruit and almost self-sufficient in red meat. Since the 1980s, agricultural output has increased by about 40 percent, and exports of food have risen considerably. At the beginning of 2000 the government entered into talks with the European Union seeking a free-trade agreement for its agricultural goods. The remainder of Tunisia's agricultural production consists of several smaller export products including tomatoes, peppers, artichokes, melons, onions, potatoes, sugar beets, almonds, apricots, and wine.

Tunisia's labor-intensive agricultural sector uses very low levels of fertilizers and pesticides. Because farms are not highly mechanized, plowing a field may take 5 times longer than in the United States. Most of the land is split into very small farms making production much less efficient. Some 80 percent of farms are smaller than 20 hectares, and only 3 percent are larger than 50 hectares. Transportation and storage facilities are poor, leading to high levels of waste. Severe droughts, like the one experienced in 2000, have proven to be enormously costly.

Annual agricultural production can vary significantly from year to year due to Tunisia's unpredictable and largely irregular rainfall patterns. Almost all of Tunisia's water is used in irrigation, and the government is seeking more efficient methods that will conserve water. Its national plan aims to increase water resources from 2.1 to 3.5 cubic meters billion per year by building 21 large dams, 203 hillside dams, 547 reservoirs, and 1,580 deep wells by the end of 2001.

The fishing industry employs 25,000 people and catches an average of 93,000 tons of fish a year. However, coastal fishing has declined dramatically since 1995 due to pollution and the depletion of fish stocks. Fish is Tunisia's second most important food export after olive oil, and the government has made strong efforts to improve processing and storage facilities in order to match European standards. The government has also invested heavily in the upgrading of its ports and the improvement of its fleets.

INDUSTRY

OIL. The production of oil in Tunisia began in 1966 when 2 main oil fields in the southern part of the country were

tapped: El Borma and Ashtart. Over the years, many smaller oil fields have been discovered, and by 2000 there were 28 known oil deposits. In 1999, just over 4 million tons of crude oil was produced, and it is estimated that Tunisia has 55 million tons (400 million barrels) of total oil reserves. In spite of the fact that Tunisia has fairly small oil reserves compared with those of other countries in the region, overseas companies still consider it worth the risk to prospect for oil because the tax laws are favorable to even the smallest of discoveries. In 1999 more than US$100 million was invested in exploration, with some 40 separate explorations being carried out in 2000. Petroleum products, such as motor fuels, fuel oil, and liquefied petroleum, are not being produced to full capacity because of the small size of the state-owned refinery at Bizerte on the northern coast.

GAS. Prior to 1966, gas was largely imported via the TransMediterranean pipeline that transports Algerian gas to Italy. In that year, British Gas invested US$600 million into the Miskar field in the Gulf of Gabès, a site that produced 168 million cubic feet of gas per day in 2000, a figure that was forecast to rise to 230 million in 2001. Given plans by British Gas to invest an additional US$450 million in 2001, it is likely that this industry will continue to grow and become increasingly important.

PHOSPHATES. Tunisia is one of the world's largest producers of phosphates, which are found mainly in mines in the southern part of the country. **Private-sector** activity is limited in this industry which is dominated by the state-owned Compagnie des phosphates de Gafsa. A reduction in exports, falling world gas prices, and rising labor costs led to financial difficulties within the company in the mid-1990s, but it recovered with the upturn in world prices. In 1999, about 8 million tons of phosphates were produced. Tunisia also has reserves of other important minerals including iron ore, lead, zinc, and sea salt. The production of iron ore has been steadily declining since 1993 as reserves neared depletion.

MANUFACTURING. Manufacturing accounts for 20 percent of Tunisia's GDP and employs 20 percent of the country's labor force in 5 different sectors: textiles, food processing, mechanical and electrical industries, construction materials, and chemicals. Almost one-third of the manufacturing sector is involved in the production of textiles, a sector that grows an average of 6 percent a year. In 1999 the textile industry accounted for 6.7 percent of the GDP. Some 1,800 firms are involved in textile production, 700 of which are partly or totally owned by foreign companies. Textile exports were valued at more than 3 billion Tunisian dinars in 1999, a figure equal to 23 percent of total exports; however, the sector is heavily dependent on Europe for its raw materials and faces the challenge of increased competition from Asia.

Manufacturing overall continues to perform better than any other sector, having grown an average of 5.2 percent a year since the early 1990s. However, product quality is variable, and much of the labor force is underskilled. Manufacturing is dependent upon imports of raw materials, spare parts, and **capital goods** and is challenged by increasing competition within its European export markets. Tunisia signed an association agreement with the European Union in 1995 which will lead to free trade in industrial goods with Europe by 2008. In 1996, the government initiated a project aimed at industrial modernization.

SERVICES

TOURISM. Employing 270,00 people, the tourism sector is of vital importance to the Tunisian economy, contributing 6.2 percent to the GDP each year and 16 percent to foreign exchange earnings. In 1999 Tunisia welcomed 4,832,000 tourists, three-quarters of whom were French, German, Italian, or British. In the wake of the Gulf War (1990–91) the number of tourists fell sharply, and in 1995 there was a brief downturn due to an economic decline in the European Union. The sector has been growing steadily since that date. Important Tunisian tourist destinations include the historic site of Carthage and the many locations in the desert where the film *Star Wars* was shot.

The government has identified the need to attract tourists from Central and Eastern Europe. Development has slowly started to expand beyond the principal resort areas, and more moderately priced restaurants are beginning to open. Tunisia is becoming increasingly popular as a multi-seasonal destination because of its range of climactic conditions, its popular skiing resorts, and its attractive beaches. It still remains heavily dependent on the European market. Compared to the rest of north Africa, revenue per tourist remains fairly low: US$340 compared with US$468 in Morocco and US$850 in Egypt (all 1999 figures). This low amount is mostly due to the lack of opportunities for tourists to spend their money.

FINANCIAL SERVICES. The financial-services industry is largely regulated by the Central Bank of Tunisia. In 1999 there were 8 development banks, 2 merchant banks, 13 commercial banks, and 8 **offshore banks**. The banking system continues to be highly inefficient, holding large amounts of debt. In 2001 the sector is planning to open itself up to foreign competition following agreements signed with the European Union and the World Trade Organization.

The financial markets in Tunisia are composed of a semi-**privatized** stock exchange (partly owned by the government and partly owned by the private sector) known as the Bourse des Valeurs Mobilières (BVM), plus

various bond and stock/bond funds. The government opened the BVM in 1990 primarily to encourage foreign investment, but it has not succeeded in its aim due to the overvaluation of stock, illiquidity (unavailability of hard money), and a lack of investor confidence. In response, the government privatized the managing company, BVM, and set up a state-controlled watchdog, a central share depository, and a guarantee fund. In 2001, there were 23 mutual funds, 87 investment funds, and 25 risk capital funds totaling US$1.24 billion.

INTERNATIONAL TRADE

In the 1960s and 1970s, Tunisia's chief exports were oil and mining products; after the 1980s, the chief exports became manufactured or processed goods. The export of textiles grew significantly in the 1990s and amounted to 43 percent of total exports in 1999. Olive oil, chemicals, shoes, and leather goods are also increasingly important exports. Given that the manufacturing industry is the largest, many **intermediate goods** such as textiles, machinery, and electrical equipment are needed in the process, and these materials have to be imported. The European Union, Tunisia's principal trading partner, buys 81 percent of Tunisian exports and provides 71 percent of its imports. France alone accounted for 26.3 percent of total Tunisian trade in 1999.

Tunisia has kept substantial large external **trade deficits** that have amounted to over US$2 billion since 1995. In 1999 the trade deficit stood at US$2.5 billion on exports of US$5.8 billion and imports of US$8.3 billion. These serious deficits are due to 5 main causes: a sharp drop in traditional exports such as crude oil and phosphates; Tunisia's need to import most of its capital equipment; the practice of converting raw and semi-processed imports into end products for **re-export**; long-standing deficits in energy and agricultural trade balances; and an increase in **disposable income** that has led to a surge in the number of imports of **consumer goods**.

Trade (expressed in billions of US$): Tunisia

	Exports	Imports
1975	.856	1.424
1980	2.198	3.540
1985	1.738	2.757
1990	3.526	5.542
1995	5.475	7.903
1998	5.750	8.338

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Tunisia

Tunisian dinars (TD) per US$1	
Jan 2001	1.3753
2000	1.4667
1999	1.1862
1998	1.1387
1997	1.1059
1996	0.9734

SOURCE: CIA *World Factbook 2001* [ONLINE].

Tunisia took steps toward free trade by joining the World Trade Organization (WTO) and by signing an association agreement with the European Union in July, 1995. Tunisia will have to increase its exports and put an end to its trade deficit, a daunting task given that Tunisian exports have very low **value-added** status (increase in the market value of a product at a particular stage of production). Plans are underway to solve this problem by encouraging the domestic manufacture of intermediate goods that Turkey is forced to import in order to produce goods for export. The government has implemented several measures to ease this process, such as doing away with the red tape that hampers exports and allowing exporters improved access to credit.

MONEY

The goal of the Tunisian central bank is to maintain a stable dinar so that the economy can function competitively abroad. Since the end of 1995 the government has gradually devalued the dinar against the U.S. dollar, French franc, Italian lira, and German mark to help Tunisian exporters be competitive abroad. In July 2000 US$1 was equal to 1.186 Tunisian dinars, and 1 EU euro was equal to 1.265 Tunisian dinars.

In 1996 a foreign exchange crisis occurred when Tunisia's foreign-currency reserves fell to alarmingly low levels. This problem was an important reason for the adoption of the IMF **structural adjustment program**. Since 1995 foreign reserves have fluctuated between US$1.6–2.2 billion and in January 2000 rose to an all-time high of US$2.3 billion.

POVERTY AND WEALTH

The distribution of income in Tunisia, like that in many developing countries, is quite unequal. The top 20 percent of the people in Tunisia earn 46.3 percent of the country's total income while the 20 percent at the bottom of the scale earn only 5.9 percent of income. The majority of wealthy Tunisians live in Tunis and are able

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Tunisia	1,373	1,641	1,771	1,823	2,283
United States	19,364	21,529	23,200	25,363	29,683
Egypt	516	731	890	971	1,146
Nigeria	301	314	230	258	256

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Tunisia

Lowest 10%	2.3
Lowest 20%	5.9
Second 20%	10.4
Third 20%	15.3
Fourth 20%	22.1
Highest 20%	46.3
Highest 10%	30.7

Survey year: 1990

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

to purchase the most expensive imported goods from upscale shops. Still, unlike many less developed capitals in the Middle East, there is a real sense of community in Tunis and a desire to create an egalitarian society.

When President Zine El Abidine Ben Ali came into office in 1987, about 22 percent of the Tunisian population was living below the poverty line, impelling him to declare an all-out war on poverty in his inaugural speech. In 1992 he created the National Solidarity Fund whose goal was to promote 1,144 disadvantaged regions throughout the country, at an estimated cost of US$500 million. Since 1996, more than US$300 million has already been raised. Created in 1998, the Tunisian Solidarity Bank has also offered thousands of micro-credit loans (loans of very small amounts to help get a small business started, for example) to young graduates and small business owners.

Currently, the 6 percent of the population who are under the poverty line receive heavy **subsidies** from the government. Tunisia's first involvement with the World Bank in 1960, an education project, is testimony to the country's commitment toward the reduction of poverty and the redistribution of wealth. Various indicators also show a substantial improvement in the living standards of all Tunisians over the past 20 years. Average life expectancy increased from 67 in 1984 to 72.4 years in 1999. The annual rate of population growth dropped from 1.7 percent in 1994 to 1.1 percent in 2000. The per capita income increased from 952 dinars in 1986 to 2,644 dinars in 1999.

WORKING CONDITIONS

In 1999 the labor force stood at 3.3 million, a substantial increase from the 1995 figure of 2.84 million. Some 22 percent of the labor force is employed in agriculture, 23 percent in industry, and 55 percent are in services. The public sector employs around 25 percent of the labor force. The official unemployment rate in 2000 was 15.4 percent, leaving the number of people without a job at 480,000. It is likely that the real rate of unemployment is significantly higher than the official figure, with some estimates putting it as high as 20 or 25 percent. About half of the unemployed are under the age of 25, many of whom are unskilled. The country has a national literacy rate of over 70 percent, and about 90 percent of the workforce under the age of 35 is literate. Although job-training programs and secondary educational institutions produce many skilled workers, many young people still cannot expect to find jobs with high-paying salaries. According to the EIU Country Profile, 70,000 jobs will need to be created outside agriculture to create **full employment**. There is also a large **underground**

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Tunisia	28	8	8	3	12	8	34
United States	13	9	9	4	6	8	51
Egypt	44	9	7	3	17	3	17
Libya	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

economy whose production is estimated at 15 percent of the GDP, and in which workers have no legal protections against adverse working conditions.

According to law, Tunisian workers have the right to form labor unions, and about 30 percent of the workforce is unionized. There is 1 national labor confederation, the General Union of Tunisian Workers (UGTT), to which all unions belong. Wages and working conditions are agreed upon through collective bargaining between the UGTT and the employers' association, and these agreements apply to about 80 percent of the public sector. The Labor Code sets a standard 48-hour workweek for most sectors and requires one 24-hour rest period. The industrial minimum wage is 170 dinars (US$155) per month for a 48-hour workweek and 149 dinars (US$136) for a 40-hour workweek. The agricultural minimum wage is 5.20 dinars (US$4.74) per day. The law prohibits forced child labor and sets the minimum age for employment in manufacturing at 16 years. The minimum age for light work in agriculture and some other non-industrial sectors is 13 years. The law also requires children to attend school until age 16.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1574. Tunisia becomes part of the Ottoman Empire.

1705. Husseinite Dynasty is established.

1881. French Protectorate is established on 12 May 1881. Anti-colonial resistance, led mostly by the Neo-Destour party, persists for most of the 75 years of French domination.

1956. Independence from France is declared on 20 March.

1957. The Republic of Tunisia is proclaimed. Habib Bourguiba becomes the first president on 25 July.

1959. The first Constitution of the Republic of Tunisia is adopted on 1 June.

1960. First Tunisian project is funded by the World Bank.

1963. The French evacuate Bizerta, their last base in the country.

1966. The production of oil begins.

1986. The International Monetary Fund's Structural Adjustment Program is adopted.

1987. Prime Minister Zine El Abidine Ben Ali succeeds the ailing President Bourguiba.

1990. Tunisia becomes a member of GATT.

1994. President Ben Ali is re-elected and an opposition party accedes to Parliament for the first time.

1995. Tunisia becomes the first country south of the Mediterranean to sign an association free-trade agreement with the European Union.

1995. Tunisia joins the WTO.

1998. The Tunisian Solidarity Bank starts to offer thousands of micro-credit loans to young graduates and small businesses.

1999. After the first-ever contested presidential elections, President Ben Ali is re-elected to a third term by an overwhelming majority. The Democratic Constitutional Rally keeps its majority in the Chamber of Deputies, but the opposition gains 20 percent of the 182 seats. The number of women in Parliament increases to 21.

FUTURE TRENDS

The international community recognizes that Tunisia has made serious and successful attempts at economic reform. As of 2000 more than 800 foreign companies were investing in the country. The World Bank has recommended that Tunisia speed up the sales of its publicly-owned companies, but this process has been overshadowed by an aggressive campaign to free up 93 percent of import-related businesses from state control and a major regional free-trade agreement. Having become a member of the World Trade Organization, Tunisia has also shown its serious commitment to free trade. Although Tunisia has moved somewhat slowly, especially in the telecommunications sector, the reforms that it has undertaken since 1990 have been far-reaching. Currently, Tunisia needs to concentrate on privatization to ensure continued and increased efficiency.

DEPENDENCIES

Tunisia has no territories or colonies.

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—Salamander Davoudi

UGANDA

Republic of Uganda

CAPITAL: Kampala

MONETARY UNIT: Uganda Shilling (USh). The largest Ugandan note in circulation is USh10,000 and the smallest is USh50. Recently introduced coins come in denominations of 50, 100, 200, and 500. There are plans to discontinue all notes in these denominations.

CHIEF EXPORTS: Coffee, cotton, tobacco, tea.

CHIEF IMPORTS: Petroleum products, machinery, textiles, metals, transportation equipment.

GROSS DOMESTIC PRODUCT: US$24.2 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$471 million (f.o.b., 1999). **Imports:** US$1.1 billion (f.o.b., 1999).

COUNTRY OVERVIEW

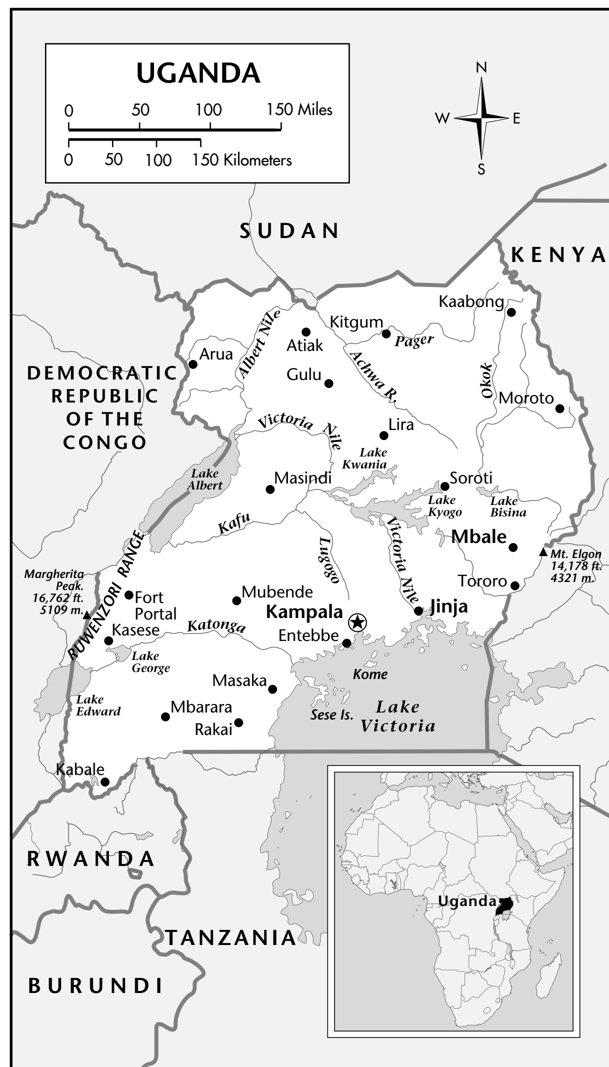
LOCATION AND SIZE. A landlocked state in Eastern Africa, west of Kenya and east of the Democratic Republic of the Congo (former Zaire), Uganda has an area of 236,040 square kilometers (146,675 square miles) and a total land boundary of 2,698 kilometers (1,676 miles). Comparatively, the area occupied by Uganda is slightly smaller than the size of Oregon. Uganda's capital city, Kampala, is located in the country's southeast on the shore of Lake Victoria, Africa's largest lake and the source of the river Nile. Lake Victoria is also bordered by Kenya and Tanzania.

POPULATION. The population of Uganda was estimated at 22,459,000 in 2000 by the United Nations Economic Commission for Africa, an annual average increase of 2.5 percent from the 1995 population of 19,689,000. In 2000 the birth rate stood at 48.04 per 1,000 while the death rate was at 18.44 per 1,000. With similar annual growth rate, the population is likely to stand at 34,762,000 in 2015 and 66,305,000 by 2050. Although population per square kilometer was only 241 in 1999 (93 per square mile), the above projected population growth could create a future crisis of land and resources.

The Ugandan population is primarily of African descent, consisting of thirteen principal ethnic groups, although there are actually 49 such groups in total. The rest of the population is made up of Asians and Europeans (around 1 percent) and a fluctuation of refugees escaping from crises in neighboring countries—most recently from Sudan, Rwanda, and the Democratic Republic of the Congo. It is important to note that Uganda had a large number of Asian citizens at independence in 1962; however, the majority of them were forcibly expelled under the regime of General Idi Amin (1971–78) in a racist attempt to "Africanize" the country.

Uganda's population is very young, with 51 percent below age 14 and just 2 percent of the population at 65 or older. A majority of Ugandans—86 percent—lived in rural areas in 2000. The urban population was 7 percent of the total population in 1965, rising to 14 percent in 2000 (5 percent of the population is centered in and around Kampala). It should be noted that it is difficult to be precise about population distributions because of frequent fluctuation between urban and rural areas as workers move to find seasonally-based employment.

Uganda is commonly conceived to be the epicenter of the HIV/AIDS epidemic; in fact HIV/AIDS in Uganda is commonly accepted to be a pandemic (the occurrence of a disease over a whole country). It is estimated that 110,000 Ugandans died from AIDS in 1999, and it has been the most common form of death of young adults since the late 1980s. It is important to understand that these deaths resonate beyond their own profound significance due to the socio-economic effects of HIV/AIDS. For example, the drawn-out nature of death from AIDS requires a large amount of care and attention. Therefore, large numbers of, predominantly, women who could be productively employed are spending their time caring for



the dying. In addition, by 1999 the cumulative number of orphans created due to AIDS since the pandemic began reached 1,700,000. This raises the problem of the development and guidance of Uganda's children. However, the Ugandan government was one of the first in Africa to promote public education programs and openness about HIV/AIDS. As a result of this proactive policy, Uganda is one of Africa's success stories for reducing HIV/AIDS; for example, 10,235 AIDS cases were reported in 1990 but only 1,406 in 1998.

OVERVIEW OF ECONOMY

Uganda's economy is dominated by the production of agricultural goods, which employs some 82 percent of the workforce. These goods range from crops grown mainly for subsistence purposes such as plantains, maize, beans, and potatoes, and exported **cash crops** such as coffee, tea, and tobacco. The reliance of the national economy on cash crops for foreign exchange is a legacy of Uganda's colonial period when it was made a British protectorate (1894–1962) during the "scramble for Africa" by the imperialist European powers. In other words, the country's productive structure remains dominated by what the British colonial administration had forcefully demanded Ugandans produce.

At independence in 1962 Uganda was one of Africa's most economically promising states and was widely cited as the "Pearl of Africa." It was self-sufficient in food, its manufacturing sector produced basic inputs and **consumer goods**, and its transportation **infrastructure** was one of the best in the continent. Its key exports—coffee and cotton—were in global demand as the world economy was registering substantial growth built on the import demands of the United States, Western Europe, and parts of Northeast Asia. Health services were among the best in Africa, and schools, although in limited supply, were of a generally high quality.

However, from the beginning of President Idi Amin's regime in 1971 to the National Resistance Movement's (NRM) adoption of free market reforms in 1987, the official economy fell deeper and deeper into crisis under the strain of spasmodic civil wars and short-sighted economic programs such as the **nationalization** of certain industries and the expulsion of the Asian population. In 1960 cotton provided 40 percent of Uganda's export revenue (because cotton is a less volatile crop than coffee, its production had acted as a good counterbalance to **foreign exchange reserves** earned through exports). However, the harvesting of goods such as cotton and sugar declined considerably during the period 1971–1987 so that even in 2000 they were a minimal part of Uganda's agricultural production. The instability of the economy and the Uganda shilling between 1971–1987 led to the rise of the **informal sector**. The NRM had inherited an economy that had had the worst growth rate of all African countries between 1962–1987. The country's reliance on coffee production has left the economy highly vulnerable to the continual flux of international coffee prices.

Under the influence of the International Monetary Fund (IMF) and the World Bank, the NRM embraced free market reforms in 1987; these included the **privatization** of industry and services, the **devaluation** of the Uganda shilling (USh), and the **liberalization** of the **exchange rate** system. Since then Uganda has become one of the most economically liberal countries in the world. Due to a combination of free market reform, the large amount of post-conflict national reconstruction required, and the relative degree of security maintained by the NRM, the economy has enjoyed consistently high rates of GDP growth since the late 1980s. By the late 1990s external donors such as the IMF and European Union (EU) promoted Uganda as one of the key success stories of free market reform in Africa. For instance, evidence

suggests that the stabilization of the Uganda shilling has created an economic environment suitable for the growth of the country's manufacturing sector and, more broadly, the diversification of export production into "non-traditional goods" such as fish products and cut flowers.

The reduction of the drain on state revenue since the banking sector was partially denationalized has contributed to the successful balancing of the national current account. The privatization of **parastatals** and the reduction of state spending by means of downsizing social services and the **public sector** have, similarly, lessened government spending. Because of the social stability throughout most of Uganda in the 1990s the incidence of tourism is increasing very quickly after having been heavily reduced by the violence permeating the country from 1971 to 1986.

Yet Uganda still suffers from considerable economic difficulties. The economy is dependent on the continued flow of aid from external donors. Total **external debt** has risen from US$0.689 billion in 1980 to US$3.708 billion in 1997, and the country remains entirely dominated by the unpredictability of the production and international prices of coffee. During the Amin period and the economy's decline, corruption within the government and society as a whole became very common in order to satisfy greed amongst the rich and survival for the poor. In 2000 corruption still saturated the government and the **private sector** despite efforts to curtail its influence. Similarly, by 2000 the informal sector remained of considerable size. However, the liberalization of the exchange rate system and the subsequent evening out of informal and official prices have sent the informal sector into decline.

POLITICS, GOVERNMENT, AND TAXATION

Like most African countries, the territory known as Uganda was an arbitrary creation of the European colonial powers. The borders cut across and brought together a whole range of ethnic and linguistic groups. Since gaining independence from Britain in 1962, the history of Uganda's politics and government falls into 4 broad periods.

The first period was opened at the country's independence with multi-party elections which brought the Uganda People's Congress (UPC) to power, led by Prime Minister Milton Obote. However, the Obote regime soon opted for a more authoritarian leadership. By using its base of support in the north of the country and the military to discard Uganda's traditional kingdoms and check its historical rivals in the south (who had been the country's elite during the colonial administration), Obote became the self-appointed executive president.

The second period began in 1971 when Obote was ousted from government by one of his key pillars of support, the military, led by Idi Amin. This was a major turning point for Uganda as Amin's 8 years of rule (1971–1979) saw the economy and political process collapse. Amin's regime used fear and racism as central instruments of policy and social control; over 300,000 people were murdered by the regime, and the vast majority of the country's 88,000 Asians were forcibly expelled and their land and other assets divided amongst Amin's followers. Economically, this was a disaster. After this policy had been enacted, the redistributed assets were placed in the hands of people who were inexperienced and lacked established business networks; this led to the decline of the productivity and efficiency of Uganda's business sector. Moreover, as Uganda's citizens became less confident in the stability of the formal economy due to Amin's unpredictable rule, they increasingly began to turn to the informal sector, thereby bypassing the state and its revenue-collecting authorities. In sum, the economy became less productive and more reliant upon the informal sector, both drastically reducing state taxation revenue. As state revenue was so depleted, the government began borrowing from international lenders at such a rate that Uganda became heavily indebted. These factors, in combination with the deteriorating terms of trade for Uganda's products on international markets after the decline of world economy in the 1970s, explain why the Ugandan economy was in dire crisis by the end of Amin's regime.

The third broad period of Uganda's political history began when Amin was finally overthrown in 1979 by a coalition of domestic forces under the banner of the Uganda National Liberation Front (UNLF) and the neighboring Tanzanian army. This led to an 8-year period of crisis and uncertain rule that plagued the country. After Amin's defeat, a string of 3 limited and short-term governments followed, led by the UNLF, President Binaisa, and President Lule, respectively. This period was one in which the economy was devastated further by continued widespread disruption, huge military expenditures, and the effects of the international rise of oil prices in 1979. This quick succession of regimes culminated in the corrupt and widely disputed multiparty elections of 1980 that reinstated Obote as president. Commonly known as Obote II, this period was characterized by 2 central dynamics. First, Obote attempted to address the country's considerable economic woes by approaching the IMF and the World Bank for financial aid. This aid was dependent upon Uganda liberalizing the economy with the hope that free market forces would make it more competitive in the world economy. Second, the social effects of this reform were negative, which in combination with the corrupt and heavy-handed rule of Obote II, culminated in growing popular support for the

National Resistance Movement (NRM) led by Yoweri Museveni that was waging a guerrilla war from its support-base in Uganda's south.

The fourth key period of Uganda's political history began when the NRM took state power in 1986; the NRM remained in power in early 2001. With Museveni as president the NRM had seized power on the back of a set of left-progressive, anti-imperialist policies. However, because of the legacy left by Amin and his successors, the country was in a state of severe social, economic, and institutional crisis. Consequently, by 1987 the NRM was forced to go back on its initial left-progressive developmental policies simply because there was insufficient revenue to pursue such an approach. In fact, like Obote II, the NRM applied to the IMF and World Bank for aid that was conditional upon adopting free market reform.

Although Uganda's economy is claimed by many to have been in a relatively good state of health since the opening to free market forces from 1987 onwards, the political situation is somewhat more ambiguous. The country remains a "no party democracy." Museveni stresses that the NRM is not a political party but a national "movement" of a broad coalition of societal and political forces. As a result, while Uganda maintains a high level of press freedom (especially in comparison with most other African countries), political parties are illegal. A referendum in July 2000 saw 90 percent of voters favoring the continuation of the "no party system" which seems to have justified the NRM's political stance.

However, a level of contention remains about this system's legitimacy as the 2 most prominent opposition parties, Uganda People's Congress (UPC) and Democratic Party (DP), boycotted the referendum. Furthermore, the U.S.-based human rights group Human Rights Watch claimed in a 1999 report that, due to the illegal nature of organized opposition, the country has "a restricted political climate." Contemporary indications of discontent in Uganda are clearly illustrated by a series of violent insurgencies by dissident groups such as Joseph Kony's Lord's Resistance Army in the north and the Allied Democratic Forces (ADF) in the southwest. In order to counter these rebellions, the army now has permanent barracks in these volatile areas.

Presidential elections were held at the beginning of March 2001. Museveni won an easy victory with 69.3 percent of the votes compared to the 27.8 percent of his closest competitor, the politically progressive former army colonel, Dr. Kizza Besigye. Although Museveni's victory was tainted by accusations of intimidation, fraud, and violence (an estimated 5–15 percent of votes cast could have been compromised), this margin of potential electoral corruption still gave Museveni a sufficient mandate to hold onto the presidency.

Since 1998 Uganda has been at war in neighboring Democratic Republic of the Congo (DRC) to depose the Kabila regime first led by Laurent Kabila (who was assassinated in January 2001) and then by his son Joseph. This is a very complex war involving Rwanda, which supports a separate but similar anti-Kabila faction, and Angola, Zimbabwe, and Namibia, which all support the DRC government. The war is a considerable drain on the government's already sparse revenue; the Ministry of Defence received 33 percent of all ministerial allocations in the 1999–2000 budget. Yet by March 2001, Uganda was beginning to withdraw some troops from the DRC; however, this conflict has subsided and re-ignited before.

A key reform promoted by the IMF and World Bank was the **restructuring** of Uganda's taxation regime. One of the intentions was to lower the dependence on trade taxes, which reduced incentives for production, and to rely instead on **indirect taxes** on goods and services. Indirect taxes provided an average of 79.8 percent of total revenue between 1990–1998. Taxes on income and profits have steadily increased from 9.8 percent of total revenue in 1989 to 15.2 percent in 1998. Yet, of total taxes, about 50 percent still emanates from indirect taxes on only 4 products—petroleum, cigarettes, beer, and soft drinks. In fact, Uganda's tax revenue to GDP ratio is fifty percent below the African average.

The Uganda Revenue Authority (URA) was established to address the priority of improving government tax-collecting abilities. However, it is claimed that almost immediately after the creation of the URA its officials were involved in the major embezzlement of the funds it was set up to collect. In addition, throughout the government departments in 1997–98, US$120 million in tax revenue and government spending was unaccounted for. Due to these high levels of ingrained corruption, low levels of household income, and a small proportion of waged (thus taxable) labor, the majority source of government revenue still emanates from external donors. Of the government's estimated total financial requirement for 2000, US$1.467 billion was expected to come from domestic resources, whereas US$2.255 billion was required in external aid. It is due to regular deficits such as this that Uganda's external debt as a percentage of GNP has risen from 35.5 percent in 1985 to 58.2 percent by 1998.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Uganda is a landlocked country served by a network of 27,000 kilometers (16,800 miles) of roads, although only 1,800 kilometers (1,100 miles) are paved and 4,800 kilometers (2,900 miles) of the remainder are suitable for all-weather purposes. This road network supplied Uganda's total 25,900 passenger cars and 42,300 com-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Uganda	2	128	27	N/A	1	0.1	1.5	0.06	25
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1
Kenya	9	104	21	N/A	0	N/A	2.5	0.19	35

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

mercial vehicles in 1995. With funding from a range of external donors, Uganda launched an ongoing road rehabilitation project in 1987 with the principal aims of providing improved access of agricultural products to markets within the country and a regional network to link Rwanda, the east of the Democratic Republic of the Congo, and Uganda with the port of Mombasa in Kenya. A 22-kilometer (13-mile) road linking Uganda to Rwanda was opened in 2000.

The nation's rail system had lacked sufficient investment since decolonization, but the state-owned Uganda Railways Corporation's (URC) 1,241 kilometers (770 miles) of railroad has benefitted from a rejuvenation project since 1995. This includes plans by the government to partially privatize the operation of the network. The URC has US$350 million in assets and a US$20 million annual **turnover**, and, due to the trebling of freight traffic between 1989 and 1995, the URC network has the potential of becoming highly profitable.

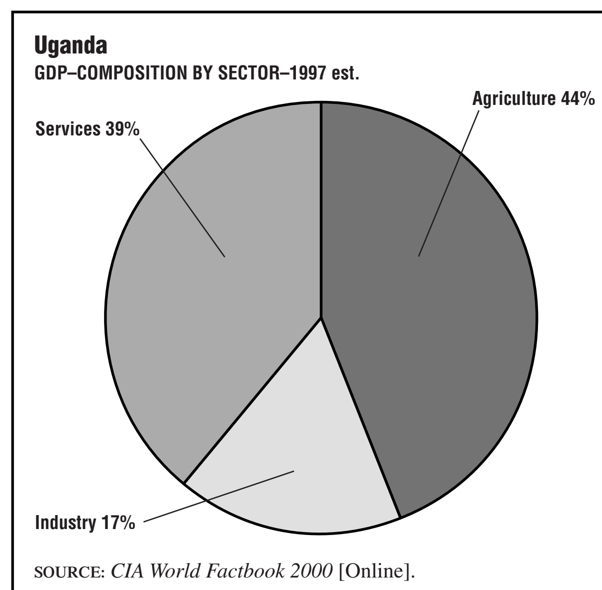
The Entebbe International Airport is Uganda's major airport, which is situated 35 kilometers (22 miles) from Kampala. Although there are another 28 airports throughout the country, the vast majority are unpaved. Uganda's landlocked status makes it dependent upon the port services of neighboring countries, such as Mombasa in Kenya and Dar-es-Salaam in Tanzania. Rail links to the port of Durban in South Africa are growing in importance. The country's situation in the "Great Lakes" region means that it boasts 5 large lakes and 2 major rivers that are frequently used for transportation purposes. The use of waterways has benefitted from an extensive program of government investment and external aid.

The vast and varied waterways in Uganda are also highly beneficial for the production of hydroelectricity. A parastatal, Uganda Electricity Board (UEB), utilizes this natural resource to produce enough power to satisfy the country's needs and also to export 115 million kWh of electricity in 1998. UEB commands assets worth over US$600 million and has an annual turnover in the region of US$70 million. The government intends to grant concessions to the private sector for the operation of parts of UEB upon its disintegration into separate operators maintaining the generation, transmission, and distribution of electricity.

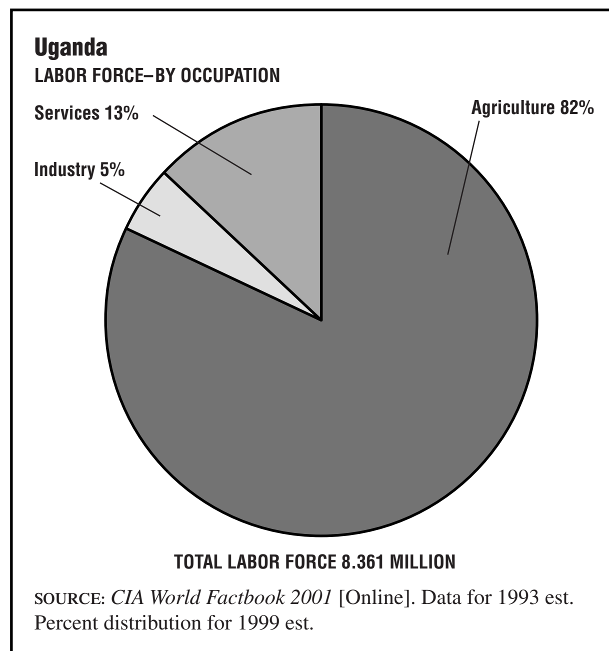
In 2000 there were 2 national telecommunications operations in the country, Uganda Telecomm Limited (UTL) and Mobile Telephone Network Uganda (MTN). A third operator, Celtel Uganda, supplies additional mobile telephone services. Although as many as 12 Internet service providers had been licensed to provide both Internet e-mail and Internet services by early 2001, only 4 are actually in operation.

ECONOMIC SECTORS

Uganda's economic sectors reflect the legacy of colonial structures, the country's position as a land-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1993 est. Percent distribution for 1999 est.

locked territory, its politically tumultuous past, and the widespread lack of foreign investment in sub-Saharan Africa as a whole. Uganda is highly dependent on agricultural exports in order to provide much-needed foreign currency, and its underdeveloped industry and services necessitate an increasing level of imports. Consequently, in 1997 the government was in 5.7 percent deficit as a percentage of GDP (excluding external aid). In addition, Uganda lacks a significant internal market for domestically produced goods because of low household incomes. In light of these factors it is unlikely that the economy will reduce its primary dependence on the export-based growth strategy of producing goods such as coffee in the medium-term future; nonetheless, it does remain a leader in international coffee markets.

In order to address these geographical, historical, and material problems, the Ugandan government is attempting to diversify its economic sectors to produce more manufactured goods for domestic, regional, and international consumption to reduce the dependence of the economy on foreign aid and imports. With the continued financial support of the IMF, World Bank, EU, and United States for Uganda's free market reforms there is a genuine possibility that the economy's present diversification will contribute to its current growth rate—one of the fastest in the world. Uganda had an average GDP annual growth rate of 7.2 percent over 1990–99, which constitutes a growth rate of agriculture of 3.7 percent, of services at 8.1 percent and industry at 12.7 percent. This consistent growth of various sectors suggests a dynamic economy.

AGRICULTURE

The agricultural sector is dominant in Uganda's economy. Whilst this sector grew at an annual average of only 3.7 percent over 1990–99 compared to the far more impressive growth of the industrial and service sectors, the importance of agriculture in Uganda's economy outweighs all other sectors put together. The agricultural sector employs 82 percent of the workforce, accounts for 90 percent of export earnings, and provided 44 percent of GDP in 1999. Moreover, the farmers in Uganda's 2.5 million **smallholdings** and scattered large commercial farms provide the majority of their own and the rest of the country's staple food requirements. Uganda is able to rely on agriculture due to the country's excellent access to waterways, fertile soils, and, (relative to many other African nations) its regular rainfall, although it does still suffer from intermittent droughts such as in 1993–94.

Uganda's key agricultural products can be divided into cash crops, food crops, and horticultural produce. The most important cash crops are coffee, tea, cotton, tobacco, and cocoa. Uganda is second only to Kenya as Africa's largest producer of tea, exporting US$17.06 million of tea in 1996 and $39 million by 1998. Unmanufactured tobacco exports provided US$9.5 million in 1998, over 25 percent more than in 1996. The export of cocoa beans hit a recent high in 1996 with US$1.07 million in export receipts, but this had declined to $0.87 million in 1998. The primary food crops, mainly for domestic consumption, include plantains, cassava, maize, millet, and sorghum. Total cereal production was 1.76 million metric tons in 1998, which provided US$17.82 million of exports in 1998. This gain was in part negated as imports of cereals were $30.9 million in the same year. The more recent development of cultivating horticultural produce includes fresh flowers, chilies, vanilla, asparagus, and medicinal plants. At the beginning of 2001 it is unclear how well horticultural production will prosper but it does indicate the economy's potential diversity. The fact that vanilla production is the third largest in Africa, providing US$930,000 in export receipts in 1998, is a success in itself.

The economy of northeast Uganda is dominated by pastoralism (cattle farming). Although agricultural production is apparent in some areas, this is normally a mixture known as "agro-pastoralism" (integrated cattle and crop farming). It should be noted that pastoralism is in decline due to the constant cattle raids by guerrilla groups such as the Lord's Resistance Army based in southern Sudan, as well as government and aid agency intervention which encourages the fencing off of land to discourage the traditional free-roaming of cattle.

COFFEE. Coffee is by far the most important factor in the nation's entire economy. Uganda is one of the largest pro-

ducers of coffee in sub-Saharan Africa and exported 197,200 metric tons in 1998, second only to Côte d'Ivoire. This provided US$314 million in export earnings. Although this was a drop in earnings from the 1996 level of $396.2 million, the 1996 harvest had provided 81,511 metric tons more than in 1998. The country's high altitude, relatively high rainfall, and mild climate are suited to the growing of coffee. Robusta coffee is grown in areas near Lake Victoria and in some Western districts. Arabica coffee is grown in the volcanic regions in Mbale and Kapchorwa where the cooler, higher altitude provides the increased rainfall necessary for the growth of this more profitable crop. The dual process of the devaluation of the Ugandan Shilling and its flotation was intended to provide an incentive to producers to take advantage of more competitive exports and thus expand their production of exportable goods. On face value this process was a success as producer prices dramatically increased. For example, coffee farmers received a 182 percent rise in the price paid for their product, and there was an annual average growth of coffee exports of 6.5 percent between 1990–1997.

However, the apparent growth of Uganda's coffee exports does not take account of smuggling into the country from neighboring countries such as the war-torn Democratic Republic of Congo whose farmers often do not receive as good a price for their crops as those in Uganda. Furthermore, increased productivity was based upon an increase in the area cultivated rather than on higher yields. When there is a rise in available cultivated land it acts as an increased drain on the country's environmental resources. The 50 percent projected rise of the population by 2015 more than likely will increase competition, and perhaps conflict, over ever-decreasing land plots.

Regarding improvements to the agricultural sector, farmers simply lack the access to capital (*see* Services rubric below) in order to mechanize production and increase agricultural productivity. Productivity per agricultural worker was an average of US$345 per annum over 1996–1998. In consequence, farmers are unable to take full advantage of increased returns for the export of coffee when they do arise, for instance, during the coffee boom of 1994–95 where the price in U.S. cents to a pound of coffee was 126.83. This failure to improve production is based upon a lack of investment and an assumption of the continuation of the usually relatively low levels paid by the volatile world market for **primary commodities**. For example, in 1999 the price in U.S. cents to a pound of coffee was only 67.65. Considering the long-term maturity of coffee plants, the instability of international markets does not provide much of an incentive for improved efficiency of production. It should also be noted that export crops such as coffee are very susceptible to natural disasters, which further reduces their economic viability. For instance, a hurricane in 2000 pushed Uganda's national harvest back a year.

INDUSTRY

Industry is very limited in Uganda. The most important sectors are the processing of agricultural products (such as coffee curing), the manufacture of light consumer goods and textiles, and the production of beverages, electricity, and cement. The production of beer in Uganda has increased dramatically in recent years, rising from 215,000 hectoliters in 1988 to 896,000 in 1997. Similarly, cement production has expanded from a low of 15,000 metric tons in 1988 to 290,000 in 1997. Of lesser importance is the production of sawn wood, remaining stable at 83,000 cubic meters from 1994 onwards. However, there is little evidence of the sufficient replanting of trees, which may not only affect this level of production but could have adverse environmental effects such as soil erosion and increased landslides. A key block to the development of Uganda's industrial and commercial sector is corruption. Bribes are commonly demanded to acquire even the most basic services such as an electricity supply and telephones.

Due to increased domestic security, market reform, and tax breaks, Uganda's manufacturing sector is growing. Merchandise exports have expanded from US$147 million in 1990 to US$501 million in 1998. However, merchandise imports have also expanded but at an even greater rate, from US$213 million in 1990 to US$1,414 million in 1998. This imbalance indicates a serious problem with Uganda's economy because, in order to continue the present rate of import of manufactured goods, the government is obliged to borrow ever greater amounts of money from foreign donors which makes the country increasingly indebted.

The privatization of industry is a central dynamic in Uganda's contemporary national economy. This is of central importance considering that government **subsidies** to parastatals were equal to that spent on much needed education between 1994–1998. The Privatization Unit of the Ministry of Finance has plans to open a number of industries to the private sector. For example, the largest dairy processor in the country, the government-owned Dairy Corporation, which has an annual turnover of US$12 million, is undergoing full privatization. Copper mining used to be a mainstay of the economy in the 1960s to mid-1970s with an output of up to 18,000 metric tons per annum. Due to the country's civil unrest and the decline of copper prices on international markets, the 90 percent government-owned Kilembe Mines Ltd. mining activity has been inactive since 1982. The planned privatization of this enterprise should end government subsidies to this company and is hoped to lead to the reinvigoration of Uganda's copper production.

SERVICES

The export of Uganda's commercial services has grown dramatically from US$21 million in 1990 to US$165 million in 1998. Yet at the same time the import of commercial services has grown from US$195 million in 1990 to US$693 million in 1998. This imbalance, similar to that of manufactured goods, contributes to the deficit of Uganda's **balance of payments**. Therefore, in order to maintain this level of imports, Uganda is forced to borrow more money from external donors, thus leading to the deepening of the country's public debt and the consequent drain of debt interest payments upon an already limited government revenue.

TOURISM. Due to the severe insecurity permeating Uganda through the 1970s and most of the 1980s, tourism was a very limited sector. Today, the majority of Uganda is entirely safe for tourists and the country has a lot to offer, such as a number of beautiful reserves and national parks, vast lakes, rare and endangered wildlife, relatively untouched rural communities, and safe cities. By 1995, 159,899 tourists provided receipts of US$188 million; by 1997 receipts from tourism rose to US$227 million. However, it should be noted that internal tourism expenditures drew out almost as much money as was brought in to the country, with US$137 million being spent by Ugandans abroad in 1997.

FINANCIAL SERVICES. Uganda's banking system had been in disarray throughout the 1970s and 1980s, in part due to an almost full government **monopoly** of this sector. The 2 most important national banks, the state-owned Bank of Uganda (BOU) and the Cooperative Bank, had received automatic **liquidity** support from the Uganda Central bank (UCB) up until the early 1990s—that is, the UCB would supply banks with money to prevent their financial collapse even if they had been making irresponsible and irretrievable loans, often to allies of the various political regimes. As a result, the UCB's **non-performing loans** accounted for 75 percent of its total loan portfolio. Uganda's most important financial mechanism was bankrupted.

In order to make the UCB less of a drain on state revenue, the IMF and World Bank encouraged its privatization, a 48 percent cut in personnel, and a reduction of branches from 190 to 85. The improved stability of the banking sector has encouraged people to save, and a 1995 IMF report claimed that bank deposits grew from 4 percent of GDP in 1989–90 to 5.8 percent in 1993–94. However, due to the economy's severe underdevelopment, low incomes, and low opportunities for lending, there is limited incentive for private-sector banks to operate. Even though the economy has been substantially liberalized, foreign banks have failed to reinvest or to re-establish themselves, or to innovate their practices in Uganda, in part due to the fact that more than half of commercial banks made losses in 1994.

The privatization of the banking system has reduced the availability of basic banking services, in particular for rural farmers. In 1972 there was one branch per 34,000 people; by the mid-1990s this figure was 164,000. This means that the most important sector of the economy, namely agriculture, receives insufficient investment to improve productivity. Primarily due to fraudulent practice by employees, 3 of Uganda's national banks collapsed in 1999, namely the Cooperative Bank, International Credit Bank, and Greenland Bank. This has given foreign-owned banks such as Stanbic, Barclays, Standard Chartered, and Trans Africa Bank increased footing in those areas they deem commercially viable, thus providing greater competition against the remaining national banks.

INTERNATIONAL TRADE

Uganda is becoming increasingly dependent on the import of capital through loans and grants, the import of services, and of manufactured goods. The value of imports was consistently double the value of exports throughout the 1990s, and in 1999 the ratio of imports to exports came close to being 3 times in size. Apart from cash-crops such as tea and coffee (*see* Agriculture rubric above), Uganda's principal exports in 1998 were US$39.9 million of fish and fish products, US$47.4 million of iron and steel, and US$47.2 million worth of electrical machinery and supplies. It should be noted that the EU banned the import of fish from Uganda between 1999 and mid-2000 as some supplies were poisonous; although this ban has now been lifted this event seems likely to effect future sales. The main recipient of these exports in 1998 was the EU, which received 50.9 percent of the total; broken down individually, the key countries were the Netherlands, which imported 6.3 percent, Switzerland (6.2 percent), Germany (5 percent), and Belgium (3.7 percent). Other key export-partners are the United States which regularly receives around 25 percent, and Kenya which received 4.6 percent in 1998.

Uganda's imports in 1998 consisted of US$130.3 million of road vehicles, US$111.6 million of petroleum,

Trade (expressed in billions of US$): Uganda

	Exports	Imports
1975	.026	.200
1980	.345	.293
1985	.387	.327
1990	.147	.213
1995	.461	1.058
1998	.512	1.409

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

US$72.4 million in cereals, and US$53.65 million of medical goods and pharmaceuticals. These imports were predominantly sourced from the EU, which supplied 17.3 percent (the United Kingdom being the main partner, providing 5.6 percent), neighboring Kenya supplied 12.3 percent, Japan 4.5 percent, and India 4.1 percent. The countries of East Africa have been trying to create a meaningful intra-regional trade organization since the 1960s. The signing of the East African Cooperation (EAC) treaty between Uganda, Tanzania, and Kenya in 1999 was a continuation of this historic aim; however, in practice little has been done to reduce **tariffs**. Uganda is also a member of the Common Market for Eastern and Southern Africa (COMESA), which in 1996 introduced an 80 percent tariff reduction on trade within COMESA countries; by 2001 Uganda was one of the only members to implement this reduction in full.

MONEY

Uganda's monetary and financial sector has gone through dramatic change since the government adapted free market reform from 1987 onwards. Two of the most important reforms were the devaluation of the Uganda shilling (USh) and the liberalization of the exchange rate system. In order to make national exports cheaper and more competitive on world markets the USh was devalued by 77 percent in 1987; after subsequent minor devaluations, it was again substantially reduced by 41.2 percent in 1989. The liberalization of the exchange rate system was undertaken in a number of stages, culminating in the establishment of a unified inter-bank market for foreign exchange and the commercialization of all foreign exchange transactions, which were to be undertaken by commercial banks and foreign exchange bureaus.

By 1994 the government accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement, which maintained a commitment to a free and open exchange system. The Uganda shilling had become a competitive monetary unit, open to the speculation of international currency markets. This resulted in its depreciation from USh100 per U.S. dollar in 1987, to USh965 in 1994. Although these policies had initial inflationary consequences (as late as 1991–92 annual average **inflation** was 42 percent), by 1994–95 the USh had stabilized at only 5 percent; considering that inflation had hit 1,000 percent during the Amin era, this is a considerable government success. Uganda's capital markets are based on 2 main organizations: the Uganda Securities Exchange (USE), and its regulator, the Capital Markets Authority (CMA). In June 1997 the USE was licensed to operate as an approved stock exchange and began formal trading operations in January 1998. In 2001 there were only 4 listed securities trading on the exchange: 2 corporate bonds and 2 companies, Uganda Clays Limited and British American Tobacco, Uganda.

POVERTY AND WEALTH

With an average **GDP per capita** of US$332 in 1998, Uganda is one of the poorest countries in the world. The vast majority of Ugandans are farmers on small plots of land which are used for subsistence agriculture or for the cultivation of cash crops such as coffee and tea. However, most of this land is owned by landlords such as chiefs or government functionaries who seldom reinvest in the productive capacity of the village as they can simply rely on rents. This disparity of the ownership of the means of production is reflected by vast inequalities in the distribution of income. The poorest 20 percent of the country controls only 6.6 percent of the wealth, whereas the richest 20 percent benefit from 46.1 percent. In fact, 69 percent of the population lives on less than US$1 a day and the majority of this limited income (63 percent) is spent on food. As a result, in a country whose government spends only 1.9 percent of its GDP on health, the majority of Ugandan citizens struggle to acquire even the most basic health care. There are only 4 doctors and 28 nurses per 100,000 people. Nonetheless, the government has helped to reduce the infant mortality rate from 110 deaths per 1,000 births in 1970 to 84 by 1998.

Most Ugandans have to work 2 or 3 jobs simply to survive, often even to secure a standard of living below the poverty threshold. Moreover, one or more of these jobs are often within the informal sector which draws tax-

Exchange rates: Uganda

Uganda shillings (USh) per US$1	
Feb 2001	1,700
2000	1,644.5
1999	1,454.8
1998	1,240.2
1997	1,083.0
1996	1,046.1

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Uganda	N/A	N/A	227	251	332
United States	19,364	21,529	23,200	25,363	29,683
Dem. Rep. of Congo	392	313	293	247	127
Kenya	301	337	320	355	334

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Uganda

Lowest 10%	2.6
Lowest 20%	6.6
Second 20%	10.9
Third 20%	15.2
Fourth 20%	21.3
Highest 20%	46.1
Highest 10%	31.2

Survey year: 1992–93

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

ation revenue away from the government. With the increased unemployment levels associated with the privatization and reduction of employment opportunities in the public service, the army, and former parastatals, workers have become an increasingly flexible and less expensive factor of production. Consequently, trends after 1991 have been in the direction of increased inequality, both between rural and urban areas but also in intra-urban terms, as wages did not increase anywhere near as fast as the rise of profits.

The labor surplus and the desperate need for employment has meant that employers can offer almost whatever they want for wages as they know that they will fill their vacancies. As Susan Dicklitch observes in her book, *The Elusive Promise of NGOs in Africa,* even the middle class, the traditional bastion of democracy and agitator for change, like the working class are "often too busy trying to eke out a living" to fulfil their historic political role. However, if Uganda's GDP continues its 7 percent annual growth of recent years, if President Museveni's anti-poverty strategy promoted in March 2000 is effective, and if the country continues to benefit from the proposed US$2.3 to US$2.5 billion in external aid, then there is hope that the standard of living for the majority may improve.

WORKING CONDITIONS

Uganda's **labor force** is the sixth largest in sub-Saharan Africa, totaling 8.4 million workers in 1993. Yet, as 51 percent of the population is below the age of 14, it is difficult for a government with such limited revenue to provide sufficient education and vocational training for the mass of Uganda's youth. The majority of the nation's workforce is thus unskilled. However, in part by increasing public expenditure on education from 1.5 percent of GDP in 1990 to 2.6 percent in 1997, the government has been successful in attacking illiteracy. The 49 percent of the population over 15 years of age who were illiterate in 1985 had been reduced to 36 percent by 1997—9 percent better than the African average. The problem of an unskilled workforce has been accentuated by the AIDS pandemic. Because it is likely that a trained teacher or doctor will contract HIV, it is necessary to train 2 or even 3 people to ensure the supply of even one skilled employee.

Labor migration is very common in Uganda. Areas of high unemployment (in districts such as Kabale) were forcibly created by the British colonial administration in order to facilitate the movement of cheap labor from these districts to "industrial" districts such as Buganda and Ankole to work in mines, towns, factories, and plantations. While migratory labor had been relatively well paid before 1986 (people could save part of their wages to buy products such as bicycles and other "luxuries"), due to high inflation and the liberalization of the Uganda shilling imports are far more expensive and workers struggle to even feed their families. Workers are unable to return to their respective districts with basic tools to improve or buy their own land. Hence, there is a growing landless peasantry that is subject to a cycle of laboring simply in order to buy food and basic essentials.

Uganda's trade unions were given legal recognition by the British colonial administration in 1952. In 1993 the unionization of public services was legally permitted, which brought the number of trade unions in Uganda to 17. All unions are legally obliged to affiliate with the highly centralized National Organization of Trade Unions (NOTU) which is part of a tripartite negotiating structure involving the Federation of Ugandan Employers (FUE) and the Minister of Labor. Although the government supports workers' rights conventions promoted by the International Labor Organization (ILO), trade unions are ineffective in Uganda. This is in part due to a lack of unity amongst workers as they work 2 or 3 jobs, and are subject to ethnic, regional, and gender divides. Also, trade unions and other workers' movements have had their powers reduced by the government, and individual workers are often tied to large commercial farms by the provision of normally very poor accommodation, a small plot of land for subsistence, and low wages. Though meager, without these limited resources the worker is lost, hence the space for challenging employers is limited. In light of this situation, although the power of trade unions has been historically low in Uganda, it is no surprise that they are now a virtually non-existent lobby group.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

c. 1850. Arab traders make first non-African contact within the territory of Uganda and promote Islam.

1862. Explorer John Hanning Speke is the first European to enter Uganda.

1885. Uganda is designated as a British sphere of influence at the Treaty of Berlin.

1890. A small British military force arrives in Uganda.

1894. Britain declares Uganda a protectorate.

1962. Uganda achieves independence from Britain, and Milton Obote becomes prime minister in multi-party elections.

1971. General Idi Amin forcibly seizes power.

1972. The country's Asian population is expelled, and British companies are taken under government control.

1979. Tanzanian army with Ugandan dissidents under the banner of the Uganda National Liberation Front (UNLF) oust Idi Amin.

1980. Corrupt multi-party elections reinstate Milton Obote as president.

1986. National Resistance Army enters Kampala and forms a government as the National Resistance Movement (NRM), led by President Yoweri Kaguta Museveni.

1987. The NRM government adapts free market reform and starts to receive aid from the IMF and World Bank.

1998. Uganda starts its involvement in the war in the Democratic Republic of the Congo.

2000. A flawed national referendum maintains the "no-party" political system.

2001. Presidential elections held in March.

FUTURE TRENDS

At the outset of 2001, Uganda has the potential to diversify its economy, and there are signs that alternatives to the present substantial reliance on the export of coffee are arising. But in the face of continually falling coffee prices on international markets, in order to prosper in the 21st century diversification of the economy is essential. Unless there is a serious unforeseeable crisis Yoweri Museveni will remain as president at least until 2006, and Uganda will continue on its path of free market reform. This reform will continue to be backed-up by substantial aid from the World Bank, the IMF, the EU and other donors.

There will be an intensification of the privatization of parastatals. The revenue freed-up from previously subsidizing parastatals may allow the government to spend a greater proportion of GDP on essential public services such as education and health. Without investment in these areas an unhealthy and poorly educated workforce will constrain improved social and economic development. GDP growth for 1999–2000 was 5.4 percent, a considerable decline from the highs of 7 percent in 1995 and 1996. This is some indication of the economy's growth beginning to stabilize after the essential reconstruction work undertaken from 1987 onwards. In light of this evidence, it is likely that annual GDP growth will remain at around 5 percent or less for the next 5 years. A continued drain on government resources is Uganda's involvement in the ongoing war in the Democratic Republic of the Congo (DRC). At the beginning of 2001 Museveni was faced with a dilemma between withdrawing and allowing the potential for increased destabilizing attacks upon Uganda by forces based in the DRC or to remain involved in an unpopular and expensive war.

DEPENDENCIES

Uganda has no territories or colonies.

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—Liam Campling

ZAMBIA

Republic of Zambia

CAPITAL: Lusaka.

MONETARY UNIT: Zambian kwacha (K). One Zambian kwacha is equal to 100 ngwee. Coin denominations include 1, 2, 5, 10, 20, and 50 ngwee and notes include 1, 2, 5, 10, 20, 50, 100, and 500 kwacha.

CHIEF EXPORTS: Copper, cobalt, lead, and zinc.

CHIEF IMPORTS: Crude oil, manufactured goods, machinery, transport equipment, and foodstuffs.

GROSS DOMESTIC PRODUCT: US$3.325 billion (1999). [CIA *World Factbook* estimates GDP at purchasing power parity at US$8.5 billion (1999 est.).]

BALANCE OF TRADE: **Exports:** US$1.057 billion (1998). **Imports:** US$1.140 billion (1998). [CIA *World Factbook* reports exports to be US$900 million (f.o.b., 1999 est.) and imports to be US$1.15 billion (f.o.b., 1999 est.).]

COUNTRY OVERVIEW

LOCATION AND SIZE. A landlocked state located in southern Africa, east of Angola, Zambia has an area of 752,614 square kilometers (290,584 square miles) and a total land boundary of 5,664 kilometers (3,520 miles). Comparatively, Zambia is slightly larger than Texas. Zambia's capital city, Lusaka, is located in the southern center of the country's territory.

POPULATION. The United Nations Economic Commission for Africa estimated Zambia's population at 9,133,000 in 2000, a notable rise from the 1995 level of 8,081,000. In 2000 the birth rate stood at 41.9 births per 1,000 population while the death rate was 22.08 deaths per 1,000. With similar annual growth rates, the population will stand at 13,201,000 in 2015 and 21,965,000 in 2050. Zambians of African descent constitute 98.2 percent of the population, and 1.1 percent are European. In 1998, 39 percent of Zambians lived in urban habitats—one of the highest levels of urbanization in Africa.

The HIV/AIDS epidemic is a considerable problem in Zambia with 19 percent of the working age population infected. It is estimated that 99,000 Zambians died from AIDS in 1999 whilst those with HIV infection who were still alive at the end of 1999 numbered 870,000. These deaths and levels of infection are not only important in themselves but have extremely negative social and economic costs. The drawn-out nature of death from AIDS means that many of the population (predominantly women) who could be productively employed have to provide long-term care for the dying. In addition, by 1999 the cumulative number of orphans created since the epidemic began in the mid-1980s reached 650,000. This raises the problem of the development and guidance of Zambia's children.

OVERVIEW OF ECONOMY

The mining of copper dominates Zambia's national economy. A central legacy of the colonial period (1899–1964) was the exploitation of Northern Rhodesia's (modern Zambia) vast copper deposits, first, by the British South Africa Company (BSAC) who administered the territory until 1924 and, second, by the British government. The need for copper miners meant that a high percentage of Zambia's male workforce was, often forcibly, encouraged to leave their **subsistence farms** and work in the mines. This led to the neglect of the agricultural sector and Zambia's reliance on copper exports—a trend that continued to affect the national economy by 2001.

At independence in 1964, Zambia's economy was highly skewed; most regions outside of the "line of rail" (the railway that serviced the mining sector) were highly underdeveloped. However, the newly elected United National Independence Party's (UNIP) policy of actively developing the economy meant that the manufacturing and agricultural sectors increased in importance, and the sup-

ply of health and education services to the population dramatically improved.

The UNIP, led by President Kenneth Kaunda, promoted a brand of so-called "humanist" **socialism** which was the ideological justification for the creation of a large number of **parastatals** in Zambia. The important reasons for this policy were the Unilateral Declaration of Independence (1965) by the neighboring white-supremacist Rhodesia (modern Zimbabwe), which threatened Zambia's supply lines, and the fact that the foreign owners of Zambia's enterprises often invested their profits abroad. In addition, parastatals were seen by the Zambian government as a mechanism to develop and diversify the economy.

By the late 1970s, parastatals employed a third of the official **workforce** and consisted of over 330 enterprises whose activities criss-crossed Zambia's economy with areas such as mining, transport, agriculture, construction, tourism, trade, and finance. Partly due to the parastatal system, Zambia's manufacturing output rose by more than 160 percent between 1965 and 1975, and the level of domestic power generated grew by more than 350 percent. However, the parastatals, and the economy as a whole, continued to rely on colonial structures in that they were dependent on foreign capital, expertise, technology, imports, and markets. In addition, parastatals (along with the government and civil service) were rife with corruption and inefficiency as many could not function without large government **subsidies**. This simply meant that the Zambian form of parastatals was inherently unsustainable.

In order to continue to subsidize state spending on parastatals and social services, UNIP continually borrowed from the International Monetary Fund (IMF) to support the economy's **balance of payments** deficits. By the early 1980s the IMF began to impose conditions of free market reform for continued lending. These reforms consisted of the stabilization of the economy and a de-

gree of economic **liberalization**. However, the effects of these reforms on the incomes and employment of Zambia's workers were negative. By 1987, widespread social protest and discontent persuaded Kaunda to drop the IMF-sponsored reform.

In 1991 the UNIP government was defeated during multiparty elections by the Movement for Multi-Party Democracy (MMD). The MMD immediately institutionalized a radical program of free market reform in order to secure continued external aid and to satisfy Zambia's business class. Parastatals were **privatized**, the kwacha was devalued, and the **exchange rate** was liberalized. As well as reducing consumer incomes, these reforms caused a considerable amount of financial uncertainty, and a number of domestic banks collapsed. Moreover, even though the government had benefitted from increased revenue through the privatization of 85 percent of its parastatals by 1998, the national balance of payments remained in deficit.

In comparison to Zambia's traditional reliance on copper and cobalt at independence, by the 1990s the economy had significantly diversified. In 1999, non-traditional exports such as processed foods, copper rods, and textiles constituted 39.4 percent of export earnings. However, the growth of the national economy and government revenue was still determined by the unstable prices of **primary commodities**, particularly copper and cobalt, in world markets.

CRIME. It is important to note that Zambia is a key transhipment point for the global illegal drug trade. A significant quantity of heroin and cocaine bound for Europe and for distribution throughout the rest of Southern Africa passes through Zambia. This illicit trade is supported by the fact that Zambia is a regional **money-laundering** center that acts as an excellent facility for those dealing in drugs to disguise the illegal source of their profits.

DEBT. **External debt** is a huge drain on Zambia's economy. Due to government subsidies of parastatals and investment in public health and education, by 1980 Zambia was one of sub-Saharan Africa's most indebted countries; it owed $3.261 billion. By 1997, the **national debt** had risen to $6.758 billion. This increased indebtedness was predominantly caused by an annual average government deficit of 10.72 percent of GDP between 1989 and 1998. Although the national balance of payments had been improving over the latter half of the 1990s, by 2000 the government remained fully dependent upon external aid in order to function.

POLITICS, GOVERNMENT, AND TAXATION

Like most of sub-Saharan Africa's countries, Zambia was a false creation of European imperialism during the "scramble for Africa" during the late 1800s. The territory of Zambia (formerly Northern Rhodesia) cut across dozens of ethnic groupings, chiefdoms, and languages and pulled these different societies together under an increasingly centralized colonial state. Colonial rule in Zambia (1899–1964) was a period of "divide and rule" where different chiefdoms were played off each other by the BSAC and the British government, respectively. (Although specific African leaders would often use colonial power to achieve their own ends).

When vast copper reserves were discovered in the mid-1920s the country was mobilized to mine this valuable mineral to enrich the colonial powers, whilst the rest of the economy was neglected. As Marcia Burdette noted in her *Zambia: Between Two Worlds,* the colonial administration transformed Zambia into "a mineral-exporting enclave with a vast underdeveloped hinterland." Due to the growing nationalist militancy of the African population, independence was achieved in 1964. Zambia's post-colonial politics can be divided into 3 periods, each of which corresponds to the establishment of a new republic and constitution.

THE FIRST REPUBLIC. The First Republic (1964–1972) was formed at independence in 1964. In multiparty elections in 1964 the United National Independence Party (UNIP) defeated its main rival, the African National Congress (ANC). The socialist-"humanist" orientation of the government (led by President Kenneth Kaunda) was bolstered by a large revenue supplied by high international copper prices, which allowed the opening of health and education services to the black population. The UNIP could boast a considerable success; by 1972 Zambia's hospitals had grown by 50 percent and health clinics doubled, whilst the availability of education services also dramatically increased. In order to administer the growing **public sector** the civil service expanded dramatically and acted as a mechanism for the UNIP ruling elite to award the party faithful. Due to the lack of a significant business sector, civil servants became the nation's upper class.

THE SECOND REPUBLIC. The Second Republic (1972–1990) was established in 1972. Known as the "one party-participatory democracy," it was a one-party state ruled by the UNIP. All other political parties were banned, and Kaunda's dominant role in the UNIP and the government assured him an uncontested rule. However, the Second Republic ran into serious difficulties due to corruption within the civil service, government, and parastatal sector, and declining government revenue caused by the falling price of copper. The government began to borrow heavily to support the vast state expenditure and the country became highly indebted.

Discontent grew throughout the country over the 1980s because of rapidly declining incomes and rising prices, partly caused by an IMF economic liberalization program (which was subsequently dropped in 1987). The culmination of worker militancy, student protests, and growing opposition within the ruling class was the formation of the Movement for Multi-Party Democracy (MMD) led by Frederick Chiluba (a key trade union figure). Mounting economic crisis and political pressure led Kaunda to sign a new constitution in 1990, putting an end to one-party rule.

THE THIRD REPUBLIC. The Third Republic adopted a multi-party parliamentary democracy. Peaceful presidential and parliamentary elections were held in 1991 wherein Chiluba received 76 percent of votes cast. After this defeat Kaunda stepped down from office and ended his 27 years of leading the country. Relatively free and fair elections were held again in 1996 and the MMD won a landslide victory for the second time. In 2001, the MMD continued to pursue free market economic reform. The global dominance of free market **capitalism** since the 1990s and, perhaps, the success of the pro-business MMD has led the UNIP to drop its socialist orientation and adopt "capitalism with a social conscience."

The Zambia Revenue Authority (ZRA) was set up in 1994 to increase government revenue—which had been historically low—and to reduce the economy's growing dependence on external aid, which is essential in supporting Zambia's most basic necessities. The ZRA had reported considerable success in its role. For example, **value-added tax** (VAT) was introduced in 1995 and by the turn of the century it constituted 20 percent of all tax revenue. In order to provide increased incentives for domestic and international business the levels of these various revenue-collecting mechanisms had been progressively reduced in the 1990s. Nonetheless, even in light of these pro-business tax reductions, ZRA revenue collections still grew from K421 billion in 1994 to K954 billion in 1997.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Of Zambia's 66,935 kilometers (41,500 miles) of roads, relatively few are of good quality and paved except for those routes linking Lusaka to main border posts. The publicly-owned Zambia Railways (ZR) controls most of the 2,169 kilometers (1,345 miles) of national rail **infrastructure**. Rail routes to regional seaports are very important because Zambia is landlocked. The railway track linking Zambia to the seaport of Dar es Salaam in Tanzania is jointly run by the Tanzania-Zambia Railway Authority (TZRA), which is not part of ZR. Other seaports used for Zambia's imports and exports are Beria in Mozambique, Durban in South Africa, and Walvis Bay in Namibia. Lusaka International is Zambia's primary airport; the main secondary airports are based at Ndola, Livingstone, and Mfuwe. All of these airports are run by the publicly-owned National Airport Corporation (NAC).

The state-owned Zambia Electricity Supply Corporation (ZESCO) produced 8.16 billion kilowatts (kWh) of electricity in 1998 using hydropower. Of this, 1.2 billion kWh was exported. However, the use of commercial energy within the country declined by an annual average of 1.7 percent between 1980 and 1997, whereas the use of traditional fuels as a percentage of total energy use rose from 37.4 percent in 1980 to 73.1 percent in 1996. This increased reliance on traditional energy sources, mainly wood, means that Zambia's environment is threatened by deforestation which, in turn, creates soil erosion and a subsequent decrease in arable land.

The state-owned Zambia Telecommunications Company (ZAMTEL) is the national provider of telecommunication services (predominantly telephone lines). ZAMTEL is planned to be partially privatized. Although generally adequate, Zambia's telecommunications can be unreliable, particularly during rainy seasons. A cellular telephone service is available in Lusaka and

Communications

Country	Newspapers	Radios	TV Sets[a]	Cabl subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Zambia	12	121	137	N/A	1	0.1	N/A	0.48	15
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

other built-up areas. Fax machines are widely used, and the Internet is becoming an increasingly popular means of communication for those few who are fortunate enough to have access.

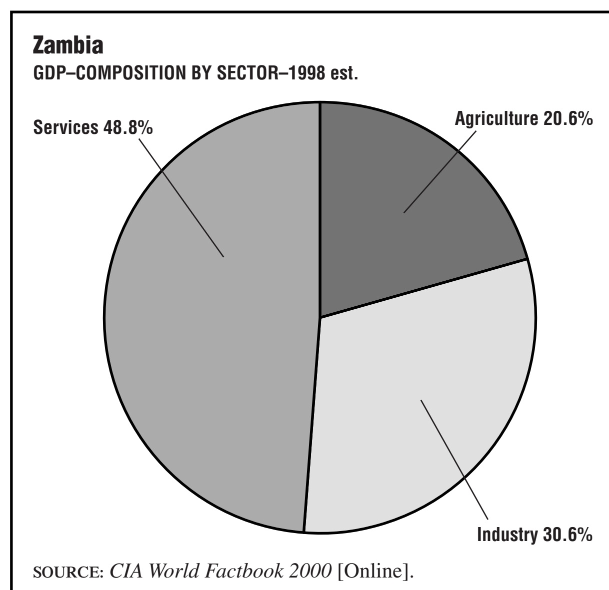
ECONOMIC SECTORS

Zambia's economic sectors reflect 3 key constraints. First, the influence of colonial rule created a reliance on mining (in particular, copper) and a failure to fully exploit the agricultural sector. Second, the small size of the population means that domestic markets are limited. Third, its landlocked status reduces the competitiveness of exports as they are subjected to the **tariffs** of neighboring countries and high transportation costs.

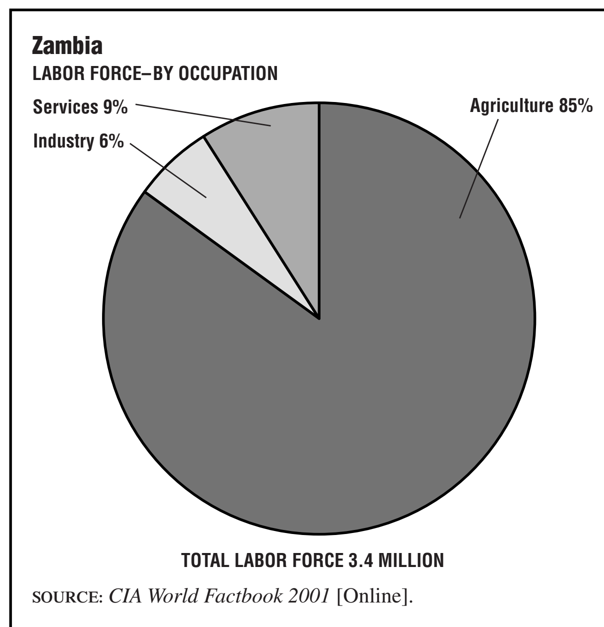
However, for such an underdeveloped country, Zambia has been relatively successful in diversifying its economy. Although copper exports continue to be of primary importance, the export of **cash crops** such as cotton and tobacco, as well as refined sugar, provide a high level of revenue and employment. However, all of these goods are highly sensitive to fluctuations in international market prices. The manufacturing sector produces a large quantity of textiles for export and there is a growth in the production of cut flowers. Within the industrial sector, the mining of gems and other minerals, as well as the production of cement, engineering products, and chemicals, helped balance out the economy's reliance on the mining of copper and cobalt.

AGRICULTURE

Zambia's main agricultural exports are cotton, sugar, and cut flowers. Agricultural exports increased significantly between 1993 and 1998 from US$27.2 million to US$89.7 million. However, Zambia's agricultural sector has historically lacked significant infrastructure and productive investment. This means that the sector is highly underdeveloped whilst offering considerable potential if large investment was supplied. For example, neighboring Zimbabwe, which is of a comparable size and climate to Zambia, exported US$1,157 million of agricultural goods in 1998. The key problem with Zambia's failure to fully exploit its agricultural production to a similar extent as Zimbabwe is that agricultural imports have significantly outweighed agricultural exports throughout the 1990s. This represented another imbalance on the national balance of payments and a serious drain of foreign currency reserves that have to be used to pay for imports.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

COTTON. Cotton is one of Zambia's most important cash crops. Although it is partly produced on large commercial farms by expatriates and some African commercial farmers, like most of Zambia's cash crops, the vast bulk of cotton output comes from small subsistence farmers. Even though the price of cotton plummeted between 1998–1999, export earnings from this crop rose from US$22.8 million to US$41.4 million, partly due to companies holding back 1998 stocks in the hope that prices would rise. The production of cotton also supports Zambia's large domestic textile industry.

Another key cash crop is tobacco. In 1998 Zambia exported US$9.5 million of tobacco, an impressive rise from the 1988 level of US$3.8 million. However, like most primary commodities, tobacco exports are subject to the continuing change and instability of international market prices. In 1960 1 metric ton of tobacco fetched US$8,391; by 1999 this had fallen to US$2,922. Also of

note is the farming of coffee. In 1999 coffee provided US$8.7 million in exports; these earnings would have been higher if the world market leader, Brazil, had not almost doubled its normal output.

SUGAR. Sugar is a dominant agricultural export, accounting for 70 percent of all export earnings in the processed food sub-sector in 1999 (other key goods in this sub-sector are stock feeds, marigold meal, mealie-meal, and wheat flour). Sugar exports have increasingly benefitted from initiatives by the European Union which, under the Lome Convention, agreed to buy 13,000 metric tons from the Zambia Sugar Company in 2000. However, processed food exports suffered a decline from the 1998 level of US$49.4 million to US$33 million in 1999. This is because of serious instability in the Democratic Republic of the Congo which was the recipient of roughly 40 percent of Zambia's processed food exports.

A recent agricultural development of huge significance is the production of floricultural goods (mainly cut flowers). Despite low prices at Dutch auctions in 1999 (the Netherlands is the key trading point for flowers in Europe), Zambia's floricultural products fetched US$42.8 million in export earnings. In addition, in 1999 horticultural production (mainly fruit and vegetables) earned US$23.8 million. However, there appears to be a certain imbalance here as Zambia exports vast amounts of fruit and vegetables whilst remaining a net importer of food for domestic consumption.

The major food crops produced in Zambia for domestic consumption are cassava, maize, and wheat. Maize used to be one of the most important food goods in Zambia with 1,845,000 metric tons being produced in 1989, but by 1998 this had declined to 650,000 tons. However, over the same ten-year period the consistent growth of cassava production (from 290,000 tons to 817,000 tons) and of wheat (from 10,000 tons to 70,000 tons) partly canceled out the decrease of maize output. Nonetheless, the total domestic production of these 3 basic food crops was 608,000 tons less in 1998 than in 1989. This decline of domestic food production often means that Zambians have to pay more for their essential nutritional requirements with a negative knock-on effect on the standard of living.

INDUSTRY

MINING. National copper and cobalt reserves are by far the most important factor in Zambia's national economy. Zambia is the world's fourth largest producer of copper and, due to the ongoing civil war in the cobalt-rich Democratic Republic of the Congo, it has been the leading producer of cobalt in the late 1990s. In 1996 total copper exports amounted to US$568 million and cobalt exports US$193 million.

Copper is subject to the constant fluctuation and uncertainty of international market prices. In 1960 the price for a metric ton of copper was US$3,271; at its height in 1970 it was US$5,629. Yet from the mid-1970s onwards it consistently declined to only US$1,519 by 1999. For example, even though Zambia produced 12,700 tons more copper in 1993 than in 1988, it received US$219.4 million less in export receipts. But, in total, copper production has steadily declined from a 1970 high of 700,000 metric tons to only 250,000 tons in 1999. More importantly, it is estimated that, at the ongoing level of production, the nation's economically viable copper reserves will be exhausted by 2010.

By 2000 the giant parastatal mining company, Zambia Consolidated Copper Mines (ZCCM), had been fully privatized. The **private sector** successors (principally the mining giants Anglo America, Avmin, and the Glencore/First Quantum consortium) had begun to invest hundreds of millions of dollars in Zambia's mines. In combination with the fact that Zambia has the largest non-exploited underground copper reserve in the world, private sector investment means that the mining sector may continue to provide considerable export earnings to the national economy well into the 21st century.

In the 1960s and 1970s Zambia also mined and refined a significant amount of lead and zinc. The high point for the production of these minerals was in 1974 when 27,000 tons of lead and 58,000 tons of zinc were produced; however, by 1993 these levels had dropped dramatically to 3,000 tons and 5,000 tons, respectively. Yet, lead and zinc in combination with gold, silver, and platinum provided US$12.3 million in export earnings in 1998. (In 1999 this fell to only US$3.3 million, but this was due to the modernization and rehabilitation of mines.) The export of gemstones has grown in importance and provided US$13.8 million of exports in 1999 to the main market of East Asia.

MANUFACTURING. Unusual for an economy in sub-Saharan Africa, Zambia exports more manufactured goods than it imports—with US$180 million exported in 1997 and US$116 million imported (although as a whole the economy generally remains in deficit). The principal manufacturing exports are textiles, engineering products, and building materials.

Zambia's textile industry is considered to have vast competitive potential in the region due to relatively cheap labor costs and a high level of domestic cotton production. But the dumping (the sale of a good on a foreign market at a price below marginal cost) of foreign textiles on the Zambian market by regional competitors has negated the growth of domestic textile production. Zambia's export earnings from textile products (80 percent of which is cotton yarn) declined from US$42.4 million in 1998 to US$37 million in 1999. This is principally due

to a fall in the price of cotton yarn over this period as the quantity of exports remained stable. The principal destinations for textile products were the EU countries, which consumed 80 percent, and regional African countries with 15 percent.

In 1999, the main engineering products manufactured in Zambia were copper rods (73.4 percent), electrical cables (13.7 percent), and copper wire (11.2 percent). The export of these engineering products declined by 26.7 percent between 1998 and 1999 to US$23.2 million. This is mainly because of a fall in international demand due to the slow recovery of the industrialized economies in East Asia after the 1996–97 world financial crisis. Similarly, the export of building manufactures (such as cement and roofing sheets) declined in 1999 to US$10.2 million. Again, this was due to the ongoing civil war in the Democratic Republic of the Congo, traditionally the main destination of these goods.

SERVICES

TOURISM. Zambia has a great deal to offer adventurous tourists. It provides a sample of relatively "untouched" Africa with authentically wild national parks, stunning scenery, and the Victoria Falls and Zambezi River (2 of Southern Africa's main tourist spots), which it shares with Zimbabwe.

Zambia's tourism sector has benefitted from the serious social and political instability in neighboring Zimbabwe (which was traditionally a preferred destination). As a consequence, and also due to considerable public and private investment in tourist facilities, the level of tourists visiting Zambia rose from 87,000 in 1980 to 362,000 in 1998. This created an increase in tourism receipts from US$20 million to US$75 million, although it should be noted that Zambian nationals vacationing abroad spent US$59 million in 1998.

FINANCIAL SERVICES. In the 1960s the Zambian government **nationalized** several non-bank financial institutions (such as insurance companies) and set up the Zambia National Commercial Bank to compete with existing private commercial banks. But due to political interference and the inefficient allocation of loans, this system of public banking was unsuccessful. With the aim of improving efficiency in the banking sector through the discipline of free market competition, Zambia liberalized interest rates between 1992 and 1995. This created a considerable amount of financial turmoil and instability. In 1995, Zambia's third largest bank, Meridien Bank, collapsed along with 2 other local banks. In addition, due to a new regulation requiring banks to have at least US$140 million in working capital, and because of the insufficient experience of domestic banks in operating in a liberalized economy, 5 other banks had their licenses withdrawn by the Bank of Zambia (the central bank) by 1998.

Despite free market reform, by the late 1990s there was still considerable evidence of political leaders and their allies defaulting on loans and interfering in the affairs of Zambia's banks. In addition, not only has new regulation and economic liberalization failed to significantly increase confidence in the banking sector (which remains fragile as 30 percent of total loans are non-performing), the Economist Intelligence Unit maintained in 1997 that "too many banks [are] chasing the little profit available." This has led to the increased domestic dominance of huge multinational banks such as Barclays and Citibank, thereby displacing less powerful national banks such as the National Savings and Credit Bank of Zambia and the publicly owned Zambia National Commercial Bank.

INTERNATIONAL TRADE

From 1991 Zambia became a net importer of goods, importing US$83 million more than it exported in 1998. The national balance of payments generally remained in deficit throughout the 1990s. In order to address this imbalance the government relied on external aid to prop up the economy; this in turn has led to a deeper indebtedness and a rise of annual debt repayment levels. In 1993, Zambia's main imports were US$144 million of crude oil (it is refined domestically into petroleum oils), and US$30 million in fertilizer. The main sources of Zambia's imports in 1996 were South Africa (US$303 million), Saudi Arabia (US$107 million), the UK (US$81 million), neighboring Zimbabwe (US$67 million), and Japan (US$19 million).

Historically, Zambia's main exports are copper and cobalt, which in total provided US$761 million in export earnings in 1996. However, there has been a huge expansion of non-traditional exports (NTEs) such as sugar, cotton, copper rods, textiles, cut flowers, gemstones, and cement since independence in 1964. In 1999, the European Union was the largest market for Zambia's NTEs, which

Trade (expressed in billions of US$): Zambia

	Exports	Imports
1975	.810	.929
1980	1.298	1.116
1985	.784	.545
1990	1.309	1.220
1995	1.040	.700
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

consumed US$117.4 million (38.54 percent) of total NTE earnings. Within the EU the largest market was the Netherlands which accounted for US$40.6 million of such goods as cut flowers and live fish. The UK was the second largest EU market and imported US$37.4 million of specialty vegetables, cotton yarn, and coffee. Germany consumed US$21.3 million in cotton yarn and cut flowers.

The Common Market for Eastern and Southern Africa (COMESA) was Zambia's second largest regional market for NTEs in 1999 and imported US$81.8 million. Some of the principal NTEs sold in this region were sugar, petroleum oils, cement, food, and electricity. The main 3 markets and their percentage of COMESA's imports were the Democratic Republic of the Congo (41.93 percent), Malawi (18.66 percent), and Zimbabwe (12.86 percent). However, due to war in the Democratic Republic of the Congo and social unrest in Zimbabwe, 1999 exports to these countries fell. The key market for Zambia's copper rods, gemstones, and tobacco was East Asia, accounting for US$10.3 million.

MONEY

Since the liberalization of the kwacha in the early 1990s Zambia has suffered from a permanently high level of **inflation**. In part due to the influx of imports to modernize Zambia's recently privatized copper mines, the kwacha lost 40 percent of value to the U.S. dollar in 2000. Zambia's inflation has resulted in its coinage being more valuable as pieces of metal than at face value. In consequence, notes are the population's source of cash. Due to expensive and scarce credit facilities, Zambia's domestic trade is generally undertaken using cash.

Zambia has a single stock exchange, the Lusaka Stock Exchange (LuSE). The LuSE opened in 1994. By 1997 it had benefitted from increased trading volumes, and its capitalization value was US$502 million. At the outset of 2000 it listed 15 companies. The national Securities and Exchange Commission (SEC) regulates Zambia's stock market.

Exchange rates: Zambia

Zambian kwacha (K) per US$1	
Jan 2001	4,024.53
2000	3,110.84
1999	2,388.02
1998	1,862.07
1997	1,314.50
1996	1,207.90

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Zambia	641	551	483	450	388
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Dem. Rep. of Congo	392	313	293	247	127

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

Zambia is a country defined by extreme poverty. By 2000, over 70 percent of the population lived on less than 1 dollar a day (the figure 10 years before was 50 percent) and 64 percent of this income was spent on essential food. This is in a country whose public expenditure on health as a percentage of GDP fell from 2.6 percent in 1990 to 2.3 percent in 1998, and where external aid per capita fell from US$119.7 in 1992 to US$36.1 in 1998. In addition, the daily per capita supply of calories fell from 2,173 in 1970 to 1,970 in 1997, and the daily supply of protein declined by 19.2 percent and fat by 27.1 percent over the same period. Consequently, 3 in 5 of Zambian children were malnourished by 2001. Along with the impact of the HIV/AIDS epidemic, these factors have contributed to a declining life expectancy for the average Zambian from 47.3 years in the early 1970s to 40.1 in the late 1990s.

There are vast disparities in living conditions between Zambia's rural and urban habitants. For example, whilst 64 percent of the urban population have access to safe water, only 27 percent of the rural population are so fortunate. Moreover, 46 percent of the urban population live below the poverty line compared to a massive 88 percent in rural areas. In more general terms, the disparity of wealth between Zambia's rich and poor is also con-

Distribution of Income or Consumption by Percentage Share: Zambia

Lowest 10%	1.6
Lowest 20%	4.2
Second 20%	8.2
Third 20%	12.8
Fourth 20%	20.1
Highest 20%	54.8
Highest 10%	39.2

Survey year: 1996

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Zambia	52	10	8	2	11	3	14
United States	13	9	9	4	6	8	51
South Africa	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dem. Rep. of Congo	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

siderable. The poorest 60 percent of the population share 25.2 percent of the nation's wealth, whereas the wealthiest 10 percent benefit from 39.2 percent of the wealth. Incomes have not grown as fast as inflation which, in combination with the introduction of user fees for health and education services, means that a majority of Zambians cannot afford to provide themselves with even basic social services.

WORKING CONDITIONS

Of a labor force of 4 million the average Zambian works for 45 hours a week. However, this official figure does not take account of those who work outside of the official sector and embark upon such activities as subsistence farming on small plots of land and petty trading. Zambia has been a member of the International Labour Organisation since independence in 1964, yet it only ratified Conventions 87 (Freedom of Association and Protection of the Right to Organize) and 98 (Right to Organize and Collective Bargaining) as late as 1994. Zambia's trade unions are obliged to join the highly centralized Zambia Congress of Trade Unions (ZCTU). The ZCTU is a very powerful organization and by withdrawing its support from the UNIP in 1990, it almost assured the MMD's electoral success in 1991. Six of 7 ZCTU leaders joined the 1991 MMD government, including President Chiluba who had been the ZCTU's chairman. However, the ZCTU is highly critical of the MMD, in particular its pro-business policies such as the liberalization of the economy which has resulted in a decline of living standards for Zambia's workers. There is also tension within the ZCTU. In 1995 3 of its twenty affiliate trade unions broke away with the intention of setting up a competing center body.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1899. The British South African Company (BSAC) assumes control over Zambia (then Northern Rhodesia).

1924. British government takes over Zambia's administration.

1964. Zambian independence and the beginning of the First Republic. The United National Independence Party (UNIP) wins multi-party elections, and Kenneth Kaunda becomes president.

1965. Unilateral Declaration of Independence in Rhodesia (modern Zimbabwe) threatens Zambia's supply routes.

1972. The one-party state of the Second Republic is formed.

1987. A series of riots against declining incomes ends an IMF-sponsored free market reform program.

1990. Kaunda agrees to the formation of the Third Republic.

1991. Multi-party elections are won by the Movement for Multi-Party Democracy led by Frederick Chiluba. The MMD embarks on a program of IMF-sponsored free market reform.

1996. The MMD wins a second round of elections.

2000. The former parastatal Zambia Consolidated Copper Mines (ZCCM) is fully privatized.

FUTURE TRENDS

The Zambian government projects that the privatization of the giant mining parastatal (ZCCM) will lead to the increased efficiency of copper production, improved export earnings, and a subsequent influx of foreign exchange in order to correct the economy's sizeable balance of payments deficit. The proposed privatization of other major parastatals in the telecommunications, electricity, and transport sectors is expected to produce similar results. In part due to this adaptation of free market reform, Zambia's external creditors seem likely to write off US$670 million of debt in 2001, continue to reschedule the repayments of a large proportion of debt,

and extend the level of credit available to the government by US$4.5 billion in order to prop up the economy. However, signs of a global **recession** in early 2001 indicate that the world market for Zambia's exports may become less profitable. This will have a severely negative impact on the country's population and the growing non-traditional export sector, and make the repayment of outstanding debt unfeasible.

DEPENDENCIES

Zambia has no territories or colonies.

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—Liam Campling

ZIMBABWE

Republic of Zimbabwe

CAPITAL: Harare.

MONETARY UNIT: Zimbabwe Dollar (Z$). Z$1 equals 100 cents. Coins are in denominations of 1, 5, 10, 20, and 50 cents and Z$1 and 2. Paper currency is in denominations of Z$2, 5, 10, 20, 50, and 100.

CHIEF EXPORTS: Tobacco, gold, ferro-alloys, nickel, cotton, clothing, textiles, agricultural food crops.

CHIEF IMPORTS: Machinery, transport equipment, manufactured goods, chemicals, fuels.

GROSS DOMESTIC PRODUCT: US$28.2 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$1.8 billion (f.o.b., 2000 est.). **Imports:** US$1.3 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of Zimbabwe is a landlocked country in southern Africa, covering an area of 390,757 square kilometers (150,872 square miles), of which land occupies 386,670 square kilometers (1,929 square miles), and water occupies 3,910 square kilometers (1,509 square miles). Zimbabwe is bounded on the north and northwest by Zambia (797 kilometers), southwest by Botswana (813 kilometers), Mozambique (1,231 kilometers) on the east, South Africa (225 kilometers) on the south, and Namibia's Caprivi Strip touches its western border at the intersection with Zambia. The country is slightly larger than Montana.

Zimbabwe sits astride the high plateaus between the Zambezi and Limpopo rivers, its main drainage systems. Much of the country is elevated, 21 percent being more than 1,200 meters (3,937 feet) above sea level. The topography consists of 4 relief regions. The high veld (an open, grassy expanse) rises above 1,200 meters and extends across the country from the northeast narrowing towards the southwest. The middle veld, lying between 900 and 1,200 meters (2,953 and 3,937 feet) above sea level, flanks the high-veld, mostly extending towards the northwest. The low veld stands below 900 meters (2,953 feet) and occupies the Zambezi basin in the north and the more extensive Limpopo and Sabi-Lundi basins in the south and southeast. The eastern highlands have a distinctive mountainous character, rising above 1,800 meters (5,906 feet), and include Mount Inyangani (sometimes called simply Inyangani), standing at 2,592 meters (8,504 feet) above sea level.

POPULATION. The census of 1992 indicated a population of 10.41 million, and by mid-2000 the estimate was 11.34 million. The population has been growing at a rate estimated at 2.6 percent a year from 1990 to date, and this implies a fertility rate of 3.8 children per woman. The population is youthful, with only 3.5 percent over the age of 65, 39.6 percent in the 0 to 14 age group, and 56.8 percent in the 15 to 64 age group.

The country's population is diverse and was estimated in the mid-1980s to include—besides the indigenous people—some 223,000 people of European descent as well as 37,000 Asians and people of mixed ethnic backgrounds—all of them the legacy of the colonial era. The indigenous people accounted for more than 98 percent of the population in the mid-1997 estimates, and were comprised mostly of 2 broad ethnic or linguistic groups: the Ndebele and Shona. The Shona comprised 71 percent and Ndebele 16 percent of the population in 1997. There are, in addition, several other minor ethnic groups such as the Hlengwe, Sena, Sotho, Tonga, and Venda who constituted the other 11 percent. English, Shona, and Sindebele are the official languages universally taught in schools.

Urban growth has been rapid in recent years. Over the 1982–92 period, the population of Harare, the capital, is reported to have almost doubled from 656,000 to 1,189,103, while that of Bulawayo, the second-largest

city, increased from 413,800 to 621,742 over the same period. The urban poor, operating within the highly competitive **informal sector** are now a large and increasing part of the urban social structure.

OVERVIEW OF ECONOMY

Since independence, Zimbabwe's primary goal has been redressing the socio-economic imbalances and **restructuring** the economy while maintaining growth and avoiding alienating its white population, whose skills are of vital importance to its economy. Unlike many countries in post-independent sub-Saharan Africa, Zimbabwe did not tread the **nationalization** path, rather choosing to purchase shares in various enterprises.

Zimbabwe has a relatively diversified economy with good **infrastructure**, strong manufacturing and agricultural sectors, a vigorous financial services sector, and extensive mining. Agriculture, which in 1997 contributed 28 percent of **gross domestic product** (GDP), is the mainstay of the economy and a major determining factor in its growth. It is diversified and well-developed in terms of food production, **cash crops**, and livestock. Its growth, however, has been erratic since independence in 1980. Periods of rapid economic growth have been interrupted by agricultural slumps caused largely by drought in 1992, when about 80 percent of the maize crop and an estimated 1.7 million cattle were lost, and another drought in 1995.

Zimbabwe's mining sector is diversified, currently producing over 40 different minerals. These include gold, platinum, nickel, coal, copper, silver, emeralds, graphite, granite, cobalt, quartz, kaolin, and mica. Gold is the primary source of revenue in the mining sector.

Zimbabwe produces a wide variety of manufactured goods for both local and export markets. Manufacturing is centered in the 2 major urban centers, Harare and Bulawayo. Developed within a **protectionist policy**, the

sector enjoyed certain **tariff** barriers in the period from 1965 to 1979. It faced stiff competition, mostly from South Africa, after 1990 when the barriers were progressively removed.

One of the most pressing issues affecting the Zimbabwean economy concerns land redistribution. Due to costs and delays in sourcing financing, Zimbabwe has been behind schedule in the redistribution of land to landless rural families as promised in the war of liberation. This culminated in the 1999–2000 land crisis in the run-up to the 2000 elections, when war veterans began occupying white-owned farms. This precipitated a crisis in the farming sector that is yet to be resolved.

The export position has been generally strong, with **trade surpluses** recorded in most years except during the droughts of 1992 and 1995. Government policy aims to encourage foreign investment and expand exports—a policy it has pursued since the 1990 **structural adjustment programs** (SAP). However, export-led growth, the reduction of government **budget deficits**, and low levels of **inflation** have proved to be elusive goals. **Real GDP** grew at an average annual rate of 3.6 percent between 1980 and 1990, but halved to 1.8 percent annually between 1990 and 1997. By 1995, GDP was shrinking at -0.7 percent, but by 1996 the economy was growing again at a 7.6 percent growth rate. But in 2000 and 2001, the output of the economy is thought to have contracted once more, and living standards have fallen markedly. Inflation was high through the 1990s, averaging 22.4 percent annually between 1990 and 1997, ranging from a peak of 42 percent in 1992 to a low of 19 percent in 1997. In 1999, with the political crisis, inflation had risen to 166 percent a year and currently continues to be very high.

POLITICS, GOVERNMENT, AND TAXATION

Zimbabwe is a former British colony; it was known as Southern Rhodesia during British rule, and was established in 1890. Gold discoveries sparked an influx of white farmers, mostly from Britain and South Africa. The most powerful of the gold seekers was Cecil Rhodes (after whom Rhodesia was named), the eccentric owner of the De Beers mining company, which he had bought for its diamond concessions in Africa. The massive migration of white Europeans and land acquisition by these groups produced economic and political consequences still reverberating in the country more than a century later.

In 1953, Southern Rhodesia was united by the British government with Northern Rhodesia (present-day Zambia) and Nyasaland (present-day Malawi) into a Central African Federation, against opposition from Africans in all 3 regions. Due to the strength of African opposition in Northern Rhodesia and Nyasaland, the Federation was disbanded in 1963. Whites in Southern Rhodesia formed the Rhodesia Front (RF), dedicated to upholding white rule and demanding full independence from the United Kingdom and the retention of the existing minority-rule constitution. Prime Minister Ian Smith introduced a Unilateral Declaration of Independence (UDI) in November 1965 and renamed the territory "Rhodesia."

African nationalist opposition had split in 1963 into 2 resistance groups: the Zimbabwe African People's Union (ZAPU), led by Joshua Nkomo, and the breakaway Zimbabwe African National Union (ZANU), led by Rev. Ndabaningi Sithole and later Robert Mugabe. Repressive measures by the Smith government galvanized ZAPU and ZANU into a guerilla (non-conventional, stealthy) war to overthrow it. ZAPU's operations, based in Zambia and backed by the Soviet Union, were mainly confined to majority Ndebele areas. ZANU, on the other hand, linked with the People's Republic of China and a guerilla group fighting the Portuguese in Mozambique. They concentrated on infiltration and rural mobilization in Shona-speaking areas in the northeast, and later in eastern and central areas of the country.

From 1976, a common struggle was waged under the banner of the Patriotic Front (PF), an uneasy alliance of ZAPU and ZANU, backed by neighboring African states. This struggle, coupled with international economic **sanctions** (with the exception of South Africa), led to declining white morale, forcing the Smith regime into the 1979 "Internal Settlement"—a multi-racial government under the leadership of Bishop Abel Muzorewa, a Methodist minister and black nationalist. This paved the way for all parties to the conflict to participate in talks which led to the February 1980 elections and the emergence of the independent state of Zimbabwe on 18 April 1980.

In the elections, Mugabe's ZANU-PF won 57 of the 80 "common-roll" (reserved for black Africans) seats in the house, receiving 63 percent of the vote. Nkomo's ZAPU-PF won 20 and Bishop Muzorewa's United African National Council (UANC) won 3 seats. Mugabe's ZANU has retained power in Zimbabwe ever since.

The constitution of the Republic of Zimbabwe took effect at independence. Amendments to the constitution must have the approval of two-thirds of the members of the House of Assembly, the country's **unicameral** (single chamber) parliament. The executive president (Mugabe) is both head of state and head of the government, as is the U.S. president. The House of Assembly has 150 members, of whom 120 are directly elected by universal adult suffrage, 12 are nominated by the president, 10 are traditional chiefs, and 8 are provincial governors.

In 1997, government expenditure was 36 percent of GDP, which is high by African standards. Government

revenue was 31 percent of GDP, and the budget deficit was 5.1 percent of GDP, significantly above the International Monetary Fund (IMF) guideline of 3 percent. Subsequently, the deficit has been substantially above this level, the money supply has expanded rapidly, and the rate of inflation has accelerated.

Corporate tax rates are moderate at 37.5 percent, although the government discriminates against foreign corporations by imposing an additional 8.4 percent. Most government revenue is raised from taxes on income, profits, and capital gains (45 percent). Taxes on goods and services generated 26 percent of revenue, trade taxes on exports and imports garnered 19 percent, and other non-tax income (mainly licenses and surpluses of state-owned enterprises) accounted for 9 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Zimbabwe is a landlocked country with a well-developed road network that was comprised in 1996 of 18,338 kilometers (11,395 miles) of roads, of which 8,692 (5,401 miles) are paved. The closest seaport is Beira in Mozambique.

Zimbabwe has a direct railway link with Zambia, which connects it to the Tanzanian port of Dar es Salaam through the Tazara railway. The railway system also connects Zimbabwe to the Mozambican ports of Beira and Maputo as well as 2 South African ports. It comprises 2,759 kilometers (1,714 miles) of track, of which 313 kilometers (194 miles) is electrified. Another link is planned between Beitbridge and Bulawayo, the second largest city in Zimbabwe. The National Railways of Zimbabwe (NRZ), which operates the rail service, is under reform in preparation for **privatization**.

Zimbabwe has 2 state-controlled airlines—the passenger carrier Air Zimbabwe and freight carrier Affretair—which are experiencing financial difficulties resulting from poor management and political interference. This has enabled a private company, Zimbabwe Express Airlines, to emerge and capture a substantial share of the market. A new international airport is being built at Harare.

Zimbabwe Electricity Supply Authority (ZESA) has the sole responsibility for power generation and distribution. The search for national energy self-sufficiency in the early 1980s led to an emphasis on coal and other thermoelectric projects (78 percent of supply) and the hydroelectric power from the Kariba dam (22 percent). Although the second stage of the Hwange thermal power station, commissioned in 1987, raised the total capacity to 2,071 megawatts (mw), supply has failed to keep up with demand, leading to imports from Mozambique and South Africa. All oil and gas is imported. A pipeline from Port Beira in Mozambique to Mutare which was built before the 1965 declaration of independence did not become operational until 1982, and was extended to Harare only in 1993. Ethanol, produced since 1980 from sugarcane, is blended with gasoline for domestic sale. Imports of fuel are **monopolized** by the National Oil Corporation of Zimbabwe (Noczim), which has been mired in scandals and run at a loss for several years, partly due to lack of authority to raise prices in line with the depreciation of the Zimbabwe dollar.

Zimbabwe's domestic communication system consists of microwave radio relay links, land lines, radiotelephone communication stations, fixed wireless local loop installations, and a substantial mobile cellular phone network. Internet connection is available in Harare and planned for all major towns and for some of the smaller ones. International communication is through satellite earth stations including 2 Intelsat and 2 international digital gateway exchanges (in Harare and Gweru).

Zimbabwe's telephone system was once one of the best in Africa, but now suffers from poor maintenance with more than 100,000 outstanding requests for connection despite an equally large number of installed but unused lines. The Posts and Telecommunications Cor-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Zimbabwe	19	93	30	N/A	4	N/A	9.0	1.19	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
South Africa	32	317	125	N/A	56	3.5	47.4	33.36	1,820
Dem. Rep. of Congo	3	375	135	N/A	0	N/A	N/A	0.00	1

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

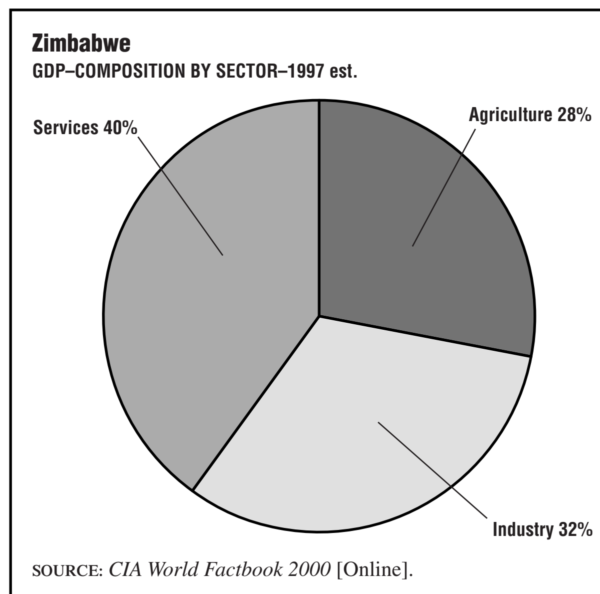
poration (PTC), despite investing heavily in the digitization of its network using fiber-optic technology, has failed to satisfy demand. By 1997 there were 212,000 telephone lines in use. In addition, there are about 20,000 fixed telephones with wireless local loop connections. There were 70,000 mobile cellular phones in 1999. The PTC has since lost its monopoly rights to cellular phone operators such as Eocene, which won the right to establish a cellular phone network in 1997 after more than 4 years of legal battles.

Zimbabwe has a well-diversified media. The press is relatively free but dominated by the state-controlled Zimbabwe Newspapers, which operates 2 dailies, the *Herald* and *Bulawayo Chronicles,* as well as their sister papers, the *Sunday Mail* and the *Sunday News.* Since 1999, when the *Daily News,* backed by investors from the United Kingdom and South Africa, was launched, the market share of Zimbabwe Newspapers has been significantly reduced. Other independent papers include weeklies such as the *Financial Gazette,* the *Zimbabwe Independent,* and the *Standard,* which mainly serve as opposition voices and are highly critical of the government. A number of monthlies including *Motto, Horizon,* and *Parade* are estimated to have a readership approaching 1 million each.

Radio and television are run by the state-owned Zimbabwe Broadcasting Corporation (ZBC), but variety is provided by channels from South Africa. In 1998, however, journalists critical of the government were removed and the state-controlled media have since largely provided government propaganda. In the wake of the outbreak of the land-reform crisis, which the independent media blamed on the government for instigating in the run-up to the 2000 elections, the government has announced plans to curtail the rights of the independent press.

ECONOMIC SECTORS

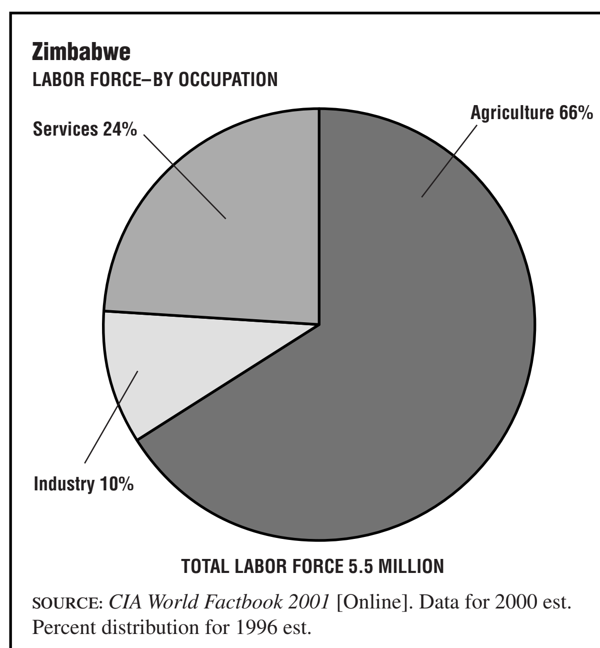
Zimbabwe's economy is well-developed, consisting of diversified sectors such as manufacturing, commercial farming, productive small-scale family farming, and exploitation of various mineral resources. Agriculture generated about 88 percent of GDP in 1997, one-third of which came from communal farmers, and mining was about 13 percent of GDP. These 2 sectors generally determine the state of health of the economy because of their impact on export revenue. Agriculture alone employs about 66 percent of the total **labor force**. Tobacco and gold, followed by tourism receipts, dominate export earnings. Although manufacturing's relative importance has declined over the years, it is still a significant sector, contributing about 18 percent of GDP in 1998. The services sector has risen in significance, contributing more than 58 percent of GDP in 1998, mostly as a result of increased spending on education and health, and an expansion of tourism in the 1980s. The latest figures the CIA *World Factbook* released were for 1997 and estimated agriculture at 28 percent, industry at 32 percent, and services at 40 percent of GDP.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Zimbabwe has a well-developed and diversified agricultural sector, producing food crops, cash crops, and livestock. Although agriculture accounted for only 28 percent of GDP in 1998, it engaged about 66 percent of



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1996 est.

the labor force in 1996. Some 27 percent of formal sector employment was in the agriculture sector in 1997. Agriculture's share of GDP has been fluctuating from 17 percent in 1985, 12 percent in 1990, 14 percent in 1996, and 28 percent in 1998, depending on the impact of drought and the level world prices for export crops.

Zimbabwe produces much of its own food, except in years where drought affects maize and wheat production. The staple food crop is maize, and other cereal crops include barley, millet, sorghum, and wheat. In spite of the high concentration of arable farmland in the commercial sector, **smallholder** production share of agricultural output rose from 9 percent in 1983 to 25 percent in 1988, and 50 percent in 1990. Tobacco is the largest export crop (23 percent of merchandise exports in 1997) and Zimbabwe is among the world's biggest exporters. The other main exports are sugar and cotton and in years of surplus maize is exported. Horticulture is growing rapidly and Zimbabwe is now the world's third-largest exporter of roses.

Zimbabwe is one of a few sub-Saharan African countries allowed to export beef to the European Union. Exports began in 1985; however, Zimbabwe could not keep up with its quota, and exports have dwindled over the years. Total exports were 9,500 metric tons in 1996. Sheep, goats, pigs, and poultry are also extensively farmed. About half the country's timber is produced by the Forestry Commission. Rough-sawn timber is exported to Botswana and South Africa. High quality timber is exported mainly to the United Kingdom. In 1994, Zimbabwe's forestry sector produced 29,000 cubic meters of non-coniferous sawn wood, 3,000 cubic meters of non-coniferous sawn logs and veneer logs, and 1.8 million cubic meters of industrial round wood.

INDUSTRY

In 1998, Zimbabwe was the world's thirteenth-largest producer of gold, which is the country's biggest mineral export. Mining contributed 13 percent of GDP in 1997 and generated US$900 million of export revenue in 1995 (amounting to 45 percent of total value of exports), up from US$623 million in the previous year. About 90 percent of mining production is exported. In 1997, gold constituted 14 percent of the value of exports, followed by ferro-alloys at 7 percent, then nickel, and asbestos. Coal is mined for domestic power generation as well as for export, iron ore to supply the steel industry, and phosphate rock for fertilizer production.

Mineral deposits are dispersed throughout the country, but it is the Great Dyke, which runs for hundreds of kilometers from northeast to southwest, that contains the most extensive concentration of mineral deposits. In the 1980s, the state tried unsuccessfully to wrest control of mining from the main mining companies. Anglo-American Corporation controlled nickel and chrome mining, Rio Tinto Zimbabwe mined nickel and gold, Turner and Newall concentrated on asbestos, Lonrho on gold and copper, and Ashanti Goldfields mined gold. In an effort to control **transfer pricing**, all minerals except gold are required to be marketed through the state's Zimbabwe Minerals Marketing Corporation, but this organization's future has recently been questioned.

Zimbabwe has one of the largest, most diversified, and integrated manufacturing sectors in sub-Saharan Africa, partly due to **import substitution** policies implemented after the 1965 declaration of independence. The Zimbabwe Steel Corporation (Zisco) is the only full-fledged sub-Saharan Africa steel producer outside South Africa, producing from its Kwekwe plant alone more than 700,000 metric tons annually. Other major industries include Zimbabwe Alloys, which produces ferro-chrome for export; a number of heavy engineering companies working for the mining industry and railways; Dunlop Zimbabwe which makes tires and tubes; car and truck assembly plants; a large pulp and paper firm; and several plastics companies. The removal of protective measures under the 1990 Enhanced Structural Adjustment Program (ESAP) has caused manufacturing's output to contract and its share of GDP to decline to about 18 percent in 1997 from around 25 percent in the 1970s. However, about 40 percent of Zimbabwe's exports are classified as manufactured products, and the recent decline in the value of the Zimbabwe dollar will serve to make Zimbabwean manufactures more competitive at home and overseas.

Although several new buildings have been erected in Harare in recent years, the construction industry has been depressed since the boom of the early 1970s, and its share of GDP has fallen from 5 percent in the 1970s to 3 percent in 1997 as a result of a virtual freeze on large-scale developments. On the other hand, employment in the sector has increased by more than 50 percent to about 80,000 as construction of low-cost, labor-intensive dwellings for Africans has expanded.

SERVICES

The central bank, the Reserve Bank of Zimbabwe (RBZ), acts as banker to the government, issues currency and government loans, controls foreign reserves, serves as lender of last resort to commercial banks, and handles revenue from gold exports. The RBZ is also responsible for banking sector supervision, although it lacks the necessary legislative framework and statutory power to monitor banks adequately. The Ministry of Finance is responsible for issuing banking licenses.

Zimbabwe has a growing tourism industry, and hunting safaris in particular have expanded in recent years.

The government favors upmarket tourism, especially **eco-tourism** and safari holidays. There are a number of world-class hotels in the country, including the historic Victoria Falls Hotel. The total number of visitors has grown at an annual rate of 20 percent since 1990 when there were about 635,000, to over 2 million visitors in 1998. Tourism generated an estimated US$125 million in 1998, making it the third-largest foreign exchange earner after tobacco and gold. But the continuing political unrest and violence has hurt the tourism industry, with the number of overseas visitors plunging 35 percent during the first 6 months of 2000 compared to the same period in 1999.

The distribution sector features a large number of South African **retail** chains. As a result of import substitution policies, these companies rely on domestic suppliers of processed food, clothing, furniture, and light **consumer goods**.

INTERNATIONAL TRADE

Exports of goods and services grew by about 6.3 percent a year between 1965 and 1997, and manufactured exports accounted for more than 32 percent of total merchandise exports in 1997. Zimbabwe's export partners vary significantly from year to year. In 1996, the most important were South Africa, Botswana, Lesotho, and Swaziland (38 percent of imports and 12 percent of exports)—all members of the Southern African Customs Union. The United Kingdom was also an important trading partner (9 percent of imports and 12 percent of exports), as was Japan (5 percent of imports and 6 percent of exports), Germany (6 percent of imports), and the United States (5 percent of imports). Zimbabwe's membership in the Common Market for Eastern and Southern Africa (COMESA) has, in theory, provided access to new markets in regional trade. In practice, however, Zimbabwean exporters have been somewhat disappointed due to constraints in foreign exchange availability with the potential partners. The historic change of government in South Africa has enabled investment and trade between the 2 countries, but the overall result has been that South Africa has taken an even larger share of Zimbabwe's domestic market following the recent increase in trade **liberalization**.

Trade (expressed in billions of US$): Zimbabwe

	Exports	Imports
1975	.932	.932
1980	1.415	1.448
1985	1.113	.896
1990	1.726	1.847
1995	2.119	2.660
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Zimbabwe

Zimbabwean dollars (Z$) per US$1	
Jan 2001	54.9451
2000	43.2900
1999	38.3142
1998	21.4133
1997	11.8906
1996	9.9206

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

Before 1994, the value of the Zimbabwe dollar was determined by the Reserve Bank of Zimbabwe (RBZ) on the basis of a trade-weighted basket of foreign currencies. Although there were large **devaluations** in 1982, 1991, and 1993, high domestic inflation frequently caused monthly adjustments of 1 to 2 percent. As part of the 1990 Enhanced Structural Adjustment Program (ESAP), the Zimbabwe dollar was floated, allowing companies to retain export earnings in foreign currencies, and restrictions were removed on holding the currency abroad and on investing on the Zimbabwe stock exchange. However, the RBZ reserves the right to intervene in the foreign exchange market (buying the Zimbabwe dollar when its price begins to fall, and selling when its price rises) to maintain a stable **exchange rate**. However, the price of the Zimbabwe dollar has been subject to a falling trend, and the RBZ has been unable to stabilize the exchange rate because it has lacked the foreign exchange to make purchases. The Zimbabwe dollar has lost considerable ground against the U.S. dollar since independence, depreciating from an average rate of Z$0.64=US$1 in 1980 to Z$38.15=US$1 in 1999. This depreciation has worsened since November 1997, owing to economic and political instability that prompted a run on the currency, depreciating it to Z$55.05=US$1 by mid-2001.

POVERTY AND WEALTH

It was estimated in 1991 that 14 percent of the population was below the U.S. dollar-a-day poverty line (this line is based on the income required to provide the absolute minimum nutrition, clothing, and shelter). This means that 16 percent of children under age 5 are malnourished (the figure is 1 percent for the United States) and life expectancy is 53 years (in the United States it is

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Zimbabwe	686	638	662	706	703
United States	19,364	21,529	23,200	25,363	29,683
South Africa	4,574	4,620	4,229	4,113	3,918
Dem. Rep. of Congo	392	313	293	247	127

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Zimbabwe

Lowest 10%	1.8
Lowest 20%	4.0
Second 20%	6.3
Third 20%	10.0
Fourth 20%	17.4
Highest 20%	62.3
Highest 10%	46.9

Survey year: 1990–91

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

77 years). Estimates in 1999 suggest that the deteriorating economic conditions, particularly the disruption of agriculture by the violent occupation of farms by landless Zimbabweans, has increased the dollar-a-day poverty level to 60 percent of the population. Most of those in poverty are in the rural areas, relying on small-scale agriculture for their livelihoods. They suffer because of poor land, inadequate rainfall, and insufficient income to purchase good seeds, fertilizer, or farm machinery. With the economic deterioration, increasing numbers of urban dwellers are finding themselves in poverty. There is a huge income distribution disparity. In 1990, the poorest 10 percent of the population received 1.8 percent of total income, while the richest 10 percent received 46.9 percent.

The national social security authority had about 840,000 employed persons registered with it in 1995. **Subsistence farmers** and informally employed people do not participate in pension, sickness benefits, or other formal welfare schemes, but rely on traditional community support structures.

WORKING CONDITIONS

Since independence in 1980, the government has tried unsuccessfully to reduce the wide income gap between the rich and poor in Zimbabwe. The Minimum Wage Act of 1980 established a minimum wage of Z$85 (US$133) per month for workers who qualified under the Industrial Conciliation Act, and Z$67 (US$105) for others in industry. Minimum wages were set at Z$58 (US$91) per month for mine workers and Z$30 (US$47) per month for agricultural and domestic workers. In 1982, minimum wages were again raised.

Although minimum wages were subsequently raised several times after independence and **real wages** rose significantly between 1980 and 1982, they have fallen since. Attempts were made in the 1980s to introduce wage controls, but these were widely circumvented by private industry. The landscape has since changed and collective bargaining now appears to be the norm, although tight regulation of the right to strike action has provoked workers to engage in wildcat (a strike not officially sanctioned by a union) actions. Since 1997, however, the Zimbabwe Congress of Trade Unions (ZCTU) has gained prominence, organizing successful strikes against new taxes and **levies** in 1997–98 and pushing for an increase in the minimum salary to Z$2,000 per month (about US$36 at current exchange rates).

Growth in employment was considerably slower than the population's increase after independence. In the late 1980s, about 40,000 jobs a year were being created, enough to accommodate only 20 percent of young people who had left school to find work. The percentage of total population formally employed fell from 18 percent in 1965 to 11 percent in 1997. There have also been ma-

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Zimbabwe	20	10	21	3	15	9	22
United States	13	9	9	4	6	8	51
South Africa	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dem. Rep. of Congo	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

jor sectoral shifts in employment since independence, with employment rising particularly rapidly in the education, health, and other services, while the number of people working in manufacturing has declined.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1890. Southern Rhodesia becomes a British colony.

1953. Britain unites Southern Rhodesia with Northern Rhodesia (present-day Zambia) and Nyasaland (present-day Malawi) into a Central African Federation (CAF), which is opposed by Africans in all 3 territories.

1962. Whites in Southern Rhodesia hostile to British softening of stance towards CAF vote into office the newly formed Rhodesian Front (RF), dedicated to upholding white rule and demanding full independence from the United Kingdom.

1963. British government recognizes African hostility to federation and concedes independence of territories, breaking up the federation. African Nationalist opposition splits into the Zimbabwe African People's Union (ZAPU), led by Joshua Nkomo, and the breakaway Zimbabwe African National Union (ZANU), led by the Rev. Ndabaningi Sithole and subsequently by Robert Mugabe.

1965. Ian Smith is appointed leader of the RF and prime minister of Southern Rhodesia. Smith implements a Unilateral Declaration of Independence (UDI), renaming the country "Rhodesia."

1976. African opposition launches combined struggle against the Smith regime, backed by neighboring African states (excluding South Africa).

1979. Smith regime develops an internal settlement under which the black-led government of Bishop Abel Muzorewa is instituted.

1980. Democratic elections give Mugabe's ZANU-PF a majority in the house, Nkomo's ZAPU-PF wins 20 seats, and Muzorewa's United African National Congress (UANC) wins 3 seats.

1982. All ZAPU-PF members of cabinet dismissed from government. Dissidents from ZAPU's former guerrilla army and others perpetrate numerous indiscriminate acts of violence.

1984. Army unit is accused of atrocities against civilians.

1985. The RF is reconstituted as Conservative Alliance of Zimbabwe (CAZ). First general elections are held in the summer.

1987. The reservation of 20 white seats in Parliament and 10 in the Senate is abolished.

1988. Mugabe and Nkomo sign agreement to merge ZANU-PF and ZAPU-PF into ZANU-PF with a commitment to establish a 1-party state with a **Marxist**-Leninist doctrine. Open public and parliamentary criticism of corrupt government officials mounts as unemployment and inflation rise. Plans to establish a 1-party state result in student protests.

1988. House votes to abolish upper chamber of parliament, the Senate. The single chamber is enlarged from 100 to 150 seats.

1990. ZANU-PF Central Committee refuses to endorse a 1-party state.

1991. The Enhanced Structural Adjustment Program (ESAP) is adopted. The constitution is amended to restore corporal and capital punishment and deny recourse to the courts in cases of seizure of land by the government, amidst fierce criticism from the judiciary and human rights campaigners.

1992. In May, a non-party Forum for Democratic Reform (FDR), led by former Chief Justice Enoch Dumbutshena and supported by some prominent Zimbabweans, is formed. Four parties form an informal alliance, the United Front (UF), with the aim of defeating the government at the 1995 general elections.

1993. In February, divisions appear in the UF alliance.

1994. Bishop Muzorewa returns to active politics and merges UANC with the Zimbabwe Unity Movement (ZUM). Later in the year, he founds a new opposition grouping, the United Parties (UP). Economic **recession** leads to widespread industrial unrest.

1995. The government wins the April general election, despite widespread discontent.

1996. Mugabe is returned to office with 93 percent of the votes cast in an election with a 32 percent voter turnout.

1997. Corruption becomes a prominent issue with allegations of official contracts being unfairly tendered and embezzlement of public resources to construct private homes for civil servants, ministers, and Mugabe's wife. In October, Mugabe announces acceleration of the national land resettlement program in an attempt to revive his declining popularity.

1998. Unprecedented food riots erupt in most of the country's urban areas in response to rises in the price of the staple food, maize meal. In April, government officials are reported to have misused funds intended to assist veterans of the struggle for independence. A new party, Zimbabwe Union of Democrats (ZUD), is launched with Margaret Dongo as leader. The opposition protests the government's decision to send troops to the Democratic Republic of the Congo.

1999. In July Mugabe acknowledges existence of corruption within the government. Joshua Nkomo dies at age 81. In September, Morgan Tsvangarai joins other prominent citizens in establishing the Movement for Democratic Change. Tsvangarai calls for electoral reform prior to 2000 parliamentary elections. World Bank and other donors suspend financial assistance.

2000. After delays in implementing a land reform program with compensation for white farmers, the government encourages war veterans to occupy farms, and considerable violence erupts. Elections are contested in which ZANU-PF wins 62 seats, the Movement for Democratic Change 57 seats, and ZANU-Ndonga 1 seat.

FUTURE TRENDS

Zimbabwe faces a wide variety of political and economic problems. The agricultural sector has been dealt a severe blow through the land occupation by war veterans frustrated by 20 years of delay in receiving land allotments for their military service. However, the government-sanctioned violent takeover of many white-owned farms has all but destroyed Mugabe's international reputation along with Zimbabwe's agricultural output. Thus, it is unlikely there will be a resolution to the conflict while Mugabe remains in power, particularly since the international community will withold funds for an orderly transfer with compensation for the white farmers until he is gone. For now, the economic prospect is bleak, with a steady attrition of white farmers and falling agricultural output, and exports provoking crises as food and fuel fall into short supply. Tourism has virtually ceased, incomes are plummeting, and inflation is likely to continue at hyper-inflation levels. With a change in government, there will be a challenge in consolidating earlier progress in developing a market-oriented economy. Support from the IMF will resume once the government shows some determination in meeting budgetary targets.

DEPENDENCIES

Zimbabwe has no territories or colonies.

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—Allan C. K. Mukungu

GLOSSARY

Advance Tax: A percentage of the previous year's tax bill which is paid at the beginning of the new fiscal year and later credited back at its end.

Agribusiness: Agricultural and livestock production on a large scale, often engaged in by large, multinational companies; also used to refer to the companies themselves.

Arrear: Usually plural, **arrears**. Unpaid, overdue debt.

Bad Loan: An unrecoverable loan; the amount cannot be reclaimed by the lender.

Balance of Payments: The measure of all the money coming into a country and all the money leaving the country in a given period, usually a year. The balance of payments includes merchandise exports and imports, the measure of which is called the **balance of trade**, as well as several other factors.

Balance of Trade: A measure of the value of exports and imports, not including services. When imports exceed exports, there is a trade deficit. When exports exceed imports, there is a trade surplus.

Bank of Issue: The bank that is given the right to issue and circulate currency in a country.

Barter System: An exchange of goods and/or services for other goods and/or services, rather than for money.

Bear Market: A sustained period of negative growth in the stock market.

Bicameral: A legislative body consisting of two houses or chambers.

Black Market: An informal market in which buyers and sellers can negotiate and exchange prohibited or illegal goods (such as exchanging local money for foreign currency). Black markets often exist to avoid government controls. *See also* **Informal Sector.**

Budget Deficit: A government budget deficit occurs when a government spends more money on government programs than it generates in revenues. Governments must borrow money or print currency to pay for this excess spending, thus creating potential financial difficulties. *See also* **Budget Surplus.**

Budget Surplus: A government budget surplus occurs when a government generates more revenues than it spends on government programs. Governments can adjust to surpluses by lowering tax rates, paying down the national debt, or stockpiling the money. *See also* **Budget Deficit.**

Cadre: A group of important and influential members of political parties who direct the actions of that party.

Capital Adequacy: The state of a bank having enough capital to maintain its loans and operating costs.

Capital Flight; also called **Capital Outflow:** Money sent abroad because investors fear that economic conditions within a country are too risky.

Capital Good: A manufactured good used in the production of other goods. For example, factories or machinery used to produce goods are considered capital goods.

Capitalism: An economic system based on the private ownership of the means of production and on an open system of competitive markets. It is assumed that producers in a capitalist system can use their skills and capital in the pursuit of profit.

Capital Outflow: *See* **Capital Flight.**

Cash Crop: An agricultural good produced for direct sale on the market.

Centrally-planned Economy: An economy in which the government exerts a great deal of control over economic planning, including the control of production, the allocation of goods, distribution, and prices. Common in **socialist** countries.

c.i.f.: Abbreviation of **cost, insurance, and freight**; a method of determining the value of imports or exports that includes cost, insurance, and freight in determining the total amount.

Commonwealth of Independent States (CIS): A loose union of 12 of the former republics of the Soviet Union, excluding Estonia, Latvia, and Lithuania.

Communism: An economic system in which the means of production and distribution are held in common by all

members of the society, and in which the rewards are distributed based on need. In actual communist countries, the state usually controls all the capital and land, and the economy is centrally planned. *See also* **Centrally-planned Economy.**

Consumer Good: A product sold directly to the end user, or consumer, such as food and clothing.

Crawling Peg: A fixed **exchange rate** between two currencies which is adjusted incrementally based on the movement of an economic indicator such as inflation.

Currency Board: An arrangement whereby a currency's value is fixed in some proportion to a strong foreign currency and such an exchange rate is guaranteed by the country's foreign exchange reserves.

Current Account Balance: The portion of the **balance of payments** that includes merchandise imports and exports (known as the **balance of trade**) plus imports and exports of services.

Debt Relief: Partial or full forgiveness of debts, offered to impoverished countries by lenders, usually after it becomes clear that continued payment on such debt is likely to ruin the country's economy.

Debt Service: Payment of interest on a loan or other debt. Debt servicing can be very expensive and debilitating for developing countries.

Deflation: Falling prices across an economy, expressed as a percentage per year. *See also* **Inflation.**

Dependency Ratio: The ratio of **pensioners** to the number of people employed.

Deregulation: A lessening of government restrictions on the economy.

Desertification: The progressive drying of the land.

Devaluation: An act by the government or central bank which decreases the official price of a nation's currency. When a currency is devalued, it can result in the country's exports becoming cheaper and more attractive.

Direct Tax: A tax levied directly on individuals or companies, such as income and property taxes. *See also* **Indirect Tax.**

Disposable Income: Those parts of a household income not needed for essentials such as food, healthcare, or housing costs. Disposable income may be saved, invested, or spent on non-essential goods.

Duty: A tax imposed on imported goods. *See also* **Indirect Tax.**

E-commerce: Economic activity conducted on the Internet.

Ecotourism: Tourism to natural and cultural areas which tries to minimize environmental impacts.

Embargo: A prohibition by a government against some or all trade with a foreign nation. *See also* **Sanctions.**

Emerging Market: A country with still evolving economic, social, and political structures that shows evidence of moving toward an open market system.

Emigration: To leave one's country to live elsewhere.

Enterprise Entry: The creation of new, predominantly small and medium size enterprises.

Enterprise Exit: The removal of businesses from an economy, either through bankruptcy or downsizing.

Equity: The value of all the shares in a company.

Estate Tax: A tax on inherited property and wealth.

Exchange Rate: The rate at which one country's currency is exchanged for that of another country.

Exchange Rate Mechanism (ERM): A mechanism set up in 1978 to handle fluctuations in the **exchange rates** of various European currencies. Each currency in the ERM may fluctuate only within agreed limits against any other currency.

Exchange Rate Regime: The mode of determining the **exchange rate** between the national currency and other major foreign currencies. In a fixed exchange rate regime, a currency is fixed or "pegged" to the currency of another, usually very stable currency, such as that of the United States. In a **floating** or flexible exchange rate regime, governments allow the value of their currency to be determined by supply and demand in the foreign exchange market.

Excise Tax: A tax on the sale or use of certain products or transactions, sometimes luxury or non-essential items.

Exclusive Economic Zone (EEZ): The area extending from a country's coastline over which that country has exclusive control of its resources.

External Debt: The total amount of money in a country's economy owed to enterprises and financial institutions outside the country.

Fiduciary: Related to a trust or trusteeship.

Fiscal Policy: The programs of a national government relating to spending on goods, services, **transfer payments**, and the tax system.

Fiscal Year: Any period of 12 consecutive months for which a company or a government calculates earnings, profits, and losses.

Fixed Exchange Rate: *See* **Exchange Rate Regime.**

Floating Exchange Rate: *See* **Exchange Rate Regime.**

Floor Price: The minimum price for a good or service which normally cannot be further reduced due to political, economic, or trade considerations.

f.o.b.: Abbreviation of **Free on board**; a method of determining the value of exports or imports that considers the value of goods excluding the cost of insurance and freight charges.

Foreign Debt: *See* **External Debt.**

Foreign Direct Investment (FDI): The total value of investment by foreign entities in a country, usually expressed on an annual or cumulative basis.

Foreign Exchange Reserves: The amount of money a country has in its treasury consisting of currency from foreign countries.

Free Market System: An economic system based on little government intervention and the freedom of private association and control of goods. *See also* **Capitalism.**

Free Trade Zone: Also called **Free Zone.** An industrial area where foreign companies may import, store, and sometimes export goods without paying taxes.

Full Employment: The level of employment at which a minimal amount of involuntary unemployment exists. It is considered the maximum level of employment in an economy.

Fully Convertible Currency: A currency that can be freely traded in international foreign exchanges for units of another currency.

GDP per Capita: Gross domestic product divided by the number of people in a country. GDP per capita is a convenient way to measure comparative international wealth.

Gini Index: An index used to measure the extent to which the distribution of income within an economy deviates from perfectly equal distribution. A score of 0 would mean perfect equality (with everyone having the same level of wealth) and 100 would signify perfect inequality (with a few extraordinarily wealthy people and the large majority living in dire poverty).

Glut: An excess of goods in a particular market, which typically causes the price of that good to fall.

Grey Economy: Economic activity that takes place in both the formal and **informal economy,** meaning that some but not all economic activity is reported to authorities such as tax collectors.

Gross Domestic Product (GDP): The total market value of all goods and services produced inside a country in a given year, which excludes money made by citizens or companies working abroad.

Gross National Product (GNP): The total market value of all goods and services produced in a year by a nation, including those goods produced by citizens or companies working abroad.

Guarantor: An institution or individual that guarantees to pay the debts of another institution or individual in the case of bankruptcy.

Guest Worker: Persons from a foreign country who are allowed to live in a host country so long as they are employed. Many guest workers send **remittances** to their native country.

Hard Currency: Money that can be exchanged on the foreign market and is stable enough to purchase goods from other countries.

Hawking: Selling wares, often pirated goods, in the **informal sector.**

Holding Company: A company that owns or controls several other companies.

Immigration: To move into a country that is not one's native country.

Import Substitution: A policy which calls for the local production of goods that have traditionally been imported. The goal of import substitution is to lessen a country's dependence on foreign suppliers.

Income Tax: A **direct tax** on an individual's earned income.

Indirect Tax: A tax which is not paid directly, but is passed on as part of the cost of an item or service. For instance, **tariffs** and **value-added taxes** are passed on to the consumer and included in the final price of the product. *See also* **Direct Tax.**

Inflation: A persistent increase in the average price of goods in an economy, usually accompanied by declining purchasing power of the national currency.

Inflation Rate: The rate at which prices rise from one period to the next.

Informal Sector: Also called **Informal Economy**. The part of an economy that lies outside government regulations and tax systems. It usually consists of small-scale and usually labor-intensive activities; it often includes illegal activities. *See also* **Black Market.**

Infrastructure: The system of public facilities, services, and resources in a country, including roads, railways, airports, power generation, and communication systems.

Intermediate Good: A good used as an ingredient or component in the production of other goods. For instance, wood pulp is used to produce paper.

Internally Displaced Person: A person fleeing danger (such as war or persecution) who has not crossed international boundaries. Those who relocate to another country are called "refugees."

Joint Sector: An economic sector in which private enterprise and the government invest jointly.

Joint Venture: A special economic initiative or company formed by a foreign firm and a domestic company, usually in a developing state. The domestic partner often holds a majority interest, thus allowing the host country to control the amount and kind of foreign economic activity. Can also be a simple joint operation by two or more companies.

Labor Force: Also called **Workforce**. The total number of people employed in a country plus the number of people unemployed and looking for a job.

Labor Mobility: The ability and readiness of workers to move to regions or sectors of higher growth within a country or economy.

Levy: A tax based on the assessed value of personal property and/or income.

Liberal Economy: An economy in which markets operate with minimal government interference and in which individual choice and private ownership are the guiding forces.

Liberalization: The opening of an economy to free competition and a self-regulating market, with minimal government-imposed regulations or limitations.

Liquidity: Generally, the amount of money on hand. When related to government, it refers to the amount of money in circulation.

Macroeconomics: Economic issues large enough to impact the nation as a whole.

Market Capitalization: The total market value of a company, expressed by multiplying the value of a company's outstanding shares by the current price of the stock.

Marxism: A set of economic and political theories based on the work of 19th century theorists Karl Marx and Friedrich Engels that holds that human history is a struggle between classes, especially those who own property and those who do not (the workers). Marxism provided the theoretical basis for the economic systems of modern **communism** and **socialism.**

Microcredit: The lending of small amounts of startup capital to the very poor as a way of helping them out of poverty. The World Bank and other aid agencies often make mircrocredit loans to small-scale entrepreneurs in the developing world.

Monetary Policy: A government policy designed to regulate the money supply and interest rates in an economy. These policies are usually determined by the central bank or treasury in order to react to or to anticipate inflationary trends and other factors that affect an economy. They are said to be "tight" when interest rates are raised and other measures are implemented in an effort to control inflation and stabilize currency values.

Monetized Economy: An economy based on money as opposed to barter.

Money Laundering: A method used by criminal organizations to hide income gained from illicit activities, such as drug smuggling, by manipulating banks to provide a legitimate explanation for the source of money.

Monopoly: A company or corporation that has exclusive control over the distribution and availability of a product or service.

Multinational Corporation (MNC): A corporation which has economic ties to or operations in two or more countries.

National Debt: The amount of money owed to lenders by a government. The debt occurs when a government spends more each year than it has raised through taxes. Thus, to spend more than it has, the government must borrow money from banks or through the issuance of bonds.

Nationalization: The movement of privately-owned (and usually foreign-owned) companies into government ownership. Companies have often been nationalized by the developing countries whose government argued that the foreign firms involved did not pay their fair share of the profits to the host country and unfairly exploited it in other ways.

Nomenklatura: The elite members of the Communist Party in communist nations, who were often given privileges not extended to ordinary citizens.

Nomenklatura Privatization: A system of **privatization** in communist nations that openly or covertly transferred ownership of state assets to the **nomenklatura.**

Non-performing Loan: A delinquent loan or one in danger of going into default.

Offshore Banking: Banking operations that offer financial services to people and companies from other countries, usually with associated tax benefits. Offshore banking operations are often suspected as a cover for **money laundering** or other illegal financial activities.

Overheated Economy: An economy that is growing at a very high annual rate, which leads to low interest rates, a high borrowing rate, and an abundance of money in the economy—all of which can lead to **inflation.**

Parastatal: A partly or wholly government-owned enterprise.

Participation Rate: The ratio between the labor force and the total population, which indicates how many people are either working or actively seeking work.

Pensioner: A retired person who lives off a government pension.

Price Control: Artificial limitation on the prices of goods set by the government, usually in a **centrally-planned economy.**

Price Index: An index that shows how the average price of a commodity or bundle of goods has changed over a period of time, usually by comparing their value in constant dollars.

Primary Commodity: A commodity, such as a particular crop or mineral, which is a natural rather than manufactured resource.

Private Sector: The part of an economy that is not directly controlled by the government, including businesses and households.

Privatization: The transition of a company or companies from state ownership or control to private ownership. Privatization often takes place in societies that are making a transition from a **socialist** or mixed-socialist economy to a **capitalist** economy.

Procurement: The purchase of goods or services by the government.

Progressive Taxation: An income taxation system in which tax rates rise in accordance with income levels. Thus, a person making a large salary will be taxed at a higher rate than someone who makes less money.

Proportional Representation: An electoral system whereby the number of legislative seats allocated to a particular political party is decided in proportion to the number of votes that party won in an election.

Protectionist Policy: A government policy used to protect local producers from competition from imported foreign goods. Countries may erect various trade barriers such as **tariffs** or quotas in an effort to protect domestic firms or products.

Public Sector: The part of the economy that is owned and operated by the government.

Purchasing Power Parity (PPP): The purchasing power parity method attempts to determine that relative purchasing power of different currencies over equivalent goods and services. For example, if it costs someone in the United States US$300 to buy a month's worth of groceries, but it costs someone in Ghana only US$100 to buy the same amount of groceries, then the person in Ghana can purchase three times as much for the same amount of money. This means that though the average citizen of Ghana may earn less money than the average citizen of the United States, that money buys more because goods and services cost less in Ghana. The PPP calculation attempts to account for these differences in prices and is used to calculate **GDP** and **GDP per capita** figures that are comparable across nations. Note: GDP figured at purchasing power parity may be three or more times as large as GDP figured at **exchange rate** parity.

Pyramid Scheme: Fraudulent investment strategy involving a series of buying and selling transactions that generate a paper profit, which, in turn, is used to buy more stocks. They were prevalent in Eastern Europe following the fall of the Soviet Union, and preyed on the average citizen's lack of understanding of **free-market** investment transactions.

Real GDP: The **gross domestic product** of a country expressed in constant prices which are determined by a baseline year. Real GDP thus ignores the effects of inflation and deflation and allows for comparisons over time.

Real Wage: Income measured in constant dollars, and thus corrected to account for the effects of inflation.

Recession: A period of negative growth in an economy, usually defined as two consecutive quarters of negative **GDP** growth. A recession is characterized by factors such as low consumer spending, low output, and high unemployment.

Re-export: An imported good that does not undergo any changes (e.g., not turned into a new product) before being exported.

Relative Income Poverty: This is a measure of the overall equality in income among employed workers. Relative income poverty is high when a high percentage of the sum of total income is concentrated in the hands of a small percentage of the working population, and it is low when income is more equally spread among all workers.

Remittance: Money that is sent back to people, usually relatives, living in the home country of a national working abroad.

Repatriation: Taking money out of a foreign country in which it had been invested and reinvesting it in the country where it originated.

Reserve Ratio: The percentage of a bank's assets in reserve against the possibility of customers withdrawing their deposited funds. Some governments impose a minimum percentage, usually enforced by a central bank in proportion to the total amount of currency in circulation.

Restructuring: A catch-all phrase for turning around a company, involving cutting costs, restoring finances, and improving products.

Retail: The sale of goods and services to individuals in small amounts.

Sanction: A penalty, often in the form of a trade restriction, placed on one country by one or several other countries as a penalty for an action by the country under sanctions. Sanctions are designed to force the country

experiencing them to change a policy, such as its human rights practices.

Shadow Economy: Economic interactions that are invisible to standard accounting and taxing procedures. See **Informal Economy.**

Sharecropper: A farmer who works someone else's land in exchange for a share of the crops they produce.

Smallholder: A farmer who has only a very small farm or plot of land.

Social Security Tax: A **direct tax** levied partly on the worker and partly on the employer in order to provide funds for a nation's **social welfare system.**

Social Welfare System: A set of government programs that provides for the needs of the unemployed, aged, disabled, or other groups deemed in need of government assistance.

Socialism: An economic system in which means of production and distribution are owned by the community, and profits are shared among the community. Countries with socialist economies put a premium on centralized control over an economy rather than allowing market forces to operate, and tend to have a relatively equal distribution of income.

Solvency: Financial stability.

Statist Economic Policy: A policy in **capitalist** or quasi-capitalist countries that favor state control or guidance of companies or sectors of the economy that are thought to be vital.

Strategic Industry: An industry considered extremely important to the well being of a country.

Structural Adjustment Program (SAP): A set of economic programs and policies aimed at stabilizing the overall structure of a troubled economy. Structural adjustment programs are often required by international lending agencies such as the World Bank and the International Monetary Fund. These programs often involve devaluing the currency, reducing government spending, and increasing exports.

Structural Unemployment: Unemployment caused by a mismatch between the needs of employers and the skills and training of the labor force.

Subsidy: A payment made by a government to an individual or company that produces a specific good or commodity. Some countries subsidize the production of certain agricultural crops, while others may subsidize mass transit or public art.

Subsistence Farming: Farming which generates only enough produce to feed the farmer's family, with little or nothing left over to sell.

Tariff: An **indirect tax** that is applied to an imported product or class of products.

Tax Haven: A place where investors shield their money from the national taxes of their own country. *See also* **Offshore Banking.**

Tax Holiday: A period of time in which businesses or investors enjoy exemptions from paying taxes. Tax holidays are offered as a lure to investment or business development.

Technocrat: Government official who is expert in specialized—usually technological—areas.

Trade Deficit: *See* **Balance of Trade.**

Trade Surplus: *See* **Balance of Trade.**

Transfer Payment: Cash paid directly to individuals by a government, usually as part of a **social welfare system.**

Transfer Pricing: A method used by foreign firms to overprice their overseas costs and thereby reduce their local tax liabilities.

Treasury Bill: Also called a **T-bill**. A guaranteed government investment bond sold to the public. They usually reach maturity after short periods, for example, three months or six months.

Trickle Down: An economic theory that contends that tax relief and other governmental incentives should be given primarily to the highest income earners in a society, on the assumption that their increased economic investment and other activity will provide benefits that "trickle down" to the lower- and middle-income wage-earners.

Turnover: The measure of trade activity in terms of the aggregated prices of all goods and services sold in the country during a year.

Two-tier Economy: An economy where skilled or educated workers enjoy a high standard of living, but unskilled workers are trapped in poverty.

Underemployment: A situation in which people are not reaching their economic potential because they are employed in low-paying or part-time jobs. For example, an engineer who is working in a fast food restaurant would be said to be experiencing underemployment.

Underground Economy: Economic transactions that are not reported to government, and therefore not taxable. **Informal sectors** and **black markets** are examples of underground economic activity.

Unicameral: A legislative body consisting of a single house or chamber.

United Nations Development Program (UNDP): The United Nations' principal provider of development advice, advocacy, and grant support.

Value Added: The increase in the value of a good at each stage in the production process. When a company adds value to its products it is able to gain a higher price for them, but it may be liable for a **value-added tax.**

Value-added Tax (VAT): A tax levied on the amount of **value added** to a total product at each stage of its manufacture.

Vertical Integration: Control over all stages of the production and distribution of a certain product. For example, if one company owns the mines, the steel plant, the transportation network, the factories, and the dealerships involved in making and selling automobiles, it is vertically integrated.

Voucher Privatization: A system for selling off state-owned companies in which citizens are given "vouchers" which they may invest in such companies. This system was devised to allow all citizens the opportunity to invest in formerly state-owned businesses; however, in practice many citizens invest their vouchers in voucher funds, which are professionally managed investment groups who amass vouchers in order to exert control over the direction of companies.

Welfare State: A government that assumes the responsibility for the well-being of its citizens by providing institutions and organizations that contribute to their care. *See also* **Social Welfare System.**

Workforce: *See* **Labor Force.**

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Hong Kong, **III:**149*f,* 154*t*
Hungary, **IV:**199*f,* 202*t*
Iceland, **IV:**209*f,* 211*t*
India, **III:**164*f,* 168*t*
Indonesia, **III:**178*f,* 182*t*
Iran, **III:**194*f,* 199*t*
Iraq, **III:**207*f,* 210*t*
Ireland, **IV:**219*f,* 223*t*
Israel, **III:**217*f,* 220*t*
Italy, **IV:**234*f,* 240*t*
Jamaica, **II:**238*f,* 242*t*
Japan, **III:**231*f,* 236*t*
Jordan, **III:**244*f,* 247*t*
Kazakhstan, **III:**255*f,* 260*t*
Kenya, **I:**227*f,* 231*t*
Kiribati, **III:**268*f,* 269*t*
Korea, North, **III:**276*f,* 278*t*
Korea, South, **III:**287*f,* 292*t*
Kuwait, **III:**299*f,* 301*t*
Kyrgyzstan, **III:**308*f,* 311*t*
Laos, **III:**318*f,* 322*t*
Latvia, **IV:**249*f,* 251*t*
Lebanon, **III:**329*f,* 332*t*
Lesotho, **I:**238*f,* 240*t*
Liberia, **I:**246*f,* 249*t*
Libya, **I:**254*f,* 257*t*
Liechtenstein, **IV:**260*t*
Lithuania, **IV:**267*f,* 271*t*
Luxembourg, **IV:**279*f,* 282*t*
Macau, **III:**338*f,* 340*t*
Macedonia, **IV:**288*f,* 290*t*
Madagascar, **I:**264*f,* 266*t*
Malawi, **I:**272*f,* 274*t*
Malaysia, **III:**348*f,* 354*t*
Maldives, **III:**362*f,* 365*t*
Mali, **I:**280*f,* 282*t*
Malta, **IV:**296*f,* 298*t*
Marshall Islands, **III:**370*f,* 372*t*
Mauritania, **I:**288*f,* 290*t*
Mauritius, **I:**296*f,* 299*t*
Mexico, **II:**250*f,* 255*t*
Micronesia, **III:**378*f,* 380*t*
Moldova, **IV:**304*f,* 306*t*
Monaco, **IV:**314*t*
Mongolia, **III:**386*f,* 388*t*
Morocco, **I:**307*f,* 310*t*
Mozambique, **I:**317*f,* 322*t*
Namibia, **I:**331*f,* 333*t*
Nauru, **III:**394*t*
Nepal, **III:**401*f,* 405*t*
Netherlands, **IV:**320*f,* 326*t*
Netherlands Antilles and Aruba, **II:**265*f,* 269*t*
New Zealand, **III:**412*f,* 416*t*
Nicaragua, **II:**274*f,* 276*t*
Niger, **I:**341*f,* 343*t*
Nigeria, **I:**355*f,* 360*t*
Norway, **IV:**336*f,* 339*t*
Oman, **III:**422*f,* 425*t*
Pakistan, **III:**435*f,* 441*t*
Palau, **III:**449*t*
Panama, **II:**283*f,* 286*t*
Papua New Guinea, **III:**456*f,* 458*t*
Paraguay, **II:**295*f,* 300*t*
Peru, **II:**308*f,* 312*t*
Philippines, **III:**465*f,* 469*t*
Poland, **IV:**348*f,* 354*t*
Portugal, **IV:**365*f,* 369*t*
Puerto Rico, **II:**317*t*
Qatar, **III:**478*f,* 480*t*
Romania, **IV:**379*f,* 383*t*
Russia, **IV:**393*f,* 399*t*
Rwanda, **I:**368*f,* 369*t*
St. Kitts and Nevis, **II:**325*f,* 328*t*
St. Lucia, **II:**334*f,* 336*t*
St. Vincent and the Grenadines, **II:**342*f,* 344*t*
Samoa, **III:**485*f,* 488*t*
San Marino, **IV:**409*t*
São Tomé and Príncipe, **I:**376*f,* 378*t*
Saudi Arabia, **III:**498*f,* 502*t*
Senegal, **I:**385*f,* 388*t*
Seychelles, **I:**396*f,* 398*t*
Sierra Leone, **I:**404*f,* 406*t*
Singapore, **III:**511*f,* 514*t*
Slovakia, **IV:**414*f,* 418*t*
Slovenia, **IV:**424*f,* 427*t*
Solomon Islands, **III:**522*f,* 524*t*
Somalia, **I:**413*f,* 415*t*
South Africa, **I:**421*f,* 427*t*
Spain, **IV:**438*f,* 442*t*

Gross Domestic Product (GDP) (*continued*)
- Sri Lanka, **III:**532*f,* 535*t*
- Sudan, **I:**436*f,* 439*t*
- Suriname, **II:**350*f,* 352*t*
- Swaziland, **I:**443*f,* 445*t*
- Sweden, **IV:**451*f,* 455*t*
- Switzerland, **IV:**465*f,* 470*t*
- Syria, **III:**543*f,* 547*t*
- Taiwan, **III:**556*f,* 563*t*
- Tajikistan, **III:**570*f,* 573*t*
- Tanzania, **I:**453*f,* 457*t*
- Thailand, **III:**582*f,* 588*t*
- Togo, **I:**467*f,* 469*t*
- Tonga, **III:**597*f,* 599*t*
- Trinidad and Tobago, **II:**358*f,* 360*t*
- Tunisia, **I:**476*f,* 479*t*
- Turkey, **III:**608*f,* 615*t*
- Turkmenistan, **III:**624*f,* 627*t*
- Tuvalu, **III:**635*t*
- Uganda, **I:**487*f,* 491*t*
- Ukraine, **IV:**479*f,* 483*t*
- United Arab Emirates, **III:**640*f,* 644*t*
- United Kingdom, **IV:**493*f,* 498*t*
- United States, **II:**368*f,* 374*t*
- Uruguay, **II:**385*f,* 387*t*
- Uzbekistan, **III:**651*f,* 654*t*
- Vanuatu, **III:**659*f,* 662*t*
- Venezuela, **II:**394*f,* 399*t*
- Vietnam, **III:**669*f,* 672*t*
- Yemen, **III:**680*f,* 682*t*
- Yugoslavia, **IV:**514*f,* 517*t*
- Zambia, **I:**499*f,* 502*t*
- Zimbabwe, **I:**509*f,* 512*t*
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- The Gambia, **I:**190
- Senegal, **I:**385

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- Sudan, **I:**437

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- Belgium, **IV:**58
- Bhutan, **III:**62–63
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- Canada, **II:**88–89
- Chile, **II:**104
- Costa Rica, **II:**129
- Croatia, **IV:**91
- Denmark, **IV:**108–109
- Ecuador, **II:**167
- El Salvador, **II:**178
- Finland, **IV:**138–139
- Georgia, **IV:**162
- Germany, **IV:**165–166, 176–177
- Greece, **IV:**189
- Hong Kong, **III:**154
- Ireland, **IV:**224
- Japan, **III:**236
- Jordan, **III:**247–248
- Kazakhstan, **III:**261–262
- Malaysia, **III:**354
- Oman, **III:**425
- Pakistan, **III:**442
- Peru, **II:**312
- Philippines, **III:**470
- Poland, **IV:**354–355
- Romania, **IV:**383
- Spain, **IV:**443
- Sweden, **IV:**447–448, 455–456
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- Kenya, **I:**228
- Netherlands, **IV:**322
- South Africa, **I:**423
- Spain, **IV:**439
- Taiwan, **III:**558
- Zambia, **I:**500

Houphouet-Boigny, Felix, **I:**119

House of Commons, United Kingdom, **IV:**490

House of Lords, United Kingdom, **IV:**490

Household consumption
- Albania, **IV:**6*t*
- Antigua and Barbuda, **II:**7*t*
- Argentina, **II:**20*t*
- Armenia, **IV:**22*t*
- Australia, **III:**21*t*
- Austria, **IV:**35*t*
- Azerbaijan, **III:**30*t*
- The Bahamas, **II:**30*t*
- Bahrain, **III:**38*t*
- Bangladesh, **III:**52*t*
- Belarus, **IV:**44*t*
- Belgium, **IV:**58*t*
- Belize, **II:**47*t*
- Benin, **I:**26*t*
- Bolivia, **II:**58*t*
- Botswana, **I:**34*t*
- Brazil, **II:**73*t*
- Bulgaria, **IV:**79*t*
- Cameroon, **I:**64*t*
- Canada, **II:**88*t*
- Chile, **II:**104*t*
- Congo, Republic of the, **I:**114*t*
- Côte d'Ivoire, **I:**125*t*
- Croatia, **IV:**91*t*
- Czech Republic, **IV:**102*t*
- Denmark, **IV:**115*t*
- Dominica, **II:**149*t*
- Ecuador, **II:**168*t*
- Egypt, **I:**146*t*
- Estonia, **IV:**124*t*
- Fiji, **III:**133*t*
- Finland, **IV:**137*t*
- France, **IV:**152*t*
- Gabon, **I:**184*t*
- Georgia, **IV:**161*t*
- Germany, **IV:**176*t*
- Greece, **IV:**190*t*
- Grenada, **II:**197*t*
- Guinea, **I:**212*t*
- Hong Kong, **III:**154*t*
- Hungary, **IV:**202*t*
- Iceland, **IV:**212*t*
- Indonesia, **III:**183*t*
- Ireland, **IV:**224*t*
- Israel, **III:**221*t*
- Italy, **IV:**241*t*

Jamaica, **II:**243*t*
Japan, **III:**237*t*
Jordan, **III:**248*t*
Kazakhstan, **III:**261*t*
Kenya, **I:**232*t*
Korea, South, **III:**292*t*
Kyrgyzstan, **III:**312*t*
Latvia, **IV:**252*t*
Lebanon, **III:**333*t*
Lithuania, **IV:**272*t*
Luxembourg, **IV:**283*t*
Macedonia, **IV:**290*t*
Madagascar, **I:**267*t*
Malawi, **I:**275*t*
Mali, **I:**283*t*
Mauritius, **I:**299*t*
Mexico, **II:**256*t*
Moldova, **IV:**307*t*
Mongolia, **III:**389*t*
Morocco, **I:**311*t*
Nepal, **III:**406*t*
Netherlands, **IV:**327*t*
New Zealand, **III:**417*t*
Nigeria, **I:**360*t*
Norway, **IV:**339*t*
Oman, **III:**426*t*
Pakistan, **III:**442*t*
Panama, **II:**287*t*
Peru, **II:**313*t*
Philippines, **III:**470*t*
Poland, **IV:**355*t*
Qatar, **III:**481*t*
Romania, **IV:**383*t*
Russia, **IV:**400*t*
St. Kitts and Nevis, **II:**328*t*
St. Lucia, **II:**337*t*
St. Vincent and the Grenadines, **II:**345*t*
Senegal, **I:**389*t*
Sierra Leone, **I:**407*t*
Singapore, **III:**515*t*
Slovakia, **IV:**418*t*
Slovenia, **IV:**427*t*
Spain, **IV:**443*t*
Sri Lanka, **III:**536*t*
Swaziland, **I:**446*t*
Sweden, **IV:**456*t*
Switzerland, **IV:**470*t*
Tajikistan, **III:**573*t*
Tanzania, **I:**458*t*
Thailand, **III:**588*t*
Trinidad and Tobago, **II:**361*t*
Tunisia, **I:**479*t*
Turkey, **III:**616*t*
Turkmenistan, **III:**628*t*
Ukraine, **IV:**483*t*
United Kingdom, **IV:**499*t*
United States, **II:**375*t*
Uruguay, **II:**388*t*
Uzbekistan, **III:**655*t*
Venezuela, **II:**399*t*
Vietnam, **III:**673*t*
Yemen, **III:**683*t*
Zambia, **I:**503*t*
Zimbabwe, **I:**512*t*
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Burundi, **I:**49
Central African Republic, **I:**77
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Comoros, **I:**93
Congo, Democratic Republic of the, **I:**103
Congo, Republic of the, **I:**111
Côte d'Ivoire, **I:**121
Ethiopia, **I:**171
Ghana, **I:**198
Kenya, **I:**227
Kyrgyzstan, **III:**307–308
Laos, **III:**318
Nepal, **III:**400–401
Paraguay, **II:**295, 296–297
Sri Lanka, **III:**531
Sudan, **I:**435
Tajikistan, **III:**571
Tanzania, **I:**453, 455
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Income distribution
Algeria, **I:**9*t*
Australia, **III:**21*t*
Austria, **IV:**34*t*
Bangladesh, **III:**52*t*
Belarus, **IV:**43*t*
Belgium, **IV:**58*t*
Bolivia, **II:**58*t*
Brazil, **II:**72*t*
Bulgaria, **IV:**79*t*
Burkina Faso, **I:**44*t*
Burundi, **I:**52*t*
Cambodia, **III:**91*t*
Canada, **II:**89*t*
Central African Republic, **I:**80*t*
China, **III:**107*t*
Colombia, **II:**117*t*
Costa Rica, **II:**129*t*
Côte d'Ivoire, **I:**124*t*
Croatia, **IV:**91*t*
Czech Republic, **IV:**101*t*
Denmark, **IV:**115*t*
Dominican Republic, **II:**157*t*
Ecuador, **II:**167*t*
Egypt, **I:**146*t*
El Salvador, **II:**178*t*
Estonia, **IV:**124*t*
Ethiopia, **I:**176*t*
Finland, **IV:**137*t*
France, **IV:**152*t*
The Gambia, **I:**192*t*
Germany, **IV:**176*t*
Ghana, **I:**202*t*
Greece, **IV:**189*t*
Guatemala, **II:**206*t*
Guinea, **I:**211*t*
Guinea-Bissau, **I:**221*t*
Guyana, **II:**214*t*
Honduras, **II:**232*t*
Hungary, **IV:**202*t*
India, **III:**168*t*
Indonesia, **III:**182*t*
Ireland, **IV:**223*t*
Israel, **III:**220*t*
Italy, **IV:**240*t*

Income distribution (*continued*)
- Jamaica, **II:**242*t*
- Japan, **III:**236*t*
- Jordan, **III:**248*t*
- Kazakhstan, **III:**261*t*
- Kenya, **I:**232*t*
- Korea, South, **III:**292*t*
- Kyrgyzstan, **III:**311*t*
- Laos, **III:**323*t*
- Latvia, **IV:**251*t*
- Lesotho, **I:**241*t*
- Lithuania, **IV:**271*t*
- Luxembourg, **IV:**282*t*
- Madagascar, **I:**266*t*
- Malaysia, **III:**354*t*
- Mali, **I:**282*t*
- Mauritania, **I:**291*t*
- Mexico, **II:**255*t*
- Moldova, **IV:**306*t*
- Mongolia, **III:**389*t*
- Morocco, **I:**310*t*
- Mozambique, **I:**322*t*
- Nepal, **III:**405*t*
- Netherlands, **IV:**326*t*
- New Zealand, **III:**416*t*
- Nicaragua, **II:**276*t*
- Niger, **I:**343*t*
- Nigeria, **I:**360*t*
- Norway, **IV:**339*t*
- Pakistan, **III:**441*t*
- Panama, **II:**287*t*
- Papua New Guinea, **III:**458*t*
- Paraguay, **II:**300*t*
- Peru, **II:**312*t*
- Philippines, **III:**469*t*
- Poland, **IV:**354*t*
- Portugal, **IV:**370*t*
- Romania, **IV:**383*t*
- Russia, **IV:**399*t*
- Rwanda, **I:**370*t*
- St. Lucia, **II:**336*t*
- Senegal, **I:**388*t*
- Sierra Leone, **I:**406*t*
- Slovakia, **IV:**418*t*
- Slovenia, **IV:**427*t*
- South Africa, **I:**427*t*
- Spain, **IV:**442*t*
- Sri Lanka, **III:**536*t*
- Swaziland, **I:**446*t*
- Sweden, **IV:**455*t*
- Switzerland, **IV:**470*t*
- Tanzania, **I:**458*t*
- Thailand, **III:**588*t*
- Trinidad and Tobago, **II:**360*t*
- Tunisia, **I:**479*t*
- Turkey, **III:**615*t*
- Turkmenistan, **III:**628*t*
- Uganda, **I:**492*t*
- Ukraine, **IV:**483*t*
- United Kingdom, **IV:**498*t*
- United States, **II:**375*t*
- Uruguay, **II:**388*t*
- Uzbekistan, **III:**654*t*
- Venezuela, **II:**399*t*
- Vietnam, **III:**673*t*
- Yemen, **III:**682*t*
- Zambia, **I:**502*t*
- Zimbabwe, **I:**512*t*
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India, **III:159–171**

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- Singapore, **III:**515
- Sweden, **IV:**452
- Taiwan, **III:**559
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- China, **III:**106
- Egypt, **I:**144
- France, **IV:**149
- Hong Kong, **III:**151–152
- Japan, **III:**234
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- Andorra, **IV:**13
- Angola, **I:**18
- Antigua and Barbuda, **II:**6, 6*t*
- Argentina, **II:**18–19, 18*t*
- Armenia, **IV:**21–22, 21*t*
- Australia, **III:**19–20, 19*t*
- Austria, **IV:**33, 33*t*
- Azerbaijan, **III:**29, 29*t*
- The Bahamas, **II:**29–30, 29*t*
- Bahrain, **III:**37, 37*t*
- Bangladesh, **III:**50, 50*t*
- Barbados, **II:**37–38, 38*t*
- Belarus, **IV:**42–43, 42*t*
- Belgium, **IV:**56–57
- Belize, **II:**46, 46*t*
- Benin, **I:**25–26, 25*t*
- Bhutan, **III:**62, 62*t*
- Bolivia, **II:**56–57, 56*t*
- Bosnia and Herzegovina, **IV:**67
- Botswana, **I:**33, 33*t*
- Brazil, **II:**71, 71*t*
- Brunei Darussalam, **III:**70, 70*t*
- Bulgaria, **IV:**77, 77*t*
- Burkina Faso, **I:**43, 43*t*
- Burma, **III:**80–81, 80*t*
- Burundi, **I:**51, 51*t*
- Cambodia, **III:**90, 90*t*
- Cameroon, **I:**63, 63*t*
- Canada, **II:**86–87, 86*t*
- Cape Verde, **I:**71, 71*t*
- Central African Republic, **I:**79–80, 80*t*
- Chad, **I:**88–89, 88*t*
- Chile, **II:**102–103, 102*t*
- China, **III:**104–105, 104*t*
- Colombia, **II:**115–116, 115*t*
- Comoros, **I:**95, 95*t*
- Congo, Democratic Republic of the, **I:**104–105, 104*t*
- Congo, Republic of the, **I:**113, 113*t*
- Costa Rica, **II:**127–128, 127*t*
- Côte d'Ivoire, **I:**123–124, 123*t*
- Croatia, **IV:**89–90, 89*t*
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- Czech Republic, **IV:**100–101, 100*t*
- Denmark, **IV:**113–114, 113*t*
- Djibouti, **I:**132, 132*t*
- Dominica, **II:**148, 148*t*
- Dominican Republic, **II:**156, 156*t*
- Ecuador, **II:**166, 166*t*
- Egypt, **I:**144, 144*t*
- El Salvador, **II:**176–177, 177*t*
- Equatorial Guinea, **I:**155, 155*t*
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Ethiopia, **I:**174–175, 174*t*
Fiji, **III:**131–132, 132*t*
Finland, **IV:**135–136, 135*t*
France, **IV:**150–151, 150*t*
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Gabon, **I:**183–184, 183*t*
The Gambia, **I:**191, 191*t*
Georgia, **IV:**160
Germany, **IV:**174–175, 175*t*
Ghana, **I:**201, 201*t*
Greece, **IV:**187–188, 187*t*
Grenada, **II:**195–196, 196*t*
Guatemala, **II:**204, 204*t*
Guinea, **I:**210–211
Guinea-Bissau, **I:**220, 220*t*
Guyana, **II:**213–214, 214*t*
Haiti, **II:**222, 222*t*
Honduras, **II:**230–231, 231*t*
Hong Kong, **III:**152–153, 153*t*
Hungary, **IV:**201, 201*t*
Iceland, **IV:**210–211, 211*t*
India, **III:**167, 167*t*
Indonesia, **III:**181, 181*t*
Iran, **III:**198–199, 198*t*
Iraq, **III:**209–210
Ireland, **IV:**222–223, 222*t*
Israel, **III:**219–220, 219*t*
Italy, **IV:**238–239, 238*t*
Jamaica, **II:**241–242, 241*t*
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PREFACE

The *Worldmark Encyclopedia of National Economies* joins the Worldmark family of encyclopedias and attempts to provide comprehensive overviews of the economic structure and current climate of 198 countries and territories. Each signed entry provides key data and analysis on a country's economic conditions, their relationship to social and political trends, and their impact on the lives of the country's inhabitants. The goal of this set is to use plain language to offer intelligent, consistent analysis of every important economy in the world.

It is our sincere hope that this set will open the reader's mind to the fascinating world of international economics. Contained within this collection are a number of fascinating stories: of Eastern European nations struggling to adapt to capitalist economic systems in the wake of the collapse of communism; of Pacific Island nations threatened with annihilation by the slow and steady rise of ocean levels; of Asian nations channeling the vast productivity of their people into diversified economies; of the emerging power of the European Union, which dominates economic life across Europe; of Middle Eastern nations planning for the disappearance of their primary engine of economic growth, oil; and many others. To make all this information both accessible and comparable, each entry presents information in the same format, allowing readers to easily compare, for example, the balance of trade between Singapore and Hong Kong, or the political systems of North and South Korea. Economics has a language of its own, and we have **highlighted** those economic terms that may not be familiar to a general reader and provided definitions in a glossary. Other terms that are specific to a particular country but are not economic in nature are defined within parentheses in the text.

This set contains entries on every sovereign nation in the world, as well as separate entries on large territories of countries, including: French Guiana, Martinique, and Guadeloupe; Macau; Puerto Rico; and Taiwan. The larger dependencies of other countries are highlighted within the mother country's entry. For example, the entry on Denmark includes a discussion of Greenland, the United Kingdom includes information on many of its Crown territories, and the United States entry highlights the economic conditions in some of its larger territories.

ENTRY OBJECTIVES

Each entry has two objectives: one, to offer a clear picture of the economic conditions in a particular country, and two, to provide statistical information that allows for comparison between countries. To offer comparable information, we have used some common sources for the tables and graphs as well as for individual sections. Even the most exhaustive sources do not provide information for every country, however, and thus some entries either have no data available in certain areas or contain data that was obtained from an alternate source. In all entries, we tried to provide the most current data available at the time. Because collection and evaluation methods differ among international data gathering agencies such as the World Bank, United Nations, and International Monetary Fund, as well as between these agencies and the many government data collection agencies located in each country, entries sometimes provide two or more sources of information. Consequently, the text of an entry may contain more recent information from a different source than is provided in a table or graph, though the table or graph provides information that allows the easiest comparison to other entries.

No one source could provide all the information desired for this set, so some sources were substituted when the main source lacked information for specific countries. The main sources used included: the *World Factbook 2000* and *2001,* which provided the common information on the countries' gross domestic product (GDP) at purchasing power parity, the division of labor, balance of trade, chief imports, chief exports, and population, unless otherwise noted in the text; the World Bank's *World Development Indicators,* which was a valued source for information about the infrastructure and consumption patterns of many countries; the *Human Development Report,* from the United Nations, which provided GDP per capita information on many countries; and the International Monetary Fund's *International Financial Statistics Yearbook,* which provided historical records of trade balances for most countries. Each entry also contains a bibliography that lists additional sources that are specific to that entry.

ENTRY ORGANIZATION

All entries are organized under 16 specific headings to make it easy to find needed information quickly and to compare the conditions in several different countries easily. (The sole exception is the entry on the Vatican, whose unique features necessitated the removal of several sections.) The sections are as follows:

COUNTRY OVERVIEW. This section includes information about the size of all land surfaces, describing coastlines and international boundaries. It also highlights significant geographical features in the country and the location of the capital. The size of the country is compared to a U.S. state or, for smaller countries, to Washington, D.C. Also included is information on the total population, as well as other important demographic data concerning ethnicity, religion, age, and urbanization. Where relevant, this section also includes information about internal conflicts, major health problems, or significant population policies.

OVERVIEW OF ECONOMY. This overview is meant to provide an analysis of the country's overall economic conditions, mentioning those elements that are deemed most important to an understanding of the country. It provides context for the reader to understand the more specific information available in the other sections.

POLITICS, GOVERNMENT, AND TAXATION. This section identifies the structure of the government and discusses the role the government, political parties, and taxes play in the economy.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS. This section offers a description of the roads, railways, harbors, and telecommunications available in the country, assesses the modernity of the systems, and provides information about the country's plans for improvements.

ECONOMIC SECTORS. This section serves as an overview for the three more specific sections that follow, providing a general description of the balance between the country's different economic sectors.

AGRICULTURE. This section discusses the agriculture, fishing, and forestry sectors of the country.

INDUSTRY. This section discusses the industrial sector of the country, including specific information on mining, manufacturing, and other major industries, where appropriate.

SERVICES. This section concentrates on major components of the diverse services sector, usually focusing on the tourism and banking or financial sectors and sometimes including descriptions of the retail sector.

INTERNATIONAL TRADE. This section focuses on the country's patterns of trade, including the commodities traded and the historical trading partners.

MONEY. This section offers a brief description of the changes in inflation and the exchange rates in the country, and the impact those may have had on the economy. It also mentions any recent changes in the currency and the nature and impact of the central banking function.

POVERTY AND WEALTH. This section paints a picture of the distribution of wealth within the country, often comparing life in the country with that in other countries in the region. It includes governmental efforts to redistribute wealth or to deal with pressing issues of poverty.

WORKING CONDITIONS. This section describes the workforce, its ability to unionize, and the effectiveness of unions within the country. It also often includes information on wages, significant changes in the workforce over time, and the existence of protections for workers.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT. This section provides a timeline of events that shaped the country and its economy. The selected events create a more cohesive picture of the nation than could be described in the entries because of their bias toward more current information.

FUTURE TRENDS. To provide readers with a view to the future, the entry ends with an analysis of how the economic conditions in the country are expected to change in the near future. It also highlights any significant challenges the country may face.

DEPENDENCIES. This section discusses any major territories or colonies and their economies.

BIBLIOGRAPHY. The bibliography at the end of the entry lists the sources used to compile the information in the entry and also includes other materials that may be of interest to readers wanting more information about the particular country. Although specific online sources are cited, many such sources are updated annually and should be expected to change.

In addition, a data box at the beginning of each entry offers helpful economic "quick facts" such as the country's capital, monetary unit, chief exports and imports, gross domestic product (GDP), and the balance of trade. The U.S. Central Intelligence Agency's *World Factbook* (2000 and 2001) was the main source of this information unless otherwise noted. Each entry also includes a map that illustrates the location of the country. Since economic conditions are often affected by geography, the map allows readers to see the location of major cities and landmarks. The map also names bordering countries to offer readers a visual aid to understand regional conflicts and trading routes.

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COMMENTS

We encourage you to contact us with any comments or suggestions you may have that will benefit future editions of this set. We want this set to be a meaningful addition to your search for information about the world. Please send your comments and suggestions to: The Editors, *Worldmark Encyclopedia of National Economies,* The Gale Group, 27500 Drake Road, Farmington Hills, MI 48331. Or, call toll free at 1-800-877-4253.

—Sara Pendergast and Tom Pendergast

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INTRODUCTION

THE POWER OF ECONOMIC UNDERSTANDING

The economies of the world are becoming increasingly interconnected and interdependent, a fact dramatically illustrated on 2 July 1997 when the Thai government decided to allow its currency to "float" according to market conditions. The result was a significant drop in the value of the currency and the start of the Asian economic crisis, a contagion that spread quickly to other Asian countries such as the Republic of Korea, Indonesia, Malaysia, and the Philippines. Before long the epidemic reached Brazil and Russia.

In this way, a small economic change in one less-developed country sent economic shock waves around the world. Surprisingly, no one predicted this crisis, though economist Paul Krugman in a prominent 1994 *Foreign Affairs* article argued that there was no Asian economic miracle and the kind of growth rates attained in recent years were not sustainable over the long term. In such an interconnected global economy, it is imperative to have an understanding of other economies and economic conditions around the world. Yet that understanding is sorely lacking in the American public.

Various studies have shown that both young people and the public at large have a low level of literacy about other nations. A survey of 655 high school students in southeast Ohio indicated that students were least informed in the area of international economic concerns, and the number of economics majors at the college level is declining. The economic and geographic illiteracy has become such a national concern that the U.S. Senate recently passed a resolution calling for a national education policy that addresses Americans' lack of knowledge of other parts of the world.

The information provided by the media also frequently reflects a distorted understanding of world economies. During the Asian economic crisis, we often heard about the collapse of various Asian countries such as Korea and Thailand. They were indeed suffering a severe crisis, but usually companies, not countries, collapse. The use of the "collapse" language was therefore misleading. In another example, a distinguished journalist writing in a prominent East coast newspaper claimed that Vietnamese women paid more in transportation and food costs than they were earning while working in a factory manufacturing Nike shoes. Such a statement, while well intended in terms of genuine concern for these women workers, makes no economic sense whatsoever, and is actually not accurate. The wages of these women are indeed extremely low by U.S. standards, but such wages must be viewed in the context of another society, where the cost of living may be dramatically lower and where low salaries may be pooled. At other times, a fact—such as the fact that a minority of the Japanese workforce enjoys employment for life—is exaggerated to suggest that the Japanese economy boomed as it did in the 1980s *because* of the Japanese policy of life-long employment. Such generalizing keeps people from understanding the complexities of the Japanese economy.

"THINGS ARE NOT WHAT THEY SEEM." In defense of this lack of economic understanding, it must be said that understanding economics is not easy. Paul A. Samuelson, author of the classic textbook *Economics* (1995), once stated about economics "that things are often not what at first they seem." In Japan, for example, many young women work as office ladies in private companies as an initial job after completing school. These young ladies often stay at home with their parents and have few basic expenses. Over several years they can accumulate considerable savings, which may be used for travel, overseas study, or investing. Thus, as Samuelson noted in his textbook, actual individual economic welfare is not based on wages as such, but on the *difference* between earnings and expenditures. Wages are not the only measure of the value of labor: one must also consider purchasing power and how costs of living vary dramatically from place to place. Without taking into account purchasing power, we overestimate economic well-being in high-cost countries such as Japan and Switzerland and underestimate it in low-cost countries such as India and Cambodia.

Consider the following examples: The cost of taking an air-conditioned luxury bus from the Cambodian capital of Phnom Penh to its major port, Sihanoukville, is less than $2. The same bus trip of equal distance in Japan or the United States would cost $50 or more. Similarly,

a (subsidized) lunch at a factory producing Nike shoes in Vietnam may cost the equivalent of 5 U.S. cents in 1998, while lunch at a student union on a U.S. college campus may cost $5. Thus a teaching assistant on a U.S. campus pays 100 times more for lunch than the Vietnamese factory worker. Who is more "poorly paid" in these situations? Add to this the reality that in many developing countries where extended families are common, members of the family often pool their earnings, which individually may be quite low. To look only at individual earnings can thus be rather misleading. Such cultural nuances are important to keep in mind in assessing economic conditions and welfare in other nations.

Various economic puzzles can also create confusion and misunderstanding. For example, currently the United States has the highest trade deficit in world history: it imports far more that it exports. Most countries with huge trade deficits have a weak currency, but the U.S. dollar has remained strong. Why is this the case? Actually, it is quite understandable when one knows that the balance of trade is just one of many factors that determine the value of a nation's currency. In truth, demand for the U.S. dollar has remained high. The United States is an attractive site for foreign investment because of its large and growing economic market and extremely stable politics. Second, the United States has a large tourism sector, drawing people to the country where they exchange their currency for U.S. dollars. Several years ago, for the first time ever, there were more Thais coming to the United States as tourists than those in the United States going to Thailand. Third, the United States is extremely popular among international students seeking overseas education. Economically, a German student who spends three years studying in the United States benefits the economy in the same way as a long-term tourist or conventional exports: that student invests in the U.S. economy. In the academic year 1999-2000, there were 514,723 international students in the United States spending approximately $12.3 billion. Thus, the services provided by U.S. higher education represent an important "invisible export." Fourth, 11 economies are now dollarized, which means that they use the U.S. currency as their national currency. Panama is the most well known of these economies and El Salvador became a dollarized economy on 1 January 2001. Other countries are semi-officially or partially dollarized (Cambodia and Vietnam, for example). As the result of dollarization, it is estimated by the Federal Reserve that 55 to 70 percent of all U.S. dollars are held by foreigners primarily in Latin America and former parts of the U.S.S.R. Future candidates for dollarization are Argentina, Brazil, Ecuador, Indonesia, Mexico, and even Canada. With so many countries using U.S. dollars, demand for the U.S. dollar is increased, adding to its strength. For all these reasons, the U.S. currency and economy remained strong despite the persisting large trade deficits, which in themselves, according to standard economic logic, suggest weakness.

SYSTEMS OF CLASSIFICATION. As in other fields, such as biology and botany, it is important to have a sound system of classification to understand various national economies. Unfortunately, the systems commonly used to describe various national economies are often flawed by cultural and Eurocentric biases and distortion. After the end of World War II and the start of the Cold War, it became common to speak of "developed" and "underdeveloped" countries. There were two problems with this overly simplistic distinction. First, it viewed countries only in terms of material development. Second, it implied that a nation was developed or underdeveloped across all categories. As an example, "underdeveloped" Thailand has consistently been one of the world's leading food exporters and among those countries that import the least amount of food. Similarly, in "developed" Japan there are both homeless people and institutions to house the elderly, while in "underdeveloped" Vietnam there are no homeless and the elderly are cared for by their families. Which country is more "developed"?

Later the term "Third World" became popular. This term was invented by the French demographer Alfred Sauvy and popularized by the scholar Irving Horowitz in his volume, *Three Worlds of Development.* "First World" referred to rich democracies such as the United States and the United Kingdom; "Second World" referred to communist countries such as the former U.S.S.R. and former East Germany. The term "Third World" was used to refer to the poorer nations of Africa, Latin America, and Asia (with the exception of Japan). But this distinction is also problematic, for it implies that the "First World" is superior to the "Third World." Another common term introduced was modern versus less modern nations. The Princeton sociologist Marion J. Levy made this distinction based on a technological definition: more modern nations were those that made greater use of tools and inanimate sources of power. Thus, non-Western Japan is quite modern because of its use of robots and bullet trains. Over time, however, many people criticized the modern/non-modern distinction as being culturally biased and implying that all nations had to follow the same path of progress.

More recently, economists from around the world have recognized the importance of using a variety of factors to understand the development of national economies. Each of these factors should be viewed in terms of a continuum. For example, no country is either completely industrial or completely agricultural. The entries in this volume provide the basic data to assess each national economy on several of these key criteria. One can determine, for example, the extent to which an economy is industrial by simply dividing the percentage of

the economy made up by industry by the percentage made up by agriculture. Or one can determine how much energy national economies use to achieve their level of economic output and welfare. This provides an important ecological definition of efficiency, which goes beyond limited material definitions. This measure allows an estimate of how "green" versus "gray" an economy is; greener economies are those using less energy to achieve a given level of economic development. One might like to understand how international an economy is, which can be done by adding a country's exports to its imports and then dividing by GDP. This indicator reveals that economies such as the Netherlands, Malaysia, Singapore, and Hong Kong are highly international while the isolationist Democratic People's Republic of Korea (North Korea) is far less international.

Another interesting measure of an economy, particularly relevant in this age of more information-oriented economies and "the death of distance" (Cairncross 1997), is the extent to which an economy is digitalized. One measure of this factor would be the extent to which the population of a given economy has access to the Internet. Costa Rica, for example, established a national policy that all its citizens should have free access to the Internet. In other economies, such as Bhutan, Laos, and North Korea, access to the Internet is extremely limited. These differences, of course, relate to what has been termed "the digital divide." Another important factor is whether an economy is people-oriented, that is, whether it aims to provide the greatest happiness to the greatest number; economist E.F. Schumacher called this "economics as if people mattered." The King of Bhutan, for example, has candidly stated that his goal for his Buddhist nation is not Gross National Product but instead Gross National Happiness. Such goals indicate that the level of a country's economic development does not necessarily reflect its level of social welfare and quality of life.

Another important category that helps us understand economies is the degree to which they can be considered "transitional." Transitional economies are those that were once communist, state-planned economies but that are becoming or have become free-market economies. This transitional process started in China in the late 1970s when its leader Deng Xiaoping introduced his "four modernizations." Later, Soviet leader Mikhael Gorbachev introduced such reforms, called *perestroika,* in the former Soviet Union. With the dissolving of the U.S.S.R. in 1991, many new transitional economies emerged, including Belarus, Uzbekistan, Kyrgyzstan, and the Ukraine. Other countries undergoing transition were Vietnam, Laos, Cambodia, and Mongolia. These economies can be grouped into two types: full transitional and partial transitional. The full transitional economies are shifting both to free markets and to liberal democracies with free expression, multiple parties, and open elections. The partial transitional economies are changing in the economic realm, but retaining their original one-party systems. Included in the latter category are the economies of China, Vietnam, Laos, and Cuba. This volume provides valuable current information on the many new transitional economies emerging from the former Soviet world.

KEY THEMES IN THE WORLD ECONOMY. In looking at the economies of countries around the globe, a number of major common themes can be identified. There is increasing economic interdependence and interconnectivity, as stressed by Thomas Friedman in his recent controversial book about globalization titled *The Lexus and the Olive Tree: Understanding Globalization.* For example, the People's Republic of China is now highly dependent on exports to the United States. In turn, U.S. companies are dependent on the Chinese market: Boeing is dependent on China for marketing its jet airliners; the second largest market for Mastercard is now in China; and Nike is highly dependent on China and other Asian economies for manufacturing its sports products. Such deep interdependence augurs well for a peaceful century, for countries are less likely to attack the countries with whom they do a vigorous business, even if their political and social systems are radically different. In fact, new threats to peace as reflected in the tragic terrorist attack of 11 September 2001, primarily relate to long-standing *historical* conflicts and grievances.

Conventional political boundaries and borders often do not well reflect new economic realities and cultural patterns. Economic regions and region states are becoming more important. The still-emerging power of the European Union can be gauged by reading the essays of any of the countries that are currently part of the Union or hoping to become a part of it in the coming years. This volume may help readers better understand which nations are becoming more interconnected and have similar economic conditions.

The tension between equity (fairness) and efficiency is common in nearly all national economies. In some economies there is more stress on efficiency, while in others there is more stress on equity and equality. Thus, as should be expected, countries differ in the nature of the equality of their income and wealth distributions. For each entry in this volume, important data are provided on this important factor. The geographer David M. Smith has documented well both national and international inequalities in his data-rich *Where the Grass is Greener* (1979).

Invisible and informal economies—the interactions of which are outside regulated economic channels—represent a growing segment of economic interactions in some countries. In his controversial but important volume, *The Other Path* (1989), the Peruvian economist Hernando de Soto alerted us to the growing significance of the informal economy. In countries such as Peru, research has

shown that in some cases individuals prefer work in the informal to the formal sector because it provides them with more control over their personal lives. The Thai economist Pasuk Phongpaichit and her colleagues have written a fascinating book on Thailand's substantial invisible economy titled *Guns, Girls, Gambling, and Ganja* (1998). Thus, official government and international statistical data reported in this volume often are unable to take into account such data from the hidden part of economies.

In an increasingly internationalized economy in which transnational corporations are highly mobile and able to move manufacturing overseas quite rapidly, it is important to distinguish between real foreign direct investment and portfolio investment. At one point during Thailand's impressive economic boom of the late 1980s and early 1990s, a new Japanese factory was coming on line every three days. This is foreign direct investment, involving actual bricks and mortar, and it creates jobs that extend beyond the actual facility being constructed. In contrast foreign portfolio investment consists of a foreign entity buying stocks, bonds, or other financial instruments in another nation. In our current wired global economy, such funds can be moved in and out of nations almost instantaneously and have little lasting effect on the economic growth of a country. Economies such as Chile and Malaysia have developed policies to try to combat uncertainty and related economic instability caused by the potential of quick withdrawal of portfolio investments.

Some argue that transnational corporations (owned by individuals all over the world), which have no national loyalties, represent the most powerful political force in the world today. Many key transnational corporations have larger revenues than the entire gross national products of many of the nations included in this volume. This means that many national economies, especially smaller ones, lack effective bargaining power in dealing with large international corporations.

Currently, it is estimated by the International Labor Office of the United Nations that one-third of the world's workforce is currently unemployed or underemployed. This means that 500 million new jobs need to be created over the next 10 years. Data on the employment situation in each economy are presented in this volume. The creation of these new jobs represents a major challenge to the world's economies.

The final and most important theme relates to the ultimate potential clash between economy and ecology. To the extent that various national economies and their peoples show a commitment to become greener and more environmentally friendly, ultimate ecological crises and catastrophes can be avoided or minimized. Paul Ray and Sherry Anderson's *The Cultural Creatives: How 50 Million People Are Changing the World* (2000) lends credence to the view that millions are changing to more environmentally conscious lifestyles.

In trying to understand the global economy, it is critically important to have good trend data. In each of the entries of this volume, there is an emphasis on providing important economic data over several decades to enable the reader to assess such patterns. Some trends will have tremendous importance for the global economy. One phenomenon with extremely important implications for population is the policy of limiting families to only one child in China's urban areas. This deliberate social engineering by the world's most populous country will have a powerful impact on the global economy of the 21st century. The global environmental implications are, of course, extremely positive. Though there is much debate about the economic, political, and socio-cultural implications of this one-child policy, overall it will probably give China a tremendous strategic advantage in terms of the key factors of human resource development and creativity.

THE POWER OF UNDERSTANDING. By enhancing our knowledge and understanding of other economies, we gain the potential for mutual learning and inspiration for continuous improvement. There is so much that we can learn from each other. Denmark, for example, is now getting seven percent of its electrical energy from wind energy. This has obvious relevance to the state of California as it faces a major energy crisis. The Netherlands and China for a long period have utilized bicycles for basic transportation. Some argue that the bicycle is the most efficient "tool" in the world in terms of output and energy inputs. Many new major highways in Vietnam are built with exclusive bike paths separated by concrete walls from the main highway. The Vietnamese have also developed electric bicycles. The efficient bullet trains of Japan and France have relevance to other areas such as coastal China and the coastal United States. Kathmandu in Nepal has experimented with non-polluting electric buses. In the tremendous biodiversity of the tropical forests of Southeast Africa, Latin America, and Africa, there may be cures for many modern diseases.

We hope to dispel the view that economics is the boring "dismal science" often written in complex, difficult language. This four-volume set presents concise, current information on all the economies of the world, including not only large well-known economies such as the United States, Germany, and Japan, but also new nations that have emerged only in recent years, and many micro-states of which we tend to be extremely uninformed. With the publication of this volume, we hope to be responsive to the following call by Professor Mark C. Schug: "The goal of economic education is to foster in students the thinking skills and substantial economic knowledge necessary to become effective and participating citizens." It is our hope that this set will enhance both economic and

geographic literacy critically needed in an increasingly interconnected world.

—Gerald W. Fry, University of Minnesota

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ANTIGUA AND BARBUDA

CAPITAL: St. John's.

MONETARY UNIT: East Caribbean dollar (EC$). One Eastern Caribbean dollar (EC$) equals 100 cents. Paper currency comes in denominations of EC$100, 50, 20, 10, and 5. Coins are in denominations of EC$1, and 50, 25, 10, 5, 2, and 1 cents.

CHIEF EXPORTS: Petroleum products, manufactures, food and live animals, machinery and transport equipment.

CHIEF IMPORTS: Food and live animals, machinery and transport equipment, manufactures, chemicals, oil.

GROSS DOMESTIC PRODUCT: US$524 million (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$38 million (1998 est.). **Imports:** US$330 million (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Antigua and Barbuda is located in the "Heart of the Caribbean" between the Greater and Lesser Antilles, about 402 kilometers (250 miles) east-southeast of Puerto Rico or 60 kilometers (37.5 miles) north of Guadeloupe. This territory consists of several islands, the largest being Antigua (281 square kilometers, or 108 square miles), Barbuda (161 square kilometers, or 62 square miles), and Redonda (1.6 square kilometers, or 0.5 square miles). The smaller islands include Guiana Island, Bird Island, and Long Island. The combined area of this multi-island state is 442 square kilometers (171 square miles) making the territory about 2 and a half times the size of Washington, D.C. Antigua's coastline measures 153 kilometers (95 miles). The country's capital, St. John's, is located on the northwestern coast of Antigua. The main towns include Parham and Liberta on Antigua, and Codrington on Barbuda.

POPULATION. As of July 2000, the population of Antigua was estimated at 66,422, which means that the 1991 population of 63,896 increased by 3.95 percent. In 2000 the birth rate was reported as 19.6 births per 1,000 population while the death rate was 5.99 deaths per 1,000 population. In 2000, it was estimated that the population was growing at a rate of 0.73 percent per annum. The population is expected to reach 82,000 by 2010. Migration has been identified as the main reason for the relatively slow population growth. The net migration rate in 2000 averaged 6.32 migrants per 1,000 population.

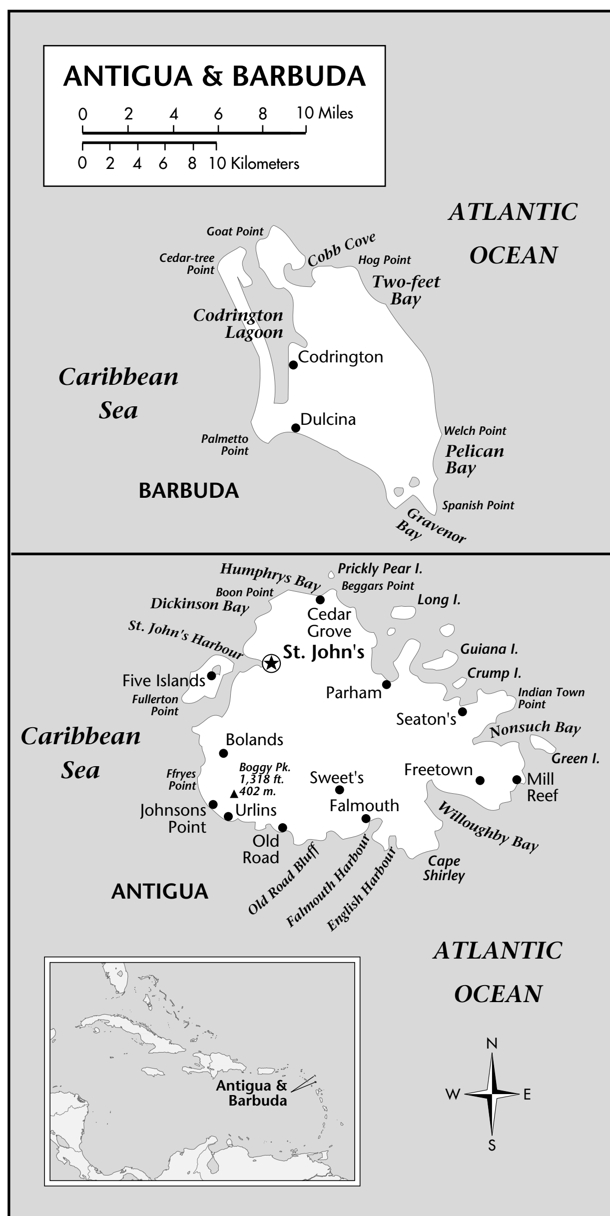
The population density is 150 people per square kilometer (389 per square mile). As of 1999 about 37 percent of the population lived in the urban areas. About 91 percent of the population are of African descent. Other races found in relatively small numbers include Amerindian/Carib, East Indian, Chinese, Portuguese, Lebanese, and Syrian.

Close to 67 percent of the country's population are in the age group 15–64. The population is young, with 28 percent of the population aged 0–14 years and only 5 percent aged 65 years and over. In the late 1980s, about one-fifth of all births were to mothers aged under 19 years. Hence, the government, with the aid of the UNFPA Peer Counselling and Youth Health Services Project, has been teaching teens the use of contraceptives, among other birth control techniques, in an effort to reduce teenage pregnancies.

There are about 3,000 residents of Montserrat living in Antigua and Barbuda. These persons are evacuees who fled the island because of the volcanic eruption in 1997.

OVERVIEW OF ECONOMY

Sugar production dominated the economy of Antigua and Barbuda for centuries. Sugar declined in importance after World War II and by the early 1970s it was almost irrelevant to the economy. Thereafter, islanders have dabbled in a variety of agricultural activities, but with limited rainfall there was not much success. Tourism therefore emerged as the major economic activity and, except for the ravages of hurricanes, this sector has experienced steady growth.



The economy is based on an open and free enterprise system. Since the mid-1980s there has been an upsurge of huge **trade deficits**, however, which have led to **arrears** in payments to foreign investors, which in turn reduced foreign capital inflows. In the first half of the 1990s economic growth slowed sharply (from an average of 8 percent in 1984–89 to 2 percent in 1990–95), mainly because the large public investment in tourism-related projects started in the 1980s could not be sustained.

In the late 1990s the growing offshore financial sector came under scrutiny from some European countries. The sector was affected in 1999 when the United States and United Kingdom applied **sanctions** on the government in an effort to compel more stringent controls on **money laundering**. Yet Antigua and Barbuda was not named in 2000 among the so-called "non-co-operative **tax havens** " by the Paris-based Organization for Economic Co-Operation and Development (OECD), a 29-nation grouping of some of the world's wealthiest nations.

As the 21st century opened, tourism continued to be the mainstay of the economy, accounting for over 40 percent of GDP. Recovery in the tourism sector has resulted from rehabilitation efforts and new marketing strategies. There have also been some recent attempts to strengthen the manufacturing sector.

Overall economic growth for 1998 was 3.9 percent, and expanded to about 4.6 percent in 1999. **Inflation** has been moderate, averaging 3 to 4 percent annually, since 1993. It is apparent that economic growth in the medium-term will be tied to income growth in the industrialized regions, particularly the United States and the United Kingdom, where most tourists originate.

Antigua and Barbuda's **external debt** continues to grow, increasing from US$357 million in 1998 to US$433.7 million in 1999. The large debt has had a negative effect on the economy because these loans must be repaid in a short period at very high interest rates. Debt payment accounted for 21.52 percent of the country's 2000 budget. Economic aid averages around US$2 million annually.

While most firms in Antigua and Barbuda are locally owned, overseas companies own most of the hotels. Among the largest companies are Cable and Wireless Antigua Ltd., the state-owned Antigua Public Utilities Authority (APUA), and the Antigua Brewery, which is 80 percent foreign-owned. The state-owned Central Marketing Authority regulates the importation and distribution of basic food items. There are a good number of reputable International Business Companies (IBCs) registered in Antigua, including international banks, trusts, insurance firms, and corporations.

To foster industrial development, the government has adopted a policy of providing local and foreign investors with incentives such as **duty**-free imports, **tax holidays**, and other exemptions. A recent government initiative is the establishment of a "**Free Trade Zone**."

POLITICS, GOVERNMENT, AND TAXATION

Antigua and Barbuda is a constitutional monarchy whose parliament is fashioned on the British Westminster system. The Bird family has governed the country for over 30 years. The Antigua Labour Party (ALP), first led by Vere C. Bird and then by his son Lester B. Bird, has won all but the 1971 elections since universal adult suffrage was granted in 1951. In the most recent general

elections held in March 1999 the ALP captured 12 of the 17 seats, thereby increasing its majority by 1 seat. The other political parties in parliament are the United Progressive Party (UPP), led by Baldwin Spencer, with 4 seats, and the Barbuda People's Movement (BPM), led by Hilbourne Frank, with 1 seat. The other parties are the Barbuda National Party (BNP), the Peoples Democratic Movement (PDM), and the Barbuda Independence Movement (BIM). The next general election is due to take place by 2004.

The government appears committed to encouraging **private-sector** growth principally in tourism and the offshore sector. The offshore sector includes IBCs such as banks located in the host country that operate in foreign countries such as the United Kingdom and the United States. IBCs opt to set up in these "tax havens" or "free zones" to benefit from the smaller rate of taxation charged there in comparison to the countries where many of their customers actually live. Moreover, the regulations governing IBCs' operation in the tax havens are often less restrictive than in the larger countries in which they also operate. The government has a policy of selling land for tourist and residential projects while it leases land for agricultural purposes.

Antigua and Barbuda has been rated as the least-taxed country in the Caribbean by a variety of regional and extra-regional financial institutions. Only 17 percent of the country's GNP comes from taxes, while other Caribbean countries get around 27 percent of their GNP from tax revenues on average. In 2000 the government introduced a new 2 percent tax on gross sales of EC$50,000 per year. This tax replaced a 25 percent business tax on profits. Some hotels had threatened to close while the commercial sector ceased importing goods from abroad, except for perishables, to cajole the government into rescinding the tax. However, the government has stood its ground. The International Monetary Fund (IMF) has suggested to the government that it should introduce a **value-added tax** (VAT) as a step towards increasing tax revenues. There is no personal **income tax** in Antigua and Barbuda. While the government was reporting cash-flow problems as recently as January 2001, the prime minister has made it clear that his government will not resort to personal income tax to ease its financial problems.

The Antigua and Barbuda Defence Force (ABDF) assists with surveillance on drug trafficking, and recently signed an agreement with the Canadian armed forces for assistance. The U.S. Air Force has a tracking station on Antigua.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Antigua has had an impressive road network since colonial times, mainly because of its relatively flat terrain. There are in excess of 250 kilometers (155 miles) of roads, about 25 percent of which can be classified as highway. Buses usually operate on a limited service, and taxis charge fixed rates. The number of motor cars continues to grow annually as the country has one of the highest per capita incomes in the anglophone (English-speaking) Caribbean. There are 77 kilometers (48 miles) of railroad tracks in the country, used almost exclusively for transporting sugar cane.

The island's lone international airport, V. C. Bird International, is located north-east of St. John's. It is serviced by several international airlines including American Airlines, British Airways, Air Canada, Air France, and BWIA. Antigua also has an excellent seaport which accommodates containerized cargo with state-of-the-art

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Antigua & Barbuda	28,000 (1996)	1,300 (1996)	AM 4; FM 2; shortwave 0	36,000	2	31,000	16	8,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
St. Lucia	37,000	1,600	AM 2; FM 7; shortwave 0	111,000	3	32,000	15	5,000

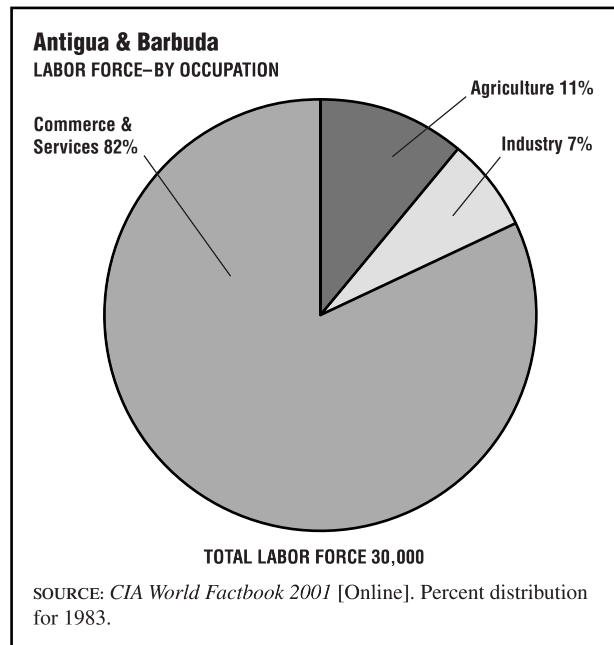
[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

equipment. Heritage Quay pier in St. John's was constructed solely to accommodate cruise ships.

Electricity is produced by the state-owned Antigua Public Utility Authority (APUA). In 1999 the company produced 90 million kilowatt-hours (kWh). All electricity is produced from oil as the island does not have hydro plants or any other type of generation plants.

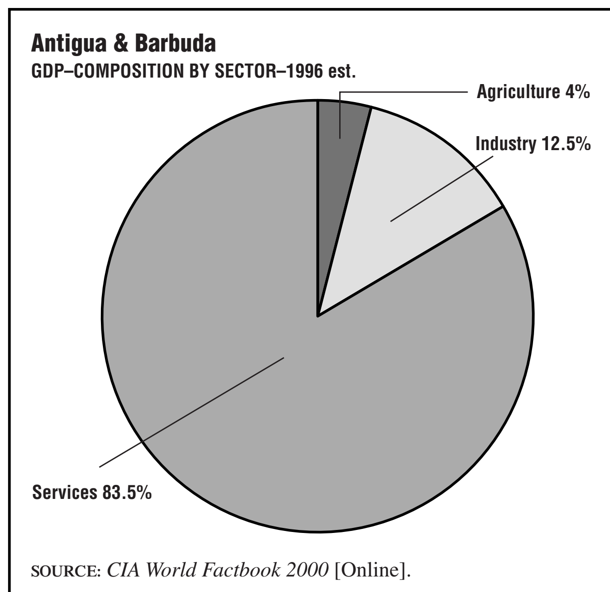
Domestic telecommunications services are provided by the APUA while the British-based multi-national Cable and Wireless, through Cable and Wireless Antigua Ltd., provides international telecommunications services. In 1994 it was estimated that the country had about 20,000 telephone lines in use. International traffic is moved via a submarine fibre optic cable as well as an Intelsat earth station. Cable and Wireless, through its Caribsurf subsidiary, is the main Internet service provider with about 6,000 Internet subscribers. In January 2001, Antigua Computer Technology (ACT) was launched as the second Internet service provider with a start-up capacity to connect at least 1,000 subscribers. The country has 2 television broadcast stations and an estimated 31,000 television sets.



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1983.

ECONOMIC SECTORS

The services sector, in particular tourism and offshore financial services, dominate the economy. Consequently, the economy is heavily dependent on visitor arrivals from the United States and the United Kingdom. In fact, between January and September 2000 the pace of economic activity was much slower compared to the similar period for 1999, principally because of a decline in the number of visitors. However, it is expected that a marketing effort to be funded by the government and private sector will lead to an increase in stay-over arrivals from North America and Europe (particularly the United Kingdom) in 2001 and beyond. A major threat to tourism has been hurricane and storm damage from 1994 to 1999.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

The collapse of the sugar industry in the 1970s left the government in control of 60 percent of Antigua's 66,000 acres of sugar cane plantations. The main agricultural exports include cotton to Japan and fruit and vegetables to other Caribbean territories. Hot peppers and vegetables are exported to the United Kingdom and Canada. Other agriculture products are bananas, coconuts, cucumbers, mangoes, livestock, and pineapples.

Agriculture accounts for a rather insignificant part of the economy, making up 4 percent in 1996 and falling to 3.6 percent in 1998. According to the *Americas Review 1999*, there were 2,000 persons employed in agriculture in 1999. However, it appears that cultivation is on the rise. In 1998 there were 279.8 acres of land planted with vegetables. In 1999 there were 340.1 acres under cultivation, 73.3 acres of which were planted with onions. In 1999 alone some 319,275 pounds of vegetables were produced. The government has received the assistance of the European Development Fund to develop the livestock subsector.

Problems confronting the agricultural sector include soil depletion and drought. Antigua does not have any rivers and is short on groundwater. Consequently, drinking water is collected from rainfall or imported from neighboring territories. Several hotels have seawater de-

salination facilities. The state also supplements its water distribution service with desalinated water.

Some 3 million pounds of fish are caught per year, according to 1997 figures. At that time Barbuda alone was exporting 260,000 pounds of lobster annually. Fish hauls increased in 1998, an indication that this sector has recovered significantly from hurricane damage sustained between 1995 and 1998. The East Caribbean Central Bank reported in 1999 that fish as well as crop production were the main contributors to agriculture in 1999. There are a few shrimp and lobster farms on Antigua. In addition, the Smithsonian Institute runs a project which farms Caribbean king crabs for domestic consumption.

INDUSTRY

MANUFACTURING. Manufacturing is not a major contributor to the economy. However, output from manufacturing rose by 5.5 percent in 1998 and 5 percent in 1999. Between 1996 and 1998, manufacturing contributed an average of just over 2 percent of GDP.

An industrial park located at Coolidge near the V. C. Bird International airport produces exports such as paints, galvanized sheets, furniture, paper products, and the assembly of household appliances, vehicles, and garments. Local manufacturers are provided with incentives such as tax and duty-free concessions.

Manufacturers can export to the United States, European, Canadian, and Caribbean markets as a result of trade agreements such as the Lomé Convention, the Caribbean Basin Initiative (CBI) and Caribbean Common Market (CARICOM).

In 1999 the government signed an agreement with the People's Republic of China to use local cotton in the manufacture of textiles for the export market. A factory is to be constructed to facilitate this project.

CONSTRUCTION. Much of the buoyancy in the economy over the last few years has been due to the steady growth in the construction sector. Private and government investments have facilitated this growth. Construction contributed on average 11 percent of GDP between 1996 and 1998.

SERVICES

TOURISM. Tourism is the mainstay of the economy of Antigua and Barbuda and is the leading sector in terms of providing employment and creating foreign exchange. In 1999 it contributed 60 percent of GDP and more than half of all jobs. According to the *Americas Review 1998*, tourism contributed 15 percent directly and around 40 percent indirectly to the GDP in 1998. Real growth in this sector has moved from an average of 7 percent for the period 1985–89 to 8.24 percent for the period 1990–95. There was slow growth between 1995 and 1998.

Figures released by the East Caribbean Central Bank (ECCB) in 2000 show that total visitor arrivals increased steadily from 470,975 in 1995 to 613,990 in 1998. In 1999 total visitor arrivals declined by about 4.1 percent to 588,866, yet the number of visitors staying at least 1 night or more increased by 1.9 percent over 1998 to total 207,862. Arrivals via cruise ships in 1999 dropped to 325,195, a fall of 3.4 percent over 1998. The fall-off in cruise passengers was mainly the result of one of the larger cruise ships being out of service for a brief period. Most of the tourists in 1999 came from the United Kingdom and the United States. Visitor expenditures have increased steadily since 1990, with total expenditures of EC$782.9 million.

To combat increasing competition from other Caribbean destinations, the government and the Antigua Hotel and Tourist Association have established a joint fund to market the country's appeal as a tourist destination. The Association has agreed to match the proceeds from a 2 percent hotel guest **levy** introduced by the government.

At the start of March 2001, the Antigua Workers Union (AWU), the trade union which represents close to 7,000 workers in the tourism industry, described tourism as an industry in crisis. The AWU claimed the industry is on the decline because some airlines are pulling out of the country, and government was not spending enough money to promote tourism. While the government has conceded that it was not spending enough on marketing because of cash flow problems, it has rejected the AWU's contention that the industry is in crisis.

FINANCIAL SERVICES. Antigua and Barbuda is advertised as "an attractive offshore jurisdiction." The country was the first to sign the United Nations' anti-money laundering pact. This agreement came out of a conference in 1999 which urged worldwide offshore financial centers to introduce laws to tighten their policing of money laundering activities. The United Kingdom exerted considerable pressure on Antigua and Barbuda to reform laws to combat money laundering, even issuing an advisory in April 1999 to British financial institutions that Antigua and Barbuda's anti-money laundering laws were wanting. Antigua and Barbuda responded to this concern, and a subsequent joint United States and United Kingdom review reported they were satisfied that the country had taken positive steps to check illegal activity in this sector. In September 2000 the government of Antigua and Barbuda announced that it had strengthened its surveillance of money laundering and drug trafficking.

Trade (expressed in billions of US$): Antigua & Barbuda

	Exports	Imports
1975	.020	.067
1980	.026	.088
1985	.017	.166
1990	.021	.255
1995	.030	.299
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Antigua & Barbuda

East Caribbean dollars (EC$) per US$1	
2001	2.7000
2000	2.7000
1999	2.7000
1998	2.7000
1997	2.7000
1996	2.7000

Note: The exchange rate has been fixed since 1976.

SOURCE: CIA *World Factbook 2001* [ONLINE].

RETAIL. The **retail** sector is dominated by the sale of food and beverages, clothing and textiles, and vegetables. The main markets are located in the capital, St. John's. There are many street vendors and duty-free shops. The government has been taking steps to improve this sector. A US$43.5 million vendors' mall and market has been built to provide better facilities for retailers in the capital. In addition, a US$27 million fisheries complex now provides improved facilities for fish processing and retailing. A growing area of computer business on Antigua is Internet casinos.

INTERNATIONAL TRADE

This small multi-island state imports most of its food as well as other goods that it does not manufacture. In 1998 the value of imports was as much as 9 times the value of exports. In 1998 total exports amounted to US$38 million while imports stood at US$330 million.

The Organization of Eastern Caribbean States (OECS) comprised 26 percent of the country's exports, Barbados took in 15 percent, Guyana 4 percent, and Trinidad and Tobago 2 percent. The United States imported only .03 percent. Of imports, some 27 percent came from the United States, 16 percent from the United Kingdom, 4 percent from Canada, and 3 percent from the OECS.

The country is a party to several trade agreements, including the Caribbean Basin Initiative (CBI) with the United States, Caribcan with Canada, the Lomé Convention (a cooperation agreement between the EU and the ACP, the latter consisting of several African, Caribbean, and Pacific countries), and the Caribbean Common Market (CARICOM).

MONEY

The **exchange rate** of the East Caribbean dollar has remained steady since 1976 at 2.70 to the U.S. dollar. This is partly because the agreement establishing the East Caribbean Central Bank, which regulates the currency, requires all countries that use the currency to agree to **devaluation**.

The country does not have its own stock exchange. Instead, it is part of the St. Kitts-based Eastern Caribbean Securities Exchange (ECSE). An associate institution of the Eastern Caribbean Central Bank (ECCB), the ECSE is scheduled to start trading in 2001. The fully automated exchange will be linked via local telecommunications providers and will employ an electronic book-entry system for recording the ownership of securities.

To assist with its development, the ECSE has received US$2 million in grants, counter-part loans, and money from the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB). The funds were channeled through the Barbados-based Caribbean Development Bank (CDB).

POVERTY AND WEALTH

According to *Sub-Regional Common Assessment of Barbados and the OECS*, some 12 percent of the population lived below the poverty line in the 1990s. This is much less than the average in the eastern Caribbean. Research has shown that the level of poverty was 17 percent in Grenada in 1998, 19 percent in St. Lucia in 1995, and 31 percent in St. Vincent and the Grenadines in 1996. About 35 percent of the eastern Caribbean is classified as poor (i.e., people in these countries earn less than

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Antigua & Barbuda	N/A	4,057	5,164	6,980	8,559
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
St. Lucia	N/A	2,076	2,150	3,542	3,907

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Antigua & Barbuda	36	3	8	3	18	9	23
United States	13	9	9	4	6	8	51
Jamaica	24	7	3	1	9	8	48
St. Lucia	40	5	11	4	17	11	11

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

US$15–25 per day). Indicators point to the possibility of increasing poverty in Antigua unless the slowdown in the economy is reversed and more employment is provided.

The **GDP per capita** in 1998 was US$8,559. The *Human Development Report 2000* gave Antigua and Barbuda a Human Development Index (HDI) ranking of 37th among the United Nations' 174 members. The HDI is computed by the UN and ranks its member nations based on an index which takes into account a country's health-care system, life expectancy, school enrollment, adult literacy rate, educational attainment, and per capita income to arrive at a score.

Antigua and Barbuda enjoys one of the highest employment rates in the Caribbean, and the second-highest wages and salaries per capita in the region. Life expectancy in 1999 was 75 years, about the same as in the United States.

The population benefits from national insurance and contributory pension schemes. Poor and elderly persons receive public assistance. The Antigua Medical Benefits Scheme (MBS) provides medical benefits to workers who contribute to it. However, at the beginning of 2001, the government was pressured to investigate alleged financial wrong-doing at the MBS. This has weakened confidence in the scheme. Workers are increasingly questioning the ability of the scheme to adequately finance health care in light of the charges of financial wrongdoing.

The government has operated a series of statewide free health clinics since the colonial period and these have expanded in the 1980s and 1990s. Although the government intends to introduce minimum user fees, it has promised to make provisions for the poor. The government also provides education at all levels.

WORKING CONDITIONS

The total active **labor force** in 1998 was about 30,000. Of this figure 8,319 were immigrant workers. In 1998 the government employed 10,984 persons, or about 38.3 percent of the total labor force, a trend that has gone as far back as 1994.

The unemployment rate fell from 9 percent in 1997 to 5 percent in 1998. During the latter part of 2000, the government announced a freeze on employment after cash flow problems made it difficult for it to meet its wage and pension bills, which amount to as much as US$5.1 million monthly.

The lowest age for employment is age 16. Children do not form part of the labor force, but they usually assist on family agricultural plots in the afternoon after school and during school vacations. The government has a youth skills training program which provides on-the-job training.

As much as 45.5 percent of the country's workforce are women. More significantly, close to 60 percent of all **public sector** employees are women. Most women who work are employed in the hotel industry and in teaching.

The leading trade unions in Antigua and Barbuda are the Antigua Workers' Union, the Antigua Trades and Labour Union, the Antigua and Barbuda Public Service Association, the Antigua and Barbuda Union of Teachers, and the Leeward Islands Air Line Pilots' Association. A 1975 labor code governs labor relations in the country. There was some industrial unrest in the airline industry and commercial sector during 1999 and 2000.

In 1997 the government granted public sector workers a 6 percent increase in wages and salaries for the period 1997–2000. In 1998 private sector workers had wage increases averaging around 4 percent. These wage hikes were long overdue and were granted to meet the rise in the cost of living.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1632. English settlers arrive from St. Kitts and colonization begins.

1674. The first large-scale sugar plantation established.

1736. Major slave uprising led by Prince Klaas.

1834. Complete freedom granted to slaves.

1939. The first trade union is formed on advice of British officials.

1943. Vere C. Bird becomes president of the Antigua Trades and Labour Union.

1951. Universal adult suffrage introduced; the Antigua Labour Party (ALP) led by Vere C. Bird comes to power.

1967. Antigua, Barbuda, and Redonda become an associated state with Britain.

1971. ALP voted out of office.

1972. Sugar industry goes into dormancy.

1974. Antigua and Barbuda joins CARICOM.

1976. ALP returned to office.

1981. Antigua and Barbuda obtains its political independence from Britain.

1994. Vere C. Bird hands over ALP to his son, Lester Bird.

1995–99. Series of hurricanes damage the islands' **infrastructure**.

FUTURE TRENDS

The government has pointed to the need for new and varied sources of revenue, especially since the tourism industry is likely to face competition in the not too distant future from Cuba, which has larger hotels, good facilities, and is located closer to the United States. There is also the threat posed by the OECD to the offshore finance sector. This organization has placed enormous pressure on the government to tighten its regulatory control over the sector and such action could result in its stagnation.

The IMF has recommended that the country adopt a comprehensive macro-economic program with medium- to long-term plans for improving government finances. The government fears that an IMF Economic **Structural Adjustment Program** (ESAP), which advocates cutting down the size of the public sector, will lead to unemployment, which in turn can lead to poverty and crime. Thus, the government has declined to participate in the IMF program and has instead opted to devise its own economic **restructuring** program with the aid of the Eastern Caribbean Central Bank (ECCB).

With its cash flow problems, Antigua and Barbuda may reduce the size of the public sector, which presently employs close to 11,000 persons. It may also take at least some of the IMF's advice and toughen its **fiscal policy**, implement reforms to increase efficiency and governance in the public sector, and work out a suitable repayment plan with its creditors. With revenue being lost through reduced **tariffs**, the administration may be looking to the VAT to fill the gap. However, government officials have hinted that the 2001 national budget, to be presented to Parliament in March of that year, will include reductions in duty-free concessions in an effort to address the cash-flow problem. In 2000 close to US$37 million was granted in such concessions.

DEPENDENCIES

Antigua and Barbuda has no territories or colonies.

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—Cleve Mc D. Scott

ARGENTINA

Argentine Republic
República Argentina

CAPITAL: Buenos Aires.

MONETARY UNIT: Peso (P). One peso equals 100 centavos. Coins are in denominations of P5, 2 and 1 and 50, 25, 10, 5 and 1 centavos. Peso paper currency is in denominations of P100, 50, 20, 10, 5 and 2.

CHIEF EXPORTS: Edible oils, fuels and energy, cereals, feed, motor vehicles.

CHIEF IMPORTS: Machinery and equipment, motor vehicles, chemicals, metal manufactures, plastics.

GROSS DOMESTIC PRODUCT: US$367 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$23 billion (f.o.b., 1999 est.). **Imports:** US$25 billion (c.i.f., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Argentina is located in the southern region of South America. The nation borders Chile to the west and south; the Atlantic Ocean, Uruguay, and Brazil to the east; and Bolivia and Paraguay to the north. Argentina has a total area of 2,766,890 square kilometers (1,068,296 square miles) and is the second-largest nation in South America (after Brazil). It is about the size of the United States east of the Mississippi River. The nation's coastline is 4,989 kilometers (3,100 miles) long. Argentina's land borders total 9,665 kilometers (6,005 miles). This includes borders of 832 kilometers (517 miles) with Bolivia, 1,224 kilometers (760 miles) with Brazil, 5,150 kilometers (3,200 miles) with Chile, 1,880 kilometers (1,168 miles) with Paraguay, and 579 kilometers (360 miles) with Uruguay. Argentina has 30,200 square kilometers (11,660 square miles) of water within its territory. The country's capital, Buenos Aires, is located on the Rio de la Plata (an estuary of the Paraná and Uruguay rivers) on the Atlantic Coast. Buenos Aires has a population of 3 million, although the larger metropolitan area has 13 million people. The nation's second-largest city is Cordoba, located in the center of the nation, with a population of 1.2 million.

POPULATION. Argentina's population is 36,955,182, according to a July 2000 estimate. In 2000, the population growth rate was 1.16 percent and the nation's birth rate was 18.59 births per 1,000 people. Its fertility rate is 2.47 children born per woman. This gives Argentina one of the lowest population growth rates in Latin America. The population is relatively young with almost half of all people under the age of 30. However, this trend is expected to slowly reverse itself so that by 2025, the differences in the number of people in each age group will be minimal. By 2050 the largest single group of people will be those aged 35 to 55. By 2010 Argentina's population is expected to exceed 41 million. Argentina's mortality rate is 7.58 deaths per 1,000 people, and its infant mortality rate is 18.31 deaths per 1,000 live births. In 2000, the life expectancy was 71.67 years for males and 78.61 years for females.

The majority of Argentines are of European descent (mainly Spanish and Italian). This group makes up 85 percent of the population. Mestizos (people of mixed European and Native-American descent) comprise 12 percent of Argentineans while Native Americans comprise 3 percent of the population. Spanish is the official language, although English, Italian, German, and French are also spoken in certain areas of the country. Most Argentineans are Roman Catholic (92 percent), but there are small numbers of Protestants (2 percent) and Jews (2 percent). The nation's indigenous population numbers about 700,000 and is concentrated in the northwest and some southern areas of the country. There are large immigrant communities in Argentina. During the 19th and early 20th centuries, there were several waves of **immigration** from Europe which included Germans, English, and Italians. From 1850 through 1940, approximately

6,608,700 Europeans **emigrated** to Argentina. During the late 20th century, new groups of immigrants settled in the country, including those from Syria and Lebanon. Middle Eastern immigrants now number about 500,000. The nation continues to encourage immigration from Europe through a variety of programs.

Argentina's economy has performed well over the past few decades and the nation enjoys one of the highest standards of living in Latin America. In 2000, the **GDP per capita** was US$10,000. About half of the people consider themselves to be middle-class. In addition, the literacy rate is 96.2 percent. Because of the relative wealth of the society, Argentina has recently experienced new waves of immigration, mainly from other Latin American countries.

The people of Argentina are highly urbanized. About 80 percent of Argentineans live in towns with populations of 2,000 or more. Some 13 million people—or about one-third of the population—live in the greater Buenos Aires metropolitan area. Because of this urban concentration, the nation's population density is quite low. Argentina ranks number 200 in the world in terms of population density with only 13.42 people per square kilometer (34.76 per square mile). In comparison, the population density of the United States is 28.4 per square kilometer (73.56 per square mile).

OVERVIEW OF ECONOMY

Argentina's economy is one of the richest and most diversified in Latin America. The nation has a variety of natural and other resources which have combined to produce an economy that is based on a strong industrial base, an export-oriented agricultural sector, and a growing service sector. The Argentine population is highly educated and skilled, and the country has a variety of natural resources including lead, zinc, copper, iron petroleum, uranium, and rich agricultural areas. However, after repeated periods of military dictatorship, the nation faced a variety of economic problems when the first sustained period of civilian control of the government began in 1983. By 1989, the nation had an enormous **external debt**, and **inflation** had reached a level of 200 percent per month. In response, the government undertook a variety of programs to reform and reinvigorate the economy. In 1991, it initiated a series of programs which provided a **fixed exchange rate** between the peso and the U.S. dollar and ultimately reformed the banking system. This dramatically lowered inflation and helped stabilize the economy. The government in 2001 continued an economic program which raised taxes and cut government spending in an effort to lower the nation's **budget deficit** and overall debt.

Argentina underwent an economic boom period in the early 1990s. By 1997, GDP growth had reached 8 percent per year. Reforms in the economy led to increased competition and output. These reforms also attracted significant new foreign investment. Between 1992 and 1999, exports more than doubled from US$12 billion to US$25 billion. In overall terms, international trade remains only a small part of the Argentine economy. In 1995 Argentina, Brazil, Chile, and Uruguay created a free trade area named MERCOSUR. The trade organization has dramatically lowered **tariffs** between the member nations with reductions in some tariffs of 100 percent. As a result, trade between the member states increased from

US$4 billion in 1991 to US$23 billion in 1999. Argentina accounts for 27 percent of MERCOSUR's total GDP. Brazil is now Argentina's largest trading partner. Argentina's exports to MERCOSUR countries are expected to continue to increase and to help spur the economy.

In 1998, the nation began a severe **recession** that ended in 2000. In 1999, GDP fell by 3 percent, but by 2000 growth had returned at a 2 percent annual rate. However, unemployment in the nation continues to be problematic. Unemployment peaked in 1995 at 18.4 percent. Although it has fallen, it remained at 15.4 percent as of 2000. Increases in productivity and reforms of the labor market are expected to decrease unemployment as more foreign investors locate or relocate firms and factories in Argentina.

The strongest areas of the Argentine economy are telecommunications, food processing, banking, energy production, and mining. Food processing alone accounted for 23 percent of GDP in industry in 1998 and is one of the few areas in which Argentina has a **trade surplus**. The nation's large agricultural sector produces a variety of products that are used by domestic food industries and then exported. Agriculture provides about 40 percent of Argentine exports. Besides food processing, Argentina's main industries are automobile production, textiles, chemicals and petrochemicals, steel, mining, and consumer durables. After falling by 7 percent in 1999, industrial production recovered slightly in 2000, with a modest growth of 2 percent. Many major international car manufacturers have plants in Argentina, including Ford, Volkswagen, Fiat, General Motors, and Renault. Mining production is expected to double by 2004, with strong growth in gold and copper production. The Argentine telecommunications sector was one of the first in Latin American to be **privatized**. Since 1991, the sector has experienced continued growth as consumers have sought new technologies, including cellular phones, pagers, and cable television. Reforms in 1994 eliminated restrictions on foreign-owned banks, and insurance firms and many multinational financial companies operate in Argentina. Some of the larger firms include the U.S.-owned American Express Bank, Citibank, Chase Manhattan, Bank Boston, the Dutch-owned ABN Amro Bank, and the British-owned Lloyds Bank.

Argentina continues to face yearly deficits—US$4 billion or 2.5 percent of GDP in 1999 alone. In 1999, the country's debt was US$149 billion. However, Argentina is a net recipient of foreign aid. It receives about US$2 billion a year from international organizations such as the European Union (EU) and the World Bank. In 1999, the International Monetary Fund (IMF) established a contingency fund of US$7.4 billion that can be loaned to Argentina in order to maintain the nation's currency and economic stability.

POLITICS, GOVERNMENT, AND TAXATION

Argentina declared independence from Spain in 1816. The nation then underwent a political struggle between groups that favored a strong central government and those that favored a less rigid federal system. In 1853, the 2 factions established a new constitution and a government of national unity, thereby establishing Argentina as a constitutional democracy. The remainder of the 1800s were marked by increasing industrialization and a large amount of foreign investment, especially from Great Britain, in areas such as railways and port facilities.

Conservatives dominated Argentine politics until 1916 when the Radical Civic Union (URC) gained control of the government. The Radicals worked to expand political participation through fair elections and helped strengthen the political power of the middle class. However, in 1930 the military overthrew the legally-elected president. A succession of military governments tried to cope with the economic problems of the 1930s, but continued labor and social unrest led Juan Domingo Peron to power in the 1940s. Peron dramatically expanded union membership and the power of the working class. In 1947, women were given the right to vote. Peron and his wife Eva, popularly known as Evita, enjoyed great support among the working class and the poor. However, the Peron regime was marked by political corruption and repression. Peron also undermined the Argentine economy by **nationalizing** industry and trying to manage the economy through state-controlled economic policies and adherence to a series of 5-year plans. The military overthrew Peron in 1955, and through the 1950s and 1960s, Argentina had a succession of civilian and military governments, none of which could establish long-lasting political stability.

Meanwhile, the nation suffered from economic decline and a rise in both terrorism and formal rebellion by anti-government forces. This instability led voters to return Peron to power in 1973, with his third wife, Maria Estela, as his vice-president. However, both liberal and conservative extremist groups continued campaigns against the government, and the economy continued to decline. Peron died in office in 1974 and his wife, who succeeded him, was overthrown by the military in 1976. From 1976 to 1983, the military ruled Argentina and conducted a brutal campaign to eliminate opposition forces. At least 10,000 people were abducted and killed during this period that is known as the "Dirty War." Argentina also lost a war with Great Britain over possession of the Falkland Islands (called the Malvinas Islands by the Argentines). Popular pressure led to elections in 1983 and the restoration of democracy.

Argentina is once again a constitutional democracy. The 1983 elections installed Raul Alfonsin as president for a 6-year term. Alfonsin worked to establish civilian control over the military and fix the nation's economic problems. However, by 1989 inflation had soared to 4,923 percent and the country's economy was in shambles. Alfonsin was defeated in the elections in 1989 and replaced by Carlos Saul Menem. The inauguration of Menem marked the first peaceful transfer of power in Argentina in more than 60 years. Menem adopted a variety of reform programs which included privatization efforts and a pro-United States foreign policy. Menem also initiated monetary reforms which fixed the Argentine peso to the U.S. dollar.

In 1994, there were major revisions to the Argentine constitution. In the past, the president had been chosen by an electoral college, similar to that of the United States, for a 6-year term. Under the new constitution, the president is directly elected by the people for a 4-year term and can serve only 2 terms in office, but can be re-elected after leaving office for at least 1 term. The president serves as the chief of state, the commander-in-chief of the military, and the head of the government. The Argentine president has more power than his American counterpart, including a line item veto (the ability to reject a single item from a legislative bill, rather than the whole bill). Argentina's legislative branch is a **bicameral** (2-chamber) body known as the National Congress. The upper chamber is the Senate, which has 72 members who are elected for 6-year terms. There are 3 senators for each of the nation's 23 provinces and the Federal District. The lower chamber is the Chamber of Deputies, which has 257 members who are elected for 4-year terms. Half of the deputies are elected on a proportional basis (each political party receives a percentage of the seats in the Congress based on their election totals, so that a party receiving 40 percent of the votes would receive 40 percent of the seats). The 1994 constitution improved the accountability of judges by establishing a Judicial Council which oversees judicial conduct. All judges are appointed by the president, subject to approval by the Senate. The nation's 23 provinces have significant power, not unlike the states in the United States, and each has a constitution that mirrors that of the national government.

There are 2 main political parties in Argentina. The Justicialist Party (JP) or Peronist Party is the party of Juan Peron. The JP is now a centrist party, but its main base of support continues to be with the working class and labor unions. Under Carlos Menem, the JP has embraced free-market, economic **liberalization** as the cornerstone of their economic program. The second major party in Argentina is the Union Civica Radical (Radical Civil Union or UCR), which evolved from the old Radical Party that was founded in 1890. The UCR's main base is among the middle class, and the party is now the more conservative of the 2 main political factions in Argentina. Under Raul Alfonsin, the UCR attempted wide-ranging economic reforms, but was unable to implement them in the face of popular opposition. Leftist members of the JP split with the party in the 1990s and formed the Front for a Country in Solidarity (FREPASO). In 1997, the UCR and FREPASO joined together in a coalition that is known as the Alliance for Work, Justice and Education, or simply as the Alliance. In 1999, the leader of FREPASO, Fernando de la Rua, was elected president. Despite the leftist leanings of FREPASO, its coalition with the UCR has brought the Alliance to the center politically. President de la Rua continued the economic reforms of Menem. There are also a number of minor and regional parties.

Under de la Rua, the government's policies were based on continuing liberalization of the domestic economy through privatizations and a reduced role for the state in the economy. The government is also working to reduce trade barriers and thereby increase foreign trade through integration in organizations such as MERCOSUR and direct trade agreements with other countries such as the United States. In its ongoing effort to increase trade, Argentina has worked to end a number of minor disputes with other countries, including border disputes with Brazil and Chile. Argentina has also restored relations with Great Britain, which were broken in the wake of the Falkland Islands war. The key component of economic policy that has united all of the main political parties is the continued fixed exchange rate between the peso and the dollar. This has served to practically eliminate inflation and to make Argentina attractive to foreign investors and to international organizations that provide economic assistance.

An ongoing problem for the government is the continuing budget deficit. By 1999, the deficit had climbed to 2.5 percent of GDP or almost US$9 billion. In an effort to reduce the deficit, President de la Rua implemented an economic program that expanded the privatization of government-owned businesses and included both spending cuts and tax increases. Among the most significant privatization programs over the last decade have been the selling-off of the nation's state-owned telephone company and reforms in the banking and insurance sector. The government has also expanded the availability of private pension plans, which has reduced the strain on the nation's social security system. Corporations in Argentina pay a standard 30 percent tax on profits each year. Individuals pay a graduated **income tax** that ranges from 11 to 30 percent, depending on income. There is also a 0.5 percent annual wealth tax on individuals who have a net worth of more than US$100,000.

Approximately 919,000 Argentines work for the government. In 2000, the government's budget was US$28

billion, but its revenues were only US$24 billion leading to a US$4 billion deficit. Repeated deficits have led to a large external debt of US$149 billion. In another effort to increase revenues, the government has been engaged in a long-running effort to improve tax collection and simultaneously decrease corruption in the **public sector**.

After decades in which it enjoyed a high degree of political power and prestige, the Argentine military has shrunk dramatically. The nation's military is now an all-volunteer force. In 1999, Argentina spent only 1.3 percent of GDP or US$4.3 billion on defense (compared with as much as 5 percent in the 1980s). Argentina has developed close military relations with a number of countries, including the United States, Israel, Spain, Germany, France, and Italy. In 1998, Argentina was designated a major ally by the North Atlantic Treaty Organization (NATO). Argentina has recently participated in a number of international humanitarian military operations such as the intervention in Haiti and NATO missions in the former Yugoslavia.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Argentina has a good **infrastructure** system in comparison with other Latin American nations, but many areas need significant improvement. The nation has 215,434 kilometers (133,870 miles) of roads, including 734 kilometers (456 miles) of expressways or highways, but only 63,553 kilometers (39,492 miles) of the country's roads are paved. Argentina has been the recipient of a number of aid packages to improve infrastructure. For instance, the United States has provided US$7 million and the World Bank provided US$450 million for highway construction. There is an extensive rail system that transports both freight and passengers around Argentina, with a total of 38,326 kilometers (23,816 miles) of track.

Argentina has 10,950 kilometers (6,804 miles) of navigable waterways. However, most of the country's major ports are located on the Atlantic coast, and little freight is transported along the inland waterways. The nation's main ports include Bahia Blanca, Buenos Aires, Comodoro Rivadavia, La Plata, and Mar La Plata (all located on the Atlantic Coast). Inland river ports include Rosario and Santa Fe, while the port of Ushuaia is located in the extreme southern tip of the nation near Cape Horn where the Atlantic and Pacific Oceans meet. Argentina has a small merchant marine of 26 ships with more than 1,000 tons of gross weight. This includes 11 petroleum tankers. In order to provide fuels to inland areas and ship resources to ports for export, there is a broad pipeline system. There are 4,090 kilometers (2,542 miles) of crude oil pipelines, 2,900 kilometers (1,802 miles) for other petroleum products, and 9,918 kilometers (6,163 miles) of natural gas pipelines.

Buenos Aires has an extensive system of public transportation, including subways and buses, but most smaller cities and towns in Argentina have limited transportation resources. Most major cities are connected by passenger railways and there is an extensive commuter rail system in the greater Buenos Aires metropolitan area.

There are 1,359 airports in Argentina, although only 142 have paved runways. Buenos Aires has 2 major airports. The first, Ezeiza International Airport, is the main point of arrival and departure for most international flights. Most domestic or regional flights, including those to Brazil, Uruguay, and Paraguay originate from the second major airport in Buenos Aires, Aeroparque Jorge Newbery. Most major international air carriers offer service to Buenos Aires, including the U.S. carriers United and American Airlines. Argentina's national airline is Aerolineas Argentinas. The government is involved in a program to privatize airports. Thus far, 33 major airports have been turned over to private companies to operate.

Argentina has a telephone density of about 20 private phones per 100 people. There are also some 12,000 public telephones. **Deregulation** of the telecommunications industry is ongoing, and service and infrastructure

Communications

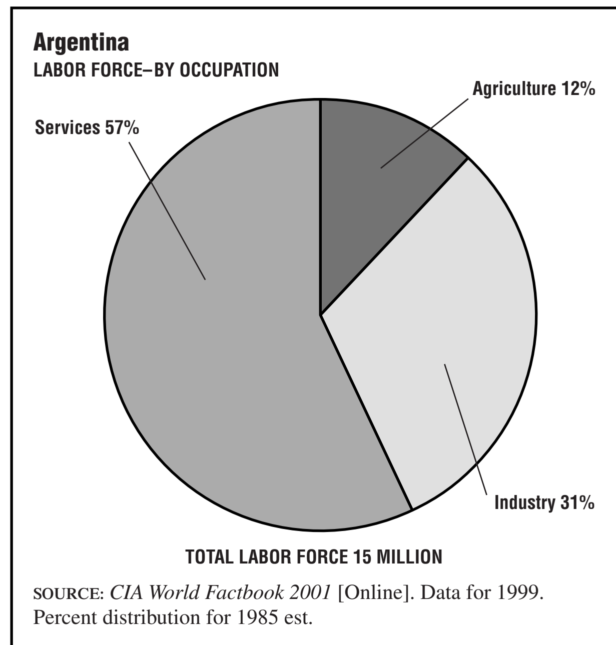
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Argentina	123	681	289	163.1	78	2.0	44.3	27.85	900
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Chile	98	354	232	44.8	65	2.7	48.2	21.45	700

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

have improved dramatically. Companies such as AT&T, MCI, and Sprint can now provide long-distance service to a limited degree. There are currently 40 earth stations that support the telephone system's microwave relay complex and 3 earth satellite stations. Nonetheless, many areas of the country experience telephone outages, particularly after heavy storms. There are also continuing restrictions on satellite services. The cable television system has also expanded and now includes a number of international channels such as CNN International, CNN Espanol, and MTV, as well as channels from Brazil, France, Germany, and Italy. Initiatives to increase Internet usage have broadened access and in 1999 there were 47 Internet service providers. By 2000, about 10 percent of the adult population used cellular phones (there are about 2.5 million mobile phones in use).

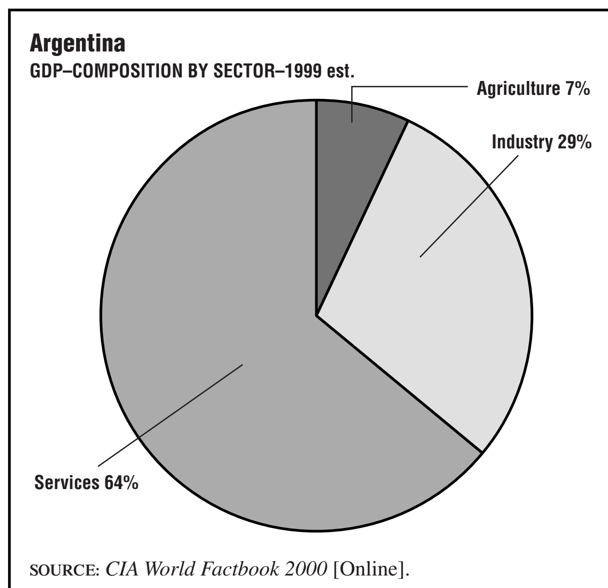
In 1998, total electric production was 75,237 kilowatt-hours (kWh). Fossil fuels provided 42.71 percent of production while hydroelectric sources provided 47.55 percent and nuclear power 9.47 percent. The electric industry in Argentina was deregulated in 1991, and most power distribution sources have now been privatized, although a small number remain under government control. Behind Venezuela, Argentina has the second-largest proven reserves of natural gas in South America with 24 trillion cubic feet. The country also has significant oil reserves (2.8 billion barrels) and produces about 900,000 barrels of crude oil per day.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1985 est.

ECONOMIC SECTORS

Argentina has a mixed economy that has well-developed agricultural, industrial, and service sectors. From the 1930s well into the 1970s, there was a concentrated effort to develop industries and expand industrial capacity. However, the economic problems of the 1970s and 1980s, combined with political instability, led to a period of decreased economic production and the decline of many of the country's major industries.



SOURCE: *CIA World Factbook 2000* [Online].

Agriculture remains a major component of Argentina's economy as crops and livestock provide much of the nation's domestic food needs. These products also provide raw materials for the growing food processing industry. Agriculture directly accounts for 7 percent of the nation's GDP. The agriculture sector is driven by the export of crops and livestock. This makes the sector vulnerable to economic problems with Argentina's main trading partners. In the past, Argentine livestock production suffered from problems with diseases such as hoof-and-mouth disease, as well as restrictions on imports by nations such as the United States. Beginning in the 1980s, agriculture in Argentina began to diversify beyond the traditional products such as beef and sheep. Many food-based oils and specialty crops are now raised. In addition to beef, some of Argentina's main agricultural products include sunflower seeds, lemons, soybeans, grapes, corn, tobacco, peanuts, tea, and wheat. Fishing has declined significantly in recent years as decades of over-fishing have limited stocks of the most popular catches.

Industry in Argentina is diversified and driven by a large and relatively affluent domestic market. Only recently has the nation begun to export significant amounts of manufactured or finished products. Argentina's membership in MERCOSUR has been one of the main factors driving industrial exports as it has expanded access to existing markets and opened new markets. Industry ac-

counts for 29 percent of GDP. As a result of economic problems in Brazil, industrial production growth in Argentina declined by 7 percent in 1999, but rebounded in 2000 by posting a modest level of growth of 2 percent. Among the main industries in Argentina are food processing, automobile production, textiles, energy production, and mining. The nation also has a growing chemical industry.

The service sector is now the leading component of the Argentine economy. In 1999, it accounted for 64 percent of GDP. Much of the growth in the service sector has been the result of the economic liberalizations of the 1980s and 1990s. Several key sectors, including telecommunications and financial services, have seen dramatic expansions as foreign companies have invested in these areas, and there has been an increase in domestic consumer demand. While many segments of the service sector have experienced growth, the economic problems of the late 1990s led to declines in other areas. For instance, **retail** and wholesale businesses have seen little or no growth as consumer spending has been constrained by the most recent recession.

AGRICULTURE

Argentine agriculture has experienced a period of transition and diversification over the past decade. Traditional products such as beef and sheep have declined in relative value while newer products such as food oils have grown in popularity with farmers. Argentina is the world's fifth-largest producer of food and beef. It is also the world's largest producer of lemons and lemon juice and the largest producer of olive oil in South America. Finally, the nation is also one of the world's main producers of wheat and flour.

In 1998, the total value of agricultural exports was US$13.25 billion and the total value of imports was US$1.73 billion. In 2000, about 12 percent of the population was employed by agriculture. Agricultural workers earn an average of about US$400 per month, which is twice the national minimum wage. There are 40 million hectares devoted to agriculture in Argentina, of which 20–25 million hectares are used for grains and crops, while the rest is used for livestock grazing. In 2000, there were approximately 420,000 farms in the nation. However, the largest 10 percent of farms accounted for more than 50 percent of total production.

CROPS. Since the early 1990s, agricultural production has increased dramatically, although there was a brief period of decline in 1999 when output fell by 4.7 percent. With that exception, production increased by an average of 10 percent per year during the 1990s. Lower demand for Argentine products by the nation's MERCOSUR partners may continue to constrain exports, but new access to markets in Europe and the United States has provided outlets for increases in production. The main crops include bananas, barley, potatoes, rice, sugar cane, soy beans and soy bean oil, corn, wheat, lemon juice, and sunflower seed oil. On average, each year Argentina produces about 200,000 tons of cotton, although the domestic market only uses about 80,000 tons. Total crop production in 1999 was 70.68 million metric tons. The largest crop yields were sugar cane at 19.4 million metric tons, soybeans at 18 million metric tons, wheat at 14.5 million metric tons, and corn at 13.18 million metric tons.

LIVESTOCK. The main livestock products include beef and veal, chicken, duck, goose, horse, lamb, pork, and turkey. Argentina's geographic position makes it ideally suited for raising livestock. In most areas of the country, cattle and sheep may graze year round. Livestock accounts for about 85 percent of exports.

Argentine farms have some 53.6 million head of cattle. Each year the nation exports about 460,000 tons of beef. However, much of the beef production is consumed domestically; Argentina has the highest per capita beef consumption in Latin America, with an average annual consumption of 60 kilograms per person. Sheep and pig farming is also extensive. There are 21.6 million sheep in Argentina and 5 million pigs, but most pork production is for domestic consumption. The nation also produces 660,000 tons of poultry products each year.

Argentina is noted for its horses and has an international reputation for producing exceptional racing and show horses. There are some 3.3 million horses in the country. Besides producing thoroughbreds for competition, there is also extensive use of horses on ranches and farms as work animals.

The dairy sector is one of the strongest segments of agriculture. In 2000, dairy products were worth US$4.685 billion. Exports of dairy products totaled US$400 million that same year. Growth in the dairy sector was 4 percent in 2000, and it is expected to increase by at least 2 percent annually. In addition to milk and cheeses, a number of novelty products are produced, including cream cheese, frozen yogurt, ice cream, and specialty cheeses.

FISHING. Argentina is among the world's top 20 fishing nations. Fishing accounts for about US$1.2 billion annually and total yearly catches often exceed 640,000 tons. Since the 1970s, fishing catches have increased by 400 percent. This has led to dramatic over-fishing and international efforts to limit catches on some species, mainly swordfish. Argentina is party to a number of international agreements which are designed to limit fishing and preserve species. However, the richness of the nation's coastal waters has led many fishing vessels, both Argentine and foreign-owned, to illegally over-fish many species, including swordfish and hake. Since the 1970s,

the number of Argentines engaged in fishing has decreased by about 30 percent.

Hake is the most common catch and accounts for 60 percent of total harvests. Although Argentina is at the extreme southern range of swordfish, these fish are among the most valuable species caught. At its height, the swordfish industry routinely had annual catches of 500 tons; however, during the 1980s catches fell to 350 tons because of over-fishing. From 1993–1997, catches were down to the point that exports ceased entirely. Current production has risen again to 350 tons (where it has stabilized over the past few years) and exports have resumed.

FORESTRY. Forestry accounts for only a small portion of the Argentine economy. Wood is mainly used as a building material and as a fuel source for rural Argentines. There are 59.5 million hectares (147 million acres) of timberland in the country. The main trees that are commonly harvested are elm, willow, oak, pine, and cypress. Cedar is harvested in small quantities for furniture manufacturing. White quebracho is often harvested for use as fuel wood and red quebracho is widely used to produce tannin for the tanning industry.

INDUSTRY

Industry in Argentina is highly developed and diversified. Argentine workers are skilled and educated, but recently labor costs have exceeded increases in production. As a result, many industries are no longer profitable since foreign manufacturers are able to produce the same items at a much lower cost due to their lower labor costs. Efforts to reform the nation's labor system by reducing the corruption of some unions have been unsuccessful. In addition, high interest rates, currently about 15 percent, make it difficult for domestic companies to get loans in order to **restructure** their operations. Nonetheless, many industries, including the chemical sector and energy production, remain profitable and have experienced growth. Argentina's geographic position allows it easy access to markets in Brazil and surrounding nations, and the country's rich natural resources provide the basis for continued expansions in certain industries. In 2000, 23 percent of Argentines worked in industry. The average wage for industrial workers is US$870 per month or about 4 times the national minimum wage.

FOOD PROCESSING. The food processing industry takes advantage of the country's rich agricultural resources. Processed food products are consumed domestically and exported to Argentina's MERCOSUR partners and to markets in east Asia. In 1999, exports totaled US$89 million. Brazil alone accounts for 48 percent of Argentine processed food exports to MERCOSUR countries, followed by Uruguay at 19 percent, Chile at 17 percent, and Paraguay at 15 percent. Food processing accounts for about one-quarter of the total value of industrial production or about US$25 billion. Among the main segments of the industry are meat-packing, prepared dairy products, prepared fruits and vegetables, and cooking fats and oils.

MANUFACTURING. Many of the main areas of the Argentine manufacturing sector have gone through economic difficulties that began in the late 1990s. The textile industry has been hardest hit. Since the 1980s, it has been undergoing a period of consolidation as smaller companies are bought out by larger firms. Efforts to make the sector more competitive with foreign suppliers have not been successful since the international firms have significantly lower labor costs.

A significant force in Argentine industry is automobile manufacturing. A number of international car companies have plants in Argentina which produce a variety of vehicles that range from passenger cars and light trucks to buses and commercial trucks. Ford, General Motors (GM), Volkswagen, Renault, Fiat, and Peugeot all produce passenger cars, while Ford and Mercedes Benz produce buses and truck chasses. By 1999, total annual production was about 350,000 units. Domestic growth is expected to average 10 percent per year over the next decade. MERCOSUR has helped spur this growth. After the establishment of the organization in 1995, Argentine exports of automobiles increased by 122 percent from 1995 to 1997. About 90 percent of exports went to Brazil. As a result of expected increases in production, several companies are planning major investments in new facilities. For instance, Ford is investing US$1 billion in new plants to manufacture Escorts and Ranger light trucks. Meanwhile, Toyota has begun construction of a US$150 million plant to produce small cars. Total foreign investments from 1995 to 2000 were US$8.53 billion.

MINERALS AND MINING. Argentina has a variety of mineral resources. It has significant reserves of natural gas and oil, and has stocks of valuable minerals such as gold, copper, and iron. Argentina's natural gas sector is now privately owned, after the state **monopoly** Gas del Estado was split into a number of private companies in 1992. The largest pipeline company in Argentina (and all of South America) is TGS, which is 70 percent-owned by the U.S. company Enron. It provides two-thirds of Argentina's natural gas consumption. Many international companies have entered the Argentine oil market. Chevron, BP Amoco, Shell, Unocal, and the French-based company Total all have a presence in the country and seek to expand operations as exploration continues offshore on the country's continental shelf. The Argentine company Repsol-YPF accounts for about 50 percent of the country's total refining capacity, followed by Shell at 17 percent, and Esso at 16 percent. The remaining production is divided among 4 small companies. YPF has

US$6 billion in annual revenues and plans to invest US$15 billion over the next decade in new oil exploration. By 1999, total oil production was 900,000 barrels per day, with exports of 372,000 barrels per day.

In 2000, total mining exports were US$1 billion. Estimates are that this figure will grow to US$2.3 billion by 2004, as total investments in mining are expected to reach US$5 billion by 2005. Major minerals include gold, lead, silver, uranium, iron, and zinc. In 1998, gold production amounted to 19,459 kilograms. Copper production was 170,273 metric tons, lead was 15,004 metric tons, and zinc was 35,560 metric tons. Several major international companies are investing in new operations in Argentina. Major mining companies include Japan's NKK and the Argentine company Minera Alumbrera.

In 1994, the nation's main steel company, Aceros Zapla, was privatized. Since then, steel production has increased at an average annual rate of 4 percent. Crude steel production averages about 4.19 million metric tons. The majority of steel products, almost 90 percent, are used domestically. Argentina also produces a variety of building products that are mainly used in the domestic market. Forest and timber plantations cover some 1 million hectares and produce mainly softwoods that are used to make plywood and other composite building materials. Declines in construction have hurt the building materials industry which has been operating at only 57 percent of capacity since 1997. Although the construction industry has been in decline, industrial production of building materials has increased—mainly as a result of exports. Production of cement in 1999 amounted to 6.9 million metric tons. However, two of Argentina's main cement companies, Loma Negra and Juan Minetti, are set to dramatically increase production. For instance, Juan Minetti is building a US$90 million plant that will allow the manufacturer to increase its production to 1.2 million metric tons of cement per year.

CHEMICALS. The chemical industry in Argentina is one of the main segments of the nation's economy. Chemical production accounts for about 3 percent of GDP, or about US$10.75 billion in annual output. There are 2,300 chemical companies in Argentina. Of these, about 150 are considered to be medium or large in size (employing more than 100 people). In 1999 there were 64,410 people employed by chemical companies. While many other segments of the nation's economy have experienced little or no growth since the late 1990s, the chemical industry has had an average annual growth rate of 3.5 percent and an average growth rate of 3 percent in exports. Consumer demand has outpaced domestic production, however, and imports of chemicals rose 18.5 percent in 2000. Among the main chemical products are plastics and resins, especially those used in the production of manufactured products.

SERVICES

The Argentine service sector includes a variety of different types of businesses and companies. The most prominent segments of the sector include financial services, retail, and tourism. In 2000, 69 percent of Argentines worked in the service sector. On average, workers in the service sector earn US$710 per month, or about 3.5 times the minimum wage. Workers in the financial services sector are the highest paid in Argentina and earn an average monthly wage of US$1,840, while telecommunications workers earn an average of US$990 per month.

FINANCIAL SERVICES. Financial services and insurance now account for 8 percent of GDP. After decades of financial instability, the Argentine banking sector has begun to experience growth and has gained credibility in international financial markets. Government reforms of the sector have dramatically increased its competitiveness. The most significant reform was the 1991 Convertibility Law, which fixed the peso to the dollar and ultimately lowered inflation to around 1 percent. Insolvency among debtors has kept consumer interest rates at a high 15 to 25 percent.

There was a significant period of consolidation in Argentine banking, and the number of banks declined from 206 in 1994 to 132 in 1998. The 20 largest banks in Argentina accounted for 75 percent of the nation's total bank deposits. Total deposits in 1999 exceeded US$80 billion, which marked a dramatic rise from 1995 when deposits hit a record low of US$37 billion. There are 31 major international banks in Argentina with 374 branches. The largest include American Express, Bank of America, Bank Boston, Chase Manhattan, ABN Amro, Deutsche Bank, Lloyds Bank, and Hong Kong and Shanghai Bank (HSBC). Six of the nation's 10 largest banks are American or European. The largest domestic commercial bank is Banco de la Nacion, which is government-owned. Efforts to privatize the bank have met with widespread opposition because of the potential for lay-offs.

Part of the growth in the financial sector has been spurred by government programs which established privatized pension plans. In 1997, total private pension assets amounted to 2 percent of GDP, or about US$6 billion. By 2010, this figure is expected to rise to US$118 billion. Since privatization, the insurance sector has increased by an average of 10 percent per year. From 1998 to 2000, the total value of the Argentine market increased from US$570 million to US$660 million. Foreign companies have increased their presence in Argentina, with U.S. firms providing US$200 million worth of insurance-related services.

RETAIL. The retail sector in Argentina has experienced a period of decline since 1998. The country's economic slowdown has constrained consumer spending. However,

some segments—including restaurants and certain retail franchises—have undergone continued growth. Small markets and family-owned retail outlets have gradually been replaced by larger chain stores. By 2000, about 80 percent of the nation's food and beverage sales were through supermarkets and large chain outlets. Argentina now has a number of major international hypermarkets (large stores which sell a variety of products, including food, clothing, hardware, and pharmaceuticals). Examples of these international hypermarkets in Argentina include Wal-Mart, Carrefour, Ahold Casino, and Makro. There are now 54 different chains in the nation. There are 10 Wal-Marts with combined sales in 2000 of US$300 million. The largest hypermarket is the French-owned chain Carrefour, which has 162 stores and sales of US$2.6 billion. In 2000, there were also 1,240 superstores, 12,861 supermarkets, 100,884 grocery stores and 5,230 convenience stores.

One of the strongest segments of the retail market remains computer and computer equipment sales. In 2000, these products had sales of US$1.74 billion. The computer market is expected to increase by 10 percent annually over the next decade. U.S.-brand products account for 67 percent of the market. The leading U.S. firms are Compaq, Hewlett Packard, and IBM. Besides personal computers, the best selling products include printers, laptop computers, CD-ROM drives, hard drives, and memory expansion kits.

There are more than 30,000 restaurants in Argentina, about one-third of which are located in Buenos Aires. Despite the economic slowdown of the late 1990s, restaurant sales have averaged 10 percent growth over the past decade. The largest restaurant chain is Arcos Dorados, which operates McDonald's franchises. There are 160 McDonald's with average annual sales of US$230 million. Burger King is the second-largest chain with 25 stores and US$25 million in sales. Wendy's is number 3 and also has 25 stores and just under US$25 million in annual sales. The most profitable Argentine-owned restaurant chain is the La Caballeriza steak house, which has 4 restaurants and US$10 million in revenues. Almost 6 percent of total family income is spent dining out.

TOURISM. In 2000, the tourist sector provided US$1.57 billion to the Argentine economy. This represented a 4 percent increase from the previous year. In 2000, 5 million foreign tourists visited Argentina. The nation has almost 6,000 hotels, 1,600 of which are located in Buenos Aires. Buenos Aires is the tourist capital of the country and accounts for 73 percent of the tourist trade. Many foreign tourists also visit the Argentine coastline and the southern region of the nation, Patagonia. A variety of international hotel firms have outlets in Argentina. The nation's largest hotelier is Sheraton, which has US$60 million in annual sales. The second-largest hotelier is Marriott, with annual sales of US$9 million. Despite the nation's recession, tourism grew by 1 percent in 1999. As the economy recovers, tourism is expected to expand by 11 percent per year. In 1999, there were 18 different high-level hotel construction projects underway.

INTERNATIONAL TRADE

Growth in foreign trade, especially trade with MERCOSUR partners, has been one of the main factors driving the Argentine economy. In 1990, 11 percent of the nation's GDP was tied to foreign trade; by 1999 that figure had grown to 17 percent. Exports account for 7 percent of GDP. Lower tariffs and improvements in domestic industries have helped decrease the nation's trade deficit, which fell from US$5 billion in 1998 to US$2.2 billion in 1999. In 1999 exports declined by 12 percent, while imports fell by 19 percent. Argentina has a large trade deficit with the United States. In 1999 it amounted to US$2.4 billion.

In 1999 Argentina's main export partners were Brazil with 24 percent of exports, the EU with 21 percent, and the United States with 11 percent. Its main import partners were the EU with 28 percent of imports, the United States with 22 percent, and Brazil with 21 percent. Increases in exports of beef and oil have helped drive exports. Following a brief period when beef exports were banned by several countries because of the potential for hoof-and-mouth disease, exports of beef and beef products have met or exceeded export quotas.

MERCOSUR serves as the main outlet for Argentine exports. In addition to Argentina, Brazil, Paraguay, and Uruguay, the trade organization now includes Chile and Bolivia as associate members. Brazil is the dominant economic force in MERCOSUR and accounts for 70 percent of the organization's GDP, while Argentina accounts for 27 percent. Intra-MERCOSUR trade rose from US$4 billion in 1991 to US$23 billion in 1998. Much of the in-

Trade (expressed in billions of US$): Argentina

	Exports	Imports
1975	2.961	3.947
1980	8.021	10.541
1985	8.396	3.814
1990	12.353	4.076
1995	20.967	20.122
1998	25.227	31.402

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

crease in trade has been the result of decreases in tariffs. Almost 90 percent of intra-MERCOSUR trade is now **duty**-free, but there are still substantial tariffs on goods imported from outside MERCOSUR. Approximately 85 percent of imported goods are subject to tariffs.

Argentina has initiated negotiations to enter into trade agreements with the EU, Mexico, and the Andean Pact (an economic organization of South American nations which includes Bolivia, Colombia, Ecuador, Peru, and Venezuela). It has also been supportive of the effort to develop a Free Trade Area of the Americas (FTAA) which would bring all of the nations of the Western Hemisphere together in a free trade organization. In 1994 the United States and Argentina signed a bilateral investment agreement which allows U.S. companies to invest in most sectors of the Argentine economy on the same basis as domestic companies. Argentina has trade treaties with 56 other nations.

Since Argentina fixed its currency to the U.S. dollar, it has become much more attractive for foreign investment. Spain is the largest investor in Argentina. The United States is the number two investor, and by 1999 direct U.S. investment was US$16 billion. U.S. investments are concentrated in manufacturing (at US$3.65 billion), finance, banking, and real estate (at US$3.8 billion) and petroleum (at US$1.565 billion).

Another broad effort to attract international trade has been the establishment of **free trade zones**. There are 3 large zones and a number of minor areas. The largest of these is the La Plata Free Trade Zone, which was established in 1997. The zone is close to Buenos Aires and has 500 meters of dock, 400,000 square meters of warehouse space, and 5,000 square meters of office space. La Plata has 1,942 different commercial users. The largest companies in the zone include Sharp, Pioneer, Daewoo, Ford, General Motors, Nike, Nissan, Mazda, and Zenith.

MONEY

Throughout much of the latter half of the twentieth century, Argentina was plagued by a weak currency and high inflation. In 1985, in an effort to fight inflation, which had reached 2,000 percent, the government replaced the nation's traditional currency (the peso) with a new currency called the austral. One austral equaled 1,000 pesos. However, inflation continued to rise. In 1989, inflation reached 5,000 percent, making the nation's currency almost worthless. In response, the government again changed the currency in 1992, replacing the austral with the nuevo peso Argentino (new Argentine peso). One nuevo peso was equal to 10,000 australs. Inflation was finally brought under control when the government fixed the nuevo peso to the dollar at a one-for-one **exchange rate**. While this almost completely wiped out inflation, it also meant that the government has little control over the value of its currency. After the currency was pegged to the dollar, it once again became simply known as the "peso."

Exchange rates: Argentina

Argentine peso per US$1	
2001	1.000
2000	1.000
1999	1.000
1998	1.000
1997	1.000
1996	1.000

Note: The exchange rate is pegged to the US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

The Argentine peso is fixed at one-for-one exchange rate with the U.S. dollar. While the dollar fluctuates freely on world markets, it has brought a significant degree of monetary stability to the Argentine currency and economy.

The nation's currency and banking system are overseen by the Argentine Central Bank, which was established in 1935. The Central Bank maintains currency reserves of US$25 billion, which would cover 9 months of imports. The bank has also arranged a US$7 billion emergency fund that is financed by international organizations and international banks. This fund may be used to protect the nation's financial stability. High interest rates continue to constrain the economy. On average, banks charge 10 percent interest to preferred business customers while consumers pay interest rates of between 15 to 25 percent.

The Buenos Aires Stock Exchange (BASE) was established in 1854. It is the oldest in Latin America. By 1996, BASE had a total **market capitalization** of US$45 billion and had 147 companies listed. The exchange is dominated by 3 companies—YPF, Telefonica, and Telecom—which together account for 50 percent of the total market.

POVERTY AND WEALTH

There are deep disparities in income and wealth in Argentina. In 2000, the richest 10 percent of the population earned 36 percent of the country's income, while the poorest 10 percent earned 1.5 percent of income. About 36 percent of the population lives below the poverty line. The nation's poverty level is US$490 per month for a family of 4. The average wage in the nation is US$676 per month, which is more than 3 times the national minimum wage. About 60 percent of workers earn less than

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Argentina	7,317	7,793	6,354	5,782	8,475
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Chile	1,842	2,425	2,345	2,987	4,784

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

US$450 per month. About 20 percent of the population only lives on US$2 per day. As many as 8 million Argentineans work in the **informal sector**, or **black market**. In some areas of the country, the black market accounts for 60 percent of economic activity. These types of economic activities include personal service jobs (people who work as plumbers, electricians, domestic servants, and so forth). People who work in this informal sector also run small, unregulated shops and restaurants. Since these jobs are unregulated by the government, people do not pay taxes on their income and are therefore able to earn higher pay.

Government estimates are that 11 percent of the population cannot meet their basic food needs. Poverty rates are about 20 percent higher in the rural areas than they are in the urban areas. In the greater Buenos Aires metropolitan area the poverty rate is 29.8 percent, while in the subtropical jungle areas of the Northeast, the rate is 60 percent. The second-poorest area of the country is the mountainous region of the Northwest where the poverty rate is 53.6 percent.

Women make up a larger share of the poor. They comprise a large percentage (60 percent) of those employed in part-time or low-skill (and therefore low-paying) jobs. In overall terms, their poverty rates are twice as high as males. Children also have higher rates of poverty than the national average. About 50 percent of children under the age of 14 live in poverty.

WORKING CONDITIONS

The Argentine workforce numbers approximately 15 million (this includes those working or actively seeking employment). About 60 percent of the workforce is male. In 2000, the unemployment rate was 15.4 percent. The unemployment rate was highest in urban areas, and in Buenos Aires it was close to 18 percent. In addition to the high unemployment level, Argentina has a significant **underemployment** rate.

The nation's constitution guarantees workers the right to form unions, although union membership has steadily declined in Argentina. During the 1950s, about 50 percent of the workforce was unionized. However, by 2000, only about 35 percent of the workforce belonged to unions. For much of their modern history, unions were associated with Peron and during the early 1970s, Peronists accounted for 70 percent of union leadership. During the military regime that began in the late 1970s, the unions were purged of Peronists. Unions remain very active and in 2000 2 general, nationwide strikes virtually shut down most government and many private businesses. These strikes were in response to government labor reform laws. Foreign companies have found Argentina's labor market to be inflexible and expensive. Companies have to pay employees a month's salary for each year the employee has worked in cases of lay-offs, and labor agreements often forbid the transfer of employees from location to location or from job to job. Corruption in labor and government has often resulted in foreign firms being forced to pay large bribes in order to do business. One of the most celebrated cases occurred in 1994 when IBM officials were forced to pay millions in bribes in exchange for a US$249 million contract to provide computers for the Banco de la Nacion.

The national minimum wage is US$200 per month, but most workers earn more. All Argentinean workers are entitled to an annual bonus that is equal to 1 month's pay. This bonus is paid in 2 installments in June and December. The maximum work week is 48 hours and the max-

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Argentina	30	9	17	15	15	5	9
United States	13	9	9	4	6	8	51
Brazil	22	13	18	15	34	4	−6
Chile	17	10	24	20	15	6	9

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

imum workday is 8 hours. Work done beyond these limitations must be paid an overtime rate of 1.5 times salary. All workers receive annual vacation time which ranges between 14 and 35 days per year. Since 1995, average wages for Argentine workers have increased by 5 percent. Employers must contribute payments to workers' pension and health-care plans that equal 33 percent of the worker's salary. Individual workers make payments that equal 17 percent of their salary for these social guarantees. The retirement age is 60 for women and 65 for men. Upon retirement, workers receive a social security payment known as the "basic universal benefit." In order to qualify, employees must have worked a minimum of 30 years. Many workers have chosen to invest in the nation's private pension plans that pay an average of 20 percent per year more than the basic universal benefit.

Children under the age of 15 are not allowed to work, except in rare circumstances, usually on family farms. Government permits must be granted for these exceptions. Children between the ages of 15 and 18 may work up to 6 hours per day and a maximum of 35 hours per week. Studies have revealed that about 5 percent of children under the age of 15 are illegally employed. Women face discrimination in hiring and wages. On average, women earn about 70 percent of what their male counterparts earn in similar occupations. Only 12 percent of the executives of the nation's largest companies are female.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1580. The Spanish establish a permanent colony in what is now Buenos Aires.

1776. Buenos Aires, a flourishing port, is made the seat of the newly established Vice Royalty of Rio de la Plata. The population of the Vice Royalty reaches 20,000.

1816. Jose de San Martin leads the struggle for independence in Argentina, Chile, and Peru. Argentina gains full independence and is initially called the United Provinces of the Rio de la Plata.

1819–20. Civil war between those Argentines who favor a strong central government and those who advocate a federal system with the provinces retaining significant political power.

1829. General Juan Manuel de Rosas is elected president. He institutes a federal system and the country's name is changed to the Argentine Confederation.

1853. Rosas is overthrown and a new constitution is promulgated. The nation changes its name to the Argentine Republic.

1879–80. The War of the Desert between Argentine troops and settlers and Native Americans ends with an Argentine victory. The suppression of the Native American tribes opens up the interior regions of the country for settlement by Europeans and greatly expands the area under agricultural cultivation.

1916. The period of conservative control of Argentina is ended following the election of a Radical Civic Union (URC) candidate as president.

1930. President Hipolito Yrigoyen of the URC party is overthrown by a military coup.

1943. A coup brings Juan Peron to power as part of a military government.

1946. Juan Peron is elected president.

1947. Peron announces the first of his 5-year economic plans. Women gain the right to vote.

1949. A new constitution is promulgated.

1952. Peron is reelected in an election marred by corruption and irregularities. Evita Peron dies from cancer.

1953. The government implements the second 5-year economic plan. Under this plan a number of commercial trade treaties are signed, including accords with Great Britain, Chile, and the Soviet Union. These agreements lead to a favorable balance of trade, but inflation rises to 200 percent and prompts widespread economic problems.

1955. The military ousts Peron from power in a civil war in which at least 4,000 people are killed.

1956. The constitution of 1949 is rescinded and the nation reverts to the 1853 constitution.

1959. The nation begins receiving substantial foreign loans and economic aid. By the following year, Argentina has received US$1 billion from the United States alone. These loans help maintain economic stability and high wages in spite of growing inflation.

1960–1980. Argentina is a member of the Latin American Free Trade Association (LAFTA). During this period, Argentine trade with other nations in Latin America expands significantly.

1973. Argentina has general elections which return Peron to power with his third wife as vice-president.

1974. Peron dies in office and is succeeded by his wife, Maria Estela.

1975. There is increasing instability in the nation as terrorist activities by both left-wing and right-wing extremist groups claim the lives of some 700 people in a

one-year span. After inflation reaches 335 percent, there are widespread strikes and unrest as workers seek higher wages.

1976. The military again takes power and the constitution is once again rescinded. From 1976 to 1983 10,000 people "disappear" (the majority are secretly taken prisoner by the government and tortured and killed).

1980. The Latin American Integration Association (LAIA) replaces LAFTA. LAIA initiates a number of agreements which reduce tariffs between Latin American nations.

1982. Argentina is defeated by the United Kingdom in the Falkland Islands war after Argentine forces invade and conquer the territory known to the Argentines as the Malvinas Islands.

1983. The nation has democratic elections after popular pressure forces the military to cede power. Raul Alfonsin of the URC is elected president and the constitution is reinstated.

1989. Carlos Menem of the Peronist Party is elected president.

1990. A dramatic period of decline in the fisheries sector begins and, by 1993, exports of swordfish cease entirely and are not resumed until 1998.

1991. Reforms are initiated that ultimately fix the peso to the U.S. dollar. Laws are enacted to liberalize the telecommunications industry.

1992. Diplomatic and trade relations, which had been severed as a result of the Falkland Islands War, are reestablished with Great Britain.

1993. A new law liberalizes the mining sector and leads to dramatic growth in the industry.

1994. The constitution is amended. The U.S. and Argentina sign a bilateral investment treaty. All restrictions on foreign ownership of banks are rescinded.

1995. Menem is reelected president. Argentina, Brazil, Chile, Uruguay, and Paraguay join together in a free trade agreement known as MERCOSUR.

1997. The United States allows imports of Argentine beef for the first time in 60 years. The government initiates a program to establish a number of free trade zones in order to increase trade.

1999. Fernando de la Rua of the Alliance is elected president. Argentina assumes the chairmanship of the Free Trade Area of the Americas (FTAA) Negotiating Committee. The nation undergoes a recession in which GDP drops 3 percent and exports by 25 percent.

2000. Argentina and Brazil negotiate new agreements that strengthen MERCOSUR by further lowering trade barriers.

2001. The recession continues. Unemployment rises to approximately 20 percent. In mid-December, 2 days of rioting sweep the nation and lead to President de la Rua's resignation. Predictions are made that the Argentine government soon will default on debts totaling almost US$100 billion.

FUTURE TRENDS

Argentina has undergone a dramatic economic transformation since the early 1980s. Throughout most of the second half of the 1900s, Argentina suffered from high inflation and economic instability. Although the population was generally well paid and GDP per capita was among the highest in Latin America, inflation eroded the value of employees' wages. Corruption and inefficiency also plagued Argentine companies. Inflation reached a crisis level in the 1980s, and forced the nation to acquire a large **foreign debt** in order to maintain living standards. When Argentina fixed its currency to the U.S. dollar, it began a period of economic recovery, which continues. Government efforts to reduce expenditures and privatize many state-owned businesses also helped spur economic growth. The nation's economy is now well-placed to compete with other countries and to expand Argentina's share of international trade.

While the most significant economic reforms have already been implemented, there remains the need for a number of other structural readjustments. In overall terms, Argentine workers are not as productive as their counterparts in countries such as Brazil or Chile. The nation's workers are high-paid, however, and this means that labor costs in Argentina are high when compared to other nations in MERCOSUR. In addition, a number of state-owned companies, including the country's largest bank, still need to be privatized. Long-term economic growth is also dependent on the elimination of the government's annual deficit and reductions in the **national debt**.

Membership in MERCOSUR and other economic organizations will continue to expand Argentine foreign trade. International support and aid for Argentina, including loans from the World Bank and the International Monetary Fund, have alleviated some of the pressure of the large national debt, but further assistance is necessary to ensure continued economic growth. The reform and partial privatization of the nation's pension system has increased the capital available to companies to invest in

new equipment and new products. In addition, the establishment of free trade zones has lured a significant amount of foreign investment and a number of foreign companies to Argentina. These factors should allow the nation to continue its economic recovery in the wake of the recession of the late 1990s.

DEPENDENCIES

Argentina has no territories or colonies.

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—Tom Lansford

THE BAHAMAS

Commonwealth of the Bahamas

CAPITAL: Nassau.

MONETARY UNIT: Bahamian dollar (B$). One Bahamian dollar equals 100 cents. The Bahamas issues bank notes of B$0.50, 1, 3, 5, 10, 20, 50, and 100. There are coins of 1, 5, 10, 15, 25, and 50 cents.

CHIEF EXPORTS: Pharmaceuticals, cement, rum, crawfish, refined petroleum products.

CHIEF IMPORTS: Foodstuffs, manufactured goods, crude oil, vehicles, electronics.

GROSS DOMESTIC PRODUCT: US$4.5 billion (purchasing power parity, 2000 est.).

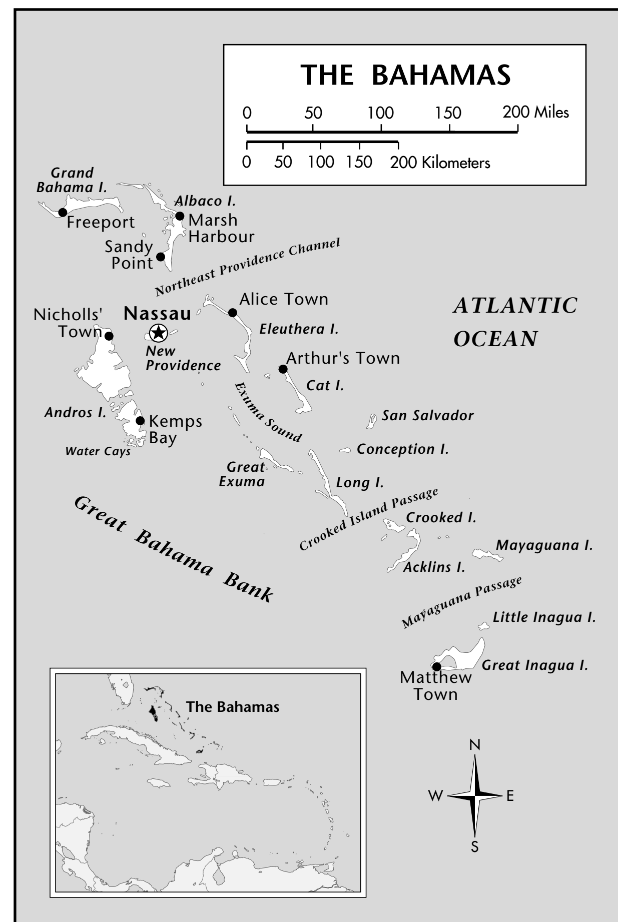
BALANCE OF TRADE: **Exports:** US$376.8 million (2000 est.). **Imports:** US$1.73 billion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Bahamas is a chain of 700 islands and about 2,000 cays (low islands or reefs of sand or coral). However, only 29 of the islands are inhabited. The Bahamas is in the North Atlantic Ocean on the eastern edge of the Caribbean, just 72 kilometers (45 miles) southeast of Florida. It has an area of 13,939 square kilometers (5,382 square miles) and is a bit smaller than Connecticut. The islands have a total coastline of 3,542 square kilometers (1,368 square miles). The largest city in the nation is Nassau, the capital, and the second largest is Freeport.

POPULATION. The population of the Bahamas was estimated to be 294,982 in July 2000. The nation has a high birth rate with 19.54 births per 1,000 people compared with 6.81 deaths per 1,000. The fertility rate is 2.33 children born per woman. Because of the increase in AIDS, the infant mortality rate is high, with 16.99 deaths per 1,000 inhabitants. The population is young, with 30 percent under the age of 15 and only 6 percent over 65. Life expectancy is 68.25 years for men and 73.94 years for women. The rate of people moving out of the country is high at 2.67 per 1,000 people. These combined facts give the nation an overall growth rate of 1.01 percent. By 2015, the islands are expected to have a population of 330,000.

Bahamians are primarily of African descent (85 percent). People of European ancestry make up 12 percent of the population and the remaining 3 percent is of Asian or Hispanic origin. English is the official language, and



religious worship is largely Christian. The Baptist church has the biggest following (32 percent), with the Anglican, Roman Catholic, and Protestant churches well represented. The literacy rate is high, almost 100 percent.

Most Bahamians reside in urban areas, with two-thirds of the population living on New Providence Island where Nassau is located. Many others live in or near Freeport on Grand Bahama Island. There are small settlements throughout the outer islands, called the "Family Islands".

OVERVIEW OF ECONOMY

Tourism and financial services dominate the economy of the Bahamas. Tourism is the main economic sector, accounting for 60 percent of the **gross domestic product** (GDP) and employing almost half of the population. The government has undertaken extensive marketing to attract visitors and bring foreign investment to the tourist vacation industry. The importance of tourism to the Bahamas makes the nation reliant on the economic fortunes of vacation-oriented nations, particularly the United States from where most of its visitors come.

The country has benefited from its status as a **tax haven** and international banking center. To exploit this advantage, the Bahamian government has passed laws aimed at encouraging foreign companies to incorporate themselves there, and has created free trade areas where goods can be trans-shipped without being taxed. Many shipping firms use the Bahamas to register their vessels.

The mild climate of the islands and their proximity to the United States make the Bahamas an ideal tourist destination for Americans. It is also ideally situated for American companies to relocate to avoid U.S. corporate taxes. The nation is also aided by its history of political stability and the sound **infrastructure** of the main islands. However, the geographical position of the archipelago makes it vulnerable to natural disasters such as hurricanes and tropical storms.

A negative effect of the Bahamas' proximity to the United States is that international criminals often use the country as a base for their activities. The main criminal activities involve smuggling of illicit drugs, illegal immigrants, and **money laundering**. The government cooperates closely with the United States, which provides substantial aid in anti-narcotic initiatives, in attempting to counter these problems.

The nation has a small fisheries industry and exports limited quantities of lobster and other fish. The main manufacturing company is PFC Bahamas, which makes pharmaceutical products. BORCO maintains an oil refinery in the islands and several breweries in the islands produce rum and assorted beers for export to the United States and Western Europe. Freeport has repair facilities for cruise ships.

The Bahamian government has tied its currency to the U.S. dollar, which has helped maintain economic stability. The country has been the recipient of generous foreign aid that includes bilateral assistance from nations such as the United States and the United Kingdom, and multilateral aid from organizations such as the European Union (EU).

POLITICS, GOVERNMENT, AND TAXATION

A British colony from 1717, the Bahamas was granted self-government by the British in 1964 and full independence in 1973. A parliamentary democracy and a member of the British Commonwealth of Nations, the country's traditions and its legal system closely resemble those of Great Britain. The British monarch is the chief of state and is represented in the islands by an appointed governor general. The head of the government is an elected prime minister, who presides over a **bicameral** (2-chamber) legislature consisting of the House of Assembly and the Senate. The House has 40 elected members who serve 5-year terms and the Senate consists of 16 members, also serving for 5 years, appointed by the governor general after consultation with the prime minister and the leader of the opposition.

There are 2 main political parties in the Bahamas: the Free National Movement (FNM) and the Progressive Liberal Party (PLP). The FNM has controlled the government since 1992. Its main priority has been economic development and the diversification of the economy. A related priority has been job creation, including worker retraining. As part of this effort, the government has engaged in **privatization** initiatives since 1992, which included the selling of all but one of the formerly state-owned hotels. The government-owned telecommunications company, Batelco, is being privatized and there are proposals for the sale of its national airline, Bahamasair, as well as the Bahamas Electric Company. Nonetheless, with a total workforce of 22,000, the state remains the largest employer in the islands.

As part of efforts to diversify the economy are programs to develop the fishing industry in particular, the government has opened 2 shrimp hatcheries. Government infrastructure programs also contribute to the economies of the Family Islands by providing jobs. In 1990, the government enacted the International Business Companies Act to reduce the cost to foreign companies of incorporating in the Bahamas. This is a clear success: on top of the presence of 415 banks, by 2000 84,000 companies had incorporated themselves in the Bahamas.

The Bahamas has one of the lowest levels of taxation in the world. Bahamians do not pay income or sales taxes, and there are no corporate taxes. Government revenue comes from import **duties**, business license fees, stamp duties, and departure tax. The government's budget for 2001 was US$998 million, with most funds earmarked for social services, including US$178.64 million for education and US$142.36 million for health care. US$103.86 million was given to law enforcement, most of it to be spent on measures to combat the drug trade.

The government supports efforts to reduce trade barriers in the hemisphere. It has entered into negotiations for a Free Trade Area of the Americas. However, since the majority of state revenue comes from trade **tariffs**, the government needs to develop new sources of revenue and taxation. Nonetheless, it adamantly refuses to consider any form of **income tax**.

The judiciary is independent and the legal system is based on British common law. Since independence, the Bahamian government has adopted business legislation from American models of commercial law. The legal system is fair and impartial, though many foreign companies have charged that the system is slow and often favors Bahamian companies over their competitors. Partly in response to these complaints, the government began reforms in 1993 to overhaul the system. Much of the reform effort has been funded by aid from the United States.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The Bahamas has a good infrastructure for a developing nation and the government is engaged in a long-term program to improve roads and communications. Major road construction has been completed in Nassau and on the Family Islands, which have also benefited from improvements in their electricity systems and airports. Traffic congestion has been alleviated in Nassau and a second bridge built between Nassau and Paradise Island. The islands have 2,693 kilometers (1,673 miles) of roads, of which 1,546 kilometers (960 miles) are paved. The water systems in Nassau and the Family Islands have been upgraded.

The islands have 62 airports, but only 33 are paved and only 2 have more than 3,047 meters (9,998 feet) of paved runways, and there is 1 heliport. The 3 main seaports are in Freeport, Matthew Town, and Nassau. Regular air and sea service is available between the inhabited islands, and between the United States and the Bahamas. Since the government allows foreign ships to register themselves under the Bahamian flag, there is a large merchant marine of 1,075 ships, which includes vessels from 49 separate nations. The largest number of ships belong to Norway (177), Greece (141), and the United Kingdom (113). Turmoil in Liberia, where many companies had their vessels registered, has caused several to switch registration to the Bahamas (21 in 2000).

Telecommunication service is widely available but installation and maintenance of equipment is slow by North American standards. There are 4 Internet providers in Nassau and the Cable Bahamas company has been granted a license to establish a center to provide web hosting sites for foreign companies. The company has also announced plans to build a US$15 million fiber-optic system to create a high-speed communication system between the Bahamas and the United States.

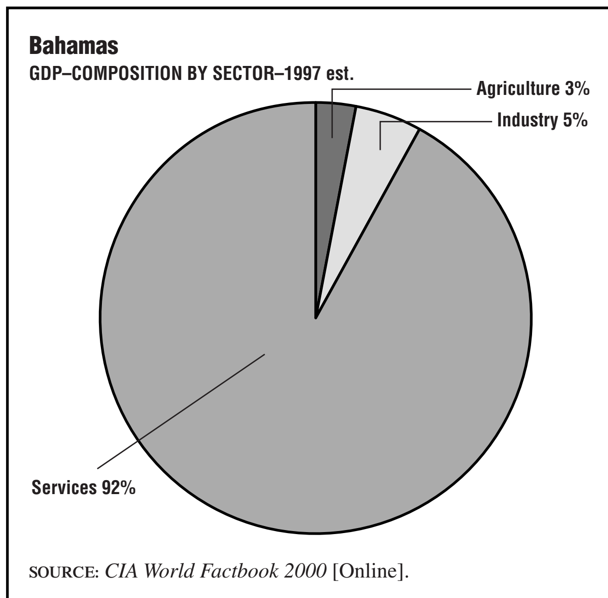
The country is self-sufficient in electricity, which is supplied by fossil fuel. Electricity production amounted to 1.34 billion kilowatt-hours (kWh) in 1998, while consumption was 1.246 billion kWh.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Bahamas	96,000	6,152	AM 3;FM 4; shortwave 0	215,000	1	67,000	19	15,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
St. Lucia	37,000	1,600	AM 2; FM 7; shortwave 0	111,000	3	32,000	15	5,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

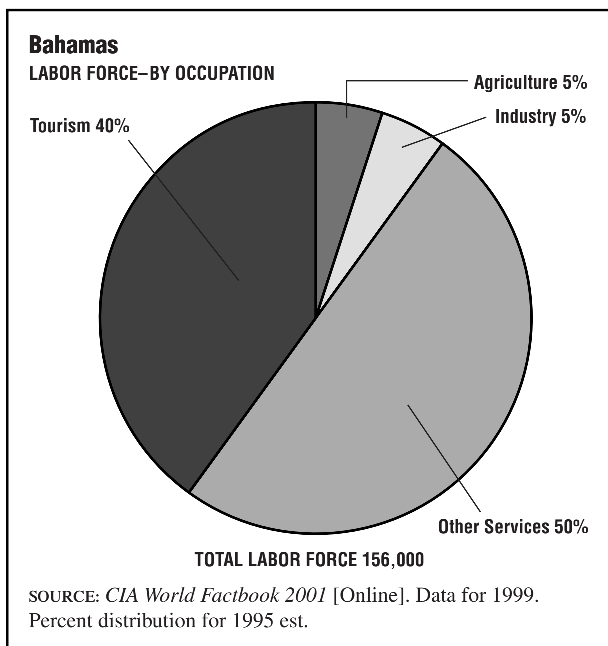


SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

Most of the Bahamas' GDP comes from tourism and financial services, and there is little industry. There is, however, some production of minerals, consisting of cement, salt, sand, and gravel. One of the main labor-intensive industries is construction, which continues to expand because of the building of new housing, even as commercial construction has declined over the past few years.

Tourism is the economic backbone of the Bahamas. It provides the biggest percentage of the nation's GDP and employs more people than any other economic sector. Financial services form the second chief component of the economy, encompassing banking, insurance, stocks and bonds, and mutual funds.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1995 est.

There is about 1 percent of arable land throughout the islands but plenty of fresh water. With 32 percent of the land comprised of forest, timber is a plentiful natural resource. Most agricultural production is on Grand Bahama Island and the outer islands. While the cultivation of several crops, notably ornamental plants and citrus fruits, has expanded, the farming of poultry and livestock has declined. The government has aggressively looked for foreign investment to improve crop quality and output, while its support for fisheries has improved output and profits.

AGRICULTURE

The Bahamas is a net importer of foodstuffs, buying 80 percent of its consumables. Agriculture and fisheries make up about 5 percent of GDP and about 5 percent of employment. Also, temporary jobs become available during the harvest season and during specific fishing seasons, such as the lobster harvest. Companies have requested that they be allowed to use foreign workers during harvests but the government usually refuses such requests.

The islands' primary crops are bananas, corn, and, by far the most important, sugar cane. In 1998 sugar cane provided 45,000 metric tons of the total crop production of 46,200 metric tons. In addition, beef and veal, chicken, and pork are raised. There are 240,000 acres of land used for agriculture, mostly on the outer islands. Most farms are small and most products are for domestic consumption. Because of the 1999 hurricane season, crop output fell 16.5 percent or US$8.8 million, and poultry and meat production declined by US$6.4 million. However, the output of ornamental plants increased by 11.2 percent. Citrus production has also increased in the past few years.

There have been continued increases in fish output. Total harvests in 1999 were 6.3 million pounds with a value of US$74.1 million (a 4.3 percent increase from the previous year). Lobster or crawfish make up 88 percent of total output and rose by 23 percent in 2000. Fish production will continue to expand and diversify as the government establishes new fish farms and funds efforts to broaden harvests to new species.

INDUSTRY

In 1999, the small industrial sector of the Bahamas only made up about 5 percent of the nation's GDP and 5 percent of employment. Government infrastructure projects and private construction provide the main industrial activity. The 1 shipyard in the Bahamas is at Freeport and it specializes in the repair of passenger or cruise ships. There is limited production of minerals. Sand is

dredged off the Bahamas Bank and used for limestone and the production of commercial sand, which supply the local construction industry. There is also limited production of salt for export to the United States.

The pharmaceutical company, PFC Bahamas, produces a small quantity of products for export and the oil company, BORCO, has a refinery in the islands, but these are individual enterprises and do not represent any large industrial presence. There is a substantial brewing industry. Companies such as Bacardi, Inc., distill rum and other spirits in the islands, while other international breweries such as Commonwealth Brewery, produce different beers including the Heineken, Guinness, and Kalik brands.

The construction industry seemed to peak in 1998 with the completion of several new resorts. By 1999, new construction projects had fallen by 15.9 percent, with 817 continuing commercial projects valued at US$123 million. However, private housing completions were up by 18.3 percent with a value of US$112.1 million. This reflects an increasing demand for more upscale housing in the nation.

SERVICES

Tourism dominates the Bahamian economy. In 1999, 3.65 million people visited the islands, with 2.2 million of them arriving by cruise ship. Revenue from tourism made up 60 percent of the nation's GDP. The average tourist spent US$958 while vacationing in the Bahamas, and tourist spending overall amounted to US$1.5 billion. In 2000, there were about 81,700 people employed in the tourist industry. Most visitors are from the United States (83 percent in 1999). However, in recent years the number of European tourists has increased by 9 percent.

The largest resort in the island is the 2,340 room mega-resort Atlantis, which is owned by Sun International. It employs 5,500 people and is the second largest employer in the nation after the government. Other major resorts in the islands include Club Med (popular with the French), Sandals (attracting the British), and Holiday Inn. The Grand Bahama Development Company plans to spend US$50 million upgrading airport and cruise ship facilities to accommodate an additional 555,000 visitors per year.

Although the majority of the tourist industry in the Bahamas has been driven by private enterprise, the Bahamian government did own 20 percent of the hotel accommodations in 1992. Privatization programs since that time have reduced the government holdings to 5 percent.

All major cruise lines operate services to the Bahamas. To extend the stay of passengers, the government has enacted legislation that allows ships to open their casinos and stores only if they remain in port for more than 18 hours.

Thanks to the tourist trade, **retail** companies prosper in the Bahamas. There is a strong preference for recognizable name-brand products, and major American brands do well in the islands. However, the government requires that retail and wholesale businesses be Bahamian-owned.

In 1995, the government changed laws to allow betting on sporting events. Gambling is permitted on events both in the Bahamas and elsewhere in the world. The same law also lowered the taxes on winnings in casinos that are smaller than 10,000 square feet, which has resulted in the proliferation of sports bars and small casinos.

The financial services sector is the second chief component of the Bahamian economy. In 1998, this sector added US$300 million to the economy and employed 4,000 people, accounting for some 15 percent of the GDP. Government legislation has also encouraged the formation of international companies known as shell corporations, which are established to hide or protect their assets from national taxes at home by incorporating themselves in a foreign nation. As a result there are over 100,000 such corporations. Although many of these firms employ Bahamians, they add little to the nation's economy since they essentially act as conduits for transferring money.

INTERNATIONAL TRADE

The Bahamian economy is dependent on trade with the United States. Most of the tourists that visit the nation are from the United States, and there are 110 American-owned businesses in the islands. In addition, 55 percent of Bahamian imports come from the United States, and American distributors also handle many of the nation's other imports. Other than the United States, which supplies 27.3 percent of Bahamians imports, the Bahamas' other main import partners are Italy with 26.5 percent, Japan with 10 percent, and Denmark with 4.2 percent. The country's main export partners are the United States at 22.3 percent, Switzerland at 15.6 percent, the United Kingdom at 15 percent, and Denmark at 7.4 percent. In 1998, the Bahamas had exports of US$300 million and imports of US$1.87 billion.

Trade (expressed in billions of US$): Bahamas

	Exports	Imports
1975	2.508	2.697
1980	5.009	7.546
1985	2.707	3.078
1990	.241	1.112
1995	.176	1.243
1998	.300	1.872

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Bahamas

Bahamian dollar (B$) per US$1	
2001	1.000
2000	1.000
1999	1.000
1998	1.000
1997	1.000
1996	1.000

Note: Fixed rate pegged to the US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Bahamas	8,030	12,727	13,835	13,919	N/A
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
St. Lucia	N/A	2,076	2,150	3,542	3,907

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

The government supports efforts to set up a free trade area that would end tariffs and other taxes on goods imported from or exported to members of the agreement in the Caribbean region. However, since most of the Bahamas' revenue comes from tariffs and duties on imported goods, the government would have to dramatically change its tax system.

MONEY

The Bahamian dollar is fixed to the U.S. dollar on a one-to-one exchange ratio. As such, the Bahamian currency is dependent on the strength or weakness of the U.S. dollar.

There are over 400 banks in the Bahamas, but only 9 are regular, full-service commercial institutions. The others specialize in international banking and investment. In 1998, the government established the Bahamas Financial Services Board to promote the nation as a major financial center and to coordinate financial services. In 2000 the Bahamas International Securities Exchange was launched as the nation's first stock market.

POVERTY AND WEALTH

Although the Bahamas suffers from extremes of wealth and poverty, the standard of living is high and the average per capita income in 1998 was US$14,492. On many outer islands, where the people exist as **subsistence farmers** and fishermen, modern amenities, including sanitation, are badly lacking. Meanwhile, the standard of living in Nassau and Freeport is the same as many highly developed nations. The poverty rate in the Bahamas has declined from about 9 percent in 1993 to about 5 percent, which is low by international standards and points to an improved economy.

The United Nations *Human Development Report 2000* ranks the Bahamas high in human development, placing it at number 33 in the world. This ranking is based on a combination of per capita income, standard of living, and access to health care, education, and so forth.

WORKING CONDITIONS

In 1999, the **labor force** was estimated at 156,000. The unemployment rate was 9 percent by 1998 estimates. Except for members of the police, military, and fire departments, under the constitution of the Bahamas all workers have the right to join unions. About 25 percent of the workforce are unionized, but for workers in the hotel industry the rate is closer to 50 percent. Children under the age of 14 are not allowed to work during school hours or in industrial jobs, and those under the age of 16 may not work at night. There is no national minimum wage, but government employees earn a minimum of

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Bahamas	32	4	5	3	8	9	41
United States	13	9	9	4	6	8	51
Jamaica	24	7	3	1	9	8	48
St. Lucia	40	5	11	4	17	11	11

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

US$4.12 per hour. The working week is limited to 48 hours and there is mandatory overtime pay for hours that exceed this limit.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1492. Spanish explorer Christopher Columbus lands in the Bahamas.

1500s. The Spanish conduct raids in the islands and enslave the Lucian Indians, who are sent to work the gold and silver mines in Central and South America. Over a 25-year period, the native tribes of the Bahamas are wiped out.

1647. British religious refugees settle on Eleuthera Island.

1717. The Bahamas becomes a British Crown Colony.

1718. Woodes Rogers, the first governor of the colony, drives out pirates who were based in the islands.

1700s. Sugar cane production becomes the main source of revenue in the colony.

1861–65. The Bahamas becomes a center for Confederate blockade raiders during the American Civil War.

1917–33. The Bahamas again becomes a center for American smugglers, this time for those transporting illegal alcohol into the United States during the Prohibition period.

1939–45. The Allies use the Bahamas as a base for air and naval operations during World War II.

1964. The nation is granted self-government.

1973. The Bahamas gains full independence.

1992. After 25 years of rule, the United Bahamian Party loses power to the FNM.

FUTURE TRENDS

The economy of the Bahamas remains dependent on tourists, especially from the United States, and is therefore vulnerable to downturns in the prosperity of Americans. The government has started efforts to diversify the economy and the success of these initiatives will determine how badly the islands may suffer from future problems with the U.S. economy. The nation's dependency on tourism makes it vulnerable to competition from other destinations. The development and expansion of the tourist trade elsewhere in the Caribbean stands to have a negative effect on tourism in the Bahamas. The islands are also subject to disruption from hurricanes and other weather-related disasters.

Efforts to develop a free trade area in the region will require a dramatic **restructuring** of the Bahamian economy since most of the government's revenue come from tariffs and duties on imported goods. Yet, the establishment of a free trade area could well attract more foreign businesses to the islands, since they would be able to use the Bahamas as a strategic base for economic interaction with the United States. The Bahamas would also be able to expand its international financial services sector as other islands in the Caribbean have done.

DEPENDENCIES

The Bahamas has no territories or colonies.

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—Tom Lansford

BARBADOS

CAPITAL: Bridgetown.

MONETARY UNIT: Barbados dollar (BDS$). One dollar equals 100 cents. There are coins of 1, 5, 10, 25 and 50 cents and 1 dollar, and notes of 1, 2, 5, 10, 20, 50, and 100 dollars. The Barbados dollar is pegged to the U.S. dollar at the rate of BDS$1:US$0.49771, or US$1:BDS$2.011.

CHIEF EXPORTS: Sugar and molasses; rum; other food and beverages; chemicals; electrical components; and clothing.

CHIEF IMPORTS: Consumer goods, machinery, foodstuffs, construction materials, chemicals, fuel, and electrical components.

GROSS DOMESTIC PRODUCT: US$4 billion (purchasing power parity, 2000 est.).

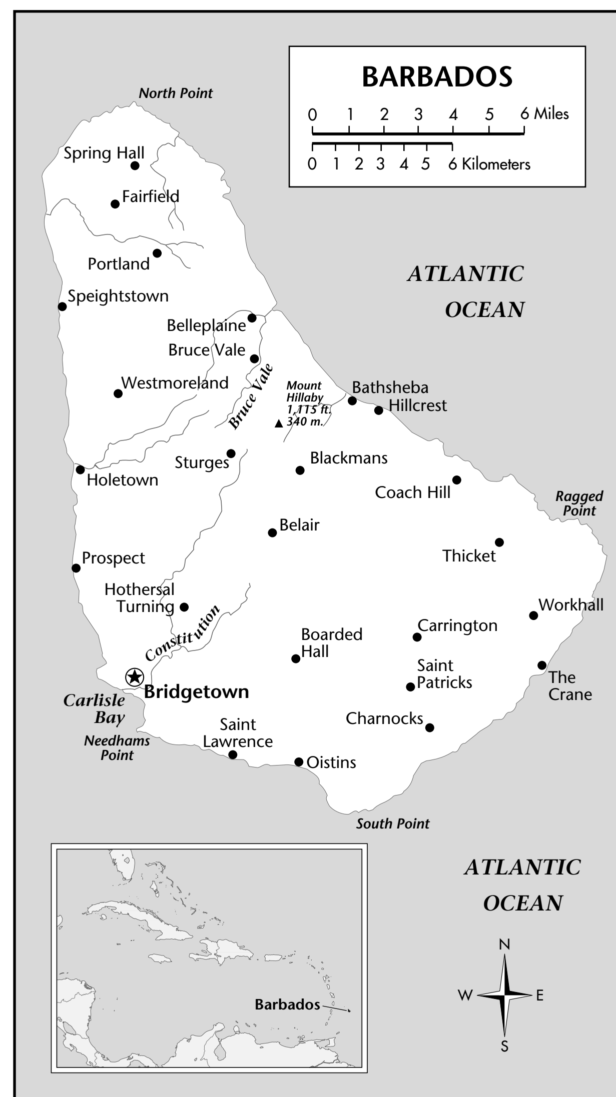
BALANCE OF TRADE: **Exports:** US$260 million (2000 est.). **Imports:** US$800.3 million (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Barbados is an island situated between the Caribbean Sea and the Atlantic Ocean, northeast of Venezuela and east of the Windward Island chain. It covers an area of 430 square kilometers (166 square miles), roughly 2.5 times the size of Washington, DC. Its coastline is 97 kilometers (60 miles) in length and its capital, Bridgetown, is situated at a natural harbor on the southwest coast of the island.

POPULATION. The population of Barbados was estimated at 274,540 in mid-2000, representing a growth rate of 0.55 percent over the preceding year. The average annual rate of population increase from 1995 stands at 0.3 percent. At current rates, the island's population will reach approximately 288,000 by 2010. The government wants to restrict population growth because Barbados is one of the most densely populated countries in the world (estimated at 619 people per square kilometer in 1997, or 1,603 people per square mile). There is a well-organized family planning program in the island and the birth rate, at 14.45 per 1,000 population in 2000, is one of the lowest in the region. The migration rate was extremely high until the 1970s but, at 0.32 migrants per 1,000 population, is now low by regional standards.

The age structure of Barbadians reflects government planning policy and high living standards, with only 22



percent of citizens aged 0–14 years, 69 percent between ages 15 and 64, and 9 percent over 65. The infant mortality rate is 12.37 per 1000. Approximately 80 percent of people are of African descent, while a small but economically powerful white minority accounts for about 4 percent of the population. The rest are of mixed ethnic background. English is both the official and the spoken language, and the religion is Christian, represented by Protestant, Anglican, Roman Catholic, and other conventional churches.

OVERVIEW OF ECONOMY

Despite its high population density and limited natural resources, Barbados has one of the more diversified and successful economies in the Caribbean. Since gaining independence from the United Kingdom (UK) in 1966, the island has enjoyed political stability, a factor that has encouraged the growth of tourism and other service industries. As a result, the country has dramatically reduced its dependence on sugar exports (although sugar remains the most important agricultural activity) and has developed not only its service sector but also some areas of manufacturing.

Strong growth in the 1970s came to an end with a **recession** in the late 1980s, as **gross domestic product** (GDP) contracted by 12.9 percent between 1989 and 1992. This drop was caused, in part, by difficulties in the sugar industry and by a downturn in tourism, due largely to a recession in North America. The International Monetary Fund (IMF) offered financial aid in return for a **structural adjustment program** that included pay cuts for **public-sector** workers and other austerity measures. The Barbados dollar was not devalued, however, as the government realized that the island's dependence on imported goods, including food, from the United States would create unacceptable hardship in the event of **devaluation**. By 1993 the worst of the recession was over. In the late 1990s gross domestic product (GDP) growth was steady as tourism and export markets recovered. Growth between 1996 and 1998 was estimated at 4 percent annually, falling to 3.2 percent in 1999 and 2.8 percent in 2000.

The economic problems of the 1980s revealed underlying weaknesses in the Barbadian economy, which still exist today. The country runs a huge **trade deficit**, with imports 4 to 5 times the value of exports due to high demand for imported goods and food combined with poor export performance. The large public sector strains government resources in terms of salaries and other recurrent expenditures, resulting in regular fiscal deficits. The **external debt** stood at an estimated US$550 million in 1998. Tourism remains crucial to the economy, but Barbados faces serious competition from other Caribbean destinations, while its offshore manufacturing sector has been largely eroded by competition from lower-wage countries such as Mexico and the Dominican Republic.

More positively, the island has a diversified range of industries, producing **consumer goods** for the national and local markets. It also has a small but significant petroleum industry, producing enough fuel to meet about one-half of local needs, as well as significant reserves of natural gas.

POLITICS, GOVERNMENT, AND TAXATION

The political stability of democratic Barbados has been the envy of the Caribbean since independence in 1966. As a former British colony, the country parallels the British electoral and parliamentary systems, which has ensured regular and fair elections and the orderly transfer of power between political parties. The country is a member of the British Commonwealth, with the British monarch the constitutional head of state, represented by a governor general appointed by the Crown. The head of government is the prime minister, who presides over a cabinet appointed by the governor general on his advice. The bi-cameral, or 2-chamber, parliament consists of a 21-member Senate appointed by the governor general and a 28-member House of Assembly, elected by popular vote every 5 years.

Despite lively exchanges of views in parliament, Barbados's political system is based more on consensus than confrontation. Modern Barbadian politics has been dominated by 2 main parties, the Barbados Labour Party (BLP) and the Democratic Labour Party (DLP). Both are broadly social-democratic in outlook, favoring a mixed economy with a strong **private sector** and a measure of government intervention. The DLP is rather more left of center than its rival, while the BLP was for many years identified with the small, economically dominant, white elite. The BLP won elections in 1994 and again in 1999, capturing 26 out of 28 parliamentary seats with an unprecedented 64.8 percent of the vote. The National Democratic Party (NDP) has not held office.

Government has a strong and direct impact on the economy through its management of the large public sector, its tax policy, and its encouragement of foreign investment in key sectors. During the recession of the late 1980s, for instance, the DLP government was forced to introduce an 8 percent pay cut for public-sector workers in a bid to reduce state expenditure. In 1999, the BLP government finally agreed to restore this pay cut in 3 stages over a given period. The government regularly meets with representatives from the private sector and the trade unions, and a series of tripartite protocols covering

wages, prices, and working conditions has revealed an unusually strong degree of consensus.

Taxation has been an important economic factor in recent years as governments have tried to balance the need for increased revenue with goals of social equality. In 1997 a radical change took place with the introduction of **value-added tax** (VAT) to replace 11 different **indirect taxes**. The immediate result was greatly improved tax revenue, which reduced the government's fiscal shortfall from the equivalent of 2.5 percent of GDP in 1996 to 0.3 percent in 1997. However, in the same year, the VAT forced prices up and led to **inflation** of 7.7 percent. The government responded by removing the VAT from 50 essential food items, with the result that consumer prices fell by 1.3 percent in 1998, benefiting the basic household expenditure of poorer families. The basic **income tax** is payable on earnings greater than BDS$625 per month, with higher rates for larger incomes.

The Barbadian government is active in encouraging foreign investment in tourism, manufacturing, and the informatics (data processing) sector. It offers a range of financial incentives to prospective investors, including tax concessions, and has made considerable efforts to attract offshore financial businesses, such as foreign banks and insurance companies, by introducing the legal and fiscal regulation required. So far, moves to **privatize** state assets such as the Barbados National Bank, the Caribbean Broadcasting Company, and the Barbados National Oil Company have been planned but not implemented.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Barbados has a network of roads totaling 1,578 kilometers (980 miles), with only a few miles remaining unpaved. There are no railways. The main commercial port is at Bridgetown, but there is also an important marina development at Port St. Charles, north of Speightstown. There is 1 international airport, which receives many daily flights from Europe, North America, and other Caribbean countries. The road **infrastructure** is generally good and has received substantial government investment over recent years, as have port and airport facilities and a modernized sewerage system on the south coast.

The island's energy needs are partly met by an onshore field in St. Philip parish, which produced 850,000 barrels of crude petroleum in 1999, equivalent to half of annual local consumption. Energy production in 1998 was estimated at 672 million kilowatt-hours (kWh), in excess of consumption of 625 million kWh. Natural gas production has also increased, and most urban and suburban residents have access to a piped gas supply. A United States-owned company, Conoco, is engaged in offshore exploration for oil and gas reserves.

Communications in Barbados are generally good and the government is committed to **liberalizing** the telecommunications sector, currently dominated by the Cable & Wireless company, by the end of 2002. In 1997 it was estimated that there were 97,000 telephone lines in use, and cellular and Internet access are growing steadily. The government is also attempting to boost the data-processing and telemarketing sector by promoting Barbados as a regional communications center offering a sophisticated technological infrastructure as well as a highly literate workforce.

ECONOMIC SECTORS

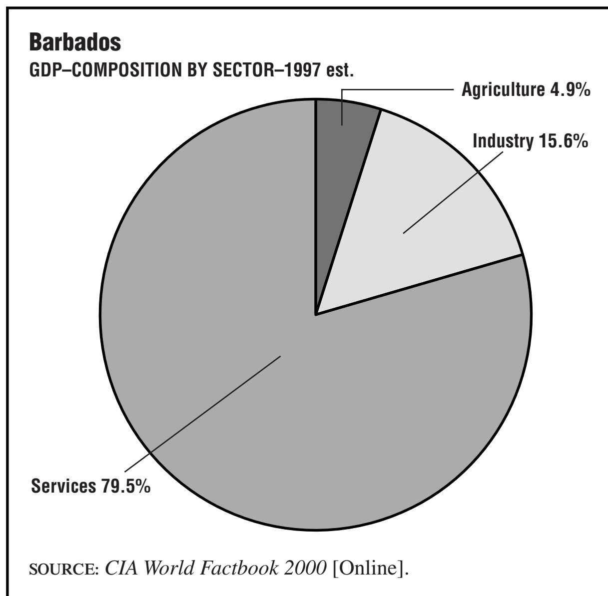
The structure of the economy in Barbados today is unrecognizable from that of 50 years ago. Agriculture in 1946 accounted for 37.8 percent of GDP and 55 percent

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Barbados	108,000	8,013	AM 2; FM 3; shortwave 0	237,000	1	76,000	19	6,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215M	7	460,000	21	60,000
St. Lucia	37,000	1,600	AM 2; FM 7; shortwave 0	111,000	3	32,000	15	5,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].

of foreign exchange earnings, while in 1998 it represented only 4 percent of GDP and only 2.9 percent of foreign exchange earnings. Sugar is still the island's main agricultural commodity, earning approximately US$34 million annually.

Industry has grown significantly over the same period, reaching 16 percent of GDP in 1998, although parts of this sector have declined since the recession of the late 1980s. The island's industry is divided between manufacturing for local consumption and export-oriented assembly work aimed at the North American market. In 1998, total manufactured exports, excluding the traditional products of refined sugar and rum, earned US$139 million.

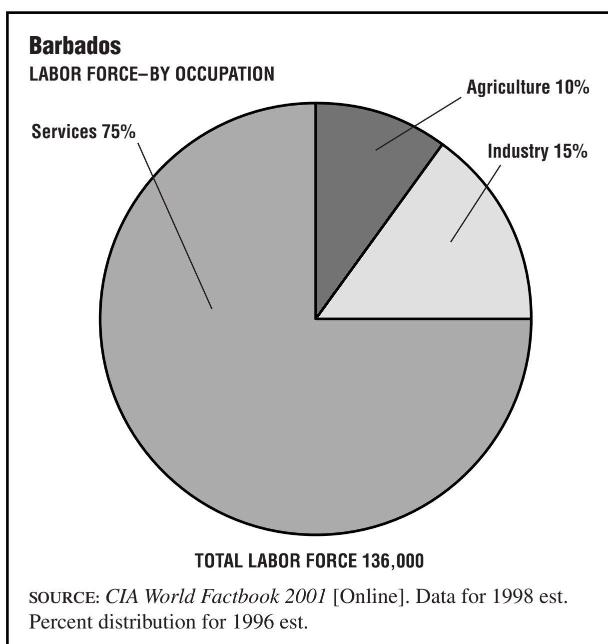
The major contributor to the Barbadian economy is the service sector, which represented 80 percent of GDP in 1998. The sector includes government services, the tourism industry, and the 2 recently developed areas of financial services and informatics. Of these, tourism is the principal foreign exchange earner, and the Caribbean Development Bank (CBD) estimates that tourist expenditures in the island reached US$703 million in 1998.

The growth of services is counterbalanced by stagnation in manufacturing and the limited contribution made by agriculture. High costs probably account for problems in manufacturing. Both wages in the sector and necessary inputs are higher in Barbados than in other Caribbean countries, but the island's reputation for stability and high-quality service explain the growth in the newer sectors of the economy.

AGRICULTURE

In colonial times, the country's largely flat, fertile land, its large slave workforce, and a handful of large-scale, sometimes absentee, landowners, made Barbados the plantation economy par excellence. The sugar industry survived into the 20th century (and has continued into the 21st century), but it began to decline from the 1960s onwards as long-haul flights fueled the development of the tourism industry. By the recession of the late 1980s, the sugar sector was in serious trouble, and in 1992 the state sugar company in debt by some US$100 million. The IMF insisted on its dismantling as part of the structural adjustment program and a full **restructuring**, under the aegis of the British Booker-Tate company, took place. Despite plans for increased production of 75,000 tons annually, Barbados has since struggled to produce the 54,700 tons which the European Union (EU) agrees to import at preferential prices each year. In 1999, sugar production increased 10.8 percent on the previous year but was still only 53,200. Were it not for the EU quota and a smaller U.S. quota of 5,000 tons, the industry would probably collapse. As it is, high labor and input costs, droughts, and outdated technology have made its future uncertain, with production costs often higher than the price paid by the EU. Today the rum industry is forced to import half of its annual requirement of molasses. As the workforce in the sugar industry grows older and landowners increasingly look to capitalize on tourism or new housing developments, sugar is under threat.

Inadequate rainfall and lack of irrigation has prevented the development of other agricultural activity, although some vegetable farming takes place on a com-



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est. Percent distribution for 1996 est.

mercial scale. Apart from self-sufficiency in milk and poultry, the limited agricultural sector means that Barbados imports large amounts of basic foods, including wheat and meat. There is some fishing, aimed mostly at the tourist and local market. In all, some 5,000 people are employed in agriculture.

INDUSTRY

The manufacturing sector in Barbados has yet to recover from the recession of the late 1980s when bankruptcies occurred and almost one-third of the workforce lost their jobs. Today, approximately 10,000 Barbadians work in manufacturing. The electronics sector in particular was badly hit when the U.S. semi-conductor company, Intel, closed its factory in 1986. Leaving aside traditional manufacturing, such as sugar refining and rum distilling, Barbados's industrial activity is partly aimed at the local market which produces goods such as tinned food, drinks, and cigarettes. The export markets have been severely damaged by competition from cheaper Caribbean and Latin American competitors. But domestic manufacturing also faces serious potential problems, as trade liberalization means that the government can no longer protect national industries by imposing high **tariffs** on imported goods. Thus, Barbadian manufacturers must compete with those from other regional economies, whose wage costs and other overheads are usually much lower.

A construction boom, linked to tourism and residential development, has assisted the recovery of a large cement plant in the north of the island that was closed for some years and reopened in 1997. The other significant industrial employer is the petroleum sector, although the island's small oil refinery was closed in 1998 and refining moved to Trinidad and Tobago, where labor and other costs are cheaper.

SERVICES

Tourism is Barbados's crucial economic activity and has been since the 1960s. At least 10 percent of the working population (some 13,000 people) are employed in this sector, which offers a range of tourist accommodations from luxury hotels to modest self-catering establishments. After the recession years, tourism picked up again in the mid-1990s, only to face another slowdown in 1999. This drop was in part due to increasing competition from other Caribbean countries such as the Dominican Republic, and in part to a reduction in visits from cruise ships as they shifted to non-Caribbean routes or shorter routes such as the Bahamas. Cruise ship visitors totaled 445,821 in 1999, a reduction from 517,888 in 1997, but stay-over visitors rose to 517,869 in 1999, setting a new record. Overall, the country witnessed over US$700 million in tourism receipts in 1999.

The real problem for Barbados is that tourist facilities are too densely concentrated on the south coast, which is highly urbanized, while the Atlantic coast, with its rugged shoreline and large waves, is not suitable for beach tourism. There are few large brand-name hotels (the Barbados Hilton was closed for refurbishment in 2000) which makes marketing the island in the United States difficult. On the other hand, the absence of conglomerates and package tours results in a far greater **trickle-down** of tourist spending among the general population.

Informatics employed almost 1,700 workers in 1999, about the same number as the sugar industry. The island has been involved in data processing since the 1980s and now specializes in operations such as database management and insurance claims processing. Costs in Barbados are higher than elsewhere in the Caribbean (although still only half of costs in the United States), but the island offers strong advantages such as a literate English-speaking workforce and location in the same time zone as the eastern United States. Despite these factors, employment has fallen in recent years, reflecting increasing mobility on the part of foreign companies, which frequently relocate to lower-cost areas.

The financial services sector has also faced problems as licenses issued to new financial companies have slowed down since 1998. There are an estimated 47 **offshore banks**, as well as hundreds of other insurance and investment companies, all catering to overseas clients. Figures are hard to track, but it is estimated that these financial activities earned BDS$150 million in foreign earnings in 1995. In 1998, approximately 7,500 people were employed in the banking and insurance sector. The financial sector is also under threat of **sanctions** from the EU and the Organization for Economic Cooperation and Development (OECD), both of which have expressed concerns about **money laundering**, tax evasion, and other financial improprieties in Caribbean offshore centers.

Retailing is an important economic activity, especially in Bridgetown where there are large department stores and supermarkets. In the countryside, most stores are small and family-run. Some 18,000 people work in the **retail** sector.

INTERNATIONAL TRADE

Barbados generally imports nearly 4 times more than it exports (US$800.3 million in imports as opposed to US$260 million in exports in 2000), creating a huge trade imbalance that is only partly offset by tourism revenues and other service sector income. According to the CDB,

Trade (expressed in billions of US$): Barbados

	Exports	Imports
1975	.107	.217
1980	.228	.527
1985	.354	.611
1990	.211	.704
1995	.236	.764
1998	.251	1.009

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Barbados

Barbadian dollars (BDS$) per US$1	
2001	2.000
2000	2.000
1999	2.000
1998	2.000
1997	2.000
1996	2.000

Note: Fixed rate pegged to the US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

the **balance of payments** was in deficit by BDS$76 million in 1999. This situation is sustainable only so long as tourism receipts remain stable, but the island faces real problems of dependency on imported foodstuffs and other basic items.

The main source of imports, according to CDB statistics in 1999, is the United States, which provided 40 percent of the total, followed by regional economies such as Trinidad & Tobago, and the United Kingdom. In terms of exports, Caribbean markets, particularly Jamaica and Venezuela, were the biggest, accounting for approximately 40 percent of the island's export trade. The United Kingdom is an important market for Barbadian sugar and rum.

MONEY

Regular economic growth and low inflation marked most of the 1990s for Barbados, but by the end of the decade there were anxieties over another possible recession. Consumption of imported goods was too high in relation to export earnings, and credit was too easily available to consumers; therefore, in 1999, the government raised interest rates in an attempt to restrain spending. The Barbadian dollar, which has long been pegged to the U.S. dollar at a rate of BDS$2.000:US$1, is probably overvalued, but it would be extremely difficult for any government to devalue the currency, as so many basic items are imported from the United States.

There is a small local securities exchange, the Securities Exchange of Barbados, founded in 1991, which had a **market capitalization** of US$2 billion at the end of 1999. Most larger local companies are listed for share trading, together with several companies from Trinidad & Tobago and Jamaica.

POVERTY AND WEALTH

In terms of poverty eradication, Barbados is a success story, with high per capita GDP, a good level of social service provision, and positive health indicators. The United Nations Human Development Index places it third among all non-Organization for Economic Cooperation and Development (OECD) countries for its development statistics, ahead of Singapore and other economic successes. Although many Barbadians continue to live in small wooden houses, access to clean water, electricity, and medical facilities is universal. Public education is of a good standard, as are health services. The political culture of consensus has ensured that all Barbadian governments have aimed to eradicate poverty and bring about a degree of wealth redistribution.

As a result of these policies, Barbados has a large, literate, and financially comfortable middle class, many of whom are employed in the public sector. No recent statistics are available regarding percentage share of household income, but it is certain that Barbados does not suffer the same extremes of social division as other Caribbean countries.

However, there remains a wealthy minority, part of which is directly descended from the white plantation owners of the colonial period. Known still as the "plantocracy," these families have extensive interests in retailing, tourism, and the financial sector. Since the country's independence this small elite has retained its economic influence, although its political power has waned, and it remains distanced from the majority black population.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Barbados	5,497	6,764	6,373	7,340	7,894
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
St. Lucia	N/A	2,076	2,150	3,542	3,907

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

WORKING CONDITIONS

Working conditions in Barbados are generally good for a workforce estimated at 136,300 in 1998, and there is a strong tradition of consultation between employers and trade unions. Even the small remaining rural workforce is well organized and is capable of negotiating acceptable improvements in wages and conditions. The public sector is particularly well represented and governments are obliged to hold regular consultations with the unions that represent teachers and other civil servants. Pay and working conditions in the service industries are also above average for the region. High levels of literacy are the norm. Legislation is in place against unlawful dismissal and other employer malpractice in Barbados and is mostly observed. All Barbadian workers are part of a National Insurance system that provides sick pay and small retirement pensions.

There is little or no child labor in Barbados, and women are generally offered equal employment opportunities at all levels. A small **informal sector** exists, mostly catering to tourists, and some women are employed as informal sector beach vendors. The island's remaining problem in social terms is unemployment, which in 1999 affected almost 10 percent of the workforce, a fall from 12.3 percent the previous year.

With relatively high wage levels and regulated employment conditions, Barbadians enjoy a higher standard of living and quality of life than many other Caribbean people. However, in a globalized economy, these advantages are also a disincentive to foreign investors in search of the cheapest possible labor costs.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1627. The first English colonial settlement is established, and Barbados remains a British colony until 1966.

1639. First meeting of the Barbados House of Assembly. This body is the third oldest legislative body in the Western Hemisphere.

1650s. The sugar industry enjoys its most productive and profitable period.

1834. Slavery is abolished in the British empire.

1930s. Widespread unrest and rioting erupts in protest against poor working conditions and inadequate pay and prompts social reforms.

1938. The Barbados Labor Party is founded by Sir Grantley Adams.

1951. The British government grants Barbados full internal autonomy under the British Crown and the Barbados Labor Party is elected to government, with Sir Grantley Adams as prime minister.

1966. On November 20, Barbados becomes a fully independent state within the British Commonwealth.

1989–1992. Recession forces the government to adopt an IMF-approved austerity program.

1999. The Barbados Labor Party wins a second consecutive term in office by a large majority.

FUTURE TRENDS

The continuing success story of Barbados, based on social fairness and democratic consultation, will largely depend on its ability to fend off competition in the tourism and service sectors. Agriculture will almost certainly continue to decline, while sugar production will survive only as long as the EU continues to subsidize it with preferential quotas and prices. Manufacturing, while strong in terms of local markets, cannot compete as a low-wage offshore activity. As a result, tourism and the new informatics industries will play an increasingly crucial role in generating foreign currency. But as recent experience has shown, both are highly competitive in a regional and global context, and Barbados will face difficulties in increasing its market share without considerable investment in advertising and training.

The greatest cause for concern is the island's huge trade deficit and continuing reliance on imports for everyday food items. Should another recession occur, Barbados would be extremely vulnerable to balance of payments problems and increased indebtedness, factors that might jeopardize the considerable strides made in the country's development since the 1970s.

DEPENDENCIES

Barbados has no territories or colonies.

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—James Ferguson

BELIZE

CAPITAL: Belmopan.

MONETARY UNIT: The Belize dollar, which is pegged to the U.S. dollar at a rate of 2:1. One Belize dollar (Bz$) is equal to 100 cents. Belizean currency comes in 100-, 50-, 20-, 10-, 5-, and 2-dollar bills with the occasional 1-dollar bill. Coins come in 1-dollar, 50, 25, 10, 5, and 1 Belizean cent units. The 25-cent piece is called a shilling.

CHIEF EXPORTS: Sugar, bananas, citrus fruits, clothing, fish products.

CHIEF IMPORTS: Food, consumer goods, building materials, vehicles, machinery, petroleum products.

GROSS DOMESTIC PRODUCT: US$740 million (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$150 million (1998 est.). **Imports:** US$320 million (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Formerly known as British Honduras, Belize is a Central American nation roughly the size of Massachusetts. Belize shares borders with Guatemala and Mexico, to the west and the northwest, respectively. To the east it borders the Caribbean Sea, with a coastline of 240 miles. It has an area of 22,966 square kilometers (8,867 square miles). The capital, Belmopan, is located in the center of the country.

POPULATION. Belize, with an estimated 249,183 people in 2000, is the most sparsely populated nation in Central America. The population has been growing at about 2.86 percent a year since 1995, when the population stood at 216,500.

The Belizean population is ethnically diverse, with the majority of the inhabitants being of multiracial descent. Approximately 46 percent of the people are mestizo (of mixed Mayan and European descent), 30 percent are African and Afro-European (Creole), 10 percent are Mayan, and 6 percent are Afro-Amerindian (Garifuna). The remainder are European, Chinese, East Indian, Middle Eastern, and North American.

The Belizean population is young, with 43 percent below the age of 15 in 2000. Life expectancy is 71 years. In 2000, only 3 percent of the population was over 64. The birth rate in 2000 was 32.29 per 1,000, while the death rate was 4.81 per 1,000.

Over half of Belizeans live in rural areas. About 25 percent live in Belize City, the former capital which is also the principal port and commercial center.

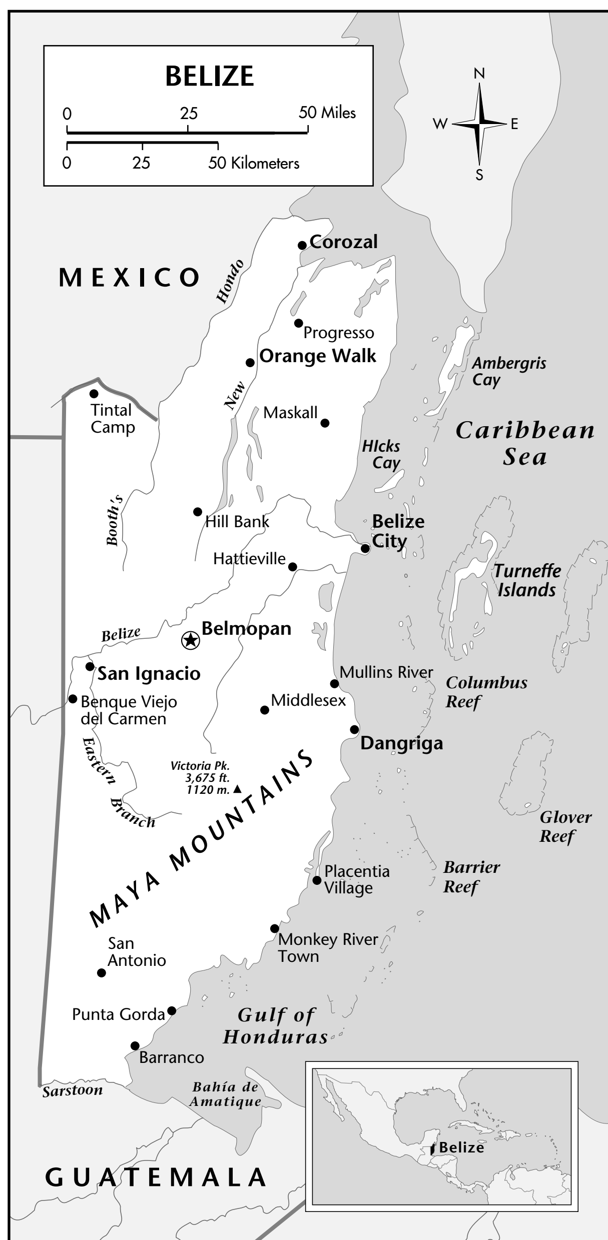
OVERVIEW OF ECONOMY

In 1999, Belize's GDP grew at a quick pace, reaching to US$740 million. The per capita income (at PPP) was approximately US$3,100 a year (1999 est.). Economic figures for 2000 were expected to drop due to damage stemming from Hurricane Keith, which caused massive damage to the primary agricultural sector. In addition, the country had US$244 million in **foreign debt**.

Well into the 1900s, Belize depended on forestry to sustain its economy. When timber supplies began to dwindle, cane sugar emerged as the main source of foreign exchange. Although a majority of the arable land in Belize had still not been cultivated in 1999, agriculture was one of the most vibrant sectors of the economy, contributing 13.4 percent of GDP. Sugar was the leading export earner, bringing in approximately 50 percent of all domestic export revenues and accounting for half of all farmland in Belize.

While sugar production remained a staple in the last half of the 1990s, agricultural performance was accentuated by the production of citrus fruits (primarily oranges and grapefruits), which nearly doubled between 1995 and 1999. Bananas, the second most important crop, accounted for 16 percent of total exports in 1999.

The performance of agricultural products was enhanced by preferential access to U.S. and European markets. Under the Caribbean Basin Initiative (CBI), which was launched in August of 1990, products derived from citrus fruits, such as frozen concentrated juices, enjoyed



duty-free access to American markets. Sugar and banana producers also relied on favorable quotas to maintain high export levels to the European Union. This preferential access was called into question in 1995 when the World Trade Organization (WTO) ruled that the European Union (EU) went against free trade legislation by giving preference to Caribbean banana exports. In preparation for the potential loss of this particular market, Belize began to diversify its exports, increasing the farming of nontraditional crops such as chili peppers, papayas, and vegetables.

The manufacturing base in Belize is fairly limited, accounting for only 9 percent of the employed **labor force**; however, initiatives have been taken to stimulate growth in the sector. An Export Processing Zone (EPZ) allowing for the duty-free import of equipment and machinery was established near the international airport at Belize City, and a commercial **free zone** providing similar tax exemptions was set up at Corozal, along the Mexican border. The government in Belize took significant steps to shore up the country's **infrastructure**, promoting tourism and attracting foreign investment. In 1999, some 185 U.S. companies had operations in Belize. Tourism has risen steadily, and was the fastest growing sector of the Belizean economy in 2000.

POLITICS, GOVERNMENT, AND TAXATION

The first settlement in Belize was established by a shipwrecked British seaman in 1638. The British government began administering the territory in 1786 and made it a crown colony in 1871. Self government in Belize was first granted by the British in 1964, when the country was still known as British Honduras. In 1973 the country's name was changed to Belize, and by 1974 a 2-party political system had emerged. This system continued after Belize gained independence from Britain on 21 September 1981. At the time of independence, Guatemala claimed a portion of territory on the western border of Belize. This border continues to be a point of contention between the countries, even after Guatemala formally recognized Belize's independence in 1991.

Under the independence constitution of 1981, the executive branch of the government is made up of the prime minister and the cabinet. Cabinet ministers are members of the majority political party in the Parliament, or National Assembly, which is made up of 2 houses: a 29-member House of Representatives, and a Senate of 8 appointed members.

A parliamentary democracy, Belize is a member of the British Commonwealth. The head of state is Queen Elizabeth II. She is represented in Belize by a governor-general, whose role is largely ceremonial. In 2000, Sir Colville Young held the post. Chief administrative duties fall to the prime minister, a position held by Said Musa, elected in August 1998.

The country's 2 main political parties are the People's United Party (PUP), established in 1950, and the United Democratic Party (UDP), which was established in 1974. The UDP is considered the more conservative of the 2 parties. It has a strong following in the urban Creole population. The PUP grew out of the trade union movement and has traditionally drawn support from the mestizo population. Both parties have curbed government spending to lower the deficit and they have financed this deficit with foreign aid. Both parties have sought to ex-

pand the manufacturing base, and have tried to diversify trade. The 2 parties differ on tax policy.

The UDP, after winning elections in 1993 for only the second time in history, levied a 15 percent **value-added tax** (VAT) on goods and services. This VAT was instituted to offset revenue losses stemming from Belize's entry into the Caribbean Community (CARICOM) in 1974, which had lowered import and export **tariffs**. The move was strongly criticized by the PUP, and during the run up to the 1998 election, the PUP vowed to repeal the tax. The PUP won the 1998 election, taking 26 of the 29 seats in the House of Representatives, and Said Musa became the country's prime minister.

Musa's administration made good on election promises. The VAT was abolished and replaced by an 8 percent sales tax. Taxes on the purchase of petroleum products, alcohol, and tobacco increased. Foods and medicines, as well as basic utilities such as water and electricity, were exempted from the tax, as were small businesses. The personal **income tax** was reduced to a maximum level of 25 percent. PUP officials hoped the tax policy would stimulate business activity and raise consumer spending so that government revenues would increase despite lower tax rates. The PUP also promised to decentralize government power, build 10,000 new houses, and create 15,000 new jobs.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

There are 1,594 miles of roads in Belize, 303 of which are paved. Of the 4 main highways in Belize, 2 provide border crossings into Mexico and Guatemala. All the main towns and villages are linked to the capital, Belmopan, and to Belize City. Some roads, including major sections of highway, are vulnerable to damage or closure during the rainy season. The road network in Belize was improved in the 1980s, but not enough to support a significant growth in travel, tourism, and manufacturing. A US$14.7 million renovation of the Southern Highway began in 1998. Another US$8.5 million was allocated for the construction of a bypass road and 2 bridges in northern Belize. Funds from the United States Agency for International Development (USAID) were used to improve rural access roads. There is regular bus service to and from all main towns.

Belize has 10 ports of entry, the largest of which is at Belize City. Nine major shipping lines run cargo services in and out of Belize City. The main southern ports are at Punta Gorda and Big Creek. The Philip Goldson International Airport, 9 miles from Belize City, handles a majority of the country's commercial air traffic. The airport is served by 3 international carriers: American Airlines, Continental Airlines, and Grupo Taca. From Belize, direct flights are available to Miami, Houston, Dallas, and San Salvador.

The communications network in Belize is extensive. Belize Telecommunications, which was **privatized** between 1988 and 1992, operates the network and provides modern service to the entire country. The number of subscribers grew from over 3,300 in 1995 to over 30,000 in 1999. Cell phone and Internet use are on the rise. There are no daily papers published in Belize, but there are 2 main weeklies: the *Belize Times,* which is sympathetic to the PUP, and the *Guardian,* which favors the UDP. The Broadcasting Corporation of Belize ran only 2 radio stations before it was privatized in 1998. As of 2000 there were 15 radio stations. Television viewers have access to a number of local television stations as well as cable television, which provides up to 50 international channels.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Belize	31,000	3,023	AM 1; FM 12; shortwave 0	133,000	2	41,000	2	12,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Mexico	9.6 M (1998)	2.02 M (1998)	AM 865; FM about 500; shortwave 13 (1999)	31 M	236	25.6 M	51	2.5 M
Guatemala	665,061 (2000)	663,296 (2000)	AM 130; FM 487; shortwave 15 (2000)	835,000	26	1.323 M	5	65,000

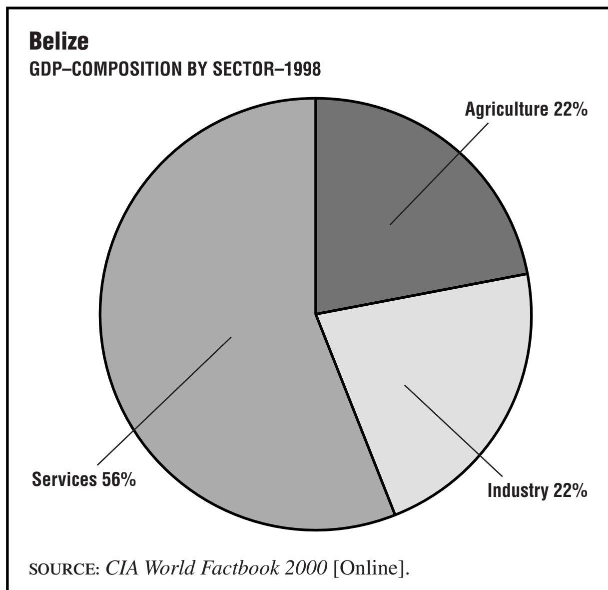
[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

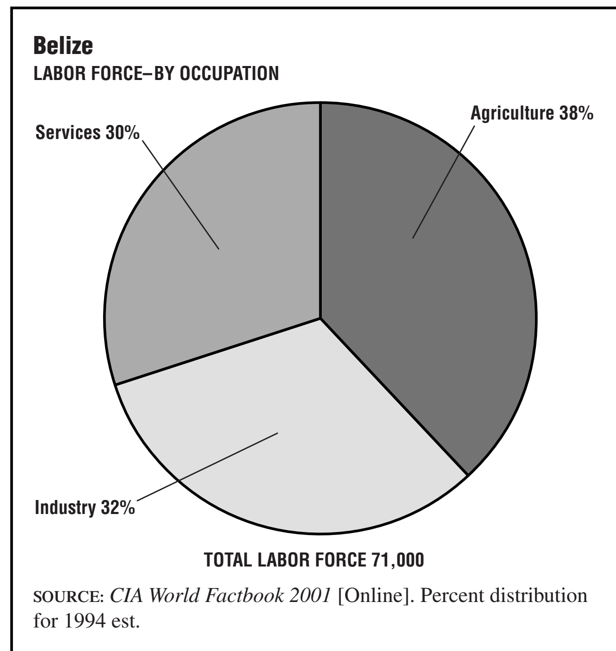
Residents in Belize receive their energy from Belize Electricity (BEL), which, after power sector reforms in 1992, emerged as the single producer and distributor of electric power. In 1999 the government gave up majority control of the company, selling a portion of its shares to the public and the rest to Fortis of Canada, boosting Fortis's ownership to 62.96 percent. The majority of Belize's fuel needs are met through the import of oil from the United States.

ECONOMIC SECTORS

While efforts to diversify the Belizean economy are underway, the leading economic sector is still agriculture, leaving the country's economic performance vulnerable to fluctuations in international demand and shifts in commodity prices. To bolster economic stability and increase foreign investment, the Belizean government targeted tourism as its primary growth sector. An intensive marketing campaign was launched on U.S. television in the late 1990s to attract visitors, and loans were secured for the restoration of archeological sites. Manufacturing is another sector that has been targeted for growth. Manufacturing proceeds made a solid contribution to the GDP, but in 1998 industry employed only 32 percent of the labor force, less than the 38 percent employed in the agricultural sector. Mining is limited because of a lack of extensive resources. Construction activity increased in 2000 due to reconstruction from Hurricane Keith, but contracts for major projects are often awarded to overseas firms who generally have more building experience and wider access to skilled labor.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1994 est.

AGRICULTURE

Agriculture, which employs over one-third of Belize's labor force, is vital to the country's economy, accounting for nearly 22 percent of the GDP in 1999 and about 68 percent of export earnings.

Sugar is produced in the north of the country and is the nation's largest agricultural export, accounting for 50 percent of domestic export revenues and half of all arable land use. Preferential quotas and tax rates on sugar exports granted by the United States and the European Union have kept sugar revenues high. The United States bought 16,772 tons and the European Union bought 39,400 tons of sugar from Belize in 1999.

Fruits, such as bananas, oranges, and grapefruits, are the country's second largest agricultural export. Fruit production, which occurs in the Stann Creek Valley, is affected by weather and international market conditions. For example, Hurricane Keith caused great setbacks in the agricultural sector in 2000. Also, export revenues rose to record levels in 1995–96, but as international prices fell, earnings slumped. Citrus concentrate and bananas enter the United States duty free under the Caribbean Basin Initiative (CBI). Recent developments in the industry could make the citrus sector more competitive against the banana market. In 1998–99, 2 citrus companies were purchased by the Commonwealth Development Corporation (CDC). The company wants to increase citrus production by making factories more efficient and by rehabilitating existing groves.

Banana production is significant, accounting for 16 percent of total exports in 1999. Production was controlled by the state-run Banana Control Board until 1991. It was then taken over by a growers' association which, through efficient management, raised banana production to record levels by the mid-1990s. Other export crops include assorted vegetables and tropical fruits, chili peppers, papayas, and organic cocoa.

Increased rearing of livestock has helped Belize become self-sufficient for fresh meat and poultry products. Belizean slaughter houses produced 3.3 million pounds of beef in 1999, along with 1.9 million pounds of pork. Some of this output was exported to Honduras and Guatemala. Despite increased production, processed meats were still imported from the United States. Fishing is an important component of the economy, providing food for domestic consumption as well as an important source of foreign exchange. Belize exported over 5,200 tons of marine products in 1999, most of it lobster and shrimp.

The timber industry, which once dominated the economy, has continued to struggle, contracting 6.9 percent in 1999. While 79 percent of Belize is covered by forest and woodlands, only 15 percent is suitable for timber production. Sawnwood exports earned only US$2.1 million in 1999, approximately 1.3 percent of total export revenue.

Most farms in Belize are small, less than 20 hectares. Government financing has generally favored large export-producing farms, making it difficult for small farmers to obtain capital for improvements. To help remedy the situation, the government (in November of 1998) created the Small Farmers and Business Bank to meet small farmers' needs.

INDUSTRY

MINING. While gold, bauxite, barytes, and cassiterite do exist in Belize, they are not found in sufficient quantities to render them commercially viable. Dolomite limestone, which is used as road ballast and agricultural fertilizer, was the only mineral exploited in 2000. Agricultural-grade dolomite is sold on the domestic market to banana and citrus producers. It is also exported to the Windward Islands and Jamaica. Belize Minerals, the main local producer of dolomite, has sought new export markets in Central and South America, and has tried to produce a different grade of dolomite for use in the steel industry.

MANUFACTURING. The manufacturing sector in Belize was targeted for growth, but in 1999 was still fairly small. Most manufacturing is done for domestic consumption. Export production generally involves the processing of agricultural products or the assembly of garments from imported fabric for **re-export** to the United States under the CBI. The assembly sector in Belize has had trouble competing with low-cost producers, especially those in Mexico. Between 1993 and 1995 earnings in the sector dropped 50 percent.

CONSTRUCTION. The government pledge to build 10,000 new houses, along with commitments to improve the infrastructure, stimulated increased activity in the construction sector, but contracts were primarily awarded to foreign firms that had more highly skilled workers and more building experience. Reconstruction after Hurricane Keith in 2000 was expected to produce a leap in construction activity.

SERVICES

TOURISM. Belize has all the ingredients of an attractive holiday destination. It has a mild climate, calm blue waters, and a large barrier reef that is ideal for scuba diving. It is also home to jungle ecosystems and ancient ruins. The government, wishing to capitalize on these attractions, targeted the tourist industry for expansion.

In 1996, Belize ratified the Munda Maya agreement with Honduras, Guatemala, El Salvador, and Mexico, pledging cooperation in the management of Mayan archeological sites. In 1997 Belize launched a marketing campaign to attract visitors, producing commercials for American television and putting ads in U.S. magazines. And in 1999, the country obtained a US$11.4 million loan from the Inter-American Development Bank (IDB) to further advance the sector's development. That same year, the government was planning to build a tourist village in Belize City which would cater primarily to cruise ship passengers who come to shore for brief periods of time.

In 1995, 121,270 people visited Belize. By 1999, that number had increased to 167,096, a majority of which were Americans. Cruise ship arrivals, which numbered 7,953 in 1995, had risen to 34,130 by 1999. By the end of the decade, tourists were contributing over US$100 million a year to Belize's economy. In 1999, 1,365 jobs (over 30 percent of the jobs created that year) were added in the services sector.

FINANCIAL SERVICES. There are 4 commercial banks in Belize. Belize Bank is owned by Carlisle Holdings. The other 3 banks are subsidiaries of larger foreign banks: Barclays Bank (UK), the Bank of Nova Scotia (Canada), and the Atlantic Bank (Honduras).

There are 2 development banks: the Small Farmers and Business Bank, which was established to help meet the needs of small farmers and businessmen, and the Development Finance Corporation (DFC), which caters to the needs of large-scale producers. The DFC typically directs institutional funds from other agencies such as the Caribbean Development Bank (CDB) to meet the government's development priorities.

Trade (expressed in billions of US$): Belize

	Exports	Imports
1975	.067	.088
1980	.111	.150
1985	.090	.128
1990	.108	.211
1995	.143	.257
1998	.154	.325

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Belize

Belizean dollars (Bz$) per US$1	
2001	2.000
2000	2.000
1999	2.000
1998	2.000
1997	2.000
1996	2.000

Note: Fixed rate pegged to the US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Small enterprise owners who are in need of credit or technical assistance can also receive help from the National Development Foundation of Belize, a lending institution that was established from grant funds from the U.S. Agency for International Development (USAID).

INTERNATIONAL TRADE

Belize is highly dependent on the United States and Great Britain for trade. These 2 countries alone bought 80 percent of Belize's exports in 1999. That same year, the United States supplied Belize with over half its imported goods.

Due to its limited export base and high degree of dependence on imported goods for much of its domestic consumption, Belize has run persistent **trade deficits**. In 1999, export receipts amounted to US$182.7 million. This was less than half the import bill of US$374.4 million, resulting in a trade deficit of about US$192 million.

Trade with the United States has been stimulated by Belize's participation in the Caribbean Basin Initiative (CBI), a U.S.-sponsored program to increase investment in Caribbean nations. The initiative allows member countries duty-free access to American markets. Other major trading partners include the European Union, Canada, Mexico, and CARICOM member states.

MONEY

The Central Bank of Belize regulates the primary financial mechanisms of the country, setting **liquidity** and cash reserve requirements and determining the interest rate structure. The Central Bank also regulates most forms of foreign exchange in the country. At the end of September 1996, after receiving a US$20 million loan from Taiwan and issuing a US$10 million regional bond, international reserves in Belize reached an all-time high of US$79 million. Budget controls and high reserves in the early 1990s gave way to increased spending and widening government deficits in 1997–98, putting pressure on Belize's **fixed exchange rate** with the United States. Reserves fell sharply, dwindling to US$43 million by 1998. The declines were reversed in 1999 due to increased borrowing and larger inflows of foreign exchange stemming mainly from the sale of home mortgages to the Royal Merchant Bank of Trinidad. By the end of 1999 monetary reserves had rebounded to US$70.2 million.

POVERTY AND WEALTH

According to a census carried out in 1991, 38,000 people, or about 23 percent of the population, fell below the World Bank Poverty Threshold (meaning they made less than US$740 a year). The same census showed that 7 percent of the population was extremely poor (lacking the sufficient food and rudimentary services to ensure good health). Belize City has traditionally received a disproportionate share of government revenues because of the population representation system. Money is channeled directly into the Belizean Central Bank, and the resulting distorted spending has accelerated population growth in the port city, exacerbating poverty and social problems. The rural populations, particularly in the poorer districts of Toledo, Cayo, and Stann Creek have limited access to basic education, health care, safe drinking water, and sanitation. In 2001, 7 percent of the population was illiterate and 17 percent of the population did

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Belize	1,624	2,036	1,822	2,543	2,725
United States	19,364	21,529	23,200	25,363	29,683
Mexico	3,380	4,167	4,106	4,046	4,459
Guatemala	1,371	1,598	1,330	1,358	1,533

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Belize	27	10	5	3	13	5	38
United States	13	9	9	4	6	8	51
Mexico	30	6	4	2	7	5	46
Guatemala	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

not have access to safe drinking water. Life expectancy for both men and women was 71 years and the infant mortality rate was high, at 28 deaths per 1,000 live births.

WORKING CONDITIONS

Unemployment was estimated at 14.3 percent in 1998, among a total workforce of 71,000. Workers in Belize have the right to organize unions, and the law bars discrimination against employees on the basis of union affiliation. However, it is not uncommon for union sympathizers to be fired on grounds purportedly unrelated to their union activities. Effective redress for workers in this situation is difficult. They can file complaints with the Labor Department, but their cases are often difficult to prove. There were 11 unions in Belize in 2000 whose members comprised about 11 percent of the workforce. While officially the unions are independent of the political parties, most hold strong sympathies for either the UDP or the PUP.

Forced labor in Belize is forbidden by law, as is child labor. Children under the age of 14 are not permitted to enter the workforce, and those under 17 are not allowed to operate dangerous machinery. Children between 5 and 14 years old are required to attend school, although truancy and dropout rates are significant.

There is a minimum wage in Belize which applies to all full-time workers. The wage is generally set at US$1.10 per hour but fluctuates depending on the field of work. Those in the export industries receive at least US$1.00 per hour. Domestic workers in private homes and shop assistants are paid an hourly minimum rate of US$0.87. The minimum wage, as a sole source of income, is not enough to provide a decent standard of living. Most workers are paid more than the minimum. The standard workweek is 45 hours over 6 days. Anything more is considered overtime. Over the course of a year workers are given 13 public holidays and 2 weeks vacation.

Working conditions for documented workers are fairly good. For undocumented workers, especially the Hispanic laborers who make their livings on the banana farms, things can be more difficult. Worker housing on banana farms often lacks running water and electricity. Many times this housing is placed close to the fields, where exposure to pesticides is high. There are health and safety regulations in Belize covering numerous industries. However, enforcement and inspection are generally limited to urban areas or accessible rural areas where violations have been reported.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1502. Christopher Columbus sails along the coast of what is now Belize.

1638. The first recorded settlement is established by a shipwrecked English seaman.

1871. Belize becomes a Crown Colony of the British Empire. The territory is known as British Honduras.

1950. The PUP is founded.

1954. Universal suffrage is introduced.

1961. A ministerial system is established.

1964. The British grant the colony self government.

1973. British Honduras becomes Belize.

1974. The UDP is founded. Belize joins CARICOM.

1981. Belize gains independence and drafts a new constitution. Guatemala claims part of Belizean territory.

1984. The UDP wins elections.

1989. The PUP wins elections.

1991. Belize is admitted to the Organization of American States (OAS). Guatemala recognizes independence.

1992. Belize joins the Inter-American Development Bank (IDB).

1993. The UDP takes over once again, instituting a 15 percent VAT.

1994. Britain withdraws its garrison of 1,200 army and 300 air force personnel.

1998. The PUP comes to power; the 15 percent VAT is abolished and replaced with an 8 percent sales tax.

FUTURE TRENDS

Belizean development was set back by Hurricane Keith, which swept through the country in October 2000. The damage, concentrated primarily in the north, amounted to US$280 million according to the U.N. Economic Commission for Latin America. Promoting recovery in the agricultural sector, the infrastructure, and livestock will require a sustained, massive investment. Increased activity in construction resulting from damages caused by the hurricane was expected to boost the economy by 7 percent in 2001, but **inflation** was also expected to rise due to lowered agricultural production and a rise in the cost of food. The tourism sector will probably suffer until reconstruction is completed, but tourism has been touted as the most optimistic sector of the Belizean economy.

DEPENDENCIES

Belize has no territories or colonies.

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—John Mazor

BOLIVIA

Republic of Bolivia
República de Bolivia

CAPITAL: **Constitutional capital:** Sucre. **Actual capital:** La Paz. (The Supreme Court of Bolivia is permanently located in Sucre.)

MONETARY UNIT: Boliviano (Bs). One boliviano equals 100 cents. There are coins of 10, 20, and 50 cents and Bs1 and 2. (A Bs5 coin is scheduled to be put into circulation sometime in 2001.) Paper bills are for Bs5, 10, 20, 100 and 200.

CHIEF EXPORTS: Tin, antimony, lead, zinc, gold, petroleum, natural gas, soybeans, sugar, coffee, quinoa, rice, vegetable oils, timber, native jewelry, alpaca wool.

CHIEF IMPORTS: Consumer goods, foodstuffs, and agricultural, industrial, and transportation equipment.

GROSS DOMESTIC PRODUCT: US$8.5 billion (1998; Bs47.2 billion, according to the Bolivia report from the IMF). [The CIA *World Factbook 2001* indicates a GDP of US$20.9 billion in 2000, determined at purchasing power parity. The CIA figures are disputed in Bolivia.]

BALANCE OF TRADE: **Exports:** US$1.104 billion (1998); US$1.018 billion (1999 estimated); US$1.459 billion (2000) (according to the National Institute of Statistics of Bolivia). **Imports:** US$1.766 billion (1998); US$1.436 billion (1999 estimated); US$1.976 billion (2000) (according to the National Institute of Statistics of Bolivia). [The CIA *World Factbook 2001* indicates exports of US$1.26 billion (f.o.b, 2000) and imports of US$1.86 billion (f.o.b., 2000). The CIA figures are disputed in Bolivia.]

COUNTRY OVERVIEW

LOCATION AND SIZE. Bolivia is a central South American country. It shares borders with Brazil in the northeast and east; Paraguay in the east and southeast; Argentina in the south; Chile in the west; and Peru in the west and northwest. Bolivia has an area of 1,098,580 square kilometers (424,162 square miles), of which 14,190 square kilometers (5,479 square miles) are water. Bolivia is just slightly less than 3 times the size of the U.S. state of Montana. Bolivia is divided into 3 distinct geographical areas: (1) the high mountains (*cordillera*) with its high plateau (*altiplano*), (2) the intermediate valleys (between the mountains and the lowlands), and (3) the eastern plains of the Amazon and Plate river system.

POPULATION. The population of Bolivia was estimated to be 8,280,000 in 2000. In 1950, it was 2.7 million. The annual population growth rate is 2.2 percent. One of the greatest changes has been the shift from rural to urban areas. It is estimated that currently 65 percent of the population reside in urban locations, and in some urban areas the growth rate has been close to 5 percent. The growth rate of the rural population between 1950 and 2000 has remained at about 1 percent, and in some areas there has been a steady population loss. The cities of La Paz-El Alto (twin cities) have over a million inhabitants: La Paz with 792,000 and El Alto with 405,000. The city of Santa Cruz has a population of 1,300,000, and Cochabamba has 408,000.

There has been a notable exodus of the high plateau (*altiplano*) and mountain (*cordillera*) population to the eastern lowlands. This movement was due mainly to the decline of the mining industry, the harsh climatic conditions, and the availability of land in the east. It is estimated that between 1975 and 1985 about 5,000 families migrated per year, totaling around 300,000 people. The integration of the newcomers of different ethnicity and language (Aymara and Quechua) has been relatively smooth and peaceful. The first generations of these migrants, who moved from an environment of frigid temperatures to a subtropical climate, have maintained their culture to a great extent. About 55 percent of the Bolivian population is composed of people of indigenous lifestyle

(Quechua, 30 percent; Aymaras, 25 percent); there is a small number in the southeast who are Guaranís with their own language. (Guaraní is an official language in neighboring Paraguay.) Those of mixed race (Indian and European origin) comprise 30 percent of Bolivians. Those of European origin (mainly Spanish), plus some from the Near East who arrived between 1890 and 1920 and from the Far East (mainly Japan), make up another 15 percent. Percentages are inexact as people are identified by their ethnic lifestyle, dress, and primary language. There are several main Indian languages of which Quechua is the dominant, Aymara a close second, and Guaraní a distant third. Official languages are Spanish, along with Quechua, Aymara, and Guaraní in the regions where they are spoken. In 1992, 87 percent of all Bolivians could speak Spanish as compared to 78 percent in 1976. About 12 percent can speak only the indigenous languages, compared to 20 percent in 1976. There have been attempts to introduce bilingual education, especially in the rural areas. Financial constraints and the lack of qualified teachers are impediments to full implementation.

OVERVIEW OF ECONOMY

Since the early Spanish period and until recently, Bolivia was a mineral producing country. The silver ex-

tracted from the rich mountain of Potosí was a mainstay of Spain and her colonial empire. There is a saying that, if it were possible, a wide bridge made of pure silver could be constructed from Potosí to Madrid with all the silver that was mined from this fabulous *Cerro Rico.* Currently small quantities are still mined at Potosí. The famous mint, *Casa de Moneda,* in Potosí is a heritage site visited by many tourists. For most of the 20th century Bolivia was one of the largest world producers of tin and tungsten (known in Bolivia as wolfram).

During World War II, the allied nations depended on Bolivian tin since Malaya (today Malaysia), the other leading tin producer, was occupied by Japanese forces. In fact, Bolivia was, until recently, considered a country with a mono-economy (an economy based on a single activity), and it depended on the price fluctuations in the world market of the minerals that it produced. As of 2001, Bolivia has a more diversified economy. Exports of oil and natural gas are important components of Bolivia's exports. Agriculture has also emerged as a large sector and produces many exports, including agro-industrial products which are the fastest growing segment, especially soybeans. Growing conditions on the eastern plains are exceptionally good for soybeans. In 2000 Bolivia's exports rose by 20 percent because of greater production of soybeans and natural gas.

Tourism has consistently increased. Statistics from the *Financial Times* indicate that the country averaged about 250,000 tourists per year in the early 1990s, though Bolivian sources claim a much higher number. Production for 500,000 tourists to visit Bolivia every year which is quite realistic. The country has multiple attractions: traditional societies, fine handicrafts, a great variety of climates with majestic landscapes, preserved colonial sites, a wide diversity of animals and plants, many years of political and economic stability with a rather low crime rate, and reasonable prices. Bolivia has many attractions for **eco-tourism**. However, lack of a good **infrastructure** including poor ground transportation, the presence of illegal coca leaf cultivation (Bolivia often is falsely portrayed as a leading cocaine-producing country), and the high altitudes of western Bolivia (historically and culturally the most interesting part of the country) have impeded more rapid growth in tourism.

A slow but constant growth of the **gross national product** (GNP) and annual per capita income is encouraging. Yet unemployment in early 2001 was 8 percent, and involuntary **underemployment** was around 40 percent. Bolivia is one of the 22 countries that has been classified as a highly indebted poor country (HIPC) by the World Bank and the International Monetary Fund (IMF).

Bolivia tries to cope with its illegal coca leaf production and the needs of its growing population. Coca leaf production has declined a great deal due to the present government's determined policy to eradicate all illegal plants. But in early 2000, there were still 2,300 hectares in production. While Bolivia is still relatively sparsely inhabited, the annual population growth remains 2.2 percent. This rate is among the highest of the South American countries and needs more attention. Improvement in basic education, reduction in poverty, underemployment, and the level of corruption are also priorities which concern the people and government of Bolivia. Vibrant and free media bring Bolivia's weaknesses and strengths to local, national, and international attention.

COCA. The coca leaf is the basic ingredient for producing cocaine. Several decades ago Bolivia was the largest producer of the coca plant, from which the leaves are harvested. In the 1970s when cocaine became a valuable product in the international drug culture, the coca leaf assumed an importance that it never had before. Bolivia became an important country for the illegal production of cocaine because it grew the basic ingredient—the leaf. Coca plants suddenly became an important element in the Bolivian economy and politics.

Historically, coca leaves were cultivated as early as the pre-Inca epochs. They were used with frequency, mainly by the Indian population, to help alleviate hunger and the effects of the frigid temperatures and the altitude. The leaves are legal, and in modern times are used to make coca tea which is thought to help altitude sickness and stomach ailments. But also in modern times the leaves can be converted into coca paste which is then made into cocaine. In general, Bolivia is not a cocaine-producing nation. The leaves are harvested and illegally sold to those who convert it into paste and then into cocaine outside of Bolivia (although some paste is now made in Bolivia). Since the demand for coca leaves increased rapidly in the 1980s and 1990s, growing and selling more than was needed for traditional internal consumption became illegal. So coca leaf production was classified as "legal" (for the traditional use) and "in excess," avoiding the locally unpopular term, "illegal."

The cultivation and sale of the illegal crop became an undetermined but appreciable part of the Bolivian economy and exports. It is often claimed that in the 1980s coca leaf (and some paste) exports equaled or surpassed all legal exports, coming to at least 15 percent of Bolivia's real revenues. The Bolivian government estimates that coca-leaf production expanded from 1.63 million kilograms from 4,100 hectares in 1977 to 45 million kilograms from 48,000 hectares in 1987. The number of growers rose from 7,600 to about 40,000. Most of this took place in the central sub-tropical region of Chapare (the transitional area from the mountainous valleys to the eastern lowlands), which is well-suited for producing leaves of high acidity—a characteristic that is desirable for making cocaine.

In 1988, a new law allocated 12,000 hectares in the Yungas region east of La Paz for the legal growth and harvesting of coca leaves for traditional use in Bolivia. Coca grown in the Yungas region lacks acidity—a characteristic that is preferred for traditional uses. Incentives were provided with U.S. aid to convert the illegal farming, mainly in the Chapare, into productive crops such as bananas, pineapples, and hearts of palm. In 2000, Bolivia and the United States claimed that about 40,000 hectares of coca had been eradicated and the land converted into new crops since 1998 in the Chapare. The goal is to eliminate all illegal coca by 2002. In February 2001, the Bolivian government claimed that all "in excess" coca production had been eradicated, but the responsible Bolivian media claimed that 2,300 hectares of illegal coca plants still were in production in early 2001. The government also stipulated that the legal coca harvest in the Yungas can be bought only by 700 registered retailers. Currently, Bolivia has had commendable success in a noticeable reduction of illegal coca plants. However, protests by the growers of "in excess" coca, most of them modest farmers, continues.

POLITICS, GOVERNMENT, AND TAXATION

Bolivia gained independence from Spain in 1825. It has had 61 presidents, 1 of them a woman, Lydia Gueiler Tejada (1979–80). Some held the office more than once, consequently making 79 governments. The shortest were a few days long, the longest 10 years. Only 37 presidents came to power by legal means; the others gained the presidency by revolution. Most of the revolutions were simple bloodless palace revolutions (coups d'etat). A few presidents who achieved power by revolution were later elected legally, including President Hugo Banzer, who was elected in 1997 for a 5-year term. He had been a military dictator from 1971 to 1978. Bolivia has had 18 constitutions; the last one from 1967 was extensively amended in 1994.

The significant revolution of 1952 which introduced great economic, political, and social reforms was engineered by the Movement of the National Revolution (MNR) Party. The MNR is still one of the dominant parties although it has splintered. One splinter is the Movement of the Revolutionary Left (MIR), which is far more moderate than its name implies. It held the presidency between 1989 and 1993, and then the MNR returned to power. In 1997, ex-dictator Hugo Banzer won the presidency as a candidate of the Democratic National Action (ADN) Party, which is considered right of center, forming a coalition with the left of center MIR and several smaller parties. In the forthcoming election of 2002 the MNR, MIR, and ADN are expected to present candidates, as will some other parties which have little hope of winning. These others can be defined as 6 leftist parties, 3 populist parties, 1 evangelical party, and 3 indigenous parties. The indigenous parties have been quite visible with colorful public demonstrations and displays but have little broad support.

Candidate, leader of the MNR party, and president (1993–97), Gonzalo Sánchez de Lozada was educated and lived in the United States. The MNR shifted its leftist and nationalist tendencies to a more centrist position that was devoted to **privatization** and globalism (generally identified as neo-liberalism). This charge produced lively debates and intense political activities which have continued into the Banzer presidency. Banzer's coalition government has only fine-tuned the policies of his predecessor, with much emphasis on the eradication of illegal ("in excess") coca plants and the substitution of other crops that are useful for export. Former president Sánchez de Lozada is a leading candidate for the presidency in 2002. Another leading candidate is the MIR leader Jaime Paz Zamora who was president from 1989 to 1993.

The main source of government revenue is taxation. According to the IMF Bolivia report of 2000, the total revenues of Bolivia in 1998 represented 24.8 percent of its GDP, with tax revenues at 19.5 percent of the GDP. In 1998, **indirect taxes** constituted 47.4 percent of tax revenues, including the **value-added tax** (VAT) with 29 percent, **excise taxes** with 6.7 percent, and transaction taxes with 8.4 percent. Transaction taxes are often known as stamp taxes. Taxes from hydrocarbons provided 23.8 percent of total taxes, mining royalties only 0.04 percent, and customs **duties** 7 percent. Personal income and property taxes constituted 6.9 percent, and corporate income and property taxes were 0.1 percent.

Personal **income tax** is a flat 13 percent, but for everyone there is a basic deduction of 2 minimum salaries. (As of January 1998 the minimum salary was Bs300 per month.) The VAT tax paid for personal consumption is deductible from the income tax with proper receipts. There is a social security system which was reformed and partially privatized in 1997. Employees must contribute 12.5 percent of their salaries with a ceiling of 60 minimum salaries (computed as US$415 a month). There are no local income taxes and no joint filing for husband and wife.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Bolivia has a changing infrastructure. Communication has rapidly adapted to new technology, as exemplified by the continued rapid growth of cellular phone use. At the same time some of the traditional and still useed infrastructure has deteriorated, especially the fine railway system in western and central Bolivia whose construc-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Bolivia	55	675	116	N/A	27	N/A	7.5	0.47	78
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Peru	84	273	144	14.1	30	N/A	18.1	3.09	400

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

tion started in 1877. In 1976 diesel engines replaced steam locomotives.

The 3,685-kilometer (2,290-mile) single track railroad, most of it narrow gauge, has 2 unconnected systems. The Western Network, built much earlier, connects La Paz with Cochabamba and the Chilean ports of Arica and Antofagasta. It also connects with Argentina. In bygone days a railroad journey from La Paz to Buenos Aires was popular and comfortable. The Eastern Network connects the city of Santa Cruz to Sao Paulo, Brazil. Another line goes from Santa Cruz to Argentina. Many attempts to connect the 2 systems with a link from Cochabamba to Santa Cruz have never succeeded. The same is true of the so-called “inter-oceanic corridor” that would go from the Brazilian Atlantic coast to the Chilean Pacific coast, passing through Bolivia. Currently most Bolivian railroads are in disrepair. In 1964 there were 103 locomotives, but only 34 in 1995. The Bolivian railway system was a state corporation known as ENFE. In 1991, a Japanese study estimated that upgrading the railway system would require US$46 billion over 30 years. Hopes to privatize and capitalize the system were only partially accomplished when in 1995 the Chilean consortium, Cruz Blanca, acquired 50 percent of ENFE. By 1999, Bolivia again had 55 operating locomotives with around 2,000 railway cars. The passenger load was 750,000 in 1992 and is still below 1 million per year. Freight also has declined sharply.

Currently most Bolivians travel by inter-city buses, called *flotas.* There are many private bus companies, large and small. Those who can afford it go between the principal cities by air, and if going on to a nearby small town use the *flota.* Until 1992, there was a single national airline owned by the state, Lloyd Aereo Boliviano (LAB), established in 1925 and one of the oldest airlines in the Americas. As with the railroads it was capitalized and privatized when 50 percent was acquired by the Brazilian airline company, VASP. The completely private company, Aerosur, competes with LAB for internal flights. The Bolivian armed forces operate Transportes Aereos Militares (TAM) which carries paying passengers. In 1999, LAB still had 65 percent of the customers. LAB also flies to the United States (Miami) and neighboring South American countries. About a dozen foreign airlines fly to the 3 Bolivian international airports, La Paz/El Alto, Cochabamba, and Santa Cruz which have runways over 3,050 meters long. An Argentine airline flies to Tarija which is close to Argentina and Paraguay. The *World Factbook* claims that Bolivia has 1,382 airports, of which 1,016 have paved runways of under 915 meters. Many of these are little used.

Bolivia is an inland country but has free port privileges in Argentina, Brazil, Peru, and Chile, and river ports in Paraguay. There is some shipping on the large inland lake, Titicaca, which also carries many tourists between Bolivia and Peru. Navigation on the many large rivers that are part of the Amazon and Plate river systems is unorganized, underdeveloped, and uncounted but offers much potential with small, primitive river ports currently available. Navigation is possible on about 19,000 kilometers (11,806 miles) of the rivers.

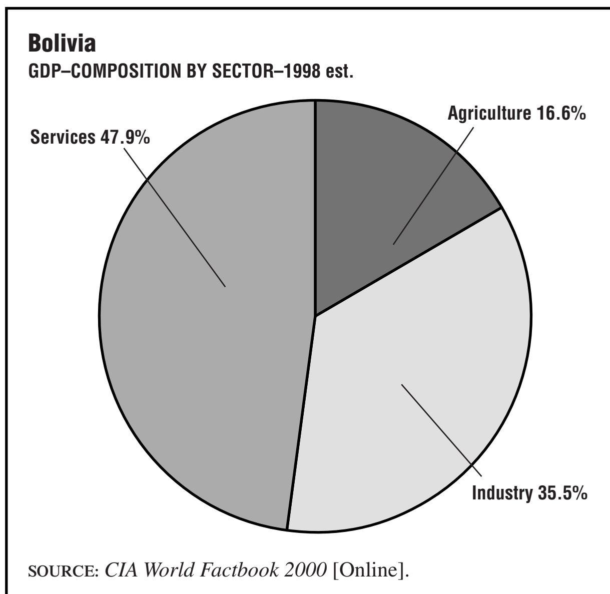
Bolivia has about 43,000 kilometers (26,720 miles) of highways of which only 2,000 kilometers (1,242 miles) are paved. In recent years, Bolivia has made highway construction and maintenance a priority. Bolivia’s electric power generating capacity is rated at 787 megawatts. Electricity consumption in 1998 was 2,412 billion kilowatt-hours. The state electric agency, ENDE, was also capitalized and privatized by 3 U.S. consortia in 1997. The state-owned long distance telephone company, ENTEL, was purchased in 1995 by an Italian firm. ENTEL has a **monopoly** until 2001. It is an active cellular phone provider, with service among the cheapest in Latin America. In 1998, there were 27 cellular phones per 1,000 inhabitants (in 1996, 18 per 1,000), and use is growing at an ever increasing rate. Local traditional phone calls are managed by local owner cooperatives but are state regulated. In the largest cities (La Paz, Cochabamba, and Santa

Cruz) 3 of these are responsible for 85 percent of all local calls. In 1987, Bolivia had 145,000 telephones, which grew to 370,000 in 1996. The use of computers is also accelerating. In 1998, there were 7.5 per 1,000 inhabitants. Televisions are 116 per 1,000 (about one-quarter are black and white) and radios 675 per 1,000. Bolivia has 18 significant newspapers. Currently it is reported that there are approximately 190 radio stations and 60 TV stations.

The privatization of the state-owned LAB, ENFE, ENDE, and ENTFL has created much controversy and is an important issue in present-day Bolivian politics.

ECONOMIC SECTORS

Bolivia is a country known for its great contrasts, and that reputation also applies to the country's economy. An often cited remark attributed to an early traveler is that Bolivia is a "beggar sitting on a golden throne." There is a core of truth to this comment. Its fabulous riches have often served Bolivia badly. Since independence in 1825, Bolivia has lost close to 50 percent of its national territory, including its Pacific coast, to its neighbors who coveted the riches. But Bolivia is still rich in resources. In March 2001, the excellent newspaper *La Razón* of La Paz stated that Bolivia has recently been identified as the country with the largest petroleum deposits in South America. It reported that Bolivia has a possible 70 trillion cubic feet of reserves, surpassing those of Venezuela. Yet Bolivia is among the 2 dozen countries in the world that has been classified as a highly indebted poor country (HIPC) by the World Bank. Bolivia is one of 8 countries that is now receiving full HIPC assistance since it has fulfilled all the World Bank requirements for debt reduction aid.



SOURCE: *CIA World Factbook 2000* [Online].

Traditionally Bolivia's main economic sector was mining, and a decline in mining brought severe hardships aggravated by political instability, nationalist rhetoric, and a rapid increase in the cultivation of coca to serve as a basis for cocaine. In recent years, however, the economy has been diversified, led by increased agricultural production, especially in the fast developing eastern lowlands, with much of the output destined for export. Nearly all of the illegal coca production has been curtailed. Natural gas and oil are developing. For example, according to *La Razón,* exports of natural gas to Brazil increased by 170 percent from early 1999 to early 2001.

Reducing the high level of poverty is a priority of all economic and political sectors and is supported by ample foreign aid from many countries who welcomed Bolivia's economic prudence in the 1990s.

AGRICULTURE

Agriculture remains an important sector of the total. In the 1990s, it represented about 16 percent of the Bolivian economy. Estimates showed a 3.5 percent decline in 1998 because of adverse weather conditions, but a 2.6 percent growth was predicted for 1999. Bad weather in 2000 and 2001, especially the worst rains in many decades, will have a serious impact. Agro-industrial products have the fastest growth of Bolivia's exports. The eastern Amazon plains are rich in nutrients that yield above average harvests, such as 2.5 to 3 metric tons per hectare for soybeans, compared to the usual 1.5 metric tons elsewhere. At the same time, the climate allows 2 harvests per year. Much of the soybean crop is processed into oil, flour, and animal feed. The annually increasing soybean and soy products output and their export represent a most promising element in the Bolivian economy.

Modern agro-industrial activity in the east stands in contrast to traditional small-scale and **subsistence farming** in the mountainous west, especially on the cold and windy high plateau (*altiplano*). There farming has been in crisis for decades. One positive element is the great increase of quinoa production. This traditional, nutritious grain is grown only at high altitudes and has been used for thousands of years by the local inhabitants. Production has grown an average 20 percent per annum in recent years, as quinoa has become popular as a health food in the United States, Canada, and Europe. In 1992, over 2 million kilograms were exported. There also has been a much greater demand, stimulated by exports of sweaters and textiles, for alpaca wool. (The alpaca is a type of llama indigenous to the *altiplano*.) In 1994, exports of alpaca wool came to US$4 million, and they have been rising. Bolivia, Peru, and Ecuador are the countries in

which the potato originated and from which it was taken by the Spanish to Europe. With over 100 varieties, potatoes represent the most traditional crop of the subsistence farming in the western high mountains and the *altiplano.* Other agricultural products of Bolivia are coffee, cocoa, corn, sugarcane, rice, tropical fruits, temperate climate fruits from the transitional central valleys, especially Cochabamba, and a variety of timber. Legal coca must also be included. Coca leaves are used in coca tea (legal) which is used for medical purposes mainly against effects of the altitude and against diarrhea.

INDUSTRY

MINING. Until recently mining has been the mainstay of the Bolivian economy. In the 1940s, minerals constituted over 70 percent of Bolivia's exports, mainly tin and tungsten. During World War II, the Allied Powers depended on Bolivian tin.

In the past, Bolivia was considered a mono-economy, but minerals currently constitute a smaller part of Bolivia's exports, declining to below 40 percent and to less than one-third of Bolivia's foreign exchange. But recently mining regained a larger share because of increased extraction of gold and especially zinc. Zinc production in 1997 was 154,230 metric tons. Still, in 1997 mining represented only 5.5 percent of the GDP; that production consisted of zinc, gold, lead, tin, antimony, tungsten, silver, copper, cement, and ulexite (a white crystalline mineral). There are expectations of developing Bolivia's large iron reserves. El Mutun, a 40,000 metric ton deposit located close to the Brazilian border, is considered one of the largest in the world. About 80,000 Bolivians still depend on mining for their livelihood.

The 1952 Bolivian Revolution **nationalized** most of the mines, then owned mainly by 3 men usually identified as the Tin Magnates. A state mining agency, Corporacion Minera Boliviana (COMIBOL), was established and in the 1980s was responsible for two-thirds of Bolivia's mining output. In the late 1980s, Bolivia slowly began to capitalize on and privatize mining, and by the mid-1990s COMIBOL's share of mineral production had fallen to less than 30 percent. COMIBOL's bloated workforce, which had reached about 30,000 in 1984, was reduced to under 3,000. At the same time **joint ventures** between COMIBOL and private concerns came into existence. In 1997, COMIBOL produced 30.6 percent of the declining tin production and only 4.3 percent of the increasing zinc production; all other mineral production was by private enterprise.

Petroleum and natural gas are now important in the Bolivian economy, making up 5.6 percent of the GDP. The State Petroleum Corporation (YPFB) is no longer the largest producer, though, since the 1996 Hydrocabon Law permitted capitalization and privatization of YPFB as well as concessions to foreign companies, most of which are from the United States, Brazil, and Argentina. In 1998, petroleum production was 12,628,000 barrels of which the YPFB share was 7,110,000. Natural gas production in 1998 was 109,673 million cubic feet of which 99 percent was from private enterprise. Starting in 1999, the US$450 million, 488-kilometer (303-mile) gas pipeline permitted exports to Brazil. Bolivia's hydrocarbon production satisfies national demand, with roughly one-third available for export, mainly to Brazil and Argentina. According to official sources in Bolivia, the country hopes to become the natural gas distributor for the Southern Cone (southern nations of South America).

MANUFACTURING. The principal manufactures have hardly changed in several decades. Growth is related to population growth, and from 1990 to 1996 the annual increase in manufacturing averaged 4.6 percent per year. Traditional woolens, weavings, leather goods, and jewelry generally grew more because of their greater popularity outside Bolivia and with tourists whose numbers to Bolivia also increased.

The manufacturing industry represents 16.8 percent of the GDP. In 1997, according to the Bolivian Statistical Institute, there were 1,725 manufacturing enterprises with at least 5 workers, altogether employing 52,000 people. This number represents 15 percent of the Bolivian **labor force**. The 330 manufacturers that had over 50 employees accounted for 36,000 workers. In 1997, total industrial output was valued at US$1.03 billion. Manufacturing sectors include food and beverages and tobacco; textiles, clothing, leather and footwear; wood products and furniture; printing and publishing; industrial chemicals and pharmaceuticals; and plastic, glass, and rubber products. Most of the manufacturing industries are located in the cities, especially in La Paz/El Alto, Cochabamba, and Santa Cruz. Except for traditional jewelry, leather, and woolen goods, the manufactured goods are mostly for internal consumption.

SERVICES

TOURISM. Bolivia is a popular destination for tourists who are motivated and somewhat hardy. Tourism is a growth industry because of the country's many attractions. There are traditional cultures; antiquity sites; preserved colonial villages, towns and cities; diverse climates with majestic scenery; a variety of flora and fauna with good fishing in the rivers and lakes; availability of exquisite textiles and jewelry; sports like trekking, mountain climbing to over 6,000-meter peaks, skiing, and rafting; and camping in rather undeveloped but unforgettable national parks. Bolivia is ideal for eco-tourism. The country has, at 6,000 meters, the highest ski slope (Chacaltaya)

in the world near La Paz. Among the popular tourist spots are the pre-Inca ruins of Tihuanaco, Lake Titicaca, the still preserved colonial cities of Potosí and Sucre, and the colonial Jesuit missions in the eastern lowlands. Then there is La Paz, the highest capital city of the world; Cochabamba, often called the "city of eternal spring"; and dynamic Santa Cruz, the large urban center of the eastern lowlands. Numerous local fiestas draw many visitors, the best known being La Diablada in Oruro during carnival week. New attractions for some tourists are the locations where the celebrated 20th-century **Marxist** leader Che Guevarra was captured and mortally wounded, and the stark village of San Vicente on the windy *altiplano* where in 1908 the romanticized U.S. outlaws, Butch Cassidy and the Sundance Kid, were ambushed and killed.

In 1997, 375,000 tourists visited Bolivia. Of these 60 percent came from the Americas, 35 percent from Europe, 4 percent from Asia, and 1 percent from Africa. Income from tourism in 1997 was US$180 million. Bolivia would like to boost this to US$1 billion by 2005. The government is actively promoting tourism and encouraging tourists to stay longer and also make it a prime destination. Most tourists spend only a few days in the country, combining their visit with longer stays in the neighboring countries.

FINANCIAL SERVICES. By mid-1995, Bolivia's Superintendency of Banks reported 58 financial institutions. In 1995, banking assets totaled US$4 billion, representing a growth of 11 percent from the previous year. In 2000, the assets came close to US$5 billion. The Superintendency had licensed 17 banks and 13 savings and loan institutions. Later 2 banks, Banco Sur and Banco Cochabamba, went into receivership, and 2 banks, Multibanco and Banco La Paz, were absorbed by Citibank and Banco de Crato, respectively.

These events highlighted the importance of the Superintendency of Banks, a government agency created in 1993. The Superintendency is in charge of the licensed SBEF (Bolivian Banking and Financial Institutions) which includes licensed banks, savings and loan institutions, credit unions, and small financial service institutions. Of the licensed banks 6 are responsible for 71 percent of all transactions (Banco de Santa Cruz, Banco Industrial, Banco Hipotecario Nacional, Banco Nacional de Bolivia, Banco Mercantil, and Banco Boliviano Americano). The director of the Superintendency is appointed by the president of the Republic from nominees presented by the National Senate, who must choose them with at least a two-thirds vote. The person selected by the president must then have the approval of the lower house of the Congress. The director is appointed for 6 years. A new director was selected and appointed in March 2001. The Banco Central, the national bank, is in charge of issuing and controlling the Bolivian national currency and is not under the control of the Superintendency of Banks.

RETAIL. Bolivia, like most nonindustrial nations, has not developed the **retail** sector. Its larger cities have many retail stores, most of them family owned. There are hardly any chain or international franchise stores. Small towns have basic stores that are privately owned. Bolivia is a country of small traders and street vendors. The town markets are most important and draw numerous vendors, traders, and **hawkers**. These shopping areas are well regulated by the municipalities. Nearly all of them have stalls selling prepared food, which are popular with moderate and low income inhabitants. Probably the largest market is *La Cancha* in Cochabamba, with a few thousand independent traders and all kinds of wares. It has become a popular place for tourists. While it remains impossible to calculate the total business transactions of these individual entrepreneurs, they are an important and dynamic part of the Bolivian economy.

INTERNATIONAL TRADE

In 1998, Bolivia's exports were valued at US$1.103 billion and imports totaled US$1.983 billion. (The CIA *World Factbook* indicates 2000 trade figures of US$1.26 billion in exports and US$1.86 billion in imports.) Chief trading partners for exports were the European Union (16 percent), the United States (12 percent), Peru (11 percent), Argentina (10 percent), and Colombia (7 percent). Imports were from the United States (32 percent), Japan (24 percent), Brazil (15 percent), Argentina (11 percent), Peru (4 percent), and Germany (3 percent). The Central Bank of Bolivia reports that the United States is the largest trading partner when both exports and imports are considered.

Bolivia is a member of the Andean Community (along with Colombia, Venezuela, Ecuador, and Peru) that is supposedly free of trade barriers. Since 1994, Bolivia has had a free trade agreement with Mexico. The EU, Japan, and the United States all permit Bolivian exports to enter their market free or at reduced rates. Bo-

Trade (expressed in billions of US$): Bolivia

	Exports	Imports
1975	.444	.558
1980	.942	.665
1985	.623	.691
1990	.926	.687
1995	1.101	1.424
1998	1.103	1.983

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

livia ratified membership in GATT in 1990 and in 1995 in the World Trade Organization (WTO). Bolivia is an associate member of MERCOSUR, which gives it trade benefits with the 11 members of the Latin American Integration Association (ALADI). By 2007, 95 percent of the trade with MERCOSUR will be **tariff** free. Bolivia is also a signatory to the Amazonic Cooperation River Basin Treaty. Bolivia has 9 **Free Trade Zones** (FTZ) fully operating. The most important are El Alto (serving La Paz), Cochabamba, Santa Cruz, Desaguadero on the border with Peru, and the dynamic Puerto Aguiffe on the Brazilian border.

MONEY

The Bolivian currency has had severe fluctuations as a consequence of the Chaco War (1932–35); the 1952 revolution with its drastic economic, political, and social reforms; and the collapse of much of the mining industry, especially tin extraction and export. In 1975, the boliviano was devalued by 66 percent (US$1=Bs20.40). In 1979, there was a further 25 percent **devaluation**. By 1982, the Bolivian currency had totally collapsed, and until 1985 Bolivia suffered hyperinflation, one of the worst cases in recent world history. **Inflation** reached 23,000 percent with US$1 traded at Bs1,055,000. In 1985, strong economic measures were undertaken to reconstruct the Bolivian economy and its currency. Currently it is one of the most stable currencies in Latin America, with a free **floating exchange rate** and pegged to the U.S. dollar. Inflation has declined from 13 percent to 3 percent in 1999. In March 2001, US$1=Bs6.48. (In 1995, it was Bs4.86.) The U.S. dollar circulates freely and is generally accepted as payment, mainly in urban areas.

Bolivia has about 18 private banks, some with links to foreign banks such as Citibank. The Banco Central (Central Bank), established in 1929 but with roots going back to 1871, is a semi-independent government agency. Its mandate is to implement the Bolivian government's fiscal and **monetary policies**, including issuing the currency. Its governing board is nominated by the president of the Republic, and it needs the approval of two-thirds of the elected representatives of the lower chamber. Terms are staggered, and the term of the president of bank cannot coincide with the term of the president of the Republic. The Banco Central and some private banks have recently received praise from international agencies for their stability and fiscal soundness.

There is a small Bolivian Stock Exchange which was started in 1989, but there is no published index of stock prices. In 1989, the exchange's transactions came to Bs4.3 billion but only to Bs3.9 billion in 1999. The exchange deals mostly with fixed-income securities. It is expected that the stock exchange will grow and become more important and visible.

POVERTY AND WEALTH

Bolivia is considered a poor country with the lowest **GDP per capita** among the Latin countries of South America (Guyana, Suriname, and French Guiana are lower). At the same time, Bolivia's exact ranking depends on the varied use and interpretations of the statistical information by different organizations and media. While the excellent *Financial Times* survey of Bolivia of 1994 places it as the second poorest country in the hemisphere (after Haiti), the U.S. Agency for International Development (USAID) ranks Bolivia in 2000 as the fifth poorest. Yet there has been improvement. In 1993, the per capita income was given as US$856 and is currently cited as just over US$1,000. Bolivia is one of the 22 countries that have qualified for **debt relief** by the World Bank in its HIPC (highly indebted poor countries) program. At the same time, the *Human Development Report 2000* has Bolivia in the category of Medium Human Development (as are Ecuador, Peru, and Paraguay—the last 2 share a border with Bolivia) and not in the Low category such as Haiti and many African nations. Bolivia's neighbors, Brazil, Chile, and Argentina, are in the High rank.

In 1998, Bolivia signed a 3-year ESAF (enhanced structural adjustment funding), now called poverty reduction growth facility (PRGF), agreement with the International Monetary Fund. Bolivia was able to comply with

Exchange rates: Bolivia

bolivianos per US$1	
Jan 2001	6.4071
2000	6.1835
1999	5.8124
1998	5.5101
1997	5.2543
1996	5.0746

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Bolivia	1,010	1,016	835	836	964
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Peru	2,835	2,777	2,452	2,012	2,611

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Bolivia

Lowest 10%	2.3
Lowest 20%	5.6
Second 20%	9.7
Third 20%	14.5
Fourth 20%	22.0
Highest 20%	48.2
Highest 10%	31.7

Survey year: 1990

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

the World Bank criteria and those of PRGF, which made it eligible for "enhanced" HIPC aid. The Bolivian media reported in February 2001 that Bolivia and 8 other countries of the 41 countries classified as poor with a high indebtedness reached all the required steps for the enhanced program. Bolivia's debt will be reduced by 45 percent.

Bolivia's Ministry of Finance shows evidence of improvement with a decrease in the poverty rate from 85.5 percent in 1976 to 70.2 percent in 1992. The World Bank reported for 1999 that Bolivia had a 67 percent overall rate of poverty, which was 81 percent in the rural areas. In 2000, USAID reported that 94 percent of Bolivians who live in rural areas live below the poverty level, and of these 88 percent are considered indigenous people. Poverty remains a leading cause for the high infant (67 per 1,000) and maternal (3.9 per 1,000) mortality rates. Poverty in the rural areas, with 65 percent involuntary underemployment, is the single main cause for migration to the urban areas.

Bolivia can appear to the visitor as a rather prosperous country compared to many other poor countries, mostly because it has enjoyed a stable economy and political system since the mid-1980s, a tolerable crime rate, and an expanding middle class. In 1991, 20 percent of the workforce received 54 percent of all income, and 50 percent received only 17 percent. To this must be added that Bolivia still has low population density of 7.9 persons per square kilometer (20 per square mile) of land suited for agriculture.

Bolivia is favored with much foreign aid because of its qualification for enhanced HIPC, its coca plant eradication and crop substitution policies, and its economic and political stability. In 1997, U.S. aid funding came to US$163 million, Japan US$65 million, Netherlands US$60 million, Germany US$47.5 million, and Sweden US$20 million. Multilateral donations came to US$264.2 million. The IMF reported that in 1998 total foreign aid was Bs598 billion. The Paris Consultative Group of 26 donor countries pledged a 44 percent increase in 1998 to support Bolivia's socio-economic reforms and investment programs. Therefore, Bolivia has, and will in the future, depend heavily on foreign aid if it continues a policy that encompasses globalization (identified by those opposed as neo-liberalism).

WORKING CONDITIONS

The Bolivian labor force is variously estimated at 2.5 million to 3.4 million. Reliable, exact data are not available, mainly because agricultural workers are uncounted. In addition, increasing numbers of the workforce rely on self-employment. Labor participation in 1997 from the available workforce was 82.3 percent male and 59.8 percent female, giving an overall 70.7 percent. Unemployment runs close to 40 percent. At the same time, hunger and homelessness are hardly present. Extended family ties and intra-family support are strong and traditional. Out-migration of unskilled workers to neighboring countries, especially Argentina, is estimated at 30,000 per year. There is a minimum wage (often not complied with) of about US$45 per month as of March 2001.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Bolivia	37	6	11	9	14	5	20
United States	13	9	9	4	6	8	51
Brazil	22	13	18	15	34	4	−6
Peru	26	7	17	13	5	7	25

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Labor unions in Bolivia are a significant political and economic force. But the number of members, past and present, is in dispute. There are 2 unions, the Confederation of Bolivian Workers (COB), which has a monopoly of the urban workers, and the Confederation of the United Workers of Bolivian Peasants (CSUTCB), which represents all rural workers. Both COB and CSUTCB have their roots in the social and political struggle of the 1940s which culminated in the revolution of 1952. For decades, both of these unions were an integral part of the government and claimed co-responsibility for the 1952 revolution that introduced radical political, economic, and social changes. However, in the 1980s, the unions became less influential and their membership declined. A reliable source estimated that COB membership in 1992 was between 150,000 and 200,000. COB and CSUTCB are ideologically oriented—anti-free market and strongly opposed to privatization and capitalization, to the World Bank and IMF and their programs and loans to Bolivia, and to foreign ownership or co-ownership of means of production. COB still can mount frequent strikes, stoppages, and demonstrations as leverage.

CSUTCB's roots also go back to the 1940s with the struggle for indigenous rights which included universal voting rights, significant agrarian reform including the breakup of the large private farms, and the abolition of peonage (a system which forces debtors into the service of their creditors), all of which were achieved in 1952. In the 1980s, CSUTCB too lost government affiliation and support which has never been regained. The exodus of many rural highlanders to the eastern lowlands weakened the group's power base in the western highlands and central valleys. In the late 1980s and the 1990s, the CSUTCB regained strength because of the policies of the government, pressured by the United States, to destroy the illegal coca farms with crop substitution, which nearly all of the growers (with mostly small farms and plots) strongly opposed. One union leader was elected by the coca growers to the Bolivian legislature. Like the COB, the CSUTCB opposes privatization which is often with foreign funding, presence, and pressures (identified as neo-liberal policies of the government).

A power struggle between various leaders of the supposedly united rural federation has lately been intense, primarily because regional differences undermine a unified front. For example, the coca issue is predominant in the central valleys, especially in the Chapare (Department of Cochabamba), where the farmers of coca have gained some modest economic affluence. Yet, the coca problem is not too meaningful to the rural inhabitants of the mountains and highlands (*altiplano* and *cordillera*) of western Bolivia, where poverty is the main issue. This region has also experienced a resurgence in ethnic pride and identity, including a nostalgic look back to the pre-colonial days of the great Inca Empire. There are current claims that the great gains of the 1952 revolution were too little or are being reversed by the "neo-liberal" policies of the IMF, World Bank, the United States, and the EU. These rural leaders, even more than the COB, have often been disruptive by organizing marches, blockades, demonstrations, sit-ins, and hunger strikes, but so far they have failed to change the government policies.

The COB and CSUTCB and their leaders use modern technologies such as cellular phones and web sites to present their case to the Bolivian people and the international community. All indications are that they will actively participate in the 2002 general elections. As working conditions have improved slowly over the years the unions have failed to gain more support. Average personal income in 2000 reached US$1,300 a year, up from somewhat less than US$1,000 in the 1980s.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

PRE–15TH CENTURY. The country now known as Bolivia is inhabited by the Tihuanaco, Aymara, and Kolla civilizations (rich in archaeological remains).

MID-15TH CENTURY. Most of modern Bolivia becomes part of the Inca Empire, mainly during the rule of Inca Pachacuti (1438–71), who imposes the Inca economic system and the Quechua language. Administratively this southern region of the Inca Empire is called Kollasuyo.

1538. The Spanish establish the city of Chuquisaca (now called Sucre). This part of the Spanish Empire is known as Charcas or Upper Peru.

1545. The rich silver deposits of the hill of Potosí are located and the great age of silver begins. The royal city of Potosí becomes one of the largest and richest in the Spanish Empire.

1809. The War of Independence in Spanish America starts in the city of Chuquisaca.

1825. The independence of Upper Peru/Charcas is declared on August 6. The new nation is called Bolivia in honor of Simon Bolivar.

1828–48. Attempts to unify Peru and Bolivia fail.

1847–64. The age of quinoa, a nutritious grain indigenous to high altitudes, provides a large income to the Bolivian treasury.

1864–80. The discovery of rich deposits on the Bolivian Pacific coast (in the Atacama Desert) produces the age of guano and saltpeter.

1867. Bolivia is forced to sign an unfavorable treaty with Brazil, ceding 300,000 square kilometers (115,830 square miles) that had provided easy access to the Amazon and Plate river systems.

1879–80. In the War of the Pacific Bolivia, allied with Peru, Bolivia defends its ownership of the guano and saltpeter deposits. Chile captures the entire Bolivian coast and converts Bolivia into a landlocked nation.

1889. Rubber extraction begins in the tropical northeast of Bolivia, bringing Bolivia again into conflict with Brazil.

1898. A short civil war is fought mainly over the issue of moving the capital to the more dynamic and rapidly growing city of La Paz. The opposition party that supported La Paz is victorious but the constitution is not changed to make La Paz the constitutional capital.

1899. La Paz becomes the seat of the government although the Supreme Court remains in Sucre.

1903. Bolivia is forced to cede the rubber-rich Acre region to Brazil.

1932–35. The large-scale Chaco War with Paraguay erupts over disputed ownership of the Chaco region of southeast Bolivia, with its rich oil deposits. Paraguay gains most of the Chaco but the greatest oil reserves remain with Bolivia. By 1935, Bolivia has lost 49 percent of its 1825 territory to its bordering neighbors through war or forced treaties.

1942–45. During World War II, Bolivia becomes one of the main suppliers of needed minerals, such as tin, to the allied nations.

1952. The Movement of the National Revolution (MNR) gains power by a revolution and undertakes drastic reforms: universal suffrage, nationalization of the tin mines, significant agrarian reform, abolition of peonage, and creation of a new Bolivian military.

1969. The Andean Pact which includes Bolivia, Peru, Ecuador, Colombia, and Venezuela is established.

1981. Bolivia starts its longest period of peaceful democratic elections and government.

1996. Bolivia becomes an associate member of the regional Southern South American Economic Zone called MERCOSUR.

1997. The Andean Pact becomes operative with a permanent Andean Community secretariat in Lima, Peru.

2001. President Hugo Banzer resigns for health reasons. Vice President Jorge Quiroga becomes Bolivia's 63rd president.

FUTURE TRENDS

Since the mid-1980s, Bolivia has had political and economic stability, with fiscal prudence beyond most South American countries. Annual economic growth during the 1990s averaged about 4 percent and is expected to continue. Still, from 1999 to 2000 the economy slowed for various reasons, including a decline in international prices for some of Bolivia's exports. International financial organizations also believe that exports will grow to nearly US$1.5 billion in the next few years, which would be a 20 percent increase. This prediction is based on expected greater exports of natural gas to Brazil and increased cultivation of soybeans.

Bolivia is strongly committed to reducing the high poverty level, which requires more funding for basic education, especially in the rural areas. The goal is to reduce poverty by 40 percent by 2015. Secondary and university educations must be more attuned to modern technologies. The unmeasured migration of skilled professionals to industrial countries, such as the United States, Canada, and EU members, needs to be reduced by providing more opportunities and better salaries. For the general election in 2002, few anticipate any meaningful disturbances and most predict a smooth transition. The energetic freedom of the media is expected to continue. Opposition from labor and certain business sections to the fiscal reforms necessary for HIPC debt relief as well as other structural changes will continue. The restlessness of the illegal coca leaf growers and their opposition to the destruction of their crop and to crop substitution is not expected to end and will likely produce limited, sporadic violence. The same can be said of the indigenous groups, especially in the highlands, in their demands for more cultural rights and awareness. The significant radical changes of the 1952 revolution as well as the more conservative economic reforms since the 1980s all have borne fruit. Currently, Bolivia is far more peaceful and stable at the present than the 2 other Andean nations, Peru and Ecuador, which also have a considerable indigenous population.

DEPENDENCIES

Bolivia has no territories or colonies.

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—Charles W. Arnade

BRAZIL

Federative Republic of Brazil
República Federativa do Brasil

CAPITAL: Brasília.

MONETARY UNIT: Brazil's currency, the real (R$), was introduced on 1 July 1994. One real equals 100 centavos. There are coins of 1, 5, 10, 25, 50 centavos, and 1 real, and notes of 5, 10, 20, 50, and 100 reals.

CHIEF EXPORTS: Manufactures, iron ore, soybeans, footwear, coffee.

CHIEF IMPORTS: Machinery and equipment, chemical products, oil, electricity.

GROSS DOMESTIC PRODUCT: US$1.057 trillion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$46.9 billion (f.o.b., 1999 est.). **Imports:** US$48.7 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in South America, Brazil is the fifth largest country in the world, after Russia, Canada, China, and the United States. Brazil has an area of 8,511,965 square kilometers (3,286,482 square miles), extending 4,320 kilometers (2,684 miles) from north to south and 4,328 kilometers (2,689 miles) from east to west, and a total coastline of 7,491 kilometers (4,655 miles). Brazil borders all the countries of South America except Chile and Ecuador. Brazil's capital city, Brasília, is located in the country's midwest; its largest cities, São Paulo and Rio de Janeiro, are located in the southeast.

POPULATION. The population of Brazil was approximately 172.86 million in July 2000, which was an increase of 17.7 percent from the 1991 population of 146.83 million. In 2000 the birth rate was estimated at 18.84 births per 1,000, and the death rate at 9.37 deaths per 1,000. The population growth rate declined by an average of 1.9 percent annually between 1980–1990, to 0.94 percent in 2000, reflecting the effect of birth control programs developed by the Brazilian government during the 1990s. It was forecasted that the population would reach approximately 190 million by the year 2010.

Brazil is the most populous country in Latin America and the fifth most populous country in the world. The highest concentration of Brazilians live in the Atlantic coastal region. Of the total population, the states of Minas Gerais, Rio de Janeiro, and São Paulo contain approximately 41 percent; the states of Rio Grande do Sul, Bahia, Pernambuco, and Ceará contain about 23 percent; and the remaining states hold about 36 percent. The population is extremely urbanized with 78 percent of the population living in cities. Approximately 29 percent of the population is between 0–14 years old, 66 percent is between 15–64 years old, and only 5 percent is over 65 years old.

About 55 percent of the Brazilian population is comprised of whites, the descendants of Portuguese, German, Italian, Spanish, and Polish immigrants; 38 percent are mixed white and black; 6 percent are blacks of African descent; and others comprise 1 percent. **Immigration** was a major determinant of the population structure in Brazil. During colonial times, Portuguese and Africans immigrated to the northeastern region of Brazil. During the period between 1821–1945, approximately 5.2 million Europeans immigrated to Brazil, settling in the southern agricultural regions. After World War I, the Japanese community in Brazil grew to become the largest expatriate Japanese group of the world, with more than 1 million immigrants.

OVERVIEW OF ECONOMY

Before World War II Brazil was the leading world producer of many agricultural goods. Sugar, rubber, and coffee were important exports. However, price variations in the world market for these commodities left the Brazilian economy vulnerable. After the war, the government

succeeded in rapidly industrializing the economy in order to diversify and decrease its dependency on imported goods. Brazil became one of the only industrialized nations of South America and an important exporter of manufactured goods. Industry and agriculture are today the country's major economic sectors. However, the country's growing prosperity was offset by the **inflation** caused by **budget deficits**.

Brazil is unable to produce enough oil to meet domestic demand, and needs to import most heavy industrial machinery and equipment. The government provides incentives for domestic petroleum production, and gives legal and fiscal incentives promoting foreign investment in heavy industry. **Multinationals** dominate Brazilian industry, followed by government-owned companies. The biggest government-owned company is Petróleo Brasileiro, or Petrobras, an oil drilling and processing company. Brazil has oil reserves located on the coast and in the Amazon Basin. The geography and topography are also extremely beneficial to agriculture. Most of the country has either a tropical or subtropical climate. Extensive

water reserves provide for the growth of grains, which are extensive enough to meet domestic consumption and allow for substantial exports.

Government **external debt** more than doubled during the 1980s and 1990s. Total outstanding and disbursed debt grew from US$61.3 billion in 1979, to US$114.5 billion in 1989, and to US$221.8 billion in 1999. The increase in government debt was due mainly to increased interest paid to its lenders and the borrowing of new money to implement economic and social plans in the country. However, because the new loans were used ineffectively, the **debt service** increased significantly. By making bigger payments to offset the debt, the government was left with few resources to carry on its own economic and social development plans. Total debt service (the interest paid on loans) increased from US$11.3 billion in 1979, to US$14.1 billion in 1989, and to US$73.7 billion in 1999.

The Brazilian government follows International Monetary Fund (IMF) economic, fiscal, and social objectives in order to receive funds. Brazil started a **structural adjustment program** at the request of the IMF, receiving a US$41.5 billion financing package in November 1998. The **privatization** policy adopted by President Fernando Henrique Cardoso decreased government participation in industry, and brought in much-needed foreign investment. In 1999, Brazil's debt-to-GDP ratio of 48 percent beat the IMF target. After the currency was **devaluated** by more than 60 percent in 1999, Brazil negotiated with the IMF on adjustments to the 1999–2001 economic program. Lowered economic targets were agreed upon in January 1999, when the debt-to-GDP ratio was set to fall below 46.5 percent by the end of 2001.

POLITICS, GOVERNMENT, AND TAXATION

The Brazilian Constitution, created in 1988, supports a democratic government with universal suffrage by direct and secret ballot. Voting is compulsory for literate persons between 18 and 69 years of age and is optional for persons who are illiterate, over 70 years of age, or 16 and 17 years of age. There are 3 branches of government: the executive, legislative, and judicial. The president exercises executive power, and is elected by direct ballot to a 4-year term. Legislative power is exercised by the **bicameral** (2-chambered) National Congress comprised of: the Federal Senate, or upper house, whose 81 members are elected by a system of **proportional representation** for 4 years; and the Chamber of Deputies, or lower house, whose 513 members are elected for 8 years by direct ballot, and whose districts are proportional to the size of the population. Each state has a directly elected governor and an elected legislature. The municipalities are governed by directly elected mayors and an elected legislature.

Judicial power is exercised by the Supreme Federal Tribunal, whose judges are appointed for life and who are elected by their own tribunal members. Brazil's judicial system plays an important role in the Brazilian economy. It is responsible for compliance to laws regarding the economy, which are determined by the constitution. Any government decision affecting the rights of the individual is contested and supported by an independent judicial system. Therefore, radical changes in legislature regarding the economy are almost impossible if the judicial system disapproves.

Brazil went through decades of military dictatorship. The military overthrew the left-wing regime of President João Goulart in 1964 and ruled Brazil until 1985. The Brazilian military exerted complete control over the economy, politics, and popular media. All mass communication, art, and popular opinion were censored by military intelligence. Many leftist politicians were arrested and exiled to other countries during these dark years. However, in 1985, popular pressures and a **recession** led to peaceful democratic elections and indirect elections for the presidency. The legislative election of 1985 resulted in the formation of the democratic regimes of the 1980s and 1990s, and the military lost its power and influence in the economy. Since then there have been military, navy, and aviation ministries in the Brazilian government, but their influence has not been felt in the most important economic and political decisions.

A coalition of the Party of Brazilian Social Democracy (PSDB), the Liberal Front Party (PFL), and the Party of the Brazilian Democratic Movement (PMDB) has held power since Brazil became a democracy. This coalition is opposed by the coalition of the Worker's Party (PT) and other smaller parties. The PSDB and the PT were the strongest political forces during the 1990s, directly opposing each other in the national congress and throughout the states.

The Democratic Workers' Party (PDT), led by Leonel Brizola, criticized the military dictatorship of the 1970s. The Brazilian Democratic Movement (MDB), which later turned into the PMDB, also opposed the military regime. The PFL represents the conservative front of Brazil with alliances to the winner of the 1989 presidential elections. The **Communist** Party of Brazil (PC) represents extreme opposition to the government and has alliances with the organizers of the Landless Movement.

Brazil had its first democratic presidential elections in 1989 after decades of military dictatorship. Luís Inácio da Silva, also known as Lula, represented a coalition of worker union parties (including the PT), but lost to Fernando Collor de Mello who represented a liberal,

pro-business party. In the democratic elections of 1994 (the second since 1960), Lula fell again to Fernando Henrique Cardoso. Cardoso developed a strong economic policy, cutting inflation, and decreasing government spending in order to meet IMF targets and receive loans. The Brazilian real was then tied to the U.S. dollar and forced to maintain a constant **exchange rate**. Inflation stabilized, but the cuts in government expenditure generated a recession in the country. In 1997 Brazil's congress approved a constitutional amendment enabling Fernando Henrique Cardoso to run for reelection in 1998. He was reelected for a second term, beating Lula again and continuing his economic policies.

Brazil's government plays a large role in the economy, controlling many sectors of the economy that are considered strategic, including power generation, oil extraction, mining of natural resources, water supply, and telecommunications. Fernando Henrique Cardoso began to adopt policies to end these **monopolies**. The policies include privatization of state-run companies, and **deregulation** of the energy and mining sectors.

Nearly 61 percent of government revenue comes from tax payments. Personal **income tax** rates are progressive, with a maximum rate of 25 percent. The income tax rate on corporations and other legal entities are also progressive, with a maximum of 30 percent. Profits are taxed at up to 50.5 percent and capital gains at 25 percent. A **value-added tax** that ranges from 10 percent to 15 percent is payable on sales and transfers of goods in accordance with the nature of the production. Apart from personal income taxes, government taxes are applied on corporation income, **turnover**, sales, financial operations, minerals, fuels, electric power, real estate, municipal service, and urban real estate. Tax evasion is rampant in Brazil, but this crime came under attack during 2000. The Central Bank of Brazil and the Ministério da Receita (Ministry of Income) compared their records in order to determine which Brazilians had not filed income taxes.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Roads are the primary method of transportation in Brazil of both passengers and freight. With an estimated 21.31 million passenger cars and 5.5 million commercial vehicles in 1998, the highway system is inadequate and poorly maintained. There are approximately 1.98 million kilometers (1.23 million miles) of highways in Brazil, but only 184,140 kilometers (114,425 miles) of these roads were paved in 1996. A study by the World Bank shows that in the early 1990s 28 percent of the country's highways were in poor condition. Furthermore, the lack of proper maintenance increased transportation costs in Brazil by nearly 15 percent over the same period. The government implemented road construction plans in order to integrate the industrialized south with the less developed northeastern and northern areas. This integration enabled agricultural producers to move goods to ports located in the coastal areas for exportation. The railway system in Brazil is very limited. There are only 27,882 kilometers (17,326 miles) of tracks in Brazil (excluding urban commuter lines) and this number is in decline as track falls out of service.

In contrast, Brazil's air transportation is well developed with 48 main airports, 21 of which are international. In 1998 about 31 million passengers used Brazilian airlines, traveling a total of 27.39 million kilometers (17.02 million miles). The total weight of airline freight was equal to 602.74 million metric tons and Brazilian airlines carried freight over 2.2 billion kilometers (1.36 billion miles). Guarulhos International Airport at São Paulo and Galeão International Airport at Rio de Janeiro are the most important and active international airports of Brazil.

Hydroelectric plants generate most of Brazil's electrical power, responsible for 91 percent of the total production. Secondary sources include fossil fuels and nuclear energy. Only state companies are allowed to supply electrical power to the population, producing a total of 316.927 billion kilowatt-hours (kWh) of electricity in

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Argentina	123	681	289	163.1	78	2.0	44.3	27.85	900
Colombia	46	581	217	16.7	49	4.8	27.9	7.51	664

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

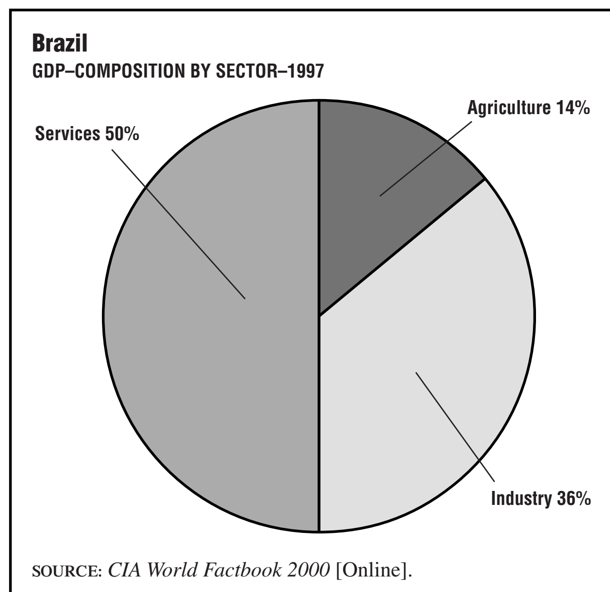
SOURCE: World Bank. *World Development Indicators 2000.*

1998. Domestic production falls 20 billion kWh short of domestic need, causing Brazil to import electricity from neighboring countries such as Paraguay. Power supply is reliable most of the time, and shortages and blackouts are infrequent in urban areas.

Telecommunications services are well developed. Privatized in 1999, telephone service is provided by a number of privately held foreign capital companies. The country has approximately 19 million main lines in use (1997 est.) and 8 million mobile cellular phones in use (1998 est.). There are 138 television broadcast stations (1997) that are sent to 316 television sets per 1,000 people (1998). Computer access is still limited, evidenced by the number of personal computers (30.1) and Internet hosts (1.84) per 1,000 people recorded in 1998.

ECONOMIC SECTORS

Brazil's major economic sectors are all well developed. The agricultural sector of Brazil represented a larger percentage of the **gross domestic product** than industry until 1945. At that time, the government supported industrialization and direct investment in industry, with **subsidies** and trade protection for Brazilian industrial products. Industry was almost 3 times more valuable than agriculture as a percentage of gross domestic product by 1999. In the agriculture sector, Brazil is one of the world's largest producers of soybeans and coffee. International competitors watch Brazil's weather to determine the success of the soybean and coffee season, setting international prices based on Brazil's harvest. The agriculture sector represented 8.4 percent of the gross domestic product in 1999 and employed 31 percent of the workforce.



SOURCE: *CIA World Factbook 2000* [Online].

The government uses import taxes to protect many Brazilian industries against international competition. These industries include textiles, shoes, chemicals, cement, lumber, iron ore, tin, steel, aircraft, motor vehicles and parts, and other machinery and equipment. The footwear industry is the most important finished good exported from Brazil. Government-owned Petrobras and Brazilian Aeronautics Enterprise are important companies headquartered in Brazil that produce oil and aircraft, respectively. The industrial sector represented 31.7 percent of the gross domestic product in 1999. Twenty-seven percent of the employed workforce was in the industrial sector.

The third most important developed sector of the Brazilian economy is the services sector. It represented 59.9 percent of the gross domestic product in 1999. Tourism has increased rapidly with an estimated 4.82 million foreign tourist arrivals and receipts of US$3.68 billion from foreign tourists in 1998. This represented an increase from 2.67 million foreign tourist arrivals and receipts of US$2.47 billion in 1996. Forty-two percent of the employed working force was in the service sector.

AGRICULTURE

Brazil has been the world's second largest exporter of agricultural goods since 1977. With the exception of imported wheat, Brazil is self-sufficient in food. In 1993, 48.9 million hectares (121 million acres) of land was available for agriculture in Brazil, the fifth largest agricultural area in the world. In 1999 agriculture accounted for 8.4 percent of the total GDP, a decrease from 11 percent in 1979. Average annual growth of agriculture as a percentage of the total gross domestic product was 3.4 percent in the 1979–1989 period, and 2.9 percent in the 1989–1999 period. Annual growth of agriculture as a percentage of gross domestic product leapt to 9.5 percent in 1999, due to the expansion of the export sector. This expansion occurred because the Brazilian government devalued its currency by nearly 60 percent in 1999, making Brazilian agricultural exports extremely cheap. Brazil is the largest producer of coffee, oranges, and sugar in the world; and is a primary exporter of coffee, cocoa, soybeans, orange juice, and sugar. The country imports rice, wheat, and barley.

Livestock, dairy, and poultry production play an important role in Brazilian agriculture. Since the 1940s, cattle have become one of the country's major sources of income. The area devoted to open pasture in 1994 was equal to 185.5 million hectares (458.38 million acres). This area occupied more than one-fifth of the total country. The government provided incentives to stimulate production, food conservation, and a more effective distribution of meat and dairy products.

COFFEE. Brazil's coffee production increased from 1 million metric tons in 1995–96 to 2.14 million metric tons by 1998–99, more than doubling in 4 years. However, production decreased slightly to 1.85 million metric tons in 1999–2000. The decline in production for 1999–2000 was linked to an agreement of the Association of Coffee Producing Countries (ACPC). ACPC developed a program to reduce the world supply of coffee in order to increase its price. The volume of coffee held back by each country is set at 20 percent of exports. However, Brazil still remains the largest producer and exporter of coffee in the world.

SOYBEANS. Soybean production in Brazil increased considerably for the 1999–2000 harvest. The average production of soybeans for 1994–99 was 28.23 million metric tons and for 1999–2000 alone was 32.5 million metric tons. The increase in soybean production for the 1999–2000 harvest was equivalent to 15 percent over the 1994–99 average. This increase was due to favorable weather in the southeast area of Brazil, where most of the farms are located. Another positive effect was that the world market increased imports from Brazil after the currency devaluation. The increase in soybean exports was equal to 24 percent, from 8.93 million metric tons for 1998–99 to 11.16 million metric tons for 1999–2000. Brazil is the second largest soybean producer and exporter (after the United States) in the world. The total area used for soybean production is equal to 13.4 million hectares (33.16 million acres).

ORANGES. Brazil is the largest producer and exporter of oranges and orange juice in the world. Brazil's total production was equal to 1.1 million metric tons in 1999–2000, or 47 percent of the world total. Orange juice consumption in Brazil is very small, only 18,000 metric tons for 1999–2000. The remainder is exported, at 1.16 million metric tons for 1999–2000 (including tangerine juice). Brazil's orange production and export volume declined from 1998–99 levels by 19 and 11 percent, respectively, in 1999–2000.

SUGAR. Since the time of Portuguese colonization, Brazil has been the largest producer and exporter of sugar in the world. Sugarcane production is concentrated in the northeastern area. Brazilian companies process sugarcane into sugar and alcohol. Sugar is mostly exported to the rest of the world while alcohol is mostly used as fuel for passenger vehicles. Passenger vehicles in Brazil are powered by either a combination of oil and alcohol, or solely alcohol. The Brazilian government developed research and financial incentives for utilization of alcohol in passenger vehicles after the world oil crisis in 1973–74. Brazil's sugar production in 1999–2000 was equal to 20.1 million metric tons. Sugar exports for 1999–2000 were equal to 11.3 million metric tons.

TOBACCO. Tobacco is another major agricultural product. Brazil is the third largest producer (after China and India) and largest exporter of tobacco in the world. During the 2000 calendar year, 493,100 metric tons were produced and 350,000 metric tons of tobacco were exported from Brazil. Tobacco production in Brazil increased from 365,000 metric tons in 1996 to 493,100 in 2000, an increase of 35 percent. Tobacco exports in Brazil increased from 282,500 metric tons in 1996 to 350,000 in 2000, an increase of 24 percent.

COCOA. Cocoa production in Brazil has suffered the effects of mixed weather patterns and infection by the witches-broom fungus since 1989. Despite these problems, Brazil is the third largest cocoa producer and exporter in the world (after Côte D'Ivoire and Ghana). Cocoa production for 2000 was the lowest in 30 years, decreasing by 21 percent, from 159,119 metric tons in 1999 to 125,290 metric tons in 2000. Exports, however, increased by 3 percent, from 93,295 metric tons in 1999 to 96,100 metric tons in 2000. Brazil's chocolate consumption rose 89 percent from 1988–89 to 1995–96, from 62,700 metric tons to 118,500 metric tons. Cocoa imports in 2000 increased by 67 percent, setting an all-time high, from 50,350 metric tons in 1999 to 84,100 metric tons in 2000. The government tried to develop new cocoa strains resistant to the fungus, and to use pest management systems, but without success.

CORN. Brazil is the third largest producer of corn in the world (after China and the European Union). Corn production for 1999–2000 yielded 31.6 million metric tons, a decrease of 2 percent from the 1998–99 production of 32.35 million metric tons. Consumption after 1996–97 was higher than production, generating a need for imports. Corn imports were small, amounting to only 1.79 million metric tons in 1999–2000. It is expected corn production will surpass consumption in the future due to government production incentives.

BEEF. Brazil is the world's second largest producer (after the United States) and third largest exporter of beef (after Australia and the United States). Beef production for 2000 was 6.3 million metric tons, an increase of 4 percent from the 1999 production of 6.05 million metric tons. Beef exports for 2000 were equal to 650,000 metric tons, an increase of 18 percent from the 1999 export of 550,000 metric tons. In 2000 the mad cow disease in Europe helped boost beef exports from Brazil. In 1999 the European Union was the market for nearly 70 percent of Brazilian beef exports. However, Brazilian exporters expanded to other existing markets (such as the United States) and to new markets (mainly in Asia). Even though exports to the United States rose 50 percent in 1999 to 50,376 metric tons, the United States joined Canada (its NAFTA partner) in temporarily banning all imports of beef in 2001.

DAIRY. Brazil's dairy production is the sixth largest in the world (after the United States, India, Russia, Ger-

many, and France), but all of its production is consumed domestically. Total production of fresh cow's milk was equal to 22.8 million metric tons in 2000.

POULTRY. Brazil's poultry production ranks third in the world (after the United States and China). Broiler meat exports from Brazil also rank third in the world (after the United States and Hong Kong). Broiler production has increased significantly throughout the last 5 years. Broiler meat production increased from 4.05 million metric tons in 1995 to 5.45 million metric tons in 2000, an increase of 35 percent. Broiler meat exports went from 424,000 metric tons in 1995 to 850,000 metric tons in 2000, an increase of 100 percent in only 5 years. Most of the increase in exports happened in the years of 1999 and 2000, when the devalued real boosted broiler meat exports. In 2000 the mad cow disease in Europe helped to increase broiler meat exports. Poultry exports increased 26 percent in 1999, and 20 percent in 2000. The European Union increased its imports of Brazilian poultry by 50 percent in 2000.

OTHER. Brazil's pork production was equal to 1.95 million metric tons in 2000, mostly for domestic consumption. Fishing is limited, and lamb and sheep are not raised in Brazil due to the tropical weather.

INDUSTRY

Peak industrial growth was achieved in 1973, when the manufacturing sector grew by 15.8 percent. In 1999 the industrial sector accounted for 31.7 percent of the total gross domestic product, decreasing from 40.6 percent in 1979. The average annual industrial growth rate was 2.3 percent during 1979–1989, and 2.1 percent during 1989–1999. Industrial growth decreased 1.3 and 1.7 percent in 1998 and 1999, respectively; however, industry grew by 6.5 percent by the end of 2000. The industries that developed most in the year 2000 were the automobile (18.9 percent), parts and machinery (18 percent), mining (11.9 percent), electrical and communications (11.9 percent), and metal processing (7.6 percent) industries. Industry in Brazil employed 27 percent of the workforce. Industrial products included iron and steel, automobiles, petroleum, chemicals, and cement.

MANUFACTURING. The manufacturing sector contributed 22.7 percent of the gross domestic product in 1999, engaging 11.8 percent of the workforce in 1998. The manufacturing sector decreased as a percentage of gross domestic product from 31 percent in 1979 to 29.5 percent in 1989, and 22.7 percent in 1998 and 1999. This was caused in part by a lack of foreign investment and inflationary problems during the 1980s and 1990s. The instability generated by inflation and uncertain government policies caused tremendous fluctuations in manufacturing growth rates. Major products in the manufacturing sector are televisions, VCRs, telephones, and computer chips. There are a few national companies that are domestically oriented, such as Consul and Brastemp. There are also companies that are primarily export oriented, such as Nokia, Intel, and Compaq.

State participation in manufacturing occurs in the production of textiles and clothing, footwear, food, and beverages. These industries comprise a large proportion of the manufacturing sector, but there are also new industries that have been developed in the last few decades with government aid. Machinery and transport equipment, construction materials, sugar cane and wood derivatives, and chemicals are important manufacturing industries. Direct government participation is noticed in the oil processing industry and passenger jet aircraft industry through partial ownership of such companies. Indirect government participation is noticed in the textile industry and machinery industry through export subsidies and low interest loans.

TRANSPORT VEHICLES. Automobiles are the most important manufactured items in Brazil. Brazil's passenger automotive production was approximately 1.25 million passenger car units, 350,000 commercial vehicles, and 17,000 tractors in 1998. Machinery and transport equipment were the biggest exports from Brazil, accounting for US$12.6 billion in 1998, or 25 percent of total exports. Brazil has manufacturing plants for General Motors, Volkswagen, Ford, Fiat, Honda, and Toyota. Workers are highly unionized, receiving the highest salaries among the manufacturing industries. In 1998, 292,290 people were employed in the industry.

STEEL. Crude steel production in 1998 was 25.76 million metric tons. Vast reserves of ore and high domestic demand for steel products have helped the industry. Brazil exported US$3.67 million in steel and ore in 1998.

TEXTILES. The national textile industry is responsible for 3 percent of world production. Total sales average US$19 billion per year; exports were US$2.9 billion in 1998. Brazil has the largest textile operating facilities in Latin America. The textile industry is also labor intensive, employing 1.43 million people in 1998. Fibers and leather are used to produce clothing, shoes, and luggage. Brazilian shoes are exported mainly to Europe, where they are famous for their quality. The Brazilian textile industry was comprised of 44,478 mostly small producers in 1998.

PAPER. The Brazilian paper and pulp industry was responsible for the production of 273,000 metric tons of newsprint in 1998. The industry consisted of approximately 200 companies, employing approximately 80,000 people directly in their processing operations and 60,000 people in forestry operations. Pulp and waste paper exports were US$1 billion for 1998.

MINING. The mining sector was protected by the 1988 constitution against foreign majority participation of direct mining companies. This was a setback for the development of the mining sector because domestic investors lacked the capital for extensive mineral exploration. Private Brazilian investors and Brazilian corporations own the majority of the mineral industry. The participation of foreign capital is very limited due to Brazilian mining laws. However, in 1995 the Congress approved an amendment to the constitution allowing private companies (including foreigners) to participate in the mining industry through **joint ventures**, deregulating investments, and the privatization of state-owned mining plants. Shortly afterwards, the state-owned Companhia Vale do Rio Doce was privatized.

In 1999 mining contributed 0.6 percent of the gross domestic product of Brazil. The country is the world's largest producer of bauxite, gemstones, columbium, gold, iron ore, kaolin, manganese, tantalum, and tin. Major exports are iron ore, tin, and aluminum. The states of Minas Gerais, Bahia, and Goiás, located in the midwest of Brazil, have deposits of diamonds and other precious and semiprecious stones. In 1991 production of diamonds accounted for 1,500 carats, sixth in the world. Reserves of petroleum in Brazil were estimated in 1997 to be at 657 million metric tons.

Brazil's iron ore reserves are estimated at 20 billion metric tons. Mining operations started in 1942, extracting iron ore from the state of Minas Gerais, located on the country's Midwest. With the help of foreign investments, iron ore production increased to 59.4 million metric tons in 1974, and by 1985 output was 186 million metric tons. In 1981 Brazil became the world's leading exporter of iron ore, exporting 131 million metric tons in 1985, mostly to Japan and Germany.

SERVICES

The services sector accounted for 59.9 percent of the gross domestic product in 1999. Government participation in this sector was extremely high, with interests in land, air, and water transportation; postal, telecommunications, and financial services; and research and development. Approximately 42 percent of the workforce was employed in the services sector. The service sector's contribution to gross domestic product was 48.3 percent in 1979, 48.8 percent in 1989, and 59.9 percent in 1999. Average annual growth was 1.9 percent for the 1979–89 period and 2.7 percent for 1989–99.

TOURISM. The number of tourists that visit Brazil increased considerably during the 1990s. In 1994, 1.8 million foreign tourists visited Brazil, generating receipts of US$1.9 billion. In 1999, 5.1 million foreign tourists arrived, spending over US$4 billion. Argentina ranked first with 1.5 million visitors in 1999, American tourists ranked second with 0.6 million visitors, and Germans ranked third with 0.3 million visitors. The average annual income of visitors in 1999 was US$37,000 and they spent an average of US$79 per day, excluding expenses of international airfare. Brazil has over 10,000 hotels and other forms of accommodation. Approximately 63 percent of the existing hotel rooms were occupied in 1998. Hotels generate over 1 million jobs and pay over US$400 million in taxes.

Tourists are attracted to Rio de Janeiro for its notable sights: the Pão de Açúcar (Sugar Loaf Mountain), with its cable car; the Corcovado, with its statue of Jesus Christ the Redeemer; and Copacabana Beach, with its beautiful people and mosaic sidewalks. The historic city of Ouro Preto in Minas Gerais, and the churches of Bahia also attract many tourists. **Ecotourism** is developed in the Amazon Valley cities such as Belém and Manaus, the Iguaçu Falls in the south, and in the flooded areas of the Pantanal located in the western central region. Brazil is most famous for its Carnival, that usually takes place in February. Rio de Janeiro's Desfile das Escolas de Samba (Samba Schools Parade) attracts millions of tourists every year.

Foreign and government investments in tourism are important to the economy. The Inter-American Development Bank (IDB) and the Brazilian government invested 1.2 billion in the northeast region, starting in 1994. Investments in that region were responsible for renovating airports, improving public sanitation, preserving natural ecosystems, and restoring cultural practices. These investments rapidly boosted the tourist economy in the northeast, and foreign investment helped with the construction of multimillion dollar resorts in the coastal areas of the northeast. Such investments helped attract an increasing number of tourists to the northeast region. Other investments funded by the IDB and Brazilian government are planned for the Amazon and Pantanal regions, and in the south of Brazil.

FINANCIAL SERVICES. The government owns most of the financial sector, the largest component of the services industry. The 3 largest banks of Brazil—the Bank of Brazil, Federal Economic Register, and National Bank of Economic and Social Development (BNDES)—accounted for US$181.5 billion in total assets in 2000. The assets of the 3 major banks represented approximately 23 percent of the gross domestic product in 1999. The government holds the majority of the stocks of 3 national banks and a variety of state banks, with the exception of the privatized State Bank of São Paulo (BANESPA), the seventh largest bank in Brazil, and the State Bank of Rio de Janeiro (BANERJ).

The Bank of Brazil is the largest bank in Brazil and the largest financial institution in Latin America. It has

12.9 million customers and agencies in 30 different countries, employing 90,378 people. The total assets of the Bank of Brazil were worth roughly US$71 billion in 2000. The second largest bank, the Federal Economic Register, had assets worth approximately US$63 billion, employing 102,614 people in 2000. BNDES's assets were worth approximately US$48 billion, employing 1,246 people.

The Brazilian Discount Bank (BRADESCO) and Itaú have the largest assets in the **private sector**. BRADESCO has 3.6 million customers and more than 26 million checking accounts. Total assets for 2000 accounted for US$40 billion and US$27 billion for BRADESCO and Itaú, respectively.

The total assets of the 50 largest banks in Brazil were worth US$436 billion in 2000. This represented more than 50 percent of the total gross domestic product of that year. This part of the financial services sector employed 492,230 people in 2000.

RETAIL. This sector is responsible for the highest number of employed people in all sectors of the services industry. The number of companies that employ 500 or more workers is low; there were 75 companies which hired 500 or more workers in 1997 in the **retail** section, and 31 companies with 500 or more workers in the wholesale section. The bulk of employed people in this sector come from companies that employ less than 500 employees. Combined retail and wholesale sectors were made up of 708,635 retail and wholesale outlets. Total sales in the sector amounted to approximately US$300 billion in 1998. There are few retail chains in the economy. Most of them are located in the capitals of each state but are not part of the retail context in the less developed economies in rural areas. Food, grocery, and other retail chains are located in the coastal areas whereas small family-owned businesses compose the retail sector in smaller cities. The smaller retail businesses are responsible for employing a large number of people.

INTERNATIONAL TRADE

Brazil's overall trade flow (the sum of imports and exports) increased from US$63.8 billion in 1993 to US$97.2 billion in 1999, a 52 percent rise. Most of the increase in trade flow is due to the 94 percent increase in imports, from US$25.3 billion to US$49.2 billion. Exports increased by 24 percent during the same period, from US$38.6 billion to US$48 billion.

From 1981 until 1994, Brazil exported more than it imported. Beginning in 1995, however, Brazil began to run a **trade deficit**, due to the stabilization policies adopted by President Fernando Henrique Cardoso. Since then, the imbalance has grown considerably. Brazil's trade deficit increased to record numbers in 1997, to US$6.8 billion. This continued in 1998 at US$6.6 billion, but in 1999, the trade deficit decreased to US$1.2 billion. Forecasts for the year 2000 are that exports will exceed imports. The decrease in the deficit can be attributed to the devaluation of the real in 1999.

Trade (expressed in billions of US$): Brazil

	Exports	Imports
1975	8.670	13.592
1980	20.132	24.961
1985	25.639	14.332
1990	31.414	22.524
1995	46.506	53.783
1998	51.120	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

The primary trading partners of Brazil are the United States and Argentina. The United States is the major importing country of Brazilian goods. Exports to the United States reached US$9.7 billion, representing 19 percent of all exports (this percentage has been the same since 1996). Major exports were manufactured goods, iron ore, soybeans, footwear, and coffee. Argentina was Brazil's second largest exporting destination with US$6.7 billion, or 13 percent; followed by Germany with US$3 billion, or 6 percent; the Netherlands with US$2.7 billion, or 5 percent; and Japan with US$2.2 billion, or 4 percent.

Major imports come from the United States. In 1998 Brazil imported goods valued at US$13.5 billion, representing 23 percent of all imports. Major imports were machinery and equipment, chemical products, oil, and electricity. The second largest imports come from Argentina with US$8 billion, or 14 percent of the total imports to Brazil; followed by Germany with US$5.2 billion, or 9 percent; Japan with US$3.3 billion, or 6 percent; and Italy with US$3.2 billion, or 6 percent.

Brazil is a member of the General Agreement on Tariffs and Trade (GATT) and the Law of the Sea treaties. Brazil is also member of MERCOSUR, a South American free trade agreement that includes Argentina, Paraguay, and Uruguay. Bolivia, Chile, and Venezuela were being considered for membership to the MERCOSUR free trade area.

MONEY

From the 1970s onwards, government spending and service of the public debt were the reasons for high inflation, and the subsequent rise in prices. Inflation was Brazil's greatest monetary problem until President

Exchange rates: Brazil

reals (R$) per US$1	
Jan 2001	1.954
2000	1.830
1999	1.815
1998	1.161
1997	1.078
1996	1.005

Note: From October 1994 through January 14, 1999, the official rate was determined by a managed float; since January 15, 1999, the official rate floats independently with respect to the US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Brazil	3,464	4,253	4,039	4,078	4,509
United States	19,364	21,529	23,200	25,363	29,683
Argentina	7,317	7,793	6,354	5,782	8,475
Colombia	1,612	1,868	1,875	2,119	2,392

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Fernando Henrique Cardoso in the mid-1990s adopted measures to slow down government spending and renegotiate public debt in order to contend with inflationary pressures. Brazil's currency was constantly devalued against the U.S. dollar. Currency devaluations generated incentives for the export market, decreasing the trade imbalance caused by debt payments and excess imports of manufactured goods. Devaluation helped the export market, which expanded its production when exports were given a price advantage provided by cheaper products in the world markets, but also represented a burden for domestic consumers who faced higher prices on imported goods. In the period from 1995 to 2000, the real devalued by approximately 100 percent. In 1995, 1 U.S. dollar was equal to 0.9176 reals. In 2000, 1 U.S. dollar was equal to 1.8302 reals. The devaluation was largely felt in early 1999, when the central bank of Brazil adopted a **floating exchange rate** system. The real then fell by 56 percent from 1998 to 1999.

In the past, Brazil had as many as 9 regional stock exchanges. However, with consolidations of the stock markets in the early 1990s and the advent of electronic trading, all securities transactions in Brazil are carried out in São Paulo, at the São Paulo Stock Exchange (BOVESPA). There are approximately 1,100 companies listed on the São Paulo exchange. The total market valuation of all listed companies on the São Paulo Exchange was US$228.6 billion in February 2001. Daily transactions are published in the leading newspapers and are available on the Internet. BOVESPA is part of the leading technology exchanges, offering electronic and after-hours trading options. The Rio de Janeiro Stock Exchange is the oldest financial institution in the country, founded in 1845. The Rio de Janeiro exchange is responsible for all the transactions in government bonds. Futures transactions are carried out at the Mercantile Futures Exchange (BM&F). Located in São Paulo, the BM&F has been operating since 1986 and is used mainly by coffee, beef, and cattle producers and buyers.

POVERTY AND WEALTH

Brazil has a few wealthy people and a large number of very poor people. The gap between the highest and the lowest social levels is high, even if it decreased during the late 1990s. Stabilization of the economy, through lower inflation levels, has given more purchasing power to the poor. Social indicators show that since 1994, when Fernando Henrique Cardoso became president, the percentage of people living below the poverty line decreased from 19 percent of the total population in 1993 to 14.51 percent in 1999, the lowest level in decades.

The income received by the top 10 percent of the Brazilian people represented 47.75 percent of the total income received in 1999. Meanwhile, the income received by the bottom 50 percent of the Brazilian people represented only 12.55 percent of the total income received in 1999. The top 1 percent of Brazilian people received 13.31 percent of the total income in 1999, more than the income for the bottom 50 percent combined.

Health services are free for all Brazilians, but the service is questionable. Medical doctors are well educated, but the demand in urban areas is much higher than what is available. Health and sanitary conditions vary from region to region. The south and southeast have better health services and sanitary conditions than the north and northeast.

Distribution of Income or Consumption by Percentage Share: Brazil

Lowest 10%	0.9
Lowest 20%	2.5
Second 20%	5.5
Third 20%	10.0
Fourth 20%	18.3
Highest 20%	63.8
Highest 10%	47.6

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Brazil	22	13	18	15	34	4	−6
United States	13	9	9	4	6	8	51
Argentina	30	9	17	15	15	5	9
Colombia	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Despite a government program against illiteracy, developed in 1971, 15 percent of the population aged 15 and higher were still illiterate in 1999. This number is higher than the percentage in Latin America and the Caribbean Islands as a whole. The percentage of illiteracy among the upper-middle class is 10 percent. Education is free at the school and university levels. Secondary school is the responsibility of the municipalities, and universities are the responsibility of the federal and state governments.

The biggest social challenge facing the Brazilian government and society is the lack of education, housing, health care, and nutrition for the homeless children of Brazil. Thousands of children live in the streets, abandoned by their parents who cannot afford to raise them. Confronting starvation and living in deplorable conditions, these children abuse drugs, commit crimes, and resort to prostitution in order to survive. The government has developed programs through the Ministry of Social Assistance to combat the poverty and starvation of homeless children.

WORKING CONDITIONS

Brazil employed approximately 24.49 million people in 1998: 66 percent between 18 and 39 years of age, 31 percent between 40 and 64 years of age, 2 percent under 17 years of age, and 1 percent 65 years of age or older. The rate of unemployment for 2000 was 7.1 percent, a decline from the 1999 rate of 7.6 percent. This rate was calculated by the Instituto Brasileiro de Geografia e Estatística, (IBGE, Brazilian Institute of Geography and Statistics) in the 6 largest metropolitan areas of the country (Recife, Salvador, Belo Horizonte, Rio de Janeiro, São Paulo, and Porto Alegre). Unemployment rates for the 1998–2000 period were the highest in the decade, and at least as high as in 1984, the last year that the military held power.

Unions represent all major segments of industry. The National Confederation of Industrial Workers, the National Confederation of Commercial Workers, the National Confederation of Bank Workers, and the National Confederation of Ground Transport Workers are examples of the major labor unions in Brazil. Unions are legal, and financed by compulsory payments deducted from workers' paychecks and by membership dues. Approximately 7 million workers are unionized, accounting for 20–30 percent of the employed **labor force**. Brazilian workers have had the right to strike since 1984. In 1992 the economy was hit by an organized strike of port workers, airport workers, teachers, drivers, fare collectors, and government employees. In the late 1990s strikes were still common in Brazil.

The minimum wage was established in 1940. After correcting for inflation, the initial minimum wage was approximately US$100 per month in 1940; it rose to its maximum in 1960 at US$170 per month, and was equal to US$75 per month in December 2000.

Even though children under 14 years of age are prohibited from working, it is estimated that 14 percent of all children between 10 and 13 work. Maternity benefits include a 90-day leave for mothers and a one-week leave for fathers. Racial discrimination is illegal, but still practiced by many businesses in Brazil. Non-white workers and women are often underpaid. The role of women in the workforce has changed considerably in the 1980s and 1990s. According to the constitution, there must be equal pay for equal work regardless of sex. The government also provides special protection for women. While the more industrialized areas in Brazil, mostly the southeast region, employ women and treat them equally to male workers, the less industrialized regions, mostly the northern regions, still underpay women and discriminate against them.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1500. Portuguese Admiral Pedro Álvares Cabral discovers Brazil.

1549. Governor-general Tomé de Souza establishes the first government in Brazil.

1773. Pedro I proclaims Brazil's independence from Portugal on 7 September and is crowned emperor.

1883. Revolution establishes the Federal Republic of the United States of Brazil.

1888. Slavery is abolished in Brazil.

1891. First constitution under the Republic.

1930. Getúlio Vargas is named president, brought to power by the military with some civilian support.

1946. Eurico Dutra is elected president.

1950. Vargas returns, creating the National Development Bank and the state petroleum company.

1964. Military dictatorship. Congress appoints Humberto de Alencar Castelo Branco to the presidency.

1967. Arthur da Costa e Silva becomes president under a new constitution.

1973. Oil crisis results in a significant setback for Brazil's economy.

1979. General João Baptista de Oliveira Figueiredo becomes president and allows democratic elections.

1982. First democratic elections since 1964.

1985. Tancredo Neves, a senator from Minas Gerais from the opposition party, becomes president.

1988. The constitution is ratified, reestablishing direct elections for the presidency.

1989. Fernando Collor de Mello is elected president, and implements a **liberalization** plan.

1992. Itamar Franco takes over the presidency and tries to control inflation, which he does in 1994 with his "Real Plan."

1994. Fernando Henrique Cardoso is elected president on the strength of his economic plan.

1998. Fernando Henrique Cardoso is reelected.

FUTURE TRENDS

The continued success of economic measures adopted by Fernando Henrique Cardoso upon his re-election in 1998 depends upon the ability of the government to maintain a tight **monetary policy** and maintain fiscal restraint facing both national and international economic pressures. In the long run, the government needs to implement structural reforms, such as reforms of the tax and social security systems, decentralization of governmental spending to state and municipal governments, and privatization of major enterprises. Most of these measures require additional constitutional amendments or legislation.

The presidential election on October 2002 will have a strong influence on the political, fiscal, and economic programs adopted by President Cardoso. The triumph of the leftist parties shown in the 2000 municipal elections suggest that there is a disapproval of the harsh measures taken by Cardoso to restore stability. Since there is no popular candidate from the governing coalition for the 2002 presidential elections, there might be difficulties passing unpopular laws if the opposition comes into power. Contentious legislation such as tax reform and social security payments from retired civil servants may not be considered until after Cardoso's presidency ends. The passage of such laws would greatly improve the quality of the fiscal situation.

DEPENDENCIES

Brazil has no territories or colonies.

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—Ecio F. Costa

CANADA

CAPITAL: Ottawa.

MONETARY UNIT: Canadian dollar (Can$). One Canadian dollar equals 100 cents. There are coins of 1, 5, 10, and 25 cents as well as 1 and 2 dollar coins. Paper currency comes in denominations of Can$1, 2, 5, 10, 20, 50, and 100.

CHIEF EXPORTS: Motor vehicles and parts, newsprint, wood pulp, timber, crude petroleum, machinery, natural gas, aluminum, telecommunications equipment, electricity.

CHIEF IMPORTS: Machinery and equipment, crude oil, chemicals, motor vehicles and parts, durable consumer goods, electricity.

GROSS DOMESTIC PRODUCT: US$722.3 billion (purchasing power parity, 1999 est.).

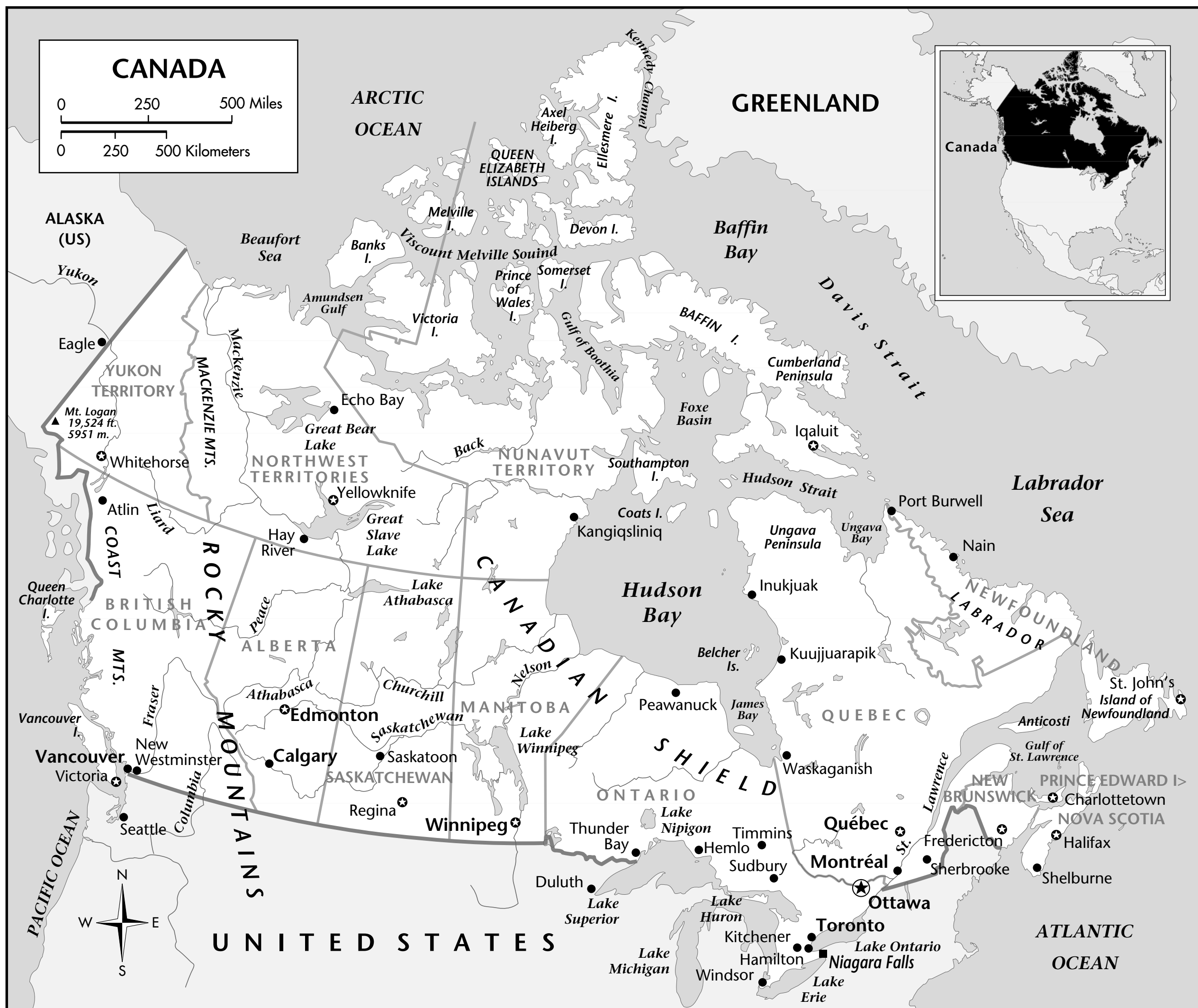
BALANCE OF TRADE: **Exports:** US$277 billion (f.o.b., 1999 est.). **Imports:** US$259.3 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Canada is located in the northern-most region of North America. Its southern territories run along the northern border of the continental United States. Canada is one of the largest countries in the world, second only to Russia in territorial size. It has a total area of 9.9 million square kilometers (3.8 million square miles). This includes 755,170 square kilometers (291,571 square miles) of water. The country touches 3 oceans—the Atlantic, the Arctic, and the Pacific—and its coastline is 243,791 kilometers (151,473 miles) long. Canada's border with the United States is 8,893 kilometers (5,526 miles) in length and includes a 2,477-kilometer (1,539-mile) border with Alaska. Toronto is the largest city in Canada with a population of 4.3 million. Other major cities include Montreal (3.3 million people), Vancouver (1.8 million people), and Ottawa (1 million people). Located in the southeast corner of the nation, Ottawa is the nation's capital. The climate and geography of Canada vary greatly from temperate in the south to arctic in the north and from islands and plains in the east to mountains in the west.

POPULATION. For its size, Canada has a small population. Although physically it is the second-largest country in the world, its population was only 31,281,092, according to a July 2000 estimate, or just under one-tenth the size of that of the United States. The nation has a low birth rate of 1.64 children born to each woman, or 11.41 births per 1,000 people. The mortality rate is 7.39 deaths per 1,000. However, the infant mortality rate is low with 5.08 deaths per 1,000 live births. Average life expectancy for males is 76.02 years and 83 for females. The population growth rate is moderate at 1.02 percent, although the positive growth rate is chiefly due to **immigration**. Each year there is an average of 6.2 immigrants for every 1,000 people. Canada has a liberal immigration policy and it goes to great lengths to accept refugees and asylum seekers from around the world. In 2000, Canada allowed 41,800 asylum seekers to settle in the country.

Despite the vastness of the nation, 90 percent of the Canadian population is located within 160 kilometers (100 miles) of the U.S. border. With the exception of some notable groups, most of the nation's people live in urban areas. By 2000, 75 percent of Canadians lived in cities or towns. The nation is ethnically diverse. People of British ancestry make up 28 percent of the population, while the French comprise 23 percent. Other Europeans, mainly Eastern Europeans, make up 15 percent. There is a small but visible Native American population (2 percent). About 6 percent of the population is divided between people of Asian, Arab, African, and Hispanic descent, while the remaining 26 percent of Canadians are of mixed ancestry. Canada is almost evenly divided between Protestants and Roman Catholics. There are deep divisions between the English-speaking Canadians and the French-speakers who are concentrated in the province of Quebec. The people of Quebec have a distinct culture and the government accepts and even encourages efforts to maintain Quebec's identity. Because of these divisions, the nation has 2 main official languages, English and French. The government also recognizes several Native American languages. However, tensions between the English and French have led to repeated efforts by na-



tionalists in Quebec to break away and form their own nation. The debate over independence for Quebec is Canada's most serious political issue and there is yet to be a permanent settlement of the question.

There are other regional differences in Canada that are similar to the differences in the United States. People in the maritime provinces of Nova Scotia, New Brunswick, and Prince Edward Island have a similar culture to those in the New England region of the United States, while the western regions of both nations are also closely related with numerous ranches and farms. Also like the United States, the population of Canada is aging. The fastest growing segment of the population is over age 65, which now makes up 13 percent of the population. Meanwhile, 19 percent of the population is under the age of 15.

OVERVIEW OF ECONOMY

Canada has the seventh-largest economy in the world. Most of the businesses are privately-owned, although the government does play a major role in the health-care system and operates many services including transportation and utility companies. The Canadian economy is diverse and highly developed. It is very similar to the American economy, although smaller in size. In the aftermath of World War II, the nation was transformed from a rural economy, based on agriculture, to one based on industry and mining. The nation's economy has been further transformed since the 1970s and services now provide the main economic output.

The foundation of the Canadian economy is foreign trade and the United States is by far the nation's largest trade partner. Foreign trade is responsible for about 45 percent of the nation's **gross domestic product** (GDP). Free trade agreements between the 2 nations have increased trade by eliminating **tariffs**. Each day approximately US$1 billion worth of goods crosses the U.S.-Canadian border. To understand the scale of U.S.-Canadian trade, it is important to point out that the United States sends more products to Canada than it does to all of Latin America.

Despite the small size of its population, the Canadian economy is one of the most prosperous in the world. For instance, its **GDP per capita** was US$23,300 in 1999, reflecting Canadian workers' high wages compared to many other countries. Prospects for continued positive economic performance are good. Canada has a highly skilled and productive workforce. In 1999, there were 15.9 million people in Canada's workforce, and the nation had an unemployment rate of 7.6 percent, which was almost twice the American rate.

Like Americans, Canadians tend to have high levels of **disposable income**. This disposable income drives the Canadian economy as consumers spend their excess wages on a variety of products and services. This creates demand for increased production and the development of new products, which also means more and better-paying jobs. Also like the United States, advertising has a major impact on Canadian consumer spending. Television is the number-one form of advertising in Canada.

The nation's **infrastructure** is excellent and most of its factories and manufacturing plants are modern. In fact, Canada's transportation network is ranked as the best in the world by the World Economic Forum's *Global Competitiveness Report.* Canada has a variety of natural resources, including petroleum and natural gas, and a variety of metals and minerals. Over the past decade, Canada has also emerged as one of the leading nations in the high-tech and computer industry. Most of this growth has occurred in central Canada, mainly Ontario and Quebec, and is responsible for the increased migration of people to these areas. Much of the economic growth in Canada today is fueled by small- to medium-sized companies. Because Canada has abundant energy resources, the global oil crisis which began in 1999 has helped its energy companies increase their outputs and profits. The nation has abundant natural resources that include iron ore, nickel, copper, zinc, gold, lead, silver, timber, fish, coal, petroleum, natural gas, and hydropower.

Regionally, the Canadian economy varies greatly. In the Eastern provinces, marine industries—including fishing, telecommunications, and energy production—are the main components of the economy. In the French-speaking region of Quebec, the city of Montreal has become one of the nation's centers for high-technology firms. This includes a large number of computer software companies. There is also a large industrial base which includes companies that produce pharmaceuticals, aerospace products, and telecommunications equipment. Ontario is the nation's main industrial center. About half of all Canadian manufactured goods are produced in Ontario. The province is second only to Michigan as the largest producer of automobiles and car parts in North America. Ottawa, the nation's capital, is located in Ontario. Other industries include chemicals, aerospace, steel, and food processing. The plains (or prairie) provinces of Alberta, Manitoba, and Saskatchewan are the home to four-fifths of Canada's agricultural lands. They are also the home to the majority of mining and fuel production. Alberta itself provides 90 percent of the nation's energy exports and is the home of Canada's oil and natural gas industry. British Columbia is in the Pacific Northwest. Forestry and tourism were traditionally the main elements of the region's economy, but financial services, including banking and insurance, have grown dramatically over the past decade. There is also a growing high-tech sector that is bolstered by the province's proximity to American firms such as Microsoft in the state of Washington. The Northern territories of the nation comprise one-third of its total size, but are home to only 100,000 people. These areas are home to Canada's Native American population, many of whom continue to follow traditional lifestyles based on hunting and fishing. Mining is the principal industry and there has been steady growth in diamond mining and finishing. Tourism also provides a substantial part of the region's economy.

Each of the nation's main economic sectors is highly developed. Although the agricultural sector is small, it takes advantage of the nation's generous natural resources. Increasingly, agriculture and fishing are concentrated in certain geographic regions of the country, mainly the west and southeast. The United States is the main market for all Canadian agricultural exports. In addition, the United States is the main destination for most of Canada's timber exports. Canada is also a major supplier of energy resources, including electricity and petroleum, to the United States. While industry has declined since the 1970s, it remains an important component of the country's economy. Automobile products provide one of Canada's principal exports, but the nation also produces a variety of consumer products and machinery. Nonetheless, large companies such as Ford and General Motors provide a significant percentage of the nation's industrial output. Services have seen the most dramatic growth in the Canadian economy over the past 2 decades. In addition to consumer-based businesses such as **retail** and tourism, financial services and telecommunications firms have grown dramatically. The government has offered significant support to these new technologies. For instance, the government has supported the development and installation of the only fiber-optic network in the world which carries only Internet traffic. The system, CA*Net3, will have 16 times the capacity of the largest U.S. system.

Budget surpluses over the past 3 years have allowed the government to begin paying down Canada's **national debt**. The debt has been reduced by Can$19 billion, and in 2000 it stood at Can$565 billion. The surpluses have also allowed the government to spend more on federal

programs and to reduce some taxes. The nation is a net donor of foreign aid. In 1997, it provided US$2.1 billion in international aid.

There are several potential problems facing the Canadian economy. The most significant is the continuing question over the status of Quebec. Should Quebec become independent, it would significantly disrupt the Canadian economy, and the nation would lose a sizable proportion of its GDP. The second most pressing problem for Canada has been the migration of some of its best educated and trained workers to the United States. This "brain drain" is the result of lower taxes and higher wages in the United States. Finally, Canada's dependence on trade makes it vulnerable to slow downs in the economies of its major trade partners. This is especially true of the United States. In the 20th century, when the United States experienced economic **recessions** or depressions, Canada soon after suffered similar economic problems.

POLITICS, GOVERNMENT, AND TAXATION

Canada was formerly a British colony that gained independence in 1867. The nation is a parliamentary democracy and a confederation (a system in which the regional governments have a high degree of power). Canada is divided into 10 provinces and 3 territories. Each of the provinces has a substantial degree of political independence and power, more so than an American state.

The head of state is the British monarch, currently Queen Elizabeth II. She is represented in Canada by a governor-general whom she appoints on the advice of the prime minister for a 5-year term. The actual head of the government is the prime minister, who is the leader of the majority party in Parliament. Parliament itself is **bicameral** (2-chamber). The upper house is the Senate, whose 104 members are appointed for life by the governor-general upon the advice of the prime minister. Most of the real political power in Canada is in the lower chamber, the House of Commons. It consists of 301 members who are directly elected by the people to serve 5-year terms. Each province has an elected premier and a **unicameral** (single chamber) assembly. There is also a lieutenant-governor who is appointed by the governor-general.

Unlike the United States, which has only 2 main political parties, Canada has a number of different parties. The Bloc Québécois represents those who wish independence for Quebec. The Liberal Party is moderate and similar to the American Democratic Party, while the Progressive Conservative Party and the Canadian Alliance are similar to the American Republican Party. There are also a number of other minor parties, including the New Democratic Party. All of the major political parties support private enterprise to varying degrees, although the New Democratic Party favors more government oversight of the economy. There are also disagreements among the parties over free trade.

While the majority of businesses in Canada are privately owned, the government does play a major role in the economy. This is true of both the national and provincial governments. When the 2 levels of government are combined, they account for 21 percent of the nation's GDP. At times the provincial and national governments have disputes over economic policy. For instance, there is an ongoing disagreement between the national government and the maritime provinces over control of fishing rights and mineral resources in the Atlantic. Western provinces want more control over their own mineral and energy deposits while the central region of the nation seeks increased government spending to support economic development.

Often economic differences focus on environmental issues and worker concerns. The national government tends to favor more environmental regulation, even if it is economically disadvantageous. The same is true of issues such as worker safety and pay. However, since 1984 the national government has been engaged in a broad effort to return control over social and economic policies to the provinces. The main reason for devolution is economic; the national government has not had the financial resources to enforce many of its programs and regulations, so it has divested itself of them. In 1999, the national and provincial governments reached a sweeping agreement that called for combined authority over new social spending. Furthermore, the national government has given control of job training and worker retraining back to the provinces, but it has strengthened its role in regulating trade between the provinces and attempted to develop national regulations on stock trading and other financial services.

In 1998, the Canadian national government had revenues of US$121.8 billion and expenditures of US$115.1 billion. Compared with the United States, Canada's taxes are high, about 30 percent higher for the average person. In Canada, people with low incomes pay 16 percent of their income in taxes; the tax rates rise to 22 percent, then to 26 percent for those with incomes between Can$61,000 and Can$100,000, and finally to 29 percent for those with incomes over Can$100,000 per year. In 1998, taxes accounted for 38 percent of the nation's GDP. Significantly, taxes accounted for 60 percent of the growth in the Canadian economy from 1990–96. The country has a national 7 percent sales tax known as the Goods and Services Tax (GST). The GST is particularly unpopular among the Canadian people. Because of these high taxes, it is estimated that the **underground economy** is responsible for

as much as 20 percent of economic activity. In 1999, the Canadian government estimated that it lost US$9 billion in tax revenues because of the underground economy.

On the other hand, these high taxes allow all Canadians to have full access to health care. The Canadian system is known as "Medicare" and it allows people to go to private doctors and a network of 950 hospitals and have their costs paid for by the government. The individual provinces and territories direct health-care planning and financing. The nation's taxes help keep the cost of prescription drugs low for individuals. However, limits on care and lengthy delays in care have led more and more people to pay for private care out of their own pockets. Some 30 percent of all new health-care spending is made in the **private sector**. In addition, education costs are low. Canada spends more per person on education than any of the other industrialized countries and the cost of college is very low compared with the United States. Nonetheless, the high tax rate has contributed to the brain drain from Canada and has caused some foreign companies to invest in the United States rather than Canada.

Although Canada is dependent on foreign investment to fuel its continuing economic expansion, it restricts investment in several key areas of its service sector. There is only 1 special trade zone in Canada and no **free trade zones**. Instead, Canada pursues free trade through multinational forums such as the World Trade Organization (WTO). It also works to deepen trade with partner countries such as the United States.

The United States and Canada cooperate on environmental issues and border disputes. The main mechanism to facilitate this cooperation is the International Joint Commission (ICJ). The 2 major environmental accords are the Great Lakes Water Quality Agreement of 1972, which controls water pollution in the Great Lakes, and the Air Quality Agreement of 1991, which helps coordinate policies on problems such as acid rain.

Canada spends only a small percentage of its GDP on defense. In 1998, it spent 1.2 percent of GDP or US$7.4 billion, compared with an average of around 2.5 percent of GDP for most developed nations. The long border with the United States does not need to be militarily defended, but Canada is a frequent contributor of troops for United Nations peacekeeping forces. It is also a member of the North Atlantic Treaty Organization (NATO, a military alliance consisting of Canada, the United States, and many European countries). As a NATO member, Canadian military forces have participated in the peacekeeping mission to Bosnia and in the military action against Serbia as a result of the atrocities in Kosovo in 1999.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Canada has one of the best-developed infrastructures in the world. It meets the requirements for high-tech business and international trade. The telephone system is state-of-the-art and supported by a satellite system and 300 earth-based relay centers. There are also 5 international underwater cables (4 across the Atlantic and one across the Pacific). In addition, there are 750 Internet providers. All major cities have high-speed Internet capabilities. The nation's new CA*Net3 Internet system is scheduled to be completed in 2001. Canada has the lowest Internet access costs of the developed world. In 1997, there were an estimated 7–8 million Internet users, or about 1 in 4 Canadians.

Canada is an energy exporter. Its main exports are natural gas and oil. However, in 1998 the majority of electricity in Canada was produced by hydroelectric plants (59.77 percent). Fossil fuels provided the second-largest share of electricity with 27.18 percent of the total. Atomic power provided 12.25 percent. Total electric power production was 550.85 billion kilowatt hours (kWh). The nation consumed 484.51 billion kWh of electricity. It exported 39.5 billion kWh of power and imported 11.72 billion kWh of power.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Canada	159	1,077	715	263.8	176	33.3	330.0	422.97	11,000
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Mexico	97	325	261	15.7	35	3.0	47.0	23.02	1,822
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

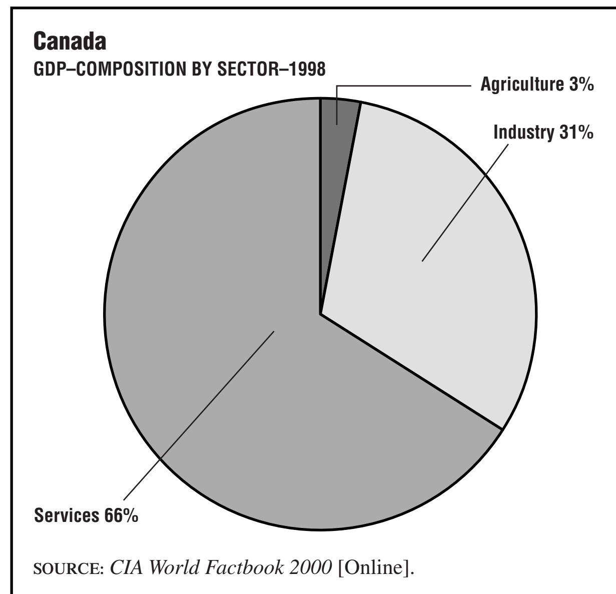
SOURCE: World Bank. *World Development Indicators 2000.*

The transport system is a blend of private and government-owned firms. Canada has 36,114 kilometers (22,441 miles) of railways, including 2 transcontinental systems. In 1995, the government **privatized** the freight carrier Canadian National. Passenger service is provided by the government-owned company VIA. There are 901,902 kilometers (560,442 miles) of roadways in the country, of which 318,371 kilometers (197,390 miles) are paved, including 16,571 kilometers (10,298 miles) of expressways. The nation's main east-west route is the 4,500-kilometer (2,796-mile) Trans-Canada Highway. All major cities have well-developed and inexpensive public transportation systems that are subsidized by provincial and local governments. The nation's trucking and rail systems are well-integrated with American distribution networks and vice versa. Each year some 400 million tons of goods are transported across Canadian highways. Trucks carry 70 percent of the goods that Canada annually exports to the United States. Canada has 1,411 airports, but only 515 have paved runways. Of these, 10 are international airports. There are also 15 heliports. U.S. and Canadian air carriers have unrestricted access to each other's airspace. Air Canada is the nation's major airline, but there are 25 U.S. and 47 other international airlines that fly into Canada. Air Canada controls 80 percent of the domestic market and this has led to higher than average air fares.

There are 3,000 kilometers (1,864 miles) of navigable waterways, including the massive Saint Lawrence Seaway which allows ocean-going vessels to sail from the Atlantic to ports such as Chicago and Thunder Bay, Ontario. There are 20 major ports, including Halifax, Montreal, Quebec, Saint John, Thunder Bay, Toronto, Vancouver, and Windsor. The busiest port is Vancouver, on the west coast. The nation's merchant marine consists of 114 ships, not including smaller vessels that travel only on the Great Lakes. Canada has an extensive network of pipelines to support its large energy industry. There are 23,564 kilometers (14,642 miles) of crude or refined oil pipelines and 74,980 kilometers (46,593 miles) of natural gas pipelines. Many of these pipelines deliver energy across the U.S.-Canada border.

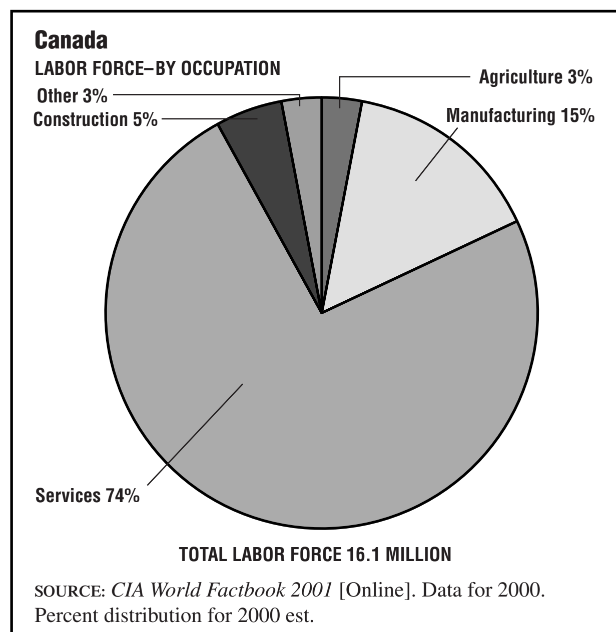
ECONOMIC SECTORS

Since the 1970s the Canadian economy has been transformed from one based on industry and mining to one dominated by the service sector. Concurrently, the nation's agricultural sector has declined significantly. All sectors of the economy have incorporated increasing levels of technology. As a result, the economy has become less labor-intensive and more high-tech. In the past, as much as 60 percent of the nation's exports were based on minerals or other resources. However, by 2000, resource-based exports only accounted for 35 percent of Canada's exports. The world oil shortage continues to fuel Canada's energy exports and Canada remains the world's fifth-largest energy producer when oil, natural gas, hydropower, and atomic power are combined. Major energy companies include Shell Canada, Petro-Canada, BP-Amoco, and Burlington Resources.



SOURCE: *CIA World Factbook 2000* [Online].

The majority of exports are now based on sophisticated technologies. These types of exports include telecommunications equipment, computer software, various environmental technologies, and aerospace products. Canada's Nortel Networks is one of the largest and most respected telecommunications and networking compa-



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 2000 est.

nies in the world. But like many companies, Nortel was hit hard by the downturn in this market niche in 2001, when it announced it was laying off thousands of employees and would take a loss of over US$19 billion in the second quarter of that year. Automobiles and car parts remain the leading cash export, followed by machinery and equipment. Exports of service-based items increased by 11.3 percent in 1999. Since 1992, the Canadian economy has experienced continued growth. Much of this is the result of trade with the United States, which enjoyed a sustained period of economic progress through the end of the 20th century. The strength of the nation's economy has led to increased levels of foreign investment. In 1999, foreign investment in Canada increased by 10 percent to reach a total of $240 billion. This accounted for 25 percent of the nation's GDP. Financial services, including insurance, accounted for the largest percentage of foreign investment.

The agricultural sector in Canada is undergoing increasing consolidation. Smaller family farms are being consolidated by large agricultural businesses. Since 1991, the number of farms whose output exceeded US$100,000 per year has increased by 10 percent. These large farms were concentrated in Quebec and Ontario, but there was substantial growth in the west. For instance, the province of Saskatchewan has experienced a 30 percent growth in large farms since 1991. There is also an overall decline in the total area of land being used for agriculture. Nonetheless, agriculture remains highly diverse. Crops range from wheat and barley to tobacco and vegetables. There is also significant timber production. Livestock production includes beef and veal, swine, poultry, duck, turkey, and goose. Furthermore, the nation is one of the world's largest fish harvesters. Agriculture accounts for 3 percent of the nation's GDP and 3 percent of its workforce. In 1999, 12 percent of the rural population lived on farms.

Canadian industry has become more efficient and productive by adopting ever-increasing levels of technology in manufacturing. Industrial productivity has increased by an average of 3 percent per year over the past decade. The principal industrial growth sectors include the automotive industry, electronics, computers and computer equipment, aircraft parts and equipment, and building supplies. The automotive sector is Canada's largest industrial employer and is dominated by companies such as Ford and General Motors. The implementation of the North American Free Trade Agreement (NAFTA), a trade agreement between the United States, Mexico, and Canada which eliminates taxes on goods traded between the 3 nations, has expanded industrial opportunities by opening new markets for Canadian exports in the United States and Mexico. However, NAFTA is a double-edged sword in that inefficient industries face increased competition from companies in Canada's NAFTA partners. As a percentage of the overall economy, industry continues to decline although there is sustained growth in specific areas. In 1999, industry accounted for 31 percent of the nation's GDP and 16 percent of employment.

The service sector is the fastest growing segment of the Canadian economy. The nation's highly developed infrastructure has helped support the expansion of services by providing state-of-the-art telecommunications, transportation, and utilities. Services account for 66 percent of the nation's economy and employ 74 percent of the country's workforce. Of Canada's skilled workers, 80 percent are employed by the service sector. The strength of the service sector varies from region to region. Tourism and retail dominate areas of the southeast and west, while financial services are key components of the economy of central Canada. The banking sector is strong and composed of both domestic and foreign banking firms. In an effort to protect domestic businesses, Canada has a number of restrictions in place that limit foreign ownership of companies in the service sector that do business in the country.

AGRICULTURE

Agriculture in Canada is among the most sophisticated and technologically advanced in the world. Farmers use scientific crop and soil analysis as well as state-of-the-art equipment. By 1996, more than one-quarter of all Canadian farmers used a computer in the management of their crops and livestock. In 2000, there were 7,100 square kilometers (2,741 square miles) of irrigated land. While it produces substantial quantities of food for domestic consumers and for export, Canada also imports a significant amount of agricultural products. Total agricultural imports in 1999 amounted to US$10.8 billion. The United States supplies Canada with roughly two-thirds of its total agricultural imports. Conversely, the United States is Canada's main market for agricultural goods. In 1999, the United States was the destination for one-third of Canada's exports of crops, livestock, and fish.

While the overall number of Canadian farms continues to decline, the decline has slowed in recent years and several provinces are in fact adding or gaining new farms. The decline in farms has slowed to under 1 percent per year, the lowest level of decline since 1941. Since 1991, British Columbia has increased its number of farms by 12.6 percent, Alberta by 3 percent, Nova Scotia by 1 percent, and Newfoundland by 0.8 percent. Ontario continues to have the largest overall number of farms—over 68,000—followed by Alberta with 58,000, and Saskatchewan with 56,000. The total number of farms in Canada is approximately 275,000. The average size of a Canadian farm is 608 acres. Contrary to the

trends in the rest of the country, British Columbia has experienced dramatic growth in the number of its small farms. About half of all new farms in the province have gross profits of US$10,000 or less. The number of new small farms in British Columbia has increased by 14.7 percent since 1991.

The nation's main crops are wheat, barley, corn, potatoes, soybeans, rice, and sugar beets. The dominant crop is wheat. In 1998 Canada produced 24,076,300 tons of wheat. However, there is less wheat under cultivation in Canada than at any time in the 20th century. This is the result of increased diversification and low worldwide wheat prices. The number-two crop was barley and the country harvested some 12,708,700 tons of it. Total crop output in 1998 was 53,701,500 tons. The primary livestock products are beef, chicken, duck, turkey, goose, and pork. Beef production is concentrated in the western areas of the nation while poultry production is concentrated in the east. About two-thirds of all poultry farms were in eastern Canada. Most livestock is consumed domestically. For instance, in 2000 beef production was valued at US$1.5 billion. Of this, US$70 million worth of beef was exported while the rest was consumed in Canada. The country also imported US$140 million of beef, almost all of it supplied by the United States. One out of every 4 farms in Canada raised beef.

One of the fastest growing segments of Canadian agriculture is organic products (food grown naturally and without pesticides, and sold without preservatives or additives). The organic food industry has been growing at a rate of 20 percent per year. There are now about 1,500 registered organic food producers in Canada. Organic production is strongest in the western areas of the country. There are also a growing number of specialty farms. For instance, there are now 1,593 farms whose main output is Christmas trees. In addition, the number of bison raised on farms for buffalo meat has tripled since the early 1990s, and the total number of head are around 45,000. There are also a number of exotic species, including llama and elk, being raised for sale in specialty markets. For instance, elk and deer antlers are sold to Asian nations for use in food products and tea. Specialized crop products include various herbs and spices such as garlic, ginseng, and coriander, cut flowers such as roses or lilies, and tobacco.

While fishing remains a prominent part of the economy of some provinces, depletion of fish stocks caused by over-fishing have led to significant declines in fish production. Fishing now accounts for only about 0.1 percent of the nation's GDP or US$3.2 billion per year. Since the early 1990s, fishing's share of the nation's GDP has declined at an average of 2 percent per year.

Environmental problems have created concerns for Canadian agriculture. One of the major problems is that of animal waste and fertilizer runoff contaminating waterways. In 1996, there were 61 million acres that were treated with some form of chemical fertilizer and 57 million acres treated with herbicides. This represents a 15 percent increase in fertilizer use since 1991, and a 7 percent increase in herbicide use. A second major problem is that of soil erosion caused by overproduction.

INDUSTRY

Although the automotive industry is the dominant industrial force in Canada, the nation's industrial base is highly diversified. In addition to the manufacture of cars and car parts, major Canadian industries include electronics, processed and unprocessed minerals, food products, wood and paper products, chemicals, and petroleum and natural gas. Manufacturing accounts for about 18 percent of total industrial output. The most significant growth areas in industry are electronics, which grew by 15 percent in 2000, communications with 7.5 percent growth, furniture and fixtures with 7.4 percent growth, and crude oil and natural gas, which grew by 4.5 percent. Meanwhile transportation equipment declined by 5 percent while textiles were off by 3 percent.

MINERALS AND RESOURCES. Mining and fuel extraction and production accounted for 4.5 percent of Canada's GDP or some US$36.1 billion. Fuel exploration and production dominate this sector, but the processing of other types of mineral resources has grown significantly. In 1996, the top non-fuel minerals were gold with production of US$2.05 billion, copper US$1.47 billion, nickel US$1.45 billion, and zinc US$1.25 billion. There was also significant production of lead and iron. There are about 50 major gold mines in Canada and the country leads the world in technologies which extract gold from rock and soil. The nation is the world's largest producer of zinc and the fifth largest producer of lead. Among the provinces, Ontario is the top producer of non-fuel mineral resources, followed by Quebec, British Columbia, Saskatchewan, and Newfoundland. Each year Canadian companies spend over US$600 million to find or develop new mines and fuel supplies. However, environmental concerns and increased regulation have led many Canadian mining companies to shift exploration elsewhere. Latin America is becoming a favorite choice for Canadian mining companies.

While overall mineral production is dispersed throughout Canada, fuel production is concentrated in the west, with a few major exceptions. Canada is a major exporter of energy and fuels. In 1998, natural gas was the main export with 34.2 percent of total, petroleum was next at 28.6 percent, hydroelectricity at 20.7 percent, coal at 11.4 percent, and atomic energy at 5.1 percent. The United States has traditionally been Canada's largest market for

energy exports, purchasing 90 percent of the nation's fuel and energy exports. Energy production accounts for 8 percent of the nation's economy. Approximately 65 percent of energy production is in Alberta, which is also the home of the nation's oil industry. The number-two producer was British Columbia at 13 percent, followed by Saskatchewan at 8 percent, and Quebec at 5 percent. The atomic industry is centered in Quebec.

MANUFACTURING. The manufacturing sector is dominated by the auto industry. Including imports, Canadians purchased 1.4 million new vehicles in 1999. That same year, there were 2.8 million new cars and light trucks produced in Canada, or 4.5 percent of the world's total output. About 90 percent of Canadian-built cars are exported to the United States. In 1999, exports to the United States alone equaled US$64.7 billion. Exports to the EU ranked second and amounted to US$299 million. Canada is the world's ninth-largest market for the purchase of new automobiles. In 1999, the auto parts market in Canada was worth US$33.8 billion. Of this total, US$22.7 billion worth of parts were produced in Canada. Canadian companies exported US$18 billion of the parts produced. The United States is both the main market for Canadian auto exports and the main supplier of the nation's imports. The strength of the auto sector is founded on the U.S.-Canada Auto Pact of 1965 which provided for free trade in cars and car parts. The pact also served as the model for later trade agreements between the 2 countries.

Electronics and electronic components constitute the main growth industry in Canada. These products include telecommunications equipment, computer software, home electronics equipment, and industrial and automotive electronics. Most electronics producers are located in Ontario and Quebec, although a growing number of firms are building plants in the south of British Columbia. Total production of electronics exceeded US$5.2 billion in 2000 and Canada had US$3.3 billion in exports. This does not include computers and computer hardware equipment, which accounted for an additional US$6.7 billion in production and US$6.4 billion in exports. One of the fastest growing electronics markets in Canada is that of personal communications, including mobile phones and pagers. Since 1995, this market has expanded 150 percent. In 1999, there were 3 million mobile phones in use.

There is a variety of other manufacturers in Canada. Aircraft and aircraft parts provide US$7.9 billion to the nation's GDP and some US$7.3 billion in exports. This makes Canada the world's fifth-largest producer of aerospace products and estimates are that the nation will take over the number-three spot by 2004 as the industry continues to expand. The main products are airframes, which form the main body of jet aircraft, and engines. Some of the major Canadian aerospace firms include Lockheed Martin Canada, Canadian Marconi Company (CMC), and Sextant. Canada's Bombardier company, with over US$10 billion in revenues in 2001, is a major producer of business jets, and is the world's third-largest civil aircraft producer, behind Boeing and Airbus. Canada also has a major building products industry which in 2000 produced goods worth US$29 billion. It produces goods such as lumber, plywood, and shingles. About three-quarters of these materials are used in the domestic construction market. The other quarter is exported. Canada also imports a large amount of construction and building materials. The majority of these imports come from the United States (75 percent) and the remainder from Asian nations. Furniture and furniture accessories account for US$6 billion worth of products annually, including US$3.4 billion in exports. A staggering 97 percent of Canada's furniture exports go to the United States. The plastics industry manufactured some US$4.8 billion in products in 2000 while environmental concerns have created a thriving pollution control industry with goods worth US$4.3 billion that same year. Other major industrial sectors include medical equipment and pharmaceuticals, pulp and paper products, and sporting goods and recreational equipment. Canadian sporting goods manufacturers have strong brand identification for a number of products, including ice hockey equipment, snowboards, and swim goggles.

SERVICES

Services employ the greatest number of Canadians and account for the largest share of the nation's GDP. Some 10.4 million Canadians are employed in the sector, which also accounts for two-thirds of small businesses and the self-employed. Since 1976, employment in services has increased by 46.5 percent. With 1.7 million employees, retail is the number-one employer in the service sector. Retail is followed by business services at 1.3 million, personal services at 1 million, transportation and communications at 980,000, and financial services with 789,000. Financial services is the highest paying employment category in the sector. Workers in this field earn an average of Can$700 per week while retail workers only average Can$350 per week. The average overall wage in the services sector is Can$580 per week.

The wholesale, retail, and food service sectors are very similar to their counterparts in the American economy. In fact, American retail stores and restaurants are common throughout most of Canada. The banking and financial services sector is also very comparable to that of the United States. Finally, Canada is the number-one foreign destination for American tourists. These close ties between the service sectors of the 2 nations mean that Canadian companies watch the development of new

services, products, and techniques in the United States very closely.

BANKING AND FINANCIAL SERVICES. The banking sector in Canada is highly developed and, following reforms in the 1990s, it is open to foreign investment and the establishment of foreign-based banks in the country. However, it was not until 1999 that foreign banks were allowed to open branches in Canada without first establishing a subsidiary company (a local or domestic branch of a foreign firm that is incorporated in the country in which it operates, not in the country of the parent company). In January of 2000, Canada had about 8,200 bank branches and close to 15,500 automated teller machines (ATMs). This includes 11 domestic and 42 foreign-owned banks. However, Canada's banking system is dominated by 6 domestic banks which together control about 90 percent of the nation's total assets. Even though foreign banks are now allowed to enter Canada's banking market, most choose to concentrate on peripheral services, including credit cards or commercial lending, because of the domination of the 6 banks which prevent any real market openings in retail banking.

Banking and financial services represent 5 percent of the country's GDP, and provide over Can$22 billion a year in payroll. Each year they also provide Can$50 billion in exports. Access to foreign markets has become a critical component in the success of this sector. For instance, 5 of the country's largest banks each have approximately 30 percent of their assets overseas. In addition, the 2 largest Canadian insurance companies make more profits abroad than they do in Canada. The nation's 4 largest insurance companies are Mutual Life Assurance of Canada, Manufacturers Life Insurance Company, Sun Life Assurance Company of Canada, and the Canadian Life Assurance Company.

RETAIL. Retail sales in Canada in 1999 were Can$260 billion (including automotive sales). Excluding car sales, food was the number-one product sold in retail outlets (mainly supermarkets). Food sales totaled Can$59 billion in 1999 with Can$55 billion of that sold in supermarkets and grocery stores. Clothing was number-two with Can$14.3 billion in sales, followed closely by drug and medicine sales with Can$13.3 billion. Supermarkets had the highest sales volume, followed by general merchandise stores and department stores.

Unlike the United States, Canada's retail sector is not dominated by large chain stores. Independent stores make up 61 percent of the market, chain stores comprise 32 percent, and department stores 7 percent. Stores with 1–4 employees make up 53 percent of the sector, shops with 5–9 employees comprise 23 percent, and those with more than 50 employees only account for 3 percent. There are regional differences in the retail trade. Ontario leads the nation in retail sales with Can$7.9 billion in sales. Quebec is number-two with sales of Can$3.3 billion. In Newfoundland, there are 2 grocery stores per every 1,000 people, but in Ontario there are only 0.5 per 1,000. One potential problem for retail is the increasing number of part-time workers employed in the sector. In 1999, 32 percent of retail workers were part-time. Because they work part-time, these workers usually do not have benefits and therefore must rely on government social services for health care and retirement.

TOURISM. Canada ranks number-nine in the world in terms of tourist revenues, and has 2.2 percent of the world's total tourism market. In 1998, there were 93.3 million tourists who had overnight stays in Canada. This included 18.8 million foreign visitors and 74.4 million domestic tourists. The majority of domestic tourists traveled to overnight destinations within their home province (70.8 million) while only a small number of Canadians stayed overnight in a different province (3.4 million). In 2000, tourism employed 524,300 people. In 1999, tourism receipts amounted to Can$50.1 billion or 6.2 percent of GDP.

INTERNATIONAL TRADE

Canada's economy is dependent on international trade. Roughly 59 percent of its economy is based on trade. In 1999 Canada exported US$277 billion worth of goods and services and imported US$259.3 billion. While the overwhelming majority of the country's trade is with the United States, the Canadian government supports the expansion of foreign trade through international treaties and agreements. In 1989, Canada and the United States signed the Free Trade Agreement (FTA) which eliminated many tariffs and taxes on goods that were traded between the 2 nations. As a result, trade increased by 50 percent before NAFTA superceded the FTA in 1994. In 1999, trade between the 2 nations equaled US$365 billion. When investments and services are included, the total rises to US$450 billion. Canada now has a **trade surplus** with the United States that in 1999 was US$32.1 billion. With NAFTA, trade between Canada and Mex-

Trade (expressed in billions of US$): Canada

	Exports	Imports
1975	34.074	36.106
1980	67.734	62.544
1985	90.950	80.640
1990	127.629	123.244
1995	192.197	168.426
1998	214.327	206.233

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

ico also increased substantially. Canada's major export partners are the United States, Japan, the United Kingdom, Germany, South Korea, the Netherlands, and China. The majority of the country's imports come from the United States, Japan, the United Kingdom, Germany, France, Mexico, Taiwan, and South Korea.

Because of the success of the FTA and NAFTA, Canada has sought to enter into similar agreements with other nations. It has started negotiations with nations including Costa Rica, Israel, and Singapore. In 1997, it initiated a version of the FTA with Chile. This agreement is designed to prepare Chile for entry into NAFTA. Canada is a member of a number of international economic organizations including the WTO, the Free Trade Area of the Americas, and the Asia-Pacific Economic Cooperation (APEC) forum.

While the United States and Canada generally cooperate on trade issues, there are a number of areas where the 2 countries have disagreements. When disputes arise between the 2 nations, they are usually submitted to international bodies for resolution. The WTO and NAFTA are the most common forums to arbitrate controversies. The main areas of dispute most commonly involve agriculture and cultural industries. A major fisheries dispute that centered around the Gulf of Maine was settled by the International Court of Justice in 1984. In 1990 the United States and Canada signed the Fisheries Enforcement Agreement that was designed to discourage illegal fishing. This was followed by the 1999 Pacific Salmon Agreement that settled disagreements over salmon fishing.

One of the main areas of contention between the United States and Canada is over trade with Cuba. Since the 1960s, the United States has maintained a trade **embargo** on Cuba. However, Canada conducts trade with Cuba. In fact, Americans who want to travel to Cuba often go to Canada and then depart from there, since direct travel between the United States and Cuba is prohibited by the U.S. government.

The most significant barriers Canada has to free trade are restrictions on the ownership of companies that are headquartered in the country. Foreign individuals and companies are limited to 25 percent ownership in Canadian airlines and 20 percent ownership of telecommunications companies. They are also restricted to 49 percent stakes in commercial fishing ventures. Furthermore, Prince Edward Island, Nova Scotia, and Saskatchewan limit real estate sales to people or companies from outside of the province.

Because of the potential influence of American culture, Canada has taken steps to try to preserve its culture from being overwhelmed by the United States. For instance, the Canadian government exempted cultural industries such as movies, music, or literature from the provisions of NAFTA. In addition, Quebec requires that all products marketed in the province be labeled in French, and throughout Canada both French and English are used in packaging and labels.

While 90 percent of all goods enter Canada without any form of tax or tariff, certain products face tariffs that range from 0.9 percent to 13 percent. The highest level of tariff is applied to goods such as vegetables, cut flowers, sugar, wine, textiles, clothing, footwear, and boats. These tariffs apply to 35 different countries. In addition, Canada uses 300 percent tariffs to protect the dairy and poultry industry from competition, although in 1999 the WTO agreed with the United States and New Zealand that such tariffs were in violation of WTO regulations.

MONEY

In August 2001, 1.51 Canadian dollars equaled 1 U.S. dollar. The value of the Canadian dollar has remained fairly constant in relation to the U.S. dollar since hitting an all-time low in 1985. In 1995, 1 U.S. dollar equaled 1.3724 Canadian dollars. Recent weaknesses in the Canadian dollar have helped the nation's economy by making its exports cheaper for countries like the United States, a development that has helped spur the increase in Canadian exports.

The Bank of Canada is the nation's central bank. Its main purpose is to regulate **monetary policy**. The Bank of Canada prints paper currency and mints coins and is responsible for setting interest rates. The Bank is a private institution that is independent of the government. However, the members of the board of directors that oversee the Bank are appointed by the federal government's Finance Minister for 3-year terms. It is not a regular commercial bank and it loans money only to other banks or government bodies. The Bank is also in charge of administering the national debt and making payments on the debt. In an effort to combat the drug trade and counterfeiting, the Bank has undertaken a variety of measures in recent years, including adding new security features to

Exchange rates: Canada

Canadian dollars (Can$) per US$1	
Jan 2001	1.5032
2000	1.4851
1999	1.4857
1998	1.4835
1997	1.3846
1996	1.3635

SOURCE: CIA *World Factbook 2001* [ONLINE].

currency and eliminating the Can$1,000 bill (since it was rarely used by legitimate businesses, but commonly used in the drug trade).

The Toronto Stock Exchange (TSE), founded in 1852, is one of the largest in North America. Its "TSE 300" index, which lists the 300 largest companies on the exchange, is usually used as the major Canadian stock index. Other major Canadian stock exchanges include the Alberta, Montreal, Vancouver, and Winnipeg stock exchanges. The total value of these exchanges in 1998 was US$543.4 billion. There were 1,384 domestic companies listed in these exchanges in addition to a host of international companies.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Canada	14,535	16,423	17,850	19,160	20,458
United States	19,364	21,529	23,200	25,363	29,683
Mexico	3,380	4,167	4,106	4,046	4,459
Brazil	3,464	4,253	4,039	4,078	4,509

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

Canada is a prosperous and affluent country. It has a highly developed **social welfare system** that includes a progressive health-care system. The nation aggressively pursues policies which emphasize human rights. In terms of the welfare of its citizens, Canada is one of the world's most progressive nations. The combination of a thriving economy and generous social benefits gives Canada one of the highest standards of living in the world. In the *Human Development Report 2000,* published by the United Nations, Canada ranks number-one in the world in human development. Furthermore, over the past 25 years Canada has consistently ranked number-one or two in the report. The GDP per capita in 1999 was US$23,300. Education is mandatory through age 15 and the literacy rate exceeds 97 percent.

The highest 10 percent of the population accounts for 23.8 percent of all income. At the same time, the lowest 10 percent makes only 2.8 percent of all income. The majority of Canadians fall into what is considered to be the middle class. While most people in Canadian society share in the nation's prosperity, there are several groups that are generally excluded from the affluence of the country. Among these groups are the native people of Canada and recent immigrants. Women and the disabled also face inequities in employment and wages. While women have the same property rights and are guaranteed equal employment under the law, many women are paid less than male workers in similar jobs. Women head over 85 percent of single-parent households and these households have a higher level of poverty than their traditional 2-parent family counterparts.

Native Americans in Canada generally do not share in the nation's prosperity. They have higher rates of unemployment, alcoholism, suicide, and poverty than the national averages. Increasingly, the tribes have sought greater autonomy and political control over themselves and their land. In response, the government has allocated US$400 million for programs designed to alleviate the worst problems of the tribes since 1996. The federal government is also currently in negotiations with over 350 different tribes over issues of self-government.

The Canadian health-care system is often described as a model for other nations. The system is a combination of public financing and private delivery of medical care. In other words, private doctors and health-care providers treat people, but the costs are paid for by the government. The federal government sets standards and provides funds for the provincial governments. Each province is responsible for specific planning, public health, and the financing of the health-care system. Over 95 percent of Canadian hospitals are private non-profit ventures that are run by community boards and munici-

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Canada	14	5	10	4	21	9	38
United States	13	9	9	4	6	8	51
Mexico	30	6	4	2	7	5	46
Brazil	22	13	18	15	34	4	−6

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Distribution of Income or Consumption by Percentage Share: Canada

Lowest 10%	2.8
Lowest 20%	7.5
Second 20%	12.9
Third 20%	17.2
Fourth 20%	23.0
Highest 20%	39.3
Highest 10%	23.8

Survey year: 1994

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

palities. For-profit hospitals exist mainly to provide long-term care. In 1998, total health-care expenditures were Can$82.5 billion or Can$2,694 per person. Each year, health care usually accounts for about 10 percent of GDP, and about one-third of total spending by the provincial governments. The main complaint about the system is the length of time that patients often have to wait before they receive certain treatments. In 1999, the average time between referral by a primary care doctor and treatment by a medical specialist was 14 weeks.

WORKING CONDITIONS

Total employment in Canada in 1999 was 15.9 million. That same year, the unemployment rate was 7.6 percent. Unemployment in Canada has remained fairly constant at this rate during the 1990s, despite the strong economy. However, there were real declines in unemployment compared with the 1980s, when unemployment hovered near 10 percent.

With the exception of members of the armed forces, all workers in Canada have the right to form unions. Unions may organize strikes, but employees of the government who provide essential services, including law enforcement and medical care, are forbidden to strike. In 2000, there were a number of notable strikes, including one in British Columbia that closed the province's seaports for 10 days. The province also saw an illegal nurses strike in 2001, as well as a crippling public transit strike in Vancouver which shut down the bus and light rail system for 4 months. Specific laws that oversee the formation and conduct of unions vary from province to province. Unions are independent of the government and often form coalitions with other trade organizations or international bodies. Outside of the government, union membership is 29.5 percent nationwide. The government vigorously enforces union protections, and there are provincial and federal agencies that monitor and investigate working conditions and worker safety.

The standard work week varies from province to province. It ranges from 40 to 48 hours per week, but all provinces mandate at least one 24-hour rest period during the week. The minimum wage rates are set by each province and also vary widely. The lowest minimum wage is Can$5.25 per hour in Newfoundland and the highest is Can$7.60 in British Columbia. In addition, Alberta and Ontario have lower minimum wages for workers under the age of 18. The minimum wage is not sufficient for a single worker to support a family and, in fact, those families with only a single wage earner making minimum wage are classified as being below the national poverty line. There are prohibitions on child labor, and children under the age of either 15 or 16—depending on the province—are not allowed to work without parental consent. Some provinces also have restrictions on youths working at night or in hazardous jobs.

Several groups are under-represented in the workforce and are often paid less than their counterparts in similar occupations. Native American peoples are particularly subject to discrimination and their proportion of the workforce is far lower than their proportion of the population. The same is true of people with disabilities. People with disabilities who are capable of work represent 6.5 percent of the total population, but only 2.7 percent of current employees. Women are employed in all sectors of the economy and laws guarantee equality in all areas of employment except the military. Under the terms of a 1998 court decision, the federal government has been paying back wages to women who were paid less than their male counterparts in the same occupation. However, disparities in income still exist between men and women with similar jobs.

Although the nation is officially bilingual, cultural pressure and regulations force many English-speakers in Quebec and French-speakers elsewhere in the country to use the language of the majority of that particular province. For instance, the provincial government of Quebec limits access to English-language schools and places restrictions on the use of English for commercial purposes and in advertising.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1600. King Henry IV of France grants a fur trading **monopoly** in the Gulf of St. Lawrence to a French company.

1608. Samuel de Champlain founds Quebec, the fist permanent European settlement in Canada.

1644. Wheat is planted and harvested for the first time in Canada.

1670. The Hudson's Bay company is formed by British merchants to trade in the Hudson Bay area.

1731–43. French fur trappers go into the territory beyond Lake Winnipeg and begin to send furs back to the east, establishing a lucrative trade.

1756–63. French and Indian War or Seven Years War results in British control of Canada, including Quebec.

1775–83. American Revolutionary War. British and Canadian forces defeat several American invasion attempts. Thousands of Americans loyal to England **emigrate** to Canada during the war.

1791. Many British loyalists settle in western Quebec, leading to the division of Quebec into Upper Canada (Ontario) and Lower Canada (Quebec). A year later George Vancouver begins his explorations of the Pacific Coast.

1807. Slavery is abolished in Canada.

1812–14. The War of 1812 is fought between the United States and Great Britain. The Americans burn York (Toronto), the capital of Ontario, but British forces retaliate by burning Washington, D.C.

1821. The 2 major economic forces in Canada, the Hudson's Bay Company and the Northwest Company, merge. This creates widespread unemployment.

1838. Rebellions by Native Americans and French-speaking Canadians break out across the colonies.

1841. The Act of Union unites Upper and Lower Canada into the single colony of Canada.

1857. Ottawa becomes the capital of Canada.

1867. Great Britain's North American colonies are united in a confederation to form the Dominion of Canada and are given semi-independent status, including self-government.

1870s. The northern bison herds are decimated. This leads to the collapse of the west's economy.

1880–84. A transcontinental railway is built, mainly by immigrant Chinese laborers.

1897. Gold is discovered in the Klondike. This leads to a widespread gold rush that attracts thousands, including many Americans.

1917. The **income tax** is adopted during World War I, but never repealed.

1922. The Canadian Northern and Canadian Transcontinental Railways merge to create Canadian National Railways. Four Canadian scientists share the Nobel Prize for their discovery of insulin.

1923. Anti-immigration sentiment leads the government to virtually halt Chinese immigration.

1931. The Statute of Westminister grants Canada full control over internal and external affairs. The governor-general becomes the representative of the British monarch.

1932. The Ottawa Agreements establish preferential trade between Canada and the other British Commonwealth nations.

1935. The Bank of Canada is established as the nation's central bank.

1937. Trans Canada Air Lines establishes regular flights.

1945. Canada joins the United Nations. The nation's first atomic reactor is built in Ontario.

1959. St. Lawrence Seaway opens.

1962. The Trans-Canada Highway opens. Canada becomes the third nation in space with the launch of a satellite.

1965. Canada and the United States sign the Auto Pact. The Maple Leaf flag is adopted.

1980. In a referendum in Quebec, voters reject independence from Canada.

1982. Canada gains a new constitution. The most severe economic recession since the Great Depression begins.

1984. The Gulf of Maine dispute between Canada and the United States is settled by the International Court of Justice.

1987. The Meech Lake Accords fail to solve the question of the status of Quebec.

1989. U.S.-Canada Free Trade Agreement goes into effect.

1990. The Goods and Services Tax (GST), a 7 percent national sales tax, is enacted. Canada and the United States sign the Fisheries Enforcement Agreement.

1992. Canada is the first nation to sign the bio-diversity treaty following the United Nations Earth Summit in Brazil.

1994. Trade restrictions between the provinces are eased and cigarette taxes are lowered following widespread smuggling from the United States. Canada joins the North American Free Trade Agreement (NAFTA).

1995. Voters in Quebec narrowly reject independence.

1996. Substantial cuts in government spending are announced.

1997. Canada initiates a free trade agreement with Chile.

1999. Canadian forces participate in the NATO-led military operation against Serbia in Kosovo. Canada and the United States sign the Pacific Salmon Agreement.

FUTURE TRENDS

The most pressing problem for the future of Canada is the question of Quebec's independence. A significant percentage of the Canadian economy is centered in Quebec. Independence for Quebec would raise a variety of problems since it would require a division of the assets of the federal government and require Quebec to assume part of the federal debt. Since the 1980s, there have been repeated efforts to reach some sort of permanent solution to the problem. However, the Bloc Québécois continues to push for independence. In 1998, the nation's Supreme Court ruled that a unilateral declaration of independence by Quebec would be illegal, but if a majority of the residents of Quebec vote for separation, then the federal government has to negotiate eventual independence. The English-speaking residents of Quebec and the province's native peoples both oppose independence and have expressed their wish to remain part of Canada if Quebec gains its independence.

Another problem facing the Canadian economy is the high level of taxation. On the positive side, these taxes provide the basis for the nation's very generous social benefits, including health care and education. On the negative side, taxes increase the cost of living for average Canadians and increase the costs of business for companies. In addition, even with the high level of taxation, the government has been forced to deficit spend in order to pay for services. As a result, the nation's debt increased substantially during the 1990s and only recently has the government begun to pay down the debt. The most pressing problem related to the high level of taxation is the aforementioned brain drain. Many younger Canadians who are highly skilled and/or educated are moving to the United States where they can earn much higher wages while paying lower taxes. Canada's tax burden is also blamed for the continuing unemployment levels of around 7 percent (while the American unemployment has been around 4 percent for several years).

Canada's pursuit of free and open trade has led it to join a number of international organizations. Membership in these organizations has allowed the country to take advantage of international trade so that it now contributes a significant portion of the Canadian economy. Much of the country's future growth is dependent on trade. Because of this dependence, Canada is particularly sensitive to downturns in the economies of its major trade partners, especially the United States.

DEPENDENCIES

Canada has no territories or colonies.

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—Tom Lansford

CHILE

Republic of Chile
República de Chile

CAPITAL: Santiago.

MONETARY UNIT: Chilean peso (P). One Chilean peso equals 100 centavos. There are coins of 1, 5, 10, 50, 100, and 500 pesos and notes of 500, 1,000, 5,000 and 10,000 pesos.

CHIEF EXPORTS: Copper, fish, fruits, paper and pulp, chemicals.

CHIEF IMPORTS: Consumer goods, chemicals, motor vehicles, fuels, electrical machinery, heavy industrial machinery, food.

GROSS DOMESTIC PRODUCT: US$185.1 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$15.6 billion (f.o.b., 1999 est.). **Imports:** US$13.9 billion (c.i.f., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. A coastal country located in the southwest region of South America, Chile has an area of 756,950 square kilometers (292,258 square miles) and a total coastline of 6,435 kilometers (3,998 miles). Chile shares its northern border with Peru and its eastern border with Bolivia and Argentina. Comparatively, the area occupied by Chile is nearly twice the size of California. Chile's capital city, Santiago, is located at the country's latitudinal mid-point. By bus, Santiago is approximately 1.5 hours inland from the Pacific Ocean and 1.5 hours west of the Andes Mountains foothills. From its northern border to its southernmost tip, Chile covers a diverse geographic array. In the north is the Atacama Desert, one of the driest places on earth, while the southern tip points towards the polar ice of Antarctica.

POPULATION. The population of Chile was estimated at 15,153,797 in July of 2000 with an annual growth rate of 1.7 percent, an increase of 7.9 percent from the 1994 population of 13,950,557. In 2000 the birth rate stood at 17.19 per 1,000 while the death rate stood at 5.52 per 1,000. According to the Population Reference Bureau, with a projected annual population growth rate of 1.29 percent, the population is expected to reach 19.55 million by the year 2025 and 22.21 million by 2050.

A majority of the Chilean population is *mestizo* (of mixed European and American Indian descent). In 1848 the Law of Colonization was passed by Spanish colonists interested in attracting foreign immigrants. Consequently, a large German population relocated to Southern Chile and mixed with the Mapuche Indians who inhabited the region. Miscegenation (intermarriage between different races) was prevalent throughout the country between Mapuches and other Europeans. **Immigration** also produced significant populations of Palestinians, Jews, Italians, Asians, Yugoslavs, and Greeks. Because of this great racial diversity, most Chileans feel that there is little racial prejudice in their country. However, prejudice based on class status is very prevalent in the urban centers.

The population of Chile is highly stratified with the middle class being the largest social sector. The importance of surnames, private schools, and living in the right neighborhood reveals a society that places much emphasis on class. The upper class in Chile consists of aristocrats, big business executives, and highly trained professionals making US$6,000 or more per month and constituting approximately 10 percent of the population. The middle class consists of small-business people, lower-rank professionals, public employees, and teachers. This group averages between US$600-$5,000 per month and constitutes 60 percent of the population. The lower class includes indigenous groups, retirees, students, small farmers, and servants. These people make between US$75-$500 per month and make up 30 percent of the population.

The population of Chile is highly urbanized, with 86 percent of the population residing in urban areas. The

country is also young, with 28 percent of the population under the age of 15. Additionally, the population is predominantly Roman Catholic (estimated at 89 percent), with the remaining 11 percent affiliated with other religions.

OVERVIEW OF ECONOMY

Chile's market-oriented economy is characterized by a high level of foreign trade that has been solidified over the years through economic reforms. Under President Patricio Aylwin's democratic government (1990–93), Chile's reputation grew as the role model for economic reform in Latin America. **Gross domestic product** (GDP) growth averaged 8 percent during the 1991–97 period but fell to about 4 percent in 1998 because of tight **monetary policies** implemented by the government; such policies were an attempt to keep the current account deficit in check. In 1999 a severe drought exacerbated the **recession** by reducing crop yields and causing hydroelectric shortfalls and rationing. For the first time in 15 years, Chile experienced negative economic growth. However, Chile managed to maintain its reputation for strong financial institutions and sound economic policies. By the end of 1999 exports and economic activity had begun to recover, and a return to strong growth was predicted. The March 2000 inauguration of President Ricardo Lagos (2000-present)—President Eduardo Frei's (1994–99) successor—left the presidency in the hands of the center-left Concertacion coalition that has held office since the return to civilian rule in 1990.

Chile arrived at its present strong economic state after years of political and economic turmoil. Civilian governments replaced the repressive military dictatorship in March 1990 and continued to reduce the government's role in the economy, pushing for the development of a free-market economy. **Inflation** has been on a downward trend and hit a 60-year low in 1998. Chile's currency and **foreign exchange reserves** are also strong, due in large part to sustained foreign capital inflows of direct investment. Still, the Chilean economy remains largely dependent on a few sectors—namely copper mining, fishing, and forestry. Sustained economic growth is largely dependent on world prices for these commodities, continued foreign investor confidence, and the government's ability to maintain an orthodox **fiscal policy**.

Chile's credit rating remains the best in Latin America, and in order to finance investment, Chilean firms have raised money abroad through loans, selling bonds, and issuing stock. Additionally, Chile has a high rate of foreign investment with private U.S. corporations conducting a significant amount of independent and **joint ventures** in the country. Total private and public investment in Chile accounted for 33 percent of the GDP in 1997. The government is aware that increasing investment is necessary to ensure worker productivity. Chile is very fortunate not to be plagued by international debt, in part due to foreign aid it receives. Although it still has a significant **foreign debt** it is not enough to constitute major structural problems. As such, Chile is better off than many of the lesser-developed Latin American countries that struggle to maintain economic policies designed to generate enough revenue to pay back their foreign debts. Minimal foreign debt pressures and strong economic growth help Chile remain one of the most economically successful countries in Latin America.

POLITICS, GOVERNMENT, AND TAXATION

Chile is divided into 13 administrative regions, each headed by an administrator (*intentente*) appointed by the central government. Each region is divided into 40 provinces, each being administered by a governor (*gobernador*) also appointed by the central government. The provinces are further divided into municipalities headed by appointed mayors (*alcaldes*).

Chile's system of government, with its separation of powers, was patterned after that of the United States. There are 3 branches to the government: executive, judicial, and legislative. It is a multiparty republic with a presidential system based on the 1980 constitution.

The Chilean Constitution of 1980 sets the format for the National Congress, composed of a Senate and a Chamber of Deputies. The Senate has 47 members (38 elected and 9 appointed) who serve 8-year terms. The Chamber of Deputies has 120 members who are directly elected for 4 years. The president is elected for a 6-year term without possibility for re-election. The constitution requires the president to be at least 45 years of age, meet the constitutional requirements for citizenship, and have been born on Chilean territory. The president is elected by an absolute majority of the valid votes cast.

The executive branch in Chile is composed of 16 ministries and 4 cabinet-level agencies: the Central Bank, the Production Development Corporation (Corfo), the National Women's Service, and the National Energy Commission. Each minister is appointed exclusively at the president's discretion.

During the brutal dictatorship of General Augusto Pinochet, which lasted from 1973 to 1990, political parties were severely repressed. After the return to a civilian democratic government, political parties began re-emerging and eventually consolidated into 2 major blocs, the center-right and the center-left. Historically, Chilean politics have been split 3 ways: the right, center, and left. The center-left is currently the governing coalition and includes the centrist Christian Democratic Party (PDC), the Radical parties, the moderate leftist Party for Democracy (PPD), and the Socialist Party (PS). The opposition center-right includes the National Renewal Party (RN) and the Independent Democratic Union Party (UDI). In addition to these parties, Chile has several small-scale leftist parties, including the **Communist** Party. While these parties are not represented in the Executive Branch or Congress, they do have elected representatives in some local governments.

The 2000 presidential election was a close race between Ricardo Lagos, representing the center-left, and Joaquin Lavin Infante, representing the center-right. Lavin's party platform, as a member of UDI, focused on promises of higher wages, larger pensions, and better economic and social performance. These promises were made in the wake of the largest recession Chile has experienced in years. Lagos's platform, as a member of the PPD, advocated stability, continuation of reform processes tied to economic **liberalization**, high levels of economic growth, and reduced unemployment.

The Coalition of Parties for Democracy (Concertacion) is an umbrella coalition that encompasses all political parties, from the powerful PDC to Lagos's PPD. One of the fundamental tenants of this bloc was to unite in support of a single presidential candidate. For the 2000 election, the Concertacion elected Lagos, making him the first avowedly leftist president since Salvador Allende, the socialist president who died during the coup (an internal takeover of a government) that put General Pinochet in power. Many older Chileans were concerned about Lagos's candidacy because they still remembered the very severe economic conditions that plagued the country under Allende. As the newly elected president, Lagos promised to maintain the same **liberal-economic** reform policies that have been adhered to since the overthrow of the Allende government. Although both the center-left and center-right support free-market liberal economies, the center-right tends to identify more with Pinochet and his neoliberal policies. The center-left understands and supports free-market policies but expresses ties to **socialist** ideology. In Chile, political identification remains closely tied to a person's socio-economic class.

The government's biggest impact on the economy is maintaining neoliberal economic policies that favor foreign investment and international trade. Regulation of the Chilean economy by the government is limited. The most heavily regulated areas of the economy are utilities, the banking sector, securities markets, and pension funds. The government is increasing the amount of foreign investment in the country by introducing rules that permit **privatization** of Chilean state-owned ports, water-treatment facilities, and private investment in the construction and operation of domestic **infrastructure** projects.

Chilean Decree Laws attempt to establish favorable investment climates for foreign investors by treating them nearly the same as Chilean investors. There are minimal administrative issues that need to be dealt with in order to pursue investment opportunities in Chile, and the highly stable democratic government helps boost investor confidence. With a well-developed legal system and government support of foreign investment, the economy thrives on the inflow of foreign capital. The government also promotes exports by offering non-market incentives to exporters. For example, paperwork requirements are made simpler for nontraditional exporters.

An 18 percent VAT is applied to all sales transactions and accounts, generating over 40 percent of total

tax revenues. There is a **tariff** on almost all imports originating in countries that have not entered into a free trade agreement with Chile. In 1998 the tariff was 11 percent; it dropped to 9 percent in 2000 and will fall by 1 percent through the year 2003, at which time it will stabilize at 6 percent. Personal **income taxes** are applied only to individuals making more than US$6,000 per year. People earning over about US$75,000 are taxed at the highest rate of 45 percent. Businesses are taxed 15 percent on the profits they keep as earnings and 35 percent for those that they distribute. Businesses are given tax breaks for their donations to educational institutions. In 1999, 73 percent of total government revenues were derived from taxes. Tax evasion is not a serious problem in Chile.

Chile's economy is extremely open to free trade and the government rarely intervenes with protectionist measures. Chile's Foreign Investment Law and its tax structure are indicative of a country that is interested in attracting foreign investment. Chile has negotiated free trade agreements with various countries, including the United States, Canada, Mexico, Brazil, Paraguay, Uruguay, and Argentina.

The military played a significant role in the economy during the Pinochet dictatorship by enforcing a drastic 180 degree turn in the economy. They changed the Chilean economy from one that was heavily **nationalized**, domestically protected, and industrializing through **import-substitution** to one that favored free-market neoliberal policies. While the military no longer plays a direct role in the country's economic planning, the economic structure that was implemented under its rule is still followed currently and policymakers of the military government are still on the boards of the largest firms in the country.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Chile's internal transportation network is relatively well-developed, although it is in need of some improvement. Historically, Chile had heavy government regulation of the transportation sector—including railroads, air transport, marine shipping, and buses. These laws served as a tremendous barrier to international competitiveness due to inefficiency. As a result, reforms, begun in the late 1970s, aimed at establishing a competitive environment and increasing participation by the **private sector**.

RAILWAYS. The nation's rail system consists of 6,782 kilometers (4,214 miles) of railroads. Four international railways run to northwestern Argentina, Bolivia, and Peru. Two of these lines run from Chile to Bolivia (from Arica to La Paz) and from Antofogasta to La Paz via the Calama Desert. Except for these 2 international routes, passenger service to areas north of Santiago is not permitted. The Chilean State Railways (Empresa de Ferrocarriles del Estado) operates under the auspices of the Ministry of Transport and Telecommunications. Congress approved privatization of EFE's train services. However, the infrastructure remains under state control.

ROADWAYS. Although Chile's railroad system is the fourth-largest network in Latin America, it is a comparatively slow and inefficient method of transportation. Roads are the principal means of moving people and freight given that the Pan-American Highway is in excellent condition and runs the length of the country. In 1960 the first paved road was completed, linking the extreme north with Puerto Montt, located at the far southern tip of the Central Valley (Valle Central). Transversal roads run east and west from the north-south highways. Chile's network of roads totals approximately 79,025 kilometers (49,103 miles). Of this total network 9,913 kilometers (6,160 miles) are paved, 33,140 kilometers (20,592 miles) are gravel roads, and 35,972 kilometers (22,352 miles) are improved and unimproved earth roads. The Santiago and Central Valley regions are the areas most frequently traveled. There are about 1.1 million motorized vehicles of all kinds in Chile, including approximately 700,000 automobiles and 300,000 trucks and buses. Chile's national bus service and San-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Chile	98	354	232	44.8	65	2.7	48.2	21.45	700
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Argentina	123	681	289	163.1	78	2.0	44.3	27.85	900

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

tiago's metro system run on time and are considered excellent.

Chile supports an extensive tourist infrastructure through the use of bus transportation from the extreme north of the country to the southern Lake District. A bus trip from the capital city of Santiago to Puerto Montt takes about 17 hours. Although it is a significant amount of time to spend on a bus, the views are extraordinary, Chileans make great conversation, and once you reach the south you get to see one of the most beautiful places on earth. It is almost untouched by capitalist industrialization and the people are comfortingly and inspiringly simple. A portable CD player is a totally foreign object to them.

WATER. Chile has 4 major state-owned water utilities that are in desperate need of substantial investment to improve efficiency. Starting in 1998 the government began considering the possibility of selling approximately 35 percent of the utilities to private firms. Partially privatizing this sector would allow private companies to invest capital in the **restructuring** of the utilities. Such contributions would improve drinking water services, sewers, and sewage treatment. These changes require substantial investment in order to be realized. According to the Communication and Culture Secretariat of Chile, a planned investment of US$1.56 billion by the year 2000 was expected to substantially improve the water sector in Chile. This significantly exceeds the US$235 million that was spent in 1998.

PORTS. Chile's extensive coastline has very few naturally protected bays. In general the sea is rough and the topography is abrupt. A total of 95 percent of Chilean exports and 87 percent of international trade is done through port facilities. As of 1999, Chile had 36 operational ports: 10 were state-owned and offered public service; the other 26 were privately-owned ports, of which only 15 offered public service. These ports tend to focus on trade and shipping.

Port infrastructure, equipment, technology, and services have been clearly inadequate to efficiently serve the growing demands of globalization and international trade. As a result, the Chilean Congress approved a Port Law in December of 1997. This legislation was intended to foster competition and improve the capacity, efficiency, and competitiveness of the state-owned ports. The law mandated the conversion of 10 state-owned ports, previously managed by Emporchi (Chilean Port Authority), into 10 independent companies. These new companies are now fully responsible for port management, development, financial administration, and assets. However, the ports are still owned by the state. Chile has limited inland waterways, navigable for only about 725 kilometers (450 miles), and located mainly in the southern Lake District.

AIR TRANSPORT. Air transport has become an important way of moving people and freight through Chile, given its territorial extremes. Chile has 351 usable airports but only 48 of them have paved runways. The international airport is located in the capital, Santiago. Eighteen international airlines serve through Santiago. Chile has 2 national airlines. The first is Línea Aérea Nacional de Chile (LAN Chile), which was privatized in 1989 and merged with Southeast Pacific in 1992. LAN Chile serves major cities in Chile and also carries passengers to international destinations. The second, Linde Aérea del Cobre (Ladeco), is owned by the country's copper company and handles the majority of domestic travel.

ELECTRICITY. Power shortages occurred frequently in 1999 and to some degree in 1998. Shortages are typically a result of drought conditions since most of the country depends heavily on hydroelectricity. Power rationing had to be instigated in Santiago and some other regions for a while. In April 1999, blackouts would occur for up to 3 hours a day. The government did not intervene in the situation because private corporations own the electric companies, and the government did not want to scare investors away. However, the blackouts continued to be severe enough that the government fined 10 power companies for not meeting the terms of their contracts. New power plant construction, started in 1996, will continue through at least 2008. According to the most recent projections of the Comision Nacional de Energia (National Energy Commission [CNE]), electricity demand will grow over 8 percent yearly into the next century. Thus, the electricity sector has grown much faster than the overall Chilean economy.

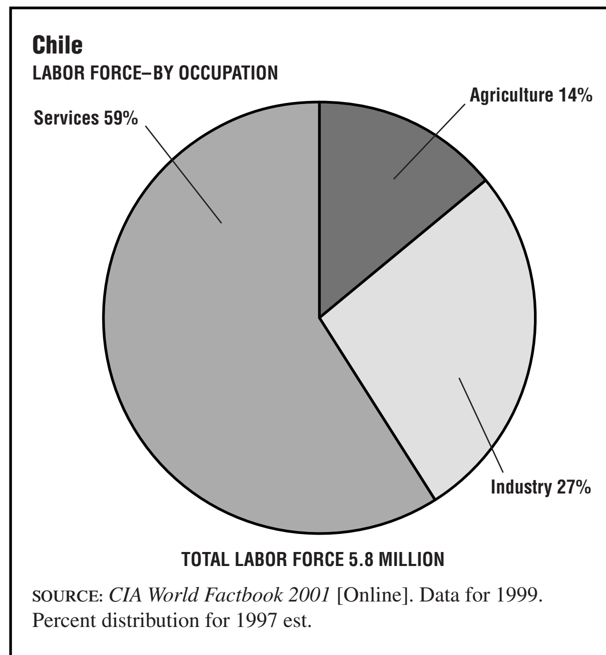
TELECOMMUNICATIONS. Chile has an excellent telecommunications infrastructure supporting the use of cable, fax machines, telephones, and the Internet (in 1999 there were 26 Internet service providers). The phone system is completely digital and there are 8 international long distance carriers and 3 cellular telephone networks.

The telecommunications sector in Chile changed dramatically once it became privatized in 1989. As a result, private companies were forced to compete on the open market. Competition caused these businesses to provide their services in the most efficient and effective manner possible in order to ensure customer satisfaction. Since privatization, the number of phone lines increased from 800,000 in 1990 to 3.1 million in 1999. Cellular phones were introduced in 1990, and by the end of 1999 there were more than 2 million being used nationwide. Long distance calls made within the country increased from 500 million minutes in 1990 to almost 3 billion minutes in 1999. Long distance calls made to other countries increased from 50 million minutes in 1990 to almost 250 million minutes in 1999.

The Internet has become efficient in Chile due to heavy U.S. investment, but penetration is still limited

given that only about 24 percent of homes have a computer. However, computer use is expected to grow 6 percent in the year 2001, as consumer confidence resumes after the Y2K scare. Chilean imports of computer equipment were estimated at approximately US$400 million for 1999. Imports have been gradually increasing over the past few years. The Internet is used mainly for education and entertainment purposes with only about 7 percent of Internet users shopping on-line. Furthermore, local access charges on Internet usage make logging on expensive. Nevertheless, Chile has the most developed telecommunications infrastructure in Latin America and is attempting to further develop its Internet infrastructure through private investment in order to become the preferred country for Internet investments.

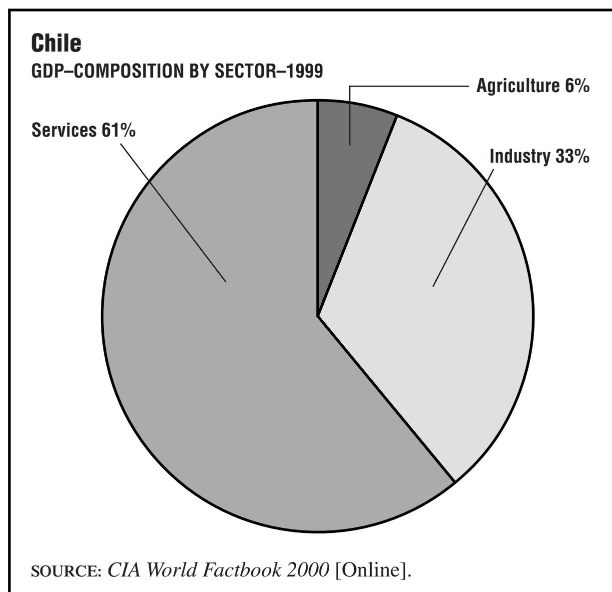
RADIO. The radio is Chile's principal way of reaching the mass population. An estimated 93 percent of the nation's population listens to the radio; the percentage is higher in the metropolitan Santiago area, estimated at 97 percent. Radio broadcasts are the prime source for current news for a majority of the population. New stations have a large budget used to maintain professional news staff to meet the news demands of the country. There are an estimated 17 million radio sets in Chile, far surpassing the estimated population of the country.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1997 est.

ECONOMIC SECTORS

The key economic sectors making up the Chilean economy are agriculture, industry and manufacturing, and services. Agriculture has increased slightly over the years but still makes up only a small percent of annual GDP. In 1979 agriculture constituted 7.4 percent of the GDP, rising to 8.7 in 1989, and 8.4 in 1998. Industry constituted 37.9 percent of GDP in 1979, with 21.6 of that coming from manufacturing. In 1989 those figures were 41.8 and 18.9 percent, respectively. By 1998, industry declined to 34.2 percent and manufacturing sank further, to 16.4 percent. The service sector in Chile accounted for approximately 61 percent of the GDP in 1999. Services in Chile include tourism, banking, and finance and **retail**.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

In 1970 Chile was exporting US$33 million in agriculture, forestry, and fishing products. By 1991 exports had increased substantially to US$1.2 billion. Currently, exports of agricultural products constitute approximately 6 percent of the total GDP. However, this sector of the economy is extremely susceptible to fluctuations in world demand.

FRUIT. Chile is the region's leading fruit exporter, with the agricultural sector employing about 14 percent of the workforce in 1997 and contributing around 6 percent to the GDP in 1999. The fruit industry is the most developed and high-profile agricultural industry. Chile is said to be the world's largest exporter of table grapes, not counting the ones used in the well-developed wine industry. Both of these industries benefit from the favorable conditions of the country's fertile and well-drained soil, cheap labor, and in recent years, government policies. About 25 percent of grapes eaten in the United States are imported from Chile, as well as 35 percent of kiwi fruit and 10 percent of nectarines. Other major crops include apples, apricots, pears, and avocados. About 50 percent of Chile's fruit production is exported, mainly to

the United States and Europe. One of the greatest advantages of this sector is that it coincides with the northern hemisphere's winter season. Between 1989–91, exports of fresh fruits reached significant importance. Grape exports to the northern hemisphere during the winter season were a virtual Chilean **monopoly** until Argentina began to compete. The fruit packing industry also expanded, providing seasonal employment to thousands of workers.

WINE. Chilean wines have earned a prestigious position among international wine connoisseurs. The quality of these wines have earned Chile a spot as one of the world's leading wine producers, behind Italy and France. Chilean wine exports increased significantly between 1987 and 1998 (from 14 million liters to 229 million liters). In 1993–98, wine exports increased from US$129 million to US$500 million. Favorable climate and soil conditions make growing premium grapes an asset for this sector of the Chilean economy. Chile's microclimates (climates of a very small area) provide outstanding soil, sunlight, temperature, and moisture conditions for wine production.

Additionally, the industry has introduced new technologies and attained a highly skilled **labor force**. Industry upgrades in technology and production processes have been facilitated through foreign investment in local operations. France, the United States, Australia, and the United Kingdom have had successful Chilean operations since 1979.

FISHING. Chile's extensive coastline makes it one of the world's greatest fishing nations. The natural conditions—including favorable currents, tides, rainfall, and inland water—provide for a large harvest of fish products. Chile has developed an advanced technology for use in fishing and aquaculture. Most Chilean fish products are now shipped frozen and pre-packaged. In 1994 Chile was the largest producer of finfish and shellfish with a 7 million ton catch, approximately 6 percent of the world's total. Fishing accounts for 2 percent of Chile's GDP and 11 percent of its global exports. In 1985 the sale of frozen and pre-packaged products stood at 1,120 tons. By 1998 this figure had significantly increased to 294,062 tons.

The Chilean fishing industry produces high quality fish meal, fish oil, salmonids, sea bass, Antarctic whiting, kingclip, swordfish, sea urchin, oysters, scallops, and king crab. Finfish and shellfish exports in 1998 were worth US$1.6 billion, an increase of 31 percent over 1997 exports. About 52.7 percent of 1998 exports were harvested at sea with 47.3 percent being produced through inland aquaculture.

Chile is one of the top 15 aquaculture nations in the world. Since the 1980s Chilean aquaculturalists have worked hard to become the second largest producers of salmon and trout. They raise Coho, Atlantic, and Chinook salmon, as well as rainbow trout. The industry is made up of 90 firms operating 185 farms in over 47,000 hectares of inland waters. Importers of refrigerated and frozen Chilean salmon include Japan (60 percent), the United States, Brazil, and the European Union. In 1998 salmon sales provided approximately 42 percent of industry revenue and accounted for greater than 4 percent of global country exports.

FORESTRY. Chilean forestry is extremely successful due to its natural resource endowments. Chile's competitive advantage is due to an abundance of water, diversified climates throughout the country, and fertile soil. For example, the locally grown Radiata Pine reaches maturity in 15 to 30 years, much faster than in its own native homeland of Monterey, California. Moreover, the industry growth can be attributed to extensive research and species introduction coordinated through the efforts of public and private universities, government agencies, and private institutions.

In 1998 forest exports reached an impressive US$1.66 billion, although this was down 9.3 percent from 1997. These export levels are achieved by 100,000 workers in approximately 800 small, medium-sized, and large firms that make up the industry. In 1998 Chile sold forest products to 95 countries, with Asia leading at 34.8 percent, followed by North America with 24 percent, and Europe at 23 percent. The United States was the single largest buyer with imports totaling US$358 million.

The success of the forestry industry has attracted much foreign investment and has contributed to the globalization that is characteristic of the Chilean economy. In 1998 a U.S.-based company, Boise Cascade, undertook a joint venture with the Chilean company Maderas Condor. Both companies invested US$150 million to build a new plant in Valdivia, the lake region of Chile. Additionally, the Canadian firm ForAction International, together with the Chilean company Moreno Vial Ltda., started building a wood production and export plan in the town of Curanilahue, which involves a US$30 million investment.

INDUSTRY

Chile's industry sector is based primarily on local mineral resources, agricultural raw materials, and forestry. Current industries include copper refining, nitrate products, iron smelting and steel production, oil refining, cement, chemicals, timber and pulp, furniture, and various wood products. There is also a large textile, clothing, and leather industry concentrated mainly in the urban centers, with Santiago being the largest, employing 20 percent of the local labor force.

MINING. Chile is the world's largest producer of copper, constituting 28 percent of the world's reserves. It has the

world's most productive mine, located in the northern region in the city of Chuquicamanta. The Chilean economy is also very dependent on copper, and this industry employs about 6 percent of the Chilean workforce. According to the International Monetary Fund (IMF), in 1997 copper accounted for 42 percent of exports and 8 percent of the country's GDP. Major external investment in Chilean copper mining and the many industries across the world that require copper indicate that this sector will continue to play an important role in Chile's economy. North America and Western Europe are the biggest users of copper, constituting a combined world demand of 59 percent.

Corporacion Nacional del Cobre de Chile (CODELCO) is the largest company in Chile engaged in extracting and selling copper from state-owned mines. CODELCO is owned by the Chilean government and received annual profits of around US$1 billion per year during the 1990s. It is responsible for producing 10 percent of the world's copper.

Before the 1970s most copper mines were owned by American **multinational corporations**; in 1971 these mines were nationalized by the Chilean government. CODELCO was created in 1976 by the military government to run the nationalized copper mines. Thus, the Chilean government had a monopoly over the large mines, accounting for 85 percent of copper production.

Beginning in 1980 the military government began to loosen its grip on the copper mines, permitting foreign investment in the new large mines. As a result, **foreign direct investment** in the mining sector grew from approximately US$90 million between the years 1974–89 to US$803 million in 1990. Between the years 1989–95 more than half of the foreign direct investment in Chile went directly to the mining sector. This pattern reflects a strong international demand for copper, a metal that is used in the construction industry, in air conditioning, and in manufacturing electronic equipment. Copper is also used in the automotive industry for electrical equipment and in telecommunications to build copper cables.

Chilean mining companies are also beginning to explore opportunities in other parts of Latin America, specifically Argentina, Bolivia, and Peru. International demand affects the price of copper. In 1998–99 the Asian financial crisis reduced that region's demand for copper, causing the price to significantly decrease. The Asian economies rebounded and the price of copper increased with a positive short-term outlook for the industry.

Northern Chile also has significant amounts of rich, high-grade iron-ore deposits located mainly in Coquimbo. Most of this ore is exported, with the surplus being used by the local iron and steel industry. Chile is also the leading nitrate supplier in the world, with large deposits of the mineral in the Atacama Desert. Nitrate is used for fertilizers and in the production of explosives. The mining and export of this mineral flourished during the last part of the 19th century and the beginning of the twentieth century. Chile produces gold, silver, molybdenum, manganese, zing, lead, bauxite, sulfur, potash, uranium, cobalt, antimony, and tungsten.

TEXTILES. Chile's textile and garment industry faces strong international competition from Asian manufactures such as China, India, and Indonesia. In order to remain competitive, Chile has broadened its export market and sought new trading partners. In 1998 the top exports were denim cloth, polyester viscose, and combed wool. The leading purchasers of these exports were Argentina, Bolivia, and Brazil. Despite international competition, this sector of the Chilean economy has been able to remain efficient and has even expanded production and sales. Between the years 1993 to 1997, garment exports rose from US$148.2 million to US$208.6 million.

The textile sector has been growing due to Chile's new international trade agreements. MERCOSUR (a free trade agreement between Argentina, Brazil, Uruguay, Paraguay, and Chile) has been the greatest benefit to this industry, accounting for 37 percent of all foreign sales in 1998. The leading buyers of Chilean-made garments in 1998 were Argentina (purchasing US$33.1 million worth of men's and women's suits, ensembles, and hosiery), followed by Bolivia (US$27.8 million), and Mexico (US$21.9 million).

Chile has approximately 2,000 textile and garment companies, with around 30 of them having foreign sales of greater than US$1 million. Some of the top exporters of 1998 include Machasa—Chile's largest producer of denim fabrics—with US$23.1 million in sales, wool fabric manufacturers Bellavista Oveja Tome with US$16.3 million, and Textiles Pollak Hermanos with US$12.3 million.

As of 2000, the textile sector of Chile was the most labor-intensive of industries, with around 160,000 workers. The Textile Institute of Chile, a trade organization, estimated that 9 to 10 new jobs are created with every US$10,000 invested in this industry.

METAL MANUFACTURING. There has been strong growth in this sector over the past few years, encouraging foreign investment in plants and capital. This industry has over 2,000 firms and provides 100,000 jobs. Metal manufacturing is central to Chilean development efforts, constituting 6 percent of the GDP. Leading export items in 1998 included copper wire (US$75.4 million), automotive vehicles (US$63.9 million), automotive gearboxes (US$39.7 million), and machine parts (US$38 million).

In 1998 this industry earned US$883.2 million from exports, increasing from US$722.4 million in 1996 and US$456.9 million in 1993. Metal manufacturing consists of 2,000 companies, based mostly in central and south-

ern Chile, and about 20 percent of the total industry workforce. There is a general consensus that Chile has remained competitive in this sector as a result of technological innovation, easily accessible raw material sources, and skilled local engineers. Some of these companies are also partly foreign-owned, keeping in tune with Chile's desire to attract foreign direct investment. For example, Brazil contributed US$80 million in 1997 to build a new hot-rolled steel plant in the town of Colina.

CONSTRUCTION. The construction sector in Chile is predominantly import-driven. Foreign manufacturers supply over 95 percent of the Chilean market for construction equipment. In 1998 construction accounted for 3 percent of the country's GDP. In 1999, due to a regional recession, the Chilean construction sector was one of the worst performers of the year. Housing construction has an average demand of 140,000 units and 110 million square feet of lumber per year. Over the last decade, new housing construction has averaged 11 percent annual growth while construction as a whole averaged 9 percent growth. During 1998–1999 construction growth declined dramatically, but current signals indicate that by 2001 it should be back on its old growth path. Construction of retail and wholesale space (including warehousing) has also experienced remarkable expansion. As of 2000, new malls (in cities where none existed), large "hypermarkets," and new industrial development projects are regaining their once frantic activity around major cities. Currently, the Chilean government is also promoting the construction of a storm-sewer system for Santiago and other large cities. These projects will require large private investments. Private investors have also announced new large investments in high-rise office buildings. Such projects are expected to be worth close to US$1.5 billion. Future urban developments are expected to contribute US$500 million in private investment over the next 10 years.

GAS AND OIL. Chile is not a major oil or gas producer, having only occasionally derived more than 50 percent of its consumption from its own reserves. Local oil production in 1992 contributed only 11 percent of total oil consumption and continues declining, while consumption and imports increase. Chile has oil and natural gas fields near the Straits of Magellan and Tierra del Fuego, on the country's southern coast. However, reserves in these sites are quickly being depleted. The National Petroleum Enterprise (Empresa Nacional de Petrole [ENAP]) was created as a Chilean government enterprise in 1950. The objective of its creation was to develop activities related to exploration, importation, and distribution of crude oil products. ENAP has continually sought new ways to meet domestic demand for petroleum by engaging in production contracts with Argentine, Brazilian, Colombian, and Ecuadorian companies. In 1982 domestic production was at 2.48 million cubic meters. In 1986 4.358 million cubic meters of gas were produced. By 1990 production had declined to 1.38 million cubic meters. ENAP estimates for production in 1998 were not expected to reach more than half a million cubic meters. Thus, for that year 90 percent of Chile's consumption was to be imported by ENAP. Since Chile has been experiencing solid economic growth over the last couple of decades, its oil demands have consistently been met through imports from other countries. Petroleum exploration efforts undergone in Chile have proven to be unsuccessful. In 1999 ENAP's general manager issued a statement indicating that exhaustive exploration had failed to find new oil fields and that currently exploited deposits would be depleted within 6 years. Thus, Chile will continue to depend on imports for its gas and oil needs

SERVICES

TOURISM. Chile is a popular spot for tourism with its extensive natural attractions and exceptional services, with the summer months of January and February being the most popular. Tourists can choose from an array of natural climates including deserts, temperate regions, lake districts, beaches, glaciers, and native forests. Natural wonders and excellent hotel and transportation infrastructures supported 1.8 million tourist visits in 1998. About 45 percent of the tourists come from Argentina. During the summer months Argentineans come to Chile to enjoy the vast array of beaches, Vina del Mar being one of the most popular. Chilean revenues from tourism were estimated at US$1.2 billion in 1998, up 7 percent from 1997. Spain, Germany, and France constitute the majority of European visitors. Two-thirds of all visitors come to Chile for vacations. Due to increased political stability and economic growth in the 1990s, there has been a significant increase in business travelers and convention attendees, accounting for 23 percent of total visitors. The average visitor stays 11 days and spends US$55 per day.

Accommodations in Chile are exceptional with some 1,700 hotels providing over 200,000 jobs. Tourism has been particularly strong in and around metropolitan Santiago. It has 15 five-star hotels—12 in Santiago and 3 in the nearby Valle Nevado ski resort. Chile has 15 ski resorts, making up the most comprehensive skiing infrastructure in Latin America. Another popular spot is the San Rafael Lagoon. Tours take visitors on cruise ships through channels and archipelagos of Aysen, entering into an inlet of the Pacific Ocean to the final attraction, the striking 30,000-year-old San Rafael Glacier. Torres del Paine National Park is located in southernmost Chile and offers striking views of glaciers and challenging climbs.

The Chilean government actively promotes expansion of the tourism industry. The National Forestry

Corporation (CONAF) is inviting private foreign operators to provide a wide range of services within Chile's Wildlife Preserve System. Many foreign investors have also started building upscale hotels in Santiago and northern Chile. For example, Marriott International—a U.S. corporation—is building a US$96 million, 42-story, 250-room hotel in Santiago's upscale east end.

BANKING AND FINANCE. Chile's banking system has changed significantly over the past decade. In the beginning it was relatively exclusive, offering credit only to wealthy Chileans. The rest of the population had to rely on department stores for credit. In the early 1990s the banking sector expanded quickly and began accommodating new account holders and even offering credit cards to average Chileans. Middle-class Chileans are now able to access credit through banks and are offered online "home banking." In 2001, nearly 1 out of every 5 Chileans had a credit card.

The Chilean banking sector is now one of the most developed and promising of the region. But competition from foreign banks is rising as a favorable investment climate has induced many foreign banks to open up shop in Chile. Large numbers of bank mergers have also occurred, raising government concerns over potential monopolies. As of 2001, Spain's Banco Santander Central Hispano (BSCH) controlled both Banco Santiago and Santander Chile, 2 of the largest Chilean banks. BSCH had a market share of nearly 30 percent. Financial authorities have asked it to reduce its share to 20 percent.

During Allende's presidency the financial system of Chile was near collapse. However, under the new dictatorship the financial sector experienced a remarkable boom, improving significantly between 1975–1990, with the implementation of an orthodox economic policy. By 1992 the financial sector had become modern and dynamic. But it was not until 1997 that banking law reform broadened the scope of permissible foreign activity for Chilean banks. Domestically, Chileans have recently begun to enjoy the benefits of new financial tools such as home **equity** loans, leasing, and debit cards. Increases in the use of traditional instruments, such as loans and credit cards, have also benefitted the Chilean population. Moreover, Chile has a private pension system with estimated assets of over US$30 billion at the end of 1997. Such assets have provided an important source of investment capital for the stock market. There has also been a significant increase in the number of firms with shares traded on the stock market as it continues to grow.

RETAIL. Chile's retail sector is in a state of transition. Small neighborhood stores still hold a substantial market share, yet very large retail outlets such as hypermarkets are carving out an expanding share of sales. The number of large retail outlets has increased substantially in the past decade, and expansion is most apparent in the capital city. Well-designed shopping malls have proven successful in Santiago and other larger cities throughout Chile. Products most commonly displayed in Chile's malls include textiles and apparel, electronic appliances and devices, sporting goods, cosmetics, office supplies, and kitchen utensils.

Chile's retail sector constituted approximately 8.8 percent of the GDP during the 1990s. Sales in this sector rose 4-fold from the mid-1980s through the 1990s, to US$21.50 billion. The retail hotel and restaurant sector of the economy constitutes about 17 percent of the overall GDP. The retail sector is the second highest employer, comprising 18 percent of the workforce, or just under 1 million persons. About half of these workers are in the capital region of Santiago. The remainder are located in the more populated provinces, such as Vina del Mar and La Florida, where malls have been a growth industry since the 1990s.

INTERNATIONAL TRADE

Chile's economy is heavily reliant on international trade to sustain its economy. In 1997, exports reached US$17 billion and imports US$18.9 billion. Chile's main trading partners are the United States, Japan, Germany, and Brazil. However, Chile's export markets are geographically diverse, spanning Asia, the European Union, the United States, and Latin America. Latin America has been the fastest growing export market for Chile. Since 1991, Chile has signed free-trade agreements with Canada, Mexico, Venezuela, Colombia, and Ecuador. An associate agreement with MERCOSUR went into effect in October 1996.

Chilean exports have traditionally been dependant on copper and have been consumed mostly by industrialized countries. However, non-mineral exports have grown faster than those of copper and other minerals in recent years. In 1975, non-mineral exports were about 30 percent of total exports; by 1997 they accounted for 52 percent of export earnings. The most important of these non-mineral exports are forestry and wood products, fresh and processed fruit, fishmeal and seafood, and other manufactured products.

Trade (expressed in billions of US$): Chile

	Exports	Imports
1975	1.552	1.525
1980	4.705	5.797
1985	3.804	3.072
1990	8.373	7.742
1995	16.024	15.914
1998	14.895	18.828

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

According to the latest statistics, Chile has 4 main markets of destination for its exports. First, Asia accounts for about one-third of total exports. Chile's principal Asian partner is Japan, although trade with the People's Republic of China, the Philippines, and Hong Kong is increasing. Trade with the European Union accounts for a quarter of overall trade, with the United Kingdom (5.8 percent) and Germany (4.8 percent) as the leading partners. With respect to Latin America, there has been a marked increase in exports to Brazil and Argentina. Their share in overall exports in 1997 was 6.1 percent and 4.6 percent respectively. The United States remained Chile's most important partner. In 1997 it accounted for 16.7 percent of Chile's total world exports.

Chile's imports originate mainly in the North American Free Trade Agreement (NAFTA) countries—the United States, Mexico, and Canada. Together, imports from these countries constituted 30.5 percent of all imports for 1997. In the same year, Latin America accounted for 26.5 percent, the European Union was at 19.8 percent, and Asia comprised 15.5 percent of imports. More specifically, by country, in 1997, Chile imported 23.1 percent from the United States, 9.2 percent from Argentina, and 6 percent from Brazil.

Chile is a party to bilateral trade agreements with Bolivia, Colombia, Canada, Cuba, Ecuador, Mexico, Peru, and Venezuela. Chile is also a member of the Asian Pacific Economic Cooperation (APEC). Currently, Chile is negotiating trade agreements with Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and plans to initiate negotiations with the European Union, New Zealand, Japan, and other countries. The current trade agreements have had a positive impact on international trade for Chile and are predicted to do so in the future. Past negotiations to obtain a free trade agreement between Chile and the North American Free Trade Association were unsuccessful. However, the current Summit of the Americas negotiations are intended to create a **free trade zone** from North America to Argentina.

MONEY

Historically, Chile has witnessed periods of inflation, stagnant growth, and recession when international events triggered a lowered demand for Chilean exports. Since Chile's economy has traditionally been heavily reliant on the export of natural resources, declines in demand have adverse effects on Chile because the amount of imports it needs to sustain its economy is not balanced against its exports.

Inflation in Chile has declined every year since 1990 when it stood at 27 percent. In 1996 inflation was 8.2 percent, and it fell to 6.1 percent in 1997. By 1999 inflation had dropped to 2.3 percent. Chile's overall economic performance during 1990–97 was very strong. During this period, financial authorities at the Central Bank focused on further reducing the **inflation rate**, adjusting short-term interest rates to achieve this objective, and maintaining strong **public sector** finances.

Exchange rates: Chile

Chilean pesos per US$1	
Jan 2001	571.12
2000	535.47
1999	508.78
1998	460.29
1997	419.30
1996	412.27

SOURCE: CIA *World Factbook 2001* [ONLINE].

The independent Central Bank of Chile was granted autonomy by constitutional law in 1990. Its primary goal was to raise interest rates, when necessary, in order to bring down inflation. Although Chile suffered a slight recession in the 1998–99 period, blamed in part on the East Asian economic crisis, consumer demand started to grow and the economy began recovering in early 2000. Inflation had been on a gradual downturn prior to the recession. The recession further reduced it to about 2.6 percent at the end of 1999. However, although inflation might be low, recession stunts domestic economic growth and has adverse effects on unemployment and GDP.

The Central Bank manages the foreign **exchange rate** through incremental changes to account for periods of extreme capital inflows. In September 1999, the Central Bank moved to a freely **floating exchange rate** system that is determined largely by market forces. It had initially held an exchange-rate band along which incremental changes were made in response to economic indicators. After the change in exchange rate systems the Chilean peso devalued by 5 percent within 6 weeks before stabilizing and slightly recovering. The value of the peso versus the U.S. dollar fell about 18 percent in 1999 (473 pesos to the dollar in December 1998 to 547 in December 1999). With the Central Bank intervening minimally to stabilize the economy, the exchange rate should return to normal standards by the year 2001.

POVERTY AND WEALTH

Currently more than 40 percent of the country's wealth is concentrated in the hands of just 10 percent of the population. In Latin America, only Brazil and Guatemala have less equitable income distribution. This huge disparity has created a large social divide in which a relatively small middle class is caught between a huge

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Chile	1,842	2,425	2,345	2,987	4,784
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Argentina	7,317	7,793	6,354	5,782	8,475

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

mass of urban and rural poor and a small and extremely powerful elite. Fundamental to the shifts in economic policy over the years is the importance attached to income distribution by the changing administrations.

Wages have risen faster than inflation each year since 1990, a reflection of greater productivity in the country. Increased wages have produced public benefits of increased living standards and an expansion in the labor force. The number of Chileans with incomes below the poverty line (roughly US$4,000 per year for a family of 4) fell from 46 percent of the population in 1987 to 23 percent in 1997. Unemployment has varied with the business cycle in recent years, with annual rates between 4.5 to 6 percent.

The administration led by President Lagos has emphasized a commitment to better social conditions. They have addressed 4 priority areas: health, public safety, unemployment, and labor reforms. Finance Minister Nicolas Eyzaguirre has committed himself to fiscal discipline so that additional government resources can be used for social development. The secretary general to the presidency, Alvaro Garcia, has declared labor reforms and the creation of an unemployment benefit mechanism a priority. Analysts believe that even if unemployment rates are brought down through an expanding economy, Chile will still need to tackle fundamental problems of poverty and social disaffection if it is to avoid civil and labor unrest.

The Chilean constitution states that the government has an obligation to "promote, protect, restore health and rehabilitate the health status of individuals." Government administrations have made an effort to meet this goal. Chile currently spends about 7 percent of its GDP on health care. As of 1997 the public health system covered 67 percent of the Chilean population while private health insurance covered 27 percent. Public health care is somewhat inefficient, and the government is moving toward privatization of this sector.

THE RICH AND THE POOR. A wealthy Chilean family has a nice house located in one of Santiago's more affluent neighborhoods. The family generally owns fancy cars and their children attend the private Catholic University. A nanny is usually hired to help the mother raise the children and clean the house. Nannies are typically lower-class Chileans or immigrants from Peru or Bolivia. The children of these families normally go on exchange programs to the United States or Europe and are able to speak English well. Wealthy families often travel internationally to places like New York and Florida and domestically to the Chilean beaches and the southern Lake District.

A poor Chilean family generally lives in a shanty neighborhood, and their children do not attend a university. The parents work long hours in either the **informal sector** or a place of business. Their children usually get jobs at a young age to help support the family. These families do not take extravagant vacations or buy expensive imported products. They live a very hard life.

WORKING CONDITIONS

In 1998 the Chilean workforce amounted to 5.8 million individuals. Unemployment has been rising in Chile, from 6.2 percent in 1993 to 7.5 percent in 1997. In 1998, Chile faced its first recession in 20 years. Unemployment increased in certain cities such as Valparaiso, where the local unemployment rate was 13 percent, and Santiago, where it was estimated at 14.4 percent. However, the

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Chile	17	10	24	20	15	6	9
United States	13	9	9	4	6	8	51
Brazil	22	13	18	15	34	4	−6
Argentina	30	9	17	15	15	5	9

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

economy was expected to recover in the upcoming years leading to a decline in unemployment rates.

Chile is relatively developed in its labor laws compared to other Latin American countries. Workers are not required to request authorization to join or form a union. Approximately 12 percent of the workforce belongs to a union. Legislation passed in 1995 gave government employees many of the same rights as union members, with the exception that they may not legally strike. Reforms made to the labor code in 1990 helped to facilitate workers' right to strike.

Under the Pinochet dictatorship, labor unions were severely limited to the point of futility. Immediately after the coup that brought Pinochet to power in 1973, labor institutions were dismantled. The structural reforms the new regime wanted to implement had severe negative ramifications for the working class. In order for the government to continue with its economic changes, working conditions such as wages were once again regulated, and the ability to strike had to be allowed.

Forced labor is prohibited under the constitution and the labor code, and is not prevalent in the country. Child labor laws are codified, setting the minimum age to work at 14, with the permission of the child's parents or guardians. However, child labor is restricted to certain types of labor and is most prevalent in the informal economy, since this area is more difficult to regulate. The Chilean government estimates that approximately 50,000 children between the ages of 6 and 14 work. Such labor is concentrated in the countryside or with the children's parents.

According to the U.S. Department of State, minimum wages, hours of work, and occupational safety and health standards are regulated by law, with the legal work week set at 48 hours. The minimum wage is currently around US$190 per month and is set by the government, management, and unions. If representatives from these groups cannot come to an agreement, the government decides. Family **subsidies** are provided for workers in the lower income category. Overall, wages have risen steadily over the last several years. Moreover, poverty rates have declined in recent years from 46 percent of the population in 1987 to 21.7 percent in 1998. Currently, 11 percent of salaried workers earn the minimum wage.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1540. Spanish explorer Pedro de Valdivia conquers Indians in Chile and makes Chile a colony of Spain.

17TH CENTURY. Ranching becomes Chile's primary export trade, with large estates employing bonded peasants as European diseases reduce the native population.

18TH CENTURY. Around 20,000 Spaniards **emigrate** to the new Chilean colony.

1750. Chile is permitted by Spain to mint its own coins.

1791. Governor Ambrosio O'Higgins y Ballenary, a Spanish officer of Irish origin who became the governor of Chile, outlaws forced labor.

1810. Criollo (people of Spanish heritage born in Latin America during the times of conquest) leaders of Santiago declare independence from Spain.

1814. Spanish troops from Peru reconquer Chile at the Battle of Rancagua. Chile is once again a colony of Spain.

1817. Troops led by Bernardo O'Higgins Riquelme (the first Chilean head of state) and General Jose de San Martin (an officer of the Spanish Army and one of the principal leaders of the independence movement) defeat the Spanish in the Battle of Chacabuco. O'Higgins becomes supreme director of Chile and is eventually dubbed the "father of Chile."

1818. Chile wins formal independence from Spain after San Martin defeats the last large Spanish force in the Battle of Maipu. The first provisional constitution is approved in plebiscite.

1823. Slavery is abolished.

1839. The first bank notes of Chilean currency go into circulation.

1884. Bolivia loses access to the South Pacific Ocean upon losing a border war with Chile.

1927. Economic and political crises in Chile bring army officer Carlos Ibanez to power. He creates a powerful state system and establishes the national airline LAN Chile.

1970. The left wing coalition Popular United, led by Salvador Allende, wins the presidency, beginning Chile's first socialist government. Allende nationalizes the copper mines and begins to expropriate lands for government use and distribution. He enacts sweeping program reforms on the banking, commerce, insurance and industry sectors.

1973. Allende's government is overthrown in a military coup led by General Augusto Pinochet. President Allende is said to have denied an offer by the military to move him and his family out of the country. Allende then dies in circumstances that remain a matter of controversy.

1980. A new constitution is put in place by the military regime stipulating a referendum on a continued dictatorship in 1988.

1988. Fifty-four percent of voters reject Pinochet's regime in a national referendum. The country has grown tired of his harsh military rule resulting in thousands of murdered and tortured Chilean citizens.

1989. Patricio Aylwin from the Christian Democratic Party is elected president. The country returns to democracy and continues with the market-oriented reforms of the military regime.

1991. Chile begins an aggressive campaign to negotiate free trade agreements with other Latin American countries.

1994. Chile signs free trade agreements with various nations. The United States officially invites Chile to join the North American Free Trade Agreement during the closing ceremony of the Summit of the Americas in Miami.

1996. Chile becomes an associate member of MERCOSUR (a trade group which includes Argentina, Brazil, Paraguay, Uruguay).

1998. The Chilean economy begins to feel the effects of the East Asian crisis, and demand for Chilean exports declines. Pinochet retires as commander in chief of the armed forces and visits Britain. While he is in London, Spain requests the general's extradition for human rights abuses against Spanish citizens, and he is held under house arrest pending a legal decision.

1999. The Chilean economy begins to recover from a recession that began in 1998 as a result of the East Asian crisis. Pinochet is released by the British Home Secretary on grounds of ill health and returns to Chile where he remains under house arrest.

2000. The Chilean economy recovers well from the East Asian crisis and continues along a path of growth, increased globalization, and free trade.

FUTURE TRENDS

Although Chile's economy has been expanding over the past 15 years, it began to experience a slowdown in 1998 that lasted throughout most of 1999. Positive GDP growth in the beginning of 2000 marked the official end of the recession with growth projections being estimated at 6 percent. Since Chilean growth is heavily reliant on exports, concentrated mainly in primary products and processed natural resources, the country is extremely vulnerable to a decreased demand by other countries, which invariably lowers the prices of these commodities and slows the country's growth. However, continued foreign investment and government policies, designed to stimulate the economy, are expected to lead to a sustainable recovery.

In general, the international community is not concerned about the slight recession of the Chilean economy. Nevertheless, the Chilean government is watching the market carefully to ensure that the economy remains strong and continues to grow. As such, Chile is likely to continue with its free trade negotiations, having launched exploratory trade talks in early 2000 with the European Union. It has also expressed strong interest in becoming a full member of MERCOSUR. The political and economic situation in Chile looks promising and is likely to carry the country to increased growth and success for years to come.

DEPENDENCIES

Chile has no territories or colonies.

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—April J. Guillen

COLOMBIA

Republic of Colombia
República de Colombia

CAPITAL: Bogotá (Santa Fe de Bogotá).

MONETARY UNIT: Colombian peso. One peso equals 100 centavos. There are coins of 10, 20, and 50 centavos and 1, 2, 5, 10, 20, and 50 pesos, and notes of 100, 200, 500, 1,000, 2,000, 5,000, and 10,000 pesos.

CHIEF EXPORTS: Petroleum, coffee, coal, bananas, chemicals, gold, cut flowers.

CHIEF IMPORTS: Industrial equipment, transportation equipment, consumer goods, chemicals, paper products, fuels, electricity.

GROSS DOMESTIC PRODUCT: US$245.1 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$11.5 billion (f.o.b., 1999 est.). **Imports:** US$10 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Shaped like an odd-looking pear with a thin top, Colombia is located in the northwestern corner of South America, alongside the Caribbean Sea between Panama and Venezuela, and bordering the Pacific Ocean between Panama and Ecuador. Colombia has an area of 1,138,903 square kilometers (439,733 square miles) and a total coastline of 3,207 kilometers (1,993 miles) distributed between the Caribbean Sea and North Pacific Ocean. It shares borders with Venezuela to the east, Brazil to the southeast, Peru and Ecuador to the south-southwest, and Panama to the northwest. With the fifth-largest area in Latin America in terms of size, Colombia is one-ninth the size of the United States, and is approximately the same size as the United Kingdom, France, and Germany combined. The capital city, Bogotá, is located in the center of the country in a mountainous setting.

Topographically, Colombia is divided into 4 regions: the central highlands, the Caribbean lowlands, the Pacific lowlands, and Eastern Colombia (east of the Andes mountains). In this diverse geography one important feature is the 3 chains of high mountains (cordilleras) that cut the country from south to northeast.

POPULATION. In Latin America, Colombia ranks fourth in overall population and tenth in population density. Its population was estimated at 39.68 million in July of 2000, up from 25.4 million in 1975. In 2000 the birth rate stood at 22.85 per 1,000 while the death rate was 5.73 per 1,000. With a projected annual growth rate of 1.6 percent between 2000 and 2015, the population is expected to reach 53.2 million by the year 2015.

At the end of World War II, Colombia's population growth accelerated dramatically, peaking at about 3.2 percent per year by the 1960s. In 1951 Colombia's population was 11.5 million, and by 1973 it had doubled to 22.9 million. Beginning in the late 1960s the annual population growth rate dropped dramatically, such that between 1973 and 1985 it stood at only 2 percent. This drop was partly the result of a control policy initiated during the Lleras Restrepo administration (1966–70). Colombia was one of the few Latin American countries to adopt family planning as an official policy and to integrate it into development plans.

Population distribution is highly uneven. Roughly 94.5 percent of the population is concentrated in 42 percent of the territory, mostly in the plateaus and basins scattered among the Andes cordilleras and the valleys of the Magdalena and Cauca rivers, which run south to north in the western half of the country. Some 58 percent of the territory, mostly the 9 eastern departments (administrative units, much like provinces), accounts for a scant 5.5 percent of the population. Three-fourths of the population live in the Central Highlands in the temperate and cool zones and the remainder in the Caribbean lowlands.

Visitors travelling to Colombia during the 1950s and 1960s were struck by the social and economic changes in the country. The population explosion was accompanied by significant migrations from the countryside to intermediate and big cities, which led to rapid urbanization. According to the 1938 census, 30.9 percent of the population lived in urban municipal towns. By 1951 this had increased to 38.7 percent and continued to increase sharply so that by 1985 it had reached 67.2 percent. By the mid-1980s urban growth had consolidated the change

from a predominantly rural to an urban economy. According to the 1993 census, Bogotá, the capital city, had a population of 5,399,000. Other major cities are Medellín (2,556,000 people) in the western province of Antioquia; Cali (2,064,000), southwest of Bogotá; and Barranquilla (1,329,000), on the Caribbean.

Colombia is one of the most Spanish of all South American nations, although persons of pure Spanish descent constitute only 20 percent of the population. The mestizos (people who are a mixture of white and indigenous Amerindians) comprise 58 percent. The mulattos (a mixture of African and white ethnicities) make up 14 percent, and those of African descent are only 4 percent of the population. The zambos (those of mixed African and Amerindian origins) comprise 3 percent of Colombia's people.

Colombia is a country composed primarily of young people, with 63 percent aged between 15 and 64 years, 32 percent below the age of 14, and 5 percent of the population older than 65.

An important feature of the latter half of the twentieth century has been a strong tendency for Colombians to **emigrate**. The 2 main destinations of emigrants are the United States and Venezuela. Up until the end of the 1980s, most of the emigrants to the United States were professionals, which represented a considerable brain drain (when talented professionals leave their home country due to better pay and living conditions abroad). However, in the 1990s the composition of emigrants also included less qualified professionals. Emigration to Venezuela has also been a major demographic phenomenon. The number of Colombians living illegally in Venezuela has been variously estimated at between half and three-quarters of a million. If legal migrants are considered, there may be as many as a million Colombian migrants in that neighboring country. The illegal migration is virtually impossible to control because the border is long and open, and Colombians are indistinguishable from Venezuelans. During the 1990s the trend has diminished due to Venezuela's economic problems. Overall, Colombia's emigration problem has been the result of not only better economic opportunities elsewhere, but rampant insecurity in the country.

OVERVIEW OF ECONOMY

Colombia is a market economy with major commercial and investment links to the United States, and more recently to its neighbor countries in the Andean region. For close to a century the country was known as a "coffee economy." As the twentieth century came to close, Colombia remained a major coffee producer, though coffee was second to oil as a generator of foreign exchange earnings. By the end of the century, even chemicals had surpassed coffee in export earnings. In the last 25 years the country has also gained an unfortunate reputation as a haven for illegal drug cultivation and manufacture.

Colombia has attained greater diversification both in terms of production and exports, allowing the country to cushion the external shocks typically felt by less developed countries which are dependent on shifting world prices for their major exports. Apart from oil production, recent examples of success range from the export of fresh-cut flowers to the chemical industry, a leading exporter to other Latin American countries.

The net result has been an economy growing steadily—though moderately—over the last 50 to 60 years, with an important positive impact upon the welfare of the population measured by almost any indicator. Life expectancy, nutrition, and access to health and education have all improved. Major services such as electricity, urban sewage, roads, and telecommunications have increased substantially. Furthermore, **GDP per capita** has risen, although it is still unevenly distributed.

To continue this process, Colombia has required many technology inputs, both in terms of equipment, chemical products, and raw materials for production, as well as consumer products to match the needs of a sophisticated urban society. Colombia's growth has been close to the average of developing countries, but this growth has not been steady. Annual GDP growth in the 45 years after World War II was about 4.8 percent, but it varied from a high of 6.08 percent between 1967 and 1972 to a more modest 2 percent between 1990 and 1997. In 1999 GDP diminished by about 5 percent, the only negative result in close to 70 years as investment activity and demand plummeted.

Topographical conditions have made internal communications very difficult, isolating most regions from one another. For close to a century such difficulties prevented the consolidation of an integrated national market. Today, modern transportation **infrastructure** is still lacking, both for the internal market and for exports.

Unlike most other Latin American countries, Colombia was never very cut off from the world in economic terms. During the second half of the twentieth century, the country managed a mixture of relatively open and moderate economic strategies combined with industrial and export promotion policies. One good example is currency management. Up to 1967 the currency had several values through multiple **exchange rates**. The government then chose to have one rate, with its value fluctuating over time using a **crawling peg** mechanism. In addition, several other mechanisms were designed to promote exports. Following such changes, exports expanded, bring in new sources of foreign exchange.

Such policies—unusual in the region—allowed Colombia to avoid the hardship of the 1980s, known throughout the area as the "lost decade." One major difference was the **national debt**. During the 1980s Colombia managed to avoid the "debt trap" with a debt of roughly 7 percent of GDP, although in the last 7 years it increased to 30 percent. The country's total **external debt** by 1998 was US$35 billion. So when the times were ripe for major changes, Colombia was able to launch economic reforms without the strains suffered by other countries. The first 5 years of **liberalization** in the late 1980s and early 1990s were characterized by higher economic growth than the previous decade (between 4 to 5 percent annually). Subsequently, the GDP growth rate fell to 0.6 percent in 1998, and close to -5.0 percent in 1999 during the **recession** which affected all of Latin America.

Despite its comparative advantages, Colombia has suffered from the introduction and expansion of a powerful illegal drug industry that today stands as a major threat to the consolidation of the country as a democratic society and operates as a major fuel to social and political violence. Originating in the early 1970s, the narcotics business managed to profit from weak social and legal controls, political corruption, and the collusion of some authorities. With their headquarters established in the regions of Antioquia and Cauca, the Medellín and Cali cartels set up a vast international network of coca, marijuana, and poppy cultivation, the manufacture of cocaine and heroine, distribution channels, and **money laundering** .

POLITICS, GOVERNMENT, AND TAXATION

Colombia was one of the first South American nations to gain independence from Spain in 1824. A part of the Gran Colombia (comprising also Venezuela, Ecuador, and Panama) until 1830, from the 1840s the country started on its own route, oriented toward a mild form of economic and social liberalism. From those early years onwards the country has been characterized by 3 major political features: first, a dominance of 2 major parties, the Liberals and Conservatives. From around the mid-19th century, traditional political parties have dominated the political scene, adapting to major social, economic, and international conditions. Second, the pervasive presence of political violence. The greatest bloodshed came in the War of the Thousand Days (1899–1902) in which 100,000 people died, and the "Violencia" (1948–66) during which between 100,000 and 200,000 lost their lives. Currently Colombia is plagued by violence from several leftist guerrilla groups and high levels of violence involving both street criminals and drug lords.

Paradoxically, the third feature has been a relatively long stability of democratically elected governments from 1910 onwards, with the exception of the period from 1949 to 1958. Apart from that brief period, Colombia's military forces have been known for their support of civilian-elected governments. In response to the mid-twentieth-century violence, the 2 traditional parties formed the National Front coalition under which Liberals and Conservatives alternated the presidency and shared power in Congress and the government bureaucracy from 1958 to 1974.

The political regime is presidential, with presidents elected directly every 4 years with no opportunity for reelection. The current president is Andrés Pastrana, elected in 1998. Every now and then there have been pressures toward more provincial autonomy, but the regime remained quite centralized from the enactment of the 1886 Constitution until a new one was drafted and approved in 1991. Regarding the judiciary system, the top of its hierarchy is selected by Congress. There is a **bicameral** (2-chamber) Congress; governors, mayors, and local councilors are also elected every 4 years, though on different dates. Although political confrontation has been bitter and even violent occasionally, the 2 parties have shared power most of the time, either through implicit agreements or under constitutional provisions, such as those forming the National Front.

The National Front era contributed to diminishing differences over policy, especially in economic matters, and served as a positive factor for stability and growth. At the same time, however, it was a means to exclude other players in the legal arena, which created incentives for armed struggle. During the National Front period—as well as other periods when compromise governments formed—it was virtually impossible to create a political organization outside the Liberal or Conservative parties.

For more than half a century Colombia has suffered from the action of left-wing guerrillas. From the late 1940s, growing discontent over poverty and social inequities in rural areas led to the formation of guerilla groups, which evolved into 2 major organizations, the Fuerzas Armadas Revolucionarias de Colombia (FARC, **communist** oriented), and the Ejercito de Liberacion Nacional (ELN, which supported Cuban leader Fidel Castro). During the 1970s and 1980s, the guerrillas turned their attention to the cities, and several attempts toward peace ended in bloodshed. Today the 2 former guerrilla groups have turned to the narcotics business in their search for financial support. In their pursuit of total power, the guerrillas have failed to topple the government but have caused major disruptions. That is also the case of the growing power of the drug cartels and paramilitary groups.

In 1991 a new constitution was drafted by a Constituent Assembly and later approved by a majority of

Colombians. It cleared the way for new entrants to the political scene, instituted direct elections of provincial governors and mayors, and strengthened the office of the Attorney General, Constitutional Council, and the Electoral Authority. Other constitutional provisions regarding the political system, such as banning re-election and a 4-year presidential period, were maintained.

The strategy of the Pastrana administration has been to reinitiate peace negotiations with the 2 major groups (FARC and ELN) while at the same time obtaining important financial support from the U.S. government. This program—called Plan Colombia—is designed to combat the illegal drug plantations, laboratories, and the commercial drug network, thus depriving the guerrillas of financial support.

The size and influence of government over the economy has been rather mild. According to the World Bank, the central government revenues in 1998 were only 12 percent of GDP. Though the level of state involvement increased from the 1940s to the 1970s, Colombia never concentrated major portions of wealth creation in the hands of the state. Coffee production, with its wide participation of private growers and commercial **retail** networks, has been an important factor both in terms of tax collection and the presence of private capital.

For many years financial policy was shared between the executive branch and congress, with participation of the **private sector**, but from the mid-1960s, most of the responsibility has rested with the former, with **monetary policy** in the hands of the Banco de la Republica (central bank). Traditionally, the government has regulated the prices of electricity, water, sewage, telephone services, public transportation, rents, education tuition, and pharmaceuticals. During the 1960s the government also established a set of public financing institutions and in the 1980s, amid a financial crisis, it **nationalized** a number of private banks.

In general terms, Liberals and Conservatives have agreed on major policy issues like monetary stability, the avoidance of high **inflation**, export promotion, and the cautious development of oil. During the 1980s and 1990s, most differences between the parties were over the pace of economic reforms. The Liberal party advocates milder and slower reforms while Conservatives tend to support more open market policies. In 1990, the administration of President Cesar Gaviria (1990–94) initiated economic liberalization, or apertura, and it has continued since then, though at a slower pace. It consists of **tariff** reductions, financial **deregulation**, **privatization** of state-owned enterprises, and the adoption of a more flexible foreign exchange system. After a period of lack of interest in liberalization during the Samper administration (1994–98), the Pastrana administration has regained the pace of economic reforms.

According to the *World Development Indicators 1999* more than one-quarter of Colombia's current revenues come from **indirect taxes**, primarily from domestic taxes on goods and services, and another quarter from **direct taxes** on income, profit, and capital gains. An unfavorable aspect of the tax situation in Colombia has been a recurrent tendency of several administrations to pardon unpaid taxes accumulated by firms and individuals over the years.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

For many decades Colombia suffered from a weak and even non-existent infrastructure that made national market integration difficult. The 3 mountain chains that cut through the most populated areas rendered road and railroad construction very costly. After the 1930s important programs of public investment in infrastructure began, and in recent decades the situation has somewhat improved, though infrastructure still does not meet general needs. Colombia has 115,543 kilometers (71,811 miles) of roads, of which only 13,866 kilometers (8,618 miles) are paved. The rail system is small and outdated, with only about 3,379 kilometers (2,100 miles) in the whole country.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Colombia	46	581	217	16.7	49	4.8	27.9	7.51	664
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Ecuador	70	419	293	11.7	25	N/A	18.5	1.42	35

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Colombia has a network of 1,101 airports, of which only 90 have paved runways. There are 10 international airports, with heavy traffic in Bogotá, Cali, Barranquilla, Medellín, and Cartagena. The most important airport is "El Dorado," located in the capital city. The difficulties in land communication and transport have made aviation profitable, so for many years Colombia was far ahead of its neighbors in this area. The airports are served by 9 large and medium airlines and also a group of small airlines. In addition, Colombia has 18,136 kilometers (11,272 miles) of waterways navigable by river boats and a number of important ports and harbors, mostly related to tourism.

Electrical power capacity in Colombia falls short of current and projected needs. Electricity production was 45.02 billion kilowatt hours (kWh) in 1998, with 69 percent of production coming from hydroelectric sources, 30.11 percent from fossil fuel, and the rest from other sources. According to World Bank sources, electricity use decreased from 904 kWh per capita in 1996 to 885 kWh per person in 1998. It is also very decentralized, with 37 companies providing power. Among these firms are Interconexion Electrica ISA, Generadora Union, Codensa, Transelca, Genercauca, Centrales Electricos del Norte de Santander, Electrocost, Electromag, Conelca, and EEPP.

Electricity became a lagging sector during the 1990s. Programmed cuts during the mid-1990s ran for several hours a day in the main cities for as long as 2 years. As a result, by 1999 imports of electricity jumped to 94 million kWh. These shortcomings, however, have not affected exploitation of new natural resources such as oil and coal, since investment in those areas usually involve their own infrastructure requirements, like pipelines, integrated camps, and airfields.

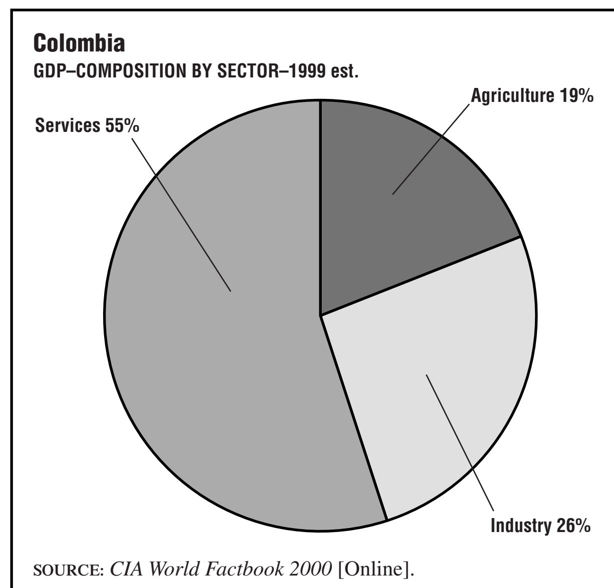
Colombia has a relatively modern telephone system represented by a nation-wide relay system, a domestic satellite system with 41 earth stations, and a fiber optic network linking 50 cities. The telecommunications business in Colombia is experiencing a major boom: there were 75 telephone lines per 1,000 people in 1990, doubling in 1998 to 173 lines per 1,000 persons. Cellular subscribers have also increased substantially. In 1990 cell phones were nonexistent, while in 1998 there were 49 subscribers per 1,000 people. Among the many telecommunications companies are Globalnet Telecom, Energia Integral Andina, Skytel, Intelsa, Americatel, Metrotel, Andicel, Cetell ISP, and Colomsat.

According to the *CIA World Factbook 2000,* Colombia had 5,433,565 telephones main lines in use by 1997 and 1,800,229 cellular telephones in 1998. By 1999 Colombia had 13 Internet service providers. Thus Colombia is moving towards greater connectivity, higher density in mass media, and dynamism in the telecommunications sector.

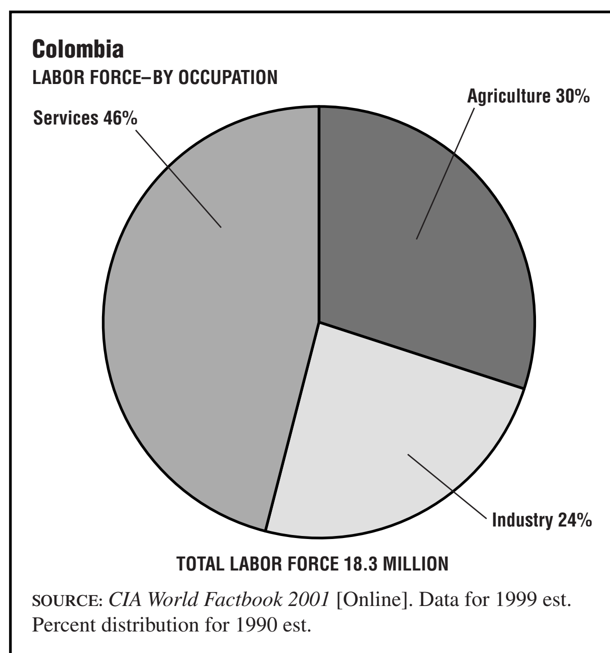
ECONOMIC SECTORS

Colombia is the world's second-largest coffee grower and coffee exporter (after Brazil), accounting for 31.2 percent of the world's production. Coffee production and exports were a major engine of growth during most of the twentieth century. However, by the end of the century, the country had achieved greater diversification. By 1999, agriculture accounted for 19.7 percent of GDP, while manufacturing attained 18.9 percent, and the banking and insurance sector accounted for 15.8 percent. Of less significance were commerce, restaurants and similar activities with 8.8 percent, mining at 4.2 percent, government services with 8.9 percent, construction at 3.4 percent, and electricity, gas, and water with only 1.1 percent. An overview of the productive landscape shows agriculture diminishing over time, with a considerable increase in services, a mining sector (mostly oil and coal) growing in terms of output and exports though diminishing in terms of employment, and a stagnating manufacturing sector. Although these sweeping changes led to the diminishment of agriculture, some agricultural products have seen higher levels of revenue over the last forty years, either through modernization in the production of established crops (cotton, sugar cane, bananas, and cocoa) or through introduction of new ones, like cut flowers.

Changes in population growth have been accompanied by a major shift in the distribution of the economically active population. In 1960, 50.1 percent of the **labor force** was engaged in agriculture, 19.5 percent in industry, and 30.4 percent in services. By 1980 the fig-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999 est. Percent distribution for 1990 est.

ures were 34.3, 23.5, and 42.2 percent, respectively, and by 1999 they stood at 30 percent, 24 percent, and 46 percent, respectively. These shifts reflect a different composition of economic output and have altered many economic relations in the country.

AGRICULTURE

For a long time agriculture was the main source of living for many Colombians. By the year 2000, however, it accounted for roughly 19 percent of GDP, though still employing 30 percent of the population and accounting for 17.4 percent of exports, with coffee the major export. Coffee employs one-fourth of the agricultural labor force, accounts for 20 percent of the cultivated area, and contributes nearly 9 percent to GDP. Production by 1998 was estimated by Colombia's Departamento Administrativo Nacional de Colombia (DANE) at 2,445,224 metric tons.

Colombia has a diversity of other agriculture products, including bananas for export (2,061,992 metric tons), rice (1,818,726 metric tons), potatoes (1,476,869 metric tons), sugarcane (1,061,272 metric tons), cassava (970,951 metric tons), oilseed (378,481 metric tons), and other products like cotton, cocoa beans, and tobacco. There are an estimated 167,000 cattle ranches in the country, of which 40 percent are in the departments of Atlantico, Bolivar, Cordoba, and Magdalena, and 15 percent in Boyaca, Meta, and Arauca.

Of the total land area of Colombia (113,891,400 hectares), an estimated 27 percent is agricultural land, most of it in elevated regions of the temperate zone. Mechanization trends have stagnated in the last twenty years. By 1980 the number of hectares of arable land per tractor was 183, and by 1997 the number rose only slightly to 211 hectares per tractor. Under the traditional system of slash-and-burn agriculture, fields are usually cleared at the beginning of the dry season and the brush from the cleared land is burned. This practice results in soil exhaustion and erosion. Yields are generally low and variable because of the inadequacy of flood control systems and irrigation. Although the country receives adequate rainfall, droughts are common. The U.S. government is working with the Pastrana administration to modernize the agricultural sector and provide incentives for farmers to switch from coca production to other crops.

Colombia ranks high in terms of land concentration and disparities in land ownership. Of the total farmland, 68 percent is owned by 4.3 percent of landowners, and half of Colombia's farms account for less than 2.3 percent of the farmland. Although 69 percent of the farms and 75 percent of the farmland are owned by individual farmers, 62 percent of these farms are too small to provide a living. The number of landless workers is estimated at 1 million, representing close to a third of the population engaged in agriculture. Traditional rural labor markets have virtually disappeared. Migration from traditional agricultural areas to the cities has contributed to more modern hiring and land tenancy systems.

The economic reforms of the 1990s ended most special protective measures for particular sectors, which led to a weakening in the production of some traditional crops like corn, cotton, and cassava. As a member of the Andean Community (formerly Andean Pact), a common trade agreement established during the 1960s and revamped in the 1990s, Colombia still enjoys special protection for many agricultural products. To do this, the "Andean price band system" is employed, which imposes tariffs on certain commodities that vary according to a pre-determined range. Fourteen basic agricultural commodities including wheat, sorghum, corn, rice, barley, milk, and chicken parts are subject to tariffs under the price-band system employed as part of this agreement.

Colombia is also an illicit producer of the drugs coca, opium poppies, and cannabis. According to recent information disclosed by Colombia's Ministry of Defense, the country is the world's leading coca cultivator (coca is used in the production of cocaine). The country was responsible for 67 percent of world supply by 2000, and total land area devoted to coca was approximately 122,500 hectares by the end of 1999, more than a 35 percent increase from 1997, with a refining potential of 710 tons of pure cocaine per year. Cultivation of opium in 1998 remained steady at 6,600 hectares a year.

As of 1999, most small farmers were involved in coca cultivation, largely because of the steady demand from markets in the United States and elsewhere. Coca

is harvested from 3 to 6 times a year. Payment is in cash, and this helps farmers maintain a steady source of income. Nevertheless, the U.S. Department of State reports that small coca farmers "barely manage to survive, partially due to the 'protection' fees charged by the guerrilla and paramilitary forces." Small farm plots may account for roughly one-quarter to one-third of coca cultivation, or 30,000 to 40,000 hectares.

INDUSTRY

MINING. One significant part of the transformation of the Colombian economy from the 1970s has been the expansion of the mining sector, mostly comprised of oil production and coal, though it also includes gold and valuable gems such as emeralds. Oil production in Colombia has been declining as of late, with 700,600 barrels a day (bbl/d) in 2000, down 125,000 bbl/d from the previous year. The country's reserves are estimated at about 2.6 billion barrels, but the potential reserves are much higher. Colombia's main oil export market is the United States, with 332,000 bbl/d in 2000. Production is located mainly in the Cusiana and Cupiagua fields in the Andes foothills and in the Cano Limón field near the Venezuelan border. British Petroleum has major operations at Cusiana and Cupiagua, while the Cano Limón field is operated by U.S.-based Occidental.

All foreign investment in petroleum exploration and development in Colombia must be carried out under a profit-sharing association contract between the investor and the state petroleum company, Ecopetrol. In the face of U.S. oil companies' interest in increasing exploration and production if contract and tax requirements are smoothed, the Pastrana administration has responded by liberalizing contracting terms.

Colombia produces more than 90 percent of the world's emeralds; it is the second-largest South American producer of gold and the most important coal producer in Latin America. Coal reserves have been estimated between 12 billion and 60 billion tons, approximately 40 percent of all Latin American reserves. Important levels of production began in 1984, attaining 4,000 metric tons, which jumped to close to 13,000 metric tons by 1993 and 28,500 metric tons in 1997. Excluding oil production, there was a relative decline in mining from 1992 to 1996, accompanied by a decline in the number of persons employed to almost 20,000.

MANUFACTURING. The economic landscape of Colombia has changed dramatically in the last 40 years, and one clear example is the changes in the manufacturing industry by the late twentieth century. Industrial manufacturing is quite varied. According to DANE, by the year 2000 the most important products included basic chemicals (5.3 billion pesos), beverages (3.5 billion pesos), milling and cereal processing (3 billion pesos), oil refining (2.9 billion pesos), and pulp, paper and derived products (2.1 billion pesos). Though an important proportion of production is for the domestic market, the relative level of sophistication in some of these products can be measured by the extent to which they are exported. In 2000 manufactured products accounted for nearly 40 percent of all exports, with chemicals and textiles ranking near the top.

Manufacturing is located mostly in the provinces of Antioquia, Cauca, in the capital district, and to a lesser extent in Barranquilla, on the Atlantic coast. The number of people employed by this sector is 588,681—approximately 20 percent of the economically active population.

The lowering of many trade barriers in the 1990s served to streamline Colombian industry, and most sectors have managed to remain competitive with other Latin American competitors, leading to an increase in exports to those countries.

The construction industry, one of the largest employment sectors in Colombia, has been very dynamic over the last 2 decades, totaling close to 7,000 companies. In the years from 1998 to 2001, however, it was hit hard by the recession and tight credit conditions.

SERVICES

FINANCIAL SERVICES. Colombia has an extensive banking sector. According to DANE, it accounted in 1995 for close to 16 percent of GDP, clearly the most important service activity. It is headed by the Bank of the Republic, which functions as the central bank. There are approximately 1,700 companies devoted to financial services, of which 37 are established banks, 30 are investment companies, nearly 70 stock and bond brokers, and a small number of leasing and real estate leasing. There are 17 long-term and development financial institutions, including the government-owned Industrial Development Institute. The government has played an important role in the financial sector since the 1970s because of the unwillingness of banks to make long-term loan commitments to riskier projects such as coal development, and because of the necessity for periodic public intervention to stabilize financial markets.

The 6 largest of these corporations hold 86 percent of all assets in this sector. In the mid-1980s there was a crunch in the banking system that forced the government to nationalize a number of troubled domestic banks. It also created the Financial Institutions Guarantee Fund (Fondo de Garantias de Instituciones Financieras) as the authority to intervene or recapitalize those financial institutions in great need of support. By the end of the 1980s

the government set out plans for privatization, the second phase of which took place by the end of the 1990s.

TOURISM. Tourism is a relatively minor activity in the country. In 1997 inbound tourists to Colombia numbered 1,193,000 people, contributing US$955 million in foreign exchange, representing 6 percent of exports. In 1980 the corresponding figures were US$357 million and 6.7 percent of exports, so in twenty years there was a slight decline in tourism's contribution to the economy. If hotels and travel agencies are included, the number of people involved in tourism by 1997 was only 23,700. Most tourist activities are concentrated in the Atlantic coast, in the cities of Cartagena, Santa Marta, and Barranquilla. Tourists are mainly attracted to a mixture of beaches and historic sites. As part of the viceroyalty of Nueva Granada during colonial times, the coastal cities retain a good part of this heritage. With Colombia suffering from violence for 2 decades and targeted as a high-risk country, it is quite understandable that there are not more tourists.

RETAIL. The commercial sector is very important in most urban areas, and it has modernized substantially over the years, though suffering from the recession from 1998 to 2000. According to the most recent DANE survey, by 1997 personnel employed in supermarkets, "hypermarkets," and malls was nearly 84,000, with sales of 2.87 billion pesos. These figures declined to 74,000 persons employed and 2.02 billion pesos worth of sales in 2000. Main lines of sales are food, clothing, and pharmaceuticals, though automobiles have increased their share over the last 5 years. Although most retail is regionally based, there are 3 main chain stores—Almacenes Exito, Vivero, and Carulla—which have remained strong despite the downturn of the economy by the end of the 1990s. Also important national and regional companies—including the 3 just mentioned—have forged alliances or have opened participation to foreign owners, mostly in the coastal area, while new foreign firms have established retail operations of their own.

TRANSPORTATION. Despite geographical and political difficulties, transportation has become over the years an activity of increasing importance, attaining 8.8 percent of GDP by 1997. According to the Asociación Nacional de Instituciones Financieras (ANIF), the transport of cargo and passengers by land represents 76 percent of revenues in the sector, while air transportation accounts for 10 percent, and maritime only 3.3 percent. Passenger transportation accounted for 75 percent of revenues, with the rest going to cargo. According to ANIF, rail transportation's importance diminished by 1997 to a third of the value in 1987.

Colombia's domestic air-transport market was deregulated in 1990, a move that led to domestic passenger traffic doubling to just over 6 million people by 1996. International traffic more than doubled to 1.7 million passengers by the same year. Colombia also concluded an agreement with Venezuela, which led to flights between Venezuela and Bogotá increasing dramatically.

INTERNATIONAL TRADE

One of the most striking aspects of Colombia's economic performance over the years has been the change in the export mix. Once predominantly a coffee economy, by the year 2000 coffee accounted for only 8.43 percent of foreign exchange earnings, while oil and related products jumped to 35.34 percent and manufacturing products accounted for 39.54 percent of exports. However, Colombia still exports oil and coffee to the developed world (the United States, Japan, Germany, and Belgium), while most of its exports to countries such as Venezuela, Mexico, and Ecuador are manufactured products.

At the same time, the relative importance of Colombia's partners has also changed. The United States remains the main trading partner, receiving 37.2 percent of Colombia's exports and providing 32 percent of Colombia's imports in 1998. However, the role of Venezuela as a trading partner has increased substantially. In 1996 the United States was the destination of US$5,991 million of exports, while Venezuela had climbed to US$1,178 million. Ecuador accounted for US$413 million, Germany US$353 million, Peru US$338 million, and Japan US$216 million. This trend diminished after 1997, mostly due to the recession on both sides of the Venezuela-Colombia border. The year 2000 has shown a relative recovery between both partners.

More than 70 percent of Colombian exports to the United States are primary products such as food (mainly coffee, bananas, cut flowers, tuna, shrimp, and sugar), and fuel (petroleum and coal). The United States also holds the largest share of **foreign direct investment**, with US$4.3 billion, or 28.1 percent of the estimated total direct foreign investment of US$15.4 billion.

Imports to Colombia also grew extensively during the 1990s, creating a **trade deficit** until 1998. Through

Trade (expressed in billions of US$): Colombia

	Exports	Imports
1975	1.465	1.495
1980	3.924	4.739
1985	3.552	4.141
1990	6.766	5.590
1995	10.126	13.853
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

September 1999, Colombia's overall trade balance has swung from a US$2.7 billion deficit to a US$1.1 billion surplus, while the U.S.-Colombia trade balance swung from a US$292 million U.S. surplus to a US$1.8 billion deficit. The type of imports also show the overall changes in the Colombian economy. While during most of the twentieth century imports were mainly **consumer goods**, and later **capital goods**, the trend has changed. According to DANE, in the year 2000 21.9 percent of imports were capital goods, 51.99 percent were raw materials, 8.57 percent were transportation equipment, and 18.72 percent consisted of consumer goods.

MONEY

The value of the Colombian peso per US$1 was 2,179.3 in December 2000. This reflects a loss of over half its value against the dollar since 1995, when it traded at 912.83 pesos to the dollar.

Colombia's monetary policies are formulated by the Junta Monetaria (Monetary Board), and banking operations are regulated and supervised by the Superintendencia Bancaria. The Central Bank conducts monetary policy based on behavior of the financial sector, and determines the amount of money in the system and makes other decisions in line with indicators such as inflation and growth of the economy at large.

The Colombian peso has floated freely against the dollar and other currencies since 25 September 1999, when the Central Bank abandoned the crawling band exchange regime, which acts like a crawling peg. Under that system, the Bank intervened in the market by buying or selling dollars to keep the dollar's price in pesos within the band. Soon after abolition of the band—by December 1999—the peso had depreciated 20 percent from the beginning of the year, increasing the competitiveness of Colombian exports to the United States.

Inflation has always been moderate in Colombia, with peaks in the mid-twenty percent range. By the end of 1999 inflation was 9.2 percent, more than 5 percentage points below the previous year, mainly as a consequence of the recession. The figure for 2000 was 10 percent as consumption reversed the downward trend and the government restrained wage hikes. Despite economic recovery and a slight weakening of the peso, officials were not able to relax monetary policy later in year 2000. Average interest rates were 19.5 percent in 1999 and about 15.3 percent in 2000.

In August 1989 the government authorized plans to return to private ownership 65 percent of the assets of all financial institutions nationalized after the financial crisis of 1987.

POVERTY AND WEALTH

Colombia is neither a poor nor a rich country. Income per person was by year 1999 roughly equal to the world average. According to the Andean Community, GDP per capita was US$1,487 in 1993, and rose to US$2,090 by 1995. The CIA's *World Factbook* estimates income per capita for 1999 at US$6,200. More interesting, however, are changes over time. By 1980 income per capita was about 108 percent higher than in 1950, with most of the growth having occurred between 1969–1979 when it increased by 50 percent. During the 1980s economic growth declined significantly, but income per capita managed a modest percent increase given a population growth slowdown.

Income distribution has also shown important changes during the last fifty years. Total income inequality peaked in the 1960s. Later on, when education levels improved drastically and the relative income of agricultural workers improved somewhat, inequalities in income levels became less extreme. Among the poorest workers, the picture is also positive. In *Political Economy and Illegal Drugs in Colombia,* Francisco Thoumi sums up the trends this way: "Based on a constant poverty line, the incidence of poverty has declined continuously during the fifty-year period. A head-count index shows that three-fourths of the population was poor in 1938, half in the mid-1960s, and one-fourth in the late 1980s. The poor declined from 70.5 percent of the country's population in 1973 to 45.6 percent in 1985, while the extreme poor declined from 44.9 to 22.8 percent." All the changes notwithstanding, according to the ANIF, Colombia's in-

Exchange rates: Colombia

Colombian pesos (Col$) per US$1	
Jan 2001	2,241.43
2000	2,087.90
1999	1,756.23
1998	1,426.04
1997	1,140.96
1996	1,036.69

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Colombia	1,612	1,868	1,875	2,119	2,392
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Ecuador	1,301	1,547	1,504	1,475	1,562

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Colombia

Lowest 10%	1.1
Lowest 20%	3.0
Second 20%	6.6
Third 20%	11.1
Fourth 20%	18.4
Highest 20%	60.9
Highest 10%	46.1

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

come inequality is still one of the highest in Latin America, and deteriorated greatly between 1997 and 2000, particularly in the urban areas. Rural GDP is only 50 percent of that of urban areas.

Education has also improved substantially in the last forty years. According to Thoumi, in 1951 "44 percent of the population was illiterate [and] in 1955 it was estimated that only 57 percent of 7 to 12-year-olds were enrolled in elementary schools. Under state control, elementary school enrollment … reached nearly 100 percent by 1970. Increases in high school and college enrollments have also been substantial. In 1960 high school enrollment was only 11.9 percent, while college enrollment was only 1.8 percent. By 1980 these rates had increased to 44 and 10.6 percent respectively, the latter achieving 28 percent by 1997."

In health care, Colombia also shows continuous improvement. First of all, the control of tropical diseases like malaria in the countryside and improvement in sewage systems in the cities strongly contributed to a diminishing trend in infant mortality rates (from 123.3 for each 1,000 new births in the early 1950s to 48.6 by the end of the 1980s, and 23 by the year 2000). Life expectancy has risen in Colombia; by the end of the 1980s the figure stood at 68 years, and reached 70 years in 2000. This is a far cry from the early 1950s, when the average was barely 50 years. A contributing trend has been the construction of a health care network for the growing urban population. A pension system created in 1993 allows access to both public and privately-funded health care for all employees. This program has both taken the pressure off of the public health system and has supplemented it, leading to a net improvement in the quality of health facilities in the country.

The quality of housing has also improved. According to data quoted by Thoumi from the 1951 census, "52.7 percent of the housing units had earth floors and 90.3 percent had walls made of 'precarious' materials. By the 1985 census these percentages had dropped to 17.1 and 24.4 respectively. Similarly, in 1951 only 28.8 percent of the units had running water, 25.8 percent had electricity, and 32.4 percent had sewage or septic tanks. By 1985 these figures had increased to 69.7, 78.2, and 77 percent respectively. In urban areas … these percentages were much higher: 89.8, 95, and 93.6 respectively."

While the physical standard of living has improved, the country has actually become less livable. Colombians today enjoy better housing, health services, and education; they own cars, telephones, and have greater access to information about their country and the world. They are more broadly traveled and they have more material goods than in the past. But many fundamental aspects of the quality of life, such as physical security and property protection, have deteriorated sharply due to the increase in political and criminal violence associated with both guerrilla terrorism and the narcotics war. According to ANIF, life expectancy among male Colombians dropped 3 to 4 years between 1994 and 1997 largely due to the rise in violence, both political and criminal.

WORKING CONDITIONS

The workers' movement emerged by the end of World War I. From that time, the labor movement was greatly influenced by episodes of violent confrontation. The most critical of these occurred during the first massive industrial action, aimed at the United Fruit Santa Marta complex in 1928 when railroad, banana, and field workers went on strike to force changes in wages, hours, and non-wage compensation. The human toll was 1,000 dead. The aftermath of this tragedy diminished the dominance of the Conservative Party and contributed to the Liberal Party winning the presidency. The incoming government had a more open and pragmatic stance toward labor activities and pressed for important labor reforms, which helped in union expansion nation-wide. During this period, there was a greater participation of labor in national politics, mainly through the Liberal Party. The Confederation of Colombian Workers (Confederacion de Trabajadores Colombianos, CTC) was created in 1935, and represented the first successful attempt at uniting smaller unions from various professions into a collective organization. Later, Cold War ideological confrontation led to fears by more conservative elements that the CTC was too left-wing; thus in 1946 the Catholic Church established the Union of Colombian Workers (Union de Trabajadores Colombianos, UTC), which gained important support from the more moderate unions.

A second labor confrontation occurred in 1947 during a strike by port workers on the Magdalena River, which also ended in the loss of lives. During the "Violencia" (1948–66), organized labor became increasingly

demoralized and weakened. After 1960, however, 2 more labor federations emerged: the Trade Union Confederation of Colombian Workers (Confederacion Sindical de Trabajadores Colombianos, or CSTC) and the General Confederation of Workers (Confederacion General de Trabajadores, or CGT). The former was aligned with the communists and the latter with the tiny Social Christian party. However, although the percentage of workers enrolled in unions more than doubled from 1959 to 1965, union membership was still a very low 13.4 percent.

Later on, in September 1986, an important group of independent unions and those affiliated with the CSTC joined forces to create the United Workers Central Organization (Central Unitaria de Trabajadores, or CUT). The CUT represented 70 to 75 percent of the organized workforce, and emerged as a major voice against organized violence. This organization proved to be less timid in terms of industrial action, and by the late 1980s the labor movement appeared to play a greater role in representing workers' social and political rights. Working conditions and wages are governed by the Labor Code of 1950 and some additional laws. The work week is 48 hours, except in agriculture. Fringe benefits include annual vacations and sick benefits. Employees are eligible for a retirement pension after 20 years of service. Social security is compulsory with the employer paying half the cost and the employee and the government paying a quarter each.

The total workforce of Colombia reached 18 million by 1999, with a record 20 percent unemployment level due to the recession, which has affected living standards and poverty levels, especially in the countryside.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1821. Gaining independence from the Spanish empire, Colombia emerges from colonial rule as part of Gran Colombia, together with Venezuela, Ecuador, and Panama.

1859. Emergence of the Liberal Party. Tobacco accounts for 28 percent of exports while gold's share is down to 33 percent.

1860S-70s. Liberal constitution establishes **liberal economic** principles and quasi-federal autonomy to provinces. The 1870s marks efforts in railroad building. The Conservative Party is founded. By late 1870s coffee production, carried by rail and financed by banks, becomes even more important.

1886. A conservative constitution is promulgated, marking a major swing toward a more centralized state.

1898. Coffee reaches 50 percent of exports.

1899. Colombia's greatest civil war ruins the country. Coffee-producing areas are greatly affected, and chaos shakes the economy.

1903. Panama is separated as a consequence of the war, supported by U.S. intervention. After the war, Congress reforms monetary system, budget, customs, tariff legislation, and some **protectionist policies**.

1904–09. Rule of dictator Rafael Reyes. His conservative administration starts reconstruction under economic orthodoxy.

1910–30. Bipartisan consensus emerges with constitutional reform. Paper money is banned, and minority party representation established. Coffee production takes place on larger farms, and has a greater impact on the domestic economy.

1920s. A strong coffee export trend (11.3 percent of world production by 1930) allows for the tripling of public spending, mostly in infrastructure.

1930–46. Known as the Liberal Republic, this is a period of social reform, slower economic development, and growing tension between the parties. The collapse of coffee prices is partially compensated for by greater exports and the strengthening of domestic industry. Liberal dissident Jorge Eliecer Gaitan rises to prominence.

1946. Split in Liberal party ends the period of liberal rule. Gaitan dominates the Liberal party.

1948. Assassination of Gaitan leads to a virtual civil war known as "The Violence" (1948–66).

1950. Extreme Conservative Laureano Gomez comes to power, unleashing terror against liberal insurgencies in the countryside. Exports start a diminishing trend.

1953. A military coup supported by both traditional parties brings in General Rojas Pinilla. Political calm is affected by a downturn in coffee prices and a weak economic performance.

1958. Beginning of the National Front, under which Liberals and Conservatives alternate the presidency and share government posts at all levels.

1960s. After economic difficulties and currency instability, the largest post-war economic expansion period comes after 1964.

1969. Colombia joins the Andean Pact, a trading agreement among several South American countries.

1974–84. A period of economic instability and political stability. An increase in coffee prices reduces foreign exchange constraints, allowing an upward trend in income, lower unemployment, and an increase in international reserves. After 1980, a collapse in coffee

prices produces slow growth, an industrial setback, rising unemployment, and an increase in deficits.

1987–89. Political violence starts again; prominent politicians are kidnapped or assassinated by drug dealers trying to overthrow the government.

1990–94. The Cesar Gaviria administration opens up the economy and leads the approval of a new constitution.

1994–98. The Ernesto Samper administration begins under accusations of campaign financing by drug dealers. The pace of economic reforms slow down, while the narcotics business and the guerrilla activities grow.

1998–2000. Peace negotiations with the guerrillas begin under President Andrés Pastrana. Plan Colombia against illicit drug production and trafficking is launched.

FUTURE TRENDS

Most of Colombia's dilemmas at the beginning of the 21st century are political rather than economic. The confrontation between guerrilla groups allied to the narcotics industry has become highly delicate, and is likely to remain so throughout the rest of the Pastrana presidential period, which will end in 2002. This situation will also affect the modernization of the political system and any economic recovery. Despite a better structural situation than other countries in the region, the continuous violence not only stops major advances, due to the uneasiness of foreign investors, but also creates major incentives for the emigration of the elite and professional groups. Putting all his eggs in the basket of the peace process has led to frustration over the failure of Pastrana's efforts. The weak economic performance has additionally undermined the popularity of the president. His administration has enjoyed strong support from the U.S. government, which in 2000 agreed to an aid package of US$1.7 billion (Plan Colombia) to combat illegal drugs in the south, southeast, and northern areas.

According to most sources, peace talks with the guerrillas that started in 1999 continue against a background of violence. Although some progress has been made, the conflict has escalated and the guerrillas' commitment to ending the hostilities is questionable. Negotiations with the largest guerrilla group, the Fuerzas Armadas Revolucionarias de Colombia (FARC), have followed a stop-and-go trend, stagnating for half a year and then resuming after continuous confrontations. So far the clashes have not ended. Pastrana and his successor are likely to come under increasing pressure to abandon talks and opt for a purely military solution if progress continues to prove elusive. Despite the eventual promise of military support from the United States, it is unlikely that such an option will be followed, mostly because of the risks involved in an open civil war against well-armed and widely dispersed guerrilla forces. Also, the peace talks still enjoy the support of important civil sectors, including the Church and non-government organizations (NGOs). While Bogotá continues to try to negotiate a settlement, neighboring countries worry about the violence spilling over their borders.

Colombia's leading exports, oil and coffee, face an uncertain future. New exploration is badly needed to offset a pending decline in oil production, and the coffee harvest has dropped because of aging plantations and natural disasters. The lack of public security is a key concern for investors, making progress in the government's peace negotiations with insurgent groups an important driver of economic recovery. Net foreign direct investment fell to about US$675 million in 1999 from US$2.5 billion in 1998, reflecting poor business confidence. The tide changed again in 2000, more than doubling the previous figure amid lower interest rates, greater oil investment, and privatization. Officials are also offering better contract terms to encourage greater foreign investment in the oil industry. In spite of pipeline bombings and kidnappings, current oil prices remain a powerful incentive for further oil investments, especially since Colombia's untapped oil reserves are estimated to be huge. According to the International Energy Agency, oil production is expected to top 1.2 million barrels a day within the next 5 years and show little decline through 2020.

Despite the end of the recession, investor sentiment and economic recovery will remain vulnerable to further troubles in the beleaguered financial sector and the delicate peace process.

DEPENDENCIES

Colombia has no territories or colonies.

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—Leonardo Vivas

COSTA RICA

Republic of Costa Rica
República de Costa Rica

CAPITAL: San José.

MONETARY UNIT: Colón (C). One colón is composed of 100 céntimos, but céntimos are no longer used. The smallest unit of money in circulation is the 5 colón coin, followed by the 10, 25, 50, and 100 colón coin. Bills circulate in denominations starting at 1,000 colones, and are available in 2,000, 5,000, and 10,000 colones.

CHIEF EXPORTS: Coffee, bananas, sugar, textiles, electronic components, electricity.

CHIEF IMPORTS: Raw materials, consumer goods, capital equipment, petroleum, electricity.

GROSS DOMESTIC PRODUCT: US$26 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$6.6 billion (1999 est.). **Imports:** US$5.9 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Costa Rica is a central American nation, located between Nicaragua and Panama. Its borders span 309 kilometers (192 miles) with Nicaragua and 330 kilometers (205 miles) with Panama. Costa Rica also borders the Pacific Ocean and the Caribbean Sea, its coastline reaching across 1,290 kilometers (802 miles). The country has 51,100 square kilometers (19,730 square miles) of land, which is slightly less than the size of West Virginia, including the Isla del Coco (a small island in the Pacific Ocean).

San José, the capital, is located in a highland valley in central Costa Rica called the Meseta Central. Most of the country's population is located in this area formed by 2 basins separated by low, volcanic hills ranging from 900 to 1,500 meters above sea level. Other important cities are Cartago (the old colonial capital), Alajuela, and Heredia. The main port cities are Limón on the Caribbean Sea and Puntarenas on the Pacific.

POPULATION. The country's population was estimated at 3.5 million in July of 2000. It is growing at a rate of 1.69 percent, which means that the population should reach approximately 4.1 million by 2010 and should double to over 7 million by the year 2035. Over 60 percent of the population is between the ages of 15 and 64, and only 5 percent of citizens are over 65 years old. The population is young, posing a challenge for the government to provide adequate schooling and training for youngsters. About 95 percent of the population can read and write. The larger, younger generation will also require greater health and retirement services as it begins to age.

Birth rates are at 20.69 per 1,000 people and death rates are at 4.31 per 1,000 people. There are approximately 2.52 children born per woman. Infant mortality rates are 11.49 deaths per 1,000 live births. There are approximately 1.02 males for every female in Costa Rica. The average life expectancy is 75.82 years: 73.3 years for males, and 78.5 years for females.

Adding to the high birth rate, the Costa Rican population also increases due to **immigration**—particularly from Nicaragua and other Central American countries. Immigrants come to Costa Rica in search of work opportunities, which they usually find in the agricultural sector. They are attracted by the relatively higher standards of living that are enjoyed in the country. The immigration rate for 2000 was estimated at 0.54 immigrants per 1,000 citizens.

The population of Costa Rica is mainly white (94 percent, including mixed European and Amerindian mestizos) and Roman Catholic (85 percent). There is a small proportion of black (3 percent), Amerindian (1 percent), and Chinese (1 percent) residents, and the second most important religious group is Evangelical Protestant (14 percent).

OVERVIEW OF ECONOMY

Costa Rica has a mixed economy in which both public and private companies play an important role. The government has supported **socialist** policies for decades. The emphasis in the economy has been placed on the governmental promotion of human development and welfare, while still allowing private companies to operate in some industries. These efforts were intensified in the 1950s, when political and social forces supported a method of economic development (planned growth) that was heavily dependent upon the state.

The biggest indication of the government's socialist ideology was its purchasing of goods and companies that were in trouble. When the state bought an interest in key industries such as banking, electricity, telecommunications, insurance, medicine, and education during the second half of the 1900s, the economy underwent **nationalization**. Under government control, Costa Rica achieved a relatively high standard of living.

However, this strategy relied on deficit spending, which meant that the Costa Rican government was spending money that it did not have. Even worse, the government also financially supported **import substitution** industrialization (ISI) policies during the 1960s and 1970s. Such policies were supposed to make the country more self-sufficient in industrial production, but ISI policies put Costa Rica deeper in debt.

The worldwide **recession** of the 1980s helped cause a Latin American debt crisis. Facing a devalued currency and an **inflation rate** of over 100 percent, Costa Rica experienced the most severe recession since the 1930s. The country was forced to make economic reforms and to **liberalize** the economy. This process began with a currency stabilization program (to stop **inflation**), and led to a **structural adjustment program** (SAP) that tried to reduce government intervention in the economy.

The government sold many companies in which it had invested, but state control of the main industries persisted, with the exception of the banking industry. The people of Costa Rica preferred a state-run economy, and chose to finance their debt through the attraction of **foreign direct investment**. Public funds continued to be directed towards the manufacture and export of industrial goods. In spite of an increase in taxes, deficit spending continued, and the public debt grew. Interest payments on this debt absorbed a third of public accounts annually, making the economy unstable. Foreign direct investment helped the growth of local supply networks and supported export growth. The Intel Corporation opened a microprocessing plant in Costa Rica in 1998. The country has also been successful at promoting tourism, which has be-

come an important source of foreign investment, has increased employment, and has generated substantial exchange revenue.

High levels of **gross domestic product** (GDP) growth achieved during 1998 and 1999—around 8 percent—proved unsustainable in 2000 when the demand for microprocessors plummeted. GDP growth during 2000 fell to a mere 1.5 percent. Economic policy focused on controlling inflation (at a historically low 10 percent), but the fiscal deficit remained above 4 percent, limiting economic growth.

POLITICS, GOVERNMENT, AND TAXATION

Costa Rica differed from other Spanish colonies in that it never developed a system of large land holdings. Agricultural production was limited to the size of families, and the distribution of land and other resources was relatively equal. Independence from Spain came without violence in 1821. After joining the Mexican Empire briefly in 1822, the Central American colonies—Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica—created a federated republic in 1823, which collapsed in 1829. Costa Rica is a democratic republic organized under the 1949 constitution. The president, 2 vice-presidents, and single-chamber congress (the Legislative Assembly) are directly elected for 4-year terms. The Supreme Court justices are elected by the Legislative Assembly for 8-year terms.

Liberal political reforms in the late 1800s facilitated the expansion of democratic institutions and processes. The middle class of Costa Rica flourished along with the development of commerce, services, and manufacturing. As economic conditions worsened through the Great Depression of the 1930s, the role of the state increased, and the citizens of Costa Rica demanded economic reform. Much of the country's character was defined in the 1950s through the abolition of the army, the nationalization of the main industries, and the construction of a **social welfare system**.

The main political forces in the country since the introduction of the social welfare system have been the Social Democrats (Liberación Nacional) and the Christian Democrats (Unidad Social Cristiana). Both Social and Christian Democrats have pursued an active involvement of the state in economic affairs. As a result, Costa Rica is a country in which the **public sector** plays a major role. The wave of **privatization** that has shaken most Latin American countries has not been significant in Costa Rica. The state continues to control key industries such as electricity, telecommunications, banking, insurance, health, oil refinery, and alcohol distillation. This situation has resulted more from public opposition to privatization than from government policy. As a result, the state has focused on administrative reforms that attempt to improve the efficiency of public companies.

Although there has been an increase in the level of participation of the **private sector**, the state is still in control. Banking is no longer a state **monopoly**, but the 3 largest banks are state owned. Medicine is also practiced privately, but the largest and most modern hospitals are owned and operated by the government's social security system. A law passed in 2000 allows the handling of old-age pensions by private companies, but the majority of pensions are still under state control.

The central government has a significant impact on the economy with its expenditures totaling over 30 percent of GDP in 1998. This is much higher than the level of expenditures in Canada (24.7 percent of GDP), the United States (21 percent) or the East Asian countries (10.4 percent), but is lower than the level in France (46.6 percent), Italy (44.6 percent), the U.K. (37.9 percent), Spain (36.1 percent), or Germany (32.9 percent). According to Central Bank figures (1999), the main sources of government revenue were import **duties** (42 percent), **income taxes** (22 percent), sales taxes (16 percent), and consumption taxes (5 percent).

Since tax revenues are lower than 23 percent of GDP, the government finances its expenditures through debt. This creates a deficit that in 1996 amounted to 4 percent of GDP and, although it was lowered to levels closer to 3 percent during 1998, has resurged during the past 2 years. Public debt has risen as a result, to a point where it represents more than the total of goods and services produced by the country, and thus represents a major source of economic instability. Interest payments on the debt absorb up to a third of the national budget, restricting the amount of funds that can be devoted to building schools, roads, and hospitals. The country's Central Bank has a limited ability to control the money supply and to fight inflation.

In spite of these negative trends, the government devotes over 5 percent of GDP to education and almost 7 percent of GDP to health. This compares well to the Latin American averages of expenditure in education and health, at 4.5 percent and 3.1 percent, respectively, and is comparable to international levels. The result of this policy has been an educated, skilled workforce.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

One of the greatest challenges facing the country is the maintenance of its **infrastructure**. Investments in this area have not kept pace with economic growth. There is more traffic than the old roads and ports can safely

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Costa Rica	94	271	387	13.8	28	2.3	39.1	10.41	150
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Mexico	97	325	261	15.7	35	3.0	47.0	23.02	1,822
Nicaragua	30	285	190	40.2	4	N/A	7.8	2.21	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

handle, and the communication and power networks are not strong enough for the country's demands. A law was passed in 1998 to allow the development and administration of the infrastructure through private contracts, but by 2000 not one contract had been granted.

Costa Rica's communication infrastructure is less advanced than other Latin American countries. For example, in 1998 telephone lines per 1,000 inhabitants were at 172, better than the Latin American average of 118. But cellular phones per 1,000 inhabitants were at 28, compared with 43 for all of Latin America, while Internet hosts were at 0.85 per 1,000 inhabitants compared to 4.85 for Latin America. Television sets were at a level of 387 per 1,000 inhabitants, compared to 255 per 1,000 for Latin America, but cable subscribers were at 13.8 per 1,000, compared to 28.3 per 1,000 for Latin America.

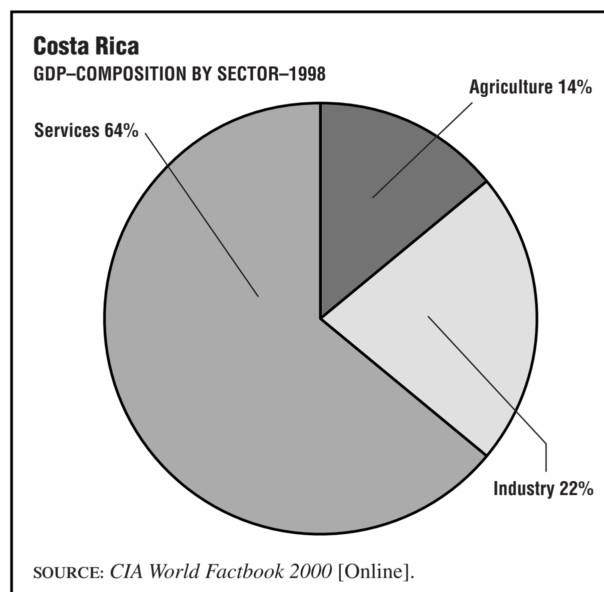
The country has over 35,705 kilometers (22,187 miles) of roads, of which 20 percent corresponds to national highways and 80 percent to local roads. About 56 percent of the national roads and 12 percent of the local roads are paved. Two major projects were underway by the end of 2000 to improve the carrying capacity of the main roads connecting the capital to the Pacific Coast.

Electric power generation and telecommunications are handled by a state monopoly, the Instituto Costarricense de Electricidad (ICE). Efforts to open these sectors to competition and privatization sparked riots and public protests in early 2000. The government claimed that it needed help from the private sector in order to service demand. Rioters were afraid that privatization would result in higher rates and the neglect of rural locations. The country's power source is mostly hydroelectric, although geothermal and wind sources are also used. The Costa Rican Congress was discussing a **restructuring** of the ICE in 2000–01 that would allow the establishment of **joint ventures** for the development of energy and telecommunication projects. It would, however, fall short of allowing competition by private participants in these sectors.

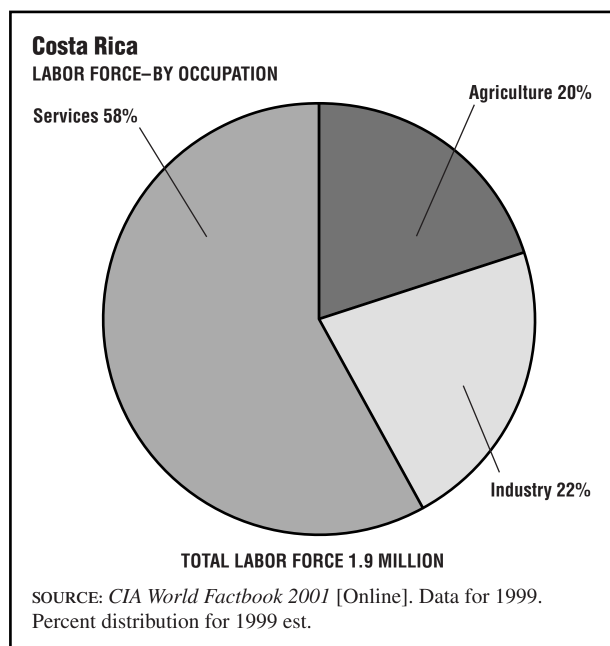
An index compiled by the Instituto Centroamericano de Administración de Empresas (INCAE), the Harvard Institute for International Development, and the Central American Bank for Economic Integration shows Costa Rican infrastructure lagging behind that of other Central American and East Asian countries. Values assessed ranged from 1 to 7 with higher values representing better infrastructure conditions. Costa Rica obtained a value of 2.29 compared to 3.46 for Guatemala, 3.56 for Nicaragua, 4.55 for South East Asia, and 4.64 for the United States, Japan, Ireland, Sweden, and China. This means that Costa Rican business faces greater challenges to compete against other nations.

ECONOMIC SECTORS

The Costa Rican economy is concentrated in the service sector, with 60.5 percent of its 1998 GDP represented in this category. The main service activity in the



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1999 est.

country is tourism, with over 1 million visitors in 1999. Industry is the second most important sector, representing 24 percent of GDP in 1998, followed by agriculture, which represents 15.2 percent of GDP.

The amount that industry contributes to GDP in Costa Rica is average for Latin America but is low when compared to that of East Asia (44 percent of GDP), the Arab nations (40 percent of GDP), and Eastern Europe (35 percent). However, it has become an area of aggressive growth through government stimulus. Efforts to build a high technology park through foreign direct investment have attracted firms like Intel Corporation, Baxter Medical, Microsoft, Abbot Laboratories, Conair, and Alcoa.

Government policies have attempted to reduce dependence on agriculture as a source of employment, production, and foreign exchange revenue. This has reduced the relevance of agriculture from close to 40 percent of GDP in the 1950s to its current 15.2 percent level. However, it still employs about 20 percent of the **labor force**.

AGRICULTURE

Costa Rica's temperate (warm) climate and fertile soils are suitable to agricultural production. There is an abundance of water—yearly rainfall averages 4 meters—and irrigation has been successfully applied to develop more arid (dry) regions. The government supports growers through research, training, and technical assistance.

The agricultural sector in Costa Rica has been declining in importance since the 1950s, but in 1998 still accounted for 15 percent of GDP and employed one-fifth of the labor force. Almost 10 percent of the country's land is used for agriculture. Agriculture is still an important contributor to foreign trade. Excluding **free zone** companies, agricultural exports represent approximately 60 percent of export flows. Traditional crops, like coffee and bananas, have been the staples of agricultural production since the 18th century. However, a wide range of nontraditional products has appeared since the 1980s that have begun a revival in agricultural exports.

Coffee is the country's oldest agricultural product and has been exported since the 1790s. In the 1820s the Costa Rican government stimulated its production by distributing free coffee plants and offering tax exemptions to interested families. This approach resulted in a group of small producers that, in spite of the existence of large-scale growers, has managed to remain in existence. Costa Rican coffee has been characterized by its high quality and efficient production, boasting some of the highest area yields in the world. In 1999 the country produced 147,000 metric tons of coffee. Although for many years coffee was the country's main source of foreign exchange, low international prices eroded its importance. Production for 1994–99 averaged 2.9 million bags (133,000 metric tons) with revenues of US$370 million annually. While such revenue represented about 11 percent of total export earnings in 1994, it only amounted to 4 percent of total export earnings in 2000.

Banana production surpassed coffee as the main agricultural product in 1992. Local farmers have cultivated it for over a century on the country's coasts, although primarily **multinational corporations** handle its export and sale. Production grew constantly during the 1990s, and prices remained steady. Exports for 1994–99 averaged 2,045,000 metric tons with revenues of US$624 million. This represented almost twice the revenue generated by coffee. Costa Rica devotes 50,000 hectares to growing bananas, almost 1 percent of its territory. It is the second largest producer in the world with an annual crop of approximately 115 million boxes sold in the United States and Europe. Growers estimate that their industry generates over 40,000 direct jobs and 100,000 indirect jobs. Workers in banana production enjoy the highest salaries and benefits in the Costa Rican agricultural sector.

Costa Rica is also an important producer of sugar. Yearly export volumes average 130,000 metric tons per year, with revenues of US$39 million. However, unlike coffee or bananas, sugar production is largely for local consumption, which exceeds 2.6 million metric tons. Over 48,000 hectares of land are dedicated to the production of sugar.

Nontraditional agricultural goods have been rising in importance over recent years. Most of them are export oriented and linked to various forms of agroindustry.

Examples are African palm used for the extraction of vegetable cooking oil, and oranges processed for their juice and exported as fluid or concentrate. Although African palm has been cultivated since the 1970s, its period of strong growth began in the 1990s. By 1996 over 27,000 hectares were in production generating a volume of 422,000 metric tons. Orange production began in earnest as recently as 1990, spurred by the construction of 2 processing plants. Production areas doubled in 6 years, reaching 23,500 hectares and 165,000 metric tons. Other important nontraditional agricultural products are hearts of palm, ornamental plants, and macadamia nuts.

INDUSTRY

Costa Rican industry expanded in the 1960s and 1970s through government investment and protection. Sizable industrial investments were undertaken by the state through its development agency, CODESA. The investments aimed at reducing foreign dependence. However, the halt of foreign competition through trade protection resulted in inefficiency and products of poor quality. The strategy was abandoned in the mid-1980s as the government initiated a process of trade liberalization.

Industrialization policies since then have supported nontraditional exports. They have relied on direct **subsidies** such as the CAT (Certificado de Abono Tributario—a tax refund certificate) program; and indirect subsidies such as income tax exemptions, preferential import duties, and streamlined import-export facilities.

The result has been a sustained increase in the flow of industrial exports that has more than doubled their dollar value in less than 10 years, from US$518 million in 1991 to US$1.1 billion in 1999. Since 1996, industrial exports have contributed over 40 percent of all exports, excluding those from the free zone. About 15 percent of the workforce is employed in manufacturing activities.

Industry has also been promoted through the attraction of foreign investment. The country's industrial policy has been successful in attracting high technology companies, the most noteworthy being Intel Corporation, which invested over US$200 million in the construction of microprocessor production facilities in 1998. Total export volumes nearly doubled as a result of these investments, from US$3.5 billion in 1995 to US$6.6 billion in 1999. The export volume of the free zone sector was greater than the combined revenues of the normal export sector.

Because small industry is rarely eligible for free zone benefits but is subject to all forms of regulation and taxes—including payroll taxes that can reach up to 50 percent of workers' salaries—a growing number of establishments have been appearing in the **informal sector**. The Costa Rican Chamber of Industry estimates that 84 percent of all the industrial firms established in the 1990–98 period belonged to the informal sector.

MINING. Gold is mined on the southern Pacific Coast and northwestern regions of the country. Some controversy exists as to the ecological impact of the methods employed in these extractions. Silver is also mined—though not extensively—in the western part of the country. Deposits of manganese, nickel, mercury, and sulfur exist but remain unexplored. Petroleum deposits have been identified in the southeastern region, but their exploitation has been deemed uneconomical. Salt is produced from seawater.

MANUFACTURING. Until recently, most of the country's industry consisted of small-scale light manufacturing enterprises. Intel Corporation's arrival in 1998 marked the first large-scale manufacturing venture. Coffee-drying plants, sugar mills, cheese factories, sawmills, woodworking factories, breweries, and distilleries characterize the manufacturing sector. There is a single petroleum refinery that is state owned, and several hydroelectric plants with capacity to produce close to 6 billion kilowatt hours of electricity. Factories produce petroleum products, furniture, paper, textiles, chemicals, pharmaceuticals, plastics, footwear, cigars, cigarettes, jewelry, and clothing.

About half of the 4,856 industrial firms are located in the capital, San José. Next in importance are Alajuela (20 percent), Heredia (11 percent), and Cartago (10 percent). Of these firms, 2,411 (49.6 percent) are microenterprises employing between 1 and 4 workers. There are 1,547 (31.9 percent) small industries with 5 to 19 employees, 624 (12.9 percent) medium industries, with 20 to 29 employees, and 274 large industries (5.6 percent) with 100 or more employees.

According to the Ministry of Commerce and Industry, 24 percent of all industrial establishments process foods, drinks, and tobacco; 21 percent are metal and mechanic shops; 15 percent process wood, furniture, or other wooden products; 14 percent produce textile or leather products; 9 percent are in paper and printing; and 8 percent are in chemicals, rubber, and plastics.

SERVICES

Over 50 percent of the Costa Rican workforce is employed in the service sector, producing over 60 percent of the country's GDP.

TOURISM. The most dynamic portion of the service sector is tourism. Costa Rica pioneered **ecotourism** (the practice of touring natural habitats in a manner that minimizes ecological impact). Because of its great biodiversity the country enjoys a natural advantage in this sort of activity. The number of tourists visiting Costa Rica has increased

steadily during the 1990s, at an average rate of 15 percent per year. During 1999 over 1 million people visited the country, and the Costa Rican tourist board estimates that number increased by over 10 percent in 2000. Since 1986 a flow of investment exceeding US$800 million has been devoted to developing the sector. In 2001 there were over 13,400 rooms available for tourists. In 1998 US$883 million was generated by the tourist industry. This amount was over twice the revenue generated by coffee and 1.3 times that of banana exports. The government promotes the development of tourism through the Instituto Costarricense de Turismo (ICT), or tourist board, which prepares a yearly development plan. ICT runs specialized educational facilities to train workers in hotel management and other tourism-related activities.

RETAIL. Retailers currently employ about 20 percent of the active workforce. Most **retail** firms are small to medium companies, although large discount retailers and hypermarkets have established themselves in the market during the past 2 years. There are 4 main supermarket chains—Automercados, MasxMenos, Super2000, and Perifericos—as well as a number of one-location markets of considerable size. Coverage of retail stores is limited to the Central Valley, although some have made inroads into the provinces during recent years. The oldest and largest department stores are La Gloria, with significant coverage in the Central Valley, and Llobet, located mainly in Alajuela.

FINANCIAL SERVICES. About 5 percent of the workforce is employed in financial services. The sector generates about 3.6 percent of GDP. Banking was a state monopoly until 1987, when private institutions were allowed to coexist legally with the state banks, although they were limited to offering time deposits and were not allowed to offer checking or savings deposits. Reforms in the 1990s allowed private banks to offer the entire range of financial services, virtually eliminating the previous state monopoly. The only difference that persists between private and public banks is that the latter enjoy unlimited deposit guarantee from the state whereas private deposits are unsecured. There are 3 public banks—Banco Nacional, Banco de Costa Rica, and Banco Crédito Agrícola de Cartago—which represent 41 percent of total credit, and 20 private banks which represent 35 percent of total credit (2000). Other financial institutions include a workers' bank known as the Banco Popular y de Desarrollo Comunal which is capitalized through mandatory payroll contributions from workers and employers, a public funding agency for mortgage financing known as the Banco Hipotecario de la Vivienda, savings and loan cooperatives, mutual fund companies, and finance companies. The social security fund also engages in long-term mortgage financing. Insurance is presently a state monopoly; all insurance business is handled by the Instituto Nacional de Seguros.

There is a private stock exchange, the Bolsa Nacional de Valores (BNV), which is the oldest and largest in Central America. Its current annual volume is approximately US$28 billion, but over 80 percent of the volume traded is in public instruments. Only a small fraction of this volume (under 1 percent) is in **equities**. Some international transactions are also handled through the exchange. There are 27 brokerage companies currently participating at the exchange.

There are 3 regulatory entities in the financial sector: the Superintendencia de Entidades Financieras (Financial Superintendence), regulating banks, credit cooperatives, and other financial institutions; the Superintendencia de Pensiones (Pension Superintendence), regulating pension administrators; and the Superintendencia de Valores (Securities Superintendence), regulating securities and exchanges. All 3 entities are governed by a national board or commission, the Consejo Nacional de Supervisión Financiera.

COMPUTER SOFTWARE. A burgeoning sector in Costa Rican services is the production of computer software. The National Chamber of Software Producers estimates the country currently boasts the highest number of per capita software producers in the world. About 85 percent of these firms, all nationally owned, export their products with yearly revenues of over US$50 million. The sector is estimated to have generated over 1,500 jobs in 1998. The high level of education and technical expertise available in the population favors the development of this industry, which is expected to continue growing.

INTERNATIONAL TRADE

Following a period of protectionism during the 1960s and 1970s, Costa Rica has slowly opened to greater foreign investment. The result has been an increase in import and export activity. Whereas imports and exports each barely amounted to US$200 million in 1969, in 1998 they had reached levels of US$6.2 and US$5.5 billion, respectively. The bulk of this growth occurred during the

Trade (expressed in billions of US$): Costa Rica

	Exports	Imports
1975	.493	.694
1980	1.002	1.540
1985	.976	1.098
1990	1.448	1.990
1995	3.453	4.036
1998	5.511	6.230

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

1990s. In the case of imports it took the country from 1977 to 1990 to double its import volume from US$1 to US$2 billion, but only 8 years (1990–98) to triple that level to US$6.2 billion. The main sources of these imports in 1998 were the United States (41 percent), Japan (8.1 percent), Mexico (7.3 percent), and Venezuela (4 percent). In the case of exports it took from 1980 to 1992 (12 years) to double its export volume around the US$2 billion level, but only 6 years (1992–98) to more than double again and reach US$5.5 billion. The country's main export destinations in 1999 were the United States (49 percent), the European Union (22 percent), and other Central American nations (10 percent).

This growth has been accompanied by an important shift in the composition of trade. The importance of agricultural exports has diminished in favor of industrial exports. From 1991 to 1999, industrial goods went from 49 percent to 77 percent of total exports, whereas agricultural goods fell from 51 percent to 23 percent, respectively. This shift was largely the result of policies conducted to promote direct foreign investment and stimulate exports. These investments were carried out in free zone areas and their contribution to exports grew from 22 percent in 1991 to 60 percent in 1999. During the same period, local industry reduced its contribution to exports from 27 percent to 17 percent.

This growth of exports was driven by the arrival of foreign manufacturers—most importantly, the Intel Corporation. With its arrival in 1997, free zone exports shot up by a factor of 4, from US$891 million to US$3.6 billion. The relevance of Intel's exports can be gauged by their impact on the total volume of country exports, which rose from US$4.2 billion in 1997 to US$6.6 billion in 1999.

Since Costa Rica relies heavily on imports of raw materials and **capital goods**, industrial export growth has been accompanied by a substantial growth in imports. The country has carried a deficit in its **balance of trade** for every year since 1995, except 1999. However, the deficit has shrunk from over 33 percent of total exports in 1995 to just over 7 percent of total exports in 2000. This trade deficit has been financed by foreign capital flows, which have totaled US$2.4 billion in the past 5 years. Income from the service sector, particularly from tourism, has also helped finance the trade deficit.

The country's dependence on foreign capital flows to sustain imports is one of its recognized weaknesses. Although so far it has managed to attract sufficient levels of investment through its aggressive promotion policies, its stable social and political circumstances, and its highly educated workforce, the inability to generate sufficient foreign exchange through exports alone makes the country vulnerable to changes in international circumstances. Investment attraction policies have also been criticized as expensive and fiscally unsustainable since they require substantial subsidies and tax exemptions.

Exchange rates: Costa Rica

Costa Rican colones (C) per US$1	
2001	318.95
2000	308.19
1999	285.68
1998	257.23
1997	232.60
1996	207.69

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

Costa Rica has suffered from chronic inflation during the last 25 years. Inflation rates exceeded 100 percent at the height of the debt crisis in the early 1980s, but monetary authorities have successfully managed to bring the inflation rate under control. Inflation rates at the end of the 1990s varied from 10 percent to 15 percent annually.

The country's high level of social spending generated fiscal deficits that were financed through the Central Bank. An administrative structure that provided for government control of the Central Bank allowed its easy manipulation. Although subsequent reforms granted the Central Bank more freedom from the government, it still carries the burden of high debt. Since interest payments on the public debt represent as much as 30 percent of the spending budget, total debt is increasing, requiring ever larger amounts of public funds and limiting the ability of the government to spend in other areas such as health and education. The government's inability to balance the fiscal budget has led to inflationary pressures.

The persistence of inflation has led to periodic currency **devaluation** in order to protect the competitiveness of Costa Rican exports. The government's policy aims at maintaining a neutral currency value by comparing domestic inflation to an index of international inflation rates. The goal is to maintain the local currency at its 1992 level, adjusting for inflation so that its purchasing power is neither greater nor lower than what it was at that date. Devaluation rates typically follow inflation rates, and are currently at a 10 percent to 12 percent annual level. The **exchange rate** for January 2001 was approximately 320 colones to the dollar.

Although the legal currency is the colón, dollar-denominated transactions are legal and widespread. This practice developed in the 1980s as people tried to pro-

tect themselves against inflation and devaluation. Legalization took place in the early 1990s. Convertibility of the colón to the dollar is unrestricted and can be done at every bank and financial institution. Loans and investments can be contracted in dollars, and rent contracts are typically denominated in dollars.

POVERTY AND WEALTH

Costa Rica has a large, professional middle class, and a relatively equal distribution of wealth. For the years between 1987 and 1998, the poorest 20 percent of the population held 4 percent of total income, whereas the richest 20 percent held 52 percent of total income. Approximately 9.6 percent of the population was reported under the World Bank poverty line (PPP US$1 a day) in 1998, compared to an average of 15.6 percent for Latin America and the Caribbean. The country had a per capita income (at **purchasing power parity**) of US$7,100 in 1999.

The GINI coefficient is an index of inequality that measures the distance between a perfectly equitable distribution of income and the actual distribution across the population. A coefficient of 0 entails perfect equality, and a coefficient of 1 entails perfect inequality. Costa Rica's GINI coefficient for 1996, as reported by the World Bank, was 0.4607. This compared favorably with the distribution of income for its neighboring countries: El Salvador (0.052), Guatemala (0.0596), Honduras (0.537), Nicaragua (0.503), and Panama (0.485). The United States had a GINI coefficient of 0.408.

The Economic Commission for Latin America and the Caribbean classifies countries according to the incidence of inequality as measured by 5 risk factors: urban income inequality, urban poverty, urban unemployment, percentage of youngsters between 13 and 17 that are out of school, and the percentage of children that have not completed 6 years of schooling by age 15. Costa Rica is classified as having a low incidence of income inequality, measured as a ratio no greater than 8 between the richest 10 percent and the poorest 40 percent. It is also considered to have low incidence of poverty, measured as a maximum of 20 percent of urban households classified as poor. In the other 3 categories Costa Rica is classified as having a median incidence of inequality: urban unemployment between 6 percent and 10 percent, between 8 percent and 15 percent of youngsters from 13 to 17 out of school, and between 10 percent and 20 percent of children under 15 that have not completed 6 years of schooling.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Costa Rica	2,231	2,482	2,176	2,403	2,800
United States	19,364	21,529	23,200	25,363	29,683
Mexico	3,380	4,167	4,106	4,046	4,459
Nicaragua	999	690	611	460	452

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Costa Rica

Lowest 10%	1.3
Lowest 20%	4.0
Second 20%	8.8
Third 20%	13.7
Fourth 20%	21.7
Highest 20%	51.8
Highest 10%	34.7

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Costa Rica has also been classified by the **United Nations Development Program** as a country with medium human development in the 2000 report. The Human Development Index (HDI) is a composite index that measures different aspects of development, such as life expectancy at birth, education, and income. Costa Rica was ranked 47th in the world according to the HDI report 2000.

The Costa Rican government provides a comprehensive safety net through its social security system. Although coverage is far from universal and the system is plagued by high rates of evasion, payroll taxes insure a majority of the working population and their families. There is no unemployment insurance, but the law requires employers to pay up to 8 months of severance to dismissed employees. A legal reform passed in 2000 requires employers to pay monthly contributions into pension and severance funds that will be at the disposal of employees when required. Education is mandatory and free at the primary and secondary levels, and public universities provide high quality, low cost education at the undergraduate and graduate level. High quality medical attention is available and open to all citizens in the national hospitals.

Despite these achievements certain tendencies have started to erode the benefits of social services, creating a growing gap between the higher and lower sectors of the population. The quality of private education, for example, has surpassed that of public education. Service at

public clinics and hospitals is poor, and there are long waits for medical appointments and procedures that tend to exclude those most in need. Public pensions are low and lag behind inflation. Reform efforts are underway that will attack these situations, but until they are passed, governmental authorities will continue to be challenged by these problems. Although government spending in these areas has not been reduced, critics believe that even higher amounts are required. The reforms partly hinge on this matter, but also aim at increasing the efficiency and effectiveness of administrators.

WORKING CONDITIONS

The labor force was estimated to be 1.377 million in 1998, with 5.6 percent unemployment and 7.5 percent **underemployment** (employment that does not require all the skills held by the employee). Working conditions are regulated in Costa Rica by a Labor Code (Código de Trabajo), and by administrative directives issued through the Ministry of Labor. Among the basic stipulations in effect are a minimum salary, a maximum workday with overtime stipulations, minimum safety and health requirements at the workplace, paid vacations and resting days, severance pay, a mandatory Christmas bonus, and maternity leave. Wage statistics published by the Interamerican Development Bank show that, although real minimum wages in Costa Rica fell by 1.4 percent between 1990 and 1992, they rose by 15 percent between 1992 and 1998.

Enforcement of the laws and regulation is conducted by Labor Ministry inspectors and through the labor courts. All employers are required to insure their workers against job-related injuries. Coverage is provided exclusively through the National Insurance Company (INS), and covers medical expenses, lost wages, and compensation in case of disability. Costa Rica has ratified, to date, 48 of the International Labor Organization (ILO) Conventions.

Labor unions have existed legally in Costa Rica for a long time and there are at least 4 national labor organizations or confederations: Confederación de Trabajadores Rerum Novarum (CTRN), Central del Movimiento de Trabajadores Costarricenses (CMTC), Confederación de Trabajadores de Costa Rica (CTCR), and Confederación Unitaria de Trabajadores (CUT). The influence of labor is greatest in the public sector.

During the 1990s, fiscal constraints led the government to curtail some of the privileges of public sector employees. These privileges were considered excessive and disproportionate to the benefits of workers in the private sector. Among the privileges that were discontinued were shortened workweeks, extended vacation periods, wage premiums linked to seniority and not productivity, and severance bonuses. This resulted in strikes held by public sector employees. Inability to solve the disputes led unions to process claims of labor rights violations at the International Labor Organization. During the 1990s, the ILO reports that strikes and lockouts averaged 18.5 per year, with the worst year being 1990. About 70 percent of these occurred in the public sector.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1502. Columbus lands on Costa Rica.

1522. Spanish colonizing expedition led by Gil Gonzalez Davila names the area Costa Rica, or "Rich Coast" because of the large amounts of gold given to them by the natives.

1562. Establishment of first permanent settlement, Cartago, by Juan Vázquez de Coronado "the true conqueror of Costa Rica," who acts as governor.

1821. Costa Rica gains independence from Spain, and votes to join the Mexican empire.

1823. Costa Rica joins the United Provinces of Central America, with Guatemala City as the capital.

1824. Juan Mora Fernández elected to be the first head of state. He presides over 9 years of stable progress.

1838. Costa Rica withdraws from Central American federation and declares complete independence.

1840s. Great wealth comes to several coffee growers, called "coffee barons."

1870–82. Investment in railroads and public works during the military rule of Tomás Guardia.

1871. Minor Copper Keith, the eventual founder of the United Fruit Company, comes to Costa Rica to manage production of the railway.

1873. Keith begins growing bananas to feed railway workers.

1889. Democracy established in Costa Rica.

1920–30s. Economic depression. Public calls for government reform culminate with **communist**-led strike against United Fruit Company.

1940–44. Rafael Angel Calderón Guardia continues the reformist movement as president by creating the social security system and introducing a labor code. He also founds the University of Costa Rica.

1948. A 40-day civil war kills 2,000 people; José Mariá Figueres Ferrer becomes head of the government, founds the Partido de Liberacion Nacional

(PLN), and nationalizes the banks and insurance companies. (He dies a national hero in 1990.)

1950–60s. Period of expansion in government intervention in the economy and creation of a **welfare state** and public school system.

1980. Economic crisis due to inflation, currency devaluation, high oil prices, low prices for coffee, bananas, and sugar, high costs of the welfare state, and the disruption caused by the war in Nicaragua. Costa Rica has the world's highest per capita debt.

1981–84. The United States and IMF pour US$3 billion in aid into the Costa Rican economy.

1987. Costa Rican president Oscar Arias Sanchez wins Nobel Peace Prize for his efforts to establish peace in Central America.

1990. Rafael Angel Calderón Fournier, son of Calderón Guardia and opposition leader, is elected president. He promotes reform of the tax codes.

1994. José María Figueres Olsen, son of Figueres Ferrer and Liberación Nacional leader, is elected president. He initiates policies to attract direct foreign investment in high technology.

1998. Conservative economist and opposition leader Miguel A. Rodríquez is elected president. His narrow victory at the polls leads to an experiment with "Concertación" (an effort to consult civil society on national problems), especially on the issue of privatization.

FUTURE TRENDS

Economic policy in Costa Rica will hinge upon institutional reforms that will alter the balance between the state and the private sector. Although popular sentiment is antagonistic to privatization of public companies, there is a growing awareness of the need for these companies to achieve greater efficiency and effectiveness. At the same time, the budgetary constraints faced by the country in the year 2000 are restricting its ability to invest in infrastructure, health, and education. Since future competitiveness relies on these investments, a reassessment of public finances will be inevitable.

Recent revisions of the methodology employed by the Central Bank to calculate GDP revealed that national production figures reported in past years have been understated. This has led critics to point out that the tax burden—measured by tax revenues as a percentage of GDP—in the country is inordinately low. A reform of the tax code could ameliorate the fiscal constraints of the government. Reform is also required to adjust accounting for the effects of inflation, which reduces the effective tax rates. However, these effects will probably not materialize in the short term because of the political challenges they pose.

DEPENDENCIES

Costa Rica has no territories or colonies.

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—Ludovico Feoli

CUBA

Republic of Cuba
República de Cuba

CAPITAL: Havana (La Habana).

MONETARY UNIT: Cuban peso (C$). One peso equals 100 centavos. Coin denominations include 1, 2, 3, 5, 10, 20, 40, and 100 centavos. Paper-bill denominations include 1, 3, 5, 10, 20, 50, and 100 pesos. The U.S. dollar is an important monetary unit in Cuba, owing to the Pesos Convertibles (convertible pesos) that are also in circulation in denominations of 1, 5, 10, 20, 50, and 100 dollars. The dollar and the Peso Convertible are used for most transactions. Cuban pesos, often called Moneda Nacional, have fallen into disuse, except for a few government-subsidized businesses, like bodegas (small grocery stores) selling rationed foods, public transportation, movie theaters, and peso taxis.

CHIEF EXPORTS: Sugar, nickel, tobacco, shellfish, medical products, citrus fruits, coffee.

CHIEF IMPORTS: Petroleum, food, machinery, chemicals.

GROSS DOMESTIC PRODUCT: US$18.6 billion (purchasing power parity, 1999 est.).

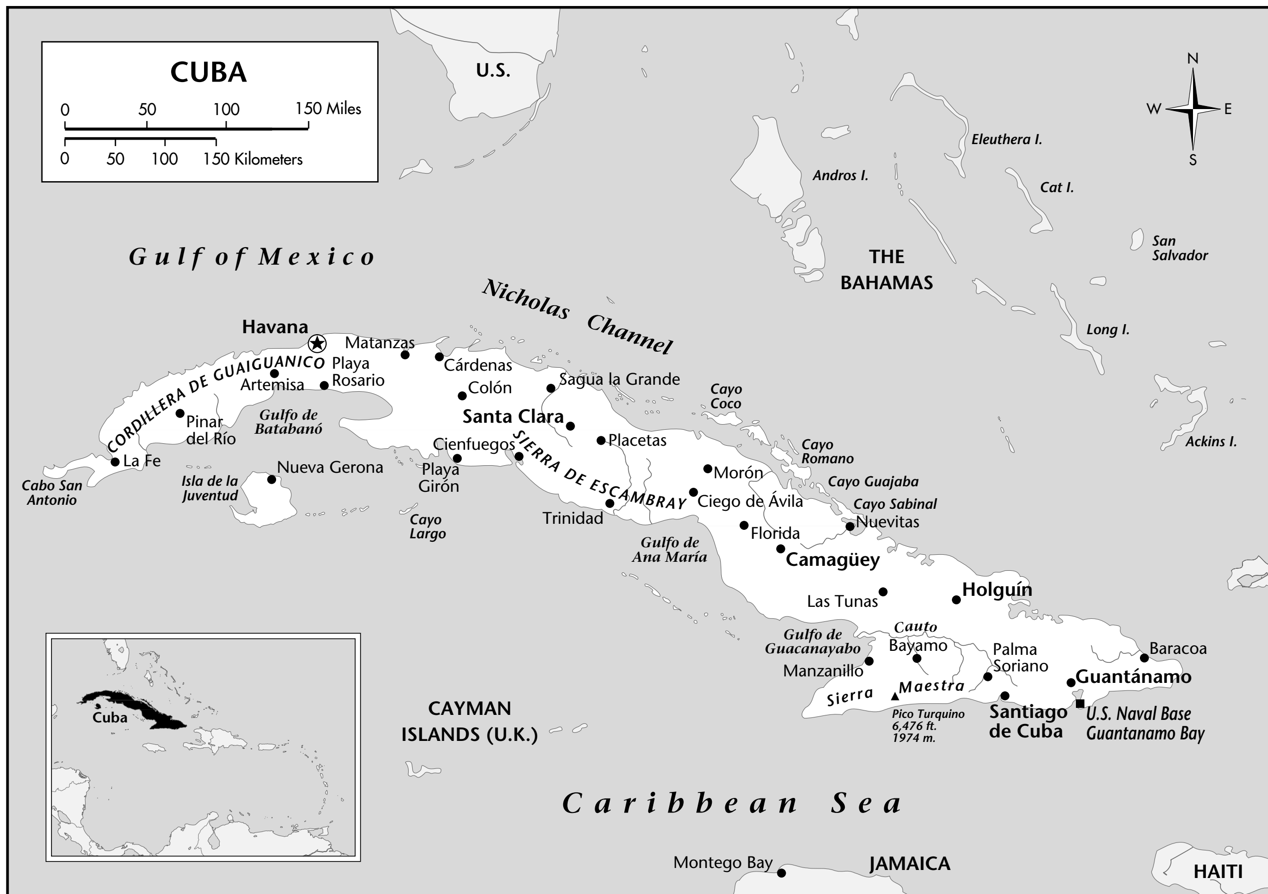
BALANCE OF TRADE: **Exports:** US$1.4 billion (f.o.b., 1999 est.). **Imports:** US$3.2 billion (c.i.f., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. An island located 208 kilometers (129 miles) south of Florida, Cuba is washed by the Caribbean Sea on the south, the Gulf of Mexico on the northwest, and the Atlantic Ocean on the northeast. Its westernmost point is separated from Mexico by the Straits of Yucatan. With 110,860 square kilometers (42,803 square miles) of total surface area, Cuba, the largest island in the Antilles archipelago, is about the size of Pennsylvania. It is 1,199 kilometers (745 miles) long, but averages only 97 kilometers (60 miles) in width. Its coastline is 3,764 kilometers (2,339 miles) long with several excellent harbors. The capital city, Havana, is located in the northwest of Cuba, almost directly south of Key West across the Straits of Florida. The second largest city in Cuba is Santiago de Cuba. Located in the eastern end of the island, Santiago was the island's first colonial-era capital (1522–89).

POPULATION. The population of Cuba was 11,131,000 in 2000, and is projected to grow to 11,481,000 by 2010. Although the population has doubled since 1950, the growth rate has slowed down considerably, and is now the lowest in Latin America. Population density is 101 people per square kilometer. Cuba is ethnically diverse; about 51 percent of the people are mulatto, 37 percent are white, 11 percent are black, and 1 percent are Chinese. The evidence of miscegenation (mating across racial lines) is prevalent, and it is easy to identify the mixing of white, black, and Chinese features. The population has increasingly darkened due to the exodus of large numbers of whites following the Cuban Revolution in 1959, which installed a **socialist** government led by Fidel Castro. Even though Cuba is a poor country, the literacy rate is high (estimated at 95.7 percent in 1995 compared to 76 percent before the revolution) thanks to the government's strong emphasis on education.

Migration to the United States has had a great effect on Cuba since 1959. Beginning immediately after the revolution, large numbers of middle-class Cubans left the island, settling largely in Miami, Florida, and other U.S. cities. As the Cuban economy worsened in the 1980s, people fled the country any way they could, many in small boats or makeshift rafts. In an incident known as the Mariel Boatlift, President Fidel Castro allowed 125,000 people to leave the island for the United States, thereby reducing the population of Cuba by 1 percent in a single day.



OVERVIEW OF ECONOMY

The Cuban economy has endured a number of upheavals over the past century. In the early 1900s approximately two-thirds of the businesses in Cuba were owned by U.S. citizens, and around 80 percent of the country's trade was with the United States. In 1959, when Fidel Castro seized the country through revolution, the reforms enacted by the socialist government confiscated most of the privately-held property in Cuba. Relations with the United States became strained, and eventually ended in 1962 when the United States placed an **embargo** (prohibition) on trade with Cuba, which continues to this day. Cuba turned to the former Soviet Union for help, and soon introduced long-range socialist state-managed planning that followed Soviet models. The Soviet Union effectively subsidized the Cuban economy by repeatedly postponing debt payment schedules, creating new credit lines, paying high prices for Cuban exports, and offering military assistance. As a result, many Cuban economic problems did not manifest themselves until the fall of the Soviet Union in 1989.

With the fall of the Soviet Union in 1989, Cuba lost more than 85 percent of its trade and once again had to search for other markets to replace this loss. The 1990s were marked by a period of economic hardship; from 1990 to 1993, Cuba's economy declined by 35 percent, causing the nation to fall into what Castro called "The Special Period in a Time of Peace." The living situation of the Cuban people became very difficult. Because the Soviets had been a source of much of the country's fuel supplies, Cuban homes and businesses suffered daily power blackouts, and the public transportation system all but stopped. Bicycles and horse-drawn carts and tractors had to substitute for motorized transport. Food became scarce, and many Cubans found themselves standing in long lines to procure rationed items or buy them from **black-market** (illegal) sources.

The inability of the state-controlled system to provide scarce **consumer goods** enabled the black market to assume a prominent role in the Cuban economy. During the 1990s, workers commonly stole goods from the state-run factories they worked in to use in their homes or to sell on the streets. As a result, the government was forced to make some drastic changes in policy. Many small in-home restaurants, bed-and-breakfasts, repair shops, etc. that had previously been considered "black market" were legalized. State control was somewhat reduced. The government divided many large state-run farms into smaller

cooperatives called Basic Units of Production Cooperatives (UBPC). While the farmers who worked for them still had to sell a certain amount of their produce to the government at set prices, they were now permitted to sell their surplus goods on the free market via *agropecuarios* (farmers' markets). The government also began to require state-run enterprises to be more efficient; any enterprise not showing a profit would be eliminated. The government also began to allow more foreign investment, creating **joint ventures** with foreign companies and eventually allowing a foreign firm to own 100 percent of an enterprise. The U.S. dollar was legalized and, by 2000, became the most commonly used currency. In 1994 Cuba reported economic growth again for the first time since 1989, a situation that has continued into the new century. It is estimated that the continuation of these reforms should contribute to a growth of 4–5 percent in the year 2001. Still, the economy is in a difficult situation, and life for the average Cuban is not easy.

An important contribution to the improvement of the Cuban economy has been the tourist industry, which was the sector reporting the greatest growth in the 1990s. In the years immediately following the revolution in the late 1950s, the Cuban government discouraged tourism, which was viewed as a source of corruption of the Cuban people and a return to what it considered the decadent years of U.S. control (1898–1958). Beginning with some changes in the mid-1980s, the tourist industry is now viewed as an important way for Cuba to support itself while maintaining many of the reforms that had been instituted under the socialist system.

Besides tourism, important export sectors of the Cuban economy are agriculture, especially sugar, coffee, and tobacco crops, and nickel mining. Because of its long-term reliance on a single crop—sugar—the economy has often suffered when world sugar prices have been low. Petroleum is Cuba's most important import. In the 1980s, Cuba received most of its oil from the Soviet Union, a supply that dropped by 50 percent between 1990 and 1992, causing widespread energy problems that severely stunted Cuba's agricultural and industrial production. Cuba responded by reducing its energy use, as by cutting back on gasoline-powered vehicles and by imposing daily blackouts throughout the island. Cuba continued to get much of its reduced oil supplies from Russia, but was required to pay market prices instead of the lower prices that the USSR had traditionally charged Cuba as a gesture of solidarity. By 2000, Cuba was buying its oil at market prices from Venezuela, Russia, and Mexico.

Cuba had an enormous burden of unpaid **external debt** totaling more than US$10 billion by 1999. Cuba has repeatedly refinanced these debts but was forced to suspend interest payments in 1990 due to extreme economic conditions. Because of its poor credit, Cuba has been unable to obtain international loans that would enable it to buy many of the imports it needs. As the Cuban economy improved into the late 1990s, the country did receive more foreign aid. Although Cuba has not yet been approved to receive funds from either the International Monetary Fund or the World Bank, it has received money from various United Nations organizations, but the amounts have been low in comparison to those received by other Latin American countries: US$44 million ($4 per person) in 1993, and US$80 million ($7 per person) in 1998.

POLITICS, GOVERNMENT, AND TAXATION

According to the Cuban constitution, Cuba is an independent socialist republic that is controlled by 1 party: the Cuban Communist Party (PCC), of which Fidel Castro is the head, with his brother, Raul Castro as vice-president. The Communist Party is led by a group of 25 individuals chosen by its head. Molded by this elite group of communists are organizations that encompass every facet of society, including youth, women, workers, and small farmers, among others. Around 80 percent of the population has membership in at least one of these organizations. This network ensures that the agenda of the Communist Party is disseminated (communicated) to the masses.

Fidel Castro, the commander-in-chief of the Cuban Republic, heads both executive bodies of the nation's government, the Council of Ministers, and a Council of State. His brother, Raul Castro, serves as first vice-president of these 2 bodies. The members of the Council of Ministers are proposed by the president of the Council of State and ratified by the National Assembly. The members of the Council of State and its president and vice-president are elected by the National Assembly. At the last election in 1998, Fidel Castro and Raul Castro were elected unanimously. The next elections have not been scheduled.

The National Assembly is the legislative body of the Cuban government. The Assembly is composed of 601 members whose terms last 5 years. For these positions, the Council of State nominates candidates, who are then subject to a direct vote by the Cuban people. The National Assembly also elects the Judicial Branch. On the local level, members of Municipal Assemblies are chosen by direct local election. Local government is closely overseen by the Communist Party. As is evidenced by Fidel Castro's almost complete control over decision-making, most policies are the direct result of his personal desires.

The Cuban governmental structure is heavily bureaucratic (organized into many agencies). Until 1993,

the Central Planning Board (JUCEPLAN, or Junta de Planificación Central), was responsible for economic planning. After 1993, in a move to create greater efficiency and to decentralize, different sectors of the economy became the responsibility of various ministerial bodies, including the Ministry of Tourism, the Ministry of Science, Technology, and the Environment, the Ministry of Industry, the Ministry of Sugar Planning, and the Ministry of Foreign Investment and Economic Cooperation, among others.

The economy is largely state-controlled, with 75 percent of the **labor force** employed by the government. Therefore decisions that are made within each of these state-run ministries have a great impact on the economy and on the individual. The Cuban people have very little influence over government policies, most of which are directly handed down from the upper echelons of government. Over the years, Fidel Castro has proved himself somewhat whimsical in his approach to long-term economic planning. Many economic policies are the direct result of his attempts to maintain his tight control on the Cuban population through economic means.

Interestingly, the military has been on the cutting edge of the **restructuring** of Cuba's economy. Since the 1980s, the government has been unable to support the armed forces, forcing the Ministry of the Armed Forces (MINFAR) to become almost completely self-supporting. MINFAR started a tourist company, a construction company, and an agricultural project to grow its own food. The CIA estimated that military expenditures constituted only 4 percent of the **gross domestic product** (GDP) by 1995.

Taxes do not constitute a large part of the government's revenues. Taxes were first introduced in 1994 as a method of controlling earnings from the burgeoning small-business sector. It was based on a flat-tax system with rates fixed at different levels for different businesses. By 2001, a more formalized system of **income taxation** was in the planning stages, one that might provide a large share of federal revenues in the future.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Cuba's **infrastructure**, power system, and communications are all in need of improvement. In 1959 Cuba was one of the most advanced countries in Latin America, but much of the infrastructure has not been updated since the revolution. For example, many of the 29,800 kilometers (18,476 miles) of roads that were listed as paved in 1996 were done so before 1959, and have not been maintained. The original pre-Revolutionary water and sewerage systems were installed using U.S.-made equipment, for which replacement parts are unavailable due to the U.S. trade embargo. Of the 170 airports in Cuba, only 77 had paved runways.

As an island Cuba's ports and harbors are especially important. Cuba's 7 main ports and harbors included Cienfuegos, Havana, Manzanillo, Mariel, Matanzas, Nuevitas, and Santiago de Cuba. The country's merchant marine fleet comprised 15 ships: 1 bulk, 7 cargo, 1 liquefied gas, 1 petroleum tanker, and 5 refrigerated cargo.

Communications systems have seen little change. In 2000 Cuba had about the same number of phone lines as in 1959. There were 353,000 main lines in use and 1,939 cellular phone contracts in 1995. At the same time, Cuba had only slightly more electrical lines, and fewer automobiles on the road (24 cars per 1,000 inhabitants in 1959 as opposed to 23 per 1,000 in 1988) than it did before the revolution. Many of the cars on the road in 2000 dated back to the 1950s. Public transportation was inefficient and overcrowded, and private transportation was difficult because of the lack of available spare parts and the general lack of fuel. Vehicle owners regularly used their cars as a taxi service, commonly charging a small fee to people who need rides. Very few people had access to computers. There were some in government of-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Cuba	118	353	239	0.0	0	N/A	N/A	0.06	35
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Mexico	97	325	261	15.7	35	3.0	47.0	23.02	1,822
Jamaica	62	480	182	73.1	22	N/A	39.4	1.04	60

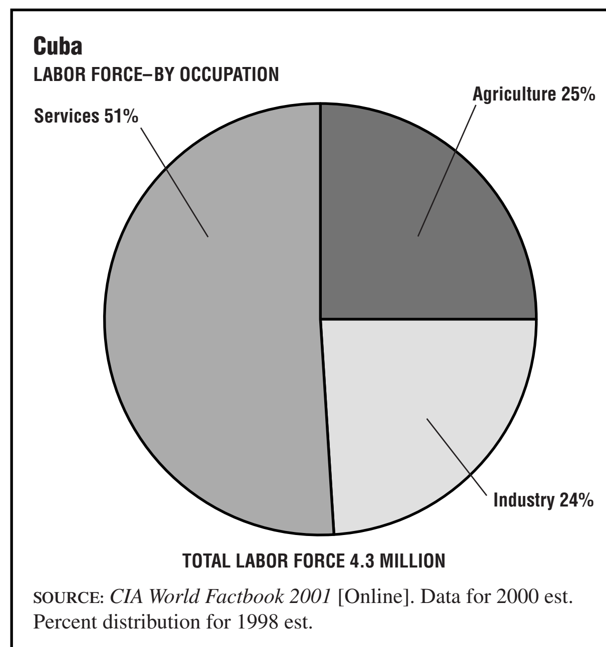
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

fices and few in the universities. By 1999 Cuba had 1 Internet service provider.

Cuba produced 15 billion kWh of electricity in 1998 and consumed 14 billion kWh. Cuba did not use nuclear plants to generate any of its power, but was working toward that goal, and is predicted to have the ability in 2005, according to the Energy Information Administration of the United States.

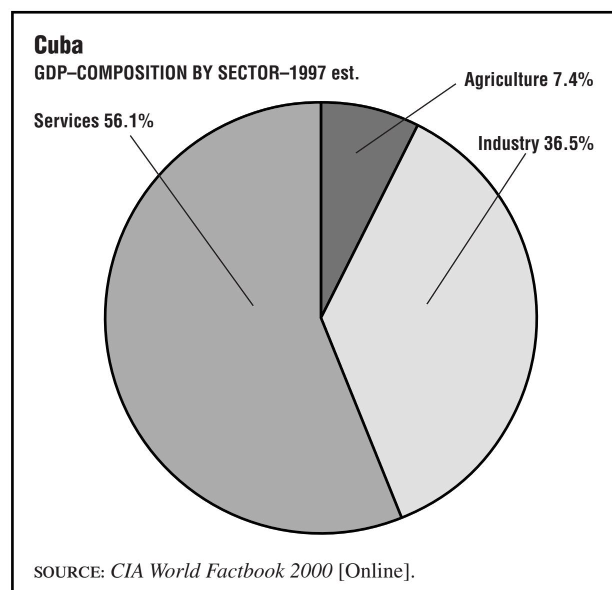


SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1998 est.

ECONOMIC SECTORS

Cuba's important economic sectors are related to its tropical climate, island location, and fertile soils. The sectors that annually contribute the most to the Cuban GDP are tourism (30 percent, US$5.6 billion), construction (20 percent, US$3.7 billion), agriculture, hunting, and fishing (17 percent, US$3.16 billion), and industry (37 percent, US$6.9 billion), according to *Cuba: Informe Económico* in 1996. All of these sectors experienced considerable growth in the latter part of the 1990s as a result of a restructuring of the economy, foreign investment, and new trading partners. Tourism is slated for the most growth in the coming years because it is one of the most attractive sectors for foreign investment.

Compared to worldwide production, Cuba's output of its most important products is relatively small. World production of sugar is 130 million metric tons, and Cuba produces only 3 to 5 million metric tons, still a considerable amount for the size of the island. Cuba experienced a 50 percent drop in sugar production between 1993 and 1994 due to the inability to procure the necessary fuel, fertilizers, and other agricultural products, and bad weather. Again in 1997 and 1998, lack of capital and inefficiencies caused the harvest to suffer, which barely reached the 50-year low of 3.3 million tons. Other countries that produce more sugar are the United States, Brazil, Mexico, India, and Australia.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agriculture has always played a very important role in Cuba's economy. The country's fertile plains and tropical climate are excellent for citrus, tobacco, and sugar production. Cuba also has fertile, mountainous zones where coffee is produced. Some 2,600,000 people, or 23 percent of the labor force, are employed in agriculture. The most important crops have always been sugar and tobacco, but Cuba also produces coffee, potatoes, tomatoes, rice, beans, onions, and citrus fruits, though not in exportable quantities. Still, Cuba imports more than 60 percent of its agricultural food products.

SUGAR. Sugar is Cuba's most important agricultural product. Cuba's economy has always been linked to the world price of sugar. After the Revolution of 1959, the Castro government unsuccessfully tried to change Cuba's monoculture (dependence on a single crop). When the United States revoked its annual sugar quota, the Soviet Union assumed the shortfall and the makeup of Cuba's exports did not change. In 1959, 75 percent of Cuba's export dollars came from sugar, a proportion that had increased to 80 percent by 1989. Production rose from an average of 5 million tons per year in the 1970s to an average of 7.5 million tons per year in the 1980s. After the collapse of the Soviet Union, the Cuban sugar harvest fell to a 50-year low of 3.3 million tons as a result of a loss

of fuel, fertilizer, herbicide, and machinery imports. In 1993, the Cuban government began to reorganize the industry. Traditional agricultural methods were encouraged, large farms were broken up into smaller cooperatives, and foreign investment was courted. Difficulty obtaining needed resources caused sugar production to remain low at the end of the century.

TOBACCO. Tobacco is an important Cuban product, and Cuban cigars have long been highly esteemed around the world for their excellence. With the exception of Greece, Cuba dedicates more land to tobacco production than any other country in the world. Cuba also has the lowest yield per hectare than any other country because of its inefficient agricultural sector. Despite this, Cuba's tobacco production is growing. In 1 year alone (from 1994 to 1995), production grew by 52 percent, a trend that continues as a result of foreign investment from Spain, the distribution of lands to small farmers, and increased international marketing.

INDUSTRY

In total, industrial production accounted for almost 37 percent of the Cuban GDP, or US$6.9 billion, and employs 24 percent of the population, or 2,671,440 people, in 1996. Cuban industry encompasses sugar, petroleum, and food processing; the manufacturing of textiles, chemicals, wood, paper and tobacco products, cement, fertilizers, and agricultural machinery; and the extraction of metals. Only in mining and sugar processing does Cuba contribute a noteworthy portion of the world's production.

SUGAR PROCESSING. Although productive and profitable until the early 1990s, the sugar milling and refining industry faced difficult times after the decline of the Soviet Union. By 1999, 50 of the 156 sugar mills in Cuba were closed due to their inability to obtain needed cane to process or because they could not repair their aging machines.

MINING. Cuba has 25 percent of the world's high-quality nickel deposits located on its northeastern coast, the highest concentration in the world. Cuban nickel is inexpensive to extract because there are few environmental controls and wages are low. In 1997 nickel and cobalt brought US$350 million into the Cuban economy. Nickel production grew from 25,787 metric tons in 1994 to 65,300 metric tons in 1998. The increase has been substantial as a result of joint ventures between Cuba and foreign governments. Mining has played an important part in the recovery of the Cuban economy in the second half of the 1990s, although the world price of nickel has dropped.

MANUFACTURING. Cuba manufactures a variety of industrial goods including televisions, refrigerators, pharmaceuticals, and cell phones. This does not contribute a large portion of the GDP, and Cuba is forced to import most of its manufactured products.

BIOTECHNOLOGY. Cuba has prioritized biotechnology over the past 40 years and, due to a highly educated population, has been able to focus on research in a relatively inexpensive manner. This industry has produced approximately 200 pharmaceuticals, including a drug used to treat AIDS and the hepatitis B vaccine. In 1996, the value of Cuban pharmaceutical production was US$4.25 million, and the value of pharmaceutical exports was US$2.5 million. In the late 1990s this sector accounted for only 5 percent of Cuba's earnings, but the Cuban government hoped to further penetrate the world market.

SERVICES

TOURISM. Tourism has recently become Cuba's biggest growth industry. Having produced US$5.6 billion in 1996, it topped sugar as the country's greatest **hard-currency** earner. The tourist industry employs 1,109,000 people, or 10 percent of the population. Cuba's pristine, white-sand beaches and tropical climate make it a vacation paradise. Cuban tourism officials estimate the number of available rooms in Cuba reached 50,000 in 2000, bringing the island's annual capacity for tourists to 2.5 million. Since Cuba has only prioritized the tourist industry for the last fifteen years, it is lacking in the efficiency and comforts that many tourists expect, but is working to improve its services.

RETAIL. Cuba has a very poorly developed **retail** sector. There are no large shopping centers and the commercial districts that existed before the revolution are largely shut down. Those that remain carry few and poorly made products that are priced in dollars and are too expensive for the average Cuban to purchase. The majority of the stores are small dollar stores, bodegas, agro-mercados (farmers' markets), and street stands.

INTERNATIONAL TRADE

Before 1959, the United States was Cuba's most important trading partner, a natural development due to its geographic proximity. That relationship ended in 1960 with the U.S. trade embargo. Cuba then courted the Soviet Union and its Eastern European allies to become its primary trading partners. Due to the strict economic organization of the Communist system, only 50 Cuban companies were allowed to participate in foreign trade until 1987. After the fall of the Soviet Union in 1989, Cuba was soon trading with a number of countries, including Spain, France, Italy, Mexico, Canada, Russia, the Netherlands, and Venezuela. About 40 percent of Cuba's trade is within the Americas and 50 percent is with Europe. Main imports include fuel, food, semi-finished

goods, wheat, vegetables, machinery, feed, and corn. Main exports are sugar, fish, nickel, medicinal products, and fruit. Cuba has consistently faced an unfavorable **balance of trade**; in 1999 imports were valued at US$3.2 billion and exports at US$1.4 billion. This situation places Cuba in a dependent position, unable to earn hard currency and reliant on other countries for vital goods.

MONEY

As the Cuban state has experienced a growth in demand for wages, social security, and **subsidies**, there has been a severe shortage of imported products, food, and other goods. Cubans often had to stand in long lines to procure a limited supply of food products. Many necessary items could not be obtained with pesos and were available only on the black market with U.S. dollars. **Inflation** resulted because the government kept printing more pesos though there were few goods available. In order to restore the value of the peso, a program was initiated to reduce the excessive amount of money in circulation. As part of this program, the government increased the prices of many consumer goods and services, enacted a new tax law, and ended subsidies to businesses that were not viable (economically successful). While these measures increased the difficulty of daily living for the average Cuban, they have gradually restored the value of the peso. Though the official **exchange rate** of the Cuban peso to the U.S. dollar is 1:1, the real exchange rate within the country has dropped from 120 pesos to the dollar in 1994 to 20 to the dollar in 1998.

Before 1993, the U.S. dollar, although illegal, was used widely on the black market. In 1993, the dollar was legalized and Casas de Cambio, (houses of exchange) were established to exchange pesos and dollars. Cuba has created a dual system—a dollar economy and a peso economy—that has certain places where pesos can be used and others where dollars only are accepted.

Exchange rates: Cuba

Cuban pesos per US$1	
Jan 2001	1.0000
2000	N/A
1999	N/A
1998	N/A
1997	N/A
1996	N/A

Note: Nonconvertible, official rate, for international transactions, pegged to the US dollar; convertible peso sold for domestic use at a rate of 1.00 US dollar per 22 pesos by the Government of Cuba (January 2001).

SOURCE: CIA *World Factbook 2001* [ONLINE].

Since 1993, foreign banks had been allowed to do business in Cuba to supply such financial services as insurance, foreign commercial investments, and savings accounts. In 1997, a new central bank, the Banco Central de Cuba, was created to supervise and regulate Cuba's growing banking sector. The old bank, Banco Nacional de Cuba, had performed both the roles of central bank and state-owned commercial bank, but would now operate only as a commercial bank. Nevertheless, a very narrow sector of the Cuban population requires banking services. Very few people earn enough money to be able to invest or save. Those who do are able to earn dollars or receive money from family members in other countries. Cuba has no stock exchange.

POVERTY AND WEALTH

By some measures, Cuba is the most socially egalitarian of the world's nations. Apart from some governmental and military officials, the highest salaries in the country are only 4 times the amount of the lowest salaries. This situation is changing rapidly toward greater inequality; although definitive statistics are not available, there is a great discrepancy between the earning capacity of those in contact with dollars and those without. When Fidel Castro's socialist government came into power, it inherited a social situation similar to most other Latin American countries. There was a small but very wealthy class of landowners and government officials, and large numbers of impoverished peasants in the countryside and poorly-paid urban workers. Havana, on the western end of the island was a wealthy, developed urban center while most of the island was undeveloped, rural, and poor. Most Cubans were uneducated (3 out of 4 were illiterate), and modern health care was not available to them. Castro focused his policies on destroying the middle and upper classes and eliminating the abject poverty of the lowest classes. In some ways he was successful. He confiscated the large landholdings and companies of the very wealthy, causing much of the upper class to flee the country. In **nationalizing** most of the

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Cuba	1,480	1,540	1,560	1,700	1,700
United States	28,600	30,200	31,500	33,900	36,200
Mexico	8,100	7,700	8,300	8,500	9,100
Jamaica	3,260	N/A	3,300	3,350	3,700

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

businesses in Cuba he placed the state in control of the economy, thus allowing it to control wages for all positions. A wage scale was established that had only 4 levels from top to bottom. In 1960, rent prices were established at 10 percent of one's salary. State funds were diverted away from Havana and funneled into the countryside. The state provided or subsidized food, medical care, funerals, transportation, vacations, and other consumer goods.

During the period from 1959 to 1989, the state was also relying heavily on assistance from the Soviet Union (see Overview of Economy). When the Soviet Union was no longer able to help, the **recession** of the early 1990s forced Cuba to change its policies. It loosened control of the markets, allowed people to own their own businesses, allowed foreign ownership within Cuba, encouraged tourism, created a tax system, and legalized U.S. currency. Income inequality has resulted; those who are on a fixed income from the Cuban state are earning far less than those who have contact with U.S. dollars. For example, a doctor might earn 40 dollars a month, while a taxi driver might receive 40 dollars a week in tips.

The Cuban state still provides free education from primary school through the university level, an ironic situation given the difficulties of finding employment after graduation. If a job is available, it will pay less than a job as a waiter or taxi driver. Medical care is also free, and Cuban hospitals do remarkable work considering the available resources; however, people often die from curable diseases simply because the medicines required are unavailable.

While traditionally the rural poor have struggled more than the urban poor, it was easier for the rural poor to maintain a healthy diet during the economic difficulties of the 1990s because of their proximity to farms and their ability to plant small plots of land with fruits and vegetables.

Housing has been a particularly difficult situation in Havana under the Castro government. In the 1990s, the housing deficit grew by 20 percent per year. Out of 2.6 million units of housing in Havana, almost 1 million are in a substandard condition. Most buildings in the city have not been properly maintained since 1959, and little new construction has taken place.

WORKING CONDITIONS

In the early 1900s Cuba experienced a great deal of labor unrest, with strikes and labor slowdowns being commonplace. When Fidel Castro's revolutionary government came into power in 1959 there was great pressure for change from Cuban workers, some 2 million in number, most of whom were living in difficult conditions due to low wages that made it impossible for them to afford expensive consumer goods and high rents. Workers also lacked health care, access to education, retirement benefits, and vacations. The government complied with the workers' demands; labor contracts were renegotiated, wages were raised, rents were lowered, and the unemployed were given jobs. Many of the most marginalized (poorest) people saw immediate and real benefits giving them a sense of security, gratitude toward the revolution, and hope for the future.

These changes were short-lived, however. Many of the laws that were enacted in 1959 to benefit workers were repealed as early as 1961. Since that year, the revolutionary government fixed wages at a low level, which today are the lowest in the Western Hemisphere, averaging 100–400 pesos (US$5-$20) a month. The worker has been constantly asked to sacrifice for the survival of the revolution. Cuba has a workweek of 48 hours, and workers have been asked to give volunteer time to building projects, education, and harvesting. The only legal workers' union in Cuba, the CTC, is an arm of the Communist Party. It is not legal to strike, and there is no collective bargaining. As a result, the International Labor Organization has condemned Cuba for violations of human rights.

Some Cubans depend on the security net of health care, free education, and social security as motivation to work hard in government-run enterprises, but large numbers of Cubans are unhappy with the difficult conditions. Due to the fact that Cuban workers have had no legal recourse to address the work conditions, many have reacted by decreasing their productivity, sabotaging production, or by stealing products to sell on the black market.

Since the beginning of the revolution, the stated goal of the Cuban socialist state has been **full employment**. It has been relatively successful only on a superficial level. Because the Cuban state has owned almost every enterprise on the island, it has been nearly the sole employer. Even foreign companies that operate in Cuba are required to pay Cuban workers' salaries in dollars to a state organization called CUBALSE (Cubans at the Service of Foreigners). The Cuban state then pays its workers in pesos, at a rate that shortchanges the employee.

In order to keep low unemployment rates, in the past, the Cuban state did not require businesses to earn a profit. Many employees were kept on the payroll even though they were unnecessary to the business. Because of this, a high percentage of the companies in Cuba were continually losing money. The state continued to subsidize those businesses, keeping them functioning at a loss. In the economic crisis of the early 1990s, the Cuban leadership was forced to rethink these practices. Downsizing of these bloated enterprises was one of the first policies enacted to restructure the Cuban economy. Employees

who were unnecessary were dismissed, and companies were required to earn a profit. Unemployment increased, but the levels are uncertain because there are no reliable unemployment statistics available for Cuba. However, due to the legalization of the dollar combined with the growth of tourism, and the fact that it is difficult to live on the official government salaries, many people are choosing to work in the **informal economy** or start their own small enterprises. Positions that bring an individual in contact with tourists can often yield far greater monetary rewards.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1492. Christopher Columbus claims Cuba as a Spanish possession.

1538–60. Cuba is constantly under attack by French and English smugglers and pirates. The Spanish authorities create the flota system; a group of armed ships that made each voyage to and from Spain in order to protect their imports and exports.

1717. Spain establishes a tobacco **monopoly** called a Factoría, which incites rebellions of tobacco farmers against the Crown.

1740. Spain establishes the Real Compañía de Comercio in order to control and monopolize Cuban trade and commerce.

1762–63. The English occupy Havana for 10 months and change the laws in order to allow Cuba to enter the international market instead of being controlled by the Spanish Crown's monopoly.

1776. As a result of the American Revolution, trade increases between the United States and Cuba.

1778. A free-trade decree by the Spanish Crown gives Cuba open access to trade with Spain and Spanish colonies.

1789. A Spanish royal decree authorizes a free trade in slaves.

1791. Due to a slave revolt in the French colony of St. Domingue, many coffee and sugar planters move to Cuba and greatly expand Cuba's production in these areas.

1817. Spain and England agree to end the legal slave trade in Spanish colonies by 1820.

1837. A railroad is built in Cuba, which reduces the cost of transporting sugar.

1868–78. The Ten Years' War, with the goal of freeing Cuba from Spain, breaks out in the eastern part of Cuba. The revolt fails when the rebels are unable to seize power in the western portion of the island.

1895–97. The Cuban War for Independence succeeds when Spain grants the island autonomy in October of 1897.

1898. After the U.S. intervention in the Spanish-American War, the Treaty of Paris is signed, which transfers sovereignty over Cuba to the United States. The United States occupies Cuba militarily until 1902, at which point Cuba is granted autonomy and becomes the Republic of Cuba. This begins a period of heavy commerce between Cuba and the United States.

1920. The price of sugar jumps to 22.5 cents per pound, and then collapses to 3.7 cents. The Cuban economy enters a period of depression and chaos.

1953–59. Fidel Castro leads a revolution that ousts the Cuban dictator Fulgencio Batista, who flees Cuba for Miami with considerable wealth. Upon his departure, Castro installs a socialist government.

1960. Cuba and the Soviet Union re-establish relations. Cuba begins to nationalize U.S. properties. In retaliation, the United States cuts the amount of sugar it will buy from Cuba. In October, the United States imposes a trade embargo on Cuba that remains in force as of 2001.

1961. The United States and Cuba terminate diplomatic relations. The United States is embarrassed over its failure to offer effective support to Cuban exiles attempting to overthrow Castro in the Bay of Pigs invasion.

1962. Tensions rise as the United States confronts the Soviet Union over its installation of missile sites in Cuba.

1990–91. With the fall of the Soviet Union, which had accounted for 85 percent of its trade, Cuba enters the "Special Period in a Time of Peace," a period of economic restructuring marked by food and fuel shortages and energy blackouts.

1992. The U.S. Congress passes the so-called Torricelli Bill, which encourages people-to-people exchange between Cuba and the United States. The United States hopes to encourage dissent by putting the Cuban populace into contact with democratic ideas.

1993. Cuba legalizes the U.S. dollar as a medium of exchange, and permits Cubans to engage in some forms of self-employment.

1994. Cuba adopts a new system of taxation and opens all sectors of its economy to foreign investment except public health, education, and national security.

1995. The Cuban National Assembly allows foreign investors to wholly own businesses in Cuba.

1996. The U.S. Congress passes the Helms-Burton law, strengthening its embargo by allowing prosecution of foreign businesses for doing business with Cuban businesses that were previously owned by the United States.

FUTURE TRENDS

The future of the Cuban economy is not easy to predict. The government of Cuba has no clear-cut long-term plan. While the reforms and restructurings of the 1990s have been thought to indicate a desire to slowly restore **capitalism**, the Cuban government insists that these changes are only survival techniques and that they have not given up on the socialist project begun more than 40 years ago. Questions remain whether Cuban leaders will resign themselves to becoming a capitalist economy or, if not, what new forms its economy might take. If present trends continue, the Cuban economy will continue to grow steadily.

For the Cuban people, the dream of total socialism can no longer be sustained. It is apparent that most Cubans do not want a society that has a completely market economy. The majority of Cubans would like to keep alive the social goals of the revolution: free or inexpensive health care for everyone, education, and social security, while allowing market forces to have a greater role in the economy, allow more private property, encourage self-employment, and change the Cuban system to allow it to interact more easily within the international marketplace.

In terms of the future of political leadership, it is likely that Fidel Castro will be succeeded by someone from the upper echelon of leadership closest to him. It is therefore unlikely that Cuban policies will change in the near future, and it is likely that relations with the United States will remain hostile through the transition of power to a new generation of leaders.

DEPENDENCIES

Cuba has no territories or colonies.

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—Amy Lang-Tigchelaar

DOMINICA

Commonwealth of Dominica

CAPITAL: Roseau.

MONETARY UNIT: Dominica's currency is the Eastern Caribbean dollar (EC$). One EC dollar equals 100 cents. There are coins of 10, 20, and 50 cents. Paper money comes in bills of 1, 5, 10, and 20 dollars.

CHIEF EXPORTS: Bananas, soap, bay oil, vegetables, grapefruit, oranges.

CHIEF IMPORTS: Manufactured goods, machinery and equipment, food, chemicals.

GROSS DOMESTIC PRODUCT: US$225 million (1998 est.).

BALANCE OF TRADE: **Exports:** US$60.8 million (1998). **Imports:** US$120.4 million (1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. Dominica is an island located between the Atlantic Ocean and the Caribbean. Its total area is 754 square kilometers (291 square miles), making it the largest of the English-speaking Windward Islands, and it is slightly more than 4 times the size of Washington, D.C. Its coastline measures 148 kilometers (92 miles), and its capital and main urban center, Roseau, is located on the southwest coast.

POPULATION. Dominica's population was estimated at 71,540 in mid-2000, marking a decline of 1.14 percent from the preceding year and a fall from the official mid-1998 estimate of 73,000. The decline in population, despite relatively high life expectancy and a birth rate of 18.27 per 1,000 population, is mostly due to a high degree of migration, estimated at 22.39 migrants per 1,000 population in 2000. Migration is largely caused by lack of work opportunities, and Dominicans are to be found working in other Caribbean islands (notably the French overseas departments), the United States, and, to a lesser degree, the United Kingdom. At current rates of population decrease, Dominica could have only 65,000 inhabitants by 2010. The death rate is Dominica is 7.3 per 1,000.

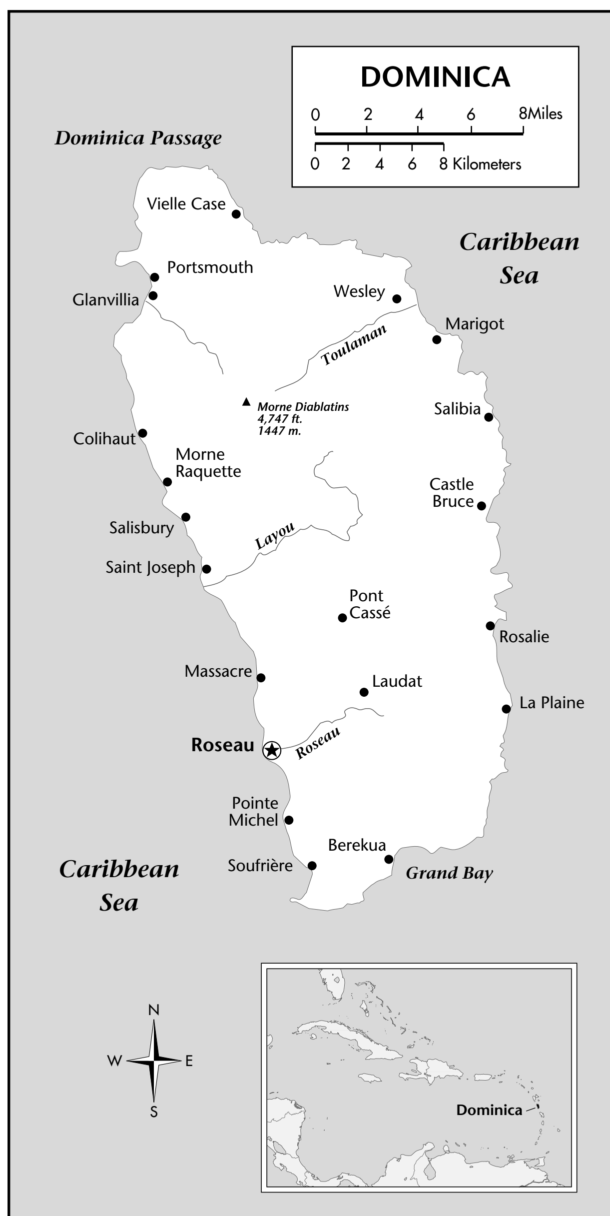
The island's mountainous landscape means that its population is mostly clustered along the coast. About 30 percent of Dominicans live in the parish of St. George, in or around Roseau, while the volcanic interior is very sparsely inhabited. Generally, Dominica is not densely populated, and its population is by regional standards evenly distributed between age groups. Islanders aged 14 and under make up 29 percent of the population, while 63 percent are between 15 and 64 years old. The remaining 8 percent includes those 65 and older. Approximately 90 percent of Dominicans are of African descent, and the island is also home to some 2,000 descendants of the indigenous Carib population. A small minority of these Caribs are the last surviving descendants of the Caribbean islands' pre-Columbian peoples and live in a 3,700-acre reservation in the northeast part of the island.

English is the official language of Dominica, and the literacy rate is 94 percent. Nearly 80 percent of the citizens are Roman Catholic, with Protestants making up 15 percent, and the remainder spread among several other Christian and non-Christian faiths.

OVERVIEW OF ECONOMY

Dominica is the poorest and least developed of the Windward Islands. Its economy is mainly dependent on agricultural exports, especially bananas. The island's exceptionally mountainous landscape prohibits much cultivation. The island is also vulnerable to hurricanes. Even so, agriculture is the main source of employment and income revenue, and remains much more important to Dominica than to other Caribbean islands. As a result, the threatened removal of preferential access for Dominican banana exports into the European market is potentially disastrous for the island's economy.

Tourism has been slower to develop in Dominica than elsewhere, largely because the island has few white



sand beaches (the most popular type of beach) and has no international airport. Since the 1990s, however, it has developed a reputation as an "**eco-tourism**" destination, capitalizing on its spectacular natural beauty and wealth of plants and wildlife. The government has also sought to increase the numbers of cruise-ship visitors, and this sector of the tourism industry has grown substantially since the mid-1990s. The problem remains of balancing the need for increased tourism with protection of the island's unique and vulnerable eco-system.

Manufacturing is not developed in Dominica, but it is able to take advantage of locally generated hydroelectricity. The most successful venture is a large soap production facility, controlled by the U.S. Colgate-Palmolive corporation, which exports soap manufactured from local coconuts. This, together with other agricultural-processing activities, faces stiff competition from other Caribbean manufacturers. There is relatively little manufacturing aimed at the U.S. export market, as Dominica's limited **infrastructure** is unsuitable for large volumes of exports.

In an attempt to reduce dependency on banana exports, Dominica's government has tried to establish the island as an offshore financial center, offering tax-exempt status to banks, insurance companies, and other International Business Companies (IBCs). So far, a small number of IBCs have established themselves on the island. Of concern to critics of the system is the availability of "economic citizenship" to investors, which enables foreign residents to acquire a Dominican passport in return for a minimum investment in the island. The U.S. State Department has expressed concerns about **money laundering** and other illegal activity in connection with this initiative.

Despite attempts to broaden its economic base, Dominica remains critically dependent on agricultural exports and especially on the threatened banana trade. The resulting uncertainty from this trade has fueled migration since the mid-1990s and led to a decline in production and exports. Rural poverty is a large problem, and economic growth has faltered in recent years due to the banana crisis and natural disasters.

POLITICS, GOVERNMENT, AND TAXATION

Upon gaining independence in 1978, Dominica established a single-chamber parliament under its constitution. The House of Assembly has 21 elected and 9 appointed members. The parliament elects a president, who acts as head of state and elects the prime minister and the cabinet. The country is split into 10 administrative districts, called parishes. Each is named after a Roman Catholic saint.

In the immediate aftermath of independence from the United Kingdom in 1978 Dominica witnessed considerable political turbulence. Stability took hold between 1980 and 1995, when the Dominica Freedom Party (DFP), led by Eugenia Charles, won 3 consecutive terms in office. After a victory by the United Workers Party (UWP) in 1995, the Dominica Labour Party (DLP) and DFP formed a coalition government in early 2000. The sudden death of DLP leader and prime minister Rosie Douglas in October that year led to former minister of communications and works, Pierre Charles, taking over the position of prime minister.

The DLP has been traditionally more left-wing in outlook than the conservative DFP, which has favored strong links with the United States and a robust, pro-business approach to government. The coalition government of 2000 was hence a pragmatic response to the popularity of the UWP, which draws much of its support from the island's banana farmers. In reality, there are few major policy differences between the 3 main parties, with all supporting the beleaguered banana industry and encouraging diversification and direct foreign investment. The main political difference between the DLP-DFP coalition government and its UWP predecessor has been the decision to abandon plans for a new airport and hotel development in the northeast on the grounds of cost and environmental impact.

The government has a direct impact on Dominica's economy as a large employer and because it establishes the legal and regulatory framework for foreign investment. It raises revenues through a mixture of **income tax**, **indirect taxes**, and fees levied on offshore companies. In July 2000, the government announced that it would replace most existing indirect taxes levied on consumption and imported goods with a single **value-added tax** (VAT).

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Because of its mountainous landscape and rugged shoreline, Dominica's infrastructure is extremely limited. Its roads, mostly confined to the coast, total 780 kilometers (485 miles), of which 393 kilometers (244 miles) are paved. Most of the island is totally inaccessible by car, and many rural roads are little more than impassable dirt tracks. There are no railways, while the 2 main commercial ports are to be found at Woodridge Bay, near Roseau, and the northwest coast town of Portsmouth. There are also cruise ship facilities at Roseau and at Prince Rupert Bay, near Portsmouth. The island has 2 airports, Melville Hall, in the northeast, and Canefield, north of Roseau. While both have paved runways, neither is able to receive large aircraft. Connections from Europe and North America must be made in Puerto Rico, Antigua, or other larger regional airports.

Telecommunications are also underdeveloped, although cellular phone usage and Internet access are growing, due in part to the development of the offshore financial sector. In 2000, the government announced its intention to **liberalize** the telecommunications sector by inviting foreign companies to compete in providing services.

ECONOMIC SECTORS

According to estimates in 1999, agriculture still accounts for 21 percent of Dominica's **gross domestic product** (GDP), and employs 40 percent of the island's workforce. Bananas are the main agricultural product and export, earning US$17 million in 1998. But production and exports have fallen since 1994, due to uncertainty over the industry's long-term future and adverse weather conditions.

Industry accounted for 16 percent of GDP in 1999 and is dominated by a handful of **agribusinesses**, specializing in soap, dental cream, and beverages. Attempts to build up an export-oriented assembly sector have not led to sustained success.

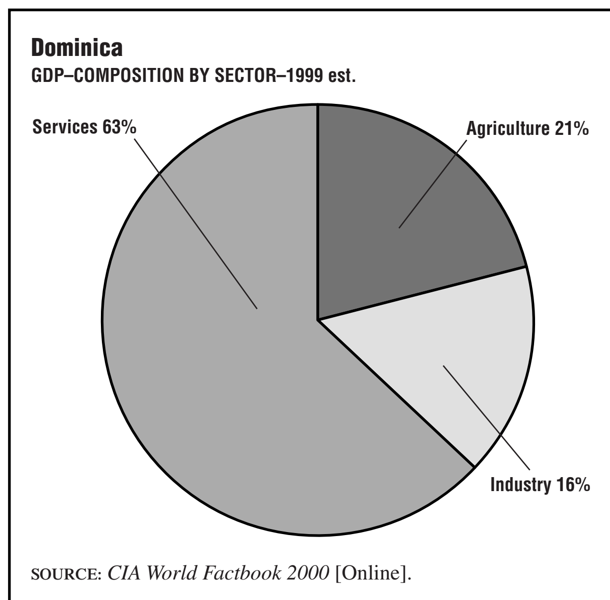
Services, led by tourism, contributed 63 percent to GDP in 1999. This sector, together with a recently launched financial services sector, is of growing importance to Dominica's economy.

Communications

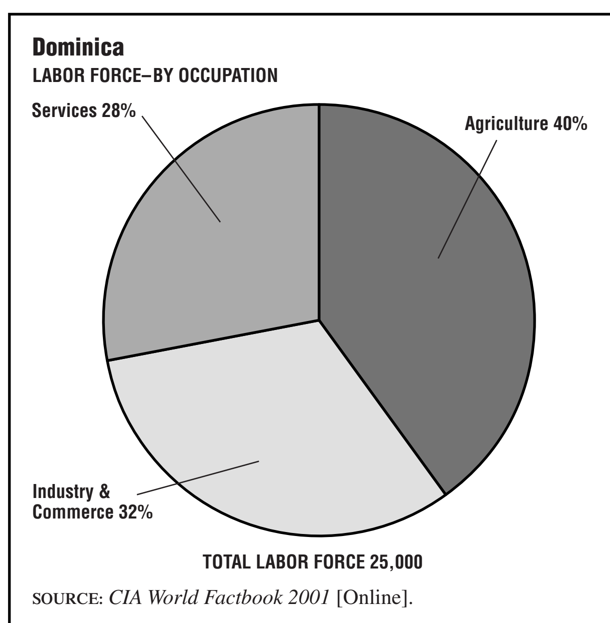
Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Dominica	19,000 (1996)	461 (1996)	AM 3; FM 10; shortwave 0	46,000	0	6,000	16	2,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
St. Lucia	37,000	1,600	AM 2; FM 7; shortwave 0	111,000	3	32,000	15	5,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

AGRICULTURE

Unlike many other Caribbean island nations, Dominica was never a suitable site for sugarcane cultivation, as rocky and mountainous terrain made plantation production impossible. Only about one-quarter of the island is cultivatable. Climate, fertility, and topography are favorable for tree crops, however, and Dominica has been a producer of coffee, cocoa, and citrus fruits in its history. Citrus crops are still important, being grown for export to other Caribbean islands, but the biggest share of agricultural production since the 1950s has belonged to bananas. Like St. Lucia, St. Vincent and the Grenadines, and Grenada, Dominica experienced a "banana boom" in the 1980s when it was assured access into the U.K. market. Stable prices brought modest prosperity to many banana-growing communities. During the 1970s and 1980s, banana exports from Dominica tripled in volume, peaking at 70 percent of export earnings. The dangers of this one-crop dependency became evident in 1979 and 1980 when Hurricanes David and Allen destroyed much of the banana crop. Widespread damage due to hurricanes and tropical storms has been experienced again in 1989 (Hurricane Hugo) and 1995, when Hurricane Luis destroyed an estimated 95 percent of banana plants. Then in November 1999, Hurricane Lenny caused considerable damage to banana and other agricultural production. Fortunately, bananas are quick to produce fruit after planting and are hence a suitable crop in hurricane-prone areas.

A much greater threat to Dominica's banana industry, however, is the threatened removal of preferential market access into Europe for the island's exports. In 1995, the United States and several Latin American banana-exporting countries complained that the European Union (EU) was breaching international free-trade legislation by offering protected quotas to banana exports from former colonies in Africa, the Caribbean, and the Pacific. This has brought the future of the EU banana regime into question. If the EU is forced by international pressure to dismantle its existing arrangement with exporters such as Dominica, the island will be forced to compete directly for the European market with large producers from Latin America. Experts agree that Dominica, with its small, family-run banana farms, cannot compete with the large, labor-intensive plantations in countries such as Ecuador or Honduras and will be forced to abandon bananas altogether. As a result, the number of banana farmers has already fallen from 4,366 in 1995 to 2,534 in 1999. One small possibility is that Dominica, together with other Windward island producers, may be able to supply a growing organic and "fair trade" market in Europe.

Given Dominica's topography (layout of land), there are few obvious alternatives to banana cultivation, although some moves to diversify agriculture have already taken place. At the same time, the Dominica Banana Marketing Corporation introduced a recovery plan in 1999 in an attempt to restore confidence among growers and to improve the quality of banana exports. With financial assistance from STABEX grants (money paid by the EU to support agricultural exporters in certain developing countries), the corporation encouraged farmers to replant bananas and to invest in fertilizer and other inputs. As a result, banana production in 1999 increased slightly from the previous year, earning US$11.5 million in the first 9 months of 1999 before the arrival of Hurricane Lenny.

Apart from bananas, Dominica produces a wide range of agricultural produce, both for local consumption (it is self-sufficient in fruit and vegetables) and for export. Some exports are directed to the French overseas territories of Martinique and Guadeloupe, and there is a thriving network of small traders and inter-island commerce. Coconuts, citrus fruit, and essential oils are the main regional exports.

There is a relatively large fishing industry in Dominica, but it is not modernized and almost exclusively serves the domestic market. A successful experiment in fresh-water prawn farming, supported by Taiwanese aid, has produced substantial amounts of prawns for the domestic and local markets. Japan has provided support for a fish landing and processing plant in Roseau.

INDUSTRY

Dominica's small manufacturing sector is almost entirely dependent on agriculture, and the island has built up a handful of successful industries specializing in soaps and other agricultural byproducts. The largest manufacturer is Dominica Coconut Products, controlled by Colgate-Palmolive, which produces soap from coconuts. The factory has an agreement to sell an estimated 3 million bars of soap each year to Royal Caribbean Cruise Lines. Dominican soap is also exported throughout the region, but has recently encountered intensified competition from other regional producers, especially in the important export markets of Jamaica and Trinidad and Tobago.

Other manufacturing is largely restricted to cardboard boxes and beverages, while there is a small export-oriented sector producing clothing. Dominica has not yet been able to attract significant numbers of foreign manufacturers, partly because its wage rates are relatively high and partly because its infrastructure is not suited to high-volume manufacturing. Like other islands, it seeks to attract investors with tax concessions and other financial inducements, but several offshore manufacturing plants have closed after their **duty**-free concessions expired, normally a 10-year span.

There is some mining potential in Dominica, especially in the island's northeast where there are believed to be deposits of copper.

SERVICES

Dominica's tourist industry is in its infancy compared to other Caribbean islands. For many years its rugged terrain, lack of beaches, and underdeveloped infrastructure prevented large-scale tourist development. In recent years, Dominica has successfully marketed itself as the "nature island of the Caribbean," seeking to attract "eco-tourists" interested in landscapes and wildlife. The government realizes that intensive tourism is incompatible with preserving the island's eco-system and in 1997 signed an agreement with Green Globe, the environmental division of the World Travel and Tourism Council, to develop the island as a "model ecotourism destination." The 3-year program provided technical expertise on environmental management as well as helping to market Dominica through specialist travel companies.

At the same time, the government has encouraged a steady increase in Dominica's tourism capacity, with several new hotels being built and considerable investment in cruise ship facilities. The new cruise ship jetty at Prince Rupert Bay, near Portsmouth, has dramatically increased the number of ships calling annually and brought significant tourism-related opportunities to the formerly depressed community of Portsmouth. Annual tourist arrivals are estimated at approximately 200,000, of whom about 75,000 are stay-over visitors. The great majority are cruise ship visitors who spend limited time and money on the island. Tourism receipts in 1998 were estimated at US$15.5 million.

Dominica's tourism industry is mostly small in scale and locally owned, with extensive links to other areas of the economy. Unlike other Caribbean islands, visitors are fed with locally produced food, and Dominica does not unduly extend its import bill by importing foodstuffs for the tourist sector. There is also considerable "**trickle down**" of tourism revenues, with retailers, restaurateurs, and tourist guides benefiting directly from the industry. On the other hand, critics point out that even restricted tourism can have a damaging impact on the environment, especially at the selected sites of natural beauty visited by large numbers of cruise ship tourists.

If the tourism industry has caused some controversy by threatening to spoil Dominica's fragile ecosystem, some initiatives taken by the government since the 1990s have been even more open to criticism. Like other small Caribbean economies, Dominica has tried to broaden its economic base by building up an offshore financial services sector. So far, a relatively small number of **offshore banks** and other international business companies (IBCs) have registered in Dominica, but the government is trying to attract more by making registration economical and easy. A Dominica-based IBC can, for instance, be formed over the Internet, and the government has also granted operating licenses to several Internet gambling companies. The ease with which such companies can be formed and the secrecy surrounding their operations have led some critics to allege that Dominica may be facilitating money-laundering and tax evasion.

Even more controversial has been the issuing of "economic citizenship" to foreign nationals. This means that Dominican passports are provided in return for an

Trade (expressed in billions of US$): Dominica

	Exports	Imports
1975	.011	.021
1980	.010	.048
1985	.028	.055
1990	.055	.118
1995	.045	.117
1998	N/A	.136

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Dominica

East Caribbean dollars (EC$) per US$1	
Jan 2001	2.7000
2000	2.7000
1999	2.7000
1998	2.7000
1997	2.7000
1996	2.7000

Note: Dominican currency has been at a fixed rate since 1976.

SOURCE: CIA *World Factbook 2001* [ONLINE].

agreed minimum investment, which is supposedly used to develop the national economy. The first economic citizens were mostly Taiwanese, but in 1999 it was reported that 300 Russians had bought Dominican passports for US$50,000 each. This has encouraged allegations that the island may be involved in Mafia-style economic activity.

INTERNATIONAL TRADE

Dominica, although largely self-sufficient in food production, imports approximately twice as much in value as it exports, with imports of US$120.4 million dwarfing exports of US$60.8 million in 1998. Its main export markets are other Caribbean countries, which buy its vegetables, fruit, and soap, and the EU, which imports its bananas. Caribbean Community (CARICOM) countries accounted for about 47 percent of Dominica's exports throughout the 1990s, and Europe for 36 percent. The United States imports little from Dominica, but is the main source of the island's imports (an average of 41 percent in the 1990s), notably machinery and manufactured goods. Dominica's other main suppliers are the CARICOM countries and Britain.

MONEY

After steady growth in the 1980s and early 1990s, Dominica's economy slowed in the late 1990s because of the banana crisis, hurricane damage, and a decline in manufacturing output. GDP growth from 1996 averaged 2.8 percent annually, a lower rate than neighboring countries, and in 1999 there was no growth at all, due largely to damage from Hurricane Lenny. As a result, **inflation** has been low since the mid-1990s.

Dominica's currency, the Eastern Caribbean dollar (EC$), shared with the 7 other members of the Eastern Caribbean Central Bank (ECCB), is stable and has been pegged at a rate of EC$2.7 to US$1 for many years. This means that Dominica is not particularly vulnerable to fluctuating **exchange rates**, although transactions with Europe have been affected by the low value of the euro. There are plans for ECCB member countries to participate in a regional stock exchange, further integrating the economies of the small islands.

POVERTY AND WEALTH

Dominica is one of the poorer countries of the Eastern Caribbean, but there are not enormous disparities in income. Traditionally a country of small peasant farmers, the island has a small urban middle class, made of professionals and civil servants, and a small urban working class. There are very few extremely wealthy Dominicans, although this may change with the advent of the "economic citizenship" program and the expected influx of rich foreigners. The wealthy few are, for the most part, descended from the plantation-owning elite of colonial times, although Dominica was never the source of enormous wealth and so, unlike Barbados for example, there is no "plantocracy." Although there are luxury homes around the capital, there is little ostentatious wealth, and Roseau does not have the facilities to cater to a millionaire lifestyle.

The poorest Dominicans live in remote rural districts, particularly in the north. Unemployment is officially estimated at around 20 percent of the population and, with the decline in the banana industry, is likely to increase. The poorest social stratum includes the descendants of

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Dominica	N/A	1,679	2,142	2,862	3,310
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
St. Lucia	N/A	2,076	2,150	3,542	3,907

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Dominica	33	6	11	3	6	8	33
United States	13	9	9	4	6	8	51
Jamaica	24	7	3	1	9	8	48
St. Lucia	40	5	11	4	17	11	11

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

the Caribs, who eke out a unstable living from **subsistence farming**, handicrafts, and boat-building. Social facilities in the countryside are highly limited, and Dominicans have to travel to Roseau for most medical attention. Primary schools are distributed throughout the island, but most higher education takes place in and around the capital. According to UNESCO, there were a total of 152 schools in 1995, with 12,627 pupils attending 64 primary schools. Primary school education is free and compulsory, but families normally have to pay for schoolbooks and uniforms. Basic health care is widely available, but there are fees for doctors, for medicines, and for some hospital treatment. There is little state-organized social security, but church groups and other voluntary agencies are active in supporting homes and nurseries for the elderly.

WORKING CONDITIONS

Working conditions in Dominica are average for the region, although many Dominicans work on small family-run farms without regulation or trade union representation. There are only 2 trade unions of any size or influence, one representing civil servants and the others port and dockside workers. Wages in the small industrial sector are average for the Caribbean, standing at between US$100 and US$250 monthly, while wages in agriculture, where most workers are self-employed small farmers, are lower. Educational attainment can facilitate a career in the financial or associated informatics sector, and it is here that the highest wages, other than those earned by traditional professionals such as lawyers and doctors, can be earned. Physical working conditions in agriculture are arduous, and there is the risk of exposure to insecticides and other chemical inputs. Conditions in the few factories are generally satisfactory.

There is some **informal sector** activity in Dominica, with some related child labor, especially in agriculture and handicraft manufacturing. Women are well-represented in every area of employment.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1494. Dominica sighted by Columbus.

1763. British take possession of island after a century of conflict with France.

1903. Establishment of Carib Territory in northeast of island.

1950s. First banana exports to Britain.

1978. Independence from the United Kingdom.

1979. Hurricane David devastates Dominica; 37 killed, 60,000 left homeless.

1980. Eugenia Charles wins elections, staying in power until 1995.

1983. Prime Minister Charles supports U.S. invasion of Grenada.

2000. Coalition government formed between Dominica Labour Party and Dominica Freedom Party; premature death of Prime Minister Rosie Douglas.

FUTURE TRENDS

Dominica's immediate economic future depends to a large degree on the outcome of the dispute between the World Trade Organization and the EU over the question of banana exports into Europe. If the EU is forced to abandon its preferential treatment of suppliers such as Dominica, the island will face a dramatic and possibly traumatic period of economic hardship. Even if a reprieve occurs, it will have to accelerate its efforts to create a more diversified economy with less dependency on agriculture in general and bananas in particular. There will undoubtedly be some international aid available for facilitating the diversification process, but few alternative crops will be able to offer the security and regularity of income offered by bananas.

Dominica is hampered by its topography and lack of infrastructure in terms of developing its tourist industry. But a massive influx of tourists would, in any case, damage its eco-tourism credentials and lessen the island's appeal as an exclusive nature destination. In the coming years, Dominica will have to balance the need for tourism revenue against the necessity of restricting visitor numbers in the interest of the environment. It remains to be seen whether Dominica's bid to join the Caribbean's offshore financial centers will be successful, but initial signs are not entirely promising.

The island remains unusually vulnerable, not just to devastating hurricanes, but also to economic decisions and developments beyond its control. Even its small manufacturing sector will have to face increased competition from other regional producers as the Caribbean's trade becomes more and more liberalized. Given these uncertainties, it is unlikely that the island will be able to make major steps in reducing poverty, unemployment, or high levels of migration in the near future.

DEPENDENCIES

Dominica has no territories or colonies.

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—James Ferguson

DOMINICAN REPUBLIC

República Dominicana

CAPITAL: Santo Domingo.

MONETARY UNIT: Dominican peso (DOP). The peso is divided into 100 centavos. There are coins of 25 and 50 centavos and 1 and 5 pesos, and notes of 10, 20, 50, 100, 500 and 1,000 pesos.

CHIEF EXPORTS: Ferronickel, sugar, gold, silver, coffee, cocoa, tobacco.

CHIEF IMPORTS: Foodstuffs, petroleum, cotton and fabrics, chemicals, pharmaceuticals.

GROSS DOMESTIC PRODUCT: US$48.3 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$5.8 billion (f.o.b, 2000). **Imports:** US$9.6 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. A country occupying the eastern two-thirds of the island of Hispaniola (Haiti occupies the western third) between the Caribbean Sea and the Atlantic Ocean, the Dominican Republic has an area of 48,730 square kilometers (18,815 square miles), more than twice the size of New Hampshire. It has a total coastline of 1,288 kilometers (800 miles), and a border with Haiti of 275 kilometers (171 miles). The capital city, Santo Domingo, is located on the country's southern coast.

POPULATION. The population of the Dominican Republic was estimated at 8,442,533 in July 2000, an increase of 15 percent from the 1993 census figure of 7,293,390. In 2000, the birth rate was estimated at 25.15 per 1,000, while the death rate stood at 4.72 per 1,000. At a current growth rate of 1.64 percent annually, the country's population should reach 9,500,000 by 2010.

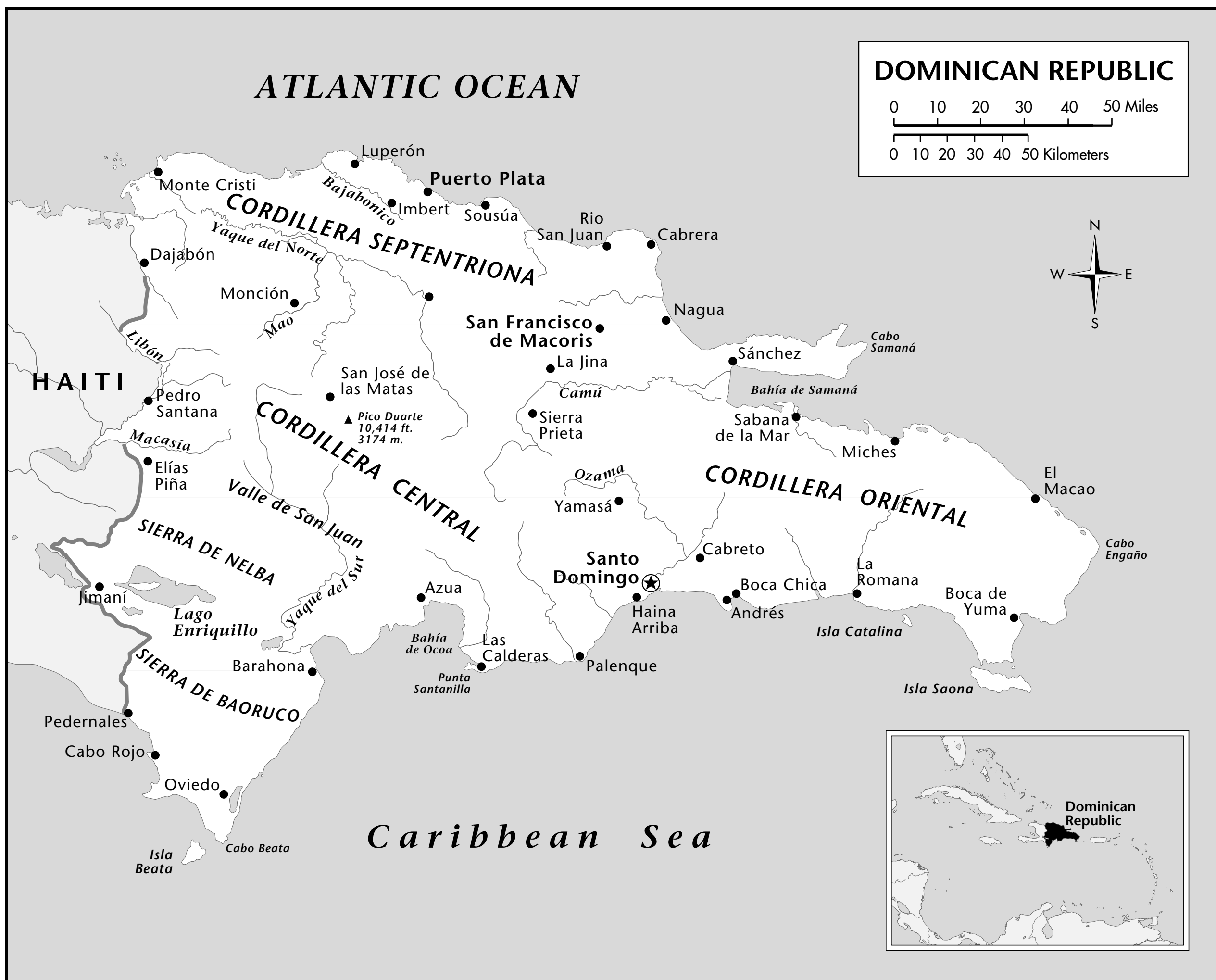
The Dominican population is mostly of mixed African and European descent, with 73 percent of people describing themselves as mixed-race or mulatto. Some 16 percent define themselves as white, mostly descended from Spanish and other European migrants, while 11 percent are classified as black. The population is generally young, with 34 percent of Dominicans under the age of 14, as opposed to 5 percent over the age of 65. Most people live in urban areas, especially in the Santo Domingo area, which has a population of more than 2.5 million. The average population density of 169.1 per square kilometer (1997) is unevenly distributed, with population concentrations around the coastal towns and Santo Domingo in particular.

The Dominican Republic's population growth rate is offset by a high level of outmigration, estimated at 4 persons per 1,000 in the year 2000. Most migrants aim to settle in the United States, where there are greater economic opportunities. There are no official figures, since a considerable amount of Dominican migration is undocumented, but estimates put the Dominican population in the United States—particularly in the New York area—at more than 1 million. Conversely, the Dominican Republic receives thousands of Haitian migrants each year, many of whom come to cut sugarcane and perform other low-paid jobs.

OVERVIEW OF ECONOMY

Since the 1960s the Dominican Republic's economy has shifted significantly from reliance on sugar and other agricultural commodities to an emphasis on tourism, mining, and manufacturing. Initially the country had a sparse population and was the neglected outpost of the Spanish Empire. Then the territory's ranching economy was replaced by labor-intensive sugar plantations in the wake of the U.S. occupation (1916–24). Sugar remained the dominant economic factor for another half century until large losses incurred by the state-controlled sugar corporation and low international prices spurred a search for diversification.

Commodities, notably ferronickel, gold, and silver, remain important to the Dominican Republic, and sugar is still exported to the United States, but the main areas



of growth in the last few decades of the 20th century have been tourism and export-oriented manufacturing. The Dominican Republic is now one of the Caribbean's most popular tourist destinations, specializing in all-inclusive resorts. Tourist arrivals averaged more than 1.5 million annually during the 1990s. Annual spending by tourists averaged about US$2 billion. The tourism industry has encouraged a construction boom, with new hotels and other **infrastructure** accounting for a rapid increase in construction share of the GDP.

Successive governments have also attempted to build up the country's manufacturing sector by creating so-called "industrial **free zones**" to which foreign companies are attracted by low wages and a series of tax concessions. Some 500 corporations are based in 50 free zones, mostly involved in assembling clothing and electrical components for the U.S. market. However, the future of such zones has been under question since the creation of the North American Free Trade Area (NAFTA) in 1994, through which Mexico can compete effectively with the Dominican Republic and other developing countries on low-wage manufacturing and easy access to the U.S. market.

The Dominican Republic has had to come to terms with the economic legacy of the dictator Rafael Leónidas Trujillo, who ruled the country from 1930 to 1961. Trujillo controlled much of the Dominican economy, including sugar plantations and areas of manufacturing, and when he was assassinated, the state inherited these assets. Government attempts to divest itself of large parts of the national economy have been problematic, as many state-owned businesses are heavily indebted and unprofitable. Recently, however, governments have managed to **privatize** the electricity sector and even parts of the sugar industry. Foreign companies have invested in these areas as well as in tourism and manufacturing. The Dominican Republic had an estimated **external debt** of US$4.7 billion in 2000 and remained highly dependent on importing many basic goods. Tourism receipts helped to offset negative trade balances, but tourism remained highly vul-

nerable to competition, natural disasters, and **recession** in the developed world.

Although the Dominican Republic has undergone considerable modernization and free-market reform, poverty stubbornly remains, with an estimated 25 percent of Dominicans living under the poverty line. Many more are unable to afford anything other than basic items for survival. Rural poverty is particularly prevalent, causing many to move to cities or to attempt **emigrating** to the United States. The **remittances** sent home by Dominicans living overseas are estimated at around US$1.5 billion annually and provide vital income for many poor families.

POLITICS, GOVERNMENT, AND TAXATION

The Dominican Republic is a multi-party democracy, with the president, 149-seat Chamber of Deputies, 30-seat Senate, and local officials elected by popular vote. The Supreme Court judges are elected by a council made up of executive and legislative representatives.

Since the death of Trujillo in 1961, 3 main political parties have dominated Dominican politics. The Dominican Revolutionary Party (PRD), a moderate social-democratic organization, won elections in May 2000, with Hipolito Mejia assuming the presidency. The PRD replaced the Party of Dominican Liberation (PLD), whose president, Leonel Fernández Reyna, had introduced important free-market reforms from 1996. The third party is the Social Christian Reformist Party (PRSC), which presented the 94-year-old Joaquín Balaguer, 7 times president since the 1950s, as its candidate in 2000.

Little separates the main parties in terms of economic policy, although Balaguer's PRSC has proved to be more hostile than the others to privatization. All are in favor of moving towards a free-market economy and encouraging foreign investment in the country. Differences between Dominican parties tend to be more personal than ideological, although the PRSC is generally regarded as more conservative and less committed to redistributing wealth than its competitors. Balaguer's autocratic style of government also concentrated economic decision-making and resources in the hands of the president, allowing him to control a large proportion of the national budget.

Government economic policy since the 1960s has been more or less consistent, but some administrations have been forced to adopt unpopular austerity programs due to recession and a deteriorating economic situation. After the recession of the 1980s, successive Dominican governments have attempted to maintain strong economic growth while keeping **inflation** under control. Priorities have included not only the sale of state-owned enterprises and an end to **subsidies** to these bodies but also considerable investment in roads and other infrastructural development related to tourism and manufacturing. The damage caused by Hurricane Georges in September 1998, estimated at US$2 billion, also required exceptional government investment, but part of this money was provided by grants and loans from multilateral institutions such as the World Bank. The PRD administration elected in 2000 intends to follow free-market reforms, continuing to privatize state assets, attract foreign investment, and promote the country as a tourism destination and stable offshore manufacturing location.

Government tax revenue relies more on sales and business taxes than **income tax**. Low levels of income-tax collection, due in large part to tax evasion and bureaucratic incompetence, have forced successive governments to increase taxes on **consumer goods** and services. Pressure to dismantle **tariff** barriers in keeping with trade agreements with the United States and other countries have reduced revenues on imported goods, with a resulting rise in sales taxes on many basic items. In 2001 the Mejia administration raised a number of **indirect taxes** but was forced to introduce subsidies and relief programs to offset the impact on the poor.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Dominican Republic	52	178	95	15.5	31	0.3	N/A	7.63	25
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Jamaica	62	480	182	73.1	22	N/A	39.4	1.04	60
Haiti	3	55	5	N/A	0	N/A	N/A	0.00	6

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

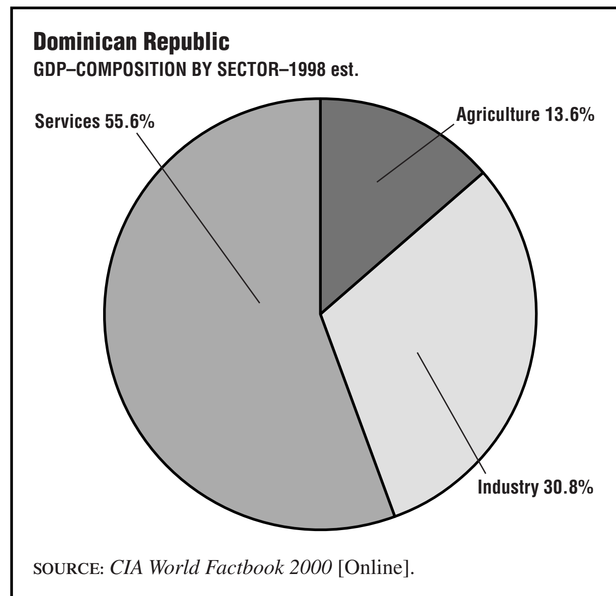
Until the 1960s the Dominican Republic had a backward and crumbling infrastructure, ruined by decades of neglect and under-investment on the part of the Trujillo dictatorship. Since the advent of tourism as a major economic sector, however, Dominican governments, especially those from 1986 onwards, have invested heavily in roads, airports, and docks and other forms of tourism-based construction. These improvements do not, however, benefit the country as a whole. Many of the more remote rural areas still have often impassable roads, made worse by natural disasters such as frequent tropical storms. Small farmers often struggle to bring their produce to market or to other buyers, while coastal resorts enjoy modern highways.

Of the 12,600 kilometers (7,830 miles) of roads existing in 2000, about half were paved, while the others were of variable quality, depending on remoteness and weather conditions. Well-maintained roads connect Santo Domingo with the north coast via Santiago de los Caballeros and run from the capital to the Haitian border and eastward to the modern tourist resorts. Elsewhere, rutted tracks and potholes are commonplace. There are occasional stretches of railway line, but these are owned by sugar plantations and are used for transporting sugarcane rather than passengers.

The Dominican Republic has 13 airports, 5 of them classified as "international." The government's aim is to spread tourist arrivals throughout the country, thereby reducing congestion at the main airport in Santo Domingo. In keeping with its privatization agenda, the government sold control of the airport's management to various foreign consortia (business groups) in 1999. Tourists also disembark from cruise ships at modern port terminals in Santo Domingo and Puerto Plata, while other ports handle merchant shipping.

Perhaps the biggest obstacle to the country's industrial development since the 1960s has been its unreliable electrical service. After years of near bankruptcy and frequent power cuts, the state-run Dominican Electricity Corporation (CDE) was dismantled, and in 1999 the first 50 percent of shares were sold to foreign investors.

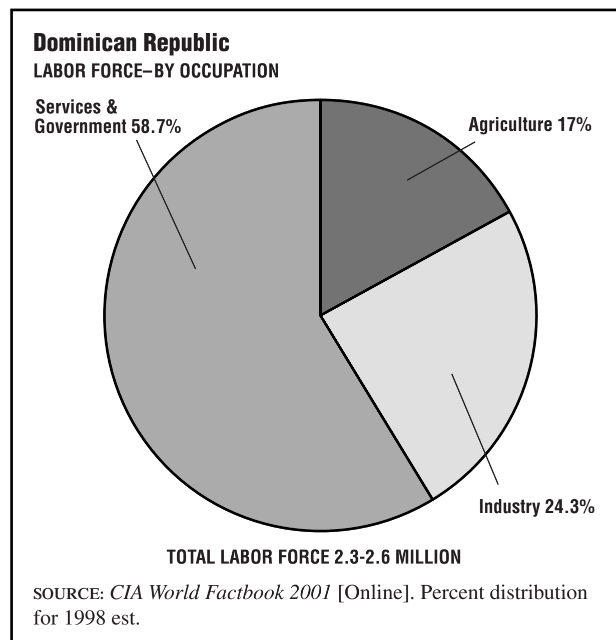
Telecommunications are more efficient, although traditional main lines, operated by Codetel or Tricom, are losing ground rapidly to cellular phones. Codetel is also an Internet service provider, but there are frequent complaints about its standard of service. In early 2001, Codetel announced that only 14 percent of Dominicans had a domestic phone connection, 7 percent used mobile phones, and 1 percent had personal access to the Internet.



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

Since the 1960s, agriculture's share of GDP has declined in the Dominican Republic, while the share contributed by industry and services has grown. The CIA *World Factbook* estimated that in 1999, agriculture contributed 11.3 percent to the country's GDP, while industry contributed 32.2 percent, and services, mostly tourism, contributed 56.5 percent. Governments have sought to encourage some areas of agriculture by cutting **duties** on imported products and offering cheap loans to farmers, but they have also been willing to sell off the



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1998 est.

profitable parts of the state-owned sugar industry and abandon those that are unprofitable.

The economy remains extremely vulnerable to economic developments beyond its control. Competition among Caribbean countries for the North American tourism market, for instance, is extremely fierce, and tourism revenues can be adversely affected by natural disasters, bad publicity, or recession in the United States. Likewise, the Dominican Republic has to compete with Mexico and other developing countries as a supplier of low-cost apparel and electronic components for the North American market. Key sectors of the national economy are also dominated by foreign companies: Canadian in the case of ferronickel, German and Spanish in the case of tourism, and American in the case of offshore manufacturing.

AGRICULTURE

Although it has declined dramatically since the 1960s, agriculture remains an important factor in the economy of the Dominican Republic, accounting for an estimated 11.3 percent of the GDP in 1999. In 1998, about 17 percent of Dominicans were employed in agricultural work, either as small farmers or plantation workers. Sugar continues to occupy first place in the country's agricultural production and exports, but output has fallen considerably since the 1980s, and there are many other crops grown, including food for local consumption and non-traditional exports such as pineapples and exotic fruits destined for the United States. The Dominican Republic is an importer of certain foodstuffs, notably wheat, but it is overall a net exporter of agricultural products, with sugar, coffee, cocoa, tobacco, and meat among its principal exports. Dominican cigars now outsell Cuban ones which are **embargoed** by the United States. In the late 1990s tobacco exports averaged US$100 million annually. Significant growth has also been recorded in non-traditional exports such as cut flowers, ornamental plants, and exotic fruits, which together earned nearly US$200 million in 1997. The Dominican Republic is also a major producer of bananas, and although most are consumed locally, some producers have begun exporting organic bananas to a growing market in Europe and the United States.

Much Dominican farming is aimed at local markets, especially the production of rice. Other crops include maize, plantains, and tomatoes. All agricultural activity is extremely vulnerable to hurricanes, droughts, and other natural hazards.

Although fishing takes place around the country's extensive coastline, there is no export industry, and most fish is destined for hotels and restaurants. Some fish, mostly salted or frozen, is imported.

INDUSTRY

The industrial sector contributed an estimated 32.2 percent to the country's GDP in 1999, led by mining (ferronickel, gold, and silver) and the manufacture of goods for export to the United States. To a lesser extent, there is the manufacture of food products, consumer non-durables, and building materials for the local market and for neighboring Haiti. The sector employed an estimated 24.3 percent of the workforce in 1998.

MINING. It has been estimated that the Dominican Republic contains about 10 percent of the world's ferronickel deposits, but mining is a highly unpredictable part of the industrial sector, vulnerable to fluctuating world prices and unsustainable production techniques. In 1998, for instance, ferronickel exports earned the Dominican Republic US$372 million, but in 1993 declining world prices, due to oversupply, forced the country's export earnings down to US$128.2 million. Since then, prices and export income have stabilized. Gold and silver have been of importance to the Dominican economy since the 1970s, but export earnings have again been irregular. Some gold and silver is exported as basic commodities, while the Dominican Republic also exports semi-finished metals and jewelry.

MANUFACTURING. About 500 companies in the Dominican Republic manufacture goods primarily for the North American market. Situated in 50 industrial free zones around the country, these mostly foreign-owned corporations take advantage of generous tax and other financial inducements offered by the government to businesses that operate within the zones. Approximately 200,000 people, or about 8 percent of the workforce, are employed in this sector. The principal attractions for the foreign companies, which are based in the United States, Canada, Korea, and Taiwan, are a large pool of cheap labor and proximity to the North American market. They mostly produce clothing, electronic components, footwear, and leather goods, which are assembled rather than manufactured by a mainly female workforce. The raw materials or semi-manufactured goods are usually imported duty-free from other developing countries (electronic parts are imported from industrialized Puerto Rico) and put together in the free zones. They are then exported under the terms of the Caribbean Basin Initiative, which gives duty-free entry into the United States to goods produced in the Dominican Republic. The value of exports amounted to US$1.9 billion in 1996, but the contribution to the trade balance was only US$520 million because many of the basic materials for the free zones had to be imported and paid for.

Other, more traditional manufacturing is based on sugar refining, cement, iron and steel production, and food processing. Rum is a significant export commodity, and beer and cigarettes are manufactured for local

consumption. Most industry of this sort is located around the working-class perimeter of Santo Domingo and other large towns.

SERVICES

TOURISM. Services were estimated to contribute 56.5 percent of the GDP in 1999 and to employ an estimated 58.7 percent of the workforce, making this the most important sector of the Dominican economy. Tourism is the single biggest revenue earner, with receipts increasing more than tenfold from US$173 million in 1980 to more than US$2 billion by 2000. Successive governments have invested heavily in tourism development, creating upgraded airports and other infrastructure. Foreign investment has also been important, with several large Spanish, German, and French companies building or managing some of the larger hotels. Some 2.1 million tourists arrived in the country in 1999, not including visiting Dominicans. Most come from Europe, with about 25 percent originating from the United States or Canada. The country now has almost 50,000 hotel rooms, more than any other Caribbean country. About 50,000 Dominicans are directly employed in this sector, mostly working in hotels, and another 110,000 are indirectly employed as taxi drivers, tour guides, or tourist-shop staff. Most tourists visit the Dominican Republic on account of its beaches, but there is an expanding **eco-tourism** and outdoor activity sector, focused on the country's mountains and wildlife.

RETAIL. **Retail** activity in the Dominican Republic takes many forms, from U.S.-style supermarkets and shopping malls in Santo Domingo to rural markets and tiny family-run corner stores in villages. A small but affluent middle class can afford to shop at the former, while the large impoverished rural community resorts to buying small amounts of daily essentials from colmados (small stores that often double as bars). Much of this small-scale retail activity occurs within the so-called **informal sector**, and reliable statistics are unavailable. In an attempt to regulate the retail sector, the government has recently reformed taxation laws, so that small shops pay taxes on a regular monthly basis. Many transactions, however, go unrecorded.

FINANCIAL SERVICES. The Dominican Republic does not as yet have a financial services sector aimed at foreign investors, but a securities exchange was opened in 1992 as the first step towards a stock exchange.

INTERNATIONAL TRADE

Since its independence in 1844, the Dominican Republic's main trading partner has been the United States. Initially this trade overwhelmingly consisted of sugar exports, but currently trade is more diversified, with the Dominican Republic still exporting sugar but also other commodities such as clothing, footwear, and electronic components. The United States exports a large range of goods to the Dominican Republic, including automobiles, machinery, chemicals, and some foodstuffs. In 1999, the United States accounted for 66.1 percent of Dominican exports and 56 percent of its imports. Belgium is also an important export market, while Venezuela, the Dominican Republic's main supplier of petroleum, accounts for 23 percent of the import bill. Trade with neighboring Haiti is much less, largely because much of the flourishing informal-sector trade that takes place across the border is not regulated or recorded and hence does not appear in national accounts.

Trade (expressed in billions of US$): Dominican Republic

	Exports	Imports
1975	.894	.889
1980	.962	1.640
1985	.735	1.487
1990	.735	2.062
1995	.767	3.639
1998	.795	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

The Dominican Republic has for many years spent much more on imports than it earns from exports. The CIA *World Factbook* estimated that in 2000, for instance, its import bill totaled US$9.6 billion, while exports brought in only US$5.8 billion. This huge **trade deficit** is offset by earnings from tourism (approximately US$2 billion annually) and by the money sent back to the country by Dominicans living overseas (estimated at US$1.5 billion each year). Even so, the Dominican government often records a deficit in its **balance of payments**. While deficits are not necessarily damaging, they generally mean that there is a shortage of foreign reserves in the country's banking system and that the government may need to borrow from abroad to finance its spending.

In 1998 the Fernandez administration signed free-trade agreements with the Central American Common Market (CACM) and the Caribbean Community and Common Market (CARICOM). The Dominican Republic has also made it clear to the United States that it would like to be part of an enlarged NAFTA or similar regional free-trade bloc. The country also has preferential access for certain goods into the European Union (EU) and access to EU financial aid.

Exchange rates: Dominican Republic

Dominican pesos per US$1	
Jan 2001	16.888
2000	16.415
1999	16.033
1998	15.267
1997	14.265
1996	13.775

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Dominican Republic

Lowest 10%	1.7
Lowest 20%	4.3
Second 20%	8.3
Third 20%	13.1
Fourth 20%	20.6
Highest 20%	53.7
Highest 10%	37.8

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

MONEY

For many years the Dominican peso stood at par with the U.S. dollar, but in 1985 it was devalued as part of an IMF-approved program to pull the country out of recession. Subsequently it was allowed to float against the dollar and has gradually lost much of its value. In 1990, US$1 was worth 11.20 pesos, but in early 2000, the dollar was worth 16.20 pesos. This rate means that imported goods from the United States have steadily become more expensive, including many staple items on which poor Dominicans depend. On the other hand, a cheap peso makes the Dominican Republic attractive both to foreign investors, who can pay even lower wages and to tourists whose dollars stretch further than elsewhere.

The country is currently experiencing relatively low levels of inflation, averaging less than 10 percent annually since the mid-1990s. This rate compares favorably with very high **inflation rates** in the early 1990s, which reached 54 percent in 1991 alone.

POVERTY AND WEALTH

Steady economic growth has brought considerable wealth to some Dominicans, but a considerable sector still lives in extreme hardship, without access to social services or proper educational opportunity. Recent figures are not available, but in 1989 it was estimated that the richest 10 percent of Dominicans accounted for almost 40 percent of national income, while the poorest 10 percent received only 1.6 percent.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Dominican Republic	1,179	1,325	1,325	1,366	1,799
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
Haiti	500	607	527	481	370

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

While free primary school education is available, many children fail to complete their early education, often because they are required as workers to supplement family income. There is no national system of health care or old-age pensions. The state occasionally attempts to lessen the impact of price rises by subsidizing basic foods such as milk powder or rice and by job-creation schemes in the poorest neighborhoods.

Dominican society is highly stratified, with a very small and very wealthy upper class, a medium-sized middle class, and a very large working class or poor peasant class, many of whom live in absolute poverty. The middle class encompasses professionals such as teachers or hospital workers or those involved in retail, while the poor include agricultural and factory laborers, those working in the informal sector, and the unemployed. There is little upward social mobility, with the exception of musicians or baseball stars who may escape a life of poverty and become millionaires.

The poorest areas of the country are to be found both in Santo Domingo, where shantytowns sprawl around the edges of the city, and in remote rural areas. Perhaps the most impoverished district is in the southwest, near the border with Haiti, where thousands of Haitian migrants and poor Dominican families inhabit rudimentary shacks.

WORKING CONDITIONS

Few Dominicans enjoy pleasant or healthy working conditions. In rural areas, small farmers and agricultural laborers endure back-breaking work, the worst of which is often performed by imported Haitian cane-cutters who do the plantation work that most Dominicans refuse to touch. Conditions in most industries are different, but

little better, with workers exposed to a dirty and dangerous environment in return for low wages. Only in tourism, within the more modern resort hotels, are conditions more acceptable, though wages are low.

According to the International Labor Organization, the active Dominican workforce in 1997 numbered 3,464,000, with some 500,000 people unemployed, over 14 percent. Of these a large percentage were defined as working in personal services, meaning in many cases domestic service. The second largest category was trade, restaurants, and hotels, with manufacturing coming third. There is also an enormous unregulated informal sector that offers work to women and children who would not find opportunities within formal employment and which is even more exploitative and low-paid than its formal equivalent.

Approximately 200,000 people, or about 8 percent of the workforce, are employed in the free-zone sector. Wages in the free zones are low, averaging no more than US$120 monthly, with supervisors earning perhaps US$350. Trade unions are in theory legal and entitled to operate in workplaces, but many employers routinely fire union activists as "troublemakers." The industrial free zones, in particular, are notoriously hostile to union activity. The union movement is further weakened and fragmented by inter-party competition. The largest union, the National Confederation of Dominican Workers (CNTD), claims fewer than 200,000 members nationally. **Public-sector** workers such as teachers, doctors, and hospital workers have been especially successful in organizing strikes in recent years.

Supporters of the free zones argue that they bring employment to areas where there are few other opportunities and that women are the main beneficiaries of this work. Women are estimated to comprise about one-third of the formal workforce, but many more are employed informally in private homes, in street vending, and in small-scale sweatshops. The same applies to hundreds of thousands of children, who begin work from ages as low as ten. Women are also particularly in demand in the industrial free zones, where rights are strictly curtailed. There have been allegations that companies hire workers as low-paid apprentices and fire them after their apprenticeship period has ended.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1492. Christopher Columbus arrives on island of Hispaniola; Spanish colonization begins.

1697. Western part of Hispaniola is ceded to France under terms of the Treaty of Ryswick. The French develop the colony of Saint-Domingue, while Santo Domingo remains Spanish.

1791. Slave insurrection breaks out in Saint-Domingue, leading to 13-year period of war.

1822–44. Haitian forces occupy Spanish colony of Santo Domingo.

1844. Dominican Republic declares independence.

1861. Spanish sovereignty is re-established at the request of the Dominican government.

1865. Second independence is declared.

1916–24. First U.S. occupation occurs after a period of political chaos. Influx of U.S. capital leads to development of sugar industry.

1930–61. Rafael Leónidas Trujillo is dictator. National assets are centralized under personal control of the Trujillo family.

1939. Dominican Revolutionary Party (PRD) is founded in Havana.

1961. Trujillo is assassinated.

1965. Second U.S. occupation takes place after fighting between supporters of ousted PRD President Juan Bosch and military forces threatens civil war.

1966. Joaquín Balaguer wins election and begins 30-year domination of Dominican politics.

1996. Leonel Fernandez is elected on modernizing program in first free and fair elections.

2000. Hipolito Mejia is elected president.

FUTURE TRENDS

The Dominican Republic enters the 21st century having made considerable strides in modernizing its economy and ridding itself of dependency on sugar. Its economy is now relatively diversified between agriculture, manufacturing and services. It also has considerable potential for expanding its tourism industry, for developing export markets for non-traditional agricultural commodities, and for maintaining a steady level of income from mining. The movement towards privatization is likely to continue, as governments try to divest themselves of loss-making assets. The country is well positioned in terms of international trade to take advantage of preferential treatment both from the United States and from the European Union. After decades of regional isolation, it is now also looking to increase its commercial cooperation with other Caribbean and Latin American countries.

However, severe problems remain. Tourism and manufacturing, as well as mining, are still vulnerable to external economic shocks. Too little manufacturing is aimed at the domestic market, with the result that the country spends too much on imported goods. Stubborn trade deficits and dependency on foreign capital appear likely to continue as obstacles to sustained economic health. Privatization will likely have a negative impact on the poor through reduced employment and rising prices. No Dominican government has yet succeeded in radically altering the imbalance of wealth and opportunity in the country, and it will take unusual political courage to do so.

DEPENDENCIES

Dominican Republic has no territories or colonies.

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—James Ferguson

ECUADOR

Republic of Ecuador
República del Ecuador

CAPITAL: Quito.

MONETARY UNIT: U.S. dollar replaced the Ecuadorian sucres as the official monetary unit in September 2000.

CHIEF EXPORTS: Petroleum, bananas, shrimp, coffee, cocoa, cut flowers, fish.

CHIEF IMPORTS: Machinery and equipment, raw materials, fuels, consumer goods.

GROSS DOMESTIC PRODUCT: US$54.5 billion (1999 est.). [CIA *World Factbook* estimated the GDP at purchasing power parity to be US$37.2 billion in 2000.]

BALANCE OF TRADE: **Exports:** US$4.141 billion (1998). **Imports:** US$5.503 billion (1998). [CIA *World Factbook* estimated exports to be US$5.6 billion f.o.b. and imports to be US$3.4 billion f.o.b. in 2000.]

COUNTRY OVERVIEW

LOCATION AND SIZE. Located between Colombia and Peru on the west coast of South America, Ecuador has an area of 283,560 square kilometers (176,204 square miles) and a coastline of 2,237 kilometers (1,390 miles). The Galapagos Islands, which rest 960 kilometers (600 miles) to the west of mainland Ecuador in the Pacific Ocean are part of the Republic of Ecuador. Ecuador is slightly smaller than the state of Nevada. Ecuador's capital city, Quito, is located in the Andes mountain range on the equator, while Guayaquil, the country's most populous city, is positioned on the southern coastline about 210 kilometers (130 miles) from Quito.

POPULATION. An estimate in July 2000 put the population of Ecuador at 12,920,092, representing an increase of almost 26 percent over the nation's 1990 population of 10,260,000 and making the country the most densely populated in South America with 187 people per square kilometer (484 people per square mile). The birth rate in Ecuador for the year 2000 was 26.51 per 1,000 inhabitants, while the death rate the same year was 5.52 per 1,000 inhabitants. Population growth is expected to slow slightly to an annual rate of 1.6 percent between 2000 and 2010, bringing the population to 14.9 million by 2010. The percentage of people residing in urban areas has grown steadily since the 1960s and was estimated to

be 62.7 percent in 2000. Guayaquil, Quito, and Cuenca are the 3 largest cities in the country.

The Ecuadorian people are one of the more diverse groups in Latin America. The Ameridians, descendants of the groups who inhabited the area before Spanish colonization of the Americas, make up 30 percent of the population. The other ethnic groups include the mestizo (mixed Spanish and indigenous descent), Spanish, and black and account for 60 percent, 7 percent, and 3 percent of the population. Indigenous presence in Ecuador is the second highest in South America after Bolivia. The population of Ecuador is also young, with 70 percent of the country's inhabitants under the age of 35. Over the next 10 years, if population growth rate in Ecuador slows and life expectancy improves as anticipated, age distribution should even out slightly.

Sustaining the population is one of the Ecuadorian government's primary national concerns. Article 39 of the Ecuadorian Constitution addresses the issue of population, guaranteeing individuals the right to determine how many children they will have, while noting the accountability of the state to inform and educate individuals about the responsibilities that accompany this right. Because of Ecuador's strong Catholic influence with its emphasis on family, population control is a sensitive topic, and the government is reluctant to make strong statements on the issue. To ameliorate poor crop production and slow rural to urban migration, the government offers small grants to individuals to subsidize their farming practices.

OVERVIEW OF ECONOMY

Because of its rich natural resources and mild climate, Ecuador's economy first developed around the harvesting of agricultural products such as coffee and cocoa. As different regions of the country were settled, other resources were exploited and production diversified to include lumber and oil from the Amazon, shrimp and fish from the coast, and fruits, grains, and other food commodities from the sierra (mountain country) and coastal regions. The economy of Ecuador is still rooted strongly in extractive products and **primary commodities**, particularly in exports. Oil, shrimp, and bananas are the nation's top 3 exports, while the manufacturing sector (including basic manufactured goods, machines, and transport equipment) accounts for less than 7 percent of all exports.

Ecuador faces many economic problems experienced by developing nations. Political instability in the country has affected the national economy, discouraging international and domestic investment in Ecuador's market and sparking higher interest rates. In 1979, Ecuador led the way in Latin America by developing a democratic government. Since then, the country has endured political corruption, inefficiency, and erratic transfers of political power that thwart the pursuit of economic progress. Ecuador's inability to post consistent growth in production has had serious social ramifications, causing half of the population to fall below the poverty line in 2000 and pushing unemployment to 15 percent.

Despite **restructuring** the nation's debt is more than $15 billion, making the country a high-risk area for investors. Ecuador also faces a deteriorating **balance of trade** because of its heavy reliance on primary commodities for export. Without support from foreign investors, there is little hope that the country will be able to develop more profitable industries. In addition, tax evasion and the ineffectiveness of the administration to collect taxes cause great problems to the domestic economy.

Because of the lack of well-paid jobs in Ecuador, almost 60 percent of economically active Ecuadorians turn to the **informal economy** for employment. Informal workers, instead of working for the state or state-recognized private employers, support themselves by working for micro-enterprises or selling items illegally (without permits or income reports to the state) in metropolitan areas or market towns. One of the most visible concentrations of informal employment is in the cities of Quito and Guayaquil, where vendors set up kiosks in the city centers and sell items to passers-by. The scarcity of money has led to child labor. It is common to find young children shining shoes or selling candy on the streets to augment their parents' income. Many international funding organizations (the Inter-American Development Bank, the World Bank, and USAID) sponsor development projects in Ecuador to improve the socio-economic situation, but the scope of these projects has been local and have not made significant contributions to economic stability or growth.

In 1999 unstable export prices and the natural disaster of El Niño combined with internal stresses to induce a severe economic crisis. The crisis spurred the government to adapt a new economic program in 2000, which included the **privatization** of many state-owned enterprises, more flexible labor laws, and reductions in public expenditure. These measures, commonly referred to as structural adjustments and actively endorsed by organizations like the International Monetary Fund (IMF), are expected to bring a strong sense of discipline to the economy and provide the foundation for future growth.

POLITICS, GOVERNMENT, AND TAXATION

Ecuador is a unitary republic that consists of 3 governmental branches: the executive, legislative, and judiciary. Presidents and congressional representatives are

elected by popular but compulsory vote, while members of the independent judiciary branch are appointed. Still in the early stages of democracy, Ecuador has not seen the consolidation of political parties. Instead, there is a multitude of parties whose popularity wavers from election to election, sometimes based on the performance of individual politicians. The leading parties to have emerged from the 2000 congressional election are the Social Christian Party (SCP, center-right), the Popular Democratic Party (PDP, center-left), the Democratic Left (DL, center-left) and the newly founded Pachakutik-New Country Party (P-NC, populist-left). All parties support government-funded social programs, but they have dissenting opinions about privatization and the economic role of the state. The SCP supports economic **liberalization** and the privatization of state-owned entities such as water, electricity, and the postal service. The PDP and DL support a broader economic role for the state and, therefore, advocate price **subsidies** and continued state ownership of most utilities. The P-NC is the most liberal of the 4 parties, favoring tax, welfare, and social policies that would benefit the most Ecuadorians rather than the elite.

Ecuador's economic reforms of 2000 established the U.S. dollar (US$) as the official monetary unit and diminished the role of the Ecuadorian government in the economy. Before reform, the state had played an important role in economic affairs, holding a large payroll, providing price subsidies on gasoline, and cooking gas, maintaining ownership of telecommunications, and the production and distribution of electricity. The reform agenda cleared the way for structural adjustments to reduce the number of state employees, auction off utility companies to private enterprise, and adjust the price of gas and other commodities to international levels. The role of the Ecuadorian government in the economy will be much smaller if these reform measures are carried out.

There are several different types of taxes in Ecuador, including **value-added tax**, personal **income tax**, a consumption tax on domestic fuel, and a financial transactions tax. These taxes were adjusted when the liberalization program was adopted, shifting the bulk of taxpayer responsibility to individual Ecuadorians through higher personal income tax. These measures were taken to lower the financial transactions tax and encourage foreign and domestic investment. Tax policies, like most other economic policies in Ecuador, are designed by the executive branch of government and carried out by the legislature.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Ecuador is well-served by an accessible transport system and profits from an extensive **infrastructure** of roads and an uncommonly efficient bus system that make travel to almost any region possible. The country has 43,197 kilometers (26,843 miles) of highways, of which 8,165 kilometers (5,074 miles) are paved. Three national airlines—Saeta, Tame, and Ecuatoriana—provide flight services within Ecuador and from the international airports in Quito and Guayaquil to select locations outside the country. Because the vast changes in altitude and terrain in Ecuador can make road travel slow and difficult, tourists and Ecuadorians alike frequently utilize in-country flights. Taxis and buses provide nonstop city transport for very reasonable fares, and a newly constructed trolley line in Quito delivers passengers to the center of the city. The trans-Ecuadorian railway, which extends for 812 kilometers (505 miles), needs renovation and is used for freight purposes.

Telecommunication and electrical services in Ecuador are state-owned and operated. They are available to Ecuadorians at subsidized rates but perform at less-than-desirable levels. The domestic telephone service is inadequate and unreliable because of its dismal 40 percent completion rate. Despite the limited portion of the population that can afford modern communication devices, the communications industry is growing rapidly. Ecuador has 15 television stations, 419 radio broadcast systems, and 8

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Ecuador	70	419	293	11.7	25	N/A	18.5	1.42	35
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Colombia	46	581	217	16.7	49	4.8	27.9	7.51	664

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

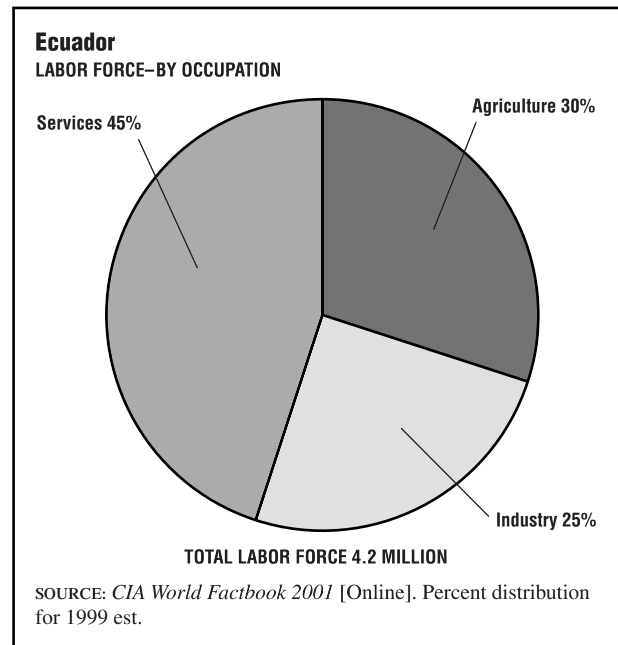
Internet service providers, but many individuals cannot afford televisions, radios, or personal computers.

Besides excellent transport for commuters and travelers, its seaports equip Ecuador for international commerce. The largest is at Guayaquil, the main port for oil exports is at Esmereldas, and there are other major ports at Manta and Machala. While the extensive road infrastructure and port system contribute to productive domestic and international trade practices, productivity is hindered by aging vehicles and oil pipelines.

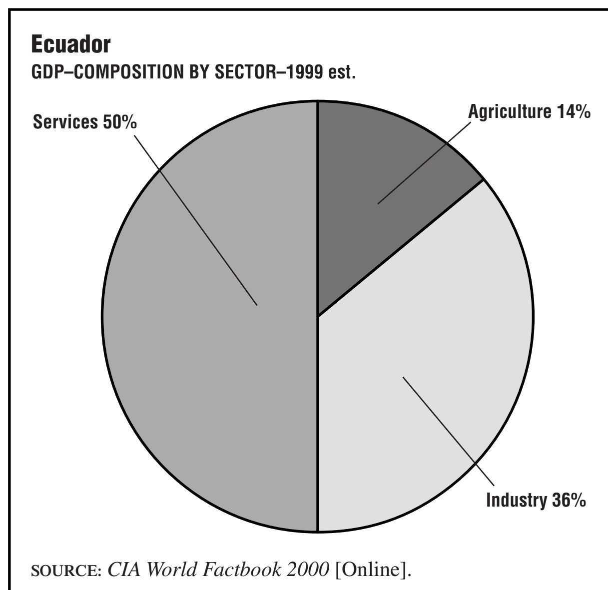
ECONOMIC SECTORS

Although Ecuador originated as an agrarian society, over the past 30 years the global market has shaped the country's economic focus toward industry and services. Part of this shift has occurred because of more advanced production practices. Despite new methods of technology and production, the country experienced severe stagnation in its production of goods and services at the end of the 20th century. In 1999 **gross domestic product** (GDP) shrunk 7 percent from its 1998 level, and imports fell drastically because of the lack of financial capital in the country. The CIA *World Factbook* estimated that agriculture accounted for 14 percent of the GDP, industry for 36 percent, and services for 50 percent in 1999.

Political instability and inefficiency prevented the implementation of economic reforms during the 1980s and 1990s. Loose **fiscal policies**, a burgeoning **external debt**, and rampant **inflation** culminated in a financial crisis in 1999. The crisis caused drastic economic reforms in 2000, including dollarization, privatization of state-owned entities, and liberalization of trade and labor. These policies, advocated by the IMF and the United States government, are expected to bring new growth to the agricultural, industrial, and service sectors of the economy.



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1999 est.



SOURCE: *CIA World Factbook 2000* [Online].

Remittance pay, the money sent to Ecuadorian residents by family members or friends living and working abroad, is an important factor in Ecuador economy that does not fall into conventional economic sectors. Because of poverty and the lack of well-paid jobs in Ecuador, many Ecuadorians **emigrate** to countries such as the United States and Spain, where jobs are easier to find. These individuals send parts of their paychecks back to Ecuador to support their families or supplement the family income. With increasing rates of poverty and consequent emigration, remittance pay has become an enormous force in the Ecuadorian economy and, valued at US$1.185 billion in year 2000, was the second largest source of national income after petroleum exports.

AGRICULTURE

BANANAS. The agricultural sector, which accounts for about 14 percent of the GDP and 30 percent of the **labor force** (1.25 million workers), is sustained by its largest export, bananas. Owing substantially to the cheap price of unskilled, unorganized labor (Ecuadorian banana workers are not unionized and earn roughly US$2–3 per day), Ecuador provides an attractive base of operation for fruit companies. The banana industry faced temporary difficulties with production in 1998 when El Niño destroyed much of the crop, but it has since recovered its position as the world's top exporter. A more stubborn problem facing the industry is the low price for bananas

on the international market. Despite Ecuador's domination of the world banana trade, profits from the industry are declining and thus contributing to the nation's deteriorating trade.

COFFEE AND COCOA. Since 1970, the role of coffee in Ecuador's agricultural sector has diminished. Coffee was once the foundation of Ecuador's export economy, but it has been damaged by the global coffee **recession**, which has seen the production of coffee beans taper off over the past 30 years. From 1995 to 1999, production dropped from 150,000 metric tons to 57,000 metric tons. Nevertheless, coffee is considered a staple of Ecuadorian agriculture and is one of the country's largest exports after bananas. The production of cocoa beans, another of Ecuador's oldest cultivated crops, has remained stable throughout the last decade, probably because cocoa beans are cultivated for domestic consumption.

SUGAR CANE. Ecuador produces more metric tons of sugar cane per year (7 million in 1999) than any other crop. Because of the immense demand for sugar and sugar-based foods, production barely guarantees the country's status as a net exporter of sugar cane. Much of the sugar crop is exported to neighboring countries, but almost as much is imported by Ecuador from surrounding Andean nations. This cross-border exchange usually occurs because of the changing demand for raw and refined forms of sugar in a country at any given time. Ecuador is striving to secure its position as an exporter of sugar by producing more than is needed for domestic consumption.

SMALL-SCALE CROPS. While agro-industries grow crops for export, many Ecuadorians live as **subsistence farmers**, selling or trading the food they produce to support themselves. Because of the multitude of fruits, vegetables, and grains that grow in Ecuador's climate, these small-scale farmers can trade to acquire any food they want. Commonly grown crops include rice, maize, potatoes, manioc, and soybeans. Indigenous Ecuadorians, whose heritage is deeply connected to the land for survival, make up most of the subsistence farmers. Their crops are sold at local markets and do not usually leave the country.

INDUSTRY

First introduced to Ecuador in the 1950s, industry makes up about 36 percent of the GDP and absorbs 25 percent of the total labor force (1 million workers). The chief industrial exports are petroleum and farmed shrimp, but mining of metals is emerging as a lucrative industry. Industry is a volatile component of the economy because Ecuador's industrial sector is oriented toward primary commodities. These command erratic prices on the international market when compared to the more stable demand for manufactured and **value-added** goods. The precarious structure of Ecuador's industrial sector was revealed in 1998 when oil prices dropped and South American shrimp were struck by the deadly Mancha Blanca virus. This double stroke of bad luck, afflicting Ecuador's 2 most important industrial products, led to a shrinking economy in 1999 that aggravated Ecuador's economic woes.

PETROLEUM. Oil is Ecuador's top export, its revenue makes up 10 percent of the GDP. A member of OPEC (Oil and Petroleum Exporting Countries) since the 1970s, Ecuador exports 60 percent of the oil it produces, most of which originates in the Amazon basin. Until recently, the government granted large price subsidies on domestic oil, driving down the price of gasoline for individuals and facilitating inexpensive fares on public transport. In 2000 as part of the nation's new economic reforms, these subsidies were gradually removed, and oil prices were set to international levels, making gasoline unaffordable for many Ecuadorians. Untapped oil reserves belong to the government by authority of the constitution, which decrees all subsurface resources to be the property of the state.

SHRIMP. Ecuador is the world's second largest exporter of shrimp, which makes up 2 percent of the nation's overall GDP. The tools and production of the shrimp industry have changed over the past 2 decades in response to the forces of technology and international demand. The industry used to take its shrimp from the Pacific Ocean, but now shrimp farms are the prevailing method of production for export. Shrimp farms have a negative environmental effect on the mangroves and marine life in the ocean and have caused a serious decline in the wild shrimp population. This phenomenon, combined with the yellow head and white spot viruses that attacked Ecuador's shrimp in the late 1990s, threatens to destroy the shrimp industry if changes are not made to the system.

MINING. With abundant deposits of gold, silver, lead and zinc, Ecuador has great mining potential, but the country does not currently possess the financial resources needed to develop this industry. Mining accounts for only 0.5 percent of Ecuador's GDP, and much of this revenue is earned from **black market** sales. Nevertheless, mining is an **emerging market** in Ecuador and may become an economically vital factor with help from foreign investors.

SERVICES

The service sector, responsible for half of Ecuador's GDP and 45 percent of its labor force (1.9 million workers), embraces tourism, transportation, utilities, communications, parcel delivery, and financial services. Because of its beautiful geography, the diversity of its flora and fauna, and its cultural attractions, Ecuador is a popular

destination for travelers and earns good profits from tourism. The other major economic force in the service industry is the informal work sector, which gives many people a means of income when formal employment is in short supply.

TOURISM. Ecuador collected US$281 million in foreign capital from tourist receipts in 1996. The Galapagos Islands, famed for their unparalleled biological diversity and as the site of evolutionist Charles Darwin's studies, are Ecuador's leading tourist attraction. Other main points of interest include Quito, which is stationed almost directly on the equator in the Andean highlands; Cotopaxi, the world's tallest active volcano; and the Amazon rainforest. Tourism is still a budding industry in Ecuador, and the low prices attract many new visitors each year. But political instability and rising crime in 2000 discouraged many visitors and affected tourism revenues.

INFORMAL SECTOR. A huge, unofficial role in Ecuador's service sector is the informal economy, which supports a fluctuating percentage of Ecuadorians according to the availability of official employment opportunities. Products sold in the informal sector include clothing, small appliances, food, artisan crafts, stolen goods, and any item in demand. Vendors set up booths in commercial areas, while others navigate the streets of large cities during rush hour and make sales to motorists. Because of its underground nature, it is hard to estimate the national income that the informal sector generates, but it is playing an increasingly important role in the economy as urbanization and access to common markets escalate.

INTERNATIONAL TRADE

Ecuador's balance of trade fluctuates from year to year according to international demand and economic conditions in the country. In 1998 Ecuador ran a trade deficit, exporting $4.1 billion worth of goods and importing $5.5 billion. In 2000, exports were US$3.4 billion while imports reached US$5.6 billion. Ecuador's main trade partners are the United States, Japan, and Germany, followed by the other nations involved in the Andean Pact trade agreement (Colombia, Venezuela, Peru, and Bolivia). These trade associations have remained stable since the 1970s, and the quantity of goods traded has increased. A border dispute between Peru and Ecuador that flared up in 1994 caused a temporary damper on trade. During its war against Peru (which lasted until 1998), Ecuador imported greater quantities from the non-warring Andean nations to compensate for lost Peruvian goods.

Ecuador's main exports are oil, bananas, shrimp, and other agricultural goods. The United States, which provides a market for 35 percent of the country's exports, imported a total of US$1.2 billion worth of goods from Ecuador in 1998, most consisting of fish, petroleum, fruits, and vegetables. Ecuador sends exports of a similar nature to Europe and Japan, where there is demand for primary products and non-native foods.

Trade (expressed in billions of US$): Ecuador

	Exports	Imports
1975	.974	.987
1980	2.481	2.253
1985	2.905	1.767
1990	2.714	1.865
1995	4.307	4.153
1998	4.141	5.503

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

MONEY

Until recently, Ecuador struggled with the persistent **devaluation** of its currency (the sucre) on the world market, making it harder for Ecuadorians to afford goods produced in other countries. After a decade of steady depreciation, the value of the sucre plummeted in 1999, prompting then-President Jamil Mahuad to announce the national policy of dollarization in January 2000. In September 2000, the country completed its dollarization process, stopping the printing of sucres and introducing the U.S. dollar as the official monetary unit for all banking and government transactions. Ecuador's problem with currency devaluation has since ceased, but inflation has continued to plague the economy, making basic goods unaffordable for many Ecuadorians.

Dollarization brought many changes to the banking sector. Although the Central Bank of Ecuador used to be

Exchange rates: Ecuador

sucres (S/) per US$1	
Jan 2001	25,000
2000	24,988.4
1999	11,786.8
1998	5,446.6
1997	3,988.3
1996	3,189.5

Note: On January 7, 2000, the government passed a decree "dollarizing" the economy; on March 13, 2000, the National Congress approved a new exchange system whereby the US dollar is adopted as the main legal tender in Ecuador for all purposes; on March 20, 2000, the Central Bank of Ecuador started to exchange sucres for US dollars at a fixed rate of 25,000 sucres per US dollar; since April 30, 2000, all transactions are denominated in US dollars.

SOURCE: CIA *World Factbook 2001* [ONLINE].

responsible for setting domestic interest rates and printing money, those responsibilities now rest with the United States Federal Reserve, which sells dollars to Ecuador and decides whether to raise or lower interest rates. Many banks in Ecuador went bankrupt because of the 1999 financial crisis. The government is working to revitalize its banks and pay back investors who lost money because of bank closures. Since adopting the dollar, Ecuador's banks have grown stronger attracting more investors. Interest rates are much lower than they were before dollarization, marking an improvement in investors' perception of the Ecuadorian economy. The GDP grew 2 percent in 2000, a modest but important sign of progress after a decline of 7 percent in 1999. It is too early to deliver a final verdict on the merits of dollarization, but these figures indicate that Ecuador's adoption of the U.S. dollar might well have paved the way for more sustainable economic development.

Distribution of Income or Consumption by Percentage Share: Ecuador

Lowest 10%	2.2
Lowest 20%	5.4
Second 20%	9.4
Third 20%	14.2
Fourth 20%	21.3
Highest 20%	49.7
Highest 10%	33.8

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

POVERTY AND WEALTH

Ecuador's population was burdened by an unequal distribution of wealth in the 1990s. In 1996 the wealthiest 20 percent of Ecuadorians earned half of the nation's total income, while the poorest 20 percent collected only 5 percent. The gap between rich and poor grew noticeably during the 1999 economic crisis, when much of the middle-class fell below the poverty line because of rampant currency devaluation and inflation. Figures released by international organizations in 2000 show that half of all Ecuadorians were living in poverty, a dramatic increase from just a few years earlier, when the poverty rate was estimated at 35 percent. Poverty is more pervasive in rural areas of Ecuador, affecting almost 70 percent of non-urban dwellers (2000).

Because of the contraction of Ecuador's middle class, the division between the upper and lower classes has widened, allowing for little upward mobility among the nation's poor. Members of the elite are well established within their specialist fields as doctors, lawyers, politicians, or leading business entrepreneurs. The middle class embraces a wide range of professional and blue-collar workers, including teachers, bus and taxi drivers, service and **retail** employees, oil industry employees, small-business owners, and small-scale farmers. The largest segment of Ecuador's population includes peasants and subsistence farmers, informal sector vendors, **agribusiness** employees, temporary workers, and the unemployed. Most of these Ecuadorians are denied the education and connections to gain access to the small professional sector and are thus confined to low-paid jobs.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Ecuador	1,301	1,547	1,504	1,475	1,562
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Columbia	1,612	1,868	1,875	2,119	2,392

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Ecuador's constitution, revised in 1998, places strong emphasis on social programs and assistance to the poor, promising free health care and government subsidies to the nation's most needy citizens. However, public welfare expenditure, limited by the government's cumbersome debt and lack of funds, has had little impact on poverty. A cash transfer to the country's poorest families, called a *bono solidario* (solidarity bond), is the most consistent element of Ecuador's poverty relief program, but it reaches only some of the poor. Public health care is officially free, but the quality of medical services is inadequate. A report on Ecuador's health care system released in 1996 by USAID, observed that "The supply and quality of care in Ministry of Public Health facilities is generally agreed to be inefficient and poor." The wealthy can afford private health care of a higher quality, but private care is increasingly beyond the reach of middle- and lower-class Ecuadorians.

The design of Ecuador's education system causes similar problems for economically disadvantaged citizens because the government subsidizes university education at the expense of elementary and secondary schools. Wealthy families can afford to send their children to the best private schools, while poorer families must settle for the variable quality of public education and disruption caused by frequent teacher strikes. Access to education is also divided along rural/urban lines, with public expenditure favoring urban schools and neglecting vocational and manual skills training.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Ecuador	26	9	15	13	10	3	24
United States	13	9	9	4	6	8	51
Brazil	22	13	18	15	34	4	−6
Colombia	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

Employment conditions vary greatly in Ecuador according to type of work, individual management styles, and susceptibility to government inspection. Inefficient government enforcement of labor codes and the pervasiveness of informal employment have created an insecure working environment where labor laws are flagrantly violated. Also, child labor is common, despite legislation that prohibits children under 14 from working.

About 12 percent of Ecuador's 4.2 million workers are unionized. The umbrella group Frente Unida de Trabajadores (United Front of Workers, FUT), the most visible labor advocacy organization in the country, is active in protesting against policies such as outdated minimum wage laws and the elimination of government subsidies on gas, which have a negative impact on Ecuadorian workers. Many formal sector workers, such as teachers, are also organized into independent unions to enable collective negotiation with management. However, the lobbying power of independent unions is weak and does little to improve the pay and benefits of employees. Unions are non-existent in the agricultural and informal sectors, where most Ecuadorians are employed and conditions are often worst. One poignant example of this phenomenon is the plight of Ecuadorian banana workers, who are unorganized and receive derisory wages of $2–3 per day. By contrast, unionized banana workers in Guatemala and other countries receive $10 per day plus benefits.

The Ecuadorian labor code, modified between 1991 and 1996, includes more than 600 articles regulating formal sector labor and the role of the government in arbitrating labor disputes. One of the most important policies outlined in the labor code is the official minimum wage, which was set at US$117.64 per month in 2001, a US$21 per month increase over the minimum wage in 2000. Minimum wage laws change frequently in Ecuador to compensate for rapid inflation. Employers in the formal sector are prohibited from firing workers without the permission of Labor Ministry inspectors. Other labor laws guarantee the right of large-firm workers to form trade unions but limit the length of solidarity strikes to 3 days, permit the hiring of temporary workers in export processing zones, and promise 15-day vacations, social security, and job training. Although these regulations are spelled out thoroughly in Ecuadorian law, they are enforced only in the formal sector and, therefore, do not benefit the majority of workers.

Unemployment lingered at 12 percent in early 2001, down slightly from 2000 but still well over the average rate for the 1990s. One of the most stubborn labor problems for the economy is the lack of skilled workers. The public school system focuses on academic and intellectual education and neglects vocational training, although there are few academic-oriented employment opportunities in Ecuador. The dilemma of vocational education is different for women, who are often pigeonholed into traditionally female work in the service sector, where they receive less pay than men do. While the **GDP per capita** was $4,940 in 1997, the GDP per capita for women was only $1,925.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1450s. Incas conquer indigenous tribes in and around Quito.

1531. Spanish conquistador Francisco Pizarro lands on the Ecuadorian coast.

1534. Spain conquers Ecuador and claims the city of Quito. Ecuador becomes part of the Spanish Viceroyalty of Peru.

LATE 1500s. The Spanish establish large agrarian estates, or *haciendas,* which feature indigenous *peons* working for European owners.

1739. Ecuador becomes part of the Spanish Royalty of Nueva Granada, which also comprises Colombia and Venezuela.

1822. Antonio José de Sucre, one of revolutionary leader Simon Bolivar's field marshals, defeats Spanish Royalists at the battle of Pichincha, near Quito. Ecuador becomes part of Gran Colombia, the independent territory comprised of Colombia, Ecuador, Panama and Venezuela.

1830. Ecuador leaves Gran Colombia to become a fully independent state.

1845–60. A period of political and military instability is caused by minor wars with Peru and Colombia and increasing tension between the conservative center Quito and the liberal metropolis Guayaquil.

1860–75. Autocratic conservative Gabriel Garcia Moreno holds power and establishes education and public works programs.

1895–1912. Radical liberal General Eloy Alfaro rules and reduces the power of the Catholic Church.

1925–48. Ecuador undergoes a period of great instability.

1941. Ecuador loses a border war with Peru and gives up land in the Amazon.

1970s. Ecuador becomes a major producer and exporter of oil.

1979. Ecuador adopts a new democratic constitution and gains official recognition as a democratic nation.

1981. Border conflict with Peru surfaces again.

1988. Rodrigo Borja Cevallos wins the presidency and introduces austerity measures designed to discipline the economy.

1992. Ecuador withdraws from OPEC to avoid export limitations.

1994. President Sixto Duran Ballen's neo-liberal program encounters strong opposition.

1995. War between Ecuador and Peru flares up again.

1997. President Abdala Bucarám flees Ecuador on charges of corruption. Fabian Alarcón becomes interim president.

1998. Jamil Mahuad becomes president and negotiates an end to the 157-year border dispute with Peru.

1999. Economic crisis hits, sparking rampant currency depreciation, high inflation, and severe unemployment.

2000. Mahuad is ousted in a non-violent coup after announcing plans to dollarize the economy. Vice President Gustavo Noboa is installed as president.

2000. Dollarization reaches completion.

FUTURE TRENDS

There are several issues facing Ecuador that will influence its future economic performance. Dollarization and the economic reforms of 2000 will provide the economy with stability and credibility if they are carried out as designed, free of partisan battles. Yet, these reforms will not succeed without cost to the social wellbeing of the nation, since welfare and other social programs will be cut, government jobs will be eliminated, and further inflation will occur connected to the change of currency. The success or failure of reform will depend heavily on the reactions of the Ecuadorian people to these social strains. An uprising like the coup that occurred in January 2000 could upset the entire program and inhibit further progress; conversely, an expression of faith in Ecuador's government could help to consolidate democracy and attract investment from abroad.

Another immediate concern for Ecuador is the turmoil over Plan Colombia, the United States' US$1.3 billion anti-drug offensive in Colombia. A massive influx of people from southern Colombia into northern Ecuador is anticipated, and an overflow of violence into Ecuadorian territory. Ecuador has given the United States military access to its base in Manta, an agreement that created tension between Colombian guerillas and the Ecuadorian government. The severity of Colombia's internal conflict will have major implications for the Ecuadorian economy because the Ecuadorian government does not have money to set up a major operation on the Colombian-Ecuadorian border.

The long-term outlook for Ecuador's economic and social well-being is as precarious as in the short term. While the land is rich in natural resources, the country has not been successful in using this advantage to develop sources of consistent income and growth. Price instability for major exports on the international market makes for further difficulties. Ecuador's oil production will receive a boost from the completion of a new refinery and pipeline, expected within 2 years, but this will not be enough to sustain the national economy. The best hope for future growth in Ecuador is the diversification of its exports and substantial investment in value-added industries that can produce higher-value goods. Such diversification, combined with the consolidation of democracy and a disciplined approach to government expenditure, offers the best solutions for Ecuador's future economic and social advancement.

DEPENDENCIES

Ecuador has no territories or colonies.

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—Heidi Jugenitz

EL SALVADOR

Republic of El Salvador
República de El Salvador

CAPITAL: San Salvador.

MONETARY UNIT: Colón (¢, often called "Peso"). One colón equals 100 centavos. Coins are in denominations of ¢1, and 1, 5, 10, 25, and 50 centavos. Paper currency is in denominations of 5, 10, 25, 50, and 100. U.S. dollars have also been accepted as a dual currency since January 2001.

CHIEF EXPORTS: Coffee, sugar, shrimp, textiles, chemicals, electricity.

CHIEF IMPORTS: Raw materials, consumer goods, capital goods, fuels, foodstuffs, petroleum, electricity.

GROSS DOMESTIC PRODUCT: US$24 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$2.8 billion (f.o.b., 2000 est.). **Imports:** US$4.6 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. El Salvador, a Central American country slightly smaller than Massachusetts, borders the North Pacific Ocean between Guatemala and Honduras. It has a land area of 20,720 square kilometers (8,000 square miles) and a coastline of 308 kilometers (191 miles). Land boundaries in El Salvador total 545 kilometers (339 miles). It shares a 327-kilometer (203-mile) border with Guatemala in the northwest, and a 341-kilometer (212-mile) border with Honduras in the southeast.

POPULATION. In 2000, the population of El Salvador was about 6.2 million and was growing by approximately 2.1 percent a year. At this rate, the population is expected to climb to nearly 8 million by 2015. The birth rate in 2000 was estimated to be 29.02 per 1000, and the death rate, 6.27 per 1000.

About 90 percent of the Salvadoran population is *mestizo* (of mixed Spanish and Amerindian ancestry). Native Amerindians make up about 1 percent of the population, and whites account for the rest. A significant portion of the population, nearly 40 percent, is under the age of 15. Those 65 and older account for only 5 percent of the population. The percentage of Salvadorans living in rural areas declined in the last half century from 64 percent in 1950 to about 40 percent in 2000.

Over the past 20 years the Salvadoran population has been subject to highly stressful conditions. A number of military coups (domestic takeovers of governments) in the 1970s and sham elections rigged in the army's favor diminished civilian confidence in the political system and spawned a violent guerilla movement (guerilla wars are fought by units with non-conventional military and political tactics). The 1980s were marked by a series of bloody conflicts between leftist rebels and right-wing paramilitary death squads who, with tacit support of the army, violently suppressed opposition. Over the course of the decade, 70,000 people were killed. Thousands fled the country, many coming to the United States. There are currently about 1 million Salvadorans living in the United States, many illegally or with uncertain legal status.

OVERVIEW OF ECONOMY

El Salvador's civil war, which lasted from 1979 until 1990, had a devastating impact on the country's economy. Rebel guerillas during the fight engaged in widespread sabotage, damaging the nation's **infrastructure** and undermining production and distribution. Export levels dropped during the war and earnings declined. Revenue losses during this period amounted to $2.2 billion.

Since the signing of the peace accord between the government and rebel factions in 1992, the economy has improved. Alfredo Cristiani, who as head of the Arena party became president in 1989, launched free market initiatives and tightened fiscal control. Competition was

increased in a number of sectors; banks were **privatized**, import **duties** were lowered, and **price controls** on consumer products were virtually eliminated. Successive administrations have continued market **liberalization**. **Tariffs** were further reduced under Armando Calderon Sol, who was elected president in 1994. The Calderon administration also sought to strengthen intellectual property rights, and in 1998 the government privatized the country's main power plants and telecommunications firms, marking the most extensive efforts thus far to liberalize the economy.

Improvements in economic performance in the first half of the 1990s boosted investor confidence and led to a significant rise in the inflow of foreign capital. However, by 1995 the post-war boom was over, and the economy began to cool. Agriculture, once one of the country's primary export producers, registered little growth in the latter part of the 1990s, diminishing its role in the economy. The manufacturing industry, on the hand, grew rapidly during the 1990s, although by the end of the decade its performance, too, had begun to decline. In the late 1990s, no sectors registered significant gains. Overall, GDP growth rates fell: 4.0 percent in 1997, 2.6 percent in 1999, and to 2.5 in 2000.

Commercial and financial services are fast replacing industry and agriculture as the mainstays of the country's economy. As the once rural-based economy gives way to urban dominance, peasants are abandoning farm labor and moving toward the cities in search of higher paying jobs, leading to the development of shantytowns around many urban areas.

The growth in industry, primarily in the *maquila* sector (offshore assembly for **re-export**), added new jobs to the economy in the 1990s. However, a majority of those were taken by women. Unemployment among young males is still high, which some associate with El Salvador's high crime rates.

With no discovered reserves of oil or coal, the country is dependent on imports for fuel and energy. **Trade deficits** in El Salvador, while historically broad, widened in the 1990s. **Remittances** from Salvadorans working overseas, which in 1999 totaled US$1.6 billion, help to offset trade imbalances. However, at least a portion of the trade deficit is generally financed through borrowing, which adds to the country's debt.

Remittances from expatriates are the country's largest source of foreign currency, bringing in more money than all the traditional exports combined. Some of the cash inflows likely come from smuggling and drug-running operations. **Money laundering** is becoming prevalent as well. If El Salvador is unable or unwilling

to crack down on these illicit operations, establishing favorable trade deals with the United States will become difficult.

Taxes also provide a significant source of revenue. The **value-added tax** (VAT), which was established in September 1992 at 10 percent, was raised to 12 percent in 1995 to offset losses from tariff reductions. The VAT accounts for more than half of all current government revenue. While tax collection is more efficient than it used to be, the system is still hampered by inefficiency and corruption.

POLITICS, GOVERNMENT, AND TAXATION

The political climate in El Salvador fundamentally changed in 1972 when the military overturned a national election that had been won by the Partido Democrata Cristiano (PDC). Groups of students, peasants, and members of the labor movement abandoned the electoral process, forming guerilla groups in opposition to military rule. Throughout the 1980s, rebels and government forces clashed. Attempts to suppress the rebellion by the army and paramilitary death squads were brutal but ultimately unsuccessful. In November 1989, the guerillas—under the party banner Frente Farabundo Marti para la Liberacion Nacional (FMLN)—launched an attack on the capital, San Salvador. The 2-week siege was effective, convincing government and business elites in El Salvador to seek an end to the war. Negotiations brokered by the UN resulted in the signing of a peace accord that went into effect on 16 January 1992. Members of the FMLN agreed to lay down their arms in return for political and military reforms, including a reduction in the size and role of the military. By the time the war had ended, 70,000 people had been killed.

In March of 1989, the right-wing party Alianza Republicana Nacionalista (Arena) won control of the presidency with its candidate, Alfredo Cristiani. Arena has held the executive branch ever since.

The Salvadoran constitution, enacted 23 December 1983, stipulates that the country be headed by a president and vice president who are elected to 5-year terms. The legislature is made up of an 84-member body elected every 3 years, which is responsible for taxes and the ratification of treaties signed by the executive. Members of the Supreme Court, El Salvador's highest judicial authority, are selected for fixed terms by members of the legislative assembly. El Salvador considers itself a representative democracy.

The Arena party, while controlling the executive branch, has been struggling to maintain its power in the legislature. The FMLN, since laying down its arms, has become a force in mainstream politics. It captured 31 seats in the legislative assembly in 2000, making it the largest party in the **unicameral** (one chamber) congress. It has also gained control of the municipalities in most major cities, including San Salvador, giving it governing authority over about half the country at the local level. The FMLN's rise to power has forced Arena to abandon some of its far-right positions in an effort to gain legislative support for its policies.

The 1980s in El Salvador were marked by chronic trade deficits and fiscal imbalances. Expenditures outpaced revenues, destabilizing the currency and raising the rate of **inflation**. When Alfredo Cristiani came to office in 1989, he introduced fiscal austerity, liberalization, and privatization as a means to induce economic stability. He also passed a series of tax reforms to lure foreign investment, including the abolition of export tariffs on coffee and sugar. To offset losses from the cut, a 10 percent VAT was implemented in September of 1992. The VAT was increased to 12 percent in 1995 in order to fund cuts in the asset tax, which was revoked in 1994, and capital gains taxes, which were removed in 1996.

The VAT in 1999 accounted for over half of the government's revenue. Still, **public sector** revenues have suffered as tax collection has been persistently corrupt and inefficient.

Armando Calderon Sol, elected in 1994, expanded on the policies of the Cristiani administration, seeking higher investment by reducing import tariffs, accelerating the privatization of state assets, and introducing a **fixed exchange rate**. The Calderon administration privatized 75 percent of the country's 4 regional power plants and split up the national phone company, which was sold to consortia made up of private investors and local partners. The shift from a state-run to a liberal, market economy has continued under the current president, Francisco Flores, but economic growth has been slow.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

War, corruption, and general neglect have taken a toll on El Salvador's infrastructure, as have a string of earthquakes that hit the country at the beginning of 2001. Improvements are badly needed. There are 10,029 kilometers (6,232 miles) of roads in the country. Less than 1,999 kilometers (1,242 miles) of them are paved. The country's rural and secondary roads often become flooded during the 6-month rainy season. In the cities, population growth and a rise in vehicle ownership have increased traffic congestion.

There are 2 main highways in El Salvador, both of which cross the Lempa River. The bridges servicing the

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
El Salvador	48	464	675	N/A	18	N/A	N/A	1.17	40
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Mexico	97	325	261	15.7	35	3.0	47.0	23.02	1,822
Guatemala	33	79	126	28.5	10	N/A	8.3	1.26	65

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

highways were destroyed by rebels during the war. Temporary spans were established to accommodate traffic, and in the late 1990s, efforts were underway to rebuild the bridges and repair smaller crossings along the 2 main routes. However, in 1998 the temporary bridges and the repair work were swept away in floods caused by Hurricane Mitch. The reconstruction project, financed by a US$90 million loan from Japan, is expected to be completed in 2001.

While road construction measures have been considered in order to facilitate travel and alleviate urban congestion, there is currently no specified transportation policy. In the 1990s, increased transportation spending resulted in few real improvements. Due to high levels of corruption in the administration of road contracts, several highway projects that got underway were never completed. The government has had a difficult time forcing contractors to meet deadlines and maintain adequate quality standards. In 1999 new legislation was being considered that would regulate bidding and require completion bonds for contracts.

Efforts were renewed to improve the road network in 1999. A construction project was initiated to build overpasses and new interchanges in the capital city to mitigate traffic problems. Other improvements were being considered as well, including the construction of 2 ring roads around the capital area and the creation of a special road fund which would finance highway improvements throughout the country. The fund, however, would likely depend on the creation of a new gasoline tax. As of March 2000, the time of mid-term elections, politicians in El Salvador had refused to acknowledge the need for such a tax, leaving the fund's creation in doubt. A string of earthquakes that struck El Salvador in January and February 2001 will also delay the implementation of road construction programs, as money and foreign aid will be diverted to more urgent reconstruction projects.

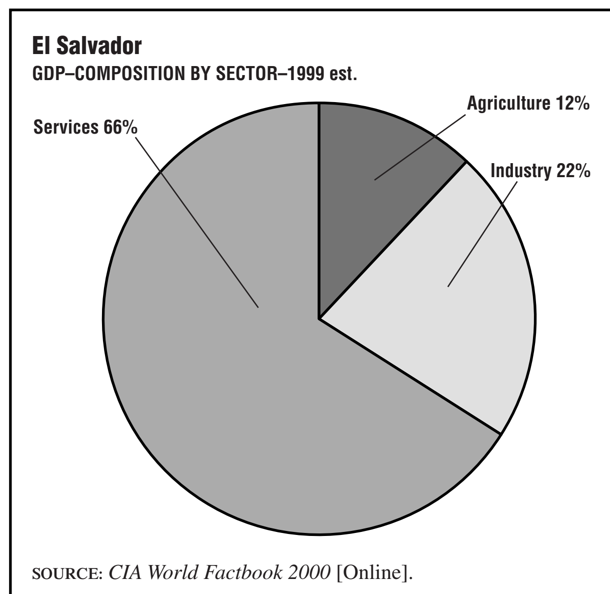
El Salvadorans are dependent on 3 main sources for their energy: hydroelectricity, geothermal power (including oil), and firewood. No deposits of oil or coal have been found. Thermal energy was widely utilized until the 1970s when rising world oil prices led to a higher dependence on hydroelectricity. About one-third of the country's energy consumption is still derived from oil imports.

The generation of electricity and the development of energy resources generally falls under the purview of the Comicion Ejecutiva Hidroelectrica del Rio Lempa (CEL), a state-run agency which recently privatized 4 of its regional distribution companies. CEL is also targeting 3 of its thermal generating plants for privatization. It is hoped that opening the market to competition will increase investment in the sector. Customers will likely reap long-term benefits as well, as electricity tariffs are reduced.

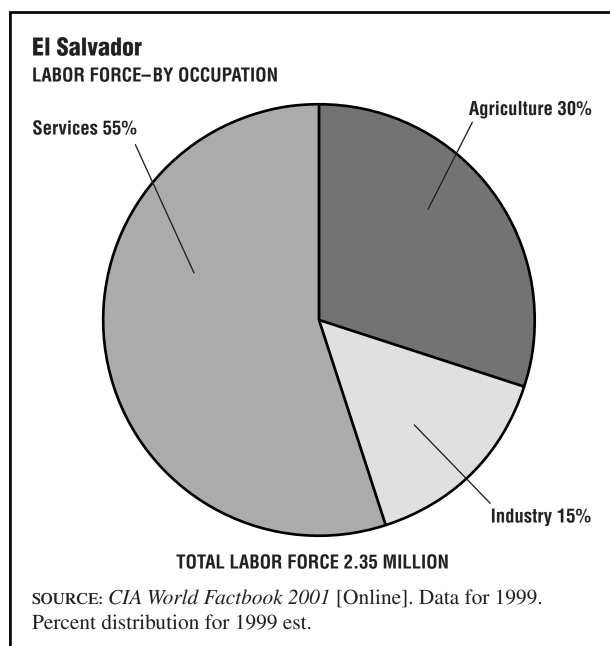
ECONOMIC SECTORS

El Salvador relies primarily on financial services and manufacturing for the generation of export revenue. Agriculture, once the country's dominant economic sector, has declined in importance but still plays a strong role in the economy. The economic **restructuring** which occurred over the 1980s and 1990s was undertaken to reduce volatility. Agricultural production was vulnerable to price declines and poor weather, prompting the government to reposition the economy in favor of more stable sources of revenue. The service and manufacturing industries were targeted for development.

Growth in the manufacturing sector was substantial in the 1990s, primarily due to the expansion of the *maquila* (offshore assembly for re-export) industry which has become the country's single largest category in terms of export revenue. Revenues generated by industry exports more than doubled in the last half of the decade. The CIA *World Factbook* estimated that by 1999 agriculture accounted for 12 percent of the GDP, industry 28 percent, and services 60 percent.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1999 est.

AGRICULTURE

Agriculture, while showing negligible growth towards the end of the 1990s, has continued to play a key role in the Salvadoran economy, employing nearly 25 percent of the country's **labor force**, providing a third of its export earnings, and meeting about 70 percent of domestic food needs. In 1996, agriculture accounted for 14 percent of the GDP. By 1999, agriculture accounted for 12 percent of the GDP, but employed nearly 30 percent of the labor force.

Prior to the 1980s most of the land in El Salvador was owned by a minority of wealthy elites. Roughly 70 percent of the farmers who worked the land were **sharecroppers** or laborers on large plantations. This situation began to change in 1979, when a military-civilian junta came to power and issued sweeping land and agrarian reforms. The government carried out policies of property redistribution to address the grievances of the rural poor and make up for past injustices. Land was transferred to small farmers in an effort to create a rural middle class. By 1990, when the reforms came to an end, 22 percent of El Salvador's land had been transferred to farmers who had previously worked the land but did not own it. Over 500,000 farmers benefitted from the reforms.

El Salvador's mild climate and fertile soil have proven ideal for the production of the country's main export crops—coffee and sugar. Coffee production, which began on a mass scale in the 1850s, dominated the country's economy for over a century and is still the largest agricultural export, accounting for US$244 million in revenues in 1999, about 10 percent of all export earnings. Sugar, the next largest export, was responsible for about 2 percent of export revenues in 1999, bringing in approximately US$46 million. Fisheries have grown more important to the economy as well, mainly through shrimp production, which is third in agricultural export earnings behind coffee and sugar, generating US$25 million in revenues in 1999, a little over 1 percent of the total.

The earnings from agricultural exports as a percentage of the country's total export revenues diminished in the 1990s. Coffee revenues, especially, began to fall during this time. A surge in coffee prices in 1997 led to a brief revitalization in the sector, but poor harvests and falling prices in 1998 sent revenues plummeting. Between 1997 and 1999, coffee earnings dropped by over 50 percent. Improved harvests may raise coffee-generated revenues in the near future, but coffee will not likely regain the position it once held as a mainstay of the economy. Maize, beans, rice, and sorghum are food crops produced primarily for domestic consumption.

Cattle production plays a role, albeit a slight one, in the economy. Widespread cattle rustling and extortion have made ranching difficult, although milk production has increased.

INDUSTRY

The industrial sector of El Salvador accounted for 28 percent of the GDP and employed 15 percent of the labor force in 1999.

MINING. Mining currently plays a negligible role in the Salvadoran economy, accounting for just 0.3 percent of the GDP in 1997, with mineral production limited primarily

to gypsum, sea salt, and construction materials such as limestone. While mineral deposits are thought to exist, there has been little attempt in the past 20 years to exploit them. The country had 2 gold mines in operation until the early 1980s: San Cristobal in Morazan province and El Dorado in Cabanas province. Both fell into disuse during the country's civil war. There has been some renewed interest in mineral exploration at the El Dorado mine. A joint mining venture between Mirage Resources, Bethlehem Resources, and Dejour Mines was launched in July 1993. Although San Cristobal is estimated to contain 200,000 tons of ore, including deposits of gold and silver, efforts have not been made to reestablish large-scale operations there.

MANUFACTURING. El Salvador's manufacturing base was established in the 1950s. As regional markets began to open in the 1960s as a result of the Mercado Comun Centroamericano (Central American Common Market, CACM), the industry began to expand. There was significant growth in the output of **capital goods** and chemicals in the 1970s, but manufacturing contracted in the 1980s as a result of the war and **recession**. The CACM began to collapse, there were shortages of foreign exchange, and the manufacturing base declined. The industry rebounded strongly in the 1990s primarily as a result of growth in the *maquila* sector. However, this growth steadied somewhat towards the end of the last decade as the industry matured. Expansion was also slowed by competition, especially from Mexico, which, as a party to NAFTA, receives trade benefits from the United States. Almost a dozen manufacturing plants in El Salvador closed in 1998. As of 1999, no new ones had opened.

Over the last 10 years, the *maquila* industry has emerged as the largest producer of export revenue in El Salvador, boosting manufacturing to 22 percent of the GDP. Production and export revenues from *maquila* doubled between 1994 and 1998, going from US$650 million to US$1.3 billion. Offshore production has become more important than local manufacturing, employing around 50,000 people, 85 percent of whom are women.

New opportunities have arisen since the 1990s from the revival of regional trade, yet Salvadoran manufacturers have been hard pressed to develop competitive advantages. Failure on the part of manufacturers to modernize operations, which some have blamed on the high cost of investment, have left local manufacturers vulnerable to increased competition. Compounding this liability was the failure to achieve a NAFTA parity agreement with the United States. (NAFTA is the North American Free Trade Agreement.) By enjoying a "parity agreement" under NAFTA, El Salvador would have had the same free trade benefits as NAFTA signatories Mexico and Canada.

CONSTRUCTION. After the peace accord was signed in 1992, construction levels in El Salvador rose, with the building industry growing at an average rate of 6.7 percent a year between 1992 and 1997. Growth peaked in 1994 at 11.5 percent. Due to such rapid expansion, supplies of new property began outpacing demands. Construction began on 6000 new homes in 1997 alone. Many housing and commercial units built during this period have yet to be sold. In 1998, growth slowed to 3.7 percent, and in 1999 it further declined to 2.2 percent amidst allegations of corruption and charges that the sector was being used as a front for money laundering. The Camara Salvadorena de la Industria de la Construccion (Casalco, the construction industry association) is marketing newly-built homes to Salvadoran expatriates in the United States. The earthquakes that hit El Salvador at the beginning of 2001 will also stimulate activity in the construction sector.

SERVICES

El Salvador's service sector was the most dominant sector in the late 1990s. It accounted for 60 percent of the GDP and employed 55 percent of the labor force in 1999.

TOURISM. Although El Salvador has a coastline of over 308 kilometers (191 miles) and is home to ancient ruins, tourism in the country is limited. As of 2000, there had been no major initiatives launched to spur growth in the sector.

FINANCIAL SERVICES. A primary component of the Salvadoran economy is the financial services sector, which has grown rapidly in recent years as the dependence on agricultural exports has declined. The sector registered an annual growth rate of 9.6 percent between 1995 and 1999.

In November 1998, the central bank in El Salvador increased bank reserve requirements by 3 percent. The increase was phased in over 5 months to reduce the available money supply and slow inflation. As a result, the average **reserve ratio** rose from 21 percent to 24 percent. Banks raised interest rates to make up for lost **liquidity**, and the economy slowed. In 1999, requirement rates were restored to their previous levels. A drop in interest rates could help quicken the rate of economic growth.

The rise in bank reserve ratios may also have been implemented to keep banks from overextending themselves. Bank failures in the 1990s lowered client confidence and small banks have suffered as a result, with many depositors transferring funds to the country's 3 or 4 largest institutions.

INTERNATIONAL TRADE

War and civil unrest in El Salvador during the 1980s disrupted production, undermined the export sector, and raised the demand for imported goods. As import levels

Trade (expressed in billions of US$): El Salvador

	Exports	Imports
1975	.531	.614
1980	.967	.966
1985	.679	.961
1990	.582	1.263
1995	.998	2.853
1998	1.263	3.112

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

began to surge in the early 1990s, the trade deficit grew, reaching US$1.7 billion in 1995, about 15.4 percent of the GDP. By 1999, the deficit had narrowed slightly to US$1.6 billion, accounting for 13.3 percent of the GDP.

Total exports in 1999 amounted to around US$2.5 billion, and imports were about US$4.1 billion. These amounts rose to US$2.8 billion for exports and US$4.6 billion for imports by 2000, according to the *World Factbook.* Over the years, El Salvador's trade imbalance has been partially offset by family remittances. However, continuing deficits have forced the country to rely on foreign aid to pay for consumption.

El Salvador is dependent on the United States for a majority of its trade. Exports to the United States grew steadily over the latter part of the 1990s, climbing from US$844 million in 1995 to US$1.5 billion in 1999. By the end of the decade exports to the United States accounted for 63 percent of the total. Imports of U.S. goods grew as well during this period, though not as dramatically, rising from US$1.7 billion in 1995 to about US$2.1 billion in 1999. As of 1999, about 52 percent of Salvadoran imports came from the United States.

El Salvador's largest trading partner behind the United States is Guatemala, which accounts for about 11 percent of its exports and 9 percent of its imports. The remaining trade is conducted primarily with Germany, Japan, Costa Rica, Honduras, the Netherlands, Mexico, and Panama. El Salvador's main exports include coffee, sugar, and shrimp, as well as textiles and products derived from offshore assembly.

The Triangulo del Norto (Northern Triangle, or NT, consisting of El Salvador, Guatemala, and Honduras) has negotiated a free trade agreement with Mexico pending approval from the United States. Talks with Mexico stalled in 1998 when NT countries demanded they be given up to 15 years of preferential access to Mexican markets to allow local industries time to retool and to mitigate near-term trade imbalances which might arise from an influx of Mexican goods. Disputes blocking the deal were resolved in the latter part of 2000, and an agreement was signed. Mexican industries have become increasingly interested in Central American markets, primarily for the distribution of household appliances, processed foods, clothing, and footwear. Under the terms of NAFTA, trade agreements between Mexico and her neighbors must gain U.S. approval.

El Salvador, at least in the near term, will probably not succeed in its bid to gain NAFTA parity for its exports. NAFTA parity would benefit El Salvador by making merchandise shipped to the United States more competitive. Rising levels of drug trafficking and organized crime in El Salvador could complicate future bids for export parity.

MONEY

Stabilizing El Salvador's currency and keeping inflation down are key components in the government's plan to attract foreign investment. In 1994, the colon was fixed at ¢8.755 = US$1. Strong reserves allowed the Central Bank to maintain the fixed exchange rate. Bank reserves in 1999 were US$1.97 billion, nearly 4 times what they were in 1992, when reserves stood at US$501 million. The end of the civil war, privatization of state assets, and strong family remittances have fueled the growth in reserves, which rose US$204 million in 1999 alone.

On 1 January 2001, the government in El Salvador gave up control of its **monetary policy**. It abandoned the fixed exchange rate and "dollarized" the economy. Thus, U.S. currency can be used in El Salvador as legal tender. El Salvadoran monetary policy is now effectively in the hands of the U.S. Federal Reserve Bank.

Proponents of dollarization say it will keep the currency stable and help drive interest rates down. Critics argue that the export sector could be hurt by the move. They point out that exporters are having trouble maintaining market share in the global economy. Converting to the dollar, they argue, might lock in this competitive disadvantage.

Exchange rates: El Salvador

Salvadoran colones per US$1	
Jan 2001	8.755
2000	8.755
1999	8.755
1998	8.755
1997	8.755
1996	8.755

Note: Salvadoran currency has been at a fixed rate since 1993.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

The wealth in El Salvador is held by a small minority of the population who made their money from coffee and sugar and have now diversified into finance and commerce. Land reforms and property redistribution in the 1980s improved the situation for many small farmers and peasants, but there is still a substantial divide between the rich and the poor. According to a report from the U.S. Agency for International Development (USAID), El Salvador's per capita income is the fifth lowest in the Western Hemisphere (when adjusted to reflect the cost of living).

The health-care system in El Salvador is in a state of disarray. Medical unions are resisting government moves toward privatization, and as a result strikes by hospital personnel have become common. Supplies of basic drugs and medical equipment are often inadequate. Hospital budgets are used up to pay salaries, with little left over for other costs. Still, general health trends have managed to improve over the last 30 years. The infant mortality rate, though still high, has fallen by over 70 percent in the last 3 decades, from 105 per 1,000 live births in 1970 to 31 per 1,000 in 1997. During the same period, life expectancy increased from 57.4 to 69.1 years. The death rate for children under 5 remains high at 81 per 1,000.

The education system in El Salvador is weak. According to the USAID report published in 1998, less than 50 percent of Salvadorans graduate from the sixth grade, only 1 out of 3 complete the ninth grade, and only 1 out of 5 complete high school. The Ministry of Education has worked to improve the quality of schooling in El Salvador, and some of its efforts have met with success. The Economist Intelligence Unit (EIU) reported in 2000 that programs designed to increase community participation in education at rural schools has increased student enrollment. The school day has been extended as well. Also, in 1995 a program was introduced integrating health care and public works agencies with education initiatives to ensure students had clean water, regular medical examinations, and nutritional monitoring.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
El Salvador	1,779	1,596	1,333	1,378	1,716
United States	19,364	21,529	23,200	25,363	29,683
Mexico	3,380	4,167	4,106	4,046	4,459
Guatemala	1,371	1,598	1,330	1,358	1,533

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: El Salvador

Lowest 10%	1.2
Lowest 20%	3.4
Second 20%	7.5
Third 20%	12.5
Fourth 20%	20.2
Highest 20%	56.5
Highest 10%	40.5

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

El Salvador is highly polluted and suffers from severe environmental degradation. By some estimates, only 59 percent of the population has access to safe drinking water. That figure is likely optimistic. Recent studies have shown that the Lempa river, the country's main potable water source, is contaminated with dangerously high levels of mercury and other heavy metals.

The earthquakes that struck El Salvador in January and February 2001 have made matters worse for the poor. Many were left homeless. Social services have been cut or delayed. The Flores administration has its work cut out for it. Its leadership, or lack thereof, during this crisis will likely determine the future political landscape in El Salvador.

WORKING CONDITIONS

A number of labor laws exist in El Salvador to protect the rights of workers. Some of these laws are enforced more than others. The Ministry of Labor, responsible for upholding labor-related statutes, has limited resources and, as a government agency, has at times been accused of bias when dealing with government-union conflicts.

According to the constitution, workers are guaranteed the right to unionize without the threat of harassment or discrimination. However, this right has not always been recognized. When the government telecommunications firm, CTE, was put up for sale in the 1990s, 72 labor leaders were fired to keep the company union-free for potential purchasers. When the workers appealed, the Ministry of Labor sided with the government on dubious grounds.

Because of its limited resources, the Ministry of Labor cannot conduct thorough labor inspections throughout the country, especially outside the manufacturing districts, and worker complaints of mistreatment, though not altogether common, frequently go uninvestigated.

Forced labor is generally prohibited by law, although in cases of calamity or national emergency the government can make exceptions. Child labor is prohibited. Children below the age 14 are not allowed to enter the workforce. Minors between the ages of 14 and 18 may work with permission from the Ministry of Labor if their employment is indispensable to either themselves or their family. Many children under 14 work despite the laws, either as street vendors or doing general labor for small businesses in the **informal sector**.

The minimum wage in El Salvador varies depending on the industry. Set by a tripartite commission (consisting of members of government, labor, and business), the minimum wage per day as of 1 May 1998 was US$4.81 for commercial, industrial, and service employees. Coffee plantation workers received US$3.66 plus a food allowance, and sugar and cotton plantation workers were paid US$2.61 plus a food allowance. All other agro-industrial workers were paid a minimum of US$2.47 per day. The minimum wage does not provide a decent standard of living for either individuals or their families.

Workers are on the job 6 days a week, for 8 hours a day. They get paid, however, for 7 days (56 hours) of work each week. Minors between age 14 and 18 are required to work no more than 6 hours a day. Employers are required to provide 1 month's wage per year as a bonus to workers, who are also supposed to be given 2 weeks of paid vacation a year.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1524. The Spanish first attempt to subjugate the territory of what is now El Salvador.

1821. El Salvador gains independence.

1822. El Salvador refuses to join union with Mexico, insists on maintaining its independence.

1823. The country joins the Central American Federation under General Manuel Jose Arce.

1838. The Central American Federation collapses. El Salvador becomes an independent republic.

1850s. El Salvador begins large-scale production of coffee after the discovery of synthetic dyes renders indigo production unprofitable.

1972. Jose Napoleon Duarte, leader of the Christian Democratic Party, wins the presidential election. The election is overturned by the military. Guerilla groups are formed in opposition to military rule.

1977. Right-wing government of General Carlos Humberto Romero comes to power.

1979. Leftist guerilla warfare breaks out in the cities and in the countryside and results in a 12-year civil war. Reform-minded military officers and civilian leaders unite and oust Romero, forming a revolutionary junta.

1980. Duarte, who has returned after being tortured and exiled in 1972, joins the junta.

1982. Salvadorans elect a new constituent assembly.

1983. The assembly drafts a new constitution strengthening individual rights.

1984. Duarte, head of the Nationalist Republican Alliance (Arena), becomes the first freely-elected president in over 50 years.

1989. Arena's Alfredo Cristiani wins the presidency. Talks are initiated in September between government and the Farabundo Marti National Liberation Front (FMLN). Talks break down in November when FMLN guerillas launch a nationwide offensive.

1990. The UN steps in to mediate the conflict. El Salvador allows its **exchange rate** to float.

1991. The New York accord is signed by both sides, setting up a framework for peace. The banking system is re-privatized.

1992. A final peace agreement is signed. The FMLN lays down its arms, transforming itself into a mainstream political party. A value-added tax is instituted at 10 percent.

1994. Armando Calderon Sol of the Arena party takes over the presidency. He introduces reforms aimed at liberalizing the economy, including the privatization of state assets. He also institutes monetary stability.

1995. A plan to dollarize the economy fails. The VAT is increased to 13 percent. The economy starts to slow.

1996. Laws to facilitate privatization of state assets are passed.

1998. State sells 4 of its regional electricity distributors. The state telecoms are broken up. Social security privatization begins.

1999. Francisco Flores of the Arena party becomes president.

2001. Earthquakes hit, damaging homes and infrastructure, killing many people. The government dollarizes the economy.

FUTURE TRENDS

El Salvador's future is uncertain. It is a country besieged by poverty and corruption. Crime rates are high,

the standard of living is low, services are scarce, and health care is inadequate. A series of natural disasters have worsened already poor conditions. Hurricane Mitch in 1998 and earthquakes in January and February of 2001 damaged the country's infrastructure, slowed the economy, and destroyed thousands of homes, leaving many in El Salvador, especially the poor, in dire straits. Road and infrastructure improvements will now have to be delayed as funds are diverted to general reconstruction projects. The administration under President Francisco Flores will be tested by the current situation. Flores has already been accused of allocating economic aid along partisan political lines, and his ability to effectively steer the country out of the current crisis will affect his chances for reelection in 2004.

El Salvador has signed a trade agreement with Mexico which will grant Salvadoran exports preferential access to Mexican markets. Trade agreements with the Dominican Republic and Chile should be ratified in 2001–02, which could help boost the economy. What is certain is that solid economic performance will depend on continued growth in the manufacturing and services sectors, whose expansion after the cease-fire helped fuel the postwar boom. Where El Salvador is most vulnerable is in its dependence on U.S. markets, which account for nearly 60 percent of its exports. A high performing U.S. economy will guarantee El Salvador good export earnings. A downturn in the U.S. economy, however, will lower the demand for imports, diminishing one of El Salvador's main sources of foreign exchange.

El Salvador will continue to battle unemployment among young males, which, according to some analysts, has contributed to high crime rates. Smuggling, drug trafficking, and money laundering, if left unchecked, will likely complicate relations with the United States and preclude future trade arrangements.

DEPENDENCIES

El Salvador has no territories or colonies.

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—John Mazor

FRENCH ANTILLES AND FRENCH GUIANA

French Guiana
Martinique
Guadeloupe

CAPITAL: **French Guiana:** Cayenne; **Martinique:** Fort-de-France; **Guadeloupe:** Basse-Terre.

MONETARY UNIT: French franc (F). 1 franc equals 100 centimes. Notes are available in denominations of 20, 50, 100, 200, and 500 francs. Coins are in denominations of 5, 10, 20, and 50 centimes, and 1, 2, 5, 10, and 20 francs.

CHIEF EXPORTS: **French Guiana:** Shrimp, timber, gold, rum, rosewood essence; **Martinique:** Refined petroleum products, bananas, rum; **Guadeloupe:** Bananas, sugar, and rum.

CHIEF IMPORTS: **French Guiana:** Food (grains, processed meat), machinery and transport equipment, fuels, chemicals; **Martinique:** Petroleum products, crude oil, foodstuffs, construction materials, vehicles, clothing, other consumer goods; **Guadeloupe:** Foodstuffs, fuels, vehicles, clothing and other consumer goods, construction material.

GROSS DOMESTIC PRODUCT: **French Guiana:** US$1 billion; **Martinique:** US$4.39 billion; **Guadeloupe:** US$3.7 billion (all in purchasing power parity, 1997 est.).

BALANCE OF TRADE: **Exports:** *French Guiana,* US$155 million; *Martinique,* US$250 million; *Guadeloupe,* US$140 million (all f.o.b., 1997). **Imports:** *French Guiana,* US$625 million; *Martinique,* US$2 billion; *Guadeloupe,* US$1.7 billion (all c.i.f., 1997).

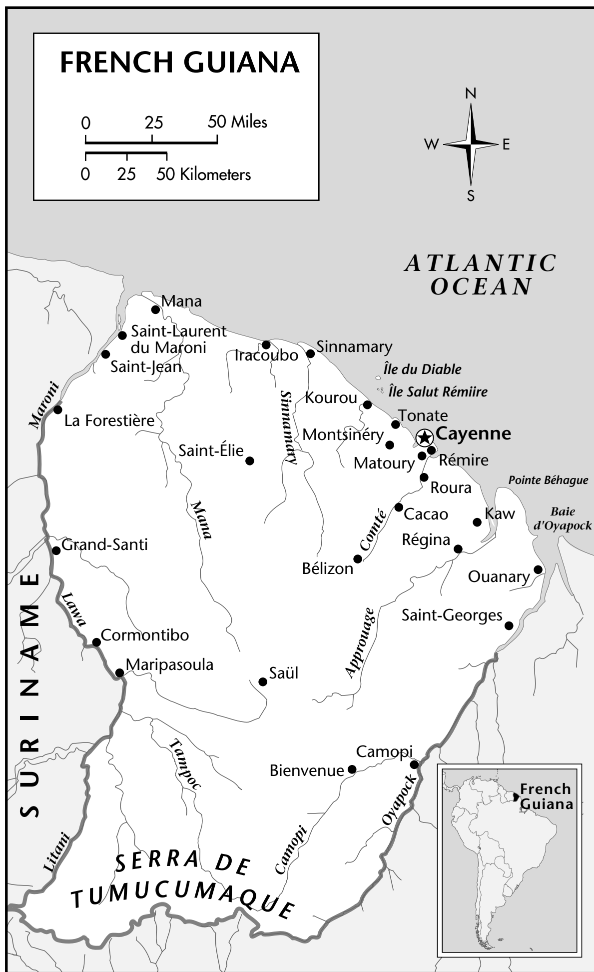
COUNTRY OVERVIEW

LOCATION AND SIZE. French Guiana, Martinique, and Guadeloupe are each separate overseas departments of France. Martinique and Guadeloupe are collectively referred to as the French Antilles, while the 3 countries together comprise the 3 Caribbean Departments of France. Located in northern South America, French Guiana is bordered by Brazil to the south and the east, the Atlantic Ocean to the north, and Suriname to the west. The total area of French Guiana is 91,000 square kilometers (35,135 square miles), rendering it slightly smaller than Indiana, while the coastline spans 378 kilometers (235 miles). Cayenne, the capital of the country, is situated slightly east of the center point along the coastline.

Martinique, a small island that lies between Dominica and St. Lucia in the eastern Caribbean sea, has a total area of 1,103 square kilometers (426 square miles). The capital of Martinique, Fort-de-France, is situated on the northern tip of the island. Martinique is about 6 times the size of Washington D.C.

Guadeloupe, which actually consists of an archipelago of 9 inhabited islands, is also located in the east Caribbean sea, to the north of Martinique, south of the British island Montserrat. The islands of Guadeloupe, including the French part of the island of Saint Martin that is divided with the Netherlands (whose southern portion is named Sint Maarten and is part of the Netherlands Antilles), have a total area of 1,780 square kilometers (687 square miles). The capital of Guadeloupe, the town of Basse-Terre, is located on one of the 9 islands with the same name. Comparatively, Guadeloupe is about 10 times the size of Washington, D.C.

POPULATION. The total population of French Guiana was estimated at 172,605 in 2000, a 4.0 percent increase from the population of 115,930 in 1990. In 2000, the total birth rate was 22.4 births per 1,000 people, while the death rate was reported at 4.76 deaths per 1,000 people. In the same year, life expectancy was estimated at 76.1 years for the total population. With a net migration rate estimated at 11.59 migrants per 1,000 people in 2000, a significant number of French Guianese leave the country in search of opportunities abroad as a result of high levels of unemployment. Still, population growth is quite high and the government has taken measures to increase



knowledge and availability of birth control in all the Caribbean Departments of France (CDF). Population growth rates are expected to decline considerably in the near future, reaching 2.1 percent between 2000–10 and 1.3 percent between 2010 and 2020, at which time the population is expected to equal 244,440. The age structure of the population is generally young, with 31 percent of the population between the ages of 0–14 years, 64 percent between the ages of 15–64 years, and only 5 percent over 65 years (2000 est.).

The total population of Guadeloupe was reported at 426,493 in 2000, a 1.2 percent increase from the population of 377,678 in 1990. Similarly, the total population of Martinique was reported at 414,516 in 2000, an increase of 1.0 percent from the population of 373,565 in 1990. Also in 2000, the birth rate in the French Antilles was estimated at 17.25 births per 1,000 people, while the death rate was 6.01 deaths per 1,000 people. Life expectancy for the average person from the French Antilles was 76.99 years. About 25 percent of all persons from the French Antilles are under 14 years of age, 66 percent are between the ages of 15–64 years, and only 9 percent are 65 years and over (2000). For the French Antilles and French Guiana, young populations have confronted the government with the major task of creating employment to accommodate young workers entering the market. Unemployment rates are exceptionally high (above 20 percent for all 3 departments). With a net migration ratio of -0.15 migrant(s) per 1,000 people in 2000, migration levels are low, despite the high levels of unemployment. As in French Guiana, the population growth is expected to decline considerably over the next 20 years in the French Antilles, from 0.9 percent between 2000 to 2010 and 0.7 percent between 2010 and 2020 in Guadeloupe; and 0.8 percent and 0.5 percent between the same periods in Martinique. The population of Guadeloupe is expected to reach 499,215 in 2020, while the population of Martinique is expected to reach 469,724.

The vast majority of the inhabitants of Martinique and Guadeloupe are of African or mixed African/European ancestry (90 percent). Persons of European ancestry form about 5 percent of the populations of both departments, while the remaining population consists mostly of persons of East Indian, Lebanese, and Chinese descent. Comprising 66 percent of the population in French Guiana, persons of African or mixed ancestry constitute a smaller majority of the population than their compatriots in the French Antilles. Other ethnic groups in French Guiana include persons of European descent (12 percent), Amerindians (12 percent), and persons of East Indian and Chinese descent. Almost all the inhabitants of the 3 separate departments speak French, though many communicate primarily in the French dialect (patois) known as Creole. Approximately 95 percent of the populations of French Guiana and the French Antilles are Roman Catholic.

OVERVIEW OF ECONOMY

The territories that now comprise the 3 Caribbean Departments of France (CDF) were for the most part settled by French settlers throughout the 17th century. The original Carib inhabitants of the islands in the French Antilles were mostly wiped out by the settlers, who subsequently established an economic system based on large sugar plantations and imported African slave labor. Slavery based on African bondage formed the basis of the economy in French Guiana as well, though a significant number of indigenous peoples survived the French onslaught. France abolished slavery in 1848, after which time thousands of Indian and Chinese migrants came to the French Caribbean territories to supplement the newly freed **labor force** on the plantations. The French Caribbean territories continued under colonial rule until 1946, when they became official French departments.

Throughout the post-war period, the economies of the CDF have benefitted from high **subsidies** from the

French government (the French mainland is referred to as the metropolis). According to the Canadian Department of Foreign Affairs (DFAIT) *A Guide for Canadian Exporters* (1997), for instance, French government transfers in the form of salaries, grants, and social welfare equaled approximately 55 percent of the combined GDP of the CDF in 1996. As such, many areas of activity in the economies of the CDF are controlled by the government, although there is certainly much free-market activity. In this sense, the CDF are similar to the larger French economy, which is characterized by a mixed economic system that consists of both public and private economic activity. Indeed, of the 4 largest industrialized economies in the world, France has the highest rate of public economic activity.

Economic policies of the 3 departments have generally been export-oriented, with the vast majority of exports being directed towards France, each other, and other EU members. Exports from the CDF consist mainly of agricultural products. Imports of the CDF consist mostly of higher **value-added** goods, such as machinery, construction equipment, and vehicles, which are more expensive than agricultural commodities. Moreover, since none of the CDF are sufficient in terms of food production, they must import large quantities of foodstuffs. As a result of these factors, the CDF run large **balance of payments** deficits which have led to the accumulation of massive debts. Fortunately, France has helped alleviate debt through annual transfers of aid, thereby preventing the CDF from falling into the **structural adjustment program** (SAP) trap that has negatively affected most of the developing world. SAPs are packages of conditions that developing countries must implement in return for **debt-servicing** funds from the World Bank and the International Monetary Fund (IMF). SAP conditions intended to increase revenue to pay back loans—such as cuts to social spending—have been severely detrimental to the populations of developing countries.

Despite the generous French subsidies designed to encourage development, industrial growth has been slow in the CDF, while unemployment rates remain exceedingly high. The majority of the inhabitants in the CDF are engaged in the service sector, which is also the largest contributor to GDP. In terms of employment and contribution to GDP, industry is the second leading sector, though agriculture remains highly important.

In 1986, the French government adopted a legislative program designed to stimulate the productive sectors of the CDF. The program, which included tax incentives and subsidies for new construction and business investment, has helped stimulate the CDF economies, though they remain subsidy-dependent and agriculturally export-oriented. Further pro-business reforms implemented in the 1990s led to the creation of numerous industrial and commercial zones across the CDF, characterized by tax and import **duty** exemptions.

POLITICS, GOVERNMENT, AND TAXATION

As overseas departments of France, the French Antilles and French Guiana are incorporated into the French political system. As such, the executive branch of the CDF is currently headed by the French president Jacques Chirac, who is represented by a prefect in each respective department. The French legal system and the French constitution are applicable in the CDF, and the Court of Appeals, located in Martinique, has jurisdiction over all the CDF as the highest local court. As semi-autonomous departments, however, the CDF each have a **unicameral** General Council and a unicameral Regional Council, the presidents of which constitute the heads of government. Both councils are elected by popular vote, generally for a 6-year term. Each department also sends representatives to the French National Assembly and to the Senate.

Mainstream leftist parties in the French tradition have dominated politics in the CDF throughout the post-war era. In French Guiana, the Guianese Socialist Party controls both councils, while the General Council and the Regional Council in Martinique are ruled by the leftist parties, the Progressive Martinique Party and the Martinique Communist Party. In Guadeloupe, the General Council is headed by the left-wing Progressive Democratic Party, while the presidency of the Regional Council is headed by the gaullist (right-wing) Rally for the Republic. The presidency of a rightist candidate represents a discontinuity in Guadeloupian politics, though it can be explained by the inability of 2 **socialist** groupings in the council to co-operate effectively. Recent elections for all the councils in all the CDF took place at various points in the late 1990s. Major themes in the politics of the CDF revolve around the economy and the high levels of unemployment. A wide variety of rightist and centrist parties are represented in the councils. There are also a number of small separatist political parties in each CDF, though most parties acknowledge economic dependency on France and are content with seeking further autonomy without independence.

There are 6 tax brackets in the CDF, with taxation rates progressively increasing according to income. Most people are taxed in the bottom tax bracket, however. In Martinique, for example, 118,989 individuals were taxed at the lowest bracket of income, which encompasses those who earn between 0 to 7,624 euros, while 17,341 were taxed at the next lowest bracket and only 6,462 were taxed at the highest (2000 est.). In terms of duties on imports, **tariffs** in the CDF are generally set at the same level as tariffs in metropolitan France. As such, tariff rates

fall into 2 categories: **liberalized** imports and non-liberalized imports. Tariffs for the former are generally low, while tariffs on the latter can be as high as 73 percent, in the case of cigarettes, and up to 40 percent in the case of alcohol.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Infrastructure in the CDF varies according to the type and the specific department. Railways are entirely absent from both Martinique and French Guiana, though Guadeloupe has some private railway lines, all of which are small-gauge and used for commercial purposes. In terms of paved roads, the islands of the French Antilles collectively have about 3,000 kilometers of paved road network (est. 1997), while French Guiana only has 727 kilometers (est. 1995). The lack of roads and railway in the latter are largely explained by the density of the rainforest, which covers 90 percent of all land. Guadeloupe has a total of 8 airports with permanent surface runways (est. 1997), while French Guiana has 4 airports with paved runways (est. 1999), and Martinique only has 2 (est. 1997). Airlines that operate services to and from the French Antilles include Air France, Air Martinique, Air Caraibes, Air Guadeloupe, and Air Canada.

The French Antilles have ports at Fort-de-France on Martinique, and Basse-Terre and Point-a-Pitre on Guadeloupe. The containerization port on Basse-Terre has a quay length of 250 meters (820 feet) with a depth of water alongside of 10 meters (32.8 feet), while the containerization port on Pointe-a-Pitre, the largest in Guadeloupe, has a considerable capacity of 16 berths and wharves with a total berthing space of 2,000 meters (6,562 feet). French Guiana has ports on Cayenne, Degrad des Cannes, and Saint-Laurent du Maroni (est. 1997).

According to the DFAIT *A Guide for Canadian Exporters,* telecommunications in the French Antilles are generally inadequate. It can take up to a week, for example, to obtain usage of a fax or telephone in certain places. In Guadeloupe, there were only 159,000 telephones in 1995, while there were 68,900 telephones in Martinique in the same year. With a total of 159,000 main telephone lines in use in 1995 and a population of 172,605 in 2000, the telecommunications system in French Guiana is considerably more developed than in the French Antilles.

Producing all of their electricity domestically through fossil fuels, none of the CDF import electricity from abroad. Total electricity consumption in Guadeloupe was 1.135 billion kilowatt hours (kWh) in 1998, 588 million kWh in Martinique in 1992, and 430 million kWh in French Guiana in 1998. All of French Guiana's electricity is generated from a single dam at Petit Saut. Both the telecommunications sector and the electricity sector are **monopolized** by the French government through **parastatal** control.

ECONOMIC SECTORS

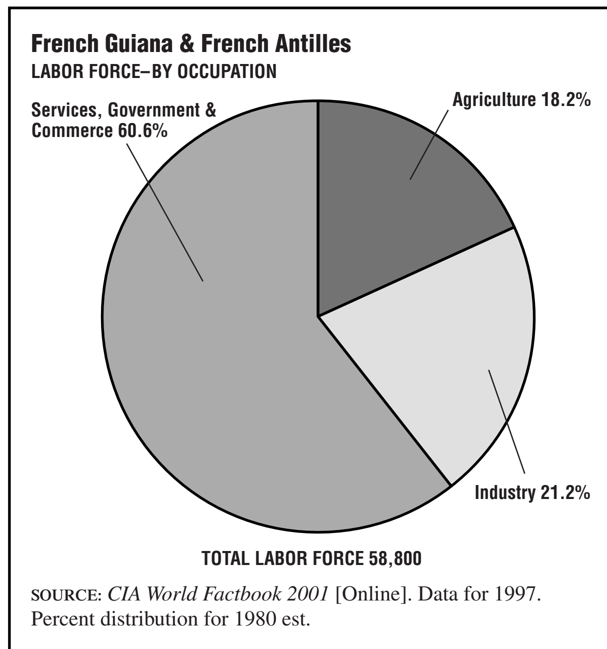
Throughout the colonial period, the economies of the CDF were dominated by sugar production on large plantations. Currently, agriculture has been largely replaced in importance by the service and industry sectors, though the latter remains considerably underdeveloped. Key industries in the CDF include food processing activities in the French Antilles, construction in Guadeloupe, and gold mining in French Guiana. Service-oriented activities are by far the largest contributors to GDP and employment in the CDF, with significant percentages of the labor forces of all 3 departments working in the government bureaucracy. Tourism and **retail** are also important activities in the service sector.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
French Guiana and French Antilles	47,000	N/A	AM 2; FM 14; shortwave 6	104,000	3	30,000	2	2,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Brazil	17.039 M	4.4 M	AM 1,365; FM 296; shortwave 161 (1999)	71 M	138	36.5 M	50	8.65 M
Suriname	64,000	4,090	AM 4; FM 13; shortwave 1	300,000	3 (2000)	63,000	2	10,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997. Percent distribution for 1980 est.

The CIA *World Factbook* estimated the percentage of each sector's contribution to GDP. In Martinique, the agriculture sector accounted for 6 percent, the industry sector 11 percent, and the service sector 83 percent in 1997. In Guadeloupe, the agriculture sector accounted for 15 percent, the industry sector 17 percent, and the service sector 68 percent in 1997. No recent information was available for French Guiana.

AGRICULTURE

Agriculture continues to play an integral, albeit declining, role in the CDF, especially in terms of generating revenue through exports. At the same time, however, none of the CDF are self-sufficient in food production, which means that they have to spend large annual amounts on importing foodstuffs. Most food is imported from France. Agriculture in the French Antilles periodically suffers from the devastating hurricanes that afflict the Caribbean. In 1998, for example, the French Antilles were affected by Hurricane George, and, in 1999 and 2000, hurricanes Jose and Lenny.

GUADELOUPE. In Guadeloupe, agriculture constituted 6 percent of GDP and employed 15 percent of the workforce in 1997, which equaled approximately 120,000. Agricultural produce includes bananas, sugarcane, tropical fruits and vegetables, cattle, pigs, and goats. Large sugar plantations that produce for both export and local consumption purposes continue to dominate, though many have been turned over to the cultivation of bananas. In 2000, the latter accounted for 82 percent of Guadeloupe's total exports, as opposed to 75 percent in 1998. In 2000, 121,758 tons of bananas were exported, 72 percent of which were purchased by the French metropolis. Sugarcane production—Guadeloupe's second most important export—declined by 6 percent (674,822 tons) in 2000 as a result of excessive rain in cultivating regions. Melons, the third largest agricultural export, have increased enormously in production in the past 6 years, rising from 2,561 tons in 1995 to 4,939 tons in 2000.

An estimated 36 percent of the total area of the islands of Guadeloupe are cultivable arable lands, while 10 percent are pasture and 15 percent woodland (1997). Offshore fishing is a traditional source of food, and the main catches include lobster, crab, and octopus. By the end of the 1990s, 11 fishing farms were registered in Guadeloupe and experiments are under way to catch and market sea bream and grayling fish in order to respond to growing demand.

MARTINIQUE. In 1997, agriculture constituted 6 percent of GDP in Martinique and employed 10 percent of the workforce, which equaled approximately 100,000. Agricultural activity is centered on the production of sugar cane, pineapples, and bananas, mainly for industrial processing and export. In 1997, exports of bananas represented 40 percent of Martinique's total exports. Crops such as sweet potatoes, yams, manioc, beans, cabbages, and tomatoes are grown primarily for domestic consumption. The majority of farms in Martinique are privately run by **small-holders**. An estimated 48 percent of the total area of the islands of Martinique are cultivable arable lands, while 25 percent are forest, and 19 percent savannah (1997). Virtually all of Martinique's meat requirements are met by imports. Fishing of lobster, crayfish, crabs, and clams are important for domestic consumption.

FRENCH GUIANA. According to the CIA *World Factbook,* recent statistics on agricultural contribution to GDP and employment in French Guiana are unavailable (nor are they available for other sectoral contributions to GDP and employment). In 1980, however, approximately 18.2 percent of the Guianese workforce engaged in agriculture. Cultivation in French Guiana, where the land is mostly rainforest, is limited to the coastal area. Only 0.18 percent of the land is thus cultivated, with production being dominated by subsistence crops such as rice, maize, and bananas. Sugar cane is also grown for rum production, which is an important, albeit declining, export. Land tenure in French Guiana is highly unequal, with 56 percent and 3 percent of all farming operations occupying 13 percent and 57 percent of the land, respectively.

With shrimp accounting for approximately 50 percent of annual export trading value throughout the 1990s, fishing is the most important agricultural activity in French Guiana. Unfortunately, shrimp exports declined by 26.4 percent from 1999 to 2001, due, in large part, to

increases in fuel prices—the largest expenditure for shrimp fishermen. Such increases meant that fishermen could not conduct their activities as often as in the past.

INDUSTRY

GUADELOUPE. In 1997, industry in Guadeloupe constituted 9 percent of GDP and provided employment for 17 percent of the labor force. Industry is largely devoted to processing agricultural products and light manufactured goods. Major industrial activities include sugar refining, rum distilling, food processing, cement and brick manufacture, box and mail/wire making, mineral water bottling, and ship repair. An industrial free-port with tax and import duty exemptions was recently established at Jarry. Guadeloupe does not possess any mineral resources.

The construction industry, which is the third largest sector of activity in the Guadeloupian economy, employs 12 percent of the workforce in Guadeloupe. Most of the construction sector is dominated by government in the form of public works. Such works provide an enormous boost to the economy and help relieve unemployment. Indeed, the 5,500 public work enterprises in the construction sector comprise 19 percent of all industrial enterprises and engage approximately 10 percent of the entire labor force.

MARTINIQUE. The industrial sector in Martinique is very similar to the industrial sector in Guadeloupe, but slightly more important to the economy in relative terms. Industry in Martinique constituted 11 percent of GDP and engaged 10 percent of the labor force in 1997. Major industries include a cement works, rum distilling, sugar refining, dairy produce, fruit canning, soft drinks manufacture, mineral water bottling and a polyethylene plant. Additionally, a major oil refinery boasts a capacity of 16,090 barrels per day (2000). As of 2000, 5 industrial zones with generous tax and import duty exemptions have been established in order to encourage light industrial development. According to *World Information.Com,* an online encyclopedic organization, the industrial sector remains underdeveloped in spite of the legislated incentives. Martinique, like Guadeloupe, does not possess any mineral resources.

The construction industry, also dominated by governmental public works in Martinique, experienced considerable growth in 2001 when total cement production rose to 243.1 thousand tons from 237.5 thousand the year before. Much of this production was designated for the building of large establishments such as a hospital and a large court.

FRENCH GUIANA. With the exception of a few small factories processing agricultural or seafood products and a few sawmills, manufacturing is virtually non-existent in French Guiana. A rocket-launching site owned by the European Space Agency at Kourou comprises one of the most important economic activities. As a result of the space center, which was built in Kourou in 1964 because of its proximity to the equator, ultra-modern buildings now dominate the city.

In terms of mining, bauxite deposits of 42 million tons and kaolin deposits of 40 million tons were recently discovered, though extraction is not economically viable in the near future due to the department's poor infrastructure. There are also reserves of silica, niobium, and tantalite.

Significantly, gold is mined by a dozen Guianese companies and over 100 small-scale miners. Official figures for the mid-1990s indicate an annual gold production of approximately 3 tons. In 2000, gold accounted for almost half of the department's exports. The United States has played an important role in boosting Guianese gold exports. In 2000, the United States, which did not import any Guianese gold in 1999, imported 7 million euros worth of gold.

According to an article that appeared in the French paper *Le Monde Diplomatique,* gold mining, which exploded in 1993 following the discovery of reserves in Maripasoula, has engendered considerable negative environmental impacts. Forest areas have been cleared, upsetting the ecosystem, and mercury waste, a threat to both fauna and humans, has been dumped in streams and rivers. The Cayode, a group of Amerindians, have protested the environmental destruction. To make matters worse, violent conflict has erupted between opposing gold prospectors, who often hire Brazilians brought into the department illegally to work for highly exploitative wages. The government has not been very receptive to those that are dissatisfied with the situation, as gold mining provides employment for many individuals who would not be able to earn a livelihood otherwise. A contentious debate as to whether certain areas with gold reserves should be set aside for **eco-tourism** has raged in Guianese politics throughout the 1990s. Thus far, the anti-restriction perspective of the miners has prevailed.

SERVICES

In 1997, the service sector in Guadeloupe constituted a whopping 85 percent of GDP and provided employment for 68 percent of the labor force. Similarly, in the same year, the service sector in Martinique constituted 83 percent of GDP and engaged 73 percent of the labor force. Many of the people employed by the service sector in the CDF work for the government in bureaucratic positions. Government and parastatal employees are paid, on average, 30 percent higher than their metropolitan French counterparts. The generous salaries, intended, in

part, to boost consumption and stimulate the economy, provide an essential form of transfer to the highly dependent economies of the CDF.

According to the Australian Department of Foreign Affairs and Trade *French Antilles Fact Sheet 2000,* tourism, which accounted for 7 percent of GDP in both Guadeloupe and Martinique in 2000, has been the fastest growing sector of the economy in the French Antilles throughout the 1990s. In 2000, the number of tourists to Guadeloupe reached 623,000, a significant increase from the approximately 500,000 tourists in 1997. Unfortunately, more recent trends in tourism in Martinique have not been as positive. Indeed, the total number of tourists visiting the department declined from 993,441 in 1999 to 928,197 in 2000. This sharp downward trend illustrates the insecurity of a tourist economy, which depends on the economic well-being and whims of individuals in developed countries for revenue. In both departments, the vast majority of stop-over tourists are from France (80 to 90 percent), while most cruise ship visitors are from North America.

Tourism is an important economic activity in French Guiana with much potential for growth. The major tourist attraction is currently the space center, which received 27,293 tourists in 2000, when there were a total of 12 rocket launchings. With its exotic rainforests and beautiful mountainous scenery, however, eco-tourism could very well surpass the space center in tourist importance. Unfortunately, promises made by former French president Francois Mitterand in 1992 to create eco-parks have failed to materialize. Impediments include conflict over land with gold prospectors and, to a lesser extent, debates concerning whether restrictions should be placed on Amerindians using slash-and-burn agricultural techniques (which are detrimental to the environment). French Guiana received 451,805 tourists in 2000, a significant increase from the 422,075 tourists that visited in 1998.

With several shopping centers, markets, and restaurants in the major cities, the retail sector is relatively well developed in the CDF. **Foreign direct investment** in services has also become more prevalent, and American companies such as McDonald's, Baskin Robbins, and Subway have established operations in Martinique. The real area of growth is in the number of small and medium-sized retail outlets, however, which have increased exponentially. In 2000, there were a total of 10,324 retail outlets in the CDF. Three hundred new outlets, mostly in the leisure and supermarket sectors, were created in Guadeloupe alone. In French Guiana, 900 small enterprises were established in 2000, many of which specialized in commercial or reparation-related activities. According to INSEE, a French government statistical institute, the small enterprise commercial sector is the most dynamic engine of growth in the CDF economies.

The unemployed that do not have the resources to establish small-scale enterprises often find retail work in the **informal sector** by selling products such as fruits and small consumer commodities on the street corners. The informal sector, which is neither taxed nor regulated by the government, also offers services such as machinery and equipment repairs. Incomes acquired through the informal sector are exceedingly low.

INTERNATIONAL TRADE

The CDF trade primarily with each other, France, other EU members, and the United States. Principal exports from Guadeloupe include bananas, sugar, and rum, while imports consist of foodstuffs, fuels, vehicles, clothing and other **consumer goods**, and construction material. About 60 percent of exports are directed towards France, 18 percent to Martinique, and 4 percent to the United States. Sixty-three percent of imports come from France, 4 percent from Germany, 3 percent from the United States, 2 percent from Japan, and 2 percent from the Netherlands Antilles. Martinique's exports are mostly refined petroleum products, bananas, and rum, while imports include petroleum products, crude oil, foodstuffs, construction materials, vehicles, clothing, and other consumer goods. Around 45 percent of exports are directed towards France and 28 percent go to Guadeloupe. Sixty-two percent of imports are from France, 6 percent from Venezuela, 4 percent from Germany, 4 percent from Italy, and 3 percent from the United States. French Guiana mostly exports shrimp, timber, gold, rum, and rosewood essence, while imports consist of food (grains, processed meat), machinery and transport equipment, fuels, and chemicals. Fifty-two percent of exports go to France, 14 percent to the United States, and 6 percent to Trinidad and Tobago. Sixty-two percent of imports come from France, 7 percent from Switzerland, and 2 percent from the United States.

As agricultural exporting and **capital goods** importing departments, the CDF routinely run **balance of trade** deficits that render them highly dependent on French

Trade (expressed in billions of US$): French Guiana

	Exports	Imports
1975	.002	.072
1980	.025	.255
1985	.037	.255
1990	.093	.786
1995	N/A	N/A
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

loans and aid to finance needed imports. Dependency on badly needed foodstuff exacerbates the trade deficits, which, for each CDF, have actually increased in recent years. In 1999, for example, the deficit in French Guiana equaled 427 million euros, whereas this figure increased to 503 million euros in 2000. In 1998, French Guiana's total **external debt** reached $1.2 billion. In terms of trade deficits, however, Martinique is in the worst position, with its deficits surpassing even the total debt of French Guiana. The department, which only had a GDP of $250 million in 1997, had a total deficit of 1.5 billion euros in 2000, a considerable increase from the total deficit of 1.4 million euros in 1999. As a result of these massive deficits, the need for the CDF to further develop their domestic industries and food-producing capacity is all the more urgent.

As departments of France, the CDF are members of the most highly integrated regional economic association in the world—the European Union (EU)—with the least barriers for the movement of goods, services, capital, and labor. Many critics have argued that less developed countries cannot engage in free trade with industrialized countries because they do not possess the ability to compete. In other words, lowering of tariffs simply means that domestic industries in developing countries will falter under competitive pressures, which, in turn, will lead to further entrenchment of the agricultural sector in the economy and a prolonging of uneven patterns of trade. At the same time, however, the CDF have benefitted within the EU as recipients of aid programs and in gaining preferential access to EU markets for agricultural produce. Unfortunately, the World Trade Organization (WTO), which binds the EU economies and most countries of the world in an international free trade arrangement, has criticized EU preferential treatment for CDF agricultural products, such as bananas. WTO members that export bananas argue that EU preferential access for the French Antilles is a violation of WTO free trade rules, which are supposed to guarantee equal access to EU markets for all WTO members on the same terms.

MONEY

As departments of France, the CDF benefit from 2 major international currencies: the French franc and the European euro. The value of the French franc is locked to the euro at F6.56 per euro. The value of the euro, in turn, fluctuates according to European market strength and supply and demand in international money markets. The European Central Bank determines **monetary policy**. Since the euro was introduced in 1999, it has steadily appreciated in value against the U.S. dollar. In 1999, 0.9386 euros equaled US$1, whereas in January 2000 the euro appreciated in value to 0.9867 euros per US$1. While a higher euro value reflects the growing strength of the EU market, less developed areas of the EU such as the CDF suffer from a high currency since it means that more money is needed to purchase their exports. This, in turn, means that their exports are less attractive. In the case of the CDF, this is especially detrimental given the already large trade deficits.

Exchange rates: French Guiana

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	5.8995
1997	5.8367
1996	5.1155

Note: Amounts prior to 1999 are in French francs per US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

The central bank of the CDF, the **bank of issue**, is the Caisse Centrale de Co-operation Economique. There are also numerous state-owned development banks, intended to help foster business through loans and investment, in addition to several commercial banks. The former include the Societe de Credit pour le Developpement des Departement d'Outre Mer (SOCREDOM), the Caisse Regionale de Credit Agricole Mutuael, and the Societe de Credit pour le Developpement Regional Antilles Guyane (SODERAG). The latter include the Banque des Antilles Francaise, Banque Francaise Commerciale, Banque National de Paris, and Societe Generale de Banque aux Antilles.

POVERTY AND WEALTH

According to the DFAIT *A Guide for Canadian Exporters*, the elite class in the CDF is composed primarily of government employees with the most prestigious positions. This segment of society shop in very expen-

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
French Guiana & French Antilles	N/A	N/A	6,000	N/A	N/A
United States	28,600	30,200	31,500	33,900	36,200
Brazil	6,300	6,300	6,100	6,150	6,500
Suriname	3,150	3,400	3,500	3,400	N/A

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

sive boutiques that sell large varieties of high-quality products that are imported to the departments on jumbo jets on a weekly basis. As a result of this type of consumption, much of the money that the elites earn escapes the local economy and directly benefits France and other EU members. This is a major impediment to development, especially considering that the rationale behind awarding CDF government officials higher salaries than their metropolitan counterparts relates to increasing demand in the local economy. Supermarkets provide the same basic goods for both the elites and the middle and lower classes, though the latter must be much more cautious about what they buy. People with high incomes represent about 20 percent of the populations of the CDF, while those with middle or lower incomes constitute the remaining 80 percent.

The French government allocates a significant amount of resources to the CDF to ensure that the standard of living in the departments is similar to the standard of living in the metropolis. Consequently, the CDF enjoy some of the highest standards of living in the Caribbean and South America. Poverty is acute, but it is generally nowhere near the levels of poverty experienced by developing countries with similar economies. This notwithstanding, the standard of living in the CDF in reality falls considerably below that of the standard of living in the French metropolis. In 1997, for instance, **GDP per capita** in **purchasing power parity** in French Guiana, Martinique, and Guadeloupe equaled $6,000, $10,700, and $9,000, respectively, in contrast to the overall GDP per capita (PPP) in France, which equaled $27,975 in 1998. Evidently, there is considerable discrepancy in the social conditions between France and the CDF as a whole, not to mention within the CDF themselves.

Health care and education are generally accessible in the CDF. Free health care is provided for the poorest segments of society, while education is universally free. Furthermore, expenditure on such services has actually increased in some cases, in sharp contrast to the general decline in social expenditures in OECD countries. In Martinique, for example, total expenditure on health care increased from 583 million euros in 1999 to 610 million in 2000. Education is compulsory between the ages of 6 to 16 in the CDF and university is available for those seeking to further their education. In many cases, however, students must leave school early in order to help provide for the family.

WORKING CONDITIONS

In terms of size, the total workforce of Guadeloupe, Martinique, and French Guiana are approximately 120,000, 100,000, and 58,800, respectively (1997 est.) Labor policies are generally quite progressive, reflecting strict French labor codes that enshrine the rights of workers. There are virtually no incidents of child labor, though some children must help their parents in agricultural activities to increase household incomes. Unionization is high in the industrial sector and parts of the service sector. Agricultural workers are also unionized, though to a lesser extent. The major union federations in Guadeloupe are the General Federation of Guadeloupe Workers and the General Union of Guadeloupe Workers, while the major union federation in Martinique is the Central Union for Martinique Workers. Most unions in the CDF are strongly socialist in orientation.

By far, the most daunting problem faced by the CDF in the area of labor relates to the massive levels of unemployment characteristic of each department. Unemployment is especially acute for young workers and, to a lesser extent, women. Strikes and riots have erupted in the CDF as a result of the high unemployment rates, most notably in French Guiana in November 1996, when a general strike was triggered by student frustration with lack of prospects. The nation-wide strike lasted for 2 days, bringing the economy to a standstill.

The unemployment rate in Guadeloupe was 24 percent in 1999, though this represented a substantial improvement from the 27 percent rate in 2000. Job opportunities, particularly in the service sector, expanded by 18.7 percent in 2000 from the year before. Around 14.5 percent of all unemployed in Guadeloupe are young workers between the ages of 16 to 25 years. Unemployment rate figures suggest gender inequalities in terms of employers being more inclined to hire men. In Guadeloupe, for instance, 57.7 percent of all unemployed are women, while these figures are 53 percent and 59.3 percent, respectively, in French Guiana and Martinique. In French Guiana, the unemployment rate in 2000 was 25.8 percent—a marginal decrease of less than 1 percent from the year before. In Martinique, unemployment in absolute terms declined considerably from 48,667 unemployed in 1999 to 43,521 in 2000. The CDF are highly dependent upon the French government for job creation, and unemployment rates would be considerably higher without the support of the government service sector.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1493. Columbus is the first European to arrive in the islands that are now the French Antilles. In 1496, Europeans report their first sightings of South America.

1604. The French establish their first settlement in the area that is now French Guiana.

1635. The French establish their first settlements on the islands of the Antilles, and hostilities with the indigenous inhabitants escalate.

17TH CENTURY. The territories comprising the French Antilles and French Guiana become French colonies characterized by large settler plantations and African slave labor. Control over French Guiana changes several times between France, Britain, the Netherlands, and Brazil.

1848. France abolishes slavery and the liberated slaves in the French Caribbean colonies become a free labor force, though they remain exploited and land-less.

1915. France gains final domination over Guiana.

1946. The French Caribbean colonies become overseas departments with little autonomy over their own affairs. France highly subsidizes the CDF throughout the post-war period and the economies remain dependent on France for aid and transfers to this day.

1964. The Kourou space center is established in French Guiana.

1974. French Guiana is granted regional status and thus greater economic autonomy.

1982–83. The CDF receive considerable autonomy through a process of devolution.

1990s. The French government seeks to encourage industrial development through the creation of commercial zones with special tax and import duty exemptions.

1998–99. Hurricanes George, Lenny, and Jose wreak havoc in the French Antilles. The Basse-Terre declaration issued by the CDF in 1999 calls for greater departmental control over local affairs.

2001. Unemployment and dependency continue to afflict the CDF economies.

FUTURE TRENDS

The Caribbean departments of France are in a unique position in the developing world. Despite the underdeveloped nature of their individual economies, status as French departments has ensured high amounts of subsidization and transfers that have helped to maintain relatively high levels of living standards, especially in the context of South America and the Caribbean. High levels of unemployment would be even higher without the large number of jobs provided by the French governmental bureaucracy and public works. The major challenge for the CDF, therefore, relates to achieving a level of sustainable development that will end this pattern of dependency. The massive increases in the number of small- and medium-size enterprises in the commercial sector is a promising sign. Activities such as those found in the industrial sector must also be strengthened, however, while food production capacity must be increased. Terminating the pattern of unequal trade is of the utmost importance. Tourism and agricultural exports, though important, cannot be promoted as the bases of the CDF economies. Of course, sustainable development is highly elusive, and the French government will have to continue providing support and aid in a context of careful developmental planning in order to realize this goal.

DEPENDENCIES

The French Antilles and French Guiana have no territories or colonies.

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—Neil Burron

GRENADA

CAPITAL: St. George's.

MONETARY UNIT: Eastern Caribbean dollar (EC$). One EC dollar equals 100 cents. There are coins of 10, 20, and 50 cents. There are notes of 5, 10, 20, and 100 dollars.

CHIEF EXPORTS: Bananas, cocoa, nutmeg and mace, fruit and vegetables, clothing.

CHIEF IMPORTS: Food, manufactured goods, machinery, chemicals, fuel.

GROSS DOMESTIC PRODUCT: US$360 million (1999 est.).

BALANCE OF TRADE: **Exports:** US$55 million (1999 est.). **Imports:** US$230 million (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Grenada is an island situated between the Caribbean Sea and Atlantic Ocean, north of Trinidad and Tobago. Its total area is 340 square kilometers (131 square miles), about twice the size of Washington, D.C., and its coastline measures 121 kilometers (75 miles). Grenada has 2 dependencies in the Grenadines island chain: Carriacou and Petit Martinique. Carriacou (pronounced Carr-ycoo) lies 37 kilometers (23 miles) northeast of Grenada and is 33.5 square kilometers (13 square miles) in area, while Petit Martinique lies 4 kilometers (2.5 miles) further north and is only 486 acres in area. The capital of Grenada, St. George's, lies on the island's southwest coast and is the only town of any size.

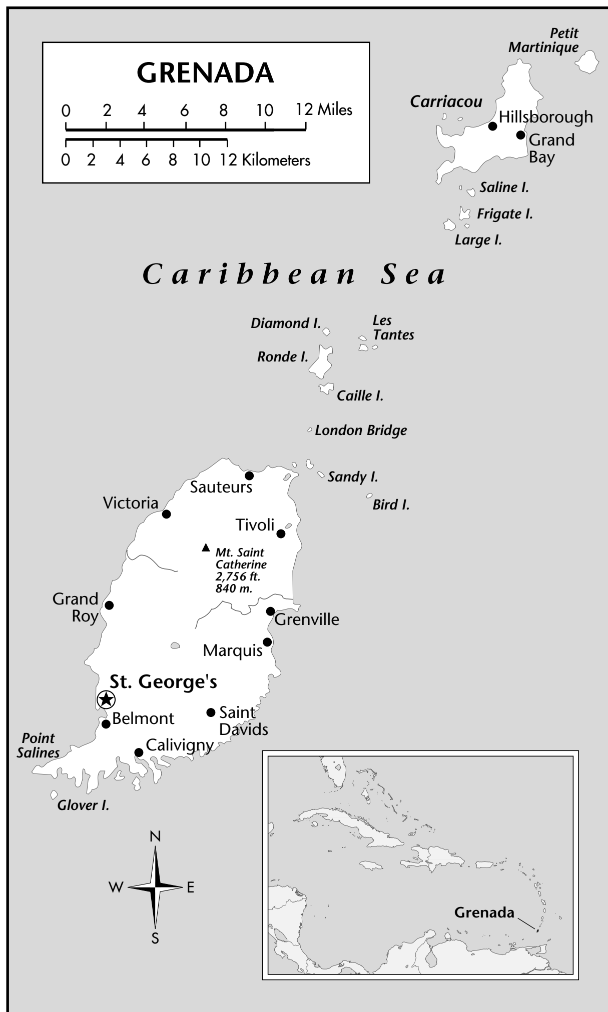
POPULATION. Grenada's population was estimated at 89,018 in July 2000. This figure marked a drop of 0.36 percent from the previous year and a reduction of more than 2 percent from the estimated 1991 population of 91,000. Grenada's population has been declining for several decades despite positive statistics in terms of child mortality, life expectancy, and death/birth rate ratios. This is largely explained by a high rate of migration, calculated at 16.54 migrants per 1,000 population (2000). Grenadians migrate in large numbers to neighboring islands such as Trinidad & Tobago, where employment opportunities are greater, or more commonly to the United States and Canada. At current rates, Grenada's population will stand at approximately 86,000 in 2010.

Grenada's population is youthful, with 38 percent of Grenadians under the age of 15. A majority of the population lives in rural villages, and the World Bank estimates that only 37 percent are urban dwellers. The island is small enough for people to work or conduct their business in St. George's without living in the capital. About 85 percent of the population is of African decent, with smaller mixed-race and Indian communities. The latter are the descendants of indentured laborers (servants or laborers who pay an employer for transit to the employer's country, and work off their debt, often for many years) brought to the island after the abolition of slavery in 1833. English is the island's official language, though some Grenadians speak a French dialect, and Roman Catholicism, observed by 53 percent of Grenadians, is the dominant religion.

OVERVIEW OF ECONOMY

Grenada's economy has shifted significantly since the 1970s, from one almost entirely based on producing agricultural commodities for export to a much more modernized and diversified one. For many years Grenada depended on exporting 3 main crops—bananas, cocoa, and nutmeg—but fluctuating world prices, natural disasters, and the threatened removal of preferential trading agreements have forced Grenada's government to seek to broaden the island's economic base. Successive governments since the 1980s have been acutely aware that small-island states such as Grenada are extremely vulnerable to economic factors beyond their control and have hence tried to reduce over-reliance on agricultural exports. Grenada now has a small but growing manufacturing sector, a nascent financial services sector, and an important tourism sector, which is the island's main foreign exchange earner.

Grenada's movement toward economic diversification began during the short-lived People's Revolutionary Government (PRG) of 1979–83, which tried to increase manufacturing for the domestic market and look for new markets for the island's commodities. The U.S. intervention of



October 1983, in which American troops invaded the island after Prime Minister Maurice Bishop was murdered by rivals within the PRG, brought a brief influx of economic aid. This assistance enabled the island to establish the **infrastructure** for small-scale manufacturing, mainly aimed at the U.S. market. In the late 1980s and early 1990s, aid and investment slowed, causing the island's economy to stagnate. Tourism grew strongly from the mid-1990s, leading to a boom in construction and other services. Economic growth, consequently, has been strong and sustained in recent years, with GDP growing by 6.8 percent in 1998 and 8.1 percent in 1999. Attracted by tax breaks and other incentives, several U.S. and European multinational companies operate in Grenada, mostly in the light manufacturing and tourism sectors. Local companies are extremely small and limited to import-export activities and **retail**. There are still several government-controlled statutory boards which represent the interests of small farmers and agricultural exporters.

Since the 1970s, Grenada's economy has passed through 3 distinct phases. Until 1979, it was dominated by the agricultural sector, made up of small farmers, and a small import-export sector, based in St. George's. During the PRG regime, the PRG began experiments in diversification and a mixture of **private-sector** initiatives and state intervention with an emphasis on cooperatives and central planning. Since 1983, the economy has been strongly oriented toward free-market development, with the **privatization** of several state-owned concerns and a program of structural adjustment aimed at reducing government spending.

Despite such **liberalizing** measures, Grenada's economy still faces significant problems. Its imports in 1999 were 5 times the value of its exports, creating a large **trade deficit** that is only partly offset by tourism receipts and other service income. The reduction in agricultural activity means that increasing amounts of food have to be imported, especially for the growing tourism industry. Government spending also remains high in relation to revenues. A 2000 International Monetary Fund (IMF) report expressed concerns at the high wages paid to civil servants and the large sums spent on modernizing infrastructure. There remains considerable poverty and unemployment in Grenada, with the IMF estimating that 32 percent of the population, mostly rural laborers and the unemployed, live in poverty. The country is highly indebted, with **external debt** of US$159.3 million in 2000. **Debt servicing** (money paid above the actual debt, such as interest) cost US$16.9 million in 1998, equal to one-fifth of government's annual revenue.

POLITICS, GOVERNMENT, AND TAXATION

After 2 decades of political turmoil in the 1970s and 1980s, Grenada has returned to a state of stability and constitutional government. The overthrow of autocratic and populist Prime Minister Eric Gairy in 1979 ushered in 4 years of **socialist**-oriented government until factional infighting and the murder of Prime Minister Maurice Bishop triggered the U.S. intervention of 1983. Short-term, unstable political alliances followed until 1995, when the New National Party (NNP) won a narrow majority. Led by Keith Mitchell, the NNP then won an overwhelming victory in January 1999, taking all 15 of the island's parliamentary seats.

As the leader of the majority party, Mitchell, the prime minister, was appointed by the governor general of the island, who was appointed by the Queen of England. The governor general also appoints the cabinet, on the advice of the prime minister. The **bicameral** (2 legislative chambers) parliament consists of the 15-member National Assembly, whose members are elected by popular vote to 5-year terms, and of the 13-member Senate, 10 of whose members are appointed by the government

and 3 of whose members are appointed by the opposition. The country's legal system is based on English common law, and the system is overseen by the West Indies Associate Supreme Court, a representative of which body resides in Grenada.

The NNP is pro-private sector, favoring foreign investment in tourism and manufacturing to stimulate growth. It has also attracted former supporters of Eric Gairy and Maurice Bishop by pledging to combat unemployment and poverty. The other parties were soundly beaten in the 1999 elections and do not differ significantly in their approach to the economy.

Government policy is important in determining economic development, since the state sector remains substantial and potential foreign investors are influenced by such policy. The government has tried to reduce its **public-sector** financial commitments by reducing the number of civil servants, privatizing some assets, and converting some government agencies, such as the post office, into autonomous commercial enterprises. More controversially, it has begun to introduce performance-related pay schemes within the public sector, despite strong opposition from trade unions. The government has attempted to attract direct foreign investment by offering generous tax incentives and other financial benefits to companies interested in establishing themselves in the manufacturing and tourism sectors.

Taxation tends to be weighted towards indirect sales taxes rather than **income tax**, which the government has reduced. Government has tried to improve revenue collection through greater efficiency and has increased income from fees levied on offshore companies, particularly those in the new financial services sector. Even so, according to the Caribbean Development Bank, "Notwithstanding improvements in tax administration departments, revenue collection continues to be undermined by widespread exemptions, high levels of tax evasion and extensive non-compliance." In other words, many Grenadians and foreign companies alike do not pay the taxes that they owe to the government. Sales taxes, according to critics, affect the poorest sectors of the Grenadian population disproportionately, but the government believes that high income taxes act as a disincentive to private enterprise.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Grenada is a small island with a limited road infrastructure of 1,127 kilometers (700 miles), of which about one-half are paved. Rural roads are often impassable and have long been criticized by farmers in remote districts as a serious obstacle to transporting goods to collection points. There are no railways. The main port is at St. George's, where there is a cruise ship terminal. The main airport is Point Salines International Airport, near the capital, construction of which began under the PRG with extensive assistance from Cuba. There is a small airport on Carriacou. The Grenadian government is a shareholder in the regional airline, Leeward Islands Air Transportation (LIAT).

The government has invested strongly in tourism- and manufacturing-oriented infrastructure in recent years, upgrading main roads, improving port facilities, and modernizing water and sewerage systems. Little of this investment, however, has reached isolated rural districts.

There are no local oil deposits, and fuel is imported, mostly from Venezuela, for power generation. In 1998 Grenada generated 105 million kilowatt hours (kWh) of electricity and consumed 98 million kWh. The telecommunications industry is in the process of being liberalized,

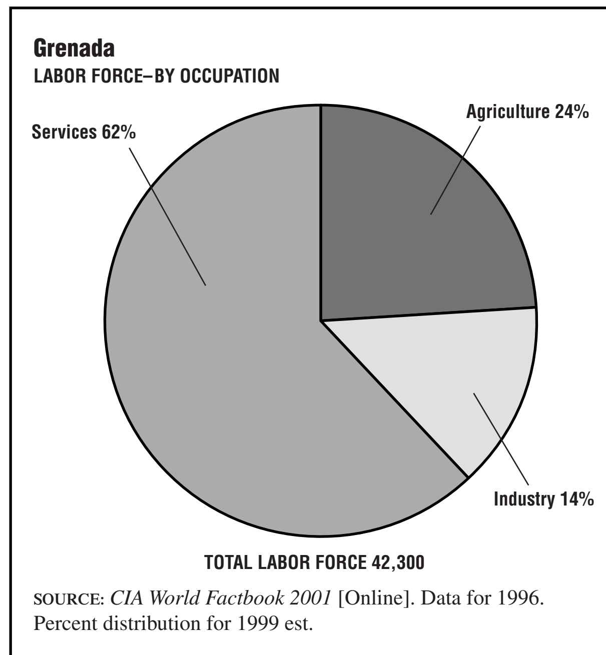
Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Grenada	27,000	976	AM 2; FM 1; shortwave 0	57,000	2	33,000	14	2,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
St. Lucia	37,000	1,600	AM 2; FM 7; shortwave 0	111,000	3	32,000	15	5,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

having been dominated by Cable & Wireless Grenada (a subsidiary of the large British firm Cable & Wireless PLC) for many years. There is a developed network of main-line telephones, a fiber-optic network, and growing use of mobile telephones. The advent of Call Centres Grenada, an offshore telemarketing operation, in July 2000, was evidence of the island's reliable telecommunications network. Cable & Wireless also provides Internet access.

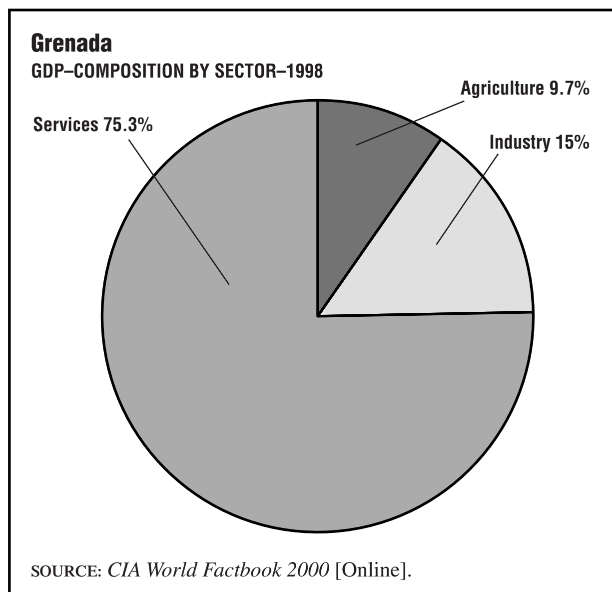


SOURCE: *CIA World Factbook 2001* [Online]. Data for 1996. Percent distribution for 1999 est.

ECONOMIC SECTORS

The importance of agriculture to Grenada's GDP has fallen steeply, from more than 26 percent in 1979 to an estimated 9.7 percent in 1996. The World Bank estimates its contribution at 8.1 percent in 1999. The 1995 agricultural census estimated that the area of cultivated land in Grenada had fallen from 61,000 acres in 1961 to 31,000 in 1995. Many young Grenadians are no longer willing to work family **smallholdings**, and this gradual abandonment of agriculture has been compounded by a crisis in the banana industry. Only nutmeg, one of Grenada's traditional export commodities, has experienced resurgence in recent years, because of rising international prices for the spice. Agriculture still accounted for an estimated 24 percent of the workforce in 1999, and many Grenadians work part-time on smallholdings for family or local consumption. Agricultural exports as a whole were valued at US$21.8 million in 1999.

Agriculture's decline has been balanced by the rising importance of industry, which has grown from 14.2 percent of GDP in 1979 to 22.2 percent in 1999, according to the World Bank. Some of this growth is accounted for by the recent opening of a plant that assembles electronic components for the U.S. market. There are several other such assembly plants, and Grenada has a significant agricultural processing sector, a brewery, rice mill, and cement works. Approximately 14 percent of the workforce was estimated to be employed in industry in 1999, which earned $23.1 million.



SOURCE: *CIA World Factbook 2000* [Online].

Services have also risen as a percentage of GDP, from 59.6 percent in 1979 to 76.5 percent in 1999. The nature of the service sector has changed, with a greater emphasis on tourism and financial services rather than more traditional retail and government-oriented activity. Grenada is now offering itself as a stable base for **offshore banking** and other financial services, hoping to emulate the success of other Caribbean nations such as Barbados.

AGRICULTURE

Besides food crops grown for local and tourist consumption, Grenada's 3 traditional export crops are bananas, cocoa, and nutmeg. Historically, these have been grown not on large estates, but by small farmers with properties of a few acres. The regularity of income produced by bananas, typically delivered weekly by farmers to visiting banana boats, with the high prices fetched by nutmeg, contributed to modest rural prosperity from the 1950s onwards. But since the 1990s the banana sector, in particular, has been badly affected by problems revolving around access to foreign markets. The 1997 ruling by the World Trade Organization (WTO) that the European Union (EU) was unfairly discriminating against Latin American banana producers by giving preferential access to Caribbean producers created a crisis in the in-

dustry. This was worsened by complaints from the exporting company, Geest, that Grenadian bananas were unreliable in quantity and quality. The EU continues to offer preferential quotas to Caribbean producers, but Grenada's industry has declined further, despite a banana rehabilitation program initiated by the government and the Windward Islands Banana Development and Exporting Company (WIBDECO). After an 18-month suspension, banana exports resumed in November 1998.

Cocoa also suffered in the 1990s with an epidemic of mealy bug infestation, coinciding with the cancellation of a contract with a major chocolate manufacturer. Another victim of natural disasters was Grenada's fishing industry, affected first by a mysterious disease and then by Hurricane Lenny in November 1999. These factors created a sharp decline in the fishing sector, which with Japanese aid, had been expanding in the 1990s, employing an estimated 1,500 people in the coastal towns of Gouyave, Grenville, and St. George's.

Much more positive was expansion and rising prices in the nutmeg sector. Political turmoil in Indonesia, Grenada's main competitor, pushed up nutmeg prices by 72 percent in 1999 and mace (a byproduct of nutmeg) by 37.5 percent.

Some cotton is grown on Carriacou, and limes are cultivated in Grenada and Carriacou, mostly for the local market. Grenada's once important sugar industry is now confined to a small area in the south of the island, where there is a rum distillery. Fruit and vegetables are grown across the island, and what is not consumed locally is usually brought to market at St. George's.

INDUSTRY

Grenada's industry is small-scale, revolving around several zones near the capital, which cater to foreign companies in search of cheap labor. Since the 1980s, the government has tried to attract such foreign investors, with some success, and Grenada currently produces clothing, electronic components, and other **consumer goods** for export mainly to the U.S. market. This sector expanded by 10.5 percent in 1999, because of the opening of a new electronics factory. Electronic components accounted for 61.4 percent of Grenada's manufactured exports.

Other industries include brewing (where the Irish company Guinness holds a majority stake), rice milling, and agricultural processing. The recent boom in construction has also brought an increase in associated industries such as cement and furniture.

SERVICES

Tourism is the biggest part of Grenada's economy, bringing in an estimated $66.8 million in receipts in 1999. Much of the island's tourist industry is still in local hands, and there is considerable "**trickle down**" within the economy, benefiting local farmers, restaurant owners, and taxi drivers in particular. Grenada has expanded its tourism infrastructure, and there are now approximately 2,500 hotel rooms, as well as developed cruise ship and yacht charter facilities. But despite steady growth in recent years, Grenada's tourism sector has encountered serious problems, including a 1999 decision by the Carnival cruise ship company to suspend calls at Grenada in the wake of the government's 1998 imposition of a $3 per capita landing fee.

The quickest growing service sector is offshore financial services, consisting of banking, insurance, and other services for foreign companies and individuals. It has expanded since 1996 and is expected to play an increasingly prominent role in the economy. There are 31 offshore banks and a large number of other financial interests, and despite some local opposition, the government is encouraging gaming as a tourist attraction. However, the financial service sector was damaged by allegations of financial impropriety in 2000 concerning one bank's operations. In March of 2001, the government—announcing that it was cracking down on bank fraud—closed down 17 offshore banks. Altogether, in 1999, the financial sector generated almost $5 million in revenues for the government.

Another growth sector is telemarketing and data processing, in which Grenada's literate but low-paid workforce can compete for contracts from North America. This sector, buoyed by the recent opening of a large facility on the east coast, created an estimated 1,000 jobs by 2000.

Retailing is not well developed in Grenada, with only a few large stores in St. George's and the nearby tourist areas. Most rural Grenadians depend on a weekly trip to the capital or small village stores for day-to-day essentials.

INTERNATIONAL TRADE

Until the 1990s, most bananas were shipped to Britain, Grenada's traditional trading partner. Gradually, the island has come to depend increasingly on the United States, both for its manufactured exports and imports. The United States accounted for almost 40 percent of imports (US$78.9 million) and 35 percent of exports (US$64.1 million) in 1998, according to the Caribbean Development Bank. Other important trading partners are the European Union and fellow members of the Caribbean Community (CARICOM), which provided 27 percent of imports and took 20 percent of exports in 1998.

Grenada continues to import much more than it exports, with 1999 exports of $55 million and imports of

Trade (expressed in billions of US$): Grenada

	Exports	Imports
1975	.012	.024
1980	.017	.050
1985	.023	.069
1990	.027	.105
1995	.023	.130
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

$230 million. Despite the recent upsurge in nutmeg exports, this is a source of concern to the government and international financial institutions alike. Tourism revenue and income from other services partly offset this imbalance, but Grenada is vulnerable to mounting debt and economic factors beyond its control.

MONEY

High levels of growth (6.8 percent in 1998 and 6.2 percent in 1999) reflect temporary booms in one part of the agricultural sector (nutmeg) as well as construction and services. At the same time, the government has managed to keep **inflation** under control, with consumer prices rising only 1 percent in 1999. The Eastern Caribbean dollar, a currency shared with the 7 other members of the Eastern Caribbean Central Bank (ECCB), is stable, and has been pegged at a **fixed exchange rate** of EC$2.7/US$1 for many years. This means that Grenada is less vulnerable to fluctuating **exchange rates**, although transactions with Europe have been affected by the low value of the euro. There are plans for ECCB member countries to participate in a regional stock exchange, further integrating the economies of the small islands. These plans were not yet in effect by 2001.

Exchange rates: Grenada

East Caribbean dollars (EC$) per US$1	
Jan 2001	2.7000
2000	2.7000
1999	2.7000
1998	2.7000
1997	2.7000
1996	2.7000

Note: Grenadian currency has been set at a fixed rate since 1976.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

There are no available statistics regarding the distribution of wealth in Grenada, but it is obvious that there is a gulf between a wealthy minority and a substantial sector of poor Grenadians. According to the World Bank, some 32 percent of Grenadians live in conditions of poverty. Recent government research suggests that most of these households are in rural areas, often in the most inaccessible and sometimes drought-ridden parts of the island. Unemployment or **underemployment** are the main problems in rural areas, especially for young adults who wish to escape what they see as the drudgery of agricultural labor. Squatting (the illegal occupation of government-owned land) is not uncommon in makeshift communities around St. George's. Some of the worst poverty is to be found on former estates, where barracks-like accommodations are still used by rural laborers. In such communities, housing conditions can be extremely rudimentary, with no sewerage and little access to other services. Clean drinking water is available throughout the island, even if poorer families have to resort to sharing a communal water pipe.

The radical PRG government of 1979–83 introduced measures to improve conditions among the rural poor, including low-cost loans for building materials and a network of village medical clinics. Some of these initiatives have been maintained since, and the current government has invested substantially in health and education. Even so, the cost of school uniforms and textbooks is often prohibitive for some families.

A prosperous middle class exists in St. George's, made up of professionals in the import-export businesses or new sectors such as tourism and data processing. Another comparatively wealthy group is made up of returning migrants, many amassing large savings after decades working in the United Kingdom and elsewhere. Private education and health facilities exist for the rich, who are accustomed to sending their children to the United States for their education. The urban elite has tended to look down on the rural majority, especially during the 1950s and 1960s when poor peasants and agricultural laborers formed the bulk of support for the eccentric populist politician, Eric Gairy.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Grenada	N/A	1,709	2,111	2,819	3,347
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
St. Lucia	N/A	2,076	2,150	3,542	3,907

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Grenada	29	4	10	2	13	20	21
United States	13	9	9	4	6	8	51
Jamaica	24	7	3	1	9	8	48
St. Lucia	40	5	11	4	17	11	11

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

In 1998, the International Labor Organization estimated a workforce of 41,015, with unemployment at 15.2 percent of the economically active population. Conditions and pay, excluding the declining agricultural sector, are better in Grenada than in many other Caribbean countries. This is because of a relatively strong and effective trade union movement, which defends the interests of workers in the public and private sectors. Unions have been particularly active in negotiating conditions for civil servants such as teachers and doctors. In manufacturing, pay rates are much higher than in such competitor countries as Haiti or the Dominican Republic. The Grenada Industrial Development Corporation, for instance, suggests workers in the electronic components plants can earn a weekly salary of between $100 and $250, at least 3 times that in lower-wage countries. Grenada's laws include protection against wrongful dismissal, the right to join unions, and many other basic workers' rights. Attempts by companies to violate such rights have caused strikes in the past.

For small farmers and rural laborers, conditions and pay are poor. Unions representing agricultural workers were powerful in the 1950s and 1960s, but have lost much of their influence. Wages have fallen dramatically in comparison to the manufacturing and services sector. Farming is now the preserve of older Grenadians or carried out on a part-time family basis. There is little or no child labor in Grenada, with the exception of this sort of farm work, while women are well represented in all areas of the economy and professions.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1498. Columbus sights and names Grenada on his third expedition.

1650. First permanent European settlement on island.

1783. British win control over island after colonial competition with France.

1951. First electoral success of populist politician Eric Gairy.

1974. Independence from the U.K.

1979. Gairy overthrown by bloodless coup, followed by formation of People's Revolutionary Government.

1983. U.S. military intervention after murder of Prime Minister Maurice Bishop.

1996. Launch of offshore financial services sector.

1999. New National Party wins second term with 15 out of 15 seats.

FUTURE TRENDS

Grenada's economy seems likely to move further away from agriculture and toward tourism and manufacturing, especially when the temporary boom in nutmeg exports comes to an end. It is likely that the government will encourage growth in these newer sectors by offering new incentives to foreign companies. The success or failure of the first telemarketing ventures will determine the future of high-tech investment in Grenada and similar Caribbean economies. Grenada will be less affected than other Eastern Caribbean islands by the decline in the banana industry or an eventual collapse, and in this sense its economic future is relatively hopeful.

The main problems for the government will involve narrowing the wide trade deficit and reducing the **national debt**. There is much work to be done in redistributing wealth away from a small minority toward the many Grenadians who continue to live in poverty. The NNP has the political support to make progress in these areas and has the capability to introduce effective poverty-alleviation programs. Nevertheless, much depends on the health of the U.S. and European economies, which are critical to the continuing growth of Grenada's tourism industry. If there is a slowdown in this sector, government revenue will decline and so will its ability to achieve its social objectives.

DEPENDENCIES

Grenada has no territories or colonies.

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—James Ferguson

GUATEMALA

Republic of Guatemala
República de Guatemala

CAPITAL: Guatemala City.

MONETARY UNIT: Quetzal (Q). One quetzal is equal to 100 centavos. There are coins of 1, 5, 10, and 25 centavos, as well as paper bills in the amounts of 50 centavos and 1, 5, 10, 20, 50, and 100 quetzals.

CHIEF EXPORTS: Coffee, sugar, bananas, fruits and vegetables, meat, apparel, petroleum, electricity.

CHIEF IMPORTS: Fuels, machinery and transport equipment, construction materials, grain, fertilizers, electricity.

GROSS DOMESTIC PRODUCT: US$47.9 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$2.4 billion (f.o.b., 1999). **Imports:** US$4.5 billion (c.i.f., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in Central America at the southern tip of Mexico between the Caribbean Sea and the Pacific Ocean, Guatemala has a total area of 108,890 square kilometers (42,042 square miles), slightly smaller than that of the state of Tennessee. Belize, Honduras, El Salvador, and Mexico all share land boundaries with Guatemala that total 1,687 kilometers (1,048 miles) in length, while Guatemala's coastline along the Pacific Ocean and the Caribbean Sea totals 400 kilometers (249 miles). Guatemala City, the national capital and home to 2 million Guatemalans, is located in south-central Guatemala, less than 100 kilometers (62 miles) from the Pacific Ocean.

POPULATION. As of July 2000, Guatemala's population was estimated at 12,639,939. There are approximately 484 persons to every square kilometer of the country (1,253 persons per square mile), making Guatemala the second most densely populated nation in Central and South America. (El Salvador is the only nation in the region with a higher population density.) Guatemala also has an extremely high rate of population growth; if the population were to continue at its current growth rate of 2.9 percent per year, the total number of people living in the nation would double in 24 years. Population projections estimate that Guatemala's population will reach 16,295,000 by 2010. The fertility rate in Guatemala is the highest in Latin America, with an average of 5 children born to each Guatemalan woman during her lifetime. Although the Guatemalan government has officially recognized that the national birth rate is high, it has done little to encourage family planning or birth control among its populace. The reluctance of the Guatemalan government to institute population control policies can be partly attributed to its strong ties with the Catholic Church, while resistance to family planning among the general populace can be partially imputed to the civil unrest of the 1980s, which provoked a distrust of foreign-initiated programs (including family planning programs).

In stark contrast to most Latin American countries, Guatemala has a populace that is concentrated mainly in rural areas. Only 39 percent of its population is urban (though urbanization is accelerating). The sizeable rural population is linked to the large indigenous (Amerindian) presence in Guatemala; persons descended from the Mayan Indians account for 56 percent of the nation's total population, making Guatemala the Latin American nation with the largest indigenous population relative to total population. The other 44 percent of the national population is mestizo (of mixed Amerindian-Spanish descent, also called *ladino* in local Spanish). Despite the concentration of the population in rural areas, close to 80 percent of physicians are located in the metropolitan area, making health care difficult to access for rural inhabitants. Additionally, water supply and sanitation services reach 92 percent and 72 percent of the urban population respectively, while in rural areas they reach marginally more than 50 percent of the population. These facts betray a broader phenomenon of rural disadvantage that

extends to the economic, political, and social realms of Guatemalan life.

OVERVIEW OF ECONOMY

Known for its varied landscape, fertile soil, and tropical climate, Guatemala has its economic roots in the coffee and banana plantations that started up around 1860 and remained the major focus of economic activity for almost a century. Until 1950, coffee and bananas alone accounted for 90 percent of the value of Guatemala's total exports. After World War II, the practice of commercial farming spread, and the production of cotton, sugar, and livestock became an integral part of the national economy. Augmented by mining and manufacturing activity, the economy continued to expand and diversify during the 1960s and 1970s. The debt crisis of the 1980s led to sinking export prices, **inflation**, and declining product values, but the Guatemalan economy gained new life in the 1990s, particularly after the signing of the 1996 Peace Accords that put an end to Guatemala's 36-year internal conflict. Currently, Guatemala has the highest GDP in Central America and continues to enjoy strong growth rates. The major forces acting upon Guatemala's economy at present are the fluctuating international demand for primary resources, the actions of political elites,

and the implementation of **liberalization** measures (including **privatizations**, trade and investment reforms, and tax reform).

Guatemala has achieved a fairly good balance between the agricultural, manufacturing, and service sectors of its economy. In agriculture, it is the third largest exporter of coffee in the world and a major exporter of bananas and sugar, while its manufacturing sector depends chiefly on the apparel, construction, mining, and energy industries. The service sector, which composes the largest segment of Guatemala's GDP, embraces telecommunications, tourism, and other technological enterprises. Guatemala, though not a net exporter of petroleum, is the only oil-producing nation in Central America, and the possibility of investing more intensively in oil and natural gas in the future is a viable one. Unfortunately, the **infrastructure** needed to develop Guatemala's natural resources is sorely lacking at present, with low telephone density, scarce access to electricity, and poor road networks outside of Guatemala City posing impediments to entrepreneurial investments.

The **macroeconomic** indicators often used to measure a nation's economic status speak well of Guatemala's economy. Inflation and currency **devaluation** have remained steady (excepting the debt crisis of the 1980s, when they were pushed beyond acceptable levels), the **foreign debt** of US$4.4 billion is manageable, and the GDP has grown steadily for the last decade, following a period of stunted growth during the 1980s. The political climate is also ripe for foreign investment, as the war between the Guatemalan government and the Guatemalan National Revolutionary Unity (URNG) guerrilla group came to an end in 1996. Recent privatizations have lessened the role of the government in the Guatemalan economy, easing the financial burden on the state and providing an immediate source of income from the sale of the previously state-owned enterprises. Furthermore, the government has adopted plans to dollarize its economy, following the path taken by other Latin American countries, including Ecuador, El Salvador, and Panama. Dollarization (the adoption of the U.S. dollar as the official monetary unit by another country) is generally viewed in a positive light by foreign investors, as it holds interest rates to lower levels and promises to eliminate devaluation.

While macroeconomic indicators paint a hopeful picture of Guatemala's economic situation, the conditions that exist within the nation provide far less cause for optimism. Poverty and inequality are endemic in Guatemala and are linked to the nation's other socio-economic problems, which include an inadequate education system, widespread health and sanitation deficiencies, and high rates of crime and violence. These issues have contributed to political turmoil in the past, and while Guatemala is no longer plagued by civil war, there is still great unrest and tension within the nation that could threaten political and economic stability in the future. International agencies and foreign governments are dispensing aid to Guatemala more willingly now than during the nation's civil war, but these funds are not large enough to promote change in a system that is deeply rooted in unequal distribution of land and wealth.

POLITICS, GOVERNMENT, AND TAXATION

Guatemala is a constitutional democratic republic that is divided into 22 departments and governed by a 3-branch system, consisting of the executive, legislative, and judicial. The legislative branch consists of the National Congress, a 1-house legislature composed of 116 members, while the judicial branch is headed by the Supreme Court of Justice. The president serves as both the chief of state and the head of government and has the authority to appoint departmental governors and cabinet members.

Current president Alfonso Portillo of the Guatemalan Republican Front (FRG) was elected by a landslide victory in his December 1999 campaign against candidate Oscar Berger of the National Advancement Party (PAN). The FRG and the PAN are the 2 major political parties active in Guatemala today; a third party, the New Nation Alliance (ANN), plays a minor role in the nation's political races. The PAN (the party to which Portillo's predecessor Alvaro Arzú belonged) is conservative and business-oriented while the FRG is conservative and populist, at least according to the platform Portillo used to win the presidency. Both parties support rigorous economic programs that put emphasis on fiscal discipline and macroeconomic stability, but Portillo and the FRG also support policies that work to the benefit of economically disadvantaged Guatemalans. Among the policies proposed by Portillo during his first year as president were a hike in the minimum wage, the decentralization of political power, and others with similar populist themes. However, Portillo's proposals were not met with a spirit of cooperation in Congress, and little has been done to better the situation of the poor since he took office in early 2000.

The Guatemalan government traditionally has not exerted a great amount of control on the economy through regulations or other interventionist measures, preferring to keep its involvement minimal, as evident in the fact that the **private sector** generates more than 85 percent of the GDP. This hands-off approach has been bolstered by recent decisions to privatize the state telecommunications, electric generation, and electric distribution companies, as well as by new policies that lift restrictions and regulations on trade and investment in Guatemala. The

government has also been frugal in its support of public and social programs; Guatemala's education and health systems leave much to be desired, often to the detriment of disadvantaged Guatemalans.

The tax system is currently undergoing reform as the Guatemalan government attempts to make taxation a more lucrative tool. In 1996, Guatemala's tax revenue accounted for just 8 percent of its GDP, putting it at the second lowest rate in the Western hemisphere. The peace accords signed in 1996 called for an increase that would bring tax revenues up to 12 percent of the GDP by 2000, providing greater funding for social programs. Unfortunately, the parties who signed on to this fiscal pact (government, social organizations, and business leaders) have not all given it their steadfast support, and tax revenues for 2000 only amounted to slightly more than 10 percent of the GDP. Among the taxes on which Guatemala relies for revenue are customs **duties**, sales taxes, and excises on liquor and tobacco. Additional taxes under discussion for reform or implementation in Guatemala currently include the **value-added tax** and new taxes to be applied to a variety of industries.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

An underdeveloped infrastructure is one of the main obstacles to investment and economic development in Guatemala. Public and private investment is disproportionately concentrated around Guatemala City because of the lack of infrastructure connecting the capital to other regions of the country. Not only is much of Guatemala's 12,795 kilometer (3,519 mile) highway network in poor condition, its electricity and telephone density is low, and all of its television stations and newspapers are concentrated in Guatemala City. Additionally, 3 ports (Champerico, Puerto Barrios, and San Jose) handle the bulk of Guatemalan exports, and La Aurora Airport is the only national airport with full capacity for both freight and passengers. These facilities are approaching their breaking points and will need to be expanded soon in order to keep up with growing trade and travel. Overall, major renovation of the country's infrastructure is necessary if trade is to continue uninterrupted.

Telephones are not as available in Guatemala as would be desirable for the purposes of business and general efficient communication. There were 430,000 main telephone lines installed in Guatemala in 1997, but this number still left Guatemala trailing several Central American countries in proportionate terms. Use of cell phones is growing at a remarkable rate, having increased by 2,047 percent between 1993 and 1997, while the number of regular phone lines in the nation increased by only 86.1 percent during the same span of time. In 1998, the government decided to privatize the state telephone company along with several other enterprises. So far, the privatization has not brought about as much progress in infrastructure as outside investors had hoped; the U.S. Department of State's *FY 2000 Country Commercial Guide: Guatemala* states, "It is not clear that the new owners of the recently privatized telephone company will undertake the investment needed to extend basic telephony to those areas currently underserved."

Electricity has also undergone significant changes due to recent privatizations. Both the major state electricity distribution company and selected assets of the state-owned electricity production company were auctioned off to private bidders in 1998, provoking anticipation of higher electricity prices but also feeding hopes of improved service, mainly among businesses and professionals.

ECONOMIC SECTORS

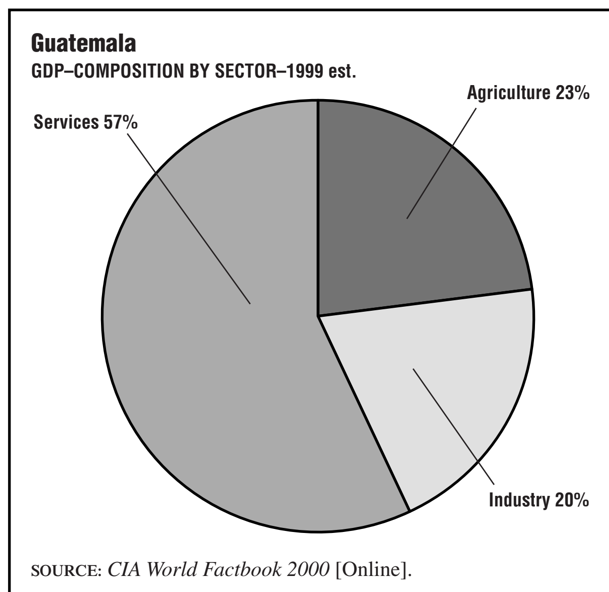
Guatemala's economy, while still largely dependent on the income and employment provided by the agricultural sector, has been successful in developing its manufacturing and service sectors, thereby remaining competitive within the global market. Among the products and

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Guatemala	33	79	126	28.5	10	N/A	8.3	1.26	65
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Mexico	97	325	261	15.7	35	3.0	47.0	23.02	1,822
El Salvador	48	464	675	N/A	18	N/A	N/A	1.17	40

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

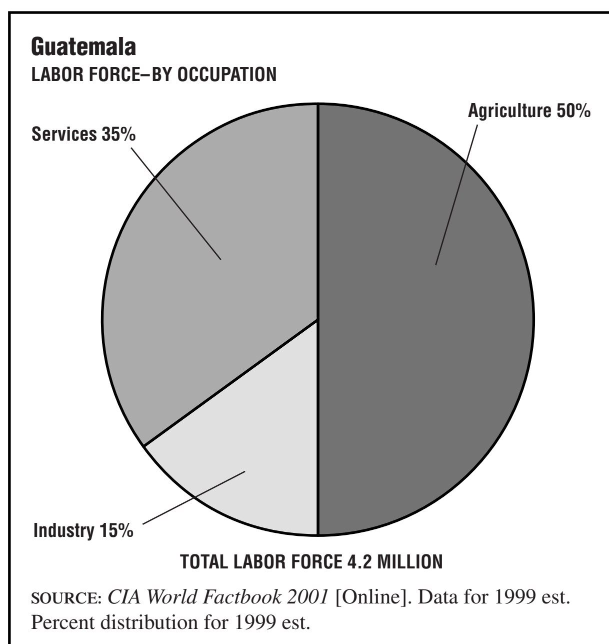
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

services most important to Guatemala's economy are coffee, sugar, cotton, bananas, apparel, food processing, and tourism. Some of these industries date back to the early post-independence era, while others are just beginning to blossom. Tourism, for instance, was severely impeded until recently, when the Guatemalan peace accords were signed and the process of demilitarization commenced.

A look at Guatemala's economic sectors over the past thirty years shows that while there has been movement between the agricultural, industrial, and service sectors, that movement has not been uni-directional. Instead, the only well-established pattern seems to be the gradual decrease in agriculture's contribution to the GDP. This trend away from agriculture is generally viewed by development economists as a positive occurrence, since prices of agricultural products on the international market are subject to sharp, sudden declines and can create economic instability. Overall, the structure of Guatemala's economy is stable and fairly well balanced, providing it with a necessary foundation for expansion in the future.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999 est. Percent distribution for 1999 est.

AGRICULTURE

Although Guatemala is trying to expand its manufacturing activities to reduce economic dependence on agriculture, the agricultural sector is a crucial component of Guatemala's export and domestic economies, accounting for 23 percent of GDP (US$11 billion) in 1999 and employing 50 percent of the **labor force** (1.7 million workers).

COFFEE. One of Guatemala's original commercial developments in the 19th century, coffee production is still of vital importance to the national economy. In 1998, coffee exports brought in US$586.3 million, almost double the amount of sugar, the next most profitable agricultural export. Guatemala's production of coffee is equally important in the global economy, as Guatemala is the world's third largest exporter of coffee. Because large-scale operations are needed to produce vast quantities of coffee for export, most Guatemalan coffee is harvested at large plantations along the southern border of the highlands.

SUGAR. After coffee, sugar is Guatemala's most profitable crop, earning US$315.3 million on the world market in 1998. Sugar has also shown promise as an expanding industry in Guatemala, particularly because it can be produced in raw form or processed within the country prior to export, augmenting its value.

BANANAS. Bananas remain one of Guatemala's top agricultural exports, grabbing US$190.4 million in revenue in 1998. Like other developing countries that export bananas, Guatemala has recently encountered problems on the international market, including declining prices and a European Union policy that places new restrictions on its imports of bananas. Additionally, conflicts between Guatemalan banana workers and the companies that contract them have led international fruit companies to move their headquarters from Guatemala to Ecuador, where labor is unorganized and therefore cheaper. All of these factors have contributed to the recent decline of the banana industry in Guatemala.

INDUSTRY

Industry in Guatemala, which includes food processing, publishing, mining, and the manufacture of textiles,

clothing, cement, tires, and pharmaceuticals, comprises 20 percent of the GDP (US$9.6 billion) and employs about 15 percent of the total workforce (500,000 workers). After growing steadily during the 1960s and 1970s, manufacturing slowed during the debt crisis of the 1980s but picked up again during the 1990s.

TEXTILES AND APPAREL. More than 80,000 Guatemalans are currently employed by the apparel industry, most of whom are young women. The apparel industry has experienced growth over the past decade, but international attention directed to the poor working conditions within apparel-for-export factories or *maquilas* has resulted in the closing of some major plants, including the Phillips-Van Heusen factory that used to be located in Guatemala. So long as labor remains cheap and accessible in Guatemala, the apparel industry is likely to continue expanding. The United States provides a sizeable market for Guatemala's apparel exports, importing more than US$1 billion worth of apparel in 1998 alone.

MINING AND OIL. Combined with production of energy (mainly from petroleum), mining contributes roughly 3 percent of Guatemala's GDP. Antimony, copper, nickel, iron, and tungsten are all mined in Guatemala, though not in great quantities. Surveys of Guatemala's subsurface have revealed that the nation has a wealth of mineral resources, indicating that, given the right investment interest, mining could become a more prominent part of Guatemala's economy in the future. Guatemala, the only oil-producing country in Central America, has been extracting oil from its Petén Basin since the early 1980s, though it does not extract nearly enough to be a net exporter of petroleum.

SERVICES

TOURISM. The service industry contributes the largest segment of Guatemala's GDP (57 percent, or US$27.3 billion) and employs about 35 percent of the nation's total workforce (1.2 million workers). While the service sector encompasses several different industries like **retail**, financial services, transportation, and computer services, the most profitable component is tourism. Because of its agreeable climate and diverse landscape, as well as its Mayan ruins, Guatemala is becoming a popular travel destination in the post-conflict period. In light of the high profit margins associated with tourism receipts, the government is making solid efforts to expand tourism and attract more foreign visitors to Guatemala.

INTERNATIONAL TRADE

The United States, Latin America, and Europe are the most frequent destinations for Guatemala's exports, composing 51.5 percent, 26.6 percent and 11.3 percent of the export market respectively in 1998. In addition to its membership in the Central American Common Market trade group, Guatemala also holds free trade agreements with Panama, Chile and the Dominican Republic. Guatemala exports a wide variety of products with a mainly agricultural base, while it imports goods of an industrial nature, including machinery, road vehicles and apparel. This combination of exports and imports reflects Guatemala's position as a developing country that must rely partially on outside advancements to sustain and promote industrial activities within its own economy. As Guatemala becomes more developed and expands its manufacturing sector, it should depend less on industrial imports from the United States and other developed nations.

Trade (expressed in billions of US$): Guatemala

	Exports	Imports
1975	.624	.733
1980	1.520	1.598
1985	1.057	1.175
1990	1.163	1.649
1995	2.156	3.293
1998	2.582	4.651

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Guatemala has consistently imported more than it has exported over the past 25 years, but this trend has sharpened over the past 5 years or so, with imports surpassing exports by significant margins and resulting in a considerable **trade deficit**. In 1998, Guatemala exported only US$2.582 billion worth of goods while importing US$4.651 billion worth. Increasing imports can be a sign that the Guatemalan economy is strong enough to afford large quantities of goods from abroad, but they can also throw off the stability of the nation's trade regime if not matched by growth in exports.

The unprecedented level of Guatemala's imports in 1998 might also be a result of the end of *la violencia*, or the civil war, in 1996. The political space created by the peace agreement may have encouraged deeper interaction between Guatemala and the global market and may have opened up new trade opportunities with economic players who had previously withheld their trade partnership as a political gesture.

MONEY

Despite its 36-year internal conflict (1960–96) that was characterized by political instability and mass killings, Guatemala maintained a functional economy throughout the second half of the 20th century. The

Exchange rates: Guatemala

quetzales (Q) per US$1	
Jan 2001	7.8020
2000	7.7632
1999	7.3856
1998	6.3947
1997	6.0653
1996	6.0495

SOURCE: CIA *World Factbook 2001* [ONLINE].

1960s and 1970s brought a healthy dose of economic development to Guatemala, resulting in impressive economic growth figures (average annual growth totaled 5.5 percent over the 20-year span of time). The 1970s in particular proved to be very important economic years, as Guatemala focused its attention on expanding the manufacturing sector in order to soften its dependence on agricultural exports. As a result, manufacturing expanded at an annual rate of more than 6 percent from 1970 to 1979. Like other Latin American countries, Guatemala was adversely affected by the foreign debt crisis of the 1980s; inflation grew to an average annual rate of 16.5 percent, and the nation's foreign debt tripled to more than US$4.7 billion. Nonetheless, Guatemala's economy staged a recovery in the 1990s that brought back healthy rates of growth and inflation. In 1999, the country experienced a mild **recession**, but the effects are expected to be temporary and surmountable.

The Guatemalan quetzal has never experienced a period of hyperinflation or intensive devaluation like many other Latin American currencies have encountered. Instead, the devaluation of the quetzal in respect to the U.S. dollar has occurred gradually; from 1983 to 2000, for example, the value of the quetzal dropped 70 percent, an average annual rate of slightly more than 4 percent. Despite the relative consistency the quetzal has experienced on the world market, Guatemalan officials are planning to dollarize the economy, eventually eliminating the quetzal in order to implement the U.S. dollar as the official national currency. The first step of the dollarization process took place on 1 May 2001, when the U.S. dollar was first allowed to circulate as legal tender. Guatemalan economists and government officials hope that by adopting the U.S. dollar, they can make Guatemala more attractive to foreign investors and effectively eliminate the phenomenon of currency devaluation. Dollarization should also encourage discipline within the banking sector, which, under the jurisdiction of the Superintendency of Banks, currently functions according to rather loose regulations and has encountered several bankruptcies.

POVERTY AND WEALTH

Although Guatemala enjoys the highest GDP in Central America, unequal distribution of wealth and rapid population growth within the nation have given Guatemala one of the highest poverty rates in Latin America. More than 75 percent of the national population lives below the poverty line, and the extent of poverty is even more severe among the rural and indigenous populations. In 1989, about 93 percent of the indigenous population in Guatemala were living in poverty and 91 percent in extreme poverty, whereas only 66 percent and 45 percent of the non-indigenous population were living in those respective conditions. Guatemala's income distribution is among the most unequal in the world, with the wealthiest 10 percent of the population owning nearly 50 percent of the national wealth and the poorest 10 percent owning less than 1 percent. As a result, there is a very small middle class in Guatemala, and political power rests almost exclusively with elite groups. Land, just like monetary wealth, is concentrated in the hands of the few, making it very difficult for poor rural workers to improve their financial situation, as the amount of land they own or have access to is minimal.

While the economic policies implemented during the 1990s in Guatemala produced manageable **inflation rates** and healthy economic growth, they did not bring about greater economic equality or help to reduce poverty. Economic reforms in Guatemala have been aimed at improving macroeconomic indicators, sometimes to the disadvantage of social spending, as with the reduction of the **public sector** deficit from 1990 to 1996, which was accomplished through spending cuts. Although some government leaders (such as current president Alfonso Portillo) have run for office on populist platforms, little has been done to improve the situation of the poorest segments of the population.

The poor in Guatemala do not have easy access to good health care, particularly because health-care facilities and experts are focused in metropolitan areas. This factor, combined with the negative health effects of pesticides and the low availability of drinking water and waste disposal services in rural areas, results in a higher

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Guatemala	1,371	1,598	1,330	1,358	1,533
United States	19,364	21,529	23,200	25,363	29,683
Mexico	3,380	4,167	4,106	4,046	4,459
El Salvador	1,779	1,596	1,333	1,378	1,716

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Guatemala

Lowest 10%	0.6
Lowest 20%	2.1
Second 20%	5.8
Third 20%	10.5
Fourth 20%	18.6
Highest 20%	63.0
Highest 10%	46.6

Survey year: 1989

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

occurrence of health problems in rural areas than in urban centers. There are signs that the issue of health care has started to receive greater political and social attention in Guatemala. In 1996, about 13 percent of the government's budget was devoted to health, whereas in 1992 the amount allocated for health care was only 6.6 percent of the overall budget. Additionally, the government recently initiated a health sector reform to provide health services to all Guatemalans who currently lack access to health care; the minimum health services available under this plan include care of pregnant women, child health care, and emergency and disease care.

Education presents another problem for poor Guatemalans, as some parents call on their children to work long hours to contribute to the family income, preventing them from attending school. This phenomenon occurs most often in rural areas, where families engage in **subsistence farming** or work for larger landowners, and the amount of manual labor available determines a family's total income. Unfortunately, children who have to work instead of attending school miss out on the education that is almost always necessary for economic advancement. Although school attendance is compulsory for 6 years by government mandate, only 41 percent of school-aged children in Guatemala attend classes, and only 55.6 percent of the total population are literate.

WORKING CONDITIONS

The conditions under which most Guatemalans work are less than desirable and often in violation of Guatemalan law. According to the nation's labor laws, the minimum daily wage is US$3.00 for agricultural workers, US$3.30 for workers in commerce, US$3.38 for construction workers, and US$6.00 for specialized labor. The workweek consists of 44 hours for day-shift workers and 36 hours for night-shift workers. Overtime work is to be compensated with time-and-a-half pay, and children under the age of 18 are not to work overtime. In terms of workplace conditions, employers are to ensure healthy and safe environments for their workers by providing adequate bathroom facilities and on-hand medical care. If 25 percent of the employees at a given workplace request to organize a trade union, they have the right to do so freely.

Work conditions in Guatemala's agricultural and industrial sectors often fail to meet the government's specified requirements. More than 80,000 Guatemalans, most of them young women, work at *maquilas* (apparel-for-export factories), often in unsafe and unhealthy (not to mention illegal) conditions. Among the labor law violations common to *maquilas* are forced overtime, employment of children as young as 13 years old, and bathrooms that remain locked for most of the workday. Equally poor conditions exist for workers in the agricultural sector, where the need to meet daily quotas leads to the coercive employment of children as young as 6 years old by their parents, who do not receive compensation unless they reach the fixed quota. Much agricultural employment is seasonal and occurs at off-site locations, where housing facilities are generally poor; at some cotton plantations, the housing provided for workers consists of bare wooden constructions without bedding or furniture. Wages for agricultural and industrial workers often fail to meet minimum wage requirements, and average income is sometimes less than the cost of a basic food basket for a family of 5, meaning that wages are set at starvation levels.

Despite the treacherous conditions that exist for unskilled workers, fewer than 15 percent of all workers are unionized. This fact has much to do with the abuses that have been committed against trade union members and leaders over the past half-century. Military and civilian governments since the 1950s have held union organizations in contempt and have committed serious human rights abuses and "disappearances" against union leaders. Amnesty International has documented that between 1976 and 1996 (the final 20 years of Guatemala's internal war), thousands of trade unionists were tortured and killed, or "disappeared," because of their union activities. This hostile attitude towards labor organizations continues today and acts as a significant deterrent to trade union mobilization.

One major reason that work conditions are so poor and unions so weak is that work is hard to come by in Guatemala. While open unemployment affects about 7 percent of the population, total unemployment lingers around 37 percent; as a result, close to 1 million Guatemalans work in the **informal economy**, augmenting the formal economy's workforce of 3.5 million. Additionally, the culture of violence that developed during Guatemala's civil war has not yet been eliminated, so threats and coercion are common workplace elements. Not all forms of employment in Guatemala are undesir-

able; jobs in urban areas and in the service sector provide stable and healthy conditions and livable wages. Too often, however, working conditions do not correspond to the standards set by the Guatemalan government, and of the groups impacted by this disregard for labor laws, unskilled, rural workers suffer the gravest consequences.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1524. Pedro de Alvarado of Spain invades Guatemala.

1528. Alvarado defeats Guatemalans, and Spanish rule begins.

1786. Spaniards separate Chiapas, Honduras, and Nicaragua from the province of Guatemala.

1821. Guatemala, along with Central America, declares its independence from Spain.

1823. Guatemala joins with other nations to form the United Provinces of Central America.

1840. Guerilla group led by Rafael Carrera overthrows president of United Provinces, resulting in the abolition of the federation.

1850s. Guatemala embarks upon a long period of undemocratic rule, marked by a series of dictatorships, military governments, coups, and insurgencies that continue until the mid-1980s.

1901. United Fruit Company establishes itself in Guatemala, becoming the first transnational corporation in the country.

1944. The "October Revolutionaries," a group of students, liberal professionals, and military dissidents, overthrow General Jorge Ubico's dictatorship.

1945. Guatemala joins the United Nations.

1948. Guatemala joins the Organization of American States.

1952. **Communist** Guatemalan Labor Party gains legal status and institutes agrarian reforms that distribute unused lands to peasants.

1954. U.S. CIA deploys "Operation Success" with help from domestic forces, invading Guatemala and overthrowing President Jacobo Arbenz.

1960. Rebel Armed Forces (FAR) forms; civil war over economic and land issues commences.

1966. United States sends in Green Berets and directs counterinsurgency campaign in Guatemala; Mano Blanca and other Guatemalan death squads form.

1970s. Manufacturing expands markedly in Guatemala, growing at an annual rate of 6.2 percent.

1978. United States bans the sale of arms to Guatemalan government.

1980. Spain breaks off diplomatic relations with Guatemala after a government massacre in which Indian protestors were burned inside of the Spanish Embassy. Debt crisis strikes Guatemala; high inflation and foreign debt accumulation ensue.

1981. Guatemalan army initiates counteroffensive, destroys over 400 Indian villages in 2 years.

1982. Guerrilla Army of the Poor (EGP), Organization of Armed People (ORPA), and Rebel Armed Forces (FAR) combine to form the Guatemalan National Revolutionary Unit (URNG). Efrain Rios Montt overthrows General Angel Anibal Guevara presidency.

1983. Military overthrows Rios Montt. United States resumes sale of arms to Guatemala.

1985. Marco Vinicio Cerezo is elected, becoming the first civilian president in 15 years. United States reinstates official economic and military aid to Guatemala.

1987. Central American Peace Accord is signed.

1990. United States again cuts off military aid and arms sales to Guatemala.

1991. Economic recovery begins; Guatemala regains healthy inflation rates and experiences consistent growth.

1994. Guatemalan government and guerrillas sign agreements on human rights, resettlement, historical clarification, and indigenous rights. United Nations Human Rights Verification Mission in Guatemala (MINUGUA) is formed.

1996. Alvaro Arzú, member of National Advancement Party, is elected president. Guatemalan government and guerillas sign peace accord, ending 36-year conflict.

1997. URNG demobilizes and becomes political party.

1999. Alfonso Portillo, member of Guatemalan Republican Front, is elected president.

FUTURE TRENDS

Having finally negotiated an end to its decades-long civil war in December of 1996, Guatemala is currently attempting to construct a peaceful and democratic political environment that will foster greater economic growth and prosperity. This task has proven more difficult than anticipated, partly due to the vestiges of violence and distrust left over from the war and partly because of continuing problems with corruption, a weak justice system, and poor political representation. If such obstacles to functional democratic governance can be overcome and

Guatemala can develop a stable and more attractive atmosphere for investment, diversification of exports and economic growth should follow. Even during the period of internal political turmoil from 1960–96, Guatemala's economy experienced growth and manageable inflation rates, suggesting that the opportunities proffered by peace and demilitarization could provide the necessary impetus for economic progress.

Even so, sustaining a healthy and growing economy will require more than the absence of internal conflict and the presence of a more democratic political culture. To achieve the economic stability necessary to be competitive within the global economy, Guatemala will have to exercise fiscal discipline, privatize some of its state-owned companies, liberalize its trade regime, reform its banking sector, and explore new options for production and export. A series of economic liberalization measures initiated under the Arzú administration (1996–99) introduced privatization and lifted restrictions on trade and investment, but the process of liberalization must be embraced and continued by current and future administrations in order to bring about economic stability and progress. In respect to new production and export options, the most promising prospects for economic expansion in Guatemala are the textile and apparel industries, as well as the non-traditional export industries of shrimp farming and cut flowers. Guatemala also has proven natural gas and oil reserves that could attract substantial amounts of capital from foreign or domestic investors.

Poverty and deep-seated inequality have been the most stubborn and devastating economic problems for Guatemala in the past, and they will likely continue to afflict Guatemala, even assuming economic growth and expansion on the national level. Unequal distribution of wealth and land within the country over time has led to the present dire scenario, in which more than 60 percent of the Guatemalan population subsist on less than US$2.00 a day. Because the current political system lacks representation on the left and is dominated by 2 conservative parties (PAN and FRG), the interests of the poor and underprivileged are not likely to receive due attention in the political arena until a viable left-of-center party forms. While some of the policies proposed by President Alfonso Portillo at the beginning of his term (2000-present) would have benefited the working class, they have not been passed into law because of lack of support in Congress. International agencies and foreign governments continue to provide aid to Guatemala for poverty relief and other development initiatives, but these funds are not large enough to significantly mitigate the effects of widespread poverty, unequal distribution of wealth, and a rapidly growing population. Unless Guatemala gives serious political attention to the issues of inequality and population growth, the economic future of Guatemalans will be bleak.

DEPENDENCIES

Guatemala has no territories or colonies.

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—Heidi Jugenitz

GUYANA

Cooperative Republic of Guyana

CAPITAL: Georgetown.

MONETARY UNIT: Guyanese dollar (G$). One Guyanese dollar equals 100 cents. Notes come in denominations of 20, 100, 500, and 1,000 dollars. Coins come in denominations of 1, 5, 50, and 100 cents. U.S. currency is also accepted in Guyana.

CHIEF EXPORTS: Sugar, gold, bauxite/alumina, rice, shrimp, molasses, rum, and timber.

CHIEF IMPORTS: Manufactures, machinery, petroleum, and food.

GROSS DOMESTIC PRODUCT: US$3.4 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$570 million (f.o.b., 2000 est.). **Imports:** US$660 million (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Guyana is situated on the northeast coast of Latin America, along the Atlantic Ocean. It shares a 600-kilometer (373-mile) border with Suriname to the east, a 743-kilometer (462-mile) border with Venezuela to the northwest, and a 1,119-kilometer (695-mile) border with Brazil to the south and southwest. Guyana covers 214,970 square kilometers (83,000 square miles), making it slightly smaller than the U.S. state of Idaho. Approximately 196,850 square kilometers (76,000 square miles) of Guyana's area is land and 18,120 square kilometers (7,000 square miles) is water. The coastline of Guyana totals 459 kilometers (285 miles). The capital, Georgetown, is located on the coast.

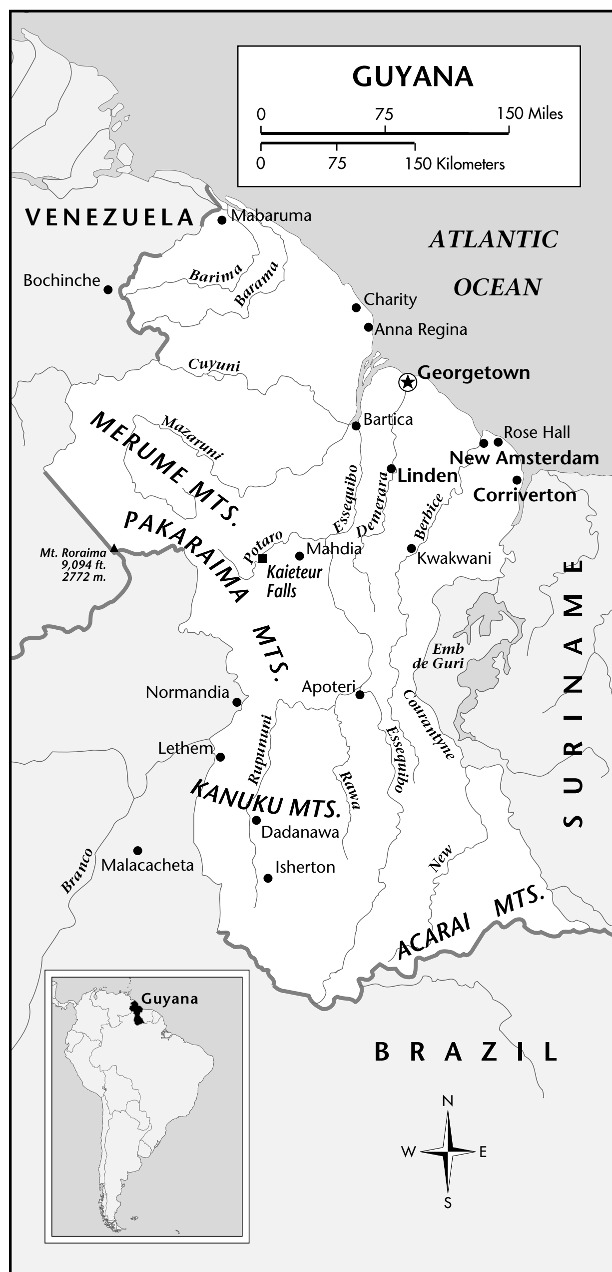
Guyana has 3 distinct geographical zones. It has a narrow coastal belt that is just over 25 kilometers (16 miles) in width. Much of the coastal belt is below sea level, which makes it good for sugar and rice production. Approximately 90 percent of the Guyanese population lives in this region. The high savannah uplands are located further inland. These are mostly thickly forested, hilly, tropical areas where the country's bauxite, diamonds, gold, manganese, and other minerals are found. The highest point is Mount Roraima, which rises to 2,835 meters (9,302 feet). The river basin hosts Guyana's massive rivers, namely the Demerara, Berbice, Courantyne, and Essequibo. Rapids, bars, and other obstacles make navigation very difficult on these waters.

POPULATION. The population was estimated at 697,181 in 2001, with an average annual growth rate of 0.07 percent in the same year. Recently the population has been falling as a result of out-migration. Half of Guyana's population is descended from Indian workers of the Dutch West Indian Company who first settled there in 1620. One-third of the population descends from native Africans who were brought as slaves in the 18th century. The rest are mostly Amerindians, Europeans, Chinese, and people of mixed races.

Guyana has the highest proportion in South America of people who live in rural areas, with only 35 percent living in urban areas in 1995. English is the official language, although Hindi and Urdu are used by the Indian community. There is religious diversity in Guyana; Protestants constitute 34 percent of the population, 34 percent are Hindu, Catholics are 18 percent, and 9 percent are Muslim.

OVERVIEW OF ECONOMY

Guyana is one of the poorest countries in South America, with a per capita income of US$4,800 in 2000 (figured at **purchasing power parity**). After gaining independence from Great Britain in 1966, Guyana followed a **socialist** model of development. The bauxite, timber, and sugar industries were **nationalized** in the first half of the 1970s, and by 1976 the state controlled 75 percent of the country's economy. At the same time, regional integration was implemented through the Caribbean Common Market (CARICOM), the Latin American Economic



System (SELA), and the Caribbean Merchant Fleet. In 1980 Guyana granted authorization for transnational corporations to carry out oil and uranium explorations.

By 1988 the government controlled over 80 percent of recorded import and export trade and 85 percent of total investment. The government attempted to set prices and fix the **exchange rate** for currency. With **inflation**, prices and the exchange rate were soon rendered unrealistically low. At the low prices, more commodities and more foreign exchange were demanded than could be supplied. There were shortages of supplies, and the government instituted a system of rationing. Unofficial markets (sometimes called parallel or **black markets**) emerged, where the rationed commodities and foreign exchange could be purchased, but at prices higher than the official prices. During the 1980s the **real gross domestic product** (GDP) continually declined, falling at a yearly average of 2.8 percent, mainly due to economic mismanagement. With the rising share of foreign interest payments, gross national income declined at an even faster rate of 4.9 percent a year.

Technical, organizational, and financial problems in Guyana's key sectors (sugar, rice, and bauxite production) and falling world demand led to stagnation in output and a consequent decline in government revenues in the late 1980s. Inflation accelerated, and there was an increased reliance on external borrowing. While new investments were being made in the public industrial sector, the nation's **infrastructure** was being neglected and steadily deteriorated.

By 1988 output was only 68 percent of the 1976 level. Since Guyana's **external debt** is denominated in U.S. dollars, if the exchange rate is reduced (such as by the **devaluation** in 1989), the value of the debt expressed in Guyanese dollars increases. In 1989, total debt become over 600 percent of the GDP. The severe decline in living standards led to a major migration of talented Guyanese to lucrative jobs abroad.

In 1988, the government adopted an Economic Recovery Program (ERP) that called for a major redirection in government policy. Specifically, there was a greatly reduced role in the economy by the **public sector** and a removal of price and exchange controls that led to shortages and unofficial markets.

Few countries have undertaken such a dramatic turnaround in economic policies, and even fewer have implemented such a program with so much speed and determination. Because of the government's efforts, a support group of donors was organized, and Guyana was able to secure financing to clear debts to the multilateral agencies. The government was also able to agree with the International Monetary Fund (IMF), the World Bank, and the Caribbean Development Bank (CDB) on major programs of support. Guyana also reached agreement with the Paris Club (a group of creditor countries who lend to developing countries) on a major program of **debt relief**.

The government has continued to implement the ERP despite the 1998 drought that severely affected the economy. The GDP growth in 1997 was estimated at 6.3 percent. However, the drought caused the growth rate to fall to -1.5 percent in 1998, but there has been a modest recovery to 1.8 percent in 1999 and 3 percent in 2000.

POLITICS, GOVERNMENT, AND TAXATION

The original inhabitants of what is now Guyana were the Arawaks. They were displaced from the area by the

Caribs, warriors who dominated the region before moving on. Both the Arawaks and the Caribs were nomadic, moved primarily in clans of 15–20 people, and lived by fishing and hunting.

Attracted by the legend of El Dorado—a fabled city that was thought to be full of gold and precious jewels—the Dutch built the first fort in present-day Guyana in 1616. They divided Guyana into 3 colonies: Demerara, Berbice, and Essequibo. The territory was captured by Britain in 1796 and renamed British Guiana.

Beginning in 1950, an anti-colonial struggle was spearheaded by the People's Progressive Party (PPP), led by Cheddi Jagan and Forbes Burnham. After the success of the PPP in the elections of 1953 and the introduction of a socialist program, however, the British government suspended the constitution and sent troops into Georgetown. Some members of the PPP were detained or confined to their homes. By the time internal autonomy was granted in 1961, Burnham had split with Jagan to form a more moderate People's National Congress (PNC). After years of struggle and violence, Britain recognized Guyana as an independent state within the British Commonwealth on 26 May 1966. Burnham served as the first prime minister.

On 23 February 1970, Guyana became the first ever Cooperative Republic, with Arthur Chung as its first non-executive president. In October 1980, Prime Minister Forbes Burnham declared himself the executive president. About 2 months later his party, the PNC, won a large majority of votes in the National Assembly election, which was widely condemned as being rigged. It was declared that Burnham was duly elected as president.

When Burnham died in August 1985, Prime Minister Desmond Hoyte succeeded him as president. Like his predecessor, Hoyte was declared duly elected when the PNC gained a large majority during the 1985 election for the National Assembly, although the results were again disputed. However, desperate economic circumstances forced Guyana to seek external aid that came with the condition of restoring credible elections. Cheddi Jagan finally gained power in 1992. Following his death in March 1997, his wife, Janet Jagan, was sworn in as president on 24 December 1997. When Janet Jagan resigned in 1999, Bharrat Jagdeo assumed the presidency.

In 1980 a new constitution was adopted. The constitution established an executive president and a National Assembly, which consists of 53 elected members and 12 members appointed by local government councils. Elections for 5-year terms are held under a single list system of **proportional representation**, with the whole of the country forming one electoral area and each voter casting a vote for a party list of candidates. Guyana has 10 administrative regions.

The tax system in Guyana is poorly administered, and the level of collection is far below the system's potential. Evasion, avoidance, and corruption are rampant. For example, in 1991 tax revenue from the **private sector** amounted to only 21 percent of the GDP. Many firms enjoy overly generous tax and **tariff** holidays as part of the government's attempt to encourage new investment through incentives. Corrupt revenue officials issue lower tax demands as the result of bribery.

Sales taxes are very high for some products (up to 150 percent), though other sectors, such as services, are ignored entirely. Fees charged for public services, which often have not been adjusted for inflation, are very low or simply remain uncollected or are non-existent. The present tariff structure remains protective. While it follows the CARICOM structure, the top tariff rate of 45 percent is high by present standards in Latin America. Many other Latin American countries have reduced tariffs to a maximum of 20 percent. It has been estimated that the system of tariff protection and fiscal incentives cost the country G$150,000 for every job created. However, the Economic Recovery Program (ERP) launched in 1988 began to reverse these policies. It eliminated import licensing, reduced tariffs, and began an overhaul of the entire tax system. Corporate **income tax** is relatively high at 45 percent. The tax rate on capital gains is 20 percent, and interest and dividends paid by non-resident companies are subject to a 15 percent withholding tax.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Most public sector infrastructure necessary to support the private sector has deteriorated almost to the point of non-existence. Power and water supplies are so erratic that many large private sector firms have invested in their own generators and water sources. The road system has deteriorated, particularly the critical farm-to-market network of feeder roads. In 1996 it was estimated that there were 7,970 kilometers (4,953 miles) of highways, of which only 590 kilometers (367 miles) were paved. Passenger cars numbered 24,000 in 1993, and there were approximately 9,000 commercial vehicles. The sea wall system, which protects the most productive agricultural land, has been breached in several places and patched temporarily but needs major reconstruction. Even in urban areas most of the population lacks access to safe water supplies.

Social services are inadequate to meet the needs of the population. Schools lack basic repairs, books, equipment, and supplies. Hospitals operate with most equipment not working, with no drugs to dispense, insufficient budgets for food, and the inability to carry out simple diagnostic tests, such as X-rays or blood tests. In 1994, there were 30 hospitals (5 private), 162 health centers,

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Guyana	70,000 (2000)	6,100 (2000)	AM 3; FM 3; shortwave 1	420,000	3	46,000	3	3,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Brazil	17.039 M	4.4 M	AM 1,365; FM 296; shortwave 161 (1999)	71 M	138	36.5 M	50	8.65 M
Suriname	64,000	4,090	AM 4; FM 13; shortwave 1	300,000	3 (2000)	63,000	2	10,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

and 14 health posts. In 1997 there were 38.8 hospital beds per 10,000 persons.

Guyana has a small government-owned railway in the northwest region, while the Guyana Mining Enterprise operates a standard gauge railway of 133 kilometers (82.6 miles). The private line runs from Linden, located on the Demerara River, to Huhi and Coomacka. There is an international airport at Georgetown. Guyana has 4 ports, with the major shipping port located in Georgetown. Guyana has an **Exclusive Economic Zone** (EEZ) of 200 nautical miles.

There is an inland public telegraph and radio communication corporation. In 1997, there were 55,100 telephone main lines (65.2 per 1,000 population). Cellular phone subscribers numbered 1,200 in 1995, and there were 85 post offices. In 1998, electricity production was 325 million kilowatt hours (kWh). More than 98 percent of electricity was produced from fossil fuels and less than 2 percent from hydropower.

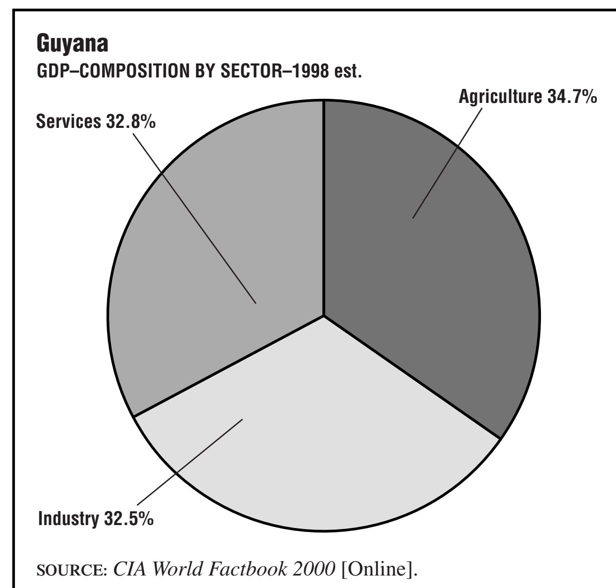
Guyana has no domestic petroleum resources. The National Energy Authority (GNE) imports all petroleum products other than those required by the bauxite industry, largely through a Venezuelan line of credit. At present some exploration activity is going on both offshore and in southern Guyana, but no commercially viable resources have yet been located.

ECONOMIC SECTORS

Upon gaining independence, Guyana followed a socialist strategy for development. Major productive sectors were controlled either through government investment or through **price controls** and foreign exchange rationing. Since 1990 Guyana has pursued an economic policy where state control has been reduced by **privatization**.

Agriculture accounted for approximately 35 percent of the GDP in 1998, with the main products being sugar, coffee, cocoa, coconut and edible oils, copra, fruit, vegetables, and tobacco. In 1995, the total area of forestland totaled 18.58 million hectares (46 acres). Guyana and neighboring Suriname were the world's most heavily forested countries in 1995. About 25 percent of the country's energy needs are met by woodfuel. Timber production in 1996 was 580,000 cubic meters. Total fish catches in 1995 came to approximately 46,000 metric tons, of which more than 98 percent was from marine sources.

Industry generated 32.5 percent of the GDP in 1998, with the main activities being agro-processing (sugar, rice, timber, and coconut) and mining (gold and diamonds). There is a light manufacturing sector, and tex-



SOURCE: *CIA World Factbook 2000* [Online].

tiles and pharmaceuticals are produced by state and private companies.

Services accounted for about 33 percent of the GDP in 1998. The service sector is comprised mainly of banking and financial services, post and telecommunications, transport, tourism, hotels and restaurants, and public administration.

AGRICULTURE

Guyana has a rich and potentially very productive agriculture sector that can make major contributions to the recovery of the economy. There is scope for expansion, as a considerable amount of suitable land is currently not being cultivated. Guyana is mostly self-sufficient in food.

The main agricultural exports are sugar, rice, and shrimp. Sugar production has risen from 162,573 metric tons in 1991 to 280,066 metric tons in 1996. Approximately 255,655 metric tons of sugar were produced in 1998 despite the severe drought. Most of the sugar is exported to Europe under the Lomé Convention (an agreement by the European Union under which preferential trade terms are offered to certain developing countries). Most of the rice is produced by small-scale farmers, unlike sugar production, which is mainly a plantation activity. Other agricultural products are coffee, cocoa, cotton, coconut, copra, fruit, vegetables, and tobacco.

There is some cattle ranching, and pigs, sheep, and poultry are also raised. The fishing industry, which supplies both the domestic and export markets, is expanding. A big fisheries complex that is being constructed on the Demerara River will provide freezing and packing facilities. Forestry covers around 75 percent of the country. Large areas are, therefore, inaccessible, and agricultural development is hindered by the lack of electricity and economic transport.

Most agricultural output is derived from a thin belt of land close to the sea, most of which is below sea level. The sea wall system, which prevents inundation at high tide, is in danger of collapse due to lack of maintenance and wave damage during storms. Repairs to the sea wall are critical, and the immediate action program will cost about US$36 million, a large sum relative to the Guyanese economy.

The country's drainage and irrigation systems are in need of repair and currently are poorly managed. The divestment of state-owned land and the provision of adequate land titles to privately owned farms is a daunting but essential task if the market system is to raise agricultural productivity.

Agriculture provides the raw materials for Guyana's agro-based industries. The major crops include rice, sugar, coffee, cocoa, coconuts, edible oils, copra, fruit, vegetables, and tobacco. Livestock include cattle, sheep, pigs, goats, and chickens.

INDUSTRY

The main industries in Guyana are agro-processing (sugar, rice, timber, and coconut) and mining (gold and diamonds). There is a light-manufacturing sector, and textile and pharmaceuticals are produced by state and private companies. Manufacturing constituted 7.3 percent of the GDP in 1996. Manufacturing output declined at 3.9 percent annually between 1977 and 1987. The manufacturing sector then recovered through a government reform program and expanded at 8.8 percent annually between 1988 and 1998. About 75 percent of production is comprised of processing primary products (rice, coconut, sugar, bauxite, gold, diamonds, and timber). There are also many small workshops and factories producing flour, footwear, clothing, soap, cigarettes, and soft drinks. Mining and quarrying contributed about 16.5 percent of the GDP in 1996. Outdated equipment and the industry's indebtedness have hampered the bauxite/alumina industry.

SERVICES

Guyana has a small but significant tourism sector, which generated about US$39 million from 93,000 visitors in 1997. Many of the tourists were expatriate Guyanese. Guyana has great potential for adventure and nature-watch holidays, with the Kaieteur Falls especially offering considerable tourist potential. Hotel accommodation is available in Georgetown but does not meet demand. There are camps and resorts in the interior of the country, most of which are connected with Georgetown hotels. Tours by light aircraft are also available.

INTERNATIONAL TRADE

Guyana's economic situation remains constrained by its difficulties in external payments, although exports are beginning to respond to recent adjustments in the exchange rate. In 1991, the current account deficit amounted to 52 percent of the GDP. Guyana's external debt in early 1998 was US$1.65 billion. Interest payments on external debt took up 20 percent of export earnings in 1998.

In 1991, total exports increased by 17 percent largely because of better results in the bauxite, sugar, and rice sectors. Imports, however, increased by the same amount, reflecting an increase in the level of investment, particularly in the public sector and general recovery of the economy. By 2000, exports were valued at US$570 million and imports at US$660 million.

Principal commodities exported in 1996 were sugar, US$150.7 million; gold, US$105.9 million; rice, US$93.7

Trade (expressed in billions of US$): Guyana

	Exports	Imports
1975	.357	.342
1980	.396	.365
1985	.206	.226
1990	.251	.311
1995	.467	.528
1998	.485	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Guyana	873	819	626	554	825
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Suriname	888	930	801	787	N/A

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

million; and bauxite, US$86.0 million. Other important exports include shrimp, timber, and rum. The main export markets in 1998 were the United States (25 percent), Canada (24 percent), the United Kingdom (19 percent), Netherlands Antilles (11 percent), and Jamaica (5 percent).

Most imports consist of **capital goods** (about 45 percent of the total in 1990) and **intermediate goods** (42 percent). Fuels and lubricants are the principal intermediate goods. Imports in 1998 came from the United States (28 percent), Trinidad and Tobago (21 percent), Netherlands Antilles (14 percent), the United Kingdom (7 percent), and Japan (8 percent).

MONEY

The unit of currency is the Guyanese dollar (G$), which is divided into 100 cents. The Guyanese dollar became a floating currency in 1991 in order to curb the large-scale illegal trade in foreign currency. It then depreciated rapidly from G$40=US$1 in 1990 to G$143=US$1 at the start of 1995. The value of the Guyanese dollar held steady from 1995 to 1997. It began to fall again in 1998 due to falling commodity prices and domestic political uncertainty. By mid-2001 it had depreciated to G$180.5=US$1. The depreciation meant that, as compared with 1990, imported goods cost over 4 times as much. There has been a major push to make do with locally produced substitutes for imports. For exports, the revenue in Guyanese dollars for producing a kilogram of gold became more than 4 times greater, providing a major incentive to produce more for export.

Exchange rates: Guyana

Guyanese dollars (G$) US$1	
Nov 2000	184.1
2000	182.2
1999	178.0
1998	150.5
1997	142.4
1996	140.4

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

It is difficult to know exactly the nature and the extent of poverty in Guyana. Since the 1980s, thankfully, out-migration has resulted in a low population growth rate, so a growing population is not among Guyana's problems. At the same time, the real GDP has fallen by 24 percent, and consumption spending has fallen by 22 percent. The incidence of underweight children suggests that about 16 percent of the population was below the dollar-a-day poverty line in 1998.

The measure of per capita GDP using the purchasing power parity conversion (which makes allowance for the low price of basic commodities in Guyana) was US$4,800 in 2000 which puts Guyana near the top of the low-income group of countries. The United Nations Human Development Index (which combines measures of income, health, and education) ranked Guyana as 96th out of 174 countries in 1998, and Guyana was judged to have a medium level of human development. Thus, Guyana is placed among those countries with levels of income, health provision, and educational facilities that

Distribution of Income or Consumption by Percentage Share: Guyana

Lowest 10%	2.4
Lowest 20%	6.3
Second 20%	10.7
Third 20%	15.0
Fourth 20%	21.2
Highest 20%	46.9
Highest 10%	32.0

Survey year: 1993

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

are mid-way between the high human development countries of Europe and North America and the countries that are the poorest and most deprived.

WORKING CONDITIONS

The **labor force** was 245,492 in 1992 with an unemployment rate of 12 percent, a rate that remained the same in 1999. However, the majority of the population relies on agriculture for their livelihoods, and there is probably considerable "disguised unemployment" in small-scale farming. There is relatively little work to do for much of the year in **subsistence farming**, and the work is shared among the family members. During planting and harvesting there is more work to be done, and everyone is more fully occupied. Even in these periods, however, there may be more than enough labor to do the tasks, and the work is again shared by many. Everyone who shares the work appears to have an occupation in agriculture, but in fact workers are not engaged full time for the entire year, hence the "disguised unemployment."

There is no regulation of working conditions in the small-scale farming sector. In other sectors of the economy regulation is not enforced, and minimum wage levels have been rendered obsolete by inflation. Guyanese workers generally possess very low skills levels, as most skilled workers have left the country for better jobs elsewhere. There are active labor unions that exist in nearly every organized industry, but they have not been very effective in attaining better conditions for their laborers.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1600. The Dutch begin to settle along the coast of Guyana.

1796. The Dutch are ousted by the British.

1831. Britain consolidates the area as the colony of British Guiana.

1966. Guyana becomes a self-governing dominion within the British Commonwealth; Forbes Burnham becomes prime minister.

1968. Burnham's People's National Congress (PNC) wins electoral victory following the controversial enfranchisement of overseas Guyanese. The United Force (UF) leaves the coalition, protesting irregularities in the elections.

1970. Guyana is proclaimed a Cooperative Republic; the post of governor-general is abolished. Supreme Court Justice Arthur Chung is elected president.

1971. The Demerara Bauxite Company is nationalized.

1973. Legislation is passed permitting preventive detention without trial and restricting freedom of movement.

1974. By the Declaration of Sophia, the PNC is transformed into a socialist party committed to nationalization of all foreign enterprises and redistribution of land.

1975. The Reynolds Guyana Mines are nationalized.

1976. The Booker Sugar Estates are nationalized. The government announces plans to nationalize the school system.

1977. Burnham rejects the plan of Cheddi Jagan, leader of the opposition People's Progressive Party (PPP), for a national coalition government. A strike by sugar workers becomes violent as the government uses police force to break it.

1978. Jonestown, Guyana is the scene of a mass suicide by over 900 members of the People's Temple commune, led by U.S. cultist, Jim Jones.

1980. Guyana adopts the presidential form of government when a new constitution is approved; Burnham becomes the first president under the new constitution.

1985. Burnham dies and is succeeded in office by Hugh Hoyte, who promises to continue Burnham's leftist policies. In national elections, Hoyte is elected president, and the PNC wins with a massive majority.

1990. Guyana accepts IMF conditions and begins receiving assistance. The World Bank and the Caribbean Development Bank resume lending.

1991. Guyana becomes a member of the Organization of American States (OAS).

1992. In elections held in October, the PPP/Civic Congress, still led by Dr. Cheddi Jagan, wins 54 percent of the vote and gains 28 seats. The PNC wins 23 seats and 2 seats are won by other parties.

1997. Jagan dies from a heart attack in March. Elections held in December are won by the PPP/Civic Congress with 56 percent of officially counted votes. Jagan's widow becomes Guyana's first female president.

1998. Violent PNC-supported protests over election results rock the country in mid-January. The PNC agrees to join parliament in July following a CARICOM summit in St. Lucia.

1999. An agreement between members of the PPP/Civic Congress and PNC is reached to draft a new constitution focusing on limiting the powers of the president and making the electoral process more transparent. President Jagan resigns in August because of illness and nominates Bharrat Jagdeo as president.

2001. National Assembly elections give the PPP/Civic Congress 35 seats, the PNC 27 seats, and other parties 4 seats.

FUTURE TRENDS

The long-term outlook for Guyana continues to be discouraging. The problems of shortages caused by setting prices and fixing the exchange rate have ended with the abolition of these regulations, but economic recovery will remain slow until the government earns the full confidence of the international community. The country still suffers from the accumulated costs of past policies, including an external debt that is over 240 percent of the GDP and a very low per capita income in comparison to the rest of Latin America and the Caribbean.

Severe drought and political turmoil caused Guyana to report a negative growth rate of -1.5 percent in 1998, following 6 straight years of growth of 5 percent or higher. Growth rebounded to 1.8 percent in 1999 and 3 percent in 2000. Underlying factors in the GDP growth have included expansion in the key agricultural and mining sectors, a more favorable atmosphere for business initiative, a realistic exchange rate, a moderate **inflation rate**, and continued support from international organizations. President Jagdeo, the former finance minister, is taking steps to reform the economy, including drafting an investment code and **restructuring** the inefficient and unresponsive public sector. Problems hindering the economy include a shortage of skilled labor and an inadequate and poorly maintained transportation system. Electricity has been in short supply, but the privatization of the sector in 1999 is expected to improve prospects.

Guyana is rich in minerals, especially bauxite, gold, and diamonds. In comparison to general worldwide deforestation, Guyana has suffered little and until 1990, only a small fraction of the extensive forests had been felled. An improved infrastructure will harness the potential in mining and forestry and enable Guyana to experience steady progress.

DEPENDENCIES

Guyana has no territories or colonies.

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—Allan C. K. Mukungu

HAITI

Republic of Haiti
République d'Haïti

CAPITAL: Port-au-Prince.

MONETARY UNIT: The Haitian gourde. One gourde equals 100 centimes. There are coins of 5, 10, 20, and 50 centimes. There are notes of 1, 2, 5, 10, 50, 100, 250, and 500 gourdes.

CHIEF EXPORTS: Manufactured goods (clothing, sports goods), coffee, oils, mangos.

CHIEF IMPORTS: Food, machinery and transport equipment, fuels.

GROSS DOMESTIC PRODUCT: US$9.2 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$322 million (f.o.b., 1999). **Imports:** US$762 million (c.i.f., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Haiti occupies the western third of the island of Hispaniola, between the Atlantic Ocean and Caribbean Sea, which it shares with the Dominican Republic. Haiti has an area of 27,750 square kilometers (10,714 square miles), slightly smaller than Maryland. It shares a border of 275 kilometers (171 miles) with the Dominican Republic and has a coastline of 1,771 kilometers (1,100 miles). Its capital and largest city, Port-au-Prince, is in a bay on the country's southwestern coast.

POPULATION. Haiti's population was estimated at 6,867,995 in July 2000, showing a growth rate of 1.39 percent and a total rise of 36 percent since the last official census of 1982, when the population stood at 5,053,792. The country's demographic statistics reveal the effect of extreme poverty and an HIV/AIDS epidemic. These conditions have reduced life expectancy to 49.2 years, contributed to high infant mortality and general death rates, and slowed population growth. At current growth rates, Haiti's population will stand at approximately 7 million in 2010.

Despite slow growth rates, Haiti is one of the most densely populated countries in the world, estimated at 270 persons per square kilometer (699 per square mile) in 1997. Land shortages and urban overcrowding have led to many Haitians attempting to **emigrate**, either to the neighboring Dominican Republic or to the United States. The net migration rate stood at 2.97 persons per 1,000 in 2000. The capital, Port-au-Prince, had an estimated population of 850,000 in 1995, but much settlement in slum areas is unregulated, and the population probably exceeds 1 million.

Haiti's population is a young one, with 41 percent estimated to be between 0 and 14 years of age in 2000. Most Haitians are of African descent, with approximately 95 percent of the population defined as black. The remaining 5 percent is comprised of mulattos (people of mixed European and African ancestry), and a small community descended from immigrants from the Middle East.

OVERVIEW OF ECONOMY

Haiti has long been the poorest country in the Western Hemisphere, a consequence of its unique historical development, generations of misrule, and declining natural resources. Since its slave revolution and war of independence, which culminated in the founding of the nation in 1804, the country's economy has been dominated by small-scale agricultural production. Rural overpopulation, the increasing division of small farms, and disastrous ecological degradation caused by tree felling and soil erosion have destroyed the traditional economy in some parts of the country and threaten it in others. Traditionally, most small farmers and peasant laborers have had little to do with the state, other than to pay taxes on export commodities such as coffee. The machinery of government, the political parties, and the country's business and cultural life are almost exclusively concentrated

in Port-au-Prince, a small city until the 1950s but now a rapidly growing area of shantytown development (shantytowns are dwellings constructed primarily of found materials, including cardboard and pieces of metal). A huge gulf has existed between a poor, black, peasantry, who are mainly illiterate and Creole-speaking, and a small, lighter-skinned, urban elite who speak French and, increasingly, English.

In the 1970s the dictatorship of Jean-Claude Duvalier tried to capitalize on Haiti's huge unemployment and low wage rates by inviting foreign companies, principally from the United States, to establish manufacturing bases near Port-au-Prince. In the 1980s this sector grew substantially, producing clothing, sports goods, and electronic parts for the North American market. However, intense political turmoil in the late 1980s and 1990s, coupled with the deterioration of the country's **infrastructure**, has since reduced the number of foreign companies operating in Haiti.

Haiti is, therefore, a country of largely impoverished peasant farmers and urban slum dwellers, with a small minority of lighter-skinned, wealthier people who tend to control import-export businesses, the financial sector, and a small tourist industry. There are few national companies, but family-run enterprises, often working as agents for U.S. businesses, dominate commerce. Since the 1950s Haiti has also been dependent on foreign aid, although its political violence and occasional periods of international isolation have often prevented that aid from reaching its intended beneficiaries. Government expenditures far exceed government revenues through taxation, and this shortfall is usually met by grants and loans from

multinational agencies, totaling US$353 million in 1998 alone. Haiti's **foreign debt** stood at approximately US$1 billion in 1997.

In recent years Haitian governments have come under pressure from international aid agencies to **liberalize** the economy in return for continuing aid. Successive governments had retained control over important sectors of the economy, leading to huge inefficiency and persistent corruption. Several state **monopolies**, such as cement and the national flour mill, have been **privatized**, and others are expected to be sold off. These moves have increased unemployment as private owners cut payrolls.

Haiti's economy is essentially a survival one, where unemployment was officially estimated at 70 percent in 1999 and the **informal sector** provides the only work opportunities for most urban Haitians. In the countryside, many peasants operate almost outside the official cash economy, aiming for self-sufficiency and small surpluses for sale or **barter** at the many rural markets across the country. Not surprisingly, with approximately 80 percent of Haitians living in absolute poverty, pressures to emigrate, usually illegally, are strong. Other Haitians choose to cross the border into the Dominican Republic to work on sugar plantations or as manual laborers, for low wages. **Remittances**, estimated at US$150 million annually sent home from family members living abroad, are a vital means of support for many communities. Another unregulated source of income, earned by a small clique of influential individuals, derives from Haiti's importance as a trans-shipment point for cocaine and other narcotics en route from South America to the United States.

POLITICS, GOVERNMENT, AND TAXATION

Haiti's political system is notoriously volatile and prone to violence. Since gaining its independence from France in 1804, the country has experienced little democracy and has suffered at the hands of many dictators and corrupt regimes. The most enduring of these dictatorships was that of François "Papa Doc" Duvalier (1957–71) and his son Jean-Claude "Baby Doc" (1971–86). Since the overthrow of Jean-Claude Duvalier, the country has been ruled by a succession of unstable governments and military juntas. The political landscape changed dramatically in 1991 with the presidency of Jean-Bertrand Aristide, a radical Catholic priest, who was elected by a landslide majority in the country's first free elections. He was ousted by the military after only 8 months and spent 3 years in exile before being returned to power by a joint United Nations/United States military force in 1994. In the meantime, Haiti suffered a 3-year period of political repression, compounded by increased economic hardships as the result of an international economic **embargo** orchestrated by the Organization of American States (OAS) and the United Nations (UN). In December 2000 Aristide again won election by an overwhelming majority.

The dominant political force in Haiti today is Aristide's Fanmi Lavalas (FL), which means "landslide family" in Creole. The FL has an extended network of activists but is held together by the charismatic personality of Aristide, who won 91.8 percent of the vote in the November 2000 elections. Other political groupings are weak and unpopular in comparison. The main group is the Organization of People in Struggle (OPL), formerly allied to Aristide but now bitterly opposed to FL. All other parties boycotted the 2000 presidential elections, claiming that intimidation and electoral malpractice were rife. By early 2001 FL was in control of 103 out of 110 seats in the Senate and Chamber of Deputies.

Aside from its promotion of Aristide as a "savior," FL tends to vacillate between supporting the rural economy through infrastructural investment and state **subsidies**, and pursuing a course of liberalization and privatization. In the wake of Aristide's return to power in 1994, for instance, the government presided over the removal of many trade barriers and the beginning of a privatization program, but Aristide later criticized these measures. Aristide's populist appeal runs counter to the demands placed on his government by international donors, who wish to see the Haitian economy further opened to foreign investment.

Revenue collection in Haiti has always been inefficient and plagued by corruption and tax evasion. Aristide's threats to tax the tiny wealthy minority were instrumental in his overthrow in 1991. **Indirect taxes** and excise **duties** were 3 times greater than **income tax** receipts in 1997, while punitive taxes have traditionally been levied on export commodities such as coffee.

Because the government is heavily dependent on foreign aid, its ability to forge independent economic policy is limited by donor demands for agreed economic programs as a precondition for releasing aid. The main policy of the FL government focuses on land distribution and attempts to regenerate agricultural production damaged by low productivity and environmental degradation. The government also promises higher wages in the small manufacturing sector, a proposition that has caused several companies to relocate to the Dominican Republic.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Haiti's infrastructure is primitive and poorly maintained, the result of decades of under-investment and environmental damage. Most roads, even those linking

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Haiti	3	55	5	N/A	0	N/A	N/A	0.00	6
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Jamaica	62	480	182	73.1	22	N/A	39.4	1.04	60
Dominican Republic	52	178	95	15.5	31	0.3	N/A	7.63	25

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Port-au-Prince to other large towns, are often impassable to ordinary vehicles. Of a total of 4,160 kilometers (2,585 miles) of roads, only 1,011 kilometers (628 miles) are paved, and these are frequently pot-holed and damaged by landslides. There is no railway other than a stretch attached to an ex-sugar plantation. Several ports are capable of dealing with container shipping, but most foreign trade passes through Port-au-Prince. Port-au-Prince International Airport is situated 5 miles from the capital and has regular connections with North America and Europe. The only other modern airport is near Cap-Haïtien, in the north of the country.

Deforestation and the resulting soil erosion have silted up Haiti's main hydroelectric power generating system. The 677 million kilowatt hours (kWh) of electrical power consumed in 1998 was barely enough to keep industries going, and most wealthy people and companies have private generators. Only 10 percent of city dwellers and 3 percent of the rural population have access to electricity. The main fuel is charcoal, produced by **smallholders** at often enormous environmental cost.

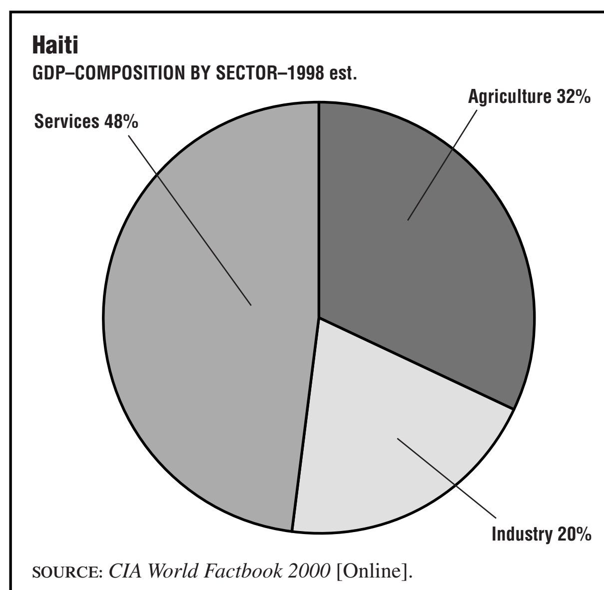
Poor road conditions have had disastrous effects on farmers, who face serious problems in taking their goods to markets and towns. The crumbling infrastructure, erratic power supplies, and constant threat of unrest have also been cited by foreign manufacturers as a discouragement to locating companies in Haiti. What little public transport there is consists of tap-taps, colorfully painted buses that link towns and villages.

Telephone and television access is almost non-existent in the countryside, while mobile phones and Internet connections are the preserve of the wealthy minority and business interests in the capital. In 1996 there were only 60,000 phone lines recorded in the country. The state-owned Téléco company is highly profitable as it holds a monopoly on the lucrative business in international calls.

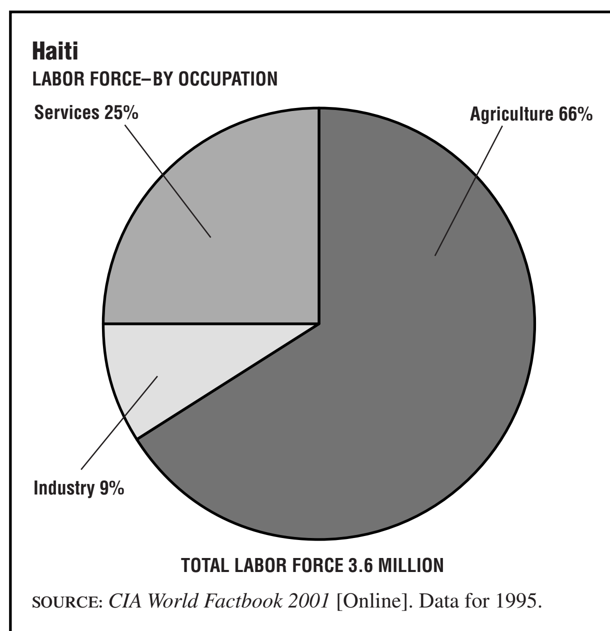
ECONOMIC SECTORS

Haiti is a traditionally agricultural economy, and almost two-thirds of the workforce (over 2 million people) are employed in farming, much of it on tiny properties. But agriculture, which is plagued by primitive techniques, soil erosion, and low commodity prices, contributed only 32 percent to the GDP in 1998. It also provided less than half of the country's food needs and less than 10 percent of export earnings. The agricultural sector is in deep crisis and is the first priority of the Aristide administration.

Industry is mainly based on low-wage assembly plants producing goods for export to the United States. Contributing 20 percent to the GDP in 1998, manufacturing was badly hit by the political turmoil of the 1980s and 1990s but has stabilized somewhat since 1994. About 35,000 people, or 1 percent of the total workforce, are employed in the export sector, while the domestic mar-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1995.

ket is so small and poor that only essentials such as cooking oil, cement, and beverages are produced locally.

Services accounted for 48 percent of the GDP in 1998 and largely involved **retail**, transportation, and government services. Approximately a million people work in trade, transport, and personal services, many of them as domestic servants. Haiti's once important tourism sector collapsed in the 1980s due to political unrest and fears about HIV/AIDS.

AGRICULTURE

Declining soil fertility, natural disasters, and cheap imports from abroad have all contributed to agriculture's decline. It is calculated that only one-third of Haiti's land is arable, but nearer one-half is under cultivation, adding to deforestation and soil erosion. The land is often too mountainous to produce sufficient yields while, in the more fertile valleys, disputes over land ownership have often led to violence. Technology is largely lacking.

The main export crop is coffee, but it contributed less than 6 percent of earnings in 1999. Many small-scale coffee farmers have switched to food crops because of high taxes and exorbitant percentages demanded by the middlemen who buy the coffee from the peasants to sell on the international market. Other small export crops include mangos and essential oils for the cosmetics and pharmaceutical industries in the United States. **Subsistence farming** is also in decline, hit by an influx of rice and wheat, some of it smuggled in from the Dominican Republic and some sent to the country as humanitarian aid. Most of what is produced by small farmers is consumed or sold locally, but Haiti's main imports continue to be basic foodstuffs.

INDUSTRY

Haiti's industrial sector is almost exclusively export-oriented, revolving around assembly plants producing **consumer goods** for the U.S. market. In the 1970s and 1980s this sector grew rapidly, and Haiti was briefly one of the leading producers of baseballs and other sporting goods, with 60,000 people employed around Port-au-Prince. The political violence of the late 1980s and 1990s and particularly the embargo imposed on the military regime between 1991 and 1994 severely affected this sector, and many companies relocated to the Dominican Republic or Mexico.

By 1999 the manufacturing sector was estimated to employ 35,000 workers, mostly women, producing clothing, toys, and electronic parts. The value of manufactured exports in 1999 was estimated at almost US$250 million and accounted for most overall exports.

Other manufacturing takes place on a small scale and is either directed at the small local market or involves artisans who produce goods such as artworks, furniture, and souvenirs, which are normally exported to tourist destinations elsewhere in the Caribbean.

SERVICES

Haiti has long had a large and unproductive government service sector, a legacy of the Duvalier dictatorship, which created government jobs for its supporters. Social services, however, are almost non-existent, and recent governments have come under pressure to reduce the state payroll through privatization and by firing workers or giving them early retirement.

Retail and transportation are both labor-intensive and largely primitive economic sectors, with large numbers employed in informal vending and rural markets. There are few modern retail outlets in Haiti, and most rural dwellers depend on their own food production and basic items bought at markets or village stores.

In the 1980s, tourism was a relatively important sector, providing Haiti's second largest source of foreign exchange, but the industry was destroyed by adverse publicity about political violence and the dangers of HIV/AIDS in the country. Some hotels have survived by catering to the large numbers of aid workers and other foreign staff who are posted to work in Haiti, but tourism as such has yet to recover. Tourist arrivals numbered 146,367 in 1998, and cruise ships now call at a specially constructed beach resort, Labadee, in the north of the country. The government has invested in promoting the southern town of Jacmel and the northern area around Cap-Haïtien as tourist destinations.

Trade (expressed in billions of US$): Haiti

	Exports	Imports
1975	.080	.149
1980	.226	.375
1985	.168	.442
1990	.160	.332
1995	.110	.653
1998	.175	.797

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

INTERNATIONAL TRADE

Haiti's manufactured exports go almost exclusively to the United States, which accounted for 86 percent of exports in 1998. The rest, in the form of coffee and essential oils, was exported to the European Union (EU). The United States is also the source of most of Haiti's imports and provided 60 percent of the country's import requirements in 1998. In 1999, Haitian exports totaled US$322 million, against imports of US$762 million, creating a substantial deficit of US$440 million.

During the embargo of 1991–94, U.S. trade with Haiti dropped substantially, creating increased hardship in the country and stimulating the growth of a large contraband trade from the Dominican Republic. Trade with Haiti's neighbor is still an important part of the informal sector, but little of this activity appears on official financial records.

Haiti's **trade deficit** is partly offset by international aid and partly by remittance payments sent back by Haitians living and working overseas.

MONEY

Following a period of U.S. occupation (1915–34), Haiti's currency, the gourde, was tied at a rate of 5 to the U.S. dollar. Dollars have always circulated freely in Haiti and are often preferred by retailers and others to the local currency. In 1991, the Aristide administration finally severed the official **exchange rate** and let the gourde float. It fell from 7.5 to the dollar in 1991 to 16.2 in 1995 and 22.5 in 2000. This means that the cost of many basic imported goods has risen dramatically for Haiti's poorest sectors.

Haiti experienced high levels of **inflation** during the embargo of the early 1990s, reaching 39.3 percent in 1994. This rate was reduced to 15.4 percent in 1998 and has remained stable since. Growth in the GDP has been modest in recent years. In 1995, in the wake of Aristide's return and an influx of foreign aid, the GDP grew by 4.4 percent, but this fell to 2.7 percent in 1996 and then contracted by 0.9 percent the following year. The GDP growth in 1999 was estimated at 2.4 percent.

The Banque de la République d'Haïti is the country's central bank. It issues currency and holds the government reserves. There are 9 commercial banks, as well as U.S., Canadian, and French banks. Most Haitians, however, never use a bank, dealing only in cash and investing their savings in a tangible asset.

POVERTY AND WEALTH

No recent statistics exist, but it is widely accepted that Haiti is not merely the poorest country in the Western Hemisphere but also one of the most unequal. A small elite of no more than several thousand families is extremely wealthy, including many millionaires among their number. In stark contrast, an estimated 80 percent of Haitians live in absolute poverty. There is a small middle class comprised of civil servants and other state-sector employees, but a vast gulf exists between a tiny rich minority and the overwhelmingly poor majority. Class and color have overlapped ever since Haitian independence, with the lighter-skinned minority occupying positions of political and economic power. This status quo was challenged by the Duvalier dictatorship, which promoted some of its black supporters into a growing middle class.

The country's wealthy are clustered around the cooler mountainside suburb of Pétionville, where French

Exchange rates: Haiti

gourdes per US$1	
Jan 2001	23.761
2000	22.524
1999	17.965
1998	16.505
1997	17.311
1996	15.093

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Haiti	500	607	527	481	370
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
Dominican Republic	1,179	1,325	1,325	1,366	1,799

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

restaurants and luxury car concessions cater to expensive tastes. Education and medical services are entirely private, and the children of the elite tend to be educated abroad, either in Paris or the United States. Shopping trips to Miami are commonplace, and most of the richest families hold dollar bank accounts in the United States.

Life for the rural and urban poor could not be more different. Most Haitians live in small, often remote, villages or isolated settlements, with no access to electricity, clean water, or social services. Some rudimentary education is offered by church and other charitable organizations, but the distances children must travel to school, the costs of books and uniforms, and the necessity for them to work from an early age means that illiteracy is estimated at over half of the adult population. Illness can often spell financial disaster, as meager savings or investments such as a pig must be sold to pay for medicines. In some areas large numbers of people are dependent on aid agencies for food supplies.

Existence in the teeming slums of Port-au-Prince is perhaps even grimmer, with overcrowding, disease, and squalor widespread. Those who work can expect to earn no more than US$2 a day, hardly enough to buy food, let alone other necessities. The majority, however, must scrape some sort of living from the informal sector. Figures for child mortality, communicable diseases, and life expectancy reveal the country's poverty and deprivation. According to the Pan-American Health Organization, approximately 380,000 Haitians—over 5 percent of the population—were infected with HIV/AIDS by 2000.

WORKING CONDITIONS

In 1997 the unemployment rate was estimated at 70 percent. Some Haitians have jobs in the formal sector. Yet most are low-wage manufacturing jobs where conditions are basic and trade unions discouraged. International agencies have cited many cases of abusive practices by managers and employers in this sector, where women are employed to stitch clothing or assemble toys for export. Conditions in agriculture are no better, and most small farmers work long hours in highly primitive conditions to produce a precarious livelihood for their families.

The informal sector encompasses almost every area of economic activity from street selling and garbage recycling to taxi driving and handicraft manufacturing. Nearly all this activity is unregulated, and workers have no rights or security whatsoever. There are no effective laws to protect workers' rights, and trade unions are small and divided. The most powerful organizations are those neighborhood or peasant groups which are usually linked to Fanmi Lavalas and which sometimes take militant action against exploiters.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1492. Spanish explorer Christopher Columbus lands on the island of Hispaniola. Spain eventually battles the Arawak Indian population on the islands and establishes a colony.

1697. Spain cedes to France the western part of Hispaniola and founds the colony of Saint-Domingue (which later becomes Haiti). France turns the colony into the center of its slave trade.

1804. Haiti gains independence after a 12-year war against the French led by Touissant L'Ouverture.

1915–34. The United States occupies Haiti in the name of regional security.

1958–71. François "Papa Doc" Duvalier rules the country as a dictator, and the country's economy collapses.

1971–86. Jean-Claude "Baby Doc" Duvalier continues the dictatorship but encourages the development of manufacturing and tourism.

1986. Opposition groups force Duvalier to flee the country, leading to several years of instability and military rule.

1990. Jean-Bertrand Aristide is chosen president in elections overseen by the United Nations. About 9 months later, in 1991, the military ousts Aristide and places its candidate in office. The international community condemns these actions, leading to international isolation for Haiti.

1994. U.S. and, later, United Nations troops enter Haiti to help the nation return to democratic rule. Aristide is returned to serve the remainder of his term in office.

1995. In new elections, from which Aristide is barred, Aristide associate René Préval wins the presidency. His presidency is marred by violence and instability.

2000. Aristide wins the presidency in elections that are plagued by accusations of fraud, but he returns a semblance of political stability to the country.

FUTURE TRENDS

Haiti faces seemingly insurmountable problems in the years to come. Its environment is damaged, probably beyond repair, and its agricultural sector will require huge investment for regeneration. There is no sign that the country's ecological disaster can be reversed. The government's proposed land reform program would have to guarantee viable farms for many more producers, with assistance with technology. The manufacturing sector will also face

huge problems, most notably in competition from other low-cost economies such as the Dominican Republic.

Much will depend on the political relationship forged between the Haitian government and the Bush administration, which contains political figures hostile to Aristide and his populism. Haiti will remain dependent on foreign aid in the future and will look to the EU to pay for joint projects with the Dominican Republic. The country's greatest obstacle to sustainable development, however, remains its stubbornly high levels of poverty and deprivation, leading to huge social inequalities and political volatility.

DEPENDENCIES

Haiti has no territories or colonies.

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—James Ferguson

HONDURAS

Republic of Honduras
República de Honduras

CAPITAL: Tegucigalpa.

MONETARY UNIT: Lempira (L), also known as the peso. One lempira equals 100 centavos. Coin denominations include 1, 2, 5, 10, 20, and 50 centavos, and notes include 1, 2, 5, 10, 20, 50, and 100 lempiras.

CHIEF EXPORTS: Coffee, bananas, shrimp, lobster, meat, zinc, lumber.

CHIEF IMPORTS: Machinery and transport equipment, industrial raw materials, chemical products, fuels, foodstuffs.

GROSS DOMESTIC PRODUCT: US$5.25 billion (purchasing power parity, 1998 est.).

BALANCE OF TRADE: **Exports:** US$1.2 billion (1999 est.). **Imports:** US$2.7 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Honduras is located in Central America. Its northern border, between Guatemala and Nicaragua, lies along the Caribbean Sea. The southwestern tip of the country, between El Salvador and Nicaragua, borders the northern Pacific Ocean. Slightly larger than Tennessee, Honduras has an area of 112,090 square kilometers (43,278 square miles).

POPULATION. In July of 2000 the population of Honduras was estimated at 6.25 million, with an annual growth rate of 2.52 percent. In 2000, for every person who died in Honduras, approximately 6 were born. The birth rate during this period was 32.65 per 1,000, the death rate 5.31 per 1,000.

Approximately 90 percent of Hondurans are ethnic mestizo (mixed Amerindian and European). The remainder of the population is primarily Amerindian (7 percent). Blacks make up 2 percent of the population, while 1 percent of the country is white.

A significant portion of the Honduran population—about 43 percent—is under the age of 15. Approximately 54 percent are between the ages of 15 and 64. Those over 65 account for only 3 percent of the population. The life expectancy for males in Honduras is 67.91 years, while females are expected to live slightly longer, to 72.06 years.

OVERVIEW OF ECONOMY

The Honduran economy, one of the least developed in Latin America, has traditionally been fueled by the export of bananas and coffee. In the 1980s these crops accounted for between one-half and two-thirds of the country's total exports. Such a narrow export base limited growth and left the entire economy vulnerable to changing market conditions and poor weather, so in the 1990s moves were made toward economic diversification. The production of nontraditional exports such as melon, pineapple, and shrimp increased; the manufacturing industry grew; and the services sector, once fairly limited, emerged as a vital component of the economy. This diversification helped the Honduran economy withstand the effects of Hurricane Mitch, which swept through the country in October of 1998, devastating the agricultural sector. In the northern Sula Valley, the hurricane destroyed 70 percent of the banana plantations and brought heavy losses to basic grains. Coffee production was cut by about 20 percent. Despite these losses, the economy still gained 3 percent in 1998, led by strong performances in the manufacturing and services industries. The 3 percent growth was considered solid given the severity of the hurricane, which killed 7,000 people, destroyed 200,000 homes, and left 1.5 million Hondurans temporarily homeless. The damage caused by Mitch was estimated at US$5 billion, equivalent to 95 percent of the country's **gross domestic product** in 1998.

Honduras, despite moves to improve its economy, still depends on international aid and imported goods to meet consumer and fiscal demands. This dependence was

heightened by Hurricane Mitch. The storm put domestic production on hold, increasing the need for imported goods and loans to help finance reconstruction. By 1999 Honduras was US$4.4 billion in debt, most of it owed to multilateral lending agencies and the United States. In 1999, in exchange for **debt relief** of nearly US$1 billion, the Honduran government agreed to **restructure** the economy along lines agreed to by the International Monetary Fund (IMF). As part of the **structural adjustment program**, Honduras agreed to **privatize** certain sectors of the economy. It also made a commitment to fight poverty and corruption, reform social security, strengthen the financial sector, and improve education and health care for the poor.

To spur the economy and increase foreign investment, the Honduran government, under President Carlos Roberto Flores Facusse, pledged in 1999 to accelerate the privatization programs which had stalled under the previous administration. Earlier privatization initiatives and the expansion of the tourist and manufacturing industries led to an increase in foreign investment in Honduras in the 1990s. Foreign investment in 1993 amounted to US$27 million. By 1999, that figure had grown nearly 10 times to US$230 million. Investment in Honduras will likely continue to increase as privatization initiatives move forward and industries expand. In the medium term Honduras will rely on close to US$3 billion in multilateral funding to assist in reconstruction costs and poverty alleviation programs.

POLITICS, GOVERNMENT, AND TAXATION

Since gaining its independence from the Spanish empire in 1821, Honduras has been plagued by political and financial instability. Changes of government have often been accompanied by violence and bloodshed. Rebellions, coups, and civil wars characterized much of the 20th century.

Two parties, the Partido Liberal (PL) founded by Celeo Arias in the 1880s, and the Partido Nacional (PN) established in 1902 by Manuel Bonilla, have dominated Honduran politics for the last century and continue to play a predominant role. The PN, which garners support from the military, is the more conservative of the parties, with strongholds in less-developed rural areas. The PL is more to the political left and draws support from an urban base, although it has a constituency among rural landowners as well.

Honduras has spent much of its independence under military rule. A break in military control occurred in 1955

when a group of military reformers staged a coup and installed an interim government, paving the way for constitutional elections. In 1957, a civilian, Ramon Morales, was elected to a 6-year term as president. Morales introduced agrarian reforms and social welfare legislation, including social security provisions. He also introduced a labor code to protect the rights of workers, and took Honduras into the Central American Common Market, a **free trade zone** made up of 5 Central American countries. In 1963 a military coup prevented Morales from running for a second term. General Oswaldo Lopez Arellano became the country's leader and placed agricultural development and the banking system under government control.

The military ran the country until 1981, when Honduras was returned to civilian rule. In 1982 a new constitution was drafted, and in 1986 Roberto Suazo Cordoba of the Liberal Party was elected president, marking the first peaceful transition of power between civilians in over 30 years.

The Liberal Party held the presidency for 4 years. Then, in 1990 the Nationalists took over with the election of Rafael Leonardo Callejas. Callejas moved to bring the military under civilian control, and instituted fiscal reforms to stabilize the economy, concentrating primarily on deficit reduction and currency stabilization. His presidency, however, was marred by allegations of corruption. Despite his reforms, the Liberal Party, under the leadership of Roberto Reina, regained the presidency in 1994. Under Reina the economy improved, with growth reaching 5 percent in 1997. International reserves were increased, and **inflation** dropped to 12.8 percent a year.

The current president of Honduras is Carlos Flores Facusse, a member of the Partido Liberal. In November 1997 he was elected to a 4-year term which began in January of 1998. His party holds over half the seats in the 128-seat National Congress. The Honduran government remains highly centralized despite slow-moving reforms to increase the power and participation of local municipalities.

Efforts to decentralize the political system (to give more power to the leaders of local governments) have been accompanied by economic reforms, with the government loosening its control over various economic operations, including those in the financial sector. In 1997, the Central Bank of Honduras was given greater independence in an effort to strengthen the country's financial system. In 2000 mandatory currency reserves were lowered from 25 percent to 19 percent. The government hopes that lowering reserve requirements and giving banks higher **liquidity** will increase loan disbursements and stimulate the economy.

Flores has also instituted a series of tax reforms designed to boost private investment and reduce the fiscal deficit. Flores reduced export **tariffs**, most notably in the banana sector, cutting **duties** from 50 cents a box to 4 cents. He also lowered the business **income tax** from 42 percent in 1997 to 25 percent in 1999. In order to offset losses from the cuts, the administration raised the sales tax from 7 percent to 12 percent. Flores has also undertaken efforts to increase privatization. The state-owned telecommunications company, Empresa Hondurena de Telecomunicaciones (Hondutel), and the state-owned electric company, Empresa Nacional de la Energia Electrica (ENEE) are prime candidates for privatization.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

In 1998 mudslides and flooding caused by Hurricane Mitch devastated the Honduran **infrastructure**. Nearly half of the country's road network was damaged by the storm. Over 160 bridges were destroyed. Approximately 50,000 telephone lines went down. Water and sewage pipes were damaged, as were seaports, airports, and schools throughout the country.

Honduras has 9,074 miles of primary, secondary, and municipal roads. About 18 percent of them are paved. The country has 2 main highways. The north-south highway

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Honduras	55	386	90	N/A	5	N/A	7.6	0.19	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Mexico	97	325	261	15.7	35	3.0	47.0	23.02	1,822
Nicaragua	30	285	190	40.2	4	N/A	7.8	2.21	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

connects the capital, Tegucigalpa, with San Pedro Sula. The Pan-American highway runs parallel to the Pacific coast and connects Honduras to Nicaragua and El Salvador. While road construction has remained stagnant over the past 5 years, the number of automobiles has substantially increased. There were 273,927 registered vehicles in Honduras in 1995. By 1999, that number had risen to 417,431, increasing traffic and congestion, especially in urban areas. There are also about 600 miles of rail lines to accommodate overland traffic.

The main Honduran port is Puerto Cortes on the northern coast. With 4,000 square feet of docking space capable of accommodating 10 vessels at a time, Puerto Cortes handles over half the country's export trade, on and off-loading 14 to 25 containers of goods an hour. Consistent with its larger privatization efforts, the Flores administration is seeking to open Honduran ports to **private sector** participation.

The 4 international airports in Honduras have already been turned over to private management. A U.S.-Honduran consortium led by the San Francisco International Airport (SFIA) will run the airports for the next 20 years. Under the terms of the agreement with the Honduran government, the consortium will invest US$120 million in the airports over the next 20 years, making physical improvements and raising the standards of efficiency, safety, and services.

The telecommunications infrastructure was greatly expanded in the 1990s. Empresa Hondurena de Telecomunicaciones (Hondutel), the state-owned telecommunications firm, increased the number of phone lines from 87,311 in 1990 to 373,032 in 1998. In 2000, as part of its structural adjustment agreement with the IMF, the Honduran government attempted to partially privatize Hondutel by selling 51 percent of the company's shares to the private sector. However, an October auction produced only a single bid for the shares. Telefonos de Mexico offered to pay US$106 million for the majority stock, but that offer was soundly rebuffed by Honduran privatization officials who set the minimum selling price at US$300 million. As part of the takeover agreement, any company which purchases the shares in Hondutel will be required to install 23,500 pay phones and add 600,000 kilometers of fixed lines in Honduras by the end of 2005. Honduran officials are seeking buyers in the United States and Europe, hoping to possibly attract an international consortium to take over company operations.

In 1999 Hondurans received about two-thirds of their energy from state-owned hydroelectric plants, with thermal plants providing the rest. Energy demands are increasing by about 12 percent a year, driven upwards by a widening industrial base and a rural electrification program. The heavily indebted state-run energy corporation, Empresa Nacional de la Energia Electrica (ENEE), is increasingly turning to private sources for help in meeting the country's growing energy needs. The Flores administration has expressed a commitment to privatize the state-run power plants, both hydroelectric and thermal, which together provided over three-quarters of the country's energy in 1999.

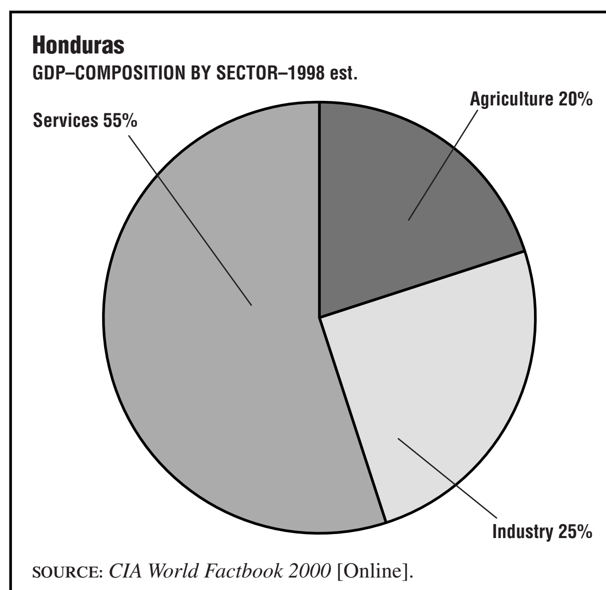
ECONOMIC SECTORS

Honduras has traditionally had a limited industrial capability, relying primarily on agricultural exports like bananas and coffee for the bulk of its foreign exchange. In the 1990s this began to change as Honduras made aggressive moves to shore up its economy by diversifying exports and broadening its industrial base. The services sector was also targeted for growth, resulting in the rapid expansion of the tourist industry.

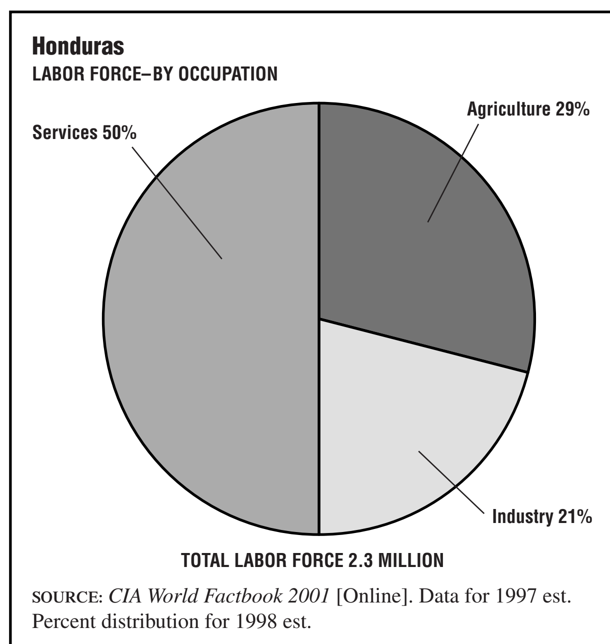
Honduras is thought to have extensive mineral deposits which have yet to be exploited, indicating the potential for growth in the mining industry. Seeking to capitalize on the situation, the Flores administration passed legislation to increase foreign investment in the sector. However, some of Honduras's most fertile mining grounds are located near the Nicaraguan border and, as land disputes between the nations are common, this has led to political complications and has stifled industry expansion.

Growth in the manufacturing sector, led by the expansion of the maquila (offshore assembly for **re-export**) industry, has been most pronounced. The re-export business was one of the few areas of the economy to escape Hurricane Mitch virtually unscathed.

Agricultural activity, which registered substantial declines after Hurricane Mitch, is not expected to fully



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997 est. Percent distribution for 1998 est.

recover before 2001. The severe damage wrought by the storm to traditional export crops has increased the pace of agricultural diversification. The cultivation of melons, pineapples, sugar cane and African palm were expanded in the wake of the storm.

AGRICULTURE

Despite declines in production caused by Hurricane Mitch, agriculture continues to dominate the Honduran economy, supplying in 1999 over 60 percent of the jobs and over half of all merchandise export earnings. That year, out of a working population of 2.13 million people, 834,900 of them held agricultural jobs. Coffee and bananas have traditionally made up the bulk of Honduras's agricultural exports.

Coffee is produced in 14 of the country's 18 provinces by 70,000 independent producers. Over the last decade, the coffee industry has been beset by financial problems. Some of these problems have resulted from poor weather. In 1998, prior to Hurricane Mitch, Honduras was the tenth largest coffee producer in the world. The damage caused by Hurricane Mitch contributed to an 11 percent decline in coffee production in 1999. Other problems came as a result of the structure of the industry itself. With so many small producers, quality control was hard to maintain. This caused great price volatility and made revenues less dependable. Furthermore, many small coffee producers and exporters took out loans before the hurricane, putting them in debt to the Central Bank following the destruction of their crops. Government **subsidies** to assist coffee farmers have been slow in coming, adding to the coffee industry's problems.

Banana production, which takes place on the northern coast, is controlled primarily by the subsidiaries of 2 U.S. conglomerates, Chiquita and Dole. These companies have established effective **monopolies** over the banana export trade in Honduras. However, legal challenges to the monopolies are growing more frequent.

Like the coffee sector, the banana sector had its share of trouble in the 1990s. Between 1991 and 1994, production was affected by strikes and floods. The industry recovered in 1995, but was then devastated in 1998 when Hurricane Mitch destroyed a majority of the banana plantations. In 1999, production fell by over 70 percent. Banana exports are not expected to reach pre-hurricane levels until 2001 or 2002. A reduction in the banana export tax from 50 U.S. cents per box to 4 cents will likely help boost the recovery.

With bananas and coffee proving highly susceptible to price volatility, bad weather, and labor unrest, Honduras has made efforts to diversify its agricultural exports. The development of nontraditional crops such as melon, pineapple, sugarcane, and African palm has expanded since the mid-1990s. Between 1995 and 1999, African palm production rose 50 percent. Sugar production during the same period increased from 67.5 million bags, to 82.8 million bags, reaching a high in 1998 of 89.4 million bags. In the wake of the hurricane, the pace of diversification increased with many banana farmers turning over some of their fields to the production of nontraditional crops.

During the 1990s commercial shrimp farming emerged as one of Honduras's most dynamic industries, posting steady gains in production and revenue between 1995 and 1998. Volume and earnings fell slightly in 1999 after Hurricane Mitch, but the industry quickly recovered. Shrimp is the third most important agricultural export after bananas and coffee, generating revenues of US$153 million in 1999.

INDUSTRY

MINING. The mining industry in Honduras has achieved noticeable growth in recent years, with output increasing by 7 percent in 1999. However, between 1995 and 1999 the industry's contribution to the gross domestic product remained steady at around 2 percent. Honduras's primary mineral exports are silver, lead, and zinc. With a substantial portion of the country's mineral deposits still unexploited, the potential for growth in the sector is high. Attempts to expand the industry, however, have been complicated by political and environmental factors. Despite new mining laws, which were introduced by the Flores administration in 1998 to increase investment in the sector, foreign companies have been hesitant to operate in Honduras. The Canadian company Greenstone had to

abandon its operations in the Copan region near the border with Nicaragua, in 1999 because of territorial disputes between Nicaragua and Honduras. Mining interests near Tegucigalpa have been opposed by environmental groups, offering another setback to the industry.

MANUFACTURING. Unlike the mining industry, the manufacturing sector has experienced unimpeded growth over the last decade, with the most dramatic expansion being in the maquila industry. The industry produced about US$545 million in foreign exchange earnings in 1999 (just over 18 percent of the gross domestic product at market prices), exceeding agriculture proceeds to become the single largest export category. The number of workers in the sector grew from 9,000 to 120,000 between 1990 and 1998. A majority of these workers—70 percent—were women aged 15 to 26. Between the years 2000 and 2005, the industry will likely expand by another 80,000 workers, with new investment expected to reach US$700 million.

Growth in maquila can be attributed to a number of factors, including favorable tax provisions, a solid manufacturing infrastructure, and low wage costs. A series of laws passed between 1975 and 1999 granted national and foreign companies tax and duty exemptions in specified areas called free zones. This made the maquila industry more lucrative for domestic companies and established Honduras as a particularly attractive base of operations for foreign firms.

In May 2000 the U.S. Congress decided to eliminate an 18 percent duty on finished apparel from Africa, the Caribbean, and Central America, making Honduran maquila producers more competitive. As investment and labor increases, the maquila sector will likely diversify and begin performing more technical operations, such as the cutting and dying of fabrics. As it stands now, a majority of these operations take place in the United States.

In July 2000 Honduras was granted North American Free Trade Agreement (NAFTA) parity for its exports, meaning it would receive the same trade benefits as signatories of NAFTA even though it was not an actual party to the agreement. Although NAFTA parity had been granted to other Central American and Caribbean countries, Honduras was in an especially good position to benefit from enhanced access to American markets. Its port facilities are some of the most developed in Central America, and its proximity to American markets facilitates high levels of trade.

SERVICES

TOURISM. Tourism is one of the fastest growing industries in Honduras. The country hosts a variety of attractions including beaches and coral reefs, historic colonial cities, Mayan ruins, and lush national parks. Revenues from tourism rose steadily in the 1990s, from US$30.6 million in 1991 to US$185 million in 1999. In 1994 Honduras had around 230,000 recreational visitors. By 1999 the number had increased to 375,000.

The government has attempted to expand the tourist industry in part through large-scale development projects. A plan emerged in the late 1990s to allow foreign nationals to own land and operate tourist-related businesses within 40 miles of the coast. This plan was vigorously opposed by the coastal Amerindians who feared the development would disrupt their livelihoods. Amerindians may be a minority in the overwhelmingly mestizo population, but they have grown more vocal in recent years. In 2000 Congress rejected the measure that would have allowed foreigners to run tourist operations in the coastal regions. Clashes over coastal development between the government and indigenous groups will likely continue.

FINANCIAL SERVICES. When financial services in Honduras were **liberalized** in the 1990s, the banking industry underwent a period of expansion. By the end of the decade, the sector had begun to consolidate. After the 1999 collapse of Banco Corporativo, Bancahsa and Banco del Ahorro Hondureno merged to create the largest bank in the country. By the late 1990s, financial assets in Honduras had been consolidated into the hands of a few large banks. With most the 19 finance houses and 11 insurance companies being grouped under **holding companies** with common shareholders, banks can easily shift assets in response to changing market forces and new regulations.

Only 2 foreign banks operate out of Honduras: Lloyds Bank and Citibank, the latter of which owns Banco de Honduras. The country's 2 stock exchanges—one in the capital, Tegucigalpa, and the other in San Pedro Sula—run mainly short-term credit operations.

In an effort to shore up confidence in the banking system and stem **capital flight** (the movement of financial assets from domestic markets to foreign countries), the Banco Central de Honduras (the central bank) in 1995 authorized the holding of U.S. dollar accounts in Honduran banks. Import and export operations benefited from the move. In another measure to retain capital, insurance companies were allowed to issue policies in U.S. dollars, having been formerly restricted to providing coverage in lempiras.

INTERNATIONAL TRADE

Honduras conducts a majority of its trade with the United States. In 1999 over one-third of Honduras's exports went to America, not including merchandise produced in the maquila sector. Although technically a func-

Trade (expressed in billions of US$): Honduras

	Exports	Imports
1975	.295	.400
1980	.829	1.009
1985	.780	.888
1990	.831	.935
1995	1.220	1.643
1998	1.533	2.500

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

tion of manufacturing, Honduras lists maquila as a service export instead of a product export. With maquila exports included, the United States received over 70 percent of total Honduran exports. Nearly half of Honduras's imports—about 47 percent—came from the United States (over 60 percent with maquila). Other trading partners included Germany, El Salvador, Nicaragua, Guatemala, Mexico, and Japan.

During the 1980s coffee and bananas in Honduras accounted for a majority of total exports. Over the past decade, exports were diversified. By 1999, due to a widening agricultural base and the effects of Hurricane Mitch, which destroyed much of the banana crop, the export share of coffee and bananas had been reduced to 25 percent.

In 1999 coffee and shellfish were the leading export earners. Coffee receipts came to US$256.1 million, and shellfish exports generated US$193.2 million. Revenues from banana exports, which were US$279.8 million in 1996, fell in 1998 to US$175.7 million. After Hurricane Mitch, banana receipts dropped to US$37.7 million.

The Honduran government in the 1980s instituted policies to curb imports. This led to pent-up demand, and a decade later when trade was liberalized, import levels rapidly rose, exceeding export levels and widening **trade deficits**. The situation was exacerbated by Hurricane Mitch, which lowered export production and raised the demand for imported goods. By 1999, trade deficits, excluding maquila value, had widened by 60 percent to US$1.48 billion (US$764.2 million with maquila).

Honduras is looking to expand its regional trading relationships in order to lessen its economic dependence on the United States. Honduras, along with El Salvador and Guatemala, established a trade agreement with Mexico in June 2000 which was meant to reduce tariffs on industrial and agricultural products and give Central American countries enhanced access to Mexican markets. In 1993 Honduras also entered into a free-trade agreement with Guatemala, El Salvador, and Nicaragua. Central American policy makers hoped the creation of the free-trade area, known as the Group of Four (G4), would make the region more competitive in the world economy. Efforts to expand regional trade have been partly successful. In Honduras, exports to G4 countries rose from 13 percent of the total in 1997 to 17 percent in 1999. However, border disputes between Honduras, Nicaragua, and El Salvador could potentially complicate the agreement.

Problems arose in 1999 when Honduras recognized Colombia's right to a stretch of maritime land off the coast of Nicaragua. Nicaragua, claiming ownership of the land, responded by levying a 35 percent surcharge on all Honduran imports. The dispute, which is still unresolved, has left relations between the countries strained. Disputes in other areas between the countries have led to violence. Military clashes have occurred over fishing rights in the Gulf of Fonseca, and in recent years Honduras has also clashed with El Salvador over contested land in the province of La Paz.

MONEY

Between 1919 and 1990, the lempira maintained an artificially fixed rate against the U.S. dollar at L2.0:US$1. This meant the Honduran economy was vulnerable to shifts in U.S. **monetary policy**. Furthermore, the printing of domestic currency was constrained by the need to keep local money supplies in line with U.S. dollar reserves. In March of 1990, in an effort to give the Central Bank and the Honduran government more control over the country's fiscal development, the fixed rate was removed and the value of the lempira sharply declined. By the end of that year, the **exchange rate** had risen to L5.3:US$1. The government tried to support the currency by strictly enforcing laws which required exporters to **repatriate** foreign exchange earnings (meaning exporters selling to the United States, for instance, would have to convert their profits from dollars to lempiras when placing them back in Honduran banks). However, these efforts were insufficient and the lempira continued its downward slide throughout the first half of the 1990s. In 1994, in a further attempt to stabilize the currency, the Central Bank

Exchange rates: Honduras

lempiras (L) per US$1	
Dec 2000	15.1407
2000	15.1407
1999	14.5039
1998	13.8076
1997	13.0942
1996	12.8694

SOURCE: CIA *World Factbook 2001* [ONLINE].

established a public U.S. dollar auction system. In this system the Central Bank sold American dollars to domestic commercial banks at a slightly elevated exchange rate. This allowed the Central Bank to make money on the exchange, and by pulling lempiras out of the system (taking them from commercial banks in exchange for dollars) it lowered the supply of domestic currency, thereby raising its price. By the end of 1995, the lempira's decline had begun to slow, improving the performance of the external sector and boosting investor confidence. By 1999 the lempira had steadied at L14.5:US$1, representing a 3.3 percent appreciation against the U.S. dollar in real terms for the year.

Distribution of Income or Consumption by Percentage Share: Honduras

Lowest 10%	1.2
Lowest 20%	3.4
Second 20%	7.1
Third 20%	11.7
Fourth 20%	19.7
Highest 20%	58.0
Highest 10%	42.1

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

POVERTY AND WEALTH

Hurricane Mitch devastated Honduras in 1998, causing over 7,000 deaths. Over 1.5 million people were left homeless by the storm. Thousands of buildings were destroyed, and roads and bridges were washed away. The economy came to a near standstill, worsening the effects of already endemic poverty.

Since 1998, the government of Honduras has committed to a development strategy which was coordinated in conjunction with the World Bank and IMF. The World Bank is currently supporting a US$30 million Social Investment Fund aimed at alleviating poverty through the improvement of the country's infrastructure at the community level. The project includes self-help programs for the poor and involves the construction of numerous schools in rural areas. The World Bank has also initiated a US$25 million nutrition and health program for 255,000 poor women and children. The program's goals include the establishment of up to 160 health care centers with a priority given to rural areas.

The infant mortality rate in 2001 was high at 36 deaths per 1,000 live births. Approximately 25 percent of children were suffering from malnutrition. Despite World Bank initiatives, Honduras remains one of the poorest countries in the Americas with an estimated gross domestic product of US$6.5 billion in 2001. More than 53 percent of the population live below the poverty line, 42 percent of the population do not have access to safe drinking water, and a quarter of the population are illiterate. Over 50 percent of Honduras's rural population are agricultural workers who own no land or are small-scale landowners who have less than 5 hectares. Land reform that provides technical as well as financial assistance in the form of micro credit (small-scale loans) could reduce poverty in Honduras by allowing farmers to earn income, be self sufficient, and increase overall production.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Honduras	614	733	681	682	722
United States	19,364	21,529	23,200	25,363	29,683
Mexico	3,380	4,167	4,106	4,046	4,459
Nicaragua	999	690	611	460	452

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

WORKING CONDITIONS

After a 1954 banana strike, trade unions emerged as a major force in Honduran politics. In 1999, with 14 percent of its **labor force** organized, Honduras was the most heavily unionized country in Central America. Still, the strength of unions diminished in the 1990s. Despite the labor movement's opposition to privatization, the Flores administration remained committed to economic reforms that would give up state-owned companies to the private sector, while union calls for higher wages were ignored.

While the law in Honduras grants workers the right to form and join unions, there have been cases reported of employers seeking to disrupt union activities by harassing or firing union sympathizers. As of 1999, the labor court in Honduras was considering numerous appeals by workers who claimed to have been fired by their companies for engaging in union activities.

Forced labor is forbidden by law, but there have been some cases reported of forced overtime in the maquila sector, particularly for women. Child labor is prohibited as well. Children under 14 years old are barred from the workforce, even if they have parental permission to work. Allowing a child to work illegally is punishable by up to 5 years in prison; however, frequent violations occur in rural districts. According to a human rights report issued in 1999 by the U.S. State Department, an estimated 350,000 children in Honduras work illegally.

The labor force in Honduras is mostly unskilled. The general level of education is low and training is limited. Children between ages 7–13 receive free, compulsory education, but in order to continue after the age of 13 tuition is required. A majority of families cannot afford to pay for education, and instead of continuing with school, most children move into the labor force after they turn 14. In 1999, out of 841,236 children aged 15 to 19, only 187,561 were receiving regular schooling. The illiteracy rate in Honduras is around 19 percent. Public spending on education, traditionally low in Honduras, has declined in recent years, falling to 4.1 percent of the gross domestic product in 1999.

In January 1998 the average minimum wage in Honduras was raised 17 percent. In 1999 it was hiked another 25 percent, and in 2000, the wage was raised again, this time by 8 percent. The wage varies from sector to sector, the lowest being US$2.12 a day in non-export agriculture. The highest minimum wage is paid in the export sector, where workers receive at least $3.47 a day. Even the highest minimum wage is insufficient to provide a standard of living over the poverty line.

The maximum workday is 8 hours. Workers cannot be required to work more than 44 hours in a week, and they must be given at least one 24-hour rest period every 8 days. The labor code stipulates that workers be given 10 days of paid vacation after 1 year of work, and 20 days after 4 years of work. These laws, however, are often ignored. Demand for jobs is so high that workers cannot afford to complain.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1502. Christopher Columbus visits Honduras on his third voyage to the New World.

1524. Spanish colonization of Honduras begins.

1537. Native Honduran Chief Lempira murdered by the Spaniards.

1821. Honduras gains independence from Spain and joins the Central American Federation.

1830. Francisco Morazan becomes the nation's first president.

1842. The Central American Federation falls apart. Morazan is murdered.

1870s. A revolution takes place. Church and state are separated under Marco Aurelio Soto.

1880s. Partido Liberal, one of the dominant political parties, is founded by Celeo Arias.

1899. First banana concession is granted to Vicaro brothers, later becoming Standard Fruit (Dole).

1902. Manuel Bonilla establishes the Partido Nacional.

1907. The Cuyamel Fruit Company is set and is later bought by United Fruit (Chiquita).

1929. Honduras becomes the largest banana exporter in the world.

1954. A banana workers strike establishes unionized labor and gains recognition from the government.

1956. The Honduran military takes control of the government.

1957. Civilian rule is restored. Ramon Villeda Morales is elected president.

1957. Morales promotes social reforms, and Honduras joins the Central American Common Market.

1963. Statist General Oswaldo Lopez Arellano takes control of the government in a military coup.

1981. Honduras again returns to civilian rule.

1982. Debt crisis sparks fiscal austerity.

1989. Rafael Leonardo Cellejas of the Partido Nacional is elected president. He makes moderate reforms.

1994. Carlos Roberto Reina of the Partido Liberal becomes president, inheriting wide **public sector** debt.

1998. President Carlos Flores Facusse (PL) decentralizes the government and privatizes the economy.

1998. Hurricane Mitch hits Honduras with devastating force.

1999. Honduras receives US$3 billion in loans to help finance reconstruction after Hurricane Mitch.

2000. Honduras qualifies for debt relief under the Debt Initiative for Heavily Indebted Poor Countries (HIPC).

FUTURE TRENDS

Honduras is still recovering from Hurricane Mitch, which swept through the country in 1998, interrupting the implementation of much-needed reforms, including decentralization and privatization programs. As the country rebuilds itself, and those reforms get back on track, Honduras could experience a period of solid economic growth.

The offshore manufacturing sector will continue to expand, and competitive access to American markets will keep export revenues high. Mining production could increase as well, which, along with the growth in manufacturing, could widen the export base, raise trade revenues, and generate foreign investment. Increased activity in the tourist sector will also play an important role in the country's economic revitalization. However, regional disputes still threaten to undermine the Honduran economy.

The ongoing land dispute between Nicaragua and Honduras flared up again in 1999 when Honduras recognized Colombia's right to a stretch of maritime land claimed by Nicaragua. Nicaragua, in retaliation, imposed a 35 percent tariff on all Honduran imports. Honduras, in turn, has threatened to impose trade **sanctions** on Nicaragua effective April 2000 if the tariffs are not lifted. The case has been taken up by the International Court of Justice in the Netherlands but will likely take years to resolve. In the meantime, Honduran exporters will suffer high regional tariffs, costing millions of dollars and stifling domestic growth.

On the political front, the Honduran democratic process will be put to the test in November 2001 when the country's next presidential election is set to be held. The 2 main parties are fiercely competitive and regard one another with hostility. The level of acrimony between them was heightened by a recent dispute over the eligibility of candidates. The dispute threatens to jeopardize political stability and plunge Honduran politics back into violence.

Honduras may benefit from the joint initiative developed by the World Bank and the IMF, known as the Debt Initiative for Heavily Indebted Poor Countries. The program provides debt relief for poor countries who, in exchange, commit to economic reforms. Reforms in Honduras have been opposed by the unions, but union influence has waned and, so far, the reforms are proceeding. The reforms include privatizing the telecommunications industry as well as power production in order to meet the terms of a 3-year poverty reduction program signed with the IMF in April 1999. It has been estimated that relief from the HIPC program will save Honduras nearly US$1 billion over 20 years.

DEPENDENCIES

Honduras has no territories or colonies.

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—John Mazor

JAMAICA

CAPITAL: Kingston.

MONETARY UNIT: Jamaican dollar (J$). One Jamaican dollar equals 100 cents. There are coins of 1, 5, 10, and 25 cents, and 1 dollar. There are notes of 2, 5, 10, 20, 50, and 100 dollars. In 1999 the exchange rate of Jamaican to U.S. dollars was J$42.25=US$1.

CHIEF EXPORTS: Bauxite, alumina, sugar, bananas, rum.

CHIEF IMPORTS: Machinery and transportation equipment, construction materials, fuel, food, chemicals, fertilizers.

GROSS DOMESTIC PRODUCT: US$8.8 billion (purchasing power parity, 1998 est.).

BALANCE OF TRADE: **Exports:** US$1.303 billion (f.o.b., 1998). **Imports:** US$3.273 billion (c.i.f., 1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. The largest English-speaking island in the Caribbean Sea, Jamaica is about 160 kilometers (90 miles) south of Cuba and has an area of 10,990 square kilometers (4,243 square miles) and a total coastline of 1,022 kilometers (634 miles). Comparatively, the area occupied by Jamaica is slightly smaller than the state of Connecticut. Jamaica's capital city, Kingston, is located on the country's southeastern coast.

POPULATION. The population of Jamaica was estimated at 2,652,689 in July of 2000, an increase of 7.5 percent from the 1990 population of 2,466,100. In 2000 the birth rate stood at 18.51 per 1,000 while the death rate stood at 5.51 per 1,000. With a projected annual population growth rate of 0.9 percent between 1997 and 2015, the population is expected to reach 2.9 million by the year 2015.

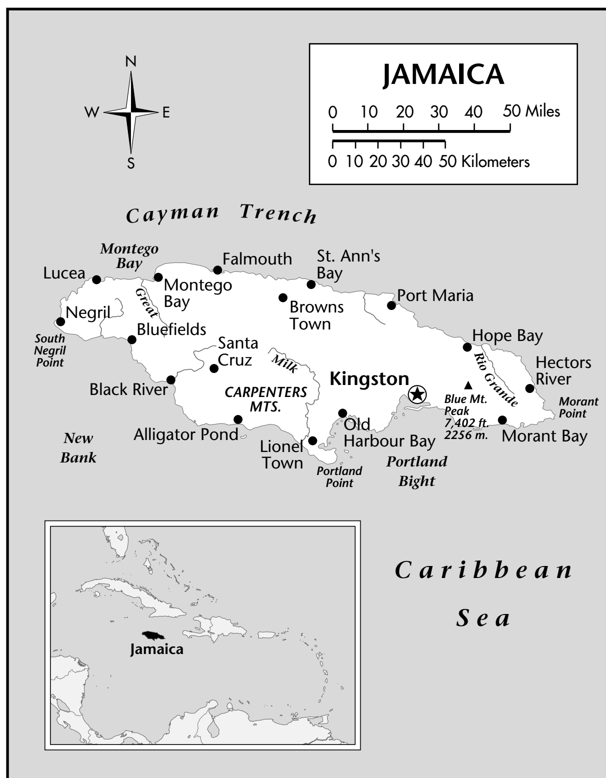
The Jamaican population is primarily of African descent (90.9 percent), with mixed race people making up 7.3 percent of the population, East Indians making up 1.3 percent, and several other ethnic groups rounding out the total. The population is generally young, with 30 percent below the age of 14 and just 7 percent of the population older than 65. A majority of Jamaicans—54.7 percent—lived in urban areas in 1997, up more than 10 percent from 1975; it is expected that by 2015 more than 63 percent of the population will live in urban areas. The capital city of Kingston and its suburbs are home to the largest number of Jamaicans.

Jamaica became the first Caribbean nation to implement a population policy. The National Population Policy, adopted in 1983, was designed to control the growth, health, and concentration of the population. Mainly, the policy focuses on limiting the birth rate by encouraging the use of contraception, and increasing the quality and length of Jamaicans' lives by addressing treatments for chronic diseases like AIDS and by reducing the number of violent deaths. In addition, the policy considers issues of migration, including urban growth, sustainable environmental plans, and other housing and transportation issues. The major funding for the implementation of this policy comes from international sources. Grants have come from the United States Agency for International Development (USAID), United Nations Fund for Population Activities (UNFPA), and United Nations International Children's Emergency Fund (UNICEF); the World Bank is the largest loan provider.

OVERVIEW OF ECONOMY

Tourism and bauxite and alumina production dominated Jamaica's economy in 2001, but the island's early economy was centered around the production of one thing: sugar. The English colonists who occupied the island in 1655 imported slave labor and developed large sugar plantations. For the colony's first 2 centuries sugar production dominated the economy, but the end of slavery in 1834 and the beginning of banana production ended this monoculture (dependence on a single crop). Nevertheless, sugar remained Jamaica's dominant export until the 1950s.

Jamaica entered the 20th century as a crown colony of England, which meant that it was administered by officials from England. Jamaica received limited self rule



in 1944, but the growing power of the country's black majority was acknowledged in 1962 with the island's peaceful claim of independence. Since claiming its independence, Jamaica has struggled to create a stable, diversified economy. By the end of the 20th century, Jamaica had not yet created a truly vibrant economy and remained heavily dependent on the United States and Europe for imported goods, and on international lending agencies for financial assistance.

Jamaica is primarily a free-market economy with some state control; despite occasional political violence, it has a fairly stable, 2-party political system and the strong economic support of the United States, Canada, and the European Union. The economy's main exports are bauxite, alumina, sugar, and bananas, but the greatest single contributor to the national economy is tourism. Mining is largely conducted in the island's central highlands, and tourist activities are concentrated on the island's north and west coasts; farms—many of them quite small—are spread throughout the island. Limited manufacturing, **retail** trade, and services are centered around the urban centers of Kingston and Montego Bay. Because of its limited productive capacity, the island nation is heavily dependent on imported goods and on foreign **debt relief** to sustain its struggling economy.

Neither mining nor tourism is capable of providing enough jobs to counteract long-standing problems with unemployment. Unemployment reached nearly 40 percent in the 1970s under the democratic **socialist** government of Michael Manley. Even under the more conservative regimes of later governments, unemployment often hovered around 20 percent. In 1998 unemployment stood at 15.5 percent; by contrast, the unemployment rate in the United States in 1999 was just 4.2 percent.

Despite its economic difficulties—trade imbalance, high unemployment, underdeveloped commercial sector—Jamaica is largely perceived by the outside world as an island paradise. Tourists from North America, Europe, and Japan flock to the sunny Caribbean island in the winter, and they find luxurious hotels and many businesses dedicated to serving their needs.

POLITICS, GOVERNMENT, AND TAXATION

As a member of the British Commonwealth, Jamaica's government follows the Westminster Parliamentary model. The British queen is represented by the governor general, who acts as head of state, while the prime minister serves as head of the government. Voters elect members of the House of Representatives, and the leader of the majority becomes the prime minister.

Since earning its independence from England in 1962, Jamaica has been governed alternately by the 2 major political parties, the left-leaning People's National Party (PNP) and the more conservative, pro-business Jamaica Labour Party (JLP). Unlike in the United States, where transitions between the 2 major parties have not marked major swings in policy, Jamaica's 2 parties have often offered conflicting programs for managing the economy and have resorted to violence in opposing each other. Throughout the 1970s and 1980s, both parties aligned themselves with rival gun gangs and fought their political battles in the streets as well as at the ballot box. The taint of political violence has touched nearly every election in Jamaican history. In 1995 a new party, the National Democratic Movement (NDM), broke onto the political scene.

From 1972 to 1980 the PNP, under prime minister Michael Manley, adopted democratic socialism as its ruling platform and instituted state control over economic activities. The PNP had little success, as the widespread prosperity of the 1960s gave way to high **inflation**, unemployment, and great civil unrest and violence. During the 1970s Jamaica became a debtor nation and has remained so ever since. The more conservative JLP won control of the government in 1980 and maintained power until 1989. This pro-business party, led by Edward Seaga, withdrew state control from many industries and encouraged closer economic ties with the United States. Such controls were encouraged, even demanded, as a

condition of loans made by the World Bank and the International Monetary Fund (IMF). Under Seaga, the economy recovered some of its strength. Nevertheless, Seaga's implementation of austerity measures demanded by the IMF as part of Jamaica's debt maintenance eroded his popularity, and in 1989 the PNP returned to power, again under the leadership of Manley. After Manley's retirement in 1992, Percival J. Patterson assumed the position of prime minister and led the party to an unprecedented third consecutive victory in the 1997 elections.

With socialist economic principles largely discredited by the collapse of the Soviet Union, the PNP generally continued the pro-business programs of the JLP in the 1990s. A crisis in the financial sector which shook the Jamaican economy between 1994 and 1996 prompted the PNP to place this sector under close government supervision, raising fears that the party was returning to more state control of the economy. Yet the PNP's efforts did little to correct the poor health of the economy—as measured by mounting government debt, little or no growth in GDP, continued high **inflation rates**, and the declining value of the Jamaican dollar—and could not contain rising levels of street violence and the drug trade. Though analysts expect that the Jamaican economy may begin to rebound in 2001, it may be too late for the PNP to maintain power.

The major source of government revenue comes from taxes. According to the U.S. State Department *Country Commercial Guide for 2001*, 36 percent of Jamaica's revenues come from **income tax**, 20 percent come from a **value-added tax**, and the remainder from customs **duties** and other sources. The highest marginal tax rate on Jamaican taxpayers stood at 25 percent for incomes over US$2,712 in 1999; while the tax rate percentage is low compared to other countries, the level of the income taxed at this rate is also quite low, which means that a fairly high percentage of Jamaicans are taxed at the highest rate. The highest marginal tax rate on corporations in the same period was 33 percent. Customs taxes are collected under the Common External Tariff (CET) policy enacted by the CARICOM (Caribbean Common Market). The CET is intended to encourage trade among Caribbean nations by placing a **tariff** of between 0 and 30 percent on goods imported from outside the CARICOM.

The declining value of the Jamaican dollar forced the government to increase the burden of taxes on the Jamaican public. During the financial crises of the late 1990s, the government raised the tax rate on such goods as gasoline, cigarettes, and alcohol, sparking widespread protests. When the government raised taxes on petroleum products in April 1999, for example, riots paralyzed the island for 3 days. To stop the violence, the government reduced the tax increases.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Jamaica enjoys an extensive though aging **infrastructure** which has received much government attention in the 1990s. The small island is served by a network of over 18,700 kilometers (11,620 miles) of roads, 13,100 kilometers (8,140 miles) of which are paved. With growing numbers of licensed automobiles in the 1990s, the road system, especially in urban areas, has become highly congested. A major highway development project between Montego Bay and Negril began in 1999, but has since been suspended because of financial problems experienced by the contractor.

The nation's rail system is troubled—in 1992 the state-owned Jamaica Railway Corporation ceased operation and the few operating rail lines are used only for

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Cuba	473,031 (2000)	2,994	AM 169; FM 55; shortwave 1	3.9 M	58	2.64 M	4 (2001)	60,000
St. Lucia	37,000	1,600	AM 2, FM 7, shortwave 0 (1998)	111,000	3	32,000	15	5,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

transporting bauxite and alumina—but the government is pursuing efforts to modernize the country's railways. An Indian agency responsible for the rehabilitation of track line, locomotives, and stations, and the acquisition of new technology and equipment is working to improve Jamaica's rail service. In addition, the government announced upcoming commuter services from Kingston to Spanish Town and Linstead in early 2001.

Jamaica has 2 major airports: the Norman Manley International Airport in Kingston and the Sangster International Airport in Montego Bay, both of which are quite modern. The latter was slated for **privatization** by the end of 2000. Ten major airlines provide service to Jamaica, and are responsible for carrying many of the country's tourists. The ports of Kingston and Montego Bay are world-class sea ports; in fact, the port of Kingston was estimated to be the seventh largest transshipment port (a port in which goods arrive to be distributed by other means) in the world, according to the EIU *Country Profile* for 1997–98. However, Jamaica has lost some international shipping business due to the high cost of shipping operations in the country.

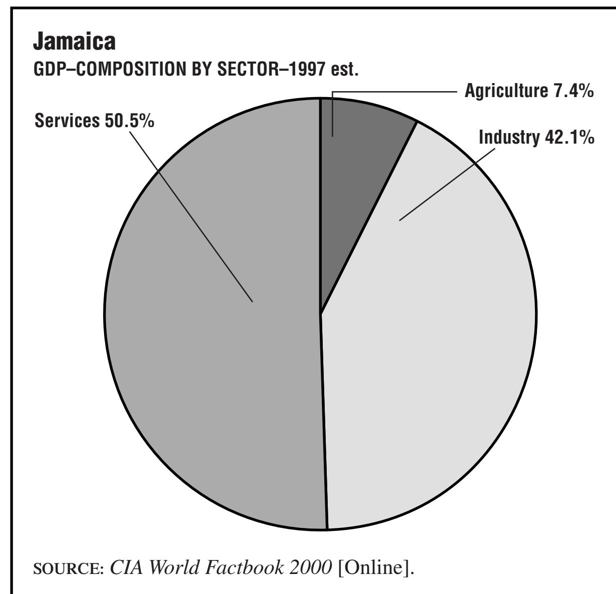
Electrical power is supplied to Jamaicans by the state-owned Jamaica Public Service Company, which has the capacity to produce 656.2 megawatts of power. Because the nation has no natural fuel reserves, over 95 percent of the country's power is generated from imported fuel oil, which accounted for 15 percent of all imports in 1996. Though generally reliable, the 110-volt power system has been subject to occasional power shortages and blackouts.

Telecommunications services in Jamaica are thoroughly modern. Telephone service is provided by Cable and Wireless of Jamaica Limited; although Cable and Wireless held a **monopoly** at the beginning of the 21st century, the government allowed for domestic competition in 2001, with plans for the market to be fully competitive by 2003. In addition, 2 foreign companies bought licenses to introduce mobile phone service to the country: Cellular One Caribbean, a St. Maarten-based U.S. company, and Mossel Limited, an Irish firm. According to the EIU *Country Profile* for 1997–98, the country had 331,816 telephone lines and was adding new lines at the rate of 60,000 a year. In 1999 the country also had 6 Internet service providers.

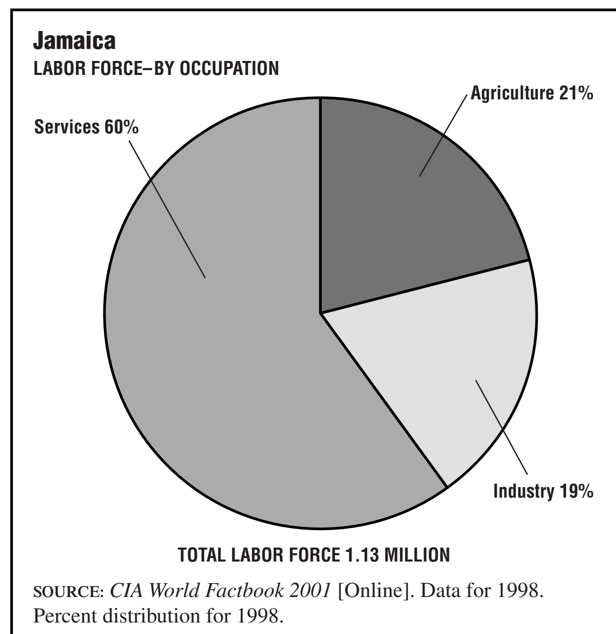
ECONOMIC SECTORS

Jamaica's economic sectors reflect the small size of the country, which places real limits on the availability of natural resources, population, and domestic markets. During the late 1990s, Jamaica's economy suffered from a variety of setbacks that hampered the growth of its goods-producing sectors—all of which experienced declines, with the exception of agriculture. The economy is still reeling from the crisis experienced in the financial sector in 1996, although the government's intervention to stabilize the banking system led to a growth of 4.8 percent in the services sector in 1999. Increasing political violence also held back growth in the tourist industry. Jamaica's economy relies heavily on trade with other countries, so changes in the preferential trade regimes it enjoyed with the United States and the European Union, combined with an overvalued currency, has significantly shrunk its export market.

Recognizing these obstacles, Jamaica has targeted certain economic sectors to fuel the economy's growth.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998. Percent distribution for 1998.

Jamaica's 15-year plan called the National Industrial Policy, adopted in 1996, identified tourism, shipping and port services, apparel, agricultural processing, minerals, bauxite, and alumina as industries to target for export growth and expansion. The World Trade Organization (WTO) highlighted the services sector, especially tourism, as critical to Jamaica's development.

AGRICULTURE

Agricultural production is an important contributor to Jamaica's economy, accounting for 7.4 percent of GDP in 1997 and providing nearly a quarter of the country's employment. Sugar, which has been produced in Jamaica for centuries, is the nation's dominant agricultural export, but the country also produces bananas, coffee, spices, pimentos, cocoa, citrus, and coconuts. In addition to legal agricultural production, Jamaica is also a major producer of marijuana, known locally as *ganja*, which contributes a great deal of money to the **informal economy**. Agricultural production of all sorts has been subject to the region's tumultuous weather, which includes seasonal hurricanes and occasional drought. In addition to **cash crops**, Jamaica also produces a wide variety of produce for domestic consumption.

In 1996 the country produced 237,943 metric tons of sugar, its highest output since 1980. Of this total, 181,183 metric tons of sugar were exported, earning US$109 million. The European Union (EU) was the major purchaser of Jamaican sugar, thanks to standard export quotas granted to Jamaica. The United Kingdom was the single largest purchaser of Jamaican sugar, purchasing 86.5 percent in 1996.

The bulk of Jamaican sugar is produced on large sugar plantations, though small and medium-sized businesses do contribute between 30 and 40 percent of the bulk sugarcane converted on the plantations. Productivity in the Jamaican sugar industry is low due to outdated equipment, inefficient management, and an aging workforce. Losses in this economic sector, prompted in part by a severe drought in 1997, forced the government to offer the sector a US$100 million assistance package late in 1997.

The EU previously offered Jamaica an annual quota of 105,000 metric tons on bananas (which means that they agree to purchase a defined amount of bananas each year), but the WTO ruled in 1995 that the EU went against free trade legislation by giving preference to Caribbean banana exports. As will be the case with many Caribbean nations which rely on strong banana exports, this ruling is expected to negatively affect Jamaica's banana industry as the preferential market is phased out. From a low in 1988 following Hurricane Gilbert, Jamaican banana production reached 88,917 metric tons in 1996 and earned US$44.1 million. Banana producers, who are generally small farmers, hope to increase their output by increasing efficiency and extracting higher yields per acre.

The remainder of Jamaica's agricultural production is divided among a number of smaller export products, including cocoa, coffee (Jamaican Blue Mountain coffee is prized throughout the world), copra (coconut flesh), and pimentos. Production of these minor crops climbed in the early 1990s, though they were also affected by the drought of 1997. Food production for domestic consumption—generally conducted by small farmers selling their goods in local markets—also climbed during the early 1990s. Despite this increased production, Jamaica imports the majority of the food it consumes, which keeps food prices high throughout the country.

Though it is not recorded on any official reports on agricultural production and exports, marijuana is an important cash crop for many Jamaican farmers. Many small farmers plant marijuana between their other crops and an efficient farmer can expect to earn thousands, even tens of thousands, of Jamaican dollars off a small plot of land. Farmers sell their crop to drug dealers, who risk arrest to supply high U.S. demand for the illegal drug. The profits earned from the drug trade, in turn, fuel corruption and bribery among local police and politicians.

Though Jamaica's location would suggest that the island would have a booming fishing industry, actual fishing production has remained relatively stagnant throughout the 1980s and 1990s, rarely reaching even 50 percent of government targets. In fact, the island imports between US$15 and $20 million in fish annually.

INDUSTRY

MINING. Bauxite and alumina, raw materials used in the production of aluminum, are the country's main exports. During the 1960s Jamaica was the world's largest producer of bauxite, a position it held until the 1980s. Today, Jamaica is the world's third largest producer of bauxite, after Australia and Guinea, and has estimated reserves of more than 1.9 billion metric tons. The majority of the bauxite exported from Jamaica is first converted into alumina, though roughly 30 percent of bauxite is exported in its raw form. Bauxite is taken from mines to processing plants by truck and rail, but, because the island lacks sources of cheap energy, the final and most profitable conversion process that turns bauxite/alumina into aluminum must take place overseas.

Bauxite production first became a factor in Jamaica's economy in the 1950s. Between 1950 and 1960, the contribution of bauxite production to the nation's GDP grew from less than 1 percent to 9.3 percent. By 1970, mining's

contribution to GDP reached 15.7 percent. In the years since, the industry's contribution to Jamaica's GDP remained at about 10 percent. Historically, the mining of bauxite was overseen by large American and Canadian aluminum companies such as Alcoa and Alcan, and final processing of the ore took place in their plants elsewhere. In the 1980s and 1990s, however, foreign companies withdrew from the island, and the government bought into the industry, thus keeping profits at home.

In the late 1990s, the bauxite/alumina industry employed about 5,000 people in the country's most highly paid economic sector. According to the U.S. State Department's *Country Commercial Guide*, the industry produced 12.6 million tons of bauxite and alumina in 1998, its highest level of production in over a decade. However, production declined by 7.3 percent to 11.79 million tons in 1999; some of the lost volume is due to an explosion at a Louisiana refinery which handles two-thirds of Kaiser Jamaica Bauxite Company's exports. The loss was offset by an increase in the price of bauxite on international markets, but shifting world demand for aluminum and variations in oil prices have made profits from the industry quite variable over the years. Fortunately, tourism helps bring in foreign dollars when bauxite profits decline.

In addition to bauxite, Jamaica has substantial reserves of several other important minerals, including limestone, gypsum, silica, and marble. Extensive, high-quality limestone reserves estimated at 50 billion tons provide an ample base for exports, though limestone production has, in fact, been rather small. Gypsum, which has been mined in eastern Jamaica since 1949, is another important export mineral. While some gypsum is used locally in the manufacture of tiles and cement, most is shipped unprocessed to the United States and Latin America.

MANUFACTURING. The manufacturing sector is an important, though declining, contributor to the Jamaican economy. Though manufacturing accounted for 19.6 percent of GDP in 1988, it had fallen to 18.1 percent in 1996. Total employment in manufacturing in 1996 stood at 100,400 people, or 8.7 percent of the **labor force**. Forces contributing to the shrinkage of the manufacturing sector include the sinking price of imports, increases in domestic wages, and, in the mid-1990s, increased competition from Mexico in the garment industry following the passage of the North American Free Trade Agreement (NAFTA), which granted Mexican products preferential treatment in U.S. markets.

Historically, Jamaican companies have processed sugar, food, beverages, and tobacco; produced chemicals, metals, and construction materials; and assembled electrical appliances and apparel. Many of these companies were set up to encourage **import substitution**, which meant that they were designed to produce goods that had previously been imported. Beginning in the 1980s, however, apparel production became the dominant manufacturing activity in the nation, employing 35,000 people in the early 1990s. Production was greatly increased when U.S. companies began exporting their apparel assembly to countries such as Jamaica, which could assemble clothing at far lower prices than in the United States. The value of apparel exports reached US$292 million in 1995, making it the nation's second most valuable export next to alumina.

SERVICES

TOURISM. Tourism is vitally important to the health of the Jamaican economy, contributing approximately US$1.23 billion to the economy in 1999. Beginning in the 1960s, economic prosperity in the major Western countries and declining international air fares helped make Jamaica a major tourist destination. By the early 1970s tourism competed with the bauxite industry as the country's dominant source of income. After a brief decline in tourism in the late 1970s and early 1980s—due largely to internal unrest—tourism has expanded dramatically through the late 1980s and into the 1990s. The number of tourist arrivals has risen from 846,716 in 1983 to 1.82 million in 1996. Of these visitors, roughly 65 percent of tourists stay in Jamaican hotels, apartments, guest houses, and other lodging, while the majority of the remainder visit from cruise ships anchored offshore. Two-thirds of tourists to Jamaica in 1999 were from the United States.

Jamaicans have responded to this influx of tourists by constructing a range of lodging options and by investing in the infrastructure—roads, docks, services, and airports. According to the U.S. Department of State *Country Commercial Guide*, Jamaica had a total room capacity of 22,715 in 1998 and was planning to add another 1,289 rooms between 2000 and 2001. Important development projects included the opening of the Ritz-Carlton hotel complex in the Montego Bay area, in addition to 3 other hotels before 2001. In the late 1990s, however, Jamaica began experiencing slight declines in tourist visits, thanks to unfavorable **exchange rates**, increasing competition for tourist dollars by other Caribbean destinations, and heightened fears that tourists might be affected by the rising political and gang violence in the country.

The tourist economy employs 84,300 people directly and it is estimated that another 170,000 people are engaged in tourism-related activities. Most tourist activity is centered on the northern coast of the island, which is more accessible to cruise ships departing from the United

States, and in the communities of Montego Bay, Port Royal, and Kingston.

FINANCIAL SERVICES. The other major component of Jamaica's service industry, beside tourist services, is the financial services industry. The early 1990s saw a rapid expansion in banking, investment, and insurance services fueled by an influx in capital and a lack of sufficient oversight by government regulatory agencies. In the mid-1990s, however, the entire financial services sector entered a period of severe crisis. Banks found themselves suffering from poor lending decisions as many of their loans were not repaid. Insurance companies who had invested in or owned banks were affected, as were other branches of the financial services sector.

In 1996 the Jamaican government took over the nation's fourth-largest bank, Century National Bank, in order to stave off its failure, and trust in the banking industry in general declined, prompting customers to attempt to withdraw their funds. By 1997 the government was forced to assume partial ownership of 5 of the nation's 6 largest locally-owned commercial banks with a rescue package valued at US$276 million, or 4.5 percent of GDP. The government agency entrusted with regulating the industry, the Financial Sector Adjustment Company, hoped to provide both the funding and the management skills necessary to rescue the industry, but by the late 1990s these changes had not yet taken affect.

RETAIL. The absence of large commercial centers, other than Kingston and its suburbs and the tourist center at Montego Bay, has resulted in a poorly developed retail sector in Jamaica. While Kingston is home to a variety of retail stores, including fast-food franchises such as Burger King and McDonald's, the majority of the towns in the interior of the country have small shops, farmer's markets, and temporary roadside stands.

INTERNATIONAL TRADE

Over the past several decades, Jamaica has relied more and more on imports. The value of imports in 1998 was more than double the value of exports. Jamaica exports and imports the majority of its goods from the United States. The United Kingdom was Jamaica's second largest single trading partner, with US$192 million in exports in 1995, or 13 percent; the remainder of the European Union countries received US$219 million, or 15 percent. Other major recipients of Jamaican goods were Canada, Norway, and the various CARICOM countries.

Imports of foreign goods were also dominated by the United States. In 1995, Jamaica imported US$1,399 million in goods from the United States, representing 49 percent of all imports (this number climbed to 52 percent in 1999). Major imports were **consumer goods**, including food, fuels, and other raw materials. CARICOM countries accounted for US$255 million in imports, or 9 percent, in 1995, while the United Kingdom (US$240 million, or 8.5 percent), Norway (US$184 million, or 6.5 percent), other EU countries ($112 million, or 4 percent), and Canada (US$99 million, or 3.5 percent) accounted for the remainder of imports. Imports rose dramatically through the 1990s, from US$1.799 billion in 1991 to US$3 billion in 1999. Much of the rise in imports can be attributed to large purchases of **capital goods** by the government, expanding demand for consumer goods, and to major purchases made by Air Jamaica, the country's major airline.

The United States has increased in importance as Jamaica's dominant trading partner throughout the 1990s. In 1990, the United States accounted for 28 percent of Jamaica's exports and 49 percent of its imports; by 1999, those numbers had risen to 42 percent and 52 percent, respectively. Major exports are bauxite and alumina, food, and garments assembled in Jamaica. As Jamaica's trade with the United States increased, its trade with fellow members of CARICOM, the Caribbean Common Market, decreased from 8.3 percent of exports and 21.7 percent of imports in 1990 to 4 percent and 9 percent, respectively, by 1995. This lack of trade within CARICOM signals the group's inability to stimulate the regional economy despite the proximity and the lack of trade restrictions between member nations.

Trade (expressed in billions of US$): Jamaica

	Exports	Imports
1975	.815	1.122
1980	.963	1.095
1985	.566	1.111
1990	1.135	1.859
1995	1.414	2.757
1998	1.303	3.273

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Jamaica

Jamaican dollars (J$) per US$1	
Jan 2001	45.557
2000	42.701
1999	39.044
1998	36.550
1997	35.404
1996	37.120

SOURCE: CIA *World Factbook 2001* [ONLINE].

The substantial and growing trade imbalance that Jamaica endured over the years has been partially offset by the input of tourist dollars and of monies sent home by Jamaicans working abroad. Nevertheless, Jamaica continues to run a **trade deficit** which forces it to borrow heavily to pay for its consumption.

MONEY

The value of the Jamaican dollar has slowly declined on the world market over a period of 30 years, making it increasingly difficult for the average Jamaican to afford imported goods. In 1977 the Jamaican dollar was valued at 90.9 cents for every U.S. dollar; by December of 1999 the value of the Jamaican dollar had collapsed to J$42.25 for every U.S. dollar. The International Monetary Fund (IMF) classifies the Jamaican exchange rate as freely floating, which means that the value of the Jamaican dollar is determined by supply and demand in the foreign exchange market and not by government control. The government, however, has tried to stabilize the price of the Jamaican dollar under IMF supervision in order to stabilize its economy. These stabilization efforts have subjected Jamaicans to periods of high inflation, economic **recession**, and mounting **national debt**. In 1999 **debt service** accounted for J$97.5 billion, or 58.1 percent of the budget. Even so, Jamaica's debt is lower than that of many other Caribbean nations.

Jamaica has a single stock exchange, the Jamaica Stock Exchange (JSE), which began operations on 3 February 1969. During its first year of operation the JSE had 34 member companies with a total **market capitalization** of J$146 million. The JSE had as many as 51 member companies during the financial services boom of the mid-1990s, but dropped back down to 45 companies in 1999. That same year the total market capitalization of the companies trading on the JSE was J$104 billion.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Jamaica	1,819	1,458	1,353	1,651	1,559
United States	19,364	21,529	23,200	25,363	29,683
Haiti	500	607	527	481	370
St. Lucia	N/A	2,076	2,150	3,542	3,907

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

When it comes to wealth, Jamaica is a land of extremes. On the northern coast—home to tourism—and in the suburbs of Kingston, wealthy Jamaicans live in first-rate housing, visit shopping centers featuring the best imported goods, and enjoy an elevated standard of living. Living in such suburbs as Cherry Gardens, Arcadia Gardens, and Forest Hills, the wealthy send their children to private schools and to universities abroad, and employ private security forces. Yet not far from these wealthy enclaves a significant number of poor Jamaicans live in squalor, with poor housing, limited food supply, and inadequate access to clean water, quality health care, or education. Kingston's poor congregate in the slum districts of Trench Town, Jones Town, and Denham Town, where water supplies are often polluted and violent youth gangs clash with police for control of the streets.

The wealth is distributed largely along racial lines, reflecting Jamaica's slave-plantation heritage. The descendants of black slaves tend to be among the poorest classes in Jamaica, while white and mixed-race descendants of plantation owners and traders tend to be better off. These extremes are reflected in the nation's distribution of income: in 1996 the wealthiest 20 percent of Jamaicans controlled 43.9 percent of the wealth, while the poorest 20 percent controlled only 7 percent. In fact, the poorest 60 percent controlled just 34.3 percent of wealth. Due in large part to the decline of services in urban slums, the percentage of people with access to safe water has declined from 96 percent in the period from 1982–85 to 70 percent in the period from 1990–96; access to sanitation facilities (plumbed toilets) has dropped from 91 percent to 74 percent in the same period.

Jamaica's rural poor also face difficult circumstances, for many workers must try to grow their own crops or participate in the informal economy —in some cases, the drug trade—in order to survive. Both the rural and urban poor have suffered from the long decline in the quality of social services provided to Jamaicans. Though the British built a well-developed health and education system on the island in the post-

Distribution of Income or Consumption by Percentage Share: Jamaica

Lowest 10%	2.9
Lowest 20%	7.0
Second 20%	11.5
Third 20%	15.8
Fourth 20%	21.8
Highest 20%	43.9
Highest 10%	28.9

Survey year: 1996

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Jamaica	24	7	3	1	9	8	48
United States	13	9	9	4	6	8	51
Cuba	N/A	N/A	N/A	N/A	N/A	N/A	N/A
St. Lucia	40	5	11	4	17	11	11

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

World War II years, a lack of government funding for schools and hospitals has meant that these services have declined in quality over the years. Despite this deterioration, 93 percent of Jamaican primary-level students are enrolled in school, and a government-funded health-care system ensures that Jamaicans have access to adequate health care.

Jamaica's high inflation and dependence on imports—especially for food, gasoline, and clothing—has meant that the poor have had to spend a high amount of their relatively small incomes on the necessities of life. Despite governmental food **subsidies** for the poor, similar to food stamp programs (vouchers that can be exchanged for food in grocery stores) in the United States, most poor Jamaicans spend more than half of their income on food and beverages. The difficulty that many Jamaicans face to earn a living on the island has contributed directly to the high **immigration** rate of the country and to its very low population growth. Despite the difficulties faced by Jamaica's poor, a study conducted by the Overseas Development Council judged that Jamaica's quality of life was better than both Mexico and Venezuela and equal to that of neighboring Trinidad and Tobago.

WORKING CONDITIONS

In the last years of the 1990s the Jamaican labor force has been shrinking, to an estimated 1,120,000 workers in 1999. The official unemployment rate for 1999 was 15.7 percent, down 1 percent from the year before. But the declining unemployment rate does not necessarily mean that opportunities for workers are increasing. Many of those leaving the workforce to retire are older, more highly skilled workers, while those entering the workforce are younger and unskilled. Job training and secondary education in Jamaica are generally poor, thus much of the younger workforce cannot expect high-paying jobs. Unemployment remains particularly high among women and younger workers.

Before there were even political parties in Jamaica there was a labor union: the Bustamante Industrial Trade Union, formed in 1938 to protect the rights of Jamaican workers. In the 1990s the U.S. State Department estimated union membership in Jamaica's 70 labor unions at around 20 percent of the employed workforce. The government of Jamaica supports workers' rights conventions promoted by the International Labour Organisation (ILO) and has set conditions governing industrial and human relations, established minimum wage standards, and protected low-wage workers from paying income tax. The 40-hour work week is the standard, and Jamaica has no history of child labor problems. In 1999, the government-mandated minimum wage increased to J$1,200 a week, and no income tax was required on wages lower than J$100,464 a year. In addition, the government provides social security benefits that include a retirement pension, pay for on-the-job injuries, food stamps, rehabilitation, and training. These latter benefits are considered substandard, however, and represent a tiny portion of federal spending.

Despite the protections offered by unions and government regulations, conditions for workers in Jamaica are not ideal. First, labor actions—strikes, slow downs, and protests—have frequently disturbed work life; in 1996 there were a total of 195 such disputes, up 7.7 percent from 1995. Second, the educational and training system in Jamaica is of such low quality that few workers have the skills to secure higher paying skilled jobs. (In 1998 adult illiteracy rates stood at 18 percent for men and 10 percent for women, significantly higher than elsewhere in the Caribbean.) Thus many workers seek earnings in the informal sector, which includes jobs as street vendors but also in the illegal drug trade. Finally, the close connection between labor unions and political parties has meant that union jobs are often granted as political favors, and that fights for jobs and votes have often turned violent. Industrial and political violence has been a recurring feature in Jamaican life since the 1970s and has helped decrease the attraction of Jamaica for those looking to locate factories in the country.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1494. Jamaica is discovered by Christopher Columbus, and comes under the control of Spain in 1509.

1655. England establishes a colony on Jamaica, which is confirmed by the Treaty of Madrid in 1670. The English begin importing slaves to harvest sugar on large plantations.

1807. England bans the slave trade, ending the flow of African slaves into Jamaica.

1834. England abolishes slavery in its colonies, forcing sugar plantation owners to change their labor relations and granting more power to the island's largely black population.

1865. The Morant Bay Rebellion against the authoritarian rule of white colonial leaders is crushed, but British authorities decide to rule Jamaica as a crown colony, which means that it is administered by British officials.

1938. Labor leader Alexander Bustamante helps establish the first trade union in the Caribbean region, the Bustamante Industrial Trade Union (BITU). In the same year Norman Washington Manley forms Jamaica's first political party, the People's National Party (PNP).

1943. Alexander Bustamante forms the nation's second political party, the Jamaica Labour Party (JLP).

1944. England grants Jamaica a new constitution allowing for the election of a governor by all citizens. Jamaica is now self-governed.

1958–61. The West Indies Federation attempts to join Caribbean nations in a single political entity, but is undermined by competition between Jamaica and Trinidad, the federation's 2 largest members.

1962. Jamaica is granted its independence from England on 5 August 1962, and becomes an independent state within the British Commonwealth.

1968. Jamaica joins Caribbean Free Trade Association (CARIFTA), hoping to enlarge the regional market for its goods.

1973. Jamaica becomes a founding nation of the Caribbean Common Market (CARICOM), a union of Caribbean nations dedicated to ensuring the free flow of goods between countries. CARICOM has never received sufficient support from member countries to operate effectively.

1973–74. The worldwide oil crisis undermines Jamaica's economy and puts the nation on the path to lasting trade imbalances and debt.

1988. Hurricane Gilbert devastates the island's agricultural sector, causing damage that continues to affect the economy into the 1990s.

1995. Bruce Golding helps found the National Democratic Movement (NDM), the nation's third major political party.

FUTURE TRENDS

Jamaica entered the 21st century under a cloud of economic decline. For the better part of 3 decades, despite some successes at increasing tourism and exports and curbing imports, the nation has been fighting a losing battle with inflation, mounting debt, and the declining value of the Jamaican dollar. In real terms, this has meant that the quality of life for the average Jamaican has undergone a slow but steady decline. The government enacted policies in the early 1990s to stabilize the economy and appeared to be making progress toward that goal. However, the financial collapse of the mid-1990s caused significant setbacks. Following policies outlined by the World Bank, the IMF, and other lending agencies, the government hopes that its program of lowering interest rates, encouraging tourism, and encouraging exports can help the economy. Yet nearly 20 years of following policies outlined by lending agencies has not yet led Jamaica out of its economic decline. Whether the Jamaican economy will rebound depends heavily on continued world prosperity in the early part of the 21st century, especially in areas related to Jamaica's main revenue producers, and on the government's ability to ride out the social backlash against needed austerity measures.

DEPENDENCIES

Jamaica has no territories or colonies.

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—Tom Pendergast

MEXICO

United Mexican States
Estados Unidos Mexicanos

CAPITAL: Mexico City.

MONETARY UNIT: New peso (peso, or NM$). One peso equals 100 centavos. Coins are in denominations of NM$1, 2, 5, 10, and 20, as well as 5, 10, and 20 centavos. Paper currency is in denominations of NM$10, 20, 50, 100, 200, and 500.

CHIEF EXPORTS: Manufactured goods, oil and oil products, silver, coffee, and cotton.

CHIEF IMPORTS: Metal-working machines, steel mill products, agricultural machinery, electrical equipment, car parts for assembly, repair parts for motor vehicles, aircraft and aircraft parts.

GROSS DOMESTIC PRODUCT: US$865.5 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$136.7 billion (f.o.b., 1999 est.). **Imports:** US$142.06 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

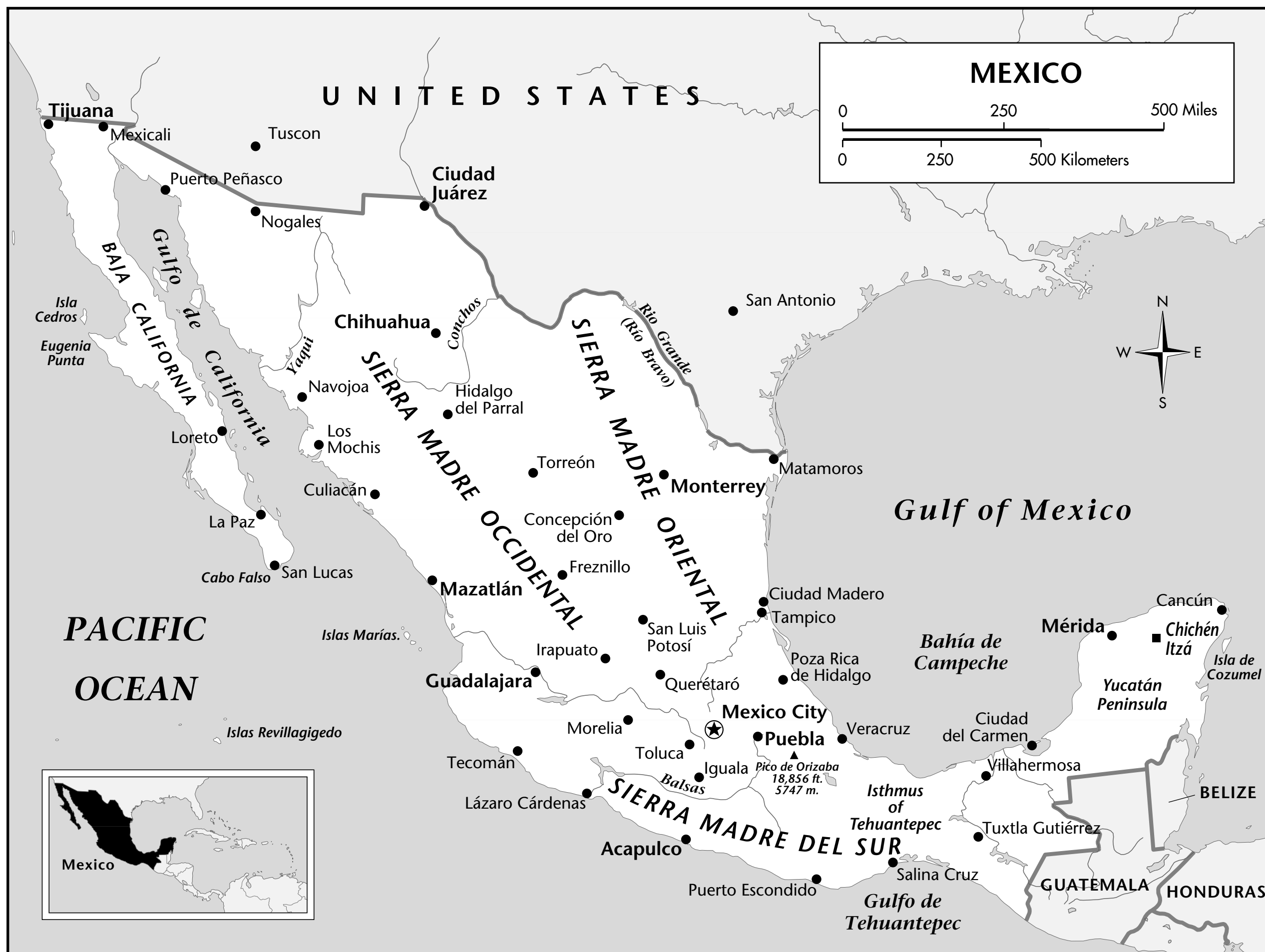
LOCATION AND SIZE. Mexico is a country located in North America and is bordered by the United States to the north, Belize and Guatemala to its south, the Gulf of Mexico to its east and the North Pacific Ocean to its west. The country's total area is 1,972,550 square kilometers (761,601 square miles), or nearly 3 times the size of Texas. Its capital, Mexico City, is located in the south-central part of the country.

POPULATION. As of July 2000, the population of Mexico was estimated to be 100,349,766. This is 19,099,766 more than the 1990 population of 81,250,000, reflecting a ten-year increase of 23.5 percent. In 2000, the birth rate was estimated to be 23.15 per 1,000. This was more than 4 times the death rate of 5.05 per 1,000. Based on a projected annual growth rate of 1.8 percent, the population is expected to number approximately 120 million by the year 2010.

People of Indian/Spanish heritage (mestizo) are estimated to account for 50 to 60 percent of the population of Mexico. Indians are from 25 to 30 percent, Caucasians from 9 to 15 percent, and Africans are a very small part of the population. These estimates of racial groupings are tenuous at best because Mexicans do not characterize themselves in racial terms. Groups are defined culturally so that the term "mestizo" means someone who is culturally Mexican in language, dress, and perspective. Someone who does not speak Spanish but speaks an Indian dialect and dresses in traditional Indian wear would be considered Indian, even if that individual were Caucasian. Accordingly, during the course of one's life, it is possible for someone to change their ethnic grouping by simply adopting the language and habits of another ethnic group. Indeed, in Mexico an increasing number of Indians are becoming mestizos by adopting the Spanish language and de-emphasizing their Indian customs.

The Mexican population is also a relatively young population; 4 percent are older than 65 while 34 percent are under 14. It is also an urban population; 70 percent of the population lives in urban areas while 30 percent lives in rural areas (50 percent lived in rural areas in 1950). The 3 largest cities in Mexico are Mexico City, Guadalajara, and Netzahual-coyotl. Mexico City is the largest metropolis in the world, with population estimates ranging between 18 and 20 million. In 1999, Guadalajara and Netzahual-coyotl were estimated to have populations of 1.65 million and 1.25 million people, respectively.

The nature of the population of Mexico is notable in at least 2 other respects. First, in 1973 Mexico became the first country in Latin America to adopt a population control policy. The policy was needed because from 1940 to 1970, Mexico's population had increased by 250 percent. Overcrowding in cities and unemployment were serious problems. Indeed, Mexico had become a victim of its own success. The Mexican death rate had decreased as a result of advances in preventive



medicine and sanitation, making it possible to control such diseases as yellow fever. The death rate was 33.2 per 1,000 members of the population in 1905, but by 1970 it was 10.1 per 1,000. Despite this decrease in the death rate, the fertility rate (the number of children born to each woman) had remained constant during this time. The end result was an increase in the population so that it grew an average of 3.4 percent per year from 1960 to 1970. Since the institution of the population policy, the rate of growth of the population has gradually decreased to an average of 1.8 percent per year (1995–2000). The second respect in which the population of Mexico is interesting has to do with the sizeable net migration of Mexicans to the United States. Estimates from 1990 are that there were 13.5 million people of Mexican origin living in the United States. Of those 13.5 million, 4 to 5 million had been born in Mexico. Unfortunately, because of the problem of unemployment from overpopulation, a number of Mexicans have come to the United States illegally in the recent past. By 1996, 2.7 million Mexicans were estimated to be living in the United States illegally. Indeed, the number of Mexicans coming to the United States legally is roughly equivalent to the number entering the country illegally (approximately 150,000 per year). Unfortunately, **immigration** authorities face a never-ending battle because many expelled immigrants simply return as soon as they are deported from the United States.

OVERVIEW OF ECONOMY

The Mexican economy is both complex and very much in transition. There are at least 3 transitions that are worth noting. The first is the economy's transition from an agricultural economy to an industrial one. In 1940, agriculture accounted for 19 percent of **GDP** and employed 65 percent of the **labor force**. However, in 1999 agriculture accounted for 5 percent of GDP and employed 23 percent of the labor force. In contrast, manufacturing and services accounted for 88 percent of GDP in 1999 and employed approximately 70 percent of the labor force. The most important catalyst for such a dramatic change is Mexico's involvement in World War II in the early 1940s. As a member of the Allies, Mexico began supplying its fellow Allies with war equipment and supplies and, because of the decreased availability of **consumer goods** from other nations, supplied its own pop-

ulation with consumer goods as well. Since then, both government and private citizens have furthered Mexico's industrial development.

The second transition that characterizes the Mexican economy is a shift from a closed to an open economy. Although after World War II the government pursued a successful policy of industrializing the economy, that policy was buttressed by efforts to keep the Mexican economy closed. For example, the government pursued a policy of encouraging Mexican manufacturers to engage in **import substitution**. Part of that policy required that the government set up barriers (such as **tariffs**) to the importation of those same items. All of this changed in 1985 when the government decided to pursue a policy of promoting Mexican exports and decreasing barriers to imports into Mexico. This commitment to an open economy was crystallized when Mexico signed the North American Free Trade Agreement (NAFTA) in 1992. Under that agreement, Mexico has committed itself to eliminating the trade barriers that exist between it and the United States and Canada by the year 2009. At the time Mexico signed NAFTA, its economy was dominated by small to medium-sized companies. NAFTA opened the door for large U.S. and Canadian companies to open branches or offices in Mexico, which would bring more jobs to the country.

The third transition that characterizes the Mexican economy is a change from an economy that pursues public ownership to one that pursues private ownership. In the 1970s and 1980s the government assumed a large amount of **foreign debt** and much of that money was used to purchase businesses—many of which were run inefficiently—by the government. The vast majority of these businesses were sold by the government in the 1990s. Although Mexico continues to wrestle with its foreign debt, which as of 1999 was US$161 billion, its debt is now a reasonable amount of debt when compared to that of other Latin American countries. For instance, Mexico's economy is 5 times as large as Venezuela's, but Mexico has only 4 times the amount of debt that Venezuela has.

At the beginning of the new millennium, the Mexican economy is vibrant, with fully functioning agricultural, services, industry, and banking sectors. Mexico has demonstrated to the world that it can sustain itself. But Mexico continues to be plagued by persistent problems of the poverty and **underemployment** of a large segment of its population. These problems pose the greatest challenges to the country's economic future.

POLITICS, GOVERNMENT, AND TAXATION

Under its present (1917) constitution, Mexico is a federal republic with 1 Federal District and 31 states. The president, presently Vincente Fox Quesada, elected in 2000, serves for a 6-year term. There is no vice-president. The president cannot run for reelection to succeed himself or herself. However, the president can run for re-election at a later date. The president selects a cabinet that presently consists of 19 secretaries. The Mexican congress has an upper chamber and lower chamber. The Senate is the upper chamber and consists of 128 senators who are elected to 6-year terms. The Chamber of Deputies is the lower chamber and consists of 500 deputies who are elected to 3-year terms. Although 90 percent of legislation is initiated by the president, it is the responsibility of the legislature to discuss and approve this legislation as well as presidential appointments to high office. The judicial system in Mexico is divided into state and federal components. The Supreme Court of Justice is the highest court in the land. There are 21 magistrates and 5 auxiliary judges on this court. These judges are appointed for life by the president, subject to the approval of the Senate. The judges on the Supreme Court appoint the judges of the lower federal courts. Although the judges on the Supreme Court are independent of the president and are appointed for life, there is a tradition in Mexico that all federal judges tender their resignation at the start of the term of the new president. Local government officials are elected by local elections.

The election of Vincente Fox Quesada, a former Coca-Cola executive, as president of Mexico in July of 2000 made headlines around the world. For the first time in 71 years, the presidency was not held by someone from the Institutional Revolutionary Party or the PRI (Partido Revolucionario Institucional). The PRI is the political party that was formed to embody the principles of the Mexican Revolution. The term "Revolution" is a term that refers to the military overthrow of Mexico's last major military dictator, Porfirio Díaz, in 1910. In 1917, after 7 years of civil war, those who favored the Constitutionalist Revolution led by Venustiano Carranza prevailed in putting together a new constitution for Mexico. The Constitution of 1917 was a remarkably advanced document for its time. It sought to assert not only the political but the economic and social rights of the Mexican people. For example, in addition to establishing a federal government, there are clauses within the Constitution that guarantee free compulsory education, minimum wages, the right of labor to organize and strike, social security, national ownership of resources that are below the ground, and land reform.

In 1929, a Mexican president by the name of Plutarco Elías Calles formed a political party, the National Revolutionary Party to govern in the name of the Revolution. The name of the party was changed in 1946 to the PRI. From 1929 until 1988, Mexico had, in effect, a one-party political system. The system succeeded for at least 2 reasons. First, the party contained political competition by

allowing competing interests and factions to organize themselves into "sectors" within the party (the labor and military sector). Second, the PRI in effect provided something for everybody. Those who would otherwise have led rebellions against the establishment had no reason to do so because they could achieve political and economic mobility within the PRI. A political monopoly was maintained by the PRI by matching techniques (such as fraud and bribery) to the appropriate circumstance.

In the 1988 elections, the PRI won the presidency by 50.4 percent of the vote, its lowest winning margin ever. Fully one-third of the seats in the Chamber of Deputies went to opposition parties. In 1997, the PRI lost its majority in the Chamber of Deputies. In 2000, for the first time in Mexican history, the PRI lost the presidential election to an opposition party, the right of center National Action Party (Partido Acción Nacional or PAN). Some have argued that the PRI lost its political monopoly because there are few living Mexicans who remember what the Revolution of 1910 was all about. Others have argued that because the Mexican economy fell upon hard times in the 1980s it became difficult for the PRI to provide something for everyone. More importantly, in the early 1980s the public image of the PRI was badly tarnished with the public disclosure of the corruption and excesses of PRI government officials (for instance, a "gift" of a US$2 million house from the labor unions to President Portillo). After these disclosures, those career politicians who had benefitted from the excesses of the Portillo years found that their political careers were badly derailed. To bolster the image of the PRI, the succeeding president, Miguel de la Madrid Hurtado, appointed a number of **technocrats** to his cabinet. This tension between the technocrats ("technicos")—people who had professional backgrounds and for the most part had never run for political office—and the career politicians ("politicos") came to a head when de la Madrid nominated a technocrat, Carlos Salinas de Gortari, to succeed him as president. In response to this nomination, arguing that the PRI had departed from its populist roots, 2 PRI officials (Cuauhtemoc Cardenas and Porfirio Muñoz Ledo) split from the party by forming the left of center Party of the Democratic Revolution (Partido de la Revolución Democrática or PRD). Although the PRD fielded Cardenas as its candidate, Salinas subsequently won the presidency by 50.4 percent of the popular vote.

Significantly, the free-market, pro-business policies begun by the de la Madrid administration in 1982 have continued since that time into the Fox administration of 2000. The difference is that Fox's political party, PAN, is a party that is economically and socially conservative. From 1982 until 2000, the policies pursued by PRI presidents were certainly economically conservative. For example, Salinas opened the Mexican economy to market forces by signing the North American Free Trade Agreement (NAFTA) in 1992. This agreement, which went into effect in 1994, decreased trade barriers between Mexico, Canada, and the United States. Additionally, the number of enterprises owned by the government went from 1,155 in 1982 to 215 in 1994, representing a significant decline in government involvement in and regulation of economic activity. It is difficult, however, to characterize the social policies of PRI officials over the last 20 years as necessarily conservative. For example, the response of the Salinas administration to a rebel uprising in Chiapas in 1994 was to negotiate with the rebels rather than confront them.

Over the past 20 years there have also been some significant reforms in the Mexican tax system in an effort to increase government revenues. For example, the government has put in place a **value-added tax** (VAT) in addition to the income (corporate and personal) and sales taxes that already exist in the country. In addition to the VAT, Mexico has a personal tax system with remarkably low rates. For example, the highest rate of personal **income tax** is approximately 25 percent. Despite these changes over the past 20 years, Mexico has not succeeded in increasing its tax revenues. The Mexican government's tax revenues when expressed as a percentage of GDP (the tax revenue rate) is approximately 11 percent (that same rate in the United States is approximately 28 percent). This rate is low because individuals and businesses do not comply with the tax laws. Because of low tax revenues, the government has relied on the revenues it receives from the country's oil **monopoly** (PEMEX). One source has estimated that up to 40 percent of the government's revenue may come from monies it receives from PEMEX.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The highway network in Mexico is one of the most extensive in Latin America. Indeed, all areas of the country are linked by it. As of 1997, Mexico had 323,761 kilometers (201,185 miles) of highways of which 96,205 kilometers (59,792 miles) were paved. There were also 6,335 kilometers (3,937 miles) of expressways. The most traveled highways link 3 of Mexico's most populous cities (Mexico City, Guadalajara, and Monterrey) in the form of a triangle. Mexico's highway system is extensive, but poorly maintained because of lack of government funds. The government has responded to this problem by granting concessions to companies to build toll roads. However, construction cost overruns have led to high tolls and reduced traffic on these roads. In 1994, the Mexican government revoked a number of these concessions and offered financial assistance to some of the construction companies.

Mass transit within Mexico is modest, although the bus service between cities is extensive. Mexico City's

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Mexico	97	325	261	15.7	35	3.0	47.0	23.02	1,822
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Canada	159	1,077	715	263.8	176	33.3	330.0	422.97	11,000

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

subway system opened in 1969. As of 1993, the system had 8 lines and 135 stations covering 98 miles. By the year 2010 the system will have expanded to 15 lines covering 196 miles. Guadalajara's subway system opened in the early 1990s. Despite the availability of mass transit, cars still crowd the roadways in urban areas like Mexico City. The country's **infrastructure** has not expanded along with the greater number of cars in its major cities. The end result is chronic traffic congestion and thick smog.

The railway system within Mexico is extensive, consisting of 30,952 kilometers (19,233 miles) of rail lines as of 1998. The Mexican National Railways (Ferrocarriles Nacionales Mexicanos—FNM) was a state-owned company that carried 80 percent of the rail traffic and operated on 70 percent of the tracks. Many Mexican companies did not use the railway system to transport cargo because they considered it inefficient and outdated. In 1997, the government began to **privatize** the FNM, a process which was completed by the end of 1999. Because the process of privatization was only recently completed, it will take time to determine whether it has addressed the ills that had beset Mexico's railway system.

As of 1999, Mexico was estimated to have 1,806 airports of which 233 had paved runways. Much like it has done with its railways, Mexico has recently gone through the process of privatizing its main airports. There are 35 airports in Mexico that carry 97 percent of the passenger traffic. The process of privatizing those airports was begun in 1998 and was completed by the end of 1999. The only exception to privatization is the Benito Juarez International Airport in Mexico City (Mexico's main airport) which remains under government control. Privatization has benefitted Mexico's airlines. Only 2 of Mexico's more than 70 domestic airlines are known internationally—Aeromexico and Mexicana—both of which were privatized in 1989. Since that time, Aeromexico has lost its reputation as "Aeromaybe" because of its unreliability and has developed a reputation for on-time performance. However, in 1995, confronted with the possibility of the financial collapse of these 2 airlines allegedly because of financial mismanagement, the 2 airlines were placed in a **holding company** (Cintra). Cintra will soon be broken up and its 2 airlines sold to foster competition in the industry. American airline companies are poised to become investors in the new Mexican airlines. Finally, it should be noted that Mexico has privatized not only its airports and airlines, but its seaports as well.

In 1998, 176.05 billion kilowatts (bkw) of electricity were produced in Mexico while the country consumed 164.76 bkw of electricity in that same year. Of the electricity produced, 78 percent was produced from fossil fuels while 14 percent was hydro-electrical energy. In the 1960s, the government **nationalized** the country's electricity-producing companies. As of 1992, 90 percent of the electricity produced in Mexico was produced by the country's Federal Electricity Commission. All of that began to change in 1991 when the laws were changed to allow private companies to produce electricity for their own consumption and for sale to the Commission. The laws were again changed in 1997, this time empowering the Commission to award permits to private companies to build power plants that produce electricity for sale to the public. As of July 2000, 9 such permits had been issued by the Commission.

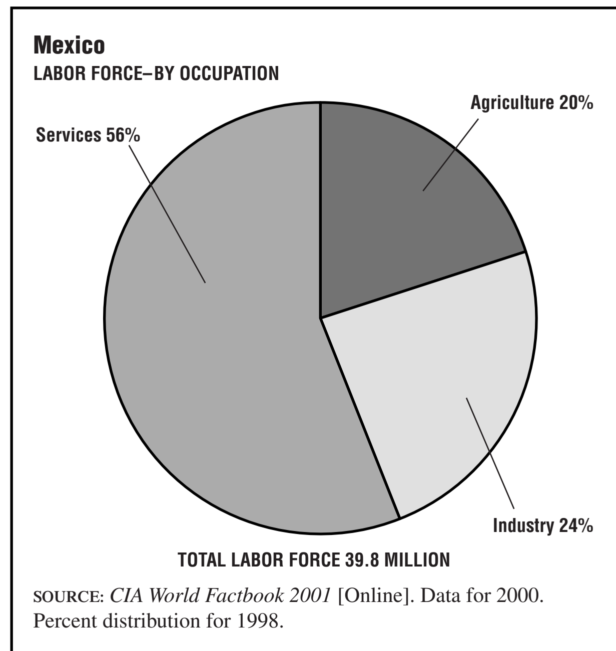
Presently, the telecommunications industry in Mexico is dominated by 1 company—Telmex (Mexican Telephone or Telefonos de Mexico). Telmex was privatized in 1990 and by 1999 had increased the number of telephone lines in Mexico by 104 percent. Despite the increase in available lines, there has been little improvement in the services rendered by Telmex. Relative to other large Latin American economies, Mexico continues to have one of the lowest numbers of telephones per capita. Improvements to the telecommunications within the country may come as Telmex adjusts to new rules by Cofetel (Comisión Federal de Telecomunicaciones), the telecommunications industry regulator, and competition from other telephone companies and cellular telephone companies. In 1999, there were 6.94 million cellular telephone subscribers in Mexico.

Radio, television, and Internet usage in Mexico are prevalent. Mexico had 2.45 million Internet users as of 1999. The government owns and runs a number of radio networks. There are over 20 private radio networks spanning over 700 radio stations in Mexico. Televista (Mexican Telesystem or Telesistema Mexicano) is the dominant television company in Mexico, with an estimated 80 percent share of the television audience. There are over 326 television stations in Mexico and most of them are owned or associated with Televista. Some television stations are affiliated with the government's television station (Mexican Institute of Television).

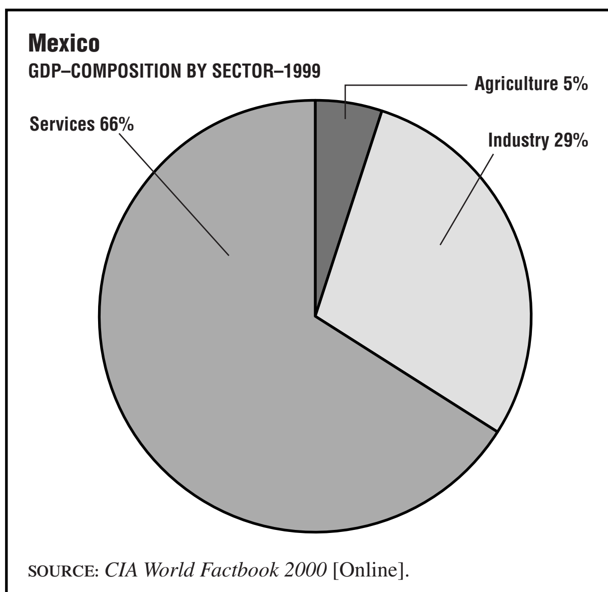
ECONOMIC SECTORS

The Mexican economy is primarily a service economy to the extent that 66 percent of GDP and over 50 percent of employment in 1999 was accounted for by the services sector. Much of the decline in agricultural employment over the past 60 years has been picked up by the services sector. Hospitality, personal, and professional services account for most of the services that are performed within the economy.

The manufacturing sector is the next most important sector with 20.8 percent of GDP and approximately 17 percent of the labor force in 1999. The notable activity in this sector has to do with the success of the *maquiladora* plants in Mexico. Maquiladora plants are plants that exist along the Mexican-American border that receive inputs from American plants and produce items that can be exported or sold within Mexico. It has been estimated that these plants generated 49 percent of Mexico's manufacturing output in 1999.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1998.



SOURCE: *CIA World Factbook 2000* [Online].

The third-most important sector in Mexico is agriculture, which accounted for 5 percent of GDP in 1999 yet employed 23 percent of the labor force. As discussed previously, the industrialization of the Mexican economy has resulted in a decrease in the importance of this sector since 1940. However, the sector continues to provide employment for a significant portion of the Mexican labor force.

Mining makes up a small portion of the economic output of the country, accounting for only 1.2 percent of GDP and employing approximately 0.3 percent of the labor force in 1999. The great significance of this sector stems from the government's reliance on revenues from the country's oil company for a substantial portion of its revenue.

AGRICULTURE

In 1999, agriculture employed 23 percent of Mexico's labor force but accounted for only 5 percent of Mexico's GDP. Crop production was and continues to be the most important agricultural activity in Mexico, accounting for fully 50 percent of agricultural output. Domestically, the most important crops for consumption purposes are wheat, beans, corn, and sorghum. The most important crops for export purposes are sugar, coffee, fruits, and vegetables. Mexico continues to be one of the top producers of crops in the world. In 1999, the crops produced in greatest number in Mexico were sugar cane (46.81 billion tons), corn (15.72 billion tons), sorghum (5.59 billion tons), wheat (3 billion tons), and beans (1.04 billion tons). Fruits and vegetables are the most eco-

nomically significant agricultural products exported by Mexico. For example, in 1998 Mexico's export of fruits and vegetables to the United States generated revenues of US$2.86 billion while meat and fish exports generated US$.71 billion, and coffee and cocoa US$682 million.

In comparison to its crop production, livestock accounts for 30 percent of Mexico's agricultural output. In 1999, livestock or livestock products produced in greatest number were milk (8.96 billion liters), poultry (1.72 billion tons), eggs (1.63 billion tons), and beef (1.39 billion tons). Mexico is not self-sufficient in the production of meat and fish. In 1998 it imported US$1.05 billion of meat and fish from the United States.

There are at least 3 reasons why Mexico has enjoyed some success in its crop production over the past 5 years. First, there is much land that is available to grow crops. Mexico has been able to increase the land that it uses for crops from 3.70 million acres in 1950 to 8.64 million acres in 1965 because of irrigation programs instituted by the government in the 1940s and 1950s. Second, there have been changes in the land ownership system that were instituted by President Salinas in 1992. Under the Constitution of 1917, land was distributed by the government to a community of peasants called an *ejido*, whose members owned the land but could not lease or sell it. In the face of increasing importation of food and decreased agricultural output, President Salinas was successful in getting the Mexican Constitution amended to give the members of the ejido the right to lease or sell the land if most of the members of the ejido agreed to do so. The purpose of this change was to allow ejidos to combine to form large efficient farms. Millions of acres of ejido land have now been transferred and a substantial amount of money has now been invested in the agricultural sector by private investors in their efforts to buy or lease ejido land. A third reason why Mexico has enjoyed an increase in crop production over the past few years is because under the Procampo program, the government now makes cash payments directly to farmers and they can then determine which crops they want to produce. The program has encouraged Mexican farmers to produce crops like wheat and sorghum as well as fruits and vegetables instead of the more profitable corn and beans. This program will be phased out from 2003 to 2008.

Although Mexico's agricultural production has increased over the past few years, there are some who would argue that there is still much work to be done in the Mexican agricultural sector. The growth rate in the agricultural sector has recently been below the growth rate of the rest of the Mexican economy. The sector has gone from a high of 5.8 percent of GDP in 1993 to its present low of 4.5 percent of GDP in 1999. In addition, Mexico exported more than it imported in agricultural products from 1992 through 1997. In 1998 it imported US$845 million more than it exported; its net agricultural imports were US$364 million in 1999. But the changes instituted in the early 1990s have had positive effects and will continue to offer a positive trend for the agricultural sector.

INDUSTRY

MINING. Fuel and nonfuel mining accounted for 1.2 percent of Mexico's GDP in 1999. Traditionally, the sector has employed a small percentage of the workforce. For example, in 1997 it employed 0.3 percent of the Mexican labor force. Despite these small numbers, fuel mining is important in Mexico because the oil revenue that the government receives from the state oil company Pemex (Petróleos Mexicanos) is a large part of its budget (32.5 percent in 1999). Further, oil is an important component of the country's export revenues (7.3 percent in 1999). Indeed, in 1999, it ranked fifth in the world in terms of the oil that it produced (3.34 million barrels/day). Its oil reserves are estimated to be 58.2 billion barrels of oil (40 years of production), some of the highest reserves in the world. Most (56 percent) of these reserves are located in the Gulf of Mexico. The remaining reserves are found in southern Mexico (Chiapas).

The first oil well was drilled in 1869. The Constitution of 1917 gave the Mexican government the right to all Mexican subsoil resources including oil. Accordingly, in 1938 the government nationalized the petroleum industry. Foreign companies were compensated for their holdings in 1943.

From 1957 to 1971 Mexico's industrial sector grew to such an extent that the country became a net importer of oil. The increasing demand for oil by the Mexicans exceeded the production of oil by the state. However, production of oil increased significantly in 1972 when sizeable oil deposits were discovered in the southern Mexico.

In 1995, the government privatized the exploration for natural gas and since then several companies have been given permits to explore for natural gas in Mexico. Non-fuel mining accounted for only 1.1 percent of GDP and 0.3 percent of exports in 1999. In the same year, the top 4 minerals mined were silver (1.06 million pounds), gold (1,039 pounds), copper (321,000 tons), and zinc (321,000 tons). Silver is the most valuable mineral mined in Mexico. Indeed, Mexico is the leading silver producer in the world, producing more than 16 percent of the world's silver. Most of this silver is mined in the country's "Silver Belt," a region that extends from the central part of the country into the northeast. Mexico is one of the world's top producers of copper as well.

MANUFACTURING. Manufacturing has provided an enormous boost to the Mexican economy since the 1980s,

increasing from 25 percent of total exports in 1982 to nearly 90 percent in 1999. In 1999, manufacturing accounted for 20.8 percent of GDP and employed 16.9 percent of the labor force in 1997. The top 4 categories of items manufactured in 1999 were metal products, machinery, and equipment (29.9 percent of manufacturing output); food, beverages, and tobacco (24.7 percent); chemicals, petroleum products, rubber, and plastics (15.1 percent); and clothing and footwear (8.4 percent). These top 4 categories also employed 83 percent of the labor force. Although manufacturing output grew by 5.2 percent per year on average from 1994 to 1999, it is important to note that metal products, machinery, and equipment grew by an average of 9.2 percent per year during that same period.

The growth of the manufacturing sector reflects Mexico's shift from a country concerned with only supplying and protecting its own needs to one that vigorously pursues other markets. Indeed, the story of Mexican manufacturing is about the surrender of nationalism for globalism. In the early 1950s, under a policy of import substitution, the government provided incentives for manufacturers to produce the items that Mexican consumers were importing (thereby "substituting" Mexican goods for imports). This policy worked, and Mexican manufacturing output grew by 9 percent in the 1960s and 7 percent in the 1970s. However, by 1982 total government spending was so large that it was equivalent to 47 percent of the Mexican GDP. Additionally, the government was spending more than it was taking in and that **budget deficit** was equivalent to 18 percent of GDP. This spending produced a drag on the economy and consumer demand decreased. Manufacturing output, which depended on consumer demand, decreased as well (down 10 percent from 1981 to 1983, and 6 percent in 1985).

In view of the preceding realities, in 1985 the administration of President de la Madrid changed Mexico's policy from one of import substitution to one of export promotion. Clearly, the manufacturing sector has benefited nicely from this change in policy, especially the maquiladora sector, which is made up of factories that are located along the American/Mexican border. The factories on the Mexican side accept materials often from American factories on the American side of the border, assemble them and then either **re-export** them or ship them internally for sale to Mexican consumers. Maquiladoras manufacture automobile engines, and electronic equipment such as stereos, televisions, and household appliances. American companies benefit from this arrangement because of the lower cost of labor in Mexico. It has been estimated that 49 percent of Mexican manufacturing output was produced by the maquiladora sector in 1999. In the same year, there were 3,436 maquiladora plants that employed 1.2 million Mexicans, or roughly 20 percent of the manufacturing labor force. Some of the items produced by these plants included clothing and textile products (1,035 plants) and electronic parts and materials (533 plants). Mexico City and its suburbs, Guadalajara, and Monterrey are also centers of a great deal of manufacturing output.

Forcing Mexican manufacturers to compete in an open economy is a policy that has had costs as well as benefits. Specifically, the manufacturing sector has enjoyed robust growth in output and exports, but many manufacturing enterprises that were once protected from competition by the Mexican government through tariffs are no longer protected. Because a very large percentage of Mexican manufacturers are small with fewer than 250 workers, some of them have not been able to withstand the pressures of competing in an international marketplace. However, the increase in manufacturing output over the past 5 years suggests that the surviving manufacturers are doing well.

SERVICES

Some 66 percent of GDP is generated by services in the Mexican economy. The sector also employs the majority of workers in the labor force, having employed 53 percent of workers in 1997. An analysis of the numbers of people who are employed within the services sector gives one a sense for the types of services that predominate within Mexico and their degree of labor intensiveness. In 1997, the category that employed the greatest number of workers was the community, social, and personal services category (8.8 million people). Next largest, at 7.8 million people, was the trade, restaurant, and hotel business. The transport, storage, and communications industries employed 1.5 million people. Finally, the finance, insurance, real estate, and business services industries employed 1.4 million people.

TOURISM. Because 7.8 million people (or 21 percent of those employed) in 1997 worked in the restaurant or hotel business, one could conclude correctly that tourism is big business in Mexico. It has been estimated that in 1997 the tourism industry employed 1.8 million people directly. The country has over 8,000 hotels with over 322,000 hotel rooms with another 88,000 nontraditional guest facilities such as villas. Tourists are attracted to popular tourist resorts in places like Cancun and Acapulco, but they often go to visit the monuments and shop in Mexico City as well. American tourists also visit Mexico's border towns. For example, in 1990 Americans made 70 million visits to Mexican border towns, while Mexicans made 88 million visits to American border towns in that same year. It has been estimated that in an average year over 80 percent of tourists to Mexico come from the United States. These American tourists spend quite a bit of money; 10 million tourists spent US$5.4 billion in 1999.

RETAIL AND FINANCIAL SERVICES. What is remarkable about the Mexico of today is that one can step inside an air-conditioned shopping mall and find most of the amenities of modern life, from televisions to toothpaste. Monterrey, a major city far to the north of Mexico City, typifies this kind of consumer choice. Although finding such a facility in Mexico City or its posh western suburbs especially has not been such an unusual occurrence, the increasing appearance of such **retail** facilities today in other cities in Mexico speaks volumes about what has happened to retail trade in Mexico in the 1990s. In fact, it has been estimated that up to 45 percent of retail sales in Mexico are made in such large facilities. The remaining 55 percent of retail sales continue to be made by small family-operated businesses. The reason for this change in the 1990s is simple. The opening of the Mexican economy in the 1990s resulted in an influx of foreign retailers. Many Mexican retailers that were not purchased by larger foreign companies have now moved out of the largest urban center to service the smaller Mexican cities. Mexico is now a country with department stores, shopping malls, and discount clubs. It is increasingly beginning to resemble its large American neighbor. Retail sales have been increasing steadily in Mexico each year since 1996.

Mexico's banking system is a remarkably well-developed one. The central bank, the Bank of Mexico, is an independent agency of the government that performs the traditional functions of a central bank. Specifically, it dictates to member banks the amount of money they must keep in reserve and it regulates the nation's money supply. In 1982, in the wake of Mexico's **recession** and in an effort to contain the flight of capital out of Mexico, the nation's private banks were nationalized by the government. All banks were privatized again by 1992 and as of 1999 there were 39 commercial banks operating in Mexico. As of 1994, the government has allowed Canadian and U.S. banks to open branches in Mexico. Although the banking system is no longer in a state of crisis, the fact remains that all is not well with the Mexican banking system. **Bad loans** are the critical problems facing Mexican banks. The government has intervened here by setting up a fund to take over the bad debts of banks. This fund had absorbed US$89 billion of debt as of 1999. It is becoming clear that only a small fraction of these debts will be recovered by the government. The matter of what to do with these loans has become an issue of political negotiation.

INTERNATIONAL TRADE

Mexico has dramatically changed its approach to international trade. Over the past 25 years Mexican exports have moved successfully from a reliance on oil (oil was 76 percent of export revenue in 1982) to a reliance on manufacturing (manufacturing was 89 percent of export revenues in 1999). The success of this shift has come primarily from the maquiladora program, which started in the 1960s but which was greatly increased by the NAFTA agreement in 1994.

Trade (expressed in billions of US$): Mexico

	Exports	Imports
1975	2.904	6.580
1980	18.031	22.144
1985	26.757	19.116
1990	40.711	43.548
1995	79.542	75.858
1998	117.500	130.811

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

As Mexico has changed its approach to international trade, its **balance of trade** has also changed. Before 1981, Mexico suffered from a trade deficit. During this time, the Mexican government was committed to a policy of "defending" the peso by setting the value of the peso at a high level—unrealistically high in this case—as a matter of national pride. But because the price of pesos was too high, people were unwilling to buy pesos with other currencies at the official **exchange rate**. Therefore, the main way for the Mexican government to get foreign currency so that it could trade with other countries was to borrow it. By the early 1980s, the government had amassed a large foreign debt to other countries. What is worse is that oil revenues, the main source of revenue to the government, decreased with the drop in world oil prices in the late 1970s. Things got so bad that by 1982 the Mexican government announced that it could no longer even pay the interest on the debt that it owed. As a result of this more expensive peso, Mexicans were able to buy more goods from outside of Mexico because they could get more dollars for their peso. So imports into Mexico increased. By the same token, buyers outside of Mexico were less willing to buy Mexican goods because the peso was too expensive relative to their currencies. As a result, although exports out of Mexico increased before 1981, imports increased faster than exports, leading to a trade deficit.

Nationalism gave way to economic reality and in 1982 the government devalued the peso. But the Mexican government went even further, deciding in 1985 to pursue growth of the economy through exports. On the export side, in addition to its **devaluation** of the peso, the government gave Mexican manufacturers various incentives to export. On the import side, the government followed a policy of **liberalizing** trade by removing the restrictions (e.g., licenses) that it had placed on countries

wanting to export to Mexico. This policy made it easier for Mexican manufacturers to get the inputs they needed for their manufacturing processes. The result was that exports exceeded imports from 1982 to 1989. However, in 1990 Mexico became a victim of its own success. The growth of the economy generated an internal demand for goods that resulted in an increase in imports into Mexico. In addition, the price of pesos was now high relative to other currencies, probably because the demand for pesos was high. The expensive peso resulted in a slower rate of increase of Mexican exports. So in 1990 Mexico experienced a trade deficit. This deficit persisted until the Mexican government once again devalued the peso in 1994. That devaluation made possible a trade surplus from 1995 to 1997. Since then, however, the economy has once again experienced a trade deficit.

A great deal of Mexico's trade situation depends on the United States, its largest trading partner. Exports to the United States reached a high of 88.4 percent of Mexico's total exports in 1999. In 1999, Canada received the next highest percentage of Mexico's exports (1.7 percent). In addition, Mexico imports most of its products from the United States, almost 75 percent in 1995. Some argue that the increase in Mexico's exports to and imports from the United States over the past 5 years have come as a result of the North American Free Trade Agreement (NAFTA), which was entered into by Mexico, the United States, and Canada in 1994. NAFTA gradually abolishes the trade barriers (for example, import tariffs) between the countries over a 15-year period, resulting in one single economic market with a population of over 400 million people and a **gross domestic product** of over US$6 trillion.

But Mexico is not willing to be wholly reliant on the United States. Mexico entered into a free trade agreement with the European Union (EU) in July of 2000 that commits the parties to eliminate their trade barriers over 10 years. With its agreement with the EU, Mexico becomes the only country other than Israel to have special access to the European and North American markets.

In addition to the flow of imports and exports in Mexico, a very positive role in the international accounts has been played by **remittances** of Mexicans who are living abroad (mostly in the United States). These transfers (US$6.3 billion in 1999) are treated in the international accounts in the same manner as Mexican exports are treated.

MONEY

For approximately 30 years (from the 1940s to the 1970s), Mexico had an average annual growth rate of 6 percent, **inflation** of less than 10 percent, and very little debt to the outside world. However, over the next 30 years (1970s to the present) there were 2 economic crises that brought the economy to the brink of collapse (in 1982 and 1995). During these crises, the economy experienced significant inflation (159 percent in 1987), unemployment, and a recession of 7 percent in 1995 (the largest since the Great Depression of the 1930s). Mexico's troubles stem from 2 successive administrations (Presidents Echeverría in 1970 and Lopez Portillo in 1976) which pursued political and expansionist policies that exceeded the limitations of the Mexican economy. These policies left the economy in shambles with a large **external debt** and a number of poorly functioning, corrupt, and inefficient government agencies. The administrations that have come to power since 1982 have labored mightily to undo the damage that was done to the Mexican economy from 1970 to 1982. It is useful to consider briefly the strategy pursued by each administration since 1982.

Exchange rates: Mexico

Mexican pesos (Mex$) US$1	
Jan 2001	9.7701
2000	9.4556
1999	9.5604
1998	9.1360
1997	7.9185
1996	7.5994

SOURCE: CIA *World Factbook 2001* [ONLINE].

In 1982, President de la Madrid inherited a government with a deficit equal to 18 percent of GDP and government spending that was 47 percent of GDP. Immediately, his administration faced an upcoming foreign debt payment of US$10 billion for which it had no funds. Indeed, high oil prices in the 1970s had given prior administrations the illusion of continued government revenues, but these dissipated in the early 1980s when oil prices collapsed. In 1982, the incoming de la Madrid administration declared the situation an emergency and instituted measures that included an increase in taxes and interest rates, and a cut of the federal budget. The U.S. government intervened with a US$1 billion loan guarantee and by pressuring banks to postpone their receipt of the US$10 billion debt repayment. The Mexican government also **restructured** its foreign debt with the International Monetary Fund so that it paid a lower interest rate on its debt over a longer period of time. The peso was also devalued by the government a number of times. These early efforts by the de la Madrid administration did not bear fruit. For example, the Mexican economy contracted by 5 percent in 1983, grew by 3.5 percent in 1984, but contracted again by 1 percent in 1985.

However, 3 events occurred in the mid-1980s that ultimately yielded positive results for the Mexican econ-

omy. First, the de la Madrid administration made a deliberate decision in 1985 to promote Mexican exports and liberalize trade. The success of that policy in increasing Mexico's exports has been previously discussed in the section on international trade. Second, the Baker Plan (named after U.S. Treasury Secretary James A. Baker), implemented in 1986, allowed Mexico to reschedule US$43.3 billion of its US$52.2 billion foreign debt. It also provided the Mexican government with US$12.5 billion in new credit. The final event was the Economic Solidarity Pact that the government entered into with the various sectors of the economy (including business and labor) in 1987 wherein all agreed to try to limit wage and price increases. The government for its part agreed to such things as a cut in spending and a more restrictive **monetary policy**. All 3 of these events yielded results and by 1988, Mexico's **inflation rate** was 52 percent, down from a high of 159 percent in 1987.

In 1988, the Salinas administration continued many of the policies of the de la Madrid administration. Companies were privatized; as of 1993, 390 (63 percent) of the companies that had been held by the government in 1988 had been sold. Tax collection improved and in 1995 the government ran a surplus of 815 million pesos. Inflation was controlled initially and by 1994, the rate of inflation was 7 percent. However, in its pursuit of trade liberalization, the government mismanaged its currency. Current account deficits (imports greater than exports) progressed to a point where the government was without international reserves to pay for imports. In December of 1994, the incoming government of President Zedillo was forced to devalue the peso. Inflation and unemployment resulted. The economy contracted by 6.2 percent in 1995. However, the Mexican government was able to borrow or obtain credit guarantees of US$48 billion in 1995.

The Mexican economy has recovered quickly since 1995 through the pursuit of traditional economic policies. The Zedillo administration cut government spending and increased taxes. Accordingly, the rate of inflation went from 52 percent in 1995 to 27.7 percent in 1996. Privatization efforts will continue with the Fox administration that came into power in December of 2000. The growth numbers for the Mexican economy have looked impressive since 1996 with GDP growth in that year of 5.2 percent, 6.8 percent in 1997, 4.8 percent in 1998, and 3.7 percent in 1999. Inflation has also been controlled, with inflation in 2000 at 8.96 percent, the lowest annual inflation rate since 1994. Unemployment in October of 2000 fell to an all-time low of 1.97 percent. It is curious that the 19 year-old Mexican Stock Exchange (Bolsa Mexicana de Valores) did not respond to all of this good economic news in 2000. The Bolsa's stock index finished the year with a loss of 20.7 percent at 5,652 points. One possible explanation for this is that stock exchanges throughout the world tend to move in tandem and that the Bolsa lost value as did other stock exchanges throughout the world in 2000. It is worth noting, however, that the Bolsa continues to be one of the fastest growing stock exchanges in the world. Its index was valued at 1,500 points in 1995 after the peso crisis. Its close at 5,652 points in 2000 implies a 55 percent annual growth rate from 1995 to 2000. There are hundreds of Mexican companies presently traded on the exchange.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Mexico	3,380	4,167	4,106	4,046	4,459
United States	19,364	21,529	23,200	25,363	29,683
Canada	14,535	16,423	17,850	19,160	20,458
Brazil	3,464	4,253	4,039	4,078	4,509

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

Social stratification in Mexico persists to the present day. Historically the members of the upper class were those who owned the land that the lower class cultivated. This changed with the Mexican Revolution of 1910. It has been estimated that as a result of the Revolution, the Mexican government redistributed 50 percent of the land held by the landed gentry. Today, land ownership continues to form the basis for wealth in Mexico. However, the economy's industrial transformation means that industrialists and politicians are also likely to number among the wealthy. Unfortunately, only 10 percent of Mexicans are wealthy. Another 30 percent are middle class. Fully 60 percent of Mexicans are poor, including peasants and industrial workers. The country's income is very unevenly distributed. The wealthy 10 percent of the population owns 38 percent of the country's income, the

Distribution of Income or Consumption by Percentage Share: Mexico

Lowest 10%	1.4
Lowest 20%	3.6
Second 20%	7.2
Third 20%	11.8
Fourth 20%	19.2
Highest 20%	58.2
Highest 10%	42.8

Survey year: 1995

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Mexico	30	6	4	2	7	5	46
United States	13	9	9	4	6	8	51
Brazil	22	13	18	15	34	4	−6
Canada	14	5	10	4	21	9	38

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

middle 30 percent of the population has 36 percent, while the remaining 60 percent gets 26 percent of the country's income.

One need look no further than the indexes of health, education, and housing to understand that there are great disparities between the wealthy and poor in Mexico. With respect to health, the Mexican population has on average done well. In 1940, average life expectancy and infant mortality were respectively 42 and 125 per 1,000 live births. By the year 2000, those statistics had changed to 75.3 and 25 per 1,000 live births. But disparities persist; life expectancy is lower by 10 to 15 years and infant mortality can be twice as high in the poorer southern states like Chiapas. Health care is substantially free for all Mexican citizens. The Mexican Institute of Social Security runs hospitals and clinics that are available to workers in the formal sector. Mexicans who are not in the formal labor force are able to receive medical care from a number of different governmental agencies. Yet the reality is that receiving health care from a nurse in a rural clinic is quite different from receiving health care from an expensive specialist in the United States, an option often exercised by the wealthy in Mexico. The disparities in the nation's health statistics reflect this reality.

With respect to education, it is important to note that 89.6 percent of the population is literate. In fact, the educational system within Mexico is extensive. Education is compulsory through to the equivalent of the ninth grade. At least 1 public university can be found within each state. Mexico City boasts the country's largest public university, the National Autonomous University of Mexico, with over 275,000 students. The campus is also the repository of the country's national library. Yet public schools in Mexico have significant problems. The quality of instruction is low, the bureaucracy is ineffective, and students do not stay in school (only 60 percent of Mexican children complete primary school). Experts agree that the system does a poor job of preparing Mexican citizens to compete in a global economy. However, the disparity between rich and poor is evident here. In Mexico, the rich are more likely to be educated. They are more likely to have attended the country's better private schools, and schools in the United States, whereas in the rural villages the state may not provide education beyond the sixth grade.

The housing situation in Mexico also provides a dramatic illustration of the disparity between rich and poor in the country. Even within Mexico City it is possible to see numerous examples of the country's housing shortage. In the community of Netzahual-coyotl, on the eastern outskirts of Mexico City, over 1,000,000 lower-class Mexicans live in single-room brick structures erected on land that floods when it rains. They have few public services. By contrast, the elite western suburbs of Mexico City allow the wealthy to live with all of the amenities of modern life.

In the modern era, persistent poverty has been one of the abiding problems of the Mexican economy. The economy has few safety nets; there is no unemployment compensation and the poor do not receive welfare payments. Economic policies that have worsened things like inflation have eroded the **real wages** of the poor. Each incoming Mexican administration, it seems, has proposed a new government program to address the needs of the poor. Sometimes the programs have worked temporarily and sometimes not at all. And if the nation's income distribution and housing pattern is any indication, the situation appears to be worsening. While education is the ticket to upward social mobility in Mexico, it is not at all clear that the state is providing educational opportunities for the poor.

WORKING CONDITIONS

The conditions under which someone works in Mexico depend on whether or not that person is a member of the formal labor force or is employed in the **informal sector**. Formal workers are those who have registered with the Mexican Institute for Social Security as workers. They

and their employers make payments into a fund that pays for—among other things—health care. These workers also receive the protection of the country's minimum wage and labor laws. In 1999, the formal labor force was 41.41 million workers with an unemployment rate of 2.5 percent, down from 6.5 percent in 1995. Individuals working less than 35 hours per week (the **underemployed**) totaled 19.1 percent of the labor force. Informal workers, estimated at up to 40 percent of the labor force, are unregistered workers, and include Mexico's hundreds of thousands of street vendors. These individuals are not entitled to the benefits received by formal workers.

The minimum wage in Mexico is set annually by a commission that has representatives from government, business, and labor. The commission seeks to increase the minimum wage by an amount that will account for the next year's anticipated inflation. There are 3 different minimum wages corresponding to different geographic areas. The highest wage is in Mexico City (NM$40.35 a day or approximately US$4.25 per day). Unfortunately, the country's inflation has on average been higher than the increase in the minimum wage. For example, at the beginning of 1995, the commission increased the minimum wage by 21 percent. However, the currency crisis in that year caused inflation to increase by more than 50 percent. So it is that in 1987, the minimum wage covered 94 percent of a worker's basic necessities. By 1995, it covered only 35 percent of those necessities. The reality is even worse because estimates of noncompliance with the minimum wage law vary from 30 to 80 percent of employers, depending on the location of the business. In view of this economic reality, one of the important developments in Mexico's labor force has been the number of women who have joined the labor force in the past 20 years. Married women in particular have joined the labor force because of the erosion of the real wages of their husbands. Unfortunately, the wages of women have lagged far behind those of men.

The economic woes that confront Mexican workers stand in sharp relief to the progressive labor laws and infrastructure that are available for their protection. For example, Mexican labor laws guarantee workers such things as 1 day off each week, and 8 days of vacation per year. The minimum age for work is 14 years of age, and child labor laws prohibit children from working certain jobs and certain hours. Labor unions are the most visible component of Mexico's labor infrastructure. Although there are only a few professionals who are organized, it has been estimated that over 90 percent of industrial workers are part of a union if they work for a business with at least 25 employees. The country's unions are organized at the local, regional, state, and national level. The national labor organization is called the Congress of Labor and fully 85 percent of unionized workers belong to it. The unions do provide a voice for the workers in Mexican society although some question their effectiveness. Indeed, the realities of the Mexican economy over the past 20 years has forced the unions to make major wage concessions. Privatization has resulted in the elimination of thousands of union jobs. One can imagine, however, that the situation for Mexican workers would have been far worse but for the presence of Mexico's labor unions.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1100s. Aztec civilization begins with first Aztec arrivals in the Valley of Mexico.

1502–20. Montezuma reigns. The empire is organized into a bureaucracy with provinces, governors, and taxation.

1519–20. Montezuma is conquered by Hernan Cortés.

1521–1700. New Spanish colony prospers. Natives are destroyed with overwork and European diseases. Colony begins to founder economically.

1821. Conservatives persuade Spanish officer and creole Augustin de Iturbide to negotiate with guerilla leader Vicente Guerrero for Mexican independence. Agreement called Plan of Iguala declares Mexican independence.

1822. Combined rebel and royal troops control Mexico. Iturbide proclaimed emperor Augustin I, but is deposed. General Antonio Lopez de Santa Anna declares Mexico a republic.

1824. Iturbide is assassinated, and Guadelupe Victoria is elected Mexico's first president.

1833. Santa Anna elected president.

1836. Santa Anna gets new constitution that eliminates states' rights. U.S. immigrants to Mexican territory of Texas declare it an independent republic. Texas garrison at the Alamo destroyed by Santa Anna but he is ultimately defeated. He refuses to recognize Texas as an independent republic.

1845. United States annexes Texas. Santa Anna is overthrown.

1847. Mexican-American War. U.S. wins, gets upper California, New Mexico, and pays Mexico US$15 million.

1857. Constitution of 1857 passes.

1858–61. Conservatives and liberals fight War of the Reform.

1861. Conservatives in exile persuade Napoleon III to set up a monarchy in Mexico. Mexico suspends payments on its foreign debt and is invaded by combined

forces of Spain, France, and Britain. Britain and Spain leave over dispute on how to divide Mexican assets.

1863. French stay and take the city of Puebla and then Mexico City. President Benito Juarez leaves the city.

1866–67. Napoleon declares campaign a costly failure and pulls out French troops. Juarez amasses sizeable Mexican army, retakes Mexico City, and becomes president again. Maximillian is captured at Querétaro and is executed.

1876. General Jose de la Cruz Porfirio Díaz becomes president by leading revolt. He engages in rational planning, but also repression of political opposition. The economy is modernized, and the U.S. and Europeans help build infrastructure.

1906. New Mexican middle class and new generation of Mexicans ("Regeneration Movement") become politically active and critical of government. Many are jailed.

1908. Díaz is elected to seventh term. Mexico celebrates 100 years of independence. Activist Francisco Madero calls for Rebellion which begins in Puebla and spreads throughout Mexico.

1911. Díaz resigns after attack on Ciudad Juarez. Madero is elected president.

1913–28. Era of political turmoil and assassinations. The United States intervenes again in Mexican politics.

1928. Emilio Portes Gill is appointed president.

1929. Plutarco Elias Calles forms National Revolutionary Party, Mexico's first official political party.

1934–40. Lazaro Cardenas becomes president. He expropriates and redistributes private land to peasants, and expropriates oil company assets and railroads. He sends Calles into exile.

1940–46. Manuel Avila Camacho becomes president. Mexico joins Allies; it has limited military involvement but becomes a significant supplier of material. Mexican industry develops.

1946–70. Presidencies of Aleman (1946), Ruiz (1952), Lopez (1958), Díaz (1964) all characterized by increased industrialization and urbanization. Political party renamed PRI (Partido Revolucionario Institucional) by Aleman with all presidents during this time a member of the party. Nationwide voting rights for women granted in 1958.

1970–76. Presidency of Luis Echeverria Alvarez characterized by leftist rhetoric, alienation of upper classes, and expansion of federal bureaucracy. US$80 billion of foreign debt financed on basis of significant oil deposits found.

1976–82. Presidency of José Lopez Portillo y Pacheco with further increases in foreign debt, inflation, and government corruption. Oil **glut** leads to collapse of oil prices. Minority political parties increase in Mexican Congress.

1982–88. Presidency of Miguel de la Madrid Hurtado institutes austerity measures, devalues peso, restructures foreign debt. Economy goes into recession.

1988–94. Presidency of Carlos Salinas de Gortari attempts to control corruption, continues to decrease spending, and launches other austerity measures. Mexico signs North American Free Trade Agreement. Rebellion in Chiapas is suppressed, with more than 145 killed. PRI presidential candidate is assassinated (Donald Luis Colosio Murrieta).

1994–2000. Presidency of Ernesto Zedillo Ponce de Leon devalues peso again and gets rescue package from the United States; economy goes into recession. The government privatizes a number of government industries, inflation is controlled, and growth established by the end of his term. The PRI loses majority in Mexican Congress.

2000. President Vicente Fox Quesada becomes the first non-PRI president elected in 70 years. Fox promises to eliminate government corruption and continue austerity measures.

FUTURE TRENDS

As the Mexican people prepare to celebrate the 100th anniversary of their Revolution and the 200th anniversary of their independence in the year 2010, it is clear that there are at least 3 important economic issues that they and their leadership will have to address. First, what is the most effective way to prepare the Mexican labor force to compete in a global economy? Second, what are the ways in which the Mexican economy can generate more and sufficient employment for the Mexican people? Finally, what are the ways to achieve a more equal distribution of income with the Mexican economy? To be sure, the answers to these questions are remarkably complicated ones. However, it is encouraging to note that the actions taken by the Mexican government have yielded positive results in terms of the growth rate of the Mexican economy. Certainly, the transitions of the Mexican economy from a closed one to an open one, from an agricultural to an industrial one, and from one that values public ownership to one that values private ownership are all steps in the right direction. What remains to be seen is whether these steps are progressing rapidly enough.

DEPENDENCIES

Mexico has no territories or colonies.

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—Linz Audain

NETHERLANDS ANTILLES AND ARUBA

CAPITAL: **Netherlands Antilles:** Willemstad. **Aruba:** Oranjestad.

MONETARY UNIT: **Netherlands Antilles:** Netherlands Antillean guilder or florin (NAG). One Netherlands Antillean guilder has 100 cents. Notes include 5, 10, 25, 50, 100, and 500 guilders. Coins include 1, 2.5, 5, 10, 25, 50, and 100 cents. **Aruba:** Aruban guilder or florin (AG). One Aruban guilder has 100 cents. Notes are of 5, 10, 25, 50, 100, 250, and 500 guilders. Coins include 1, 2.5, and 5 guilders and 5 cents.

CHIEF EXPORTS: **Netherlands Antilles:** Petroleum products. **Aruba:** Transport equipment, live animals and animal products, art and collectibles, machinery, electrical equipment.

CHIEF IMPORTS: **Netherlands Antilles:** Crude petroleum, manufactured and consumer goods, food. **Aruba:** Machinery and transport equipment, crude oil for refining and re-export, foodstuffs.

GROSS DOMESTIC PRODUCT: **Netherlands Antilles:** US$2.4 billion (purchasing power parity, 1998 est.). **Aruba:** US$1.6 billion (purchasing power parity, 1998 est.).

BALANCE OF TRADE: **Exports:** *Netherlands Antilles,* US$303 million (f.o.b., 1998 est.); *Aruba,* US$1.17 billion (including oil re-exports, 1998). **Imports:** *Netherlands Antilles,* US$1.3 billion (c.i.f., 1998 est.); *Aruba,* US$1.52 billion (1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Netherlands Antilles are a federation of 2 Caribbean island groups some 806 kilometers (500 miles) apart. The first group, known as the Dutch Leeward Islands, comprises Curaçao and Bonaire, and is located about 81 kilometers (50 miles) off the northern coast of Venezuela. The second group, known as the Dutch Windward Islands (confusingly, because they are part of the larger Leeward Island chain), is about 242 kilometers (150 miles) east of Puerto Rico, and includes Saba, Sint Eustatius, and Sint Maarten (the southern half of the island of Saint-Martin). The combined area of the 5 islands is 958 square kilometers (370 square miles), or about 5 times the area of Washington, D.C.

Curaçao is the largest island (461 square kilometers, or 178 square miles) and home to the federation's capital, Willemstad (pop. 24,235 in 1992), the islands' commercial and industrial center. Blessed with the world's seventh largest natural harbor and the largest in the region, Curaçao was once the base for Dutch trade activity in the region and the site of a major slave market. Since the early 20th century it has been sustained by its oil refining industries, which include 1 of the largest refineries in the world. Its terrain is volcanic and semi-arid, and its climate tropical.

Bonaire (290 square kilometers, or 112 square miles), some 32 kilometers (20 miles) to the west, is better served environmentally and includes a scenically spectacular coastline and several fine beaches, the bases jointly of its tourist industry. Bonaire's main town is Kralendijk.

In the northern group the principal territory is Sint Maarten (52 square kilometers, or 20 square miles), the Dutch portion of the island of Saint-Martin (96 square kilometers, or 37 square miles), which, since its dual occupation by French and Dutch forces in 1648, has been split into 2 parts. Northern Saint-Martin belongs to French Guadeloupe, and it shares with its Dutch neighbor the Netherlands Antilles' only border, 10 kilometers (6.3 miles) long. The island has the distinction of being the smallest in the world shared by 2 nations. Mountainous and arid, the island's beaches and picturesque scenery have made tourism its main industry. The principal town of Dutch Sint Maarten is Philipsburg.

Sint Eustatius, known by its inhabitants as "Statia," and Saba (21 and 13 kilometers, or 8 and 5 square miles, respectively) are also noted for their rugged scenery. The islands too, unlike Curaçao and Bonaire, lie in the Caribbean hurricane belt and are periodic targets in the July to October hurricane season. All of Sint Eustatius's inhabitants live in the island's capital, Oranjestad. Saba's capital is the tiny village of The Bottom. Its central

volcanic cone, Mount Scenery, at 879 meters (2,885 feet) is not only the highest peak in the Netherlands Antilles, but in the entire Kingdom of the Netherlands.

Aruba lies about 65 kilometers (40 miles) west of Bonaire. Its land area is 193 square kilometers (74.5 square miles), slightly larger than Washington D.C., with a coastline of 69 kilometers (42.6 miles). It shares the dry sub-tropical climate of its neighbor the Netherlands Antilles, and like Bonaire and Curaçao relies on desalinated seawater for drinking water. But its geography tends to be flatter; its highest point is Mt. Jamanota at 188 meters (616 feet). The capital and main port is Oranjestad (1991 pop. 20,045).

POPULATION. The Netherlands Antilles' combined population was estimated in 2000 at 210,134. Of these more than two-thirds (146,100 or 69.5 percent) lived on Curaçao, while Bonaire's inhabitants numbered 11,000 (5.2 percent), Sint Maarten's 29,500 (14.0 percent), Sint Eustatius's 1,861 (0.9 percent), and Saba's around 1,100 (0.5 percent). Relatively good health conditions (compared to its Caribbean neighbors) have given Antilleans a life expectancy of 74.72 years.

The Antillean national birth rate of 16.94 per 1,000 has produced a growth rate of 1.01 percent per annum—considerably above its economic growth rate of -4.4 percent (2000). This fact has contributed to the worryingly high rate of **emigration**, especially in the 17-to-30-year-old age group. The Netherlands, which receives 80 percent of emigrants, has 100,000 Antilleans. For the islands the long-term consequences of emigration are very serious, and it is a problem both Dutch and Antillean governments are concerned to address—especially as the flow shows signs of quickening: 3.0 percent of Antilleans emigrated in 1998, jumping up to 3.5 percent in 1999, and to as much as 4.1 percent (8,420 people) in the first 10 months of 2000 alone. The skewing effect this has on the population can be seen in the islands' age distributions. In the Windward Islands, where employment is high, those over 60 constitute 5 percent of the population; in Curaçao, where emigration has been heaviest, they are 11 percent. By 2017, if the rates of loss remain the same, 20 percent of Curaçao's population could be over 60. The effect of this on the island's already strained social services could be devastating.

Aruba's population stands at 69,539, and its demographic statistics, when compared to the Netherlands Antilles, reflect its generally greater prosperity. The life expectancy is 78.37 years at birth. The birth rate is 13.1 births per 1,000 of population, with a growth rate of 0.7 percent (2000 est.)—well within the economic growth rate of 3 percent (1998). In fact, not only does Aruba enjoy near **full employment**, it has often been obliged to import additional labor from neighboring islands. Nearly one-third of Arubans live in the capital Oranjestad.

Ethnically the Netherlands Antilles and Aruba are a diverse mix. The mushrooming of the oil industry in the 1920s attracted workers from around the Caribbean, doubling the population and further expanding what was already a broad ethnic base. Around 50 nationalities are represented, with Dutch, African, Spanish, Jewish Portuguese, Lebanese, and Chinese origins being the most common. What survived of the indigenous Arawak Indian community was absorbed in the early 20th century;

no full-blooded Indians remain. Religions are similarly diverse, with Roman Catholicism, various forms of Protestantism, Judaism, and Seventh-Day Adventism all represented. The official language of both countries is Dutch, but Papiamento, a hybrid of Spanish, Dutch, English, and Portuguese is also spoken, especially in the (southern) Leeward Group, while English tends to dominate in the (northern) Windwards.

OVERVIEW OF ECONOMY

Mountainous and barren, with few natural resources or advantages, the Netherlands Antilles and Aruba nevertheless enjoy 2 of the more affluent economies in the Caribbean region. This relative prosperity is founded on their one overriding asset: location. In the early 19th century the islands, conveniently poised between the Caribbean islands and the South American mainland, thrived as the clearing house of the Dutch slave trade. When slavery was outlawed in 1863 this industry collapsed. But with the discovery of Venezuela's massive Maracaibo oil reserves in the early 20th century, the islands' advantageous location (just off the Venezuelan coast) again proved to their economic making. In 1918 the world's largest oil refinery was built on Curaçao, and in 1929 another huge refinery was constructed on Aruba. Aruba and the Netherlands Antilles still serve as major refining and transshipping bases for the Venezuelan oil industry, a role that has given the Netherlands Antilles a **gross domestic product per capita** of US$11,800 (1998 est.).

But in the case of the Netherlands Antilles, this narrow economic focus has also left it vulnerable, and the contraction of the South American oil industry in the 1980s led to increasing economic difficulty. As a service-oriented economy, the Netherlands Antilles relies on its "invisible" earnings from tourism, offshore financial services, and shipping to offset their huge **trade deficit**, which was US$1,013.7 billion in 1998. The trade deficit has been difficult to manage. In the 1990s, a combination of hurricane damage, weak investment levels, and fluctuating oil prices increased the debt. Plans drawn up in conjunction with the Dutch government and the International Monetary Fund (IMF) aimed at attacking the deficit, raising revenue, and decreasing expenditure. But the price of such plans—reduced government services, **privatizations**, and redundancies—have made them difficult to implement. Predictions that the country would begin to reemerge in the 2000s from the **recession** that dogged it in the previous decade have proved to be premature.

Aruba has fared better. Although like the Netherlands Antilles it is heavily dependent on oil refining, transshipment, and service industries such as banking, Aruba has been more successful in developing tourism as an alternative economic base. This combined with more conservative fiscal management—despite some heavy deficits in the late 1990s—has seen the **real GDP** growth in the 1991 to 1997 period of around 5.6 percent per annum. Its principal sources of income continue to be tourism and oil transshipment, both industries showing solid growth. With Aruba's annual GDP per head at US$22,800—more than 6 times, for example, that of its Caribbean neighbor Jamaica—Arubans are estimated to be among the most affluent people in the Caribbean region.

POLITICS, GOVERNMENT, AND TAXATION

First inhabited by Arawak and Carib Indians, the islands of Aruba and the Netherlands Antilles were taken by the Spanish in the 16th century, falling in turn to the Dutch in the course of the 17th century. The Dutch used them as trading posts, and by the 17th century the mercantile ports of Sint Eustatius and Curaçao were 2 of the 3 richest in the Caribbean (with Port Royal in Jamaica). After multiple changes of hands, the 6 islands were finally secured by the Netherlands under the Treaty of Paris in 1816 and officially constituted as the Netherlands Antilles in 1845. Autonomy from the Netherlands came in 1956.

In 1986 Aruba, resentful of Curaçaoan political dominance, left the federation to seek its own free-standing membershipin the Dutch overseas community. Fears in the 1980s that the Netherlands Antilles might fragment further as other islands sought autonomy were partially resolved in a nation-wide referendum in November 1993 in which all 5 remaining islands opted for continued union. However, a further referendum held in Sint Maarten in June 2000 found 67 percent of its inhabitants in favor of separating from the federation. Such a partition can only be undertaken with the cooperation of the other islands, but it remains a source of on-going uncertainty. The Dutch government is content to let the islands decide their own future but is eager for them to develop economic self-sufficiency. Aruba, according to the provisions of its 1986 secession from the Netherlands Antilles, would have become completely independent of the Dutch kingdom in 1996. In 1995, however, this provision was permanently shelved by the Aruban legislature.

Constitutionally the Netherlands Antilles and Aruba are autonomous parliamentary states within the Kingdom of the Netherlands. Their head of state is the Dutch sovereign (Queen Beatrix), who is represented in each country by a governor, appointed by The Hague, but since the 1960s a native-born islander. The Netherlands also administers the islands' foreign affairs and defense arrange-

ments and appoints their senior judges. Internal affairs—including finance, police, telecommunications, education and health—are left to the prime minister of each country, his cabinet (made up of 9 ministers in the Netherlands Antilles and 7 in Aruba), and the parliament, or Staten, which appoints them (22 members in the Netherlands Antilles and 21 in Aruba). In the Netherlands Antilles each island replicates this system in miniature, with each having a lieutenant-governor to represent the Dutch crown, each with an island council, and each with a regional legislature which appoints it. Elections are by **proportional representation**, suffrage is universal, and electoral terms are 4 years long.

Politics in Netherlands Antilles tend to be island based. Seats in the Staten are distributed by island: 14 from Curaçao, 3 each from Sint Maarten and Bonaire, and 1 each from Saba and Sint Eustatius. Reconciling the various island interests is an often precarious exercise and made more complicated by the proliferation of parties and the tendency of the federation's proportional representation system to produce coalition governments. Although some stability is afforded by Curaçao's control of the Staten—a consequence of its numerical dominance—this has also generated resentment in the other islands. The 2 main parties are both Curaçao-based: the Antillean Restructuring Party (Partido Antía Restrukturá or PAR) and the National People's Party (Partido Nashonal di Pueblo or PNP). The prime minister as of 2001 was Miguel Pourier, leading a coalition that includes 18 of the 22 Staten members, the country's broadest ever.

Aruban governments also tend to be multi-party. The prime minister as of 2001 was Jan Hendrik Emman, leading a coalition of his own Aruban People's Party (Aubaanse Volkspartij or AVP) and the Aruban Liberal Party (Organisacion Liberal Arubano or OLA). Pressing political issues, as in the Netherlands Antilles, turn on the government's program of fiscal austerity, including health-care reform and its controversial planned privatization of the state telecommunications company, Setar.

Both countries rely heavily on **income tax** for their revenue collection, with important supplements provided by port dues. Tax reform in the Netherlands Antilles, designed to stimulate business growth, has included the reduction of corporate tax rate to 30 percent in 1999 and the raising of the personal tax threshold. Revenue in 1999 totaled US$707.8 million, of which 88 percent (US$622.6 million) comes from taxes. Aruba's revenue in the same year came to US$361.1 million, of which 83 percent (US$299.1 million) came from taxes.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The 5 small islands of the Netherlands Antilles have no railroad and only 602 kilometers (373 miles) of roads between them, of which only 300 kilometers (186 miles) are paved. And yet given their size, they are, in fact, unusually well served. Even the tiny and impossibly precipitous Saba boasts "The Road," 31 kilometers (19 miles) of winding roadway built in early 1940s and one of the region's engineering marvels. Most of this development, however, has occurred since the 1960s. Saba's dock was only built in 1963; until then everything reaching the island had to be rowed ashore through the surf. It was not until the 1960s that all of islands received public electricity and water supplies.

Inter-island traffic has made sea and air connections a vital means of communication, as well as vital parts of the economy. Curaçao is blessed with one of the largest natural harbors in the world, and the port has become not

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Netherlands Antilles	76,000 (1995)	13,977 (1996)	AM 9; FM 4; shortwave 0	217,000	3	69,000	6	2,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
St. Lucia	37,000	1,600	AM 2; FM 7; shortwave 0	111,000	3	32,000	15	5,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

only a major center for the transshipment of Caribbean oil, but an important dry dock for ship repairs. The port annually handles around 850,000 metric tons of cargo, and the foreign exchange earnings it generates are a crucial component of the Antillean economy. Also economically central is the ailing national carrier, Antillean Airlines (ALM), scheduled for privatization. Each of the islands has an airport, with international access via Hato Airport in Curaçao and Juliana Airport in Sint Maarten, both major hubs for their respective regions. There are also plans to upgrade Bonaire's airport to receive international flights. Nevertheless, the federation's fragmentation into widely separated parts, in which separate infrastructures are required for each island and communication between islands is cumbersome and expensive, is a continual economic drain.

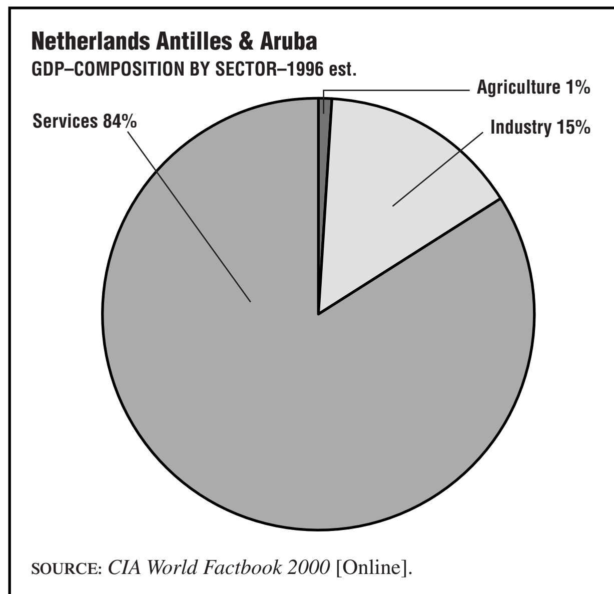
The islands boast 76,000 telephones (1995), and 11,727 cellular telephones (1995)—one for each 2.8 and 17.9 Antilleans, respectively. Energy provision is good, and more than 97 percent of Antillean households have electricity (93 percent with a refrigerator). Generating capacity runs to 200 megawatts, all of it produced from imported fossil fuels. In 1999 the islands' final power consumption equaled around 2.67 million tons of oil.

The picture for Aruba is much the same: 802 kilometers (497 miles) of roads, 513 kilometers (318 miles) of them paved (mostly the perimeter coastal roads); 27,000 telephones and 1,718 cellular phones (one for each 2.5 and 40.5 Arubans respectively, as of 1995). Moves are underway to sell the state telecommunications utility, Setar, but these have faced stiff resistance from the country's labor groups. Like the Netherlands Antilles, Aruba relies heavily on its ports and air connections. Its 3 ports are Oranjestad, the main commercial and cruise ship facility; Sint Nicolas, used by the oil industry; and Barcadera, opened in 1962 to serve the industrial zone on the leeward coast. The island has 2 airports, with international facilities at Oranjestad. **Deregulation** of the air market included the sale in 1998 of 70 percent of the government's share in the bankrupt national carrier Air Aruba. Continued difficulties in the company, however, forced it to cease operations in October 2000.

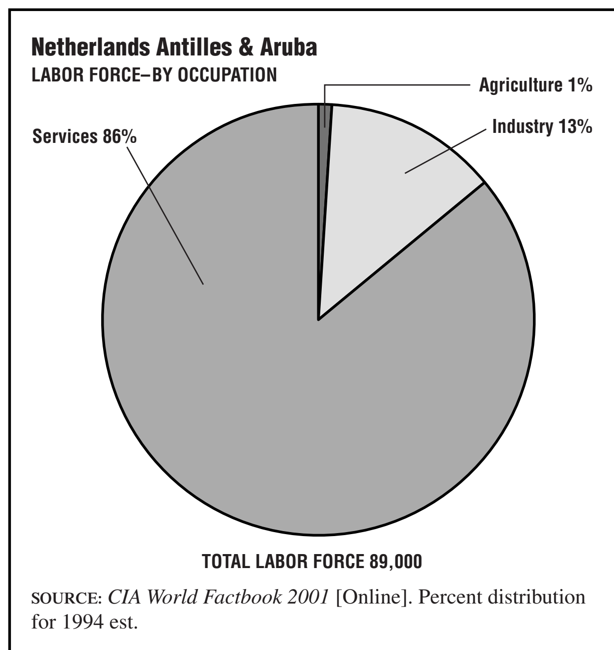
Aruba's electricity generating capacity of 125 megawatts gives almost universal access to electricity. Like the Netherlands Antilles, power generation relies on fossil fuels. Aruba's total power consumption in 1999 came to the equivalent to 210,000 tons of oil, around 0.02 percent of the island's oil production.

ECONOMIC SECTORS

Tourism, offshore financial services, shipping and oil refining are the primary Aruban and Antillean economic sectors. Petroleum processing continues to be central. Having survived the industry's slowdown during the oil **glut** of the 1980s, its future looks relatively secure. For growth, however, the Netherlands Antilles are obliged to look to tourism, and other service sectors like finance and banking. Industry accounts for 15 percent of the GDP and 13 percent of the Antillean workforce, and services for 84 percent of the GDP and 86 percent of the workforce (with three-quarters of these working for the government). The same constellation of sectors predominate in Aruba.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1994 est.

AGRICULTURE

The rugged, rocky terrain of the Windwards' and the Leewards' poor soil and arid climate leave little scope for agriculture in either group. Various plantation crops have been pursued over the centuries—sugar, cotton, and tobacco especially. But efforts were always a struggle and had been largely abandoned by the 19th century. Aruba and Curaçao were used for ranching in the 18th and 19th centuries, but ranching too could never really compete with the islands' harsh environment. Only 10 percent of the Netherlands Antilles is arable, and its crop production—mostly fruits and vegetables, with some aloes, sorghum, and peanuts—are consumed entirely by the domestic market. Woodlands are almost non-existent and fishing scarce; only Sint Maarten has a small commercial fishing sector. Consequently, both Aruba and the Netherlands Antilles are heavily reliant on food imports. All in all, agriculture contributes less than 1 percent of the Antillean GDP and accounts for 1 percent of the workforce. In Aruba agriculture is even more marginal, occupying only 7 percent of available lands and 0.6 percent of the workforce.

INDUSTRY

Industrial activity in the Netherlands Antilles is overwhelmingly concentrated on one product: oil. Originally a center for oil refining—the Shell refinery on Curaçao is one of the biggest in the world—diversification in the 1970s expanded operations into transshipment and storage, with the terminal at Bullenbaai becoming one of the largest bunkering ports in the world. But the oil glut in the 1980s, followed by a world-wide recession, hit the island hard when Shell sold its stake in the refinery in 1985. The operation was rescued by the intervention of the Antillean government, which bought the plant and negotiated a lease agreement with the Venezuelan state oil producer, Petróleos de Venezuela. In 1995, after a series of short-term leases, a 20-year agreement was signed. The industry faces heavy competition from the United States and continues to suffer the vagaries of a fluctuating world oil market, but the long-term partnership with Petróleos de Venezuela and strengthening international demand for oil suggest a relatively healthy forecast.

Prospects are even better in Aruba. The reopening by Coastal Oil (U.S.) in 1993 of the massive Exxon refinery at Sint Nicolas at the eastern end of the island, the bedrock of the island's prosperity since it was opened in 1929 and which had been closed in 1985, provided an enormous new source of jobs and foreign exchange and has considerably spurred the economy. Production capacity is around 150,000 barrels per day.

Manufacturing is a limited sector in both countries. In the Netherlands Antilles the industry is concentrated almost entirely on Curaçao and Bonaire, with products including paper, plastics, and textiles. The **tariffs** that protect the sector, however, are under attack from importers and whether these industries can survive their removal remains to be seen. The 68-acre export-oriented industrial "**free zone**" around Hato International Airport in Curaçao, founded in 1984, is devoted almost entirely to oil processing. Bonaire's 9,000 acre industrial salt farm is managed by the Antilles International Salt Company and has become a significant part of that island's economy.

Aruba's manufacturing base is more diversified and includes the repair and assembly of machinery and transport equipment, crafts and art collectibles, and animal products. The island's free zone has shown dynamic growth, with exports through the program increasing by 60 percent in the 1994 to 1997 period and reaching an earnings total of US$247 million.

SERVICES

TOURISM. Tourism is a crucial industry for both the Netherlands Antilles and Aruba, and most of their economic growth since the 1960s has come from this sector.

Curaçao's quaint Dutch-style towns and stark, cactus-dotted interior, coral reefs, and brilliantly blue waters draw around 225,000 stay-over tourists per annum, with a roughly equal number from the cruise ship trade (223,788 and 171,675, respectively, in 1995). Around 30 percent come from the Netherlands, 15 percent from the United States, and 14 percent from Venezuela. Most of the island's hotel facilities are luxurious. Sint Maarten, renowned for its beaches and **duty**-free shopping, is one the Caribbean's top cruise-ship destinations and attracts 2 million visitors annually. Since the first hotel was opened in 1955, development has been rapid and extensive, and the island boasts an array of expensive hotels, restaurants, casinos, and boutiques. Saba's lack of a port has made development difficult, and the tourist trade is low-key, with around 25,000 visitors annually, about 65 percent making overnight stays, the rest being day-trippers (1992). The island's major attraction is the diving at its Marine Park, established in 1987 to protect the island's exceptionally diverse marine environment. Bonaire also relies heavily on its diving attractions, which draw 44 percent of the island's visitors, though wind-surfing and bird-watching are also becoming important. Cruise ship calls are another key source of income, with visits rising from 18 ships in 1998–99 to 61 in 1999–2000. Sint Eustatius's tourist development has long been hindered by its lack of beaches and its poverty; it is the poorest of the Antillean islands. Attempts to capitalize on its diving opportunities have met with mixed success, with tourist arrivals declining from 10,000 in 1994 to around 8,500 in 1997, though showing some signs of recovery in 1998–99.

But Caribbean tourism is a highly contested trade, and the Antillean industry in particular is not without its problems. The Antillean islands are handicapped by having relatively few beaches. Most of the best ones are on Sint Maarten, but Sint Maarten is prone to hurricane damage and was badly affected by severe storms in 1995 and 1998 that seriously disrupted its tourism sector. Competition from other Caribbean islands has also put pressure on tourist arrivals, especially the numbers of cruise ship visitors from the United States. Steps being taken to address this issue include the renovation of Willemstad's port—sponsored by the Netherlands and European Union—and the construction, begun in 1998, of a new pier to handle larger cruise ships. Several new hotel facilities on Curaçao are also planned. Progress is also being made in Bonaire, where the exceptional diving opportunities are starting to attract significant numbers of tourists. The islands' total earnings from tourism in 1998 were US$749.5 million, or 31 percent of the GDP.

Aruba's tourist industry is even more developed. The decision to promote the industry was taken at the IMF's prompting in the wake of the crisis that followed the closing of the island's oil refinery by Exxon in 1985. Since then Aruba has almost quadrupled the number of its hotel rooms (from around 2,000 in 1985 to 7,103 by 1996), becoming one of the most popular tourist destinations in the Caribbean. One-third of the island's jobs are related to the industry, with 14,825 Arubans in 1999 in full-time tourism-related employment. The island attracts around 650,000 stay-over visitors per annum, producing receipts totaling US$715 million, or 41 percent of the GDP (1998).

FINANCIAL SERVICES. It was the flight of Dutch business capital offshore during the World War II, much of it to the Netherlands Antilles, that was the beginning of the Antillean **offshore banking** sector. As of 1995 some 21,000 companies were listed on the offshore register, including 39 international banks. The industry employs around 2,500 Antilleans and is responsible for 23 percent of GDP. The local financial sector has 16 commercial banks, 2 savings banks, 21 savings and credit funds, and 26 credit unions. The remaining 45 banks are exclusively for offshore business.

But here too stresses have been felt. The repeal of a withholding tax by the United States in 1984 removed many of the islands' tax advantages. Shortly afterwards the United States and Britain cancelled their double taxation treaties (allowing U.S. businesses to trade in the euro-dollar market directly, without "diversion" through the Netherlands Antilles), further compounding the damage. The result for the islands was a dramatic slump in their financial services sector. The subsequent deregulation of the industry brought steady recovery in the 1990s, and the islands have sought new business in the captive insurance and mutual funds market. But evidence that the islands may be serving as a **money-laundering** venue for the illicit drugs trade has strained relations with the United States and placed the industry under something of a cloud. To allay fears a reporting center was established in Curaçao in 1997 to monitor all large banking transactions, and closer cooperation with the U.S. Drug Enforcement Agency has made available funds to allow even closer supervision.

Aruba's offshore banking sector is also important. Targeted for development, the sector was deregulated in the 1980s and more effective legislation was enacted. In an effort, however, to prevent the island from being used to launder drug money, some of the sector's openness was stopped, and in 1998 the State Ordinance on the supervision of the credit system was set in place to consolidate the central bank's powers as the industry's monitor.

RETAIL. Relatively high standards of living and the high concentration of consumers have greatly benefitted the islands' **retail** sector, especially on the larger islands. Aruba and Curaçao are equipped with a wide variety of restaurants, shops, malls, and supermarkets selling goods from around the world. Tourism has provided an additional stimulus. Sint Maarten's status as a duty-free port—a continuation of its old trading center heritage—has made shopping one its main attractions, and its more than 500 duty-free stores carry a full array of jewelry, perfumes, handbags, leatherwear, and electronic goods.

INTERNATIONAL TRADE

Lacking a developed agricultural and manufacturing sector, the Netherlands Antilles are wholly dependent on imports for their food, raw materials, and manufactured goods. And typical of the smaller Caribbean island states, such imports significantly exceed the value of exports. In 1998 this imbalance ran to over US$1 billion. The country is especially susceptible to increases in the price of oil, which constitutes 64 percent of its imports; the remaining 36 percent is made up of food and manufactures. Import partners include Venezuela (35.3 percent), the

Trade (expressed in billions of US$): Netherlands Antilles

	Exports	Imports
1975	2.395	2.956
1980	5.162	5.676
1985	1.031	1.388
1990	1.789	2.146
1995	N/A	N/A
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

United States (21 percent), Mexico (9.8 percent), Italy (5.4 percent), the Netherlands (4.8 percent), and Brazil (3.1 percent).

Petroleum makes up 98 percent of all Antillean exports. Even more so than with the import market, the export trade is overwhelmingly regional, with customers including the United States (17.5 percent), Guatemala (8 percent), Costa Rica (6.5 percent), the Bahamas (4.6 percent), Jamaica (4.1 percent), and Chile (3.4 percent).

Aruba also leans heavily on imported food and manufactures but has been more successful at containing its deficits. A lowering in the demand for oil in the international market in the 1980s caused the trade imbalance to tilt heavily into deficit, but recovery of sales has seen the import-export gap narrow by a dramatic 80 percent from 1999 to 2000, falling from a trade deficit of US$298.8 million to US$60.3 million. The main customer of Aruban exports is the United States, which in 1998 took 53.2 percent of its goods; other important partners are Colombia (14.9 percent), and the Netherlands (8.8 percent). The United States is also the primary supplier of imports to Aruba (55.5 percent), with the Netherlands (12.3 percent) and Japan (3.5 percent) also significant.

MONEY

Debt continues to pose a significant problem for the Netherlands Antilles, ballooning by the end of 1998 to a massive US$1.75 billion. An appeal to the IMF produced a **structural adjustment program** that is heavily geared toward debt reduction, and through a combination of cutting its costs and raising its income the governmental aims by 2002 to reduce its **budget deficit**, which in 1998 hovered at 5.3 percent of the GDP, to 2 percent of the GDP. But maintaining parity between the country's sizable trade deficit and its invisible services earnings is a juggling act that is easily upset by glitches and ticks in the world economy. Shortfalls usually have to be supplied by borrowing—usually from the Dutch government and **private sector**. In 1999 talks began with the Dutch about possible debt restructuring or forgiveness. A 117-percent jump in the price of oil in 2000, which inflated the annual deficit by 13.6 percent, has now made these urgent. Rises in the world prices of oil have also accelerated **inflation**, which—climbing through the late 1990s—reached 6.6 percent in 2000.

Aruba's debt problems are more manageable. In 1998 the total external **foreign debt** was US$199.5 million, a rise of 11 percent over the 1998 level of US$180 million. Like the Netherlands Antilles, Aruba is vulnerable to high oil prices, which lift its import bill and inflates its currency. In 1999 inflation sat at 2.9 percent.

Since 1971 both the Netherlands Antilles and Aruba have adhered to the "dollar standard," with each pegging its guilder at US$0.56 (US$1.00=G1.79). Their central banks, therefore, play an important role in ensuring that each country has sufficient **foreign exchange reserves** to maintain the standard. In 2000 the Central Bank of the Netherlands Antilles held reserves equaling 1.6 months of import coverage, which was 2.4 months below the international norm; the Central Bank of Aruba held 5 months' worth.

POVERTY AND WEALTH

Mounting economic problems are exposing deep rifts in Antillean society. The islands' multicultural composition obscures an ethnic hierarchy, the source of continuing tensions. Traditionally the islands' elite have been its white settlers and administrators, with the largely Jewish Portuguese and Lebanese mercantile class in a secondary position, and the black majority at the bottom. The explosive race riots of 1969 drew critical attention to this division, but even 30 years later Antillean blacks are far from achieving social equality.

The federation continues, in fact, to be ruled by a small circle of political insiders, who monopolize the government, staff its bureaucracy, and control its industry. In Aruba this elite is made up of just a few powerful fami-

Exchange rates: Netherlands Antilles

Netherlands Antillean guilders, gulden, or florins and Aruban florins per US$1	
2001	1.790
2000	1.790
1999	1.790
1998	1.790
1997	1.790
1996	1.790

Note: Currency rates have been fixed since 1989.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Netherlands Antilles & Aruba	9,800	11,500	11,800	N/A	11,400
United States	28,600	30,200	31,500	33,900	36,200
Jamaica	3,260	N/A	3,300	3,350	3,700
St. Lucia	4,400	4,100	4,300	N/A	4,500

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

lies. Politics is informal, and appointments are made on the basis of contacts and patronage. The result in both countries has often been ineffective and unresponsive leadership and sometimes even flagrant corruption. Another byproduct has been the unequal distribution of resources. The same elite which controls the islands' politics also controls their wealth. The richest 20 percent Curaçaoans, for example, have an income 9.8 times that of the poorest 20 percent. This discrepancy has greatly contributed to the polarization of politics in the islands.

WORKING CONDITIONS

Of the roughly 66,000 strong Antillean workforce as many as 11,000 are unemployed, a result of the economy's steady slowdown since the 1980s. In 1995 the unemployment rate was posted at 13.1 percent; by 1998 deepening economic difficulties had pushed it to 16.7 percent. And plans to rein in government spending by cutting back the civil service will further add to the problem. Relations between the labor movement and the government have consequently become more tense as the level of social welfare is decreased and insecurity in the workforce mounts.

But conditions on the islands vary markedly. Curaçao is the most industrialized of the islands and home to much of the federation's wealth, but it has also suffered some of its most serious problems. The oil boom in the mid-20th century swelled Curaçao's population from around 33,000 in 1915 to 145,000 in 1975 and transformed the island. But the contraction of the industry in the 1980s, combined with the introduction of less labor-intensive production techniques, has created a serious labor surplus. Economic restructuring, a condition of continued Dutch support, has tended to make the situation—at least for the short-term—even worse. The government is committed to cutting the civil service by 30 percent, while staff losses at ALM are also expected to run to 30 percent. The result is a considerable degree of social stress, accompanied by a widening disparity between those who have been able to benefit from economic deregulation and those who have suffered (such as the unemployed). Emigration has diffused some of the tension, but this is far from being an adequate long-term solution—either for the Antillean economy or for those Antillean immigrants to the Netherlands, many of whom face considerable problems of adaptation and integration. Emigration too is increasingly coming from the Netherlands Antilles' educated middle classes, creating a serious skills shortage at precisely the time when the country is looking to develop new industries and markets.

Sint Maarten's situation is somewhat different. In the space of 30 years tourism development turned this once sparsely populated and sleepy island into a major tourist hub and a source of jobs for Antilleans from throughout the Caribbean. But many of these workers come illegally, forming a growing under-class. The distribution of tourism's proceeds has also tended to be skewed, going mostly to those who own the shops, restaurants, and guesthouses, at the expense of those who work in them. Similar divisions are also developing on Bonaire and Saba, where tourism investment has also been heavy. Sint Eustatius, where tourism remains in its infancy, preserves the atmosphere of the "old" Antilles. But as the poorest of the islands, it is dependent for its income on **remittances** from the Dutch government and money sent home by former residents forced to leave to find work.

Aruba's problems are less pressing, but here too economic adjustments—a new health insurance program, government divestment, and the failure of Air Aruba—threaten job security and have caused heated debate. Aruba's more robust economy has kept unemployment in its 41,500 strong workforce to a minimum, often requiring it to import labor to meet local demand. But with a population density of 1,142 people per square mile, the influx of foreign workers, combined with poor home mortgage financing availability, has produced a serious housing shortage, especially for those in lower income groups. Addressing this problem is a government priority.

The **labor forces** of both countries tend to be well educated, as well as multi-lingual. The Antillean government's investment in education is substantial—16 percent of its annual budget in 1994—and has given the Netherlands Antilles a high literacy rate of around 98 percent. The islands also have their own university, an adjunct branch of the University of the West Indies, located in Curaçao. But unemployment has tended to discourage higher education, resulting in poor school retention rates at the secondary and tertiary levels. This situation combined with emigration have contributed to the islands' growing skills deficit. Aruba's investment in education has also been extensive (16.9 percent of the GDP in 1994), with similar results (97 percent literacy). In 1988 the University of Aruba law school was founded; in 1993 courses on finance and economics were added.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1493. Columbus explores Sint Maarten.

1499. Alonso de Ojeda and Amerigo Vespucci visit Aruba, Bonaire and Curaçao.

1499–1634. Spanish dominate the area.

1621. Dutch West Indies Company is founded.

1632. Dutch settle Saba and Sint Eustatius.

1636. The Dutch take Aruba.

1648. The Dutch occupy Sint Maarten.

1792. Dutch West Indies Company is dissolved.

1797. Slaves rebell on Curaçao.

1805–16. Aruba falls under English control during Napoleonic wars.

1845. The "ABC" Islands, Aruba, Bonaire and Curaçao are brought together with the "3 Ss"—Saba, Sint Eustatius, and Sint Maarten—to form the Netherlands Antilles.

1863. Slavery is abolished in the Dutch West Indies.

1954. Autonomy ("status aparte") from the Netherlands is achieved.

1969. Curaçao race riots occur.

1986. Aruba leaves the Netherlands Antilles federation.

1995. Aruba decides indefinitely to postpone independence from the Netherlands, scheduled in 1986 for 1996.

2000. Sint Maarten votes to leave the Netherlands Antilles federation.

FUTURE TRENDS

Aruba and the Netherlands Antilles still possess a variety of solid assets: a strategic location, stable governments, flexible workforces, and positive tax and regulatory environments. Core sectors—oil refining and transshipment, tourism, and offshore financial services—remain sound, with tourism even showing signs of growth. Although the Antillean government's policy of tight fiscal discipline and **public sector** restructuring has proved controversial, provoking strikes and demonstrations, the deficit has been reduced by US$3.9 million in 2000 over its US$89.4 million 1999 level.

Nevertheless, problems remain acute. Both countries remain heavily indebted: Aruba carries a debt of US$1.63 billion (41 percent of the GDP), the Netherlands Antilles, US$1.68 billion (73 percent of the GDP). While Aruba has been able to maintain positive growth, in 2000 the Netherlands Antilles economy shrank 4.4 percent. The Antillean government's strict **fiscal policy**, moreover, has tended to exacerbate rather than improve the country's recession, with unemployment a serious concern and emigration reaching near-crisis proportions. The federation's economic future is highly troubled.

Both countries crucially benefit from their continued connection to the Netherlands, a source of valuable economic aid as well as technical help. The Netherlands Antilles receives US$80 million a year from the Dutch government, as well as the loan of 170 Dutch tax and finance experts. Such dependence has made Antilleans anxious to maintain ties. A 1999 poll showed more than half the population actually wanted greater Dutch involvement; even in Sint Maarten (according to a 2000 survey) only 15 percent were for independence. Whether support will continue indefinitely, however, is unclear. The Netherlands gives more money to the federation than it does to any other nation, and its willingness to continue to do so has been placed under some strain, with The Hague threatening in July 2000 to suspend **subsidies** if the Antillean government did not contain its deficit. The eventual withdrawal of Dutch support is a contingency both the Netherlands Antilles and Aruba must plan around, making, for the Netherlands Antilles in particular, a grim economic prognosis even grimmer.

DEPENDENCIES

Netherlands Antilles and Aruba have no territories or colonies.

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—Alexander Schubert

NICARAGUA

Republic of Nicaragua
República de Nicaragua

CAPITAL: Managua.

MONETARY UNIT: Gold córdoba (C$). One gold córdoba equals 100 centavos. Coins include denominations of 5, 10, 25, and 50 centavos, and 1 and 5 córdobas. Notes include 1, 2, 5, 10, 20, 50, 100, 500, 1,000, 5,000, 10,000, 20,000, 50,000, 100,000, 500,000, 1,000,000, 5,000,000, and 10,000,000 córdobas.

CHIEF EXPORTS: Coffee, shrimp and lobster, cotton, tobacco, beef, sugar, bananas, gold.

CHIEF IMPORTS: Machinery and equipment, raw materials, petroleum products, consumer goods.

GROSS DOMESTIC PRODUCT: US$2.3 billion (purchasing power parity, 1998 est.).

BALANCE OF TRADE: **Exports:** US$573 million (f.o.b., 1998). **Imports:** US$1.5 billion (c.i.f., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Nicaragua is the largest Central American country with borders on the Caribbean Sea and the Pacific Ocean. The nation's borders are 1,231 kilometers (765 miles) long. To the north, the country has a border of 922 kilometers (573 miles) with Honduras. To the south, Nicaragua has a border of 309 kilometers (192 miles) with Costa Rica. Its combined coastline is 910 kilometers (565 miles) in length. Nicaragua's total area is 130,688 square kilometers (50,446 square miles). This includes 120,254 square kilometers (46,430 square miles) of land and 9,240 square kilometers (3,568 square miles) of water. The country is slightly larger than the state of New York. Nicaragua's capital is Managua, which is in the west-central region of the country. The population of Managua is approximately 1 million.

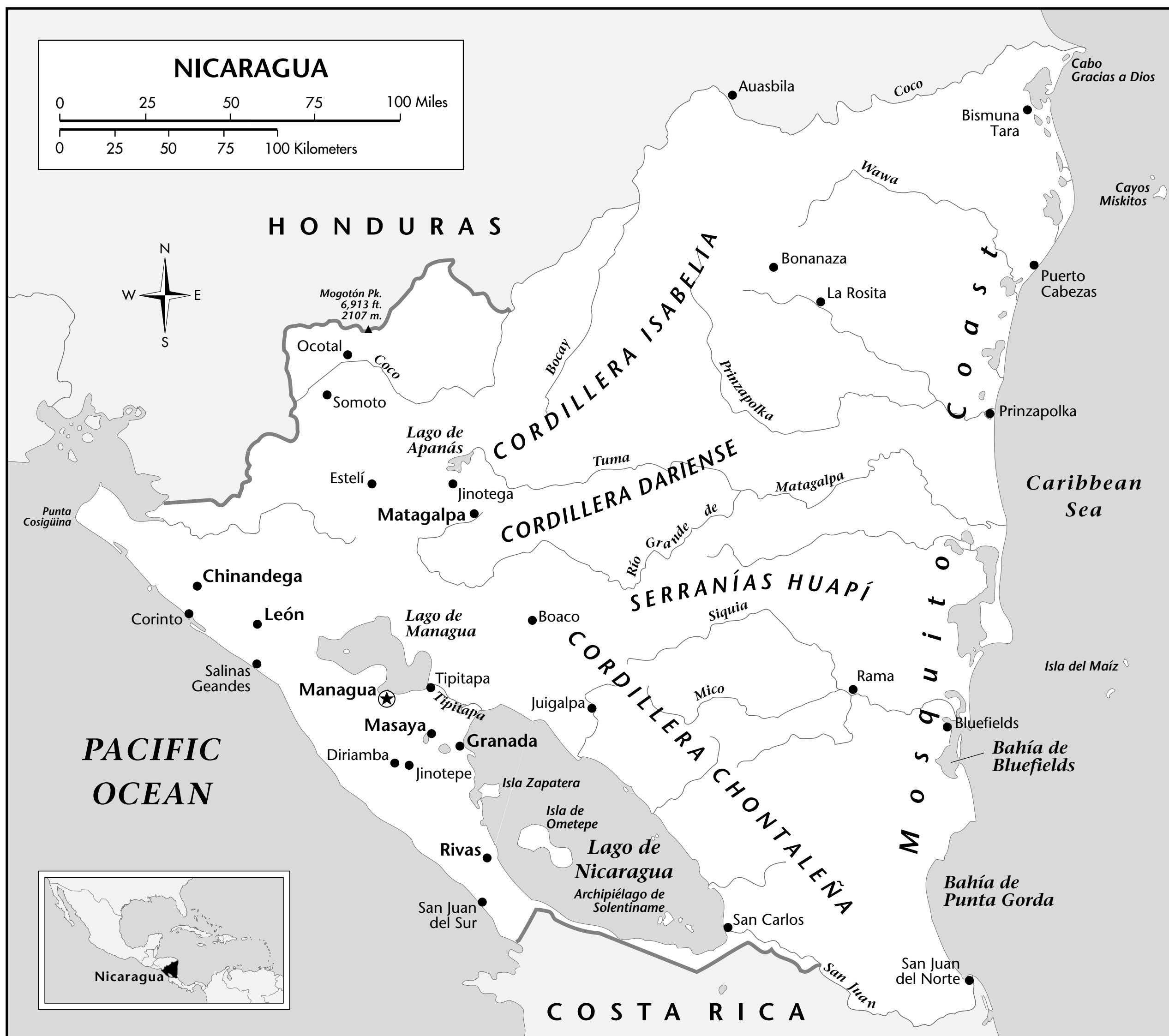
POPULATION. The population of Nicaragua is 4,812,569, according to a July 2000 estimate. This represents substantial growth over the 1990 population of 3,871,000. The current population growth rate is 2.2 percent. In 2000, there were 28.26 births per 1,000 people, and the nation's fertility rate was 3.27 children born per woman. The country's mortality rate was 4.9 deaths per 1,000 people. With a high birth rate and low mortality rate, Nicaragua's population is quickly growing. About 40 percent of the population is under the age of 15. The nation does have a high infant mortality rate of 34.79 deaths per 1,000 live births and it loses people to **emigration** (1.35 people per 1,000). Nonetheless, the population is expected to exceed 5 million by 2005. The life expectancy for males in Nicaragua is 66.81 years and 70.77 years for females.

The largest ethnic group in Nicaragua are the mestizos (mixed ethnic backgrounds, mainly Spanish and Native American). Mestizos make up 69 percent of the population, whites comprise 17 percent, blacks 9 percent, and Native Americans 5 percent. The population of the country is 54 percent urban, but the overall population density is low with 33 people per square kilometer.

OVERVIEW OF ECONOMY

Nicaragua is one of the poorest countries in the Western Hemisphere. It has a low **gross domestic product (GDP) per capita** of US$460 per year, a very large **external debt**, and high **inflation**. In 1999, it was estimated that almost one-half of the country's population lived below the poverty line. Inflation, while still high at 12 percent, has decreased from 16 percent in 1998. In addition, the country has qualified for **debt relief** under a program known as Highly Indebted Poor Countries (HIPC), a program developed by the World Bank and supported by the world's most highly developed nations, including the United States and Japan.

To a large degree, the country's economy is still based on agriculture. Nicaragua's manufacturing base is small and the country is dependent on imports of foreign goods,



especially consumer products. The fastest growing segment of Nicaraguan industry is clothing manufacturing. The service sector is also increasing in Nicaragua. Financial services, transport, telecommunications, and tourism are growing in size and as percentages of GDP. Tourism now ranks as the third largest source of foreign capital.

Nicaragua began a period of economic reform and **restructuring** in 1991, and this restructuring continues. From 1979 through 1991, Nicaragua was under the control of the Sandinistas, a **Marxist**-based political regime, and the nation underwent a significant period of economic decline.

The United States is Nicaragua's main trading partner. Since 1990 the United States has provided US$1 billion in aid and assistance to Nicaragua. In 1996, foreign aid accounted for 22 percent of GDP. In 1999, Nicaragua received pledges of US$1.4 billion in new aid.

POLITICS, GOVERNMENT, AND TAXATION

The country is now a democratic republic. The nation's president is both the head of state and the leader of the government. The president is elected for a 5-year term and chooses the cabinet ministers. The legislature is a single-chamber body that has 93 members who are also elected for 5-year terms. The legislature is known as the National Assembly. The Supreme Court is composed of 16 magistrates who are elected to 7-year terms by the National Assembly.

Nicaragua has 35 registered political parties and factions, but the country is dominated by just 2: the Liberal Alliance, and the Sandinista National Liberation Front (FSLN). The Liberal Alliance is a coalition of 5 moderate to conservative parties that support economic reforms. The FSLN controlled Nicaragua from 1979 to 1990 under a dictatorial government.

Since 1990, the government has undertaken a variety of reforms to restructure the economy and **liberalize** the nation's political system. From 1995–96, there were broad reforms of the army and the national police force, including reductions in military spending. The country now spends about 1.2 percent of its GDP on defense (US$26 million in 1998). Programs have resulted in the **privatization** of 351 state-owned companies. Foreign investment in the country has increased dramatically to US$446 million in 2000.

Nicaragua's **national debt** is US$6.5 billion, making it one of the most highly-indebted nations in the world on a per capita basis. The country's debtors have pledged US$1.2 billion in debt relief under the HIPC and other aid programs. In 2000, government spending accounted for 33.7 percent of GDP. In 1998, the government's revenues were US$527 million while its expenditures were US$617 million. The main sources of government revenue are an **income tax** of 25 percent, a general sales tax of 15 percent, a luxury tax on certain products, corporate taxes, and **tariffs** on imported goods.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The country's **infrastructure** has improved since 1990, but it still needs considerable upgrades and improvements. Nicaragua has 16,382 kilometers (10,180 miles) of roadways, including 1,818 kilometers (1,130 miles) of paved roads. Only about one-third of all roads are considered to be in good condition, while the remaining two-thirds are only in marginal or poor condition. The country spends less on highway construction than any other Latin American country.

Nicaragua has no major rail lines. The country does have 2,220 kilometers (1,380 miles) of navigable waterways and there is considerable traffic on some of these routes. The government has entered into a US$1.5 billion agreement with a private consortium to allow the construction of a 377-kilometer (234-mile) railway system from the Atlantic coast to the Pacific region and the development of 2 ports. Air traffic has increased dramatically in Nicaragua. The nation has 182 airports, but only 11 have paved runways. Managua International Airport in the capital is the largest airfield.

The nation is dependent on energy imports, mainly oil. In 1998, total electric production in Nicaragua was 2.714 kWh. Fossil fuels provided 53.43 percent of energy use, while hydroelectric provided 35.34 percent. The country's telephone system is operated by the government-owned company ENITEL. Private companies have been granted licenses to provide cellular service. In 1998, there were 10,000 mobile phones in use. Telephone-density is currently only 3 phones per 100 people. Nicaragua now has 5 Internet service providers.

ECONOMIC SECTORS

Nicaragua is undergoing a transition from an economy based on agriculture to one based on industry and services. In 1998, agriculture still accounted for 34 percent of GDP and 42 percent of employment. The industrial sector of the Nicaraguan economy is small compared with agricultural and services. In 1998, industry provided 22 percent of the country's GDP. It also provided 15 percent of employment. The service sector is the fastest growing segment of the Nicaraguan economy. In 1998, services were also the largest sector of the economy. As a group, they accounted for 44 percent of the country's GDP and 43 percent of the workforce.

AGRICULTURE

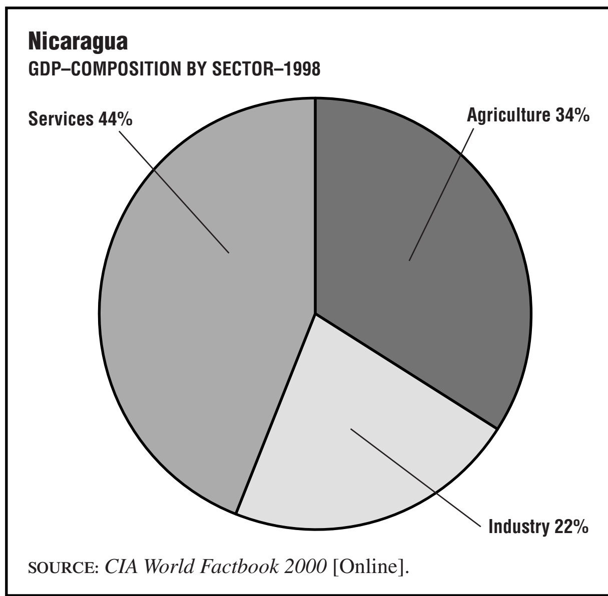
Agriculture provides a significant level of GDP and employment and two-thirds of the nation's exports. In 1998, the total value of agricultural exports was US$357.2 million and imports totaled $246.9 million. Agricultural workers earn an average of US$119.23 per month and are the lowest paid workers of any economic sector.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Nicaragua	30	285	190	40.2	4	N/A	7.8	2.21	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Mexico	97	325	261	15.7	35	3.0	47.0	23.02	1,822
Honduras	55	386	90	N/A	5	N/A	7.6	0.19	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

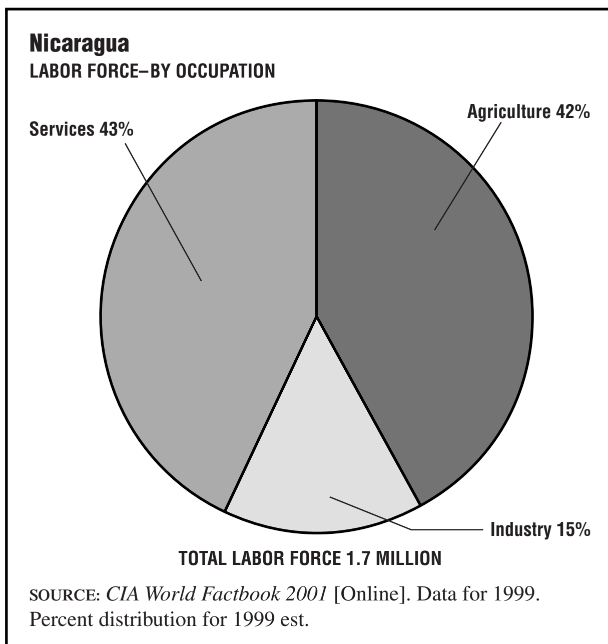
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

In 1998, Hurricane Mitch caused extensive damage to the nation's agricultural sector, including the destruction of crops and farm facilities and equipment. Damages from the hurricane totaled US$6 million in equipment and infrastructure. In addition, Mitch destroyed 59,000 acres of pasture and crop land and caused the deaths of 81,000 head of cattle. Because of Mitch, agricultural production in Nicaragua declined by 3.3 percent in 1998.

CROP PRODUCTION. Farms are divided between small, family-owned subsistence units that are usually less than 10 acres in size and large plantations that produce crops for export. In 1999, the nation produced 4.385 million metric tons of crops. The largest single crop was sugar cane with 3.749 million metric tons. Other significant crops were corn (302,000 metric tons), rice (136,850 metric tons) and bananas (68,830 metric tons). Although coffee production only amounted to 65,000 tons, it was one of the main cash export crops.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1999 est.

LIVESTOCK. The major livestock products are beef and veal, chicken, lamb, and pork. In 1999, the nation had to import US$219,000 worth of cattle from the United States for breeding purposes to repopulate herds. In addition, the nation's largest slaughterhouse was forced to close in 1999 because of financial difficulties resulting from Mitch. As a result, beef production only grew by 0.7 percent in 1999.

FISHERIES. The fisheries industry in Nicaragua includes oceanic catches from the Caribbean and Pacific Ocean, freshwater fish from the nation's numerous rivers and lakes, and farm-raised species. The most profitable catches are shrimp and lobster which are both ocean-caught and farm raised. In the Caribbean, snook accounts for half of all catches, while red snapper provides two-thirds of Pacific harvests. Grouper, catfish, croaker, shark, flounder, and tuna are also caught. Over 80 percent of the fish caught for export come from the Caribbean.

FORESTRY. The nation has 65 different commercially valuable species of trees. Among the most valuable species are pine, rosewood, mahogany, and cedar. There is a history of abuse by timber companies. In 1998, over-cutting of forests led the Ministry of Environment and Natural Resources to declare a 5-year moratorium on harvesting cedar and mahogany.

INDUSTRY

Nicaragua currently has a lower level of industrialization than it did before the Sandinista regime took power in 1979. For instance, although Nicaragua was the world's fourteenth largest gold producer, gold now only accounts for 1 percent of GDP and the nation has fallen behind such small producers as Panama. Manufacturing, mining, and construction form the main core of Nicaraguan industry.

MANUFACTURING. The manufacture of **consumer goods**, such as clothing, shoes, and processed foods, is the fastest growing component of this sector. Manufacturing is the main sector of industry and in 1998 provided 19 percent of GDP (while total industry provided 22 percent). In 1999, woven apparel exports increased by 17.4 percent and had a total value of US$219 million, while knit apparel was worth US$58 million. Workers in manufacturing earn an average of US$183.95 per month.

MINING. During the 1970s, mines produced over US$100 million a year for the nation. Current estimates are that Nicaragua has 3.8 million ounces of gold and 4.9 million ounces of silver available for exploitation. In 1994, production was at 1,241 kilograms, but by 1999, production had risen to over 1,800 kilograms. Silver production has remained constant throughout the 1990s at 2 metric tons per year. Miners are among the highest paid industrial workers in manufacturing, earning an average of US$229.43 per month.

CONSTRUCTION. Increased government spending on infrastructure, the growing economy, and the need for new commercial and residential buildings propelled the construction industry growth by 22 percent in 1999. The industry was worth $131.9 million that year. Construction workers earn an average of US$166 per month.

SERVICES

The service sector continues to grow in Nicaragua, but this component of the economy is constrained by a lack of educated and skilled workers. In addition, the continued existence of government **monopolies** in some fields also limits growth and has prevented foreign companies from entering the market. Workers in the service sector earn an average of US$133 per month, although the official minimum wage for the sector is US$47.95 per month.

FINANCIAL SERVICES. Employees in the financial services sector are the most highly skilled and earn an average of US$300 per month. The country has 10 private banks and 2 state-owned banks. There are also 2 finance companies and a leasing firm. The nation's financial sector was valued at US$1.4 billion. There are 2 foreign-owned banks in Nicaragua: 1 Salvadoran (Banco Caley Dagnell) and 1 Guatemalan (Banco Sur). No major U.S. or European banks have established a presence in the country. The state-owned insurance company continues to dominate the market and has 75 percent of business. Because of the dominance of the state insurance company, no foreign firms have entered the market.

TELECOMMUNICATIONS. The telecommunications market in Nicaragua is expected to expand rapidly. For instance, the number of mobile phone customers has increased from less than 4,000 in 1996 to over 10,000. In 1995, Alfanumeric and Mobile Phone began offering pager service and currently there are 6 paging firms with 20,000 customers.

RETAIL AND FOOD SERVICES. Fast-food franchises are expanding rapidly in Nicaragua. There are currently 25 different national and international franchisers operating in the country, including McDonald's, TGI Friday's, Subway, Domino's Pizza, and Pizza Hut. Between 1998 and 2001, there was US$21.6 million spent on new franchises, including the establishment of 65 new restaurants.

TOURISM. Tourism is Nicaragua's third largest source of foreign currency. In 1999, it provided revenues of US$105 million. In 2000, approximately 468,000 tourists visited the country, an increase of 15 percent over the previous year. The number-one source of foreign tourists for Nicaragua is Honduras, while the United States comes in at number-two. Because of the potential value of tourism, by 1998 the number of hotel rooms in the country had doubled. Tourists are drawn to the nation because of the low travel and lodging costs. The undeveloped nature of the country also means that many natural and wildlife areas remain undisturbed by human development.

INTERNATIONAL TRADE

Nicaragua is a member of the Central American Common Market and is negotiating an agreement with the **free trade zone** of the southern American nations (MERCOSUR). In 1997, Nicaragua signed a free trade agreement with Mexico. The nation also has bilateral trade agreements with the United States, Spain, Taiwan, Denmark, the Netherlands, and the United Kingdom. The nations that export the most products to Nicaragua are the United States with 35 percent of goods and services, Germany with 13 percent, El Salvador with 10 percent, Spain with 4 percent, Costa Rica with 4 percent, and France with 2 percent. Nicaragua's main import markets are the United States at 31 percent, Costa Rica at 11 percent, Guatemala at 8 percent, Venezuela at 6 percent, El Salvador at 5 percent, and Mexico at 4 percent.

A major component of the government's effort to promote foreign trade and attract new investment has been the establishment of free trade zones. Business in these zones has increased 30 percent as has employment since 1997. The 5 current zones have 19 international and 11 Nicaraguan companies in them and produce US$198 million in goods and services for export. These zones employ 28,183 people.

Trade (expressed in billions of US$): Nicaragua

	Exports	Imports
1975	.375	.517
1980	.451	.887
1985	.302	.964
1990	.331	.638
1995	.526	.962
1998	.573	1.492

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Nicaragua

gold cordobas (C$) per US$1	
Nov 2000	12.96
2000	12.69
1999	11.81
1998	10.58
1997	9.45
1996	8.44

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Nicaragua	999	690	611	460	452
United States	19,364	21,529	23,200	25,363	29,683
Mexico	3,380	4,167	4,106	4,046	4,459
Honduras	614	733	681	682	722

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

MONEY

Inflation has seriously eroded the value of the nation's money, the córdoba. In 1991, inflation reached 750 percent which made the currency relatively worthless since what had previously cost 1 córdoba cost 750 córdobas. Although inflation has been reduced to 12 percent, it is still high by international standards. For example, the rate of inflation in the United States in 2000 was 3.4 percent. In 1999, it took 12.29 córdobas to equal US$1. In 1995, the rate was 7.55 córdobas per US$1. Inflation has been the main reason for the decline in value of the córdoba.

The country's stock market, known as the Bolsa de Valores de Nicaragua, was established in 1993 and began operations in 1994. By 1997, the exchange was worth US$690 million. However, unlike in most countries where the stock market is dominated by private companies, in Nicaragua government-issued bonds accounted for 81 percent of trades while private-company securities only accounted for the remaining 19 percent of volume. The nation has 10 brokerage firms, all of which are associated with local banks.

POVERTY AND WEALTH

Nicaragua is one of the poorest nations in the Western Hemisphere. Despite improvements in the nation's economy and the implementation of government programs, almost half of the population lives in poverty. These factors have only reduced poverty in the nation from 50 percent of the population to 48 percent (or about 2.3 million people) since 1995. The nation's official poverty line is US$350 in income per year. Of the nation's poor, 17 percent live in extreme poverty, earning less than US$185 per year.

The middle and upper classes of Nicaragua live lifestyles that are comparable to those in the United States. For instance, they own American and European-built cars, use mobile phones, and their homes have all of the amenities of the American middle-class, including electric appliances and conveniences. The wealthiest 10 percent of the population controls 39.8 percent of the nation's wealth (the poorest 10 percent only controls 1.6 percent of wealth).

WORKING CONDITIONS

In 1999, the nation's unemployment rate was 10.5 percent, the lowest level since the 1970s. With 1 out of 10 Nicaraguans unemployed, the competition for jobs is intense. Many Nicaraguans find themselves forced to take jobs for which they are overqualified. In 1999, the **underemployment** rate was 36 percent. The nation's constitution guarantees workers the right to organize and join unions. Overall union membership is declining because of the competition for jobs and the increasing number of foreign companies entering the country (many of these firms are resistant to unionization because of the increased labor costs).

Child labor is forbidden by law. The 1996 Labor Law raised the minimum age to employ children from 12 to 14 years old. Parental permission is required for anyone under the age of 16. However, estimates are that as many as 42 percent of children between the ages of 6 and 9 work. A 1999 government study found that 6,219 children in Managua work in occupations such as car washers, street vendors, and beggars.

Distribution of Income or Consumption by Percentage Share: Nicaragua

Lowest 10%	1.6
Lowest 20%	4.2
Second 20%	8.0
Third 20%	12.6
Fourth 20%	20.0
Highest 20%	55.2
Highest 10%	39.8

Survey year: 1993

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

The minimum wage varies from sector to sector. The monthly minimum wage for agriculture is set at US$36, fisheries at US$56, manufacturing at US$48, government at US$44, restaurants and hotels at US$72, construction at US$96, mining at US$68, and banking at US$80. Except for the construction, banking, hotel, and mining sectors, the minimum wage does not provide enough income for an average family to live. As a result, many workers supplement their wages in the **informal economy**.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

20,000–10,000 B.C. Native Americans settle in the region.

1502. Columbus lands on the Caribbean coast of Nicaragua.

1524. Hernandez de Cordoba establishes the first Spanish colonies in Nicaragua, including 2 of the present-day principal cities of Leon and Granada.

1740–86. The Mosquito Coast region becomes a British protectorate. The British continue to exert influence on the region well into the 20th century.

1821. Nicaragua becomes independent of Spain; first as part of the Mexican Empire and then as a member of the federation, the United Provinces of Central America.

1838. Nicaragua becomes an independent republic.

1848–60. The British control the port of San Juan del Norte.

1850s. Many Americans travel through Nicaragua on their way to the gold fields of California.

1855–57. American William Walker seizes the presidency, but is overthrown in 1857 by a coalition of 5 Central American nations.

1909. The United States provides support for a conservative revolt after American businesses and property are threatened in the Bluefields region.

1912–33. With the exception of a 9-month period from 1925–26, U.S. troops are stationed in Nicaragua.

1936. General Anastasio Somoza Garcia takes control of the government. This initiates 40 years of rule by the Somoza family.

1972. A massive earthquake devastates the nation, leaving 6,000 dead and over 300,000 homeless.

1979. Led by the Sandinistas, a popular uprising overthrows the Somoza dynasty.

1981. The United States suspends economic aid after the Sandinistas begin privatizing property and businesses.

1985. The United States imposes an economic **embargo** in Nicaragua because of its support for Marxist Central American revolutionary groups. The United States also begins support for anti-Sandinista rebels, known as Contras.

1990. Under international pressure, the Sandinistas agree to open elections in which the opposition candidate Violetta Chamorro is elected.

1994. The nation's stock market begins operations.

1996. Former Managua Mayor Arnoldo Aleman, leader of the moderate-conservative Liberal Alliance, defeats the Sandinista candidate to become president.

1998. Hurricane Mitch devastates the nation, causing 4,000 deaths and widespread economic disruption.

2000. Nicaragua qualifies for debt-relief under the HIPC program.

FUTURE TRENDS

Nicaragua faces a host of problems as it continues to recover from the economic problems of the Sandinista period. Despite some debt relief and forgiveness through the HIPC and other aid programs, the nation continues to have one of the highest debt per capita ratios in the world. The nation's main opposition party, the Sandinistas, actively seeks to undermine economic reforms.

On the other hand, there are a variety of positive signs that the economy will continue to improve. Inflation and unemployment have decreased dramatically over the past decade. From 1998–2000, the economy added 250,000 new jobs. In addition, a number of foreign companies have begun to invest in Nicaragua, especially in the services sector. The government's aggressive development of free trade zones will also continue to attract more foreign companies. One of the most promising potential developments for the nation would be the construction of a railway linking the Caribbean and Pacific coasts and offering an alternative to the overburdened Panama Canal.

DEPENDENCIES

Nicaragua has no territories or colonies.

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—Tom Lansford

INTRODUCTION TO WORLD CURRENCY

The following insert contains color photographs of paper currency from around the world. Where possible, the most recent issue and lowest denomination was selected to show the bank notes of the countries represented in this encyclopedia. As of the year 2002, approximately 169 countries issued their own paper money.

Bank notes are more than a measuring system for value to be used as payment for goods and services. In many instances a banknote is a graphic reflection of a country's history, politics, economy, environment, and its people. For example, many bank notes depict plant life such as flowers and trees, as well as birds and other animals native to that geographic region. The 5-lats note of Latvia has a giant oak tree on the front, while the 25-rupee note of Seychelles and the 5-guilder note of Suriname both show flowers from the homeland. Birds adorn notes from São Tomé and Príncipe, Papua New Guinea, and Zambia. Large animals such as the mountain gorillas on the 500-franc note from Rwanda, the white rhinoceros on the 10-rand note from South Africa, and the bull elephant on the 500-shilling note of Uganda are commonplace.

Famous rulers and political figures from history are prevalent. Sir Henry Parkes, a famous 19th-century statesman, graces the front of the 5-dollar note from Australia; and Canada's Sir John Alexander MacDonald, a noted Canadian prime minister from the same time period, appears on the front of the 10-dollar Canadian note. Mieszko I, a medieval prince credited with being the founder of Poland in 966, is on the 10-zloty note from that country. Bank notes also reflect the power of more contemporary rulers, as exemplified by the image of Iraq's current president, Saddam Hussein, on that country's 50-dinar note, issued in 1994. Malaysia's paramount ruler and first chief of state, Tunku Abdul Rahman, is on the front of that country's 1-ringgit note and all notes of all denominations issued since 1967.

Architectural vignettes are common on world notes. Islamic mosques with minarets can be found on the 5000-afghani note from Afghanistan, as well as the 25-piaster note from Egypt, indicating the prevalent Islamic religious influence in those 2 countries. The 5-pound 1994 regular issue note from Ireland shows the famous Mater Misericordiae Hospital in Ireland, where Sister Catherine McAuley, founder of the Sisters of Mercy religious order, served in the area of health care. The depiction of religious figures is common on European notes. Examples include St. Agnes of Bohemia on the 50-koruna note of the Czech Republic, St. John of Rila on the 1-lev note of Bulgaria, and the Archangel Gabriel on the 50-denar note of Macedonia.

Artists, authors, scientists, and musicians are also honored on many bank notes. James Ensor (1860–1949), an innovative painter and etcher, is shown on the 100-franc note from Belgium, while Baroness Karen Blixen (pen name Isak Dinesen), the famed Danish author of *Out of Africa* is found on the 50-krone note of Denmark.

Several notes commemorate the new millenium, significant local events, or anniversaries. The front of the 2000-leu commemorative note from Romania has an imaginative reproduction of the solar system as a reference to the total solar eclipse of 11 August 1999. Another example of a commemorative note is the 200-rupee note from Sri Lanka. The note was issued 4 February 1998 to commemorate the 50th anniversary of independence as a self-governing Dominion of the British Commonwealth.

As of 2002, 15 countries did not issue or use their own paper currency, but allowed the bank notes of neighboring countries as well as U.S. currency to circulate freely in their local economies. Many of these countries are relatively small in size with economies to match. Countries such as San Marino, Monaco, Liechtenstein, and Vatican City are tourist-oriented and do not see a need to issue their own homeland currency. Five of these fifteen countries—namely Marshall Islands, Micronesia, Palau, Panama, and Puerto Rico—all use the U.S. dollar as their monetary unit of exchange. As of March 2001, Ecuador and El Salvador had joined the above-mentioned countries in adopting the U.S. dollar. Countries struggling with hyperinflation (uncontrolled inflation marked by the sharp devaluation of the homeland currency) may choose to use the U.S. dollar in place of their own currencies in an attempt to stabilize their economy by linking it directly to the strength and stability of the

U.S. economy. Countries that use U.S. dollars in conjunction with sound economic policies can usually expect to control and/or minimize inflation. The complete adoption of the U.S. currency has been more successful than the practice of pegging the value of local currency to the U.S. dollar according to a fixed ratio, an approach attempted recently by Argentina to disastrous effect. Even those countries that have not completely adopted the U.S. dollar as their currency often have economies operating freely with both their own national and the U.S. currencies. The strength of the U.S. dollar has also made it the currency of choice in the global black market.

Another trend that will probably continue into the future is the joining together of several neighboring countries to form a central bank issuing a common currency. The primary objective of these economic and monetary unions is to eliminate obstacles to free trade, creating a single unified marketplace. This grouping together tends to strengthen the economy and currency of the member countries as well as providing a cost savings in currency production. While such economic partnerships have occurred throughout history, more recent examples began in the early 1950s with the union of the East Caribbean States, followed by the Central African States, French Pacific Territories, and West African States. The most recent and highly publicized example is the European Monetary Union (EMU), composed of 12 European member countries—namely Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. On 1 January 2002, the EMU, through its newly formed central bank, replaced the participating countries' homeland currencies with a new common currency called the *euro*. An example of the 10-euro note is shown on the following currency insert pages. Those countries that had pegged their currencies to an EU member's currency prior to the euro's adoption (as several Francophone countries in Africa did with the French franc) now peg their currency to the euro.

It should be mentioned that, in contrast to this recurring trend of country unification for economic and monetary purposes, there are several countries with isolationist governments that have done just the opposite in order to limit the influence of the international community on their economies and populations. For example, Iraq and Syria have made it illegal to use or export their currency outside of their homelands. Several other nations embraced this isolationist attitude through the use of trade voucher and tourist certificates in place of currency, thus keeping their national circulating bank notes from being used or exported by visitors to their country. China, Bulgaria, and Poland are examples of countries that issued what they termed "foreign exchange certificates" for this specific purpose. However, this practice has largely been discontinued, with the exception of Cuba, which still uses a similar certificate first issued in the mid-1980s.

So what does the future have in store for the economies of the world? Trends indicate most countries in the world want free, open, and balanced trade with a strong, stable, and growing economy, free of hyperinflation. More countries are achieving this goal by unifying in regional economic partnerships such as the European Union, or by clearing the barriers to free trade through agreements such as NAFTA (North American Free Trade Agreement). As the use of the U.S. dollar increases throughout the Americas, some economists predict that this region will follow in the footsteps of Europe in terms of establishing a common currency under a central bank. The Asian and Middle-Eastern regions are also likely candidates for similar regional economic partnerships given the prevalence of established trade agreements already in existence among those countries. As the globalization of trade necessitates closer economic ties between countries, it is not inconceivable that a single central bank and common currency will eventually unite the countries of the world. While that development is still only a remote possibility at this point, there is little doubt that nations' increased dependence on international trade for economic prosperity will promote a currency policy conducive to closer trade ties and cross-border partnerships.

—Keith S. Bauman, professional numismatist
International Bank Note Society
American Numismatic Association
Professional Currency Dealers Association

Afghanistan

Albania

Algeria

Andorra
(used both Spanish and French currency until the adoption of the euro in January of 2002)

Angola

Antigua and Barbuda
(shares currency with other East Caribbean States)

Argentina

Armenia

Aruba

Australia

Austria
(adopted the euro as of January 2002)

Azerbaijan

The Bahamas

Bahrain

Bangladesh

Barbados

Belarus

Belgium
(adopted the euro as of January 2002)

Belize

Benin
(shares currency with other West African States)

Bhutan

Bolivia

Bosnia and Herzegovina

Botswana

Brazil

Brunei Darussalam

Bulgaria

Burkina Faso
(shares currency with other West African States)

Burma (Myanmar)

Burundi

Cambodia

Cameroon
(shares currency with other Central African States)

Canada

Cape Verde

Central African Republic
(shares currency with other Central African States)

Chad
(shares currency with other Central African States)

Chile

China

Colombia

Comoros

Democratic Republic of the Congo

Republic of the Congo
(shares currency with other Central African States)

Costa Rica

Côte d'Ivoire
(shares currency with other West African States)

Croatia

Cuba

Cyprus

Czech Republic

Denmark

Djibouti

Dominica
(shares currency with other East Caribbean States)

Dominican Republic

Ecuador

Egypt

El Salvador

Equatorial Guinea
(shares currency with other Central African States)

Eritrea

Estonia

Ethiopia

European Union (EU)

Fiji

Finland
(adopted the euro as of January 2002)

France
(adopted the euro as of January 2002)

French Guiana, Martinique, and Guadeloupe
(used the Fench currency until the adoption of the euro in January 2002)

French Polynesia

Gabon
(shares currency with other Central African States)

The Gambia

Georgia

Germany
(adopted the euro as of January 2002)

Ghana

Greece
(adopted the euro as of January 2002)

Grenada
(shares currency with other East Carribbean States)

Guatemala

Guinea

Guinea-Bissau
(shares currency with other West African States)

Guyana

Haiti

Honduras

Hong Kong

Hungary

Iceland

India

Indonesia

Iran

Iraq

Ireland
(adopted the euro as of January 2002)

Israel

Italy
(adopted the euro as of January 2002)

Jamaica

Japan

Jordan

Kazakhstan

Kenya

Kiribati
(uses the Australian currency)

North Korea

South Korea

Kuwait

Kyrgyzstan

Laos

Latvia

Lebanon

Lesotho

Liberia

Libya

Liechtenstein
(uses the Swiss currency)

Lithuania

Luxembourg
(adopted the euro as of January 2002)

Macau

Macedonia

Madagascar

Malawi

Malaysia

Maldives

Mali
(shares currency with other West African States)

Malta

Marshall Islands
(uses the U.S. currency)

Mauritania

Mauritius

Mexico

Micronesia
(uses the U.S. currency)

Moldova

Monaco
(used the Frency currency until the adoption of the euro in January 2002)

Mongolia

Morocco

Mozambique

Namibia

Nauru
(uses the Australian currency)

Nepal

The Netherlands
(adopted the euro as of January 2002)

Netherlands Antilles

New Zealand

Nicaragua

Niger
(shares currency with other West African States)

Nigeria

Norway

Oman

Pakistan

Palau
(uses the U.S. currency)

Panama
(uses the U.S. currency)

Papua New Guinea

Paraguay

Peru

Philippines

Poland

Portugal
(adopted the euro as of January 2002)

Puerto Rico
(uses the U.S. currency)

Qatar

Romania

Russia

Rwanda

San Marino
(used the Italian currency until the adoption of the euro in January of 2002)

São Tomé and Príncipe

Saudi Arabia

Senegal
(shares currency with other West African States)

Seychelles

Sierra Leone

Singapore

Slovakia

Slovenia

Solomon Islands

Somalia

South Africa

Spain
(adopted the euro as of January 2002)

Sri Lanka

St. Kitts and Nevis
(shares currency with other East Caribbean States)

St. Lucia
(shares currency with other East Caribbean States)

St. Vincent and the Grenadines
(shares currency with other East Caribbean States)

Sudan

Suriname

Swaziland

Sweden

Switzerland

Syria

Taiwan

Tajikistan

Tanzania

Thailand

Togo
(shares currency with other West African States)

Tonga

Trinidad and Tobago

Tunisia

Turkey

Turkmenistan

Tuvalu
(uses Australian currency)

Uganda

Ukraine

United Arab Emirates

United Kingdom

United States

Uruguay

Uzbekistan

Vanuatu

Vatican City
(used the Italian currency until the adoption of the euro in January of 2002)

Venezuela

Vietnam

Yemen

Yugoslavia

Zambia

Zimbabwe

PANAMA

Republic of Panama
República de Panamá

CAPITAL: Panama City.

MONETARY UNIT: Balboa (B). One balboa equals 100 centésimos. Panama only issues coins in denominations of 5, 10, 25, and 50 centésimos and 1 and 5 balboas. The U.S. dollar is distributed freely throughout the country and is legal tender.

CHIEF EXPORTS: Bananas, shrimp, sugar, coffee.

CHIEF IMPORTS: Capital goods, crude oil, foodstuffs, consumer goods, chemicals.

GROSS DOMESTIC PRODUCT: US$21 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$4.7 billion (f.o.b., 1999). **Imports:** US$6.4 billion (f.o.b., 1999).

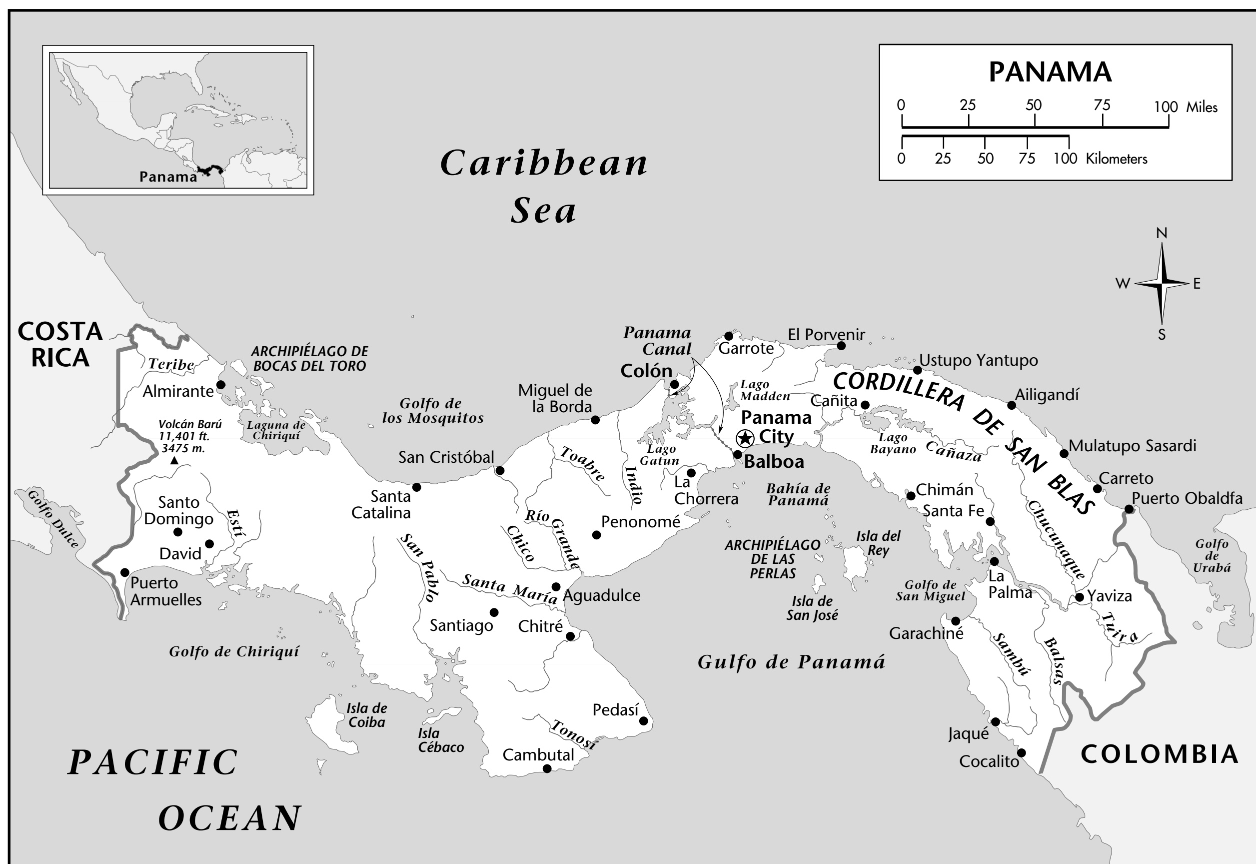
COUNTRY OVERVIEW

LOCATION AND SIZE. Panama is located in Central America between Costa Rica to the north and Colombia to the south. It is at the southern end of the Central American isthmus (a narrow piece of land that connects two larger land areas) and forms the land bridge between North and South America. The nation is S-shaped and runs from east to west with a length of 772 kilometers (480 miles) and a width that varies from 60 to 177 kilometers (37 to 110 miles). Panama has an area of 77,381 square kilometers (29,762 square miles) which makes it slightly smaller than South Carolina. This area consists of 75,990 square kilometers (29,340 square miles) of land and 2,210 square kilometers (853 square miles) of water. The nation borders the Caribbean Sea on one coast and the Pacific Ocean on the other. The 80-kilometer (50-mile) Panama Canal cuts the nation in half and joins the Atlantic and Pacific Oceans. The combined coastlines of Panama are 2,857 kilometers (1,786 miles) long. The nation's border with Costa Rica is 330 kilometers (205 miles), and its border with Colombia is 225 kilometers (140 miles) in length. Panama's capital and largest city, Panama City, with a population of 827,828, is located on the Pacific coastline of the country. The second largest city is Colón, located on the Atlantic coast. Colón has a population of 140,908.

POPULATION. The population of Panama was calculated to be 2,808,268 according to a July 2000 estimate. The country's population growth rate was 1.34 percent in 2000. The Panamanian population is growing rapidly. In 1970, the nation's population was approximately 1.5 million, but by 1990, the population had grown to about 2.2 million. Current estimates have the population expanding to 3.2 million by 2010. There were 19.53 births per 1,000 people, and the Panamanian fertility rate was 2.32 children born per woman. The nation's mortality rate was 4.95 deaths per 1,000 people. Panama has a high infant mortality rate due to the rudimentary health-care system and high incidence of poverty. In 2000, there were 20.8 deaths per 1,000 live births. The country has a high **emigration** rate and in 2000, 1.16 out of every 1,000 Panamanians emigrated to other nations. Emigration is frequent because of the lure of higher-paying jobs in places such as the United States (the main destination for Panamanian emigrants). Life expectancy in Panama is 72.74 years for males and 78.31 years for females.

The majority of the Panamanian population is young. In 2000, the largest age group in Panama was the 5 to 14 age group with about 550,000 people. In comparison, those over the age of 60 number only 240,000. By 2025, the demographics of the nation will have shifted, and the largest single group of people will be in the age group 30 to 39, and by 2050, the largest group will be over those over the age of 55.

The majority of the population is mestizo (mixed ethnic backgrounds, mainly Spanish and Native-American). Mestizos makeup 70 percent of the population. Other ethnic groups include Africans (14 percent), whites (10 percent), and Native Americans (6 percent). Members of ethnic minorities and the nation's Native American



population face discrimination in employment, housing, and politics. The culture and society of Panama is mainly Spanish-Caribbean. Spanish is the official language, but much of the population also speaks English. This is especially true of West Indian descendants. English is also commonly used in business. Almost 85 percent of the population is Roman Catholic; the remaining 15 percent are Protestant.

The majority of the population is urban; almost 60 percent of people live in towns or cities, especially in the metropolitan areas around Panama City and Colón. About 50 percent of Panamanians live in the corridor that runs from Colón on the Caribbean Coast to Panama City on the Pacific. Only about 25 percent of the land is inhabited. The nation has a population density of 36.6 per square kilometer, compared to that of the United States which is 28.4 per square kilometer.

OVERVIEW OF ECONOMY

Panama has a long history as a trading area. In 1501, the Spanish began exploring the area that is now Panama in search of gold and silver. Panama soon became one of the main crossroads for the trade between Spain and its colonies in Central and South America, including Mexico, Peru, and Cost Rica. Gold and silver were transported to Panama and then shipped to Spain abroad ships. This route became known as the Camino Real or Royal Road.

The modern economic history of Panama has been dominated by efforts to construct a canal across the isthmus. The Panama Canal currently forms the backbone of the Panamanian economy. In addition to revenues from the tolls, maintenance work, and general operations of the canal, a variety of businesses and industries have emerged to support the trade goods going through the canal, including storage warehouses, refueling stations, and repair facilities. In order to capitalize on the importance of the canal, the government has long supported the establishment of free trade areas where goods can be transshipped without **tariffs** or taxes. The U.S.-built 80-kilometer (50-mile) canal opened in 1914. The United States paid Panama US$10 million for the rights to construct the canal and then a base of US$250,000, plus **inflation**, annually for the right to operate the canal. In 1999, the United States turned control of the canal over to the Panamanians. Ships going to Japan from the east coast of the United States save 3,000 miles by using the canal, and ships sailing from Europe save 5,000 miles traveling to Asia.

Because of the Panama Canal, the nation's small geographic size, and small population, Panama's economy is centered on services. The main elements of this sector

include services related to the transshipment of goods across the canal: banking, insurance, and international trade. The Colón **Free Zone** is the world's second largest free trade area after Hong Kong. The agricultural sector is small, but it accounts for the majority of the country's exports. The main Panamanian industries are construction, petroleum refining, brewing, paper and paper products, clothing, furniture, the production of cement and other construction materials, and sugar milling. While the Panamian economy is structured around the services in the Canal Zone, the nation does have a variety of economically-advantageous natural resources including timber, precious minerals, and seafood.

Since 1991, the Panamanian economy has been increasing by 5 to 8 percent annual growth (as measured by the GDP). However, growth slowed toward the end of the decade. In 1997, the GDP grew at a rate of 4.5 percent. The rate slowed to 3.2 percent in 1999 and to 2.6 percent in 2000. Economic growth was greatly affected by the economic and political reforms which followed the restoration of democracy in 1991. The nation's per capita GDP has increased from US$3,198 in 1997 to US$3,513 in 2000 to give Panama the highest **GDP per capita** in Central America. Panama's prosperity is directly attributable to the canal.

In 1999, the United States withdrew from the 50-mile wide Canal Zone that it had maintained since 1914. This withdrawal provided the Panamanian government with 364,000 acres of land and 5,000 buildings. In 2000, the canal provided the government with $569 million in tolls. However, the U.S. withdrawal also meant the loss of numerous jobs and $175–350 million in funds that were spent by U.S. military forces in the region. Most of the lost jobs were service sector jobs that had provided for the U.S. forces. Examples include domestic help, restaurant workers, and **retail** employees. After the withdrawal of the United States from the canal, many Panamanians found that their own government paid less than the Americans had. Unemployment and **underemployment** continue to cause problems for the economy. In 2000, unemployment in Panama was 11.6 percent, down from 13.6 percent in 1998. Underemployment affects approximately 25 to 30 percent of the working population.

There is also a large informal or **black market** economy. Estimates are that the **informal economy** may be worth as much as US$2 billion annually. Among the main components of this sector of the economy are the illegal drug trade and various types of personal services including maintenance work, household help, and transportation.

Panama is dependent on foreign trade. In 1996, the nation joined the World Trade Organization (WTO). Membership allowed Panama to export goods to other members of the WTO with substantially reduced tariffs and import **duties**. During the 1990s, there were broad efforts to **privatize** government-owned companies and firms; however, the current administration has slowed or halted these programs in order to prevent further increases in unemployment. In addition, to the withdrawal of U.S. forces, which created an increase in unemployment, the slowdown in the U.S. economy has also caused an economic slowdown in Panama since the United States is one of the nation's largest trading partners.

Panama is a net recipient of foreign aid. Each year the country receives approximately US$200 million in aid. Panama has a substantial **foreign debt** which in 2000 was US$7 billion. When the nation joined the WTO, it renegotiated some of its debt and reduced interest rates. However, payments on the debt continue to be a drain on the government's revenues. Currently, about 15 percent of the budget to devoted to debt management.

POLITICS, GOVERNMENT, AND TAXATION

For most of the 20th century, Panama was a constitutional democracy. However, a coup in 1968 brought the military to power. During the 1980s, Panamanian General Manuel Noriega assumed control of the government. After diplomatic and economic pressure failed to remove Noriega, U.S. president George Bush used American troops to remove the dictator from power and restore democracy in 1991 in a military operation known as "Just Cause."

Panama is now a constitutional representative democracy. The government is divided into 3 branches: executive, legislative, and judicial. The executive branch is led by an elected president who serves as both the head of state and the head of the government. The president is elected for a 5-year term and appoints the national cabinet. There are also 2 elected vice-presidents who also serve 5-year terms. The legislative branch of government is made-up of a 1 chamber legislature. It has 71 members who are elected for 5-year terms. The judicial branch consists of a national supreme court, 5 superior courts and 3 courts of appeal. The judicial system is plagued by corruption and inefficiency.

The largest political party in Panama is the Democratic Revolutionary Party (PRD). The PRD is conservative on economic matters and appeals mainly to the country's young and urban poor. The Arnulfista Party (PA) is the party of the nation's current president and its base is among the Panama's rural population. The Popular Block is a coalition of former Christian Democrats and pro-business groups, as is the National Liberal Republican Movement and Democratic Change. These parties appeal to the middle and upper classes and tend to have strong ties to the business community.

In 1997, the government's budget was US$2.4 billion and it had revenues of US$2.4 billion. Government spending accounts for about 30 percent of the nation's GDP. In 1999, Panama's official foreign debt exceeded US$7 billion. Currently there are over 50 different forms of taxes, but plans are underway for reforms to reduce that number to 10. These reforms are designed to simplify the tax code in order to increase efficiency and make the tax system more friendly to business with reductions in some forms of corporate taxes. The maximum personal **income tax** is 33 percent, and the maximum corporate tax rate is 30 percent. The government's tax collection system is very inefficient, and collection rates of some forms of taxes fall below 50 percent.

Because of its history of military interference in the government, the nation adopted a constitutional amendment in 1994 which abolished the military. Security is now in the hands of the national police force, the coast guard, and a national air service. In 1997, the government spent 1.9 percent of the nation's GDP on security or about US$132 million. About 150,000 people work for the government in some capacity.

During the 1990s, the government was engaged in a variety of programs to **liberalize** the economy. It enacted reforms in banking, labor regulation, and taxes. In 1996, the government passed the first anti-**monopoly** laws. This legislation created 4 special commercial courts to hear cases related to patent, trademark, and anti-trust cases. It also created a consumer protection agency known as the Free Competition and Consumer Affairs Commission. New laws levy fines against companies that engage in practices that are harmful to consumers, including the sale of expired products and price fixing. However, there remain a number of problems in Panamanian business law. For instance, there is no bankruptcy law that allows companies to **restructure** themselves rather than go out of business.

A number of previously government-owned businesses were privatized. These include the ports of Cristobal and Balboa; the nation's telecommunications company, INTEL; power generation facilities; and a cement company. In addition, the government has privatized the nation's 17 casinos and slot-machine companies. Plans to privatize the electric and water companies were halted by a new government in 1999. Because the nation uses the U.S. dollar, it cannot control its **monetary policy**.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The nation's **infrastructure** is relatively well developed. Roads in the urban areas are generally good, but in the rural areas of the nation they remain poor. Panama has 11,258 kilometers (6,996 miles) of roads, but only 3,783 kilometers (2,350 miles) are paved. Plans are underway for the construction of 2 major superhighways that will be funded through tolls. In addition, there are 355 kilometers (220 miles) of railways. The government is in the midst of a program to privatize the nation's main railway, the Panama-Colón Railroad. In addition, a **joint venture** between the U.S. companies, Kansas City Southern Industries and Mi-Jack Products, is investing US$73 million to rebuild a rail line parallel with the canal and across the nation. There are 105 airports in the country, but only 41 have paved runways. The withdrawal of the Americans from the Canal Zone has provided the government with a former military airfield that can serve as a major international airport. There are 130 kilometers (81 miles) of crude oil pipelines in Panama.

In addition to the 80-kilometer (50-mile) Panama Canal, the country has 800 kilometers (497 miles) of navigable waterways, although most of these can only be used by shallow-draft vessels. The major ports in Panama are Balboa, Cristobal, Coco Solo, Manzanillo, and Vacamonte. The international shipping terminal in Manzanillo is the largest container port in Latin America. Hutchison Port Holdings of Hong Kong has initiated a $150 million port project to develop a port facility on the Pacific side of the Panama Canal. Panama allows ships of other na-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Panama	62	299	187	N/A	29	N/A	27.1	2.97	45
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Mexico	97	325	261	15.7	35	3.0	47.0	23.02	1,822
Costa Rica	94	271	387	13.8	28	2.3	39.1	10.41	150

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

tions to register themselves under the Panamanian flag. In 2000, there were 4,732 ship registered under Panamanian registry, including ships from 71 different nations. Given these ships, Panama has the largest merchant fleet in the world, followed by Liberia with 1,644 ships.

The nation's telecommunications company is in the midst of a multi-million-dollar upgrade and expansion of the country's phone system. INTEL employs about 3,400 people, and the government retains 49 percent of the company's stock. Panama's telephone density is close to 200 phone lines per 1,000 people. The U.S. firm, Bell South, paid $72.6 million for the rights to offer cellular service. Both Bell South and the national telephone company have begun to offer cellular phone service, and the country has about 200,000 mobile phones in use. By 1999, Panama had 3 Internet service providers.

Electric production in the country in 1998 was 4.523 billion kilowatt hours (kWh). Electric consumption was 4.3 billion kWh. The excess production was exported. The majority of production (73.78 percent) was done by hydroelectric plants. Fossil fuel provided the majority of the rest of production (25.56 percent). That same year, Panama imported 136 million kWh of electricity and exported 13 million kWh.

ECONOMIC SECTORS

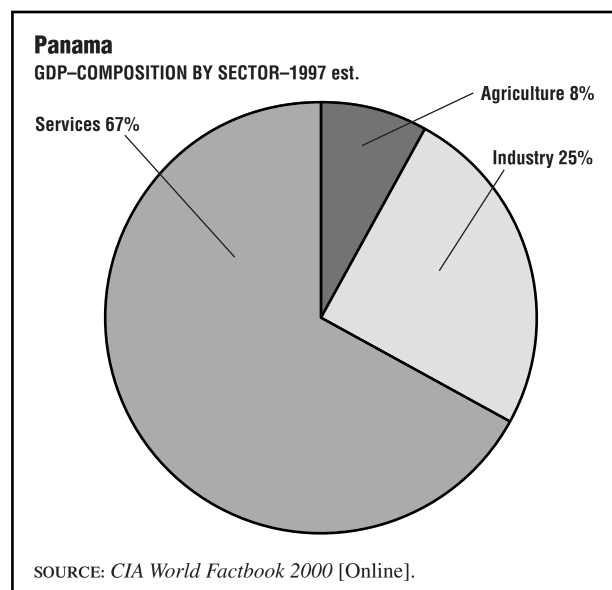
The Panamanian economy is dependent on trade. The canal provides the main source of economic activity, although efforts to diversify the economy are ongoing. The service sector is the dominant part of the Panamanian economy and continues to grow. In 1997, the service sector accounted for 67 percent of the nation's GDP, but by 2000 that percentage had grown to 80 percent. As such, the country's economy is geared toward banking, commerce, and maritime services. Services provide 67 percent of employment.

Agriculture, including forestry and fisheries, only accounts for about 7 percent of the nation's GDP. However, they provide 25 percent of the country's employment and provide the main exports. Among the country's major crops are bananas, coffee, rice, and sugar cane. Like agriculture, industry only accounts for a small percentage of the GDP when compared to the service sector. Industry provides about 25 percent of the country's GDP and 8 percent of employment. Panamanian industry includes manufacturing, construction, mining, and processed foods.

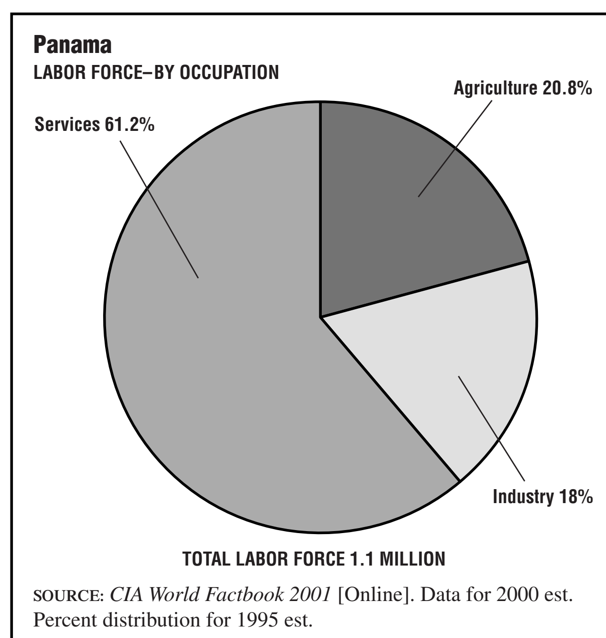
AGRICULTURE

Agriculture employs such a large number of Panamanians (in relation to its percentage of the country's GDP) because many farmers are engaged in **subsistence farming** and only produce enough for their family to consume. Concurrently, agricultural products also provide the nation's main exports. In 1998, agricultural exports were valued at US$409.3 million (out of the nation's total exports of $640 million), while imports totaled US$397.7 million. That same year bananas accounted for 33 percent of the nation's exports, shrimp 11 percent, sugar 4 percent, and coffee 2 percent. About half of the land in Panama is used for agriculture.

Several large international companies dominate Panamanian exports, especially when it comes to export



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1995 est.

crops such as bananas. For instance, the U.S. company, Chiriqui Land Company, which operates under the brand name Chiquita, is one of the largest landowners in Panama, as well as the main banana exporter. Other major foreign agricultural companies include Del Monte Corporation and Dole Foods.

The primary crops are bananas, cocoa beans, coffee, coconuts, corn, potatoes, rice, soybeans, and sugar cane. Throughout the 1990s, agricultural production increased by an average of 5 percent per year, with the exception of 1998 when Hurricane Mitch caused extensive damage to crops. In 1999, sugar cane production was at 2.05 million metric tons, bananas at 650,000 metric tons, rice at 232,370 metric tons and corn at 89,806 metric tons. The main export crop was bananas with exports worth US$182 million in 2000. There has been a steady increase in tropical fruit exports which were worth US$14 million in 2000.

The main livestock products in Panama are beef, veal, chicken, and pork. Panama has the highest rate of chicken consumption per capita in Latin America. The main fishing product is shrimp, both sea-caught and farm-raised. Although the industry has suffered from the outbreak of disease, in 1999 it was worth US$69 million.

Panama has significant stocks of timber, mainly mahogany. There are also 61,000 hectares of planted forests, mainly teak and pine. However, concerns over deforestation have led to increased regulation of the timber industry. During the 1990s, Panama annually lost 2.1 percent of its forested areas to logging. However, after 1996, timber production dropped by 50 percent. There are 3 major timber companies which own 41 sawmills. Annual output is now around 60,000 cubic meters of forest products.

INDUSTRY

Industry in Panama is dominated by mining, construction, and milling. The sector's growth rate was 4.6 percent in 1999. Mining continues to expand in importance. In 1999, mining was worth US$25 million. In 1991, there were only 20 mining operations in the nation, but by 1999 there were 120 mining projects. The key mineral produced was gold. In 1997, 1,550 kilograms of gold were mined. The nation has 2 billion tons of proven copper reserves. There are 2 major copper mines set to begin operations. At Cerro Colorado, the mine is estimated to be worth US$150 million and another, at Petaquilla, is estimated at US$800 million.

CONSTRUCTION. Construction rose 12 percent in 1999 as the government initiated a series of infrastructure programs, including highway construction and expansion and the renovation and expansion of port facilities. In 2000, the total private construction market was worth US$336 million. Clay and cement are produced for the construction industry. Production of building materials was worth US$150 million in 2000.

After the privatization of 2 of the nation's main sugar mills, production increased 13.1 percent in 1999 and is now worth US$25.5 million. However, the refining industry suffers from excess production of at least 15,000 metric tons per year. As a result, many mills are closing, and some producers have begun shipping raw sugar overseas for processing and then re-importing the refined sugar. The government has also sold an orange processing plant to private investors for US$5 million.

ENERGY. The U.S. company Texaco operates an oil refinery in Panama that has a capacity of 60,000 barrels per day. The refinery provides all of the nation's gasoline and a majority of its fuel oil. In addition, about 8,000 barrels of refined petroleum are exported from the refinery. There are plans to implement a US$400 million project to build a pipeline from Colombia which will bring substantial natural gas into Panama and reduce the nation's dependency on oil. The government is engaged in negotiations with other Central American nations to join their electrical grids which would increase the nation's electricity exports.

SERVICES

Services make up the largest share of the Panamanian economy and are the country's largest employer. The largest segments of this sector are financial services and trade services related to the Canal. Service exports amounted to US$585.3 million in 1999. The nation's retail sector caters mainly to the middle and upper classes, and it experienced a 3.4 percent decline because of the country's continuing high level of unemployment. The strongest segment of the retail sector is new car sales. While there is no local production, new car sales were worth US$74 million in 2000. Franchising of businesses is increasing dramatically and there are 50 different franchises operating in Panama. Among those franchises experiencing the greatest growth are McDonald's, Chevron, Coca-Cola, and Sherwin Williams. Franchising is expected to provide US$3 to US$6 million annually in new investment.

FINANCIAL SERVICES. In 1999, there were 82 licensed banks in Panama with assets of US$37 billion. This number included a number of foreign firms such as Citibank, Chase and Bank Boston. Panama has endeavored to establish itself as an international banking center, but instability and economic problems have impaired this effort. The total number of banks has declined from a high of 104 in the mid-1990s, and total assets declined by US$400 million in 2000. Foreign businesses may incorporate in Panama for the small sum of US$200. Doing so provides a way to es-

cape high corporate taxes in certain countries. In 2000, there were over 400,000 companies incorporated in Panama.

TOURISM. During the 1990s, tourism experienced strong growth. However, much of the tourist trade was based on visits by relatives of U.S. military personnel to the country and concurrently, tourist trips within Panama by U.S. troops and their dependents. In 2000, the number of foreign visitors who stayed overnight had declined to 300,000 from a peak of 420,000. Nonetheless, foreign and domestic tourism is worth US$300 million annually. Each year, 276 cruise ships shop in Panama. In order to promote tourism, the government exempts all new tourist businesses from income and real **estate taxes**. The government plans to use many of the former U.S. Army facilities as tourist areas, including Fort Amador which already has extensive golf courses, boating facilities and buildings which can be converted into hotel space. The area is also home to the Smithsonian Institute for Tropical Research laboratories.

The form of tourism that is expected to experience the most dramatic growth is **ecotourism**. Panama has the most comprehensive wildlife management systems in Central America. About 29 percent of the nation's territory is protected by a series of 15 national parks, wildlife refuges and reserves. Panama has over 10,000 varieties of plants and at least 933 bird species (more than the total of Europe and North America combined).

PANAMA CANAL. On average, 50 ships per day travel the Panama Canal. In 1999, there was a total of 14,336 ship crossings of the canal. The largest commodity that is shipped through the canal is grain. However, the canal is a major shipping route for oil, the number-two commodity in volume (17 percent of total volume). Each day, approximately 600,000 barrels of oil are shipped through the canal. A large amount of coal is also transshipped. Coal accounts for 6 percent of total volume. That same year, the canal generated US$569 million in tolls and an additional US$50 million in revenues for the government. About 10,000 people work for the Panama Canal Authority, the company that oversees the operations of the canal.

A special, but distinct, part of the service sector is the Colón Free Trade Zone (CFTZ). This area was established in 1948 at the Atlantic entrance of the Panama Canal. The CFTZ is a trans-shipment area where foreign companies import products to be **re-exported** to other nations. In 1999, the CFTZ received US$4.9 billion in imports of which US$4 billion were re-exported. Most exports are sent to Latin America. The largest exports to the CFTZ were Hong Kong (27 percent), Japan (13 percent), the United States (11 percent), South Korea (10 percent), and Taiwan (8 percent). The majority of exports went to Colombia (27 percent), Ecuador (9 percent), Panama (6 percent), and both Venezuela and the United States (5 percent each). These figures are not included in the overall trade statistics for the nation. The products that were imported to or exported from the CFTZ included electronics (22 percent), apparel (17 percent), textiles (7 percent), footwear (5 percent), and jewelry (5 percent). The Panamanian government received US$899 million in revenues from the CFTZ in 1999.

INTERNATIONAL TRADE

Because of the Panama Canal, the country's economy is heavily reliant on international trade. The entry of Panama into the WTO opened new trade opportunities. Panama now has the lowest tariff rates in Latin America. Despite these expansions, the United States remains the nation's main trade partner. In 1998, the United States provided 40 percent of the nation's imports and exports. Other major export partners are Sweden, Costa Rica, Spain, the Benelux nations (Belgium, the Netherlands, and Luxembourg) and Honduras. Besides the United States, Panama's main import partners are Japan and other nations in Central America.

As a result of entry into the WTO, the government lowered tariffs on imported goods to a maximum of 15 percent. The average tariff on goods is now 12 percent which is the lowest in the region. The higher tariff rates are maintained on agricultural products in an effort to protect the nation's farmers from foreign competition. However, negotiations continue under WTO auspices to lower the agricultural tariffs. Panama and the United States are engaged in a longstanding dispute with the EU over banana imports. The EU places high tariffs on imported bananas and the United States has led an effort to force the EU to lower these trade impediments.

Improvements and renovations in the Canal Zone and the CFTZ have expanded capacity. The nation's container handling capacity has been expanded from 250,000 containers per year in 1997 to 1 million per year in 2000. An American firm, Kansas City Southern, is building a

Trade (expressed in billions of US$): Panama

	Exports	Imports
1975	.283	.892
1980	.358	1.449
1985	.334	1.392
1990	.340	1.539
1995	.625	2.511
1998	.786	3.350

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

railway across the isthmus that will further expand trade by allowing shipment of goods between the coasts.

In addition to the WTO, Panama has a variety of agreements that regulate its trade. Panama also has a variety of agreements with individual countries; among the most significant are those with the United States, the United Kingdom, France, Germany, Switzerland, and Taiwan. It also has preferential trade agreements with most of the nations of Latin America. In 2000, it signed an accord with Mexico to ultimately allow complete freedom of trade. Panama has also sought to negotiate agreements with nations to establish country-specific free trade zones. The first of these was signed in 2000 and grants Taiwan an area of the former military base at Fort Davis. It has also entered into negotiations to join the Andean Pact and the Central American Market.

In 1998, direct foreign investment in Panama totaled $3.76 billion and was responsible for 13.2 percent of the nation's GDP. The United States was the largest investor with 40 percent of all investments ($1.5 billion). The United Kingdom ranked second with 23 percent of investments ($880 million), Mexico was third with 19 percent ($700 million), and Taiwan fourth with 8 percent ($300 million). Transportation and maritime services accounted for 33 percent of investment ($1.29 billion), services 31 percent ($1.15 billion), manufacturing 11 percent ($400 million), and real estate 11 percent ($400 million).

MONEY

Panama uses the U.S. dollar as its currency, calling it the balboa. Although its value fluctuates freely on world markets, the dollar has remained relatively stable. The use of the dollar as the nation's currency has provided a number of benefits for the Panamanian economy. The dollar has provided monetary stability, since the Panamanian government cannot devalue the currency or print new supplies. However, it also means that the government has no control over monetary policy and that the nation is dependent on the U.S. economy. Many goods which are imported into Panama are more expensive than they would be in the United States. This has created local inflation that is slightly higher than that of the United States: the U.S. **inflation rate** is 3.4 percent, that of Panama can be up to 10 percent higher. Panamanian banks are overseen by the Superintendent of Banks, a government agency whose head is appointed by the president. The agency regulates mortgages, loans, and liens.

POVERTY AND WEALTH

Panama has extremes of wealth and poverty. The wealthiest 20 percent of Panamanians control more than 50 percent of the country's wealth, while the poorest 40 percent only control 12 percent. The wealthiest Panamanians live a lifestyle that is similar to that of many Americans—they have access to **consumer goods** such as cars, televisions, cellular phones, and so forth. However, the majority of the nation's people live in poverty. Government estimates in 1999, classified 48 percent of the nation as living in poverty and 9.8 percent as living in extreme poverty. The *Human Development Report 2000* by the United Nations ranked Panama number 59 out of 172 countries. This places Panama in the middle rankings of countries. The survey measures nations' GDPs, education levels, and standard of living to rate them in comparison with other countries. Many Western, industrialized countries such as the United States, Canada, Norway, and Luxembourg, usually rank among the highest in the survey, while lesser developed nations in the poorer areas of the world rank toward the bottom of the survey. Although Panama has a high GDP per capita, the reality is that most of the income in the country is concentrated among the wealthy few. For instance, in 2000, the nation's per capita GDP was US$3,513. However, most poor people earn less than the average. A worker making minimum wage in some areas of Panama would only earn US$2,080 per year. Regulations on the minimum wage, social security provisions, and working conditions are rarely enforced by the government which means that many workers are unable to earn even the minimum wage.

Exchange rates: Panama

balboas (B) per US$1	
Jan 2001	1.0000
2000	1.0000
1999	1.0000
1998	1.0000
1997	1.0000
1996	1.0000

Note: Currency is fixed at 1 balboa per US$.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Panama	2,572	2,709	2,887	2,523	3,200
United States	19,364	21,529	23,200	25,363	29,683
Mexico	3,380	4,167	4,106	4,046	4,459
Costa Rica	2,231	2,482	2,176	2,403	2,800

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Panama

Lowest 10%	1.2
Lowest 20%	3.6
Second 20%	8.1
Third 20%	13.6
Fourth 20%	21.9
Highest 20%	52.8
Highest 10%	35.7

Survey year: 1997

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Poverty in Panama tends to be concentrated in specific geographic regions. For instance, the nation's second largest city, Colón, has the highest rates of poverty and crime in the Panama. Unemployment among youth (ages 15 to 25) in Colón is estimated to be 50 percent. There are also high levels of drug use, and Panama is often cited as one of the main areas for the shipment of drugs from South America to the United States.

Among the poorest in Panama are the indigenous native peoples, who make up about 8 percent of the population (194,000). Native Americans suffer from malnutrition and higher levels of disease and illiteracy. This minority tends to live in the more remote areas of the nation where access to education and health care is limited. In addition, the Native Americans face discrimination in hiring and educational opportunities. Minority groups, including ethnic Chinese and Indian, also face discrimination.

WORKING CONDITIONS

A 1995 law significantly expanded the right of workers to establish unions. However, only about 10 percent of the workforce is unionized. There are over 250 active unions with approximately 80,000 members. Many employees in the **public sector**, including police and health-care workers, are not allowed to strike. In addition, the 10,000 employees who work for the Panama Canal Authority are also not allowed to strike.

There are laws against child labor, but children between the ages of 12 and 14 may work on farms or as domestic workers. In addition, children as young as 9 are employed in occupations such as street vendors, car washers, or baggers in grocery stores. Nonetheless, the government estimates that the worst excesses of child labor occur in agriculture, especially on coffee, sugar cane, and banana plantations. Children between the ages of 14 and 16 may be employed with a 36-hour workweek. The national workweek is 48 hours with a minimum one day rest period per week. The Ministry of Labor is responsible for overseeing worker health and safety issues.

Panama has the highest minimum wage in Central America. The nation's minimum wage varies from province to province and ranges from US$0.80 percent per hour to US$1.50 per hour. The highest wage is in the capital region, the lowest is in the rural regions. The government of President Mireya Elisa Moscoso Rodriguez plans to increase the minimum wage by 40 percent by 2005. In spite of the minimum wage, most workers in the rural areas only earn between US$3 to US$6 per day. Government estimates are that as much as 39 percent of the population earns less than the minimum wage. Women earn an average of 20 percent less than men do in similar occupations. Women also face discrimination in hiring and promotion.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

10,000–20,000 B.C. Panama is settled by Native-Americans.

1501 A.D. Rodrigo de Bastidas is the first European to explore the isthmus of Panama.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Panama	22	8	18	14	4	7	27
United States	13	9	9	4	6	8	51
Mexico	30	6	4	2	7	5	46
Costa Rica	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

1510. First Spanish colony is established at Nombre de Dios.

1513. Vasco Nunez de Balboa reaches the Pacific Ocean by crossing the isthmus.

1534. Charles I of Spain orders the first survey for a potential canal through Panama.

1538–1821. Panama is the crossroads of Spanish trade in Central and South America. The region is known as the Camino Real or Royal Road since it is the point of departure for gold and silver shipments to Spain.

1821. Panama gains independence from Spain as part of the new nation of Colombia.

1846. Colombia signs treaty with the United States to allow the American construction of a railway across the isthmus.

1848. The discovery of gold in California leads thousands of Americans to travel across Panama in an effort to shorten their trip to the gold mines.

1870. U.S. President Ulysses S. Grant appoints a commission to examine the possibility of constructing a canal across Central America.

1880–1900. A French company undertakes an unsuccessful effort to build a canal across Panama. During the attempt, some 22,000 people die as a result of malaria and other tropical diseases.

1903. With U.S. support, Panama becomes independent. The United States begins work on the Panama Canal.

1905. Yellow fever is eradicated in Panama.

1906. Theodore Roosevelt becomes the first president to leave the continental United States while in office when he visits Panama to observe progress on the canal.

1914. The canal is completed at a cost to the United States of US$375 million making it the most expensive construction project in the nation's history at the time.

1921. The United States pays Colombia US$25 million in compensation for American support of the Panamanian revolution. The completed canal has 4 times the volume that was envisioned by the original French plan.

1968. The civilian government is overthrown by a military coup.

1972. A new constitution is adopted.

1977. The United States and Panama conclude the Torrijos-Carter Treaty to turn control of the canal over to Panama. Under the terms of the Treaty, the United States retains the right to defend the canal. Also under the terms of the accord, tolls are increased by 29.3 percent.

1983. Reforms are enacted to the constitution.

1984. Manuel Noriega becomes dictator of Panama.

1987. In response to Noreiga's actions, the United States suspends aid to Panama.

1989. After invalidating legal elections, Noriega is ousted from power by a U.S. military invasion. Noriega is taken to the United States and tried for drug-smuggling. He is convicted and sentenced to 40 years in prison. The legally-elected president is restored to power.

1993. The Interoceanic Region Authority is established to promote commercial development in the Canal Zone.

1994. The military is abolished through a constitutional amendment, and additional reforms are added to the constitution to ensure democracy.

1996. Panama joins the WTO.

1999. The canal is transferred to Panamanian control.

FUTURE TRENDS

The potential economic benefits of the Panama Canal are substantial. However, in order to capitalize on this potential, the nation needs a significant amount of investment. This is problematic since the current government has announced an end to privatization programs and many foreign firms are unwilling to invest new monies into Panama until there is further privatization. The loss of income from American forces in the Canal Zone will continue to impact the economy for some years. There is also widespread domestic pressure to increase tariffs that were lowered in order to join the WTO. A rise in tariffs could significantly harm foreign trade. The wide gaps between the rich and poor in the nation may mean future political instability. The country's high unemployment rate poses the same threat. The nation's high foreign debt also continues to constrain the economy by forcing the government to pay over US$740 million per year in debt payments.

There is international support to widen the canal to allow 2-way traffic by large vessels which is expected to increase traffic by 20 percent. The government has a US$1.3 billion fund as a reserve to provide increased social spending to compensate for the loss of funds associated with the American presence in the Canal zone. In addition, the government has received loans from the Inter-American Development Band to help develop rural areas (the most significant being a US$18 million loan to improve infrastructure in the Darien province). The commitment of the government to the development of

new, and the expansion of existing, free trade areas means that the nation will continue to attract new foreign investment and new businesses.

DEPENDENCIES

Panama has no territories or colonies.

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—Tom Lansford

PARAGUAY

Republic of Paraguay
República del Paraguay

CAPITAL: Asunción.

MONETARY UNIT: Guaraní (G). Coins are in denominations of G500, G100, 50, 10, and 5. Paper currency is in denominations of G100,000, G50,000, 10,000, 5,000, and 1,000.

CHIEF EXPORTS: Soybeans, feed, cotton, meat, and edible oils.

CHIEF IMPORTS: Road vehicles, consumer goods, tobacco, petroleum products, and electrical machinery.

GROSS DOMESTIC PRODUCT: US$26.2 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$3.5 billion (1999 est.). **Imports:** US$3.3 billion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Paraguay is located in the center of the southern half of South America, northeast of Argentina. It is also bordered by Bolivia to the northwest and Brazil to the east. With an area of 406,750 square kilometers (157,046 square miles), Paraguay is almost as large as the state of California. Asunción, the nation's capital, is situated on the easternmost point of the Argentine border, just south of the center of Paraguay. The nation is landlocked, which sets it apart from virtually all of Latin America, and could be seen as a detriment to the nation's economy. Major cities that provide river ports, such as Asunción, Villeta, and Encarnación (both to the south of Asunción), help to alleviate the economic consequences of the nation's lack of coastline. Ciudad del Este, a commercial center on the Parana River, is another important city to the east of the capital. Paraguay's Argentine border to the southwest measures 1,880 kilometers (1,168 miles), its Bolivian border is 750 kilometers (466 miles), and the Brazilian border is 1,290 kilometers (802 miles).

POPULATION. Recent estimates place the population of Paraguay at 5,734,139 (July 2001). Due to its Spanish colonization and heritage, at least 90 percent of the population is Roman Catholic and 95 percent of the population is mestizo (a racial mix of Spanish and Amerindian) This makes the population surprisingly homogenous in comparison to most of Latin America. The mestizo population has strong pride in their Guaraní (the primary indigenous group and culture of Paraguay) ancestry and traditions. Spanish was the only official language until 1992 when Guaraní also became an official language. Guaraní is spoken by approximately 90 percent of the population. Spanish is used predominantly in business and government matters, but both languages are utilized in education. At least half of the population is bilingual.

People between the ages of 0 and 14 make up 39 percent of the population, while those between the ages of 15 and 64 constitute 56 percent. At least half of this second age group is below 30 years of age, making two-thirds of the population younger than 30. The population of Paraguay grew from 2.4 million to 4.3 million between 1970 and 1990 (80 percent), and grew 30 percent from 1990 to 2000. With a yearly population growth rate of 2.6 percent as of 2001, the population is estimated to reach 6,980,000 by 2010. The average life expectancy of the population is 73.92 years (2001 est.).

Migration to the urban areas of Paraguay is common, but more than half of the nation's population still lives in rural areas, mostly in the east. Only about 5 percent of the population lives west of the Paraguay River. High rates of **emigration** from 1950 to 2000 have contributed to the large percentage (40 percent) of Paraguayans living outside their country and help to alleviate the high growth rate. Many Paraguayans have historically emigrated to Argentina, particularly during and after the Chaco War of 1936 and the Civil War of 1947, and also during the 1950s and 1970s. Paraguay has one of the world's lowest population densities. The nation's most densely populated area is Asunción and its surroundings.

The Colorado Party's clientelistic agrarian reform (giving unused land outside of Asunción to the party's supporters in exchange for political favors or funding) of the 1960s helped to alleviate overcrowding in the capital by drawing peasant labor into previously unused territory. However, the effects were not lasting and overcrowding is still a problem today.

One of the most surprising features of the Paraguayan population is its high literacy rate of more than 92 percent despite its poorly-developed education system. School is mandatory only between the ages of 7 and 13 and this requirement is not well enforced. There are insufficient numbers of primary and secondary schools and severe shortages of educational resources, especially in rural areas. The shortage is worst at the secondary level. There are only 2 universities, vocational schools are concentrated in the main cities, and there is a severe shortage of teaching resources throughout the nation.

OVERVIEW OF ECONOMY

Paraguay's geographic location has had a large impact on its economic development. Being one of only two landlocked nations in all of South America, Paraguay has

had to rely on its rivers for transportation and trade routes and has developed a sufficient network of roads, highways, railways, and airports to increase trade possibilities. The Paraguay and Parana Rivers provide direct routes to the Atlantic Ocean through Brazilian territory, and the U.S., Japan, Germany, Italy, and the Netherlands now use these routes for imports and exports. Paraguay has also turned to its rivers for a power source. In fact, due to its substantial hydroelectric power, the nation is on its way to becoming one of the world's largest producers of power. In addition to commerce and power production, Paraguay also relies on agriculture, but only one-fifth of the nation's land is arable and even less is actually farmed. Still, almost half of the nation's workforce is in agriculture and particularly **subsistence farming** (growing only enough to survive). The country is self-sufficient in food production, but the agricultural sector has suffered from unpredictable weather and climate conditions and changing world market prices.

Paraguay also relies heavily on Ciudad del Este, the world's third-largest **retail** center. This city is a border town on the Parana River (on the Brazilian border) and as a result is susceptible to heavy smuggling. Crime is also a serious problem there and the police force of Ciudad del Este is suspected of widespread corruption. Storeowners have hired guards to monitor their stores around the clock, and these guards outnumber police officers by more than 5 to 1. The mayor even has 4 bodyguards at all times. Theft is prevalent. Crime is a less extreme problem in Asunción.

Paraguay has strong commerce, power, agriculture, and retail sectors, but most of the economy's strengths tend to be focused in small areas. The retail sector is concentrated in Ciudad del Este, tourism is concentrated in the capital, and the power industry, trade, and transport are concentrated along the Paraguay and Parana Rivers. Despite these specific areas with strong, focused economic sectors, Paraguay is still one of South America's less-developed nations in an economic sense.

General Alfredo Stroessner, president from 1954 to 1989, encouraged private investment at both domestic and international levels, especially in commercial agriculture ventures. He emphasized cotton and soybean production through government favors in terms of land and money. Before the 1970s, public investment was low and focused mainly on the expansion of **infrastructure** and communications, but after the 1970s, several new state-owned businesses increased **public sector** spending and employment rates. During the 1970s and early 1980s, Paraguay offset its crippling **foreign debt** and **trade deficit** with international loans, but paying back these loans in the years to come weakened the national economy. The economic growth of the 1970s did not benefit the entire nation equitably, but did benefit the police and military, as well as the upper class involved in business, agro-industry, and industry. The military and the agro-industrial elite both had ties to the Colorado Party in power. The working class was held back by low wages and limitations placed on the activities of labor unions.

Foreign investment has played a substantial role in Paraguay's economic growth, particularly in the 1970s and 1980s. **Joint ventures** with Brazil and Argentina in building hydroelectric power plants gave Paraguay a surplus of power and made it a leading power producer. Also, the government tried to attract foreign investors through low **income taxes** and tax exemptions during this time.

The years of President Andres Rodriguez (1989–93) were marked by reforms implemented to ensure transition to a market economy. He abolished the multiple **exchange rates**, low-cost **subsidies** to state enterprises, and export taxes. He also **privatized** several state enterprises and broke up state **monopolies** in telephone, water, and energy. Ecuador's airline, Cielos de America, bought 80 percent of the national Paraguayan airline; the remaining 20 percent was reserved for employees. The trade deficit caused by the international loans of the early 1980s was severely exaggerated by inaccurate figures stemming from large-scale smuggling, until Rodriguez's reforms weakened the causes of smuggling.

The 1990s were marked by substantial foreign investment in the form of **multinational corporations**. Joint ventures using foreign capital to spur domestic development include hydroelectric power plants built with Argentina and Brazil, cotton mills and spinning plants built with Italy and Brazil, and foreign oil companies searching for possible drilling sites. The late 1990s have been a time of consolidation in the transition to a market economy, but the national economy is still underdeveloped in comparison to other Latin American nations.

POLITICS, GOVERNMENT, AND TAXATION

According to the 1992 Constitution, Paraguay is a representative democracy that embraces separation of powers. The government has 3 branches: the legislative, the executive, and the judiciary. The legislative branch, called the Congress, is comprised of the Senate (with at least 45 members) and the Chamber of Deputies (with at least 80 members). Members of Congress are popularly elected from Paraguay's 17 departments (states) for 5-year terms that coincide with the president's 5-year term. The president is chief executive and Commander in Chief of both the armed forces and the police. Emergency powers to declare a state of exception (suspending the constitution) in times of war or unrest belong to both the president and Congress.

The judiciary includes a Supreme Court of 9 Supreme Court Justices, who are appointed by the president and the Senate for 5-year terms, which are renewable. Judges cannot be removed after 2 consecutive terms until they reach retirement age. The Supreme Court controls its own budget and heads a system of lower courts and magistrates.

On the local level, each of the 17 departments popularly elects a governor and a departmental board, as well as local mayors. The Electoral Code ensures that everyone over 18 years of age votes, and congressional seats are filled by a **proportional representation** system (a proportional representation system ensures that one area of the nation is not over-represented or under-represented in comparison to another in terms of population).

The Paraguayan government has played a large role in the nation's economy, most notably in the last half of the 20th century. In the 1960s, the government used incentives to encourage the settlement of undeveloped or unused rural areas, to alleviate overcrowding in the Asunción metropolis, and to stave off Brazilian territorial advance (Brazil and Paraguay have a history of border disputes) in the area. Most of the land sold during this agrarian reform was to people with connections to the ruling Colorado Party. These landowners produced large quantities of soybeans for profitable international agro-industries. Also when the Colorado Party replaced the Liberals in power in 1954, officials directed government favors and funds to soybean and cotton producers, which developed a strong system of clientelism. While the Colorado Party is responsible for the birth of heavy cotton and soybean production, which spurred growth in the agricultural sector and now account for two-thirds of all agricultural exports, it also encouraged the widespread exploitation of peasant labor. The party's clientelistic focus on the elite widened the gap between the small upper class and the poor masses. The Colorado Party, which has strong military ties, has dominated Paraguayan politics and government for the last half of the 20th century.

Beginning in the 1970s, the Stroessner government (1954–89) used low income taxes and tax exemptions to attract foreign capital and foreign investment. The government handed out state subsidies for farming as well. The Rodriguez government (1989–93) continued to encourage foreign investment while implementing market reforms, beginning in 1989. Rodriguez put an end to the multiple exchange rates, expensive subsidies for state enterprises, and export taxes. The government also privatized several important state-run companies.

The Stroessner government placed strict controls on labor unions and maintained low minimum wages. As a result of Paraguayan labor laws, the U.S. placed trade restrictions on Paraguay but continued to trade with the country as a part of its Cold War policy. Labor union activism was low in Paraguay until the very late 1980s, when unions began to garner more political influence. As several labor unions emerged, particularly the Unitary Workers Central, the United States and Paraguay reinstated the Generalized System of Preferences (GSP). The GSP is a trade incentive package making trade between developed nations and developing nations profitable for each party. The 1990s spurred the Paraguayan Workers Confederation and the National Workers Central, and these 3 unions are now strong political interest groups in Paraguay. The new Constitution of 1992 embraced workers' rights, protecting the right to strike and the freedom of association.

The 1990s have been a decade of fast political changes including: an attempted coup, President Cubas's implication in the assassination of his vice president Luis María Argaña, Senate head Luis Gonzalez Macchi stepping up to assume the presidency, and the election of liberal vice president Julio Cesar Franco. Despite this political instability, the 1990s were a decade of heavy government involvement in economics. Paraguay **liberalized** and **deregulated** much of its economy, eliminating foreign exchange controls, reducing **tariffs**, establishing tax incentives and exemptions to stimulate foreign investment, creating a stock market, and restructuring the tax system. Paraguay has South America's least burdensome tax system. There is no personal income tax, business taxes are limited, and there is a **value-added tax** (VAT) of 10 percent. Investors in their first 5 years are eligible for tax exemptions of 95 percent and the **duty**-free import of **capital goods**. Corporate taxes are 30 percent but reinvested profit is only taxed 10 percent, which also encourages long-term investment and growth.

Today, there are 2 main political parties, each of which is an alliance: the Colorado Party (formally called the National Republican Association/Colorado Party) and the Democratic Alliance, which includes the EN (Encuentro Nacional) and the PLRA (Partido Liberal Radical Auténtico), a left-wing radical party. Both the Colorado Party and the Democratic Alliance formally support social equality and oppose the exploitation of the working class. The focus on working class economic issues has been magnified in the 1990s, as labor unions and organizations have gained power.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

In economic terms, Paraguay has depended heavily on its rivers, especially in the 20th century. Waterways provide 3,100 kilometers (1,926 miles) of transport paths. Most international trade flows through the Paraguay and Parana Rivers, which connect Asunción to the Atlantic

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Paraguay	43	182	101	N/A	41	N/A	9.6	2.4	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Uruguay	293	607	241	N/A	60	N/A	91.2	38.34	300

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Ocean through Brazilian territory. These 2 rivers have helped alleviate the consequences of Paraguay's land-locked location. Paraguay's Flota Mercante del Estado, a merchant marine owned and operated by the state, has transported cargo on the Paraguay and Parana Rivers since 1945.

Towards the end of the 20th century, more and more freight has been carried along roads, notably to Buenos Aires, Argentina, and Santos and Paranaguá in Brazil. Paraguay has a sufficient network of roads and bridges, but about half of the roads are still unpaved. 15,000 of the 29,500 kilometers of roads were paved as of 1999. Major highways connect Asunción to Ciudad del Este, Paranaguá, and Encarnación. Another highway runs from Villa Hayes across the Chaco region to the Bolivian border.

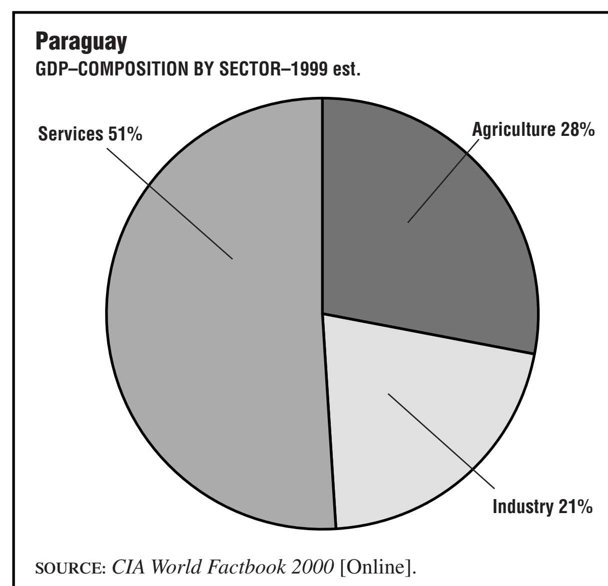
Paraguay's railway system is limited. The railway Ferrocarril Presidente Carlos Antonio López, which stretches 441 kilometers (274 miles) from Asunción to Encarnación, makes up much of the railway system in Paraguay. Railways total 971 kilometers (603 miles), which includes privately-owned railways as well. The nation's airport network, however, is much broader. With 937 airports, Paraguay's most notable airports are the government-owned Líneas Aéreas Paraguayas, opened in 1962, and the modern international Silvio Pettirossi, established in 1980 near Asunción. Only 11 airports had paved runways as of 2000. Combined, Paraguay's network of roads, rivers, railways, and airports facilitates its strong trade and transport industry.

Paraguay has substantial economic potential in hydroelectric power, which accounted for 99.79 percent of the nation's electricity in 1999. Paraguay depended on thermoelectric power plants, located in the capital, that burned wood and oil until 1968. That year, the Acaray hydroelectric power plant was built, and there have also been large joint ventures in hydroelectricity with Argentina and Brazil. The government-owned National Power Company distributes all electricity.

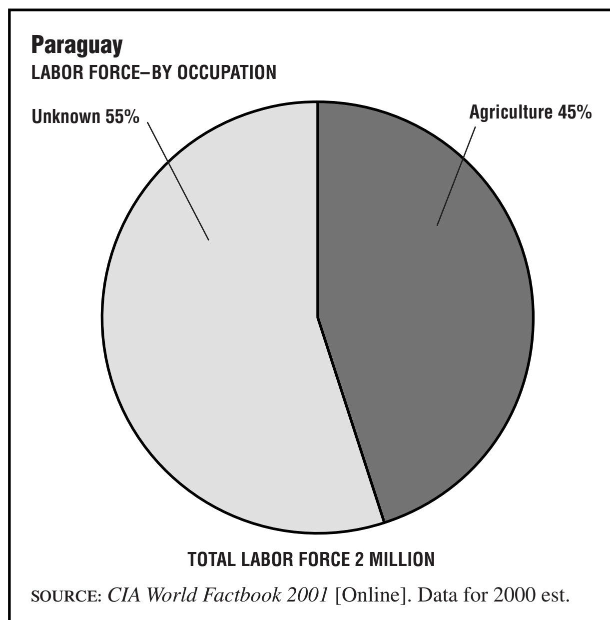
The communications network in Paraguay is limited in terms of its population size. There is insufficient telephone service and poor connections outside of Asunción and its surrounding area. Still, much of the population has access to newspapers, radios, and televisions, and depends on them for news and information. The nation has 4 television stations (2001), 79 radio stations (1997), and 4 Internet service providers (1999). Foreign investment has pushed the communications technology of the nation ahead in recent years. In the mid-1990s, for example, PanAmSat signed a 15-year contract with 2 Paraguayan television stations to provide satellite service.

ECONOMIC SECTORS

In Paraguay, while agriculture contributes 28 percent of the GDP, 21 percent comes from industry and 51 percent comes from services (1999 est.). Some 45 percent of the population depends on agriculture, particularly subsistence farming. Agricultural concentrations include



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est.

livestock, lumber, and a variety of crops, which depend heavily on the varying climate and conditions. The industrial sector experienced a boom in hydroelectric power and construction during 1980, but since then hydroelectricity accounts for most of the industrial sector output. Trade and transport dominate the service sector, which has yet to fully realize its potential in areas such as banking and tourism. The tourist industry is developing in Asunción, but outside of the capital, tourism is virtually nonexistent.

AGRICULTURE

Agriculture provides 28 percent of Paraguay's GDP, but 45 percent of the population actually depends on agriculture and subsistence farming. This agricultural activity utilizes less than 6 percent of the nation's most arable land, concentrated in the east. Until 1970, the nation depended heavily on the production of meat, tobacco, and yerba maté (a tea). These highly-emphasized products have now been replaced by soybeans and cotton grown largely in the east.

Soybean production became important during the agrarian reform policies of the 1960s. The government sold cheap land to affiliates of the Colorado Party, which dominated the government at that time. These landowners were involved in highly profitable international agro-industrial agreements that called for large-scale production of soybeans. The government claimed that the agrarian reform would help alleviate overcrowding in the capital while developing unused land in the east. Cotton also emerged as a dominant export. The Colorado Party encouraged cotton production through government favors, but in the process encouraged the exploitation of peasant laborers as well. Nevertheless, soybeans and cotton now account for two-thirds of the nation's agricultural exports.

Cotton produced in Paraguay had generally been exported unprocessed until the 1990s. In the mid-1990s, an Italian-Paraguayan group built a US$10 million computerized cotton-spinning plant just outside of Asunción. Spinning the cotton domestically adds 140 percent profit to its export. It is exported primarily to Italy and Brazil. Brazilian investors have also built and renovated many other cotton mills in Paraguay. If the cotton industry continues to develop and farming is mechanized, many rural farmers who grow cotton may be put out of work.

Other important agricultural goods include coffee, corn, rice, wheat, citrus fruits, sugarcane, and peanuts. Paraguay produces some marijuana as well. Paraguay's productive agricultural sector makes the nation practically self-sufficient in food products.

Livestock is raised in the west, particularly in the Chaco region. Though pigs, sheep, horses, and chickens are raised, by far the most important livestock is cattle. Meat, dairy products, and hides are used both domestically and for export. Timber is another important export. Though Paraguay has utilized its rivers for transport, it has not yet developed a commercial fishing industry to tap into the abundance of fish.

INDUSTRY

Despite high industrial growth rates in the late 1970s and 1980s, manufacturing and mining have remained undeveloped. Paraguay manufactures little more than its own food products. The industrial boom climaxed in the middle of 1979 and was centered in hydroelectric power and related construction projects. Today the industry sector accounts for 21 percent of the national GDP. Of that 21 percent of GDP, more than 75 percent comes from the manufacturing of such goods as cement, sugar, textiles, beverages, and wood products. Manufacturing provides jobs for 13 percent of the **workforce**. Fully manufactured exports account for only 5 percent of all exports, but semi-processed agricultural goods make up 72 percent of all exports.

ENERGY. Paraguay's energy industry has thrived on its hydroelectric potential. Hydroelectric power replaced thermo power (power from burning wood and oil) around 1970. In 1968, Asunción's Acary hydroelectricity plant began operating, and in 1973 Paraguay and Brazil together built the US$20 billion Itaipu plant by the Parana River. This joint venture made history as Brazil bore most of the cost and Paraguayan electricity production grew 15-fold from 1970 to 1990. Initial arrangements that ben-

efited Brazil were later modified in 1985 to ensure that Paraguay received fair compensation. Paraguay also built a dam on the Parana to create a reservoir that spans a total of 870 miles in Paraguay and Brazil. The 1990s were marked by Paraguay's joint venture with Argentina to build a hydroelectric power plant on a chain of islands in the Parana. Combined, Paraguay's ventures in hydroelectric power have ensured that the nation will become one of the world's top producers of hydroelectric power in the 21st century.

In 1999, Paraguay generated 51.554 billion kilowatt hours (bkwh) per year, but only consumed 1.915 bkwh that year. In 1999, Paraguay sold 46.03 bkwh of power for export, primarily to Brazil and Argentina, making power a large source of export earnings. Itaípu's earnings reached a record US$420 million in 1998 (equal to 15 percent of all exports) and Brazil purchased 97 percent of the plant's power. Several plans (including joint ventures with Argentina and Brazil) are being developed for expanding existing hydroelectric power plants and constructing new ones in the coming decade.

CONSTRUCTION. In the late 1970s and early 1980s, construction grew rapidly, with a drastic rise in hydroelectric dam and power plant projects, infrastructure projects, and housing development in Asunción. The construction industry's resources were primarily found locally: lime, sand, wood, and stones. Since the mid 1980s, however, construction has fluctuated dramatically as old hydroelectric power plants and infrastructure projects were completed and then new projects were begun.

In response to a growing construction industry, the nation has invested large sums of money in expanding and modernizing the production of cement, metal, and steel. The government completed a US$200 million expansion of its largest cement plant, at Vallemi, in 1986. The plant had previously used outdated production techniques and had been operating well under capacity. This expansion was financed by French banks, but ended up burdening the economy since it still operated well below capacity and was over 500 kilometers outside of Asunción, far from most industrial activity. The government also owned Acepar, the largest steel plant, in the 1980s. Acepar alone is capable of producing 5 times the amount of steel Paraguay uses each year, and there are other large steel producers in the nation as well. Unfortunately, most development in construction-related industries like cement and steel took place after most of the nation's biggest hydroelectric and infrastructure projects. However, similar projects in the late 1990s and early 2000s are capitalizing on these industries.

MANUFACTURING. Manufacturing of steel, cement, plastic, and wood products has risen since the late 1970s due to construction projects (hydroelectric power plants, infrastructure, and urban housing). Fully manufactured exports account for only 5 percent of all exports, but semi-processed agricultural goods make up 72 percent of all exports. Still, manufacturing is underdeveloped in Paraguay, and is characterized by many small- or medium-sized firms. The few larger firms are primarily foreign owned, and few companies operate at full capacity. Food, beverages, and tobacco have formed the largest manufacturing subsector; agriculture and lumber manufactures form the second-largest subsector; and textiles, clothing, leather, and shoes form the third.

MINING. Paraguay also has a small, undeveloped mining industry, concentrated along the Paraguay River where most mineral deposits have been found. Gypsum, limestone, and clays are the most heavily used minerals and are exported mostly to the building trade. Other major minerals near the river include peat, marble, salt, copper, bauxite, iron, and uranium. Other regions of the nation that have not been fully utilized show deposits of manganese, malachite, azurite, feldspar, mica, and talc. Though resources are varied and local construction mines many resources itself, the mining industry still has not been fully developed.

SERVICES

The service sector accounts for 51 percent of the nation's total GDP. The most vital component of the service sector is trade and transport. In terms of trade the nation has profited greatly from its 2 major rivers, the Paraguay and the Parana, particularly in the last half of the 20th century. Other service industries do not yet play a significant role in the national economy. The finance industry is small and state-dominated, and the nation has not yet established a profitable tourism industry. With the exception of a small but developing tourism industry in Asunción, tourism-related business is virtually nonexistent and plays an insignificant role in the economy elsewhere.

TRADE AND TRANSPORT. The Paraguay and Parana Rivers have allowed Paraguay to overcome its landlocked handicap in terms of trade and commerce. The 2 rivers join Paraguay to the Atlantic Ocean through Brazilian territory and allow for the export of such items as soybeans, cotton, meat, and timber. Aside from neighboring partners Brazil and Argentina, Paraguay's principal trading partners are in Europe: Germany, Italy, the Netherlands, and Switzerland. Paraguay also imports from Japan and the United States. All of these export and import partners utilize the Paraguay and the Parana trade routes. The nation's numerous airports, as well as its rail and highway networks, facilitate the development of this sector of the economy. Perhaps the most profitable variety of trade in Paraguay is **re-export**. Paraguay is widely known for its re-exporting of goods: over 50 percent of all goods

imported are then re-exported for profit, with little or no change made to them. Smugglers also use this practice in the **informal economy**.

RETAIL. Paraguay has a developing retail sector in the capital, but the biggest retail center lies in Ciudad del Este, a city on the Brazilian border. Ciudad del Este grew out of a merchants' town and now has more than 6,000 shops over 20 blocks in the heart of the downtown area alone. The streets are heavily peppered with tiny shops, table vendors, and even van vendors and walking vendors. These "shops" are responsible for at least one-third of all money circulating in Paraguay, and have put, on average, US$1 billion in Paraguayan merchandise into Brazil each month during the 1990s. The richest city in the nation, Ciudad del Este is the world's third-largest commercial center, behind only Miami and Hong Kong. Ciudad del Este has a large Asian population, with Chinese who specialize in toys, house wares, and school supplies, and Koreans who specialize in electronics. The city is also responsible for a great deal of trade with Eastern Asia. The smuggling of goods into Brazil and other countries is a big problem, though. Outside of Ciudad del Este, the retail sector in Paraguay is not well developed.

FINANCE. The finance sector of Paraguay is underdeveloped. There are 2 main state banks: the Banco Central del Paraguay and the Banco Nacional de Fomento. The latter specifically handles credits and grants to agricultural ventures and entities in the manufacturing and lumber industries. Some international banks from other parts of Latin America, Europe, and the United States also have branches in Paraguay. The government encourages foreign investment and in the 1990s began developing a stock market, but there is still much more potential for growth in the finance sector.

TOURISM. Tourism in Paraguay has developed very little outside of Asunción, despite the potential of attractions such as Ciudad del Este's retail area and ruins of Jesuit missions. The nation has only 11,000 beds (more than half in Asunción), 34 percent of which are in luxury or five-star hotels, and 52 percent of which are in three- or four-star hotels. Small establishments account for the remainder. Tourism brought in US$144 million annually in the late 1990s. Just over 400,000 tourists visit Paraguay each year, 70 percent of which come from Brazil, Argentina, and Uruguay. **Ecotourism**—tourism that focuses on nature and wildlife observation—is also growing.

INTERNATIONAL TRADE

Paraguay's main trading partners are Brazil, Argentina, the United States, the Netherlands, Germany, Italy, Japan, and Switzerland. Paraguay exports soybeans, meat products, cotton, oils, and timber principally to Brazil and Argentina, as well as Germany, the Netherlands, Italy, and Sweden. Exports in 2000 totaled US$3.5 billion (not including the **black market**). Most imports come from Brazil, Argentina, the United States, and Japan, including machinery, petroleum and petroleum products, chemicals, lubricants, electronics, **consumer goods**, and cars. Local industries rely heavily on these imported goods. Imports in 2000 totaled US$3.3 billion (not including the black market). Smuggling has been prevalent in Paraguay, and in the 1980s smuggling reached new heights, severely skewing the nation's official trade figures. Computers, sound equipment, cameras, liquor, and cigarettes are among the most popular items smuggled across the Brazilian and Argentine borders. Smuggling decreased somewhat in the 1990s, but the informal economy is still estimated to be at least as large as the formal economy.

Trade (expressed in billions of US$): Paraguay

	Exports	Imports
1975	.176	.206
1980	.310	.615
1985	.304	.502
1990	.959	1.352
1995	.919	3.144
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

U.S./Paraguayan economic relations are strong as of the early 21st century. Each year the United States imports more than US$40 million of goods from Paraguay and exports approximately US$1billion in goods to Paraguay. The United States has more than a dozen large multinational firms with Paraguayan subsidiaries, including firms in the computer, manufacturing, agro-industrial, banking, and service industries. The U.S. also has more than 75 businesses with agents in Paraguay. The Cold War of the 1970s and 1980s actually worked in Paraguay's favor. Despite numerous human rights violations, Paraguay still received substantial aid and trade privileges from the U.S., provided that Paraguay align itself with the United States against the Soviet Union. The U.S suspended its Generalized System of Preferences—a trade agreement with Paraguay—from 1987 to 1991, due to poor labor laws and working conditions in Paraguay.

Paraguay does belong to several international trade agreements and organizations. Aside from its trade agreement with the U.S., Paraguay also belongs to Mercosur, a free trade and common market agreement between the Southern Cone nations (Paraguay, Uruguay, Argentina, and Brazil). Joining Mercosur in 1991 benefited Paraguay

greatly. Trade between Mercosur members increased from US$5 billion in 1991 to US$17 billion in 1996, and the Mercosur market accounted for 5 percent of the world's total GDP in the late 1990s, making the Mercosur market very attractive to foreign investors. Paraguay is a member of the Latin American Integration Association (formerly the Latin American Free Trade Agreement) as well.

MONEY

The Paraguayan currency has been remarkably stable in comparison to most of South America. The most significant hindrance to economic stability in Paraguayan history was the War of the Triple Alliance. This war, from 1865 to 1870, killed most of the nation's male population and devastated the national economy. Soon after, in 1870, the nation began reconstruction efforts and rebuilt the economy. The economy finally found stability again in the late 1910s and early 1920s.

The 1940s and 1950s were marked by price instability, and in response the government established the Banco Central, a central bank intended to perform many tasks. Its responsibilities included regulating credit, promoting economic activity, controlling **inflation**, and issuing currency. It also regulated banks (commercial, investment, and mortgage banks), savings and loans, finance companies and institutions, and capital markets. Further, the bank administered monetary controls and price stability. The Banco Central was successful until the 1980s. The 1970s and early 1980s showed rapid growth attributed to joint hydroelectric power ventures with Argentina and Brazil, but as the power plants were completed, the rapid economic growth came to an abrupt halt. The stable prices, credit expansion, and exchange rates of the 1960s and 1970s were replaced by the increasing inflation in the mid 1980s. By 1988, inflation had risen more than 30 percent. The Central Bank successfully tamed inflation with rising interest rates during the 1990s.

Exchange rates: Paraguay

guarani (G) US$1	
Jan 2001	3,570.0
2000	3,486.4
1999	3,119.1
1998	2,726.5
1997	2,177.9
1996	2,056.8

Note: Since early 1998, the exchange rate has operated as a managed float; prior to that, the exchange rate was determined freely in the market.

SOURCE: CIA *World Factbook 2001* [ONLINE].

The growth of the 1970s allowed Paraguay to avoid the hyperinflation and the **balance of payments** crises that plagued the rest of the Southern Cone (Brazil, Argentina, and Uruguay). Large exports of soybeans and cotton also helped maintain growth and stability in the economy during this time, with the exception of a brief period from 1981 to 1983, when GDP fell more than 15 percent because of a combination of factors. Adverse weather shrank agricultural exports, currency in neighboring Brazil and Argentina was suffering **devaluation**, and trade relations with Brazil and Argentina were unfavorable.

From 1960 to 1982, the guaraní was consistently valued at 126 guaraní to the U.S. dollar. In 1982 a new foreign exchange system was introduced using multiple **fixed exchange rates**, but the new system was unsuccessful and the government implemented a free market foreign exchange system once again in 1984. The 1984 system, still in effect, strongly favors private enterprise and foreign investors.

The 1990s were a time of mixed results in economic development. The banking system is developing but still small. In 1992, the government approved measures to develop a stock market, and in 1995 Bolsa de Valores, the Asunción Stock Exchange, was created. It showed slower growth than expected at first, but now the stock market has grown and expanded to include many foreign corporations. Countries with companies listed the United States, South Africa, and Japan.

From 1993 to 1995, the **GDP per capita** increased by 18 percent and inflation dropped from 20 percent to 15 percent. In the late 1990s, though, Paraguay suffered from the devaluation of the currencies of other Mercosur member nations, particularly Brazil in 1998 and 1999. Still, the Paraguayan economy shrank only 0.06 percent in response to Brazil's devaluation of the real (Brazilian currency). Paraguay's currency value fluctuated little in the late 1990s, though many economists expected it would, due to severe political instability. The 2000 exchange rate showed G3,502 equal to US$1.

POVERTY AND WEALTH

Paraguay has an extreme gap between the small upper class and the large lower class, and there has historically been virtually no social mobility. Paraguay has the most unequal distribution of land in the region. Less than 10 percent of the population owned and controlled over 75 percent of the nation's land in the late 1990s, leaving much of the large rural population landless and living in extreme poverty. In the mid-1990s, nearly half of the farmers in Paraguay did not own land, according to Ramón López and Alberto Valdés, writing for the World Bank. The upper 10 percent of the population accounts for 46.6 percent of income and consumption, and

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Paraguay	1,297	1,871	1,754	1,816	1,781
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Uruguay	4,092	4,962	3,964	4,611	6,029

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

the upper 20 percent make up 62.4 percent of all income. The poorest 60 percent of the population earns less than 20 percent of the nation's income.

The extreme gap between the small upper class and the large lower class was widened by the clientelism of the Colorado Party during the last 50 years. During the 1960s, by selling most unused land to Colorado Party affiliates, the small elite class came to include a small, newly established agro-industrial elite class. These elites underpaid workers to maximize their own profits. Cotton and soybean producers (the elite landowners) continued to underpay peasant workers well into the 1980s, and the government kept labor unions weak and ineffective. Although the 1990s were a time of newly-developed strength for labor unions, the gap between the rich and the poor did not change significantly.

There are not enough schools or educational resources throughout the nation, but shortages are worst in poor, rural areas. Rural areas also have less effective health care available to them. Virtually all urban areas have access to safe water and good medical care, but only 15 percent of the rural population has access to safe drinking water and only 42 percent of the rural population has access to medical care. Despite these problems, it is important to note that Paraguay's government does subsidize education and health care. The government finances schools and makes teacher training courses available.

Distribution of Income or Consumption by Percentage Share: Paraguay

Lowest 10%	0.7
Lowest 20%	2.3
Second 20%	5.9
Third 20%	10.7
Fourth 20%	18.7
Highest 20%	62.4
Highest 10%	46.6

Survey year: 1995

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Paraguay's Social Insurance Institute (SII) oversees the social security system. Some 9.5 percent of employees' own earnings, 16.5 percent of employers' earnings, and 1.5 percent of government funds go toward social security. The Institute offers pensions for old age, invalidity, maternity, sick leave, and on-the-job injury. The SII also runs its own hospitals and health clinics.

Though as a rule there is little socioeconomic mobility in Paraguay (especially in agriculture), the commercial city of Ciudad del Este is the exception. In Ciudad del Este, a man pushing handcarts can work for US$15 a day, save up enough capital to buy a small spot on the street sidewalk and a table to sell goods. Then he can save enough money to buy a van and gradually work his way up the economic ladder.

WORKING CONDITIONS

The Stroessner government placed strict controls on labor unions and maintained low minimum wages from 1960s through the 1980s. As a result, labor union activism was low in Paraguay until the very late 1980s, when unions began to garner more political influence. As several labor unions emerged around 1990, the Unitary Workers Central, the Paraguayan Workers Confederation, and the National Workers Central all became strong political interest groups in Paraguay. The Paraguayan Workers Confederation (CPT) had 60,000 official members as of 1985, but claimed to represent 90 percent of the workforce. The CPT refused to comply with workers' strikes due to government control, and the union lost its membership in the International Labor Organization (ILO). Despite this new union activism in the 1990s, labor laws have improved very little. Only a small percentage of the workforce receives benefits like pensions, pay in times of illness, and medical care. Wages have only slightly increased in the late twentieth century.

Roughly 45 percent of the labor force works in agriculture, largely in subsistence farming. Though some of these workers receive government subsidies, they have no benefits or security and suffer from the changing climate and the fluctuation of the world market. The few workers who do receive benefits work in urban areas. As of 1998, unemployment had reached 12 percent, up 4 percent from 1996. An increasingly industrialized economy continues to threaten the jobs of farmers, still a considerable portion of the workforce.

Women in the workplace earn substantially less than men do, despite equal or greater education. Women with 6 years of education or less earn only half of men's salaries in equivalent jobs, while women having 7–13 years of education earn only 60–70 percent of men's salaries for the same positions. Women outnumber men in professional and technical occupations, but women oc-

cupy only 20 percent of the nation's administration and management jobs and only 5 percent of higher-level occupations. Social security does pay women on maternity leave half of their salary for a period of 12 weeks.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1500s. Paraguay is inhabited by Guaraní Indians before the Spaniards arrive.

1608. Spanish Jesuits take root in Paraguay after several failed colonization attempts. The Jesuits control reducciones (centers of religious conversion for the Guaraní Indians). These settlements are also centers of labor for agricultural production, manufacturing, and trade.

1767. Spanish landowners—envious of the military, political, and economic control of the Jesuits—expel the Jesuits to regain control of the area.

1776. Establishment of Viceroyalty of Rio de la Plata by the Spanish.

1811. Paraguay revolts against Spain to become a republic.

1865–1870. War of the Triple Alliance (against Brazil, Argentina, and Uruguay) decimates Paraguay's male population.

1870. New constitution begins reconstruction after war, but dictatorial oppression continues.

1932–1935. Chaco War against Bolivia: Paraguay wins western territory.

1954. General Alfredo Stroessner becomes president and remains in power until 1989.

1968. Acary power plant begins operation and Paraguay's national power production increases 15-fold from 1970–1990.

1970s. Government encourages foreign investment through tax incentives.

1970s. Soybeans and cotton replace tannin, meat, yerba maté, and tobacco as primary agricultural exports.

1970s-1980s. Despite serious human rights violations under the Stroessner regime, the U.S. continues to provide military aid because of Cold War policy.

1973. Itaipu hydroelectric power plant construction begins (finished in 1982) with Brazilian cooperation.

1980s. Foreign loans accruing interest begin to severely burden the economy.

1987. Generalized System of Preferences (trade agreement with U.S.) suspended because of poor labor laws.

1989. General Andrés Rodríguez leads coup that overthrows the Stroessner regime. Rodríguez becomes president in a multi-candidate election and announces that democracy has come to Paraguay. He enacts sweeping reforms to implement a market economy.

EARLY 1990s. Labor unions begin to grow in numbers and in political influence.

1991. Constituent Assembly elected to draft new constitution.

1991. Paraguay, Uruguay, Argentina, and Brazil sign Mercosur (a free trade agreement among the countries of the Southern Cone). Generalized System of Preferences reinstated between Paraguay and the United States.

1992. New constitution takes effect, making Paraguay a representative democracy. Government approves laws to encourage foreign investment and establish a stock market.

1993. Juan Carlos Wasmosy of the Colorado Party is elected as president. These elections are deemed fair and democratic by the world community.

1995. The Asuncion Stock Exchange, Bolsa de Valores, is established.

1997. Banking crisis strikes due to political corruption.

1998. Raúl Cubas Grau of the Colorado Party elected president in May.

1999. Vice president Luis María Argaña is assassinated in March and President Cubas, implicated, is forced out of office. Luis Gonzalez Macchi, the head of the senate, becomes president.

2000. Julio Cesar Franco of the Liberal Party is elected vice president. This is the Liberal Party's first major victory against the Colorado Party in 50 years.

FUTURE TRENDS

The 1990s were a time of many economic and political changes in Paraguay. The nation has become arguably more democratic and has implemented a market economy system, but still Paraguay remains one of Latin America's more underdeveloped nations in many ways. The future of Paraguay is uncertain: Paraguay faces the challenges of consolidating its semi-democracy and possibly further democratizing while developing its weak economy at the same time. Trade and transport, and imports and exports, continue to carry the Paraguayan economy as development is slow in agriculture, banking, tourism, mining, and in-

dustry. Paraguay's membership in Mercosur is beneficial in terms of stability and growth prospects, but the other member nations are apprehensive as to whether or not Paraguay will successfully consolidate its recent democratic and market economy reforms. Spectrum Oil Corporation is currently exploring potential oil sites in and around the Chaco region. Foreign investment is steadily increasing due to government incentives and the size and success of the Mercosur market.

Furthermore, government incentives are designed to keep foreign investors' goods in the Paraguayan market, so foreign companies cannot exploit Paraguayan labor. Labor will not be simply performing tasks contributing to goods being shipped back out of the country to be sold elsewhere. The government also gives larger tax cuts to profits reinvested in the nation, which is conducive to sustaining long-term investment and development. The Paraguayan economy is growing at its most rapid pace since the late 1970s, but the growth rate is slower than some of its neighbors. Overall, prospects are good for economic growth and development in Paraguay's near future.

DEPENDENCIES

Paraguay has no territories or colonies.

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—David L. Childree

PERU

Republic of Peru
República del Perú

CAPITAL: Lima.

MONETARY UNIT: The Nuevo Sol (S/.). One nuevo sol equals 100 céntimos. Coins are in denominations of S/.1, 2, 5, and 5, 10, 20, as well as 50 céntimos. Paper currency comes in denominations of S/.10, 20, 50, 100, and 200.

CHIEF EXPORTS: Minerals (gold, zinc, silver, lead, and copper), petroleum and byproducts, fish (fishmeal), agriculture (coffee, asparagus), manufactured goods (textiles).

CHIEF IMPORTS: Machinery and transportation and telecommunication equipment, oil and other petroleum products, agriculture inputs (fertilizers, animal feed), medicines.

GROSS DOMESTIC PRODUCT: US$116 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$5.9 billion (f.o.b., 1999 est.). **Imports:** US$8.4 billion (c.i.f., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Peru is located on South America's central Pacific coast. The world's twentieth-largest nation, it borders Bolivia, Brazil, and Chile to the east and south, and Colombia and Ecuador to the north. Lima, the capital, is located on the central coast. Peru's 1,326,074 square kilometers (512,000 square miles) make it roughly the size of Alaska. Lima is approximately the size of Rhode Island.

Peru is divided into 3 distinct geographic regions with a narrow, arid coast, steep Andes Mountains running north to south, and the Amazon jungle in the east. The Amazon covers 57.6 percent of the nation's territory, representing 13.2 percent of the Amazon forest and 7.3 percent of the world's rainforest. The Amazon River system, the world's largest, holds 20 percent of the planet's fresh water. The coastal region represents 10.6 percent of the nation's territory and the highlands 31.8 percent. Its distinctive geography gives it 84 of the 104 known ecosystems and 28 of the 32 known climate zones, making Peru one of the world's most ecologically diverse nations, according to the **United Nations Development Program** (UNDP).

POPULATION. The population currently stands at 27 million and is growing by 1.75 percent annually, according to estimates for 2000. The birth rate is an estimated 24.48 per 1,000, while the death rate is 5.84 per 1,000. Life expectancy in 2000 was 70 years.

The Peruvian population is extremely young, with 53.8 percent of the population below the age of 25. Only 4 percent of the population is over 65. The majority of Peruvians live in urban areas along the coast, which reflects the general migratory trend in Latin America over the past 60 years. In 1940, 65 percent of the population lived in the highlands, while only 28.3 percent lived along the coast. Today, 52.2 percent live along the coast, 35.7 percent live in the highlands, and 12.1 percent live in the jungle region. Lima is the largest city, home to nearly 8 million people. The second largest city, Arequipa in the southern highlands, is home to 700,000 people.

The largest population group is Amerindian, accounting for 45 percent of the population. The principal Amerindian groups are Quechua and Aymara highland indigenous people. Lowland indigenous groups, representing roughly 350,000 people, are divided into 52 different peoples, the largest of which is the Ashaninkas. Mestizos—mixed Amerindian and Caucasian—represent 37 percent and whites account for 15 percent. The remaining 3 percent of the population is formed principally of blacks, Chinese, and Japanese—descendants of people brought over as slaves or indentured servants. In 2000, Chinese-Peruvians celebrated the 150th anniversary of

their arrival in Peru, while the Japanese community celebrated its 100th anniversary.

Peru adopted an aggressive family planning program in 1995, which former President Alberto Fujimori announced at the United Nations Women's Summit in Beijing that same year. The plan included free access to birth control and a nationwide education campaign. The Ministry of Women and Human Development was created at the same time. The plan, however, was attacked for employing forced sterilization of women and men, including 300,000 tubal ligations and 100,000 vasectomies. At least 36 deaths were blamed on the sterilization campaign. Despite the government's efforts, the birth rate did not decline in the second half of the 1990s, remaining at 24.48 per 1,000. (In contrast, the birth rate per 1,000 in the United States is 14.2, a little more than half the Peruvian rate.) The plan came under review in early 2000, and women's rights groups are calling for a "truth commission" to investigate the forced sterilization component.

OVERVIEW OF ECONOMY

Since the Spanish conquest in 1532 and the Declaration of Independence from Spain in 1821, Peru has been

a raw material exporting nation that has experienced cycles of short-term export booms and long periods of economic stagnation, the last of which began in 1997. The first major boom was gold and silver, which the Spaniards found in abundant supply in the Inca Empire. The Spaniards sent tons of gold objects home annually. Peru became the principal vice royalty of the Spanish Crown during colonization. In addition to minerals, the Spaniards also brought numerous examples of domesticated plants to Europe. Peru has supplied the world with 120 domesticated plants, the largest number of any country, according to the UNDP.

Minerals have remained the mainstay of the Peruvian export economy, with gold topping the list in the last decade. Peru exported US$1.1 billion in gold in 2000, with the Yanacocha (Cajamarca) and Pierina (Ancash) mines ranked among the top 5 most profitable and productive gold mines in the world, according to the World Gold Council. Peru is the world's eighth-largest gold producer, second in silver and copper, and ranks in the top 5 in zinc and lead.

Other export booms have included guano and rubber, but the cycles were short-lived in the late 19th and early 20th centuries. One export product that has remained important since the early decades of the 20th century is fishing, with fishmeal (used as animal feed and fertilizer) being the chief export in the sector. Peru is the world's leading fishmeal producer, supplying nearly one-third of worldwide production in 2000, according to the Paris-based Fishmeal Exporters' Organization. Fishmeal accounted for US$900 million in exports in 2000. Major agricultural export crops have included coffee, sugar, and cotton. Coffee continues to be a major export, but sugar and cotton exports have crashed, with Peru currently importing both products.

In the 1960s, Peru attempted to break its dependence on exporting raw materials with a new nationalistic approach to economic management-based **import substitution**. Under the leadership of Gen. Juan Velasco, a **socialist** military government took power in 1968, immediately **nationalizing** most industries and implementing a sweeping agrarian reform program that took over all major farmlands, either distributing land to peasant communities or forming cooperatives to run them. The government took control of most industries, including nearly all mines, public services (telephone, electricity, and water), and the media. The government adopted an aggressive import-substitution program, trying to stimulate local production and making imports difficult by applying exorbitant **tariffs**. The Velasco experiment lasted until 1975, when a more conservative military junta (an internal military revolt against a government) overthrew him. The economic model remained basically intact, however, until the late 1980s.

The final years of the statist model were disastrous. Under the leadership of former president Alán García (1985–90), the government attempted to stimulate growth by freezing prices and raising wages, and offering businesses below-market **exchange rates** for exports and imports. The result was 7,600 percent **inflation** (1990), an annual GDP decrease of 5 percent, and depleted reserves.

Peru began changing the economic model with the election of Alberto Fujimori in 1990, adopting an International Monetary Fund-designed (IMF) program that lowered or eliminated most tariffs, **privatized** nearly all state-owned industries and courted foreign investment in banking, telecommunications, and service industries. The program promoted raw material exports, specifically mining—an industry that was offered tax incentives. Along with garments (US$693.6 million in exports in 2000), Peru's principal exports are minerals (49 percent of exports in 2000) and fishmeal. A large percentage of manufactured goods are imported, with the country running a **trade deficit** for 2 decades. The economy became increasingly "dollarized" throughout the 1990s, with 80 percent of bank deposits and 85 percent of debts now in dollars. Industry grew increasingly concentrated in Lima, with approximately 80 percent of manufacturing now based in the capital.

The government is dependent on foreign assistance from multilateral institutions (IMF, World Bank, and Inter-American Development Bank) and foreign governments. The government missed the IMF-set fiscal deficit target of 1.5 percent of GDP in 1999 and 2000. The **foreign debt** (US$31 billion in 1998) represents 56 percent of GDP. Foreign debt payments for 2001 and 2002 total US$3 billion, and the government signed a standby agreement with the IMF in early 2000 that frees up US$1.5 billion to service its debt.

It is difficult to calculate the value of the **black market** in Peru, but the impact is significant. The International Intellectual Property Alliance estimates (1998) that 50 percent of motion pictures, 85 percent of recordings, and 60 percent of computer programs are pirated. Peru's 5 borders make it relatively easy for many manufactured goods to illegally enter the country. In addition, an estimated 10 percent of the country's hundreds of thousands cable television hook-ups are illegal. The largest illicit sector, however, is the drug trade. Peru is the second-most important producer of coca, used to make cocaine, and cocaine itself. Black market money from drug sales and **money laundering** are calculated to be worth between 1 and 2 percent of GDP.

Unemployment, according to the International Labor Organization, stands at 10 percent, but **underemployment** is approximately 60 percent. An estimated 54 percent of the population lives in poverty, earning the equivalent of US$1.50 a day.

POLITICS, GOVERNMENT, AND TAXATION

Peru has been politically unstable since independence was declared in 1821 and formally granted by Spain 3 years later. Since independence Peru has had 109 presidents, 18 percent of whom were democratically elected. The remaining presidents came to power through military coups (24 percent), replaced a sitting president (21 percent), were named by Congress (18 percent), were delegated (16 percent), or formed part of a commission of notables (3 percent).

Political parties have generally been tied to 1 man, representing the traditional caudillo (strongman) model that is present in many Latin American countries. When back-to-back democratic elections are held, a rarity in Peru, the ruling party has never held on to the presidency. The country's oldest party, the American Popular Revolutionary Alliance (APRA), was founded by Victor Raul de la Torre in the 1920s. It continues to have a strong presence, despite decades of political persecution and one disastrous term in power. The party's founder, Haya de la Torre, was exiled for years and never reached the presidency. He received the most votes in the 1962 election, but a military junta stepped in after the election and took power for a year. Haya de la Torre lost by a slim margin in the election held in late 1963.

Those elections were won by Fernando Belaúnde Terry who, with Haya de la Torre, is one of the most important political figures in Peru in the second half of the 20th century. Belaúnde's Popular Action party remains active and at 90 he is still the titular head of the party. Belaúnde was deposed in a left-leaning military coup in 1968 and the generals ruled Peru for 12 years, nationalizing most industries and implementing a sweeping agrarian reform program. When the military returned the country to democracy in 1980, Belaúnde was again elected president.

APRA had its first chance to govern Peru in 1985, when Alán García was elected. At 35, García was Peru's youngest president and came to power with a decidedly left-wing platform. García's populist approach and attempt to re-establish some of the programs of the military regime—he tried to nationalize the banks in 1988—worked for 2 years but began crumbling in 1987. He ended his term in 1990 with 7,600 percent inflation and a bankrupt treasury.

The experience of Popular Action and APRA in the 1980s inspired a wave of independent candidates, personified by Alberto Fujimori. An obscure math professor, Fujimori emerged from obscurity in 1990 to win the presidency. Peruvians were tired of "politics as usual" and gambled on an outsider. With no political experience or party, Fujimori turned to the armed forces and used them to consolidate power. When Congress balked at his plans for sweeping economic reforms and harsh laws to control a growing subversive threat, Fujimori and the military took complete control, closing Congress and the courts in 1992 in what is known as a "self-coup." Fujimori received the backing of the population and a year later introduced a new constitution allowing for his re-election. He ran again in 1995 and was overwhelmingly re-elected because he had tamed inflation and his government had arrested the leadership of 2 violent subversive groups.

Although he came to power as an outsider, Fujimori rapidly developed the qualities and policies of Peru's traditional caudillos, concentrating power in the executive and bypassing Congress and the judicial branch whenever necessary.

Unsatisfied with only 2 terms, Fujimori and his allies tinkered with the constitution and decided he could run for a third term in 2000. He ran and won, although the elections were labeled fraudulent by local and international observers. Pressure from opposition parties calling for democracy and evidence of widespread corruption, however, never allowed Fujimori to consolidate his third term. He resigned in November 2000 and fled to Japan, his parents' homeland.

Fujimori's rapid decline set the stage for new elections in April 2001. The elections saw the consolidation of a new party, Peru's Potential, led by Alejandro Toledo. It also marked the return of Alán García—Fujimori forced García into exile in 1992—and APRA. Toledo was elected president of Peru in a close race, narrowly defeating former president García.

The free-market economic policies in place since 1990 will not change in the coming years. The incoming government, which took office in July of 2001, will maintain strict **macroeconomic** discipline guided by a Fiscal Discipline Law that does not permit the deficit to be higher than 1.5 percent of GDP. The economic situation will be difficult, nevertheless. The Peruvian economy has been in a **recession** since 1997, partly due to poor fiscal management on the part of the former government and partly because of the Brazilian, Russian, and Asian economic troubles. The collapse of Fujimori's administration also scared off local and foreign investors, with direct foreign investment reaching only US$600 million in 2000, compared to US$2 billion a year earlier.

The incoming government promises to reduce taxes and tariffs as a way of stimulating the economy and ensuring the 6 percent GDP growth economists say is needed to begin lowering poverty rates. Toledo, who has a Ph.D. in economics from Stanford University, is a political centrist, and wants to award small-business loans to farmers, balance the budget, lure foreign investment,

and create jobs. Job creation is an especially important priority, considering Peru's current under- and unemployment, and the 300,000 young people joining the labor market each year.

The government's principal source of revenue comes from taxes. Of the US$8.39 billion brought in by the government in 2000, US$7.03 billion came from taxes. The largest chunk comes from **value-added taxes**, which accounted for US$3.4 billion in revenue in 2000. The second-largest category is **income tax**, which generated US$1.6 billion. A 15 percent tax is applied to personal income and a 30 percent tax is applied to business income. Other important taxes include the excise on gasoline, liquor, tobacco, and other luxury items, which brought in US$1.1 billion. Peru has the world's third-highest tax on beer, after South Korea and Kenya, accounting for 75 percent of the price of 1 liter. Taxes on imports generated US$704 million and assorted other taxes accounted for US$714 million. Government revenue in 2000 represented 14.1 percent of GDP.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Peru has an extensive system of roads that cross most of the mountain and coastal regions. Of the 72,887 kilometers (45,300 miles) of roads, 8,698 kilometers (5,406 miles) are paved. The government dedicated a significant number of resources to building and rebuilding the highway system throughout the 1990s. The principal roads are the Pan-American Highway, which runs the length of the country down the coast; the Central Highway, which connects the capital, Lima, to the Andean highlands; and the Marginal Highway, which penetrates deep into the northeastern jungle region. The number of automobiles and buses more than doubled in the 1990s, making major cities congested and leading to massive increases in roadway fatalities. An average of 3 people a day died in 2000 in public transportation-related accidents. The government has a liberal policy for imports, allowing for a steady influx of older, used automobiles. The Transportation Department estimates that 75 percent of mass transportation vehicles are more than 20 years old. A light rail mass transportation system was started in Lima in the mid-1980s, but abandoned by the central government for all of the 1990s. The project is now in the hands of the city government, which hopes to have the first 8 miles of tracks operational by 2005.

The nation's rail system, which was privatized in 2000, services highland mining operations. Passenger service on the rail system is limited to certain areas, particularly serving the tourist trade between the highland states of Puno, Cusco, and Arequipa. Several highways are in the process of being privatized and the process should conclude this year. One highway, in the state of Arequipa, has already been privatized.

Peru has 234 airports, but the majority are simple airfields serving small, private planes. The principal airport is the Jorge Chavez International Airport located in Lima, with other modern airfields in the major cities. Of the total number of airports, 44 have paved runways. Jorge Chavez International Airport was privatized in February 2001 and 5 other airports, including the tourist destination Cusco are in the final stages of privatization. Peru has a series of excellent, deep-water ports. The largest port facility is in Callao, the port city adjacent to Lima. In addition to Pacific Ocean ports, the country also has 3 large river ports: Iquitos, Pucallpa, and Yurimaguas. Iquitos is located on the Amazon River, while the other 2 ports are located on major tributaries. Peru has 8,598 kilometers (5,344 miles) of navigable riverways. Lake Titicaca, located on the border with Bolivia, is the world's highest navigable lake.

A mix of private and public companies generates electricity, the bulk of which is hydroelectric (74.79 percent). The Peruvian government began privatizing electricity generation, transmission, and supply in the mid-1990s and is continuing the process. U.S. and Spanish companies are the major investors in the sector, which produces 18.28

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Peru	84	273	144	14.1	30	N/A	18.1	3.09	400
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Ecuador	70	419	293	11.7	25	N/A	18.5	1.42	35

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

billion kWh per year. Major natural gas reserves, which should be available to the market by 2003–04, will help diversify dependence on water sources.

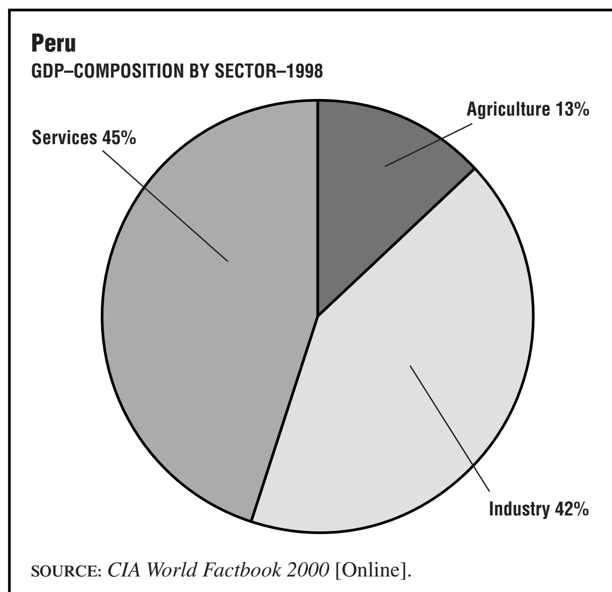
Telecommunications services have improved dramatically since the state-owned telephone service was privatized in 1993. Major players in the market include Spain's Telefonica, U.S.-based BellSouth and AT&T, and Italy's TIM. The *CIA World Factbook* reports that there are 1.5 million fixed lines, while cellular phones top 500,000 (1998 estimates). Telephone analysts predict that mobile phones will outnumber fixed lines in Peru within 3 to 5 years.

There are an estimated 3 million television sets and 13 broadcast stations. Cable television has not yet penetrated the national market, with nearly all of the subscribers concentrated in Lima. There are an estimated 6.65 million radios that can tune into 472 AM stations and 198 FM stations nationwide.

There are 15 Internet service providers and an estimated 800,000 people use the Internet, according to the Economist Intelligence Unit. Peru has a relatively low per capita number of personal computers, but the country is a pioneer in setting up public Internet booths to allow Internet access at a low cost. These public booths are both public and privately run, with the government installing thousands of Internet access centers in rural areas.

ECONOMIC SECTORS

Peru's diverse geography and climates, as well as its location along South America's central Pacific coast, give it privileges enjoyed by few nations. However, the country's natural wealth in agriculture, mining, and fishing has not been harnessed to the benefit of the population. The country's principal problems have been, and continue to be, its reliance on raw material exports and its unstable political climate. As a result of its dependence on raw materials, Peru's economy is highly susceptible to downturns in the world economy. Natural phenomena, particularly El Niño (a warm water current that changes ocean and air patterns off the coast of Peru and provokes droughts in some parts of the world and flooding in others), periodically play havoc on fishing and agriculture, as well as destroy **infrastructure**. Because of political turbulence, Peru has had 3 presidents between November 2000 and November 2001, a disturbing trend that keeps local and foreign investors skeptical about placing their money in the country.



SOURCE: *CIA World Factbook 2000* [Online].

The administration of former president Alberto Fujimori (1990–2000) emphasized the raw material export model, offering incentives to capital-intensive investments, particularly in mining. By privatizing telecommunication services, the government opened this as a new and important sector within the economy, with investments totaling nearly US$4 billion throughout the last decade. The new government, while recognizing the importance of mining, is pledging to emphasize labor-intensive sectors, particularly manufacturing, farming, and tourism as a way to diversify the economy and create jobs.

AGRICULTURE

Peru's climate and different geographical zones make it an important agricultural nation. Of the 120 domesticated plants Peru has provided the world, the potato is the most important. There are more than 3,000 varieties of potatoes found in Peru, making it the world's genetic center for the crop. Other important crops include sugarcane, coffee, and cotton, with Peru producing 2 of the world's finest strains of cotton: Pima and Tanguis. In addition to these staples, the UNDP estimates that the Andean and jungle food baskets include important vegetables and fruits that are relatively unknown but high in vitamins and proteins. These include camu-camu, a small jungle fruit with the highest known levels of vitamin C, and quinoa, a highland grain. In addition, Peru is also a major supplier of crops such as asparagus, because of its unique climate. Peru has a window for asparagus (US$120 million in export earnings in 1999) exports between November and January, months in which almost no other country exports the product. Other "designer" products include mangos, sweet onions, and herbs.

Other important elements in the agricultural sector are domesticated Andean animals including llamas, alpacas, guanacos, and vicuñas. All 4 belong to the same family and provide varying levels of fine wool. The

vicuña, which is not domesticated, has the world's finest wool. Vicuñas have been on the endangered species list for decades, but are rebounding, numbering close to 150,000 today. Vicuñas are protected under the CITES convention, which means their wool cannot be commercialized. The Peruvian government is lobbying to have the prohibition changed.

A potentially important source of income could come from Peru's virgin forest in the form of logging. The Peruvian government began overhauling its laws governing the timber industry in 2000, dividing up parcels and placing conditions on logging and exports of slow-growth hardwood trees such as cedar and mahogany. Together with Guyana, in northern South America, Peru is one of the few countries on the planet that has most of its forest reserves relatively untouched.

Despite its history of agriculture and immense natural wealth, agriculture has received little attention in the past few decades. The sector continues to struggle after years of government intervention in the 1960s and 1970s (when the military government undertook agrarian reform), and benign neglect throughout most of the 1980s and 1990s. For a brief period in the 1980s, during Alán García's presidency (1985–90), the government attempted to offer interest-free loans to farmers through a state-run farmers' bank. The bank was a failure, with negligible returns on loans and declining production.

Agriculture represents 13 percent of GDP but employs 30 percent of the country's population. The incoming government proposes upping the sector's percentage of GDP as well as its employment participation by focusing on **value-added** products and concentrating on **vertical integration**. Cotton production is one agricultural product that the government is attempting to increase through vertical integration. Cotton production is linked to the country's textile manufacturing. The country's textile industry exported more than US$700 million in 2000 and includes several vertically-integrated companies, such as Textiles San Cristobal, which produces for U.S. manufacturer Ralph Lauren and other high-end clothing companies. They run cotton plantations, thread and fabric factories, garment producers, and exporters of the final product.

The goal of Toledo's government is to get Peruvian textiles included in the list of products exported to the United States tariff-free under the Andean Trade Preference Act, passed in 1990. The Peruvian government is pushing for them to be included in an extension of the act, which is currently being negotiated. The Peruvian government believes that if textiles receive tariff-free status, there will be a boom throughout the textile industry, beginning in the cotton fields.

The government plans on doubling the number of acres dedicated to cotton in order to increase cloth production to feed the textile industry. Other targeted products include hard yellow corn for the poultry industry, coffee for the specialty coffee market in the United States and Europe, and sugarcane. Peru currently imports corn and sugarcane, despite its long history of development of both crops. According to the Department of Agriculture, Peru has been a net agricultural importer since 1980, with agriculture imports worth roughly US$200 million more than exports in 1999.

Hundreds of laws were passed under the previous administration to stimulate the agriculture sector. These included privatization of fallow lands and irrigation systems, as well as removing conditions on land ownership and tenure. However, the government failed to pass 2 important pieces of legislation governing community-owned lands and water rights. Without these 2 laws, large agroindustry projects will not be able to operate.

One of Peru's best-known crops is coca, which is the raw material used to make cocaine. In addition to coca, Peru also produces substantial quantities of marijuana and, in recent years, poppies used in opium production. The government, together with its U.S., European, and UN partners, has been reducing coca crops since the mid-1990s, with promising results. Coca crops have fallen from 276,000 acres in 1992 to 84,000 acres currently. Neighboring Colombia has passed Peru as the leading producer of coca.

INDUSTRY

FISHING. Peru is an international leader in fishing, producing nearly 10 percent of the world's fish catch. The cold-water Humboldt Current brings nutrient-rich cold waters that create ideal fishing grounds. Peru exported more than US$1 billion in fish products in 2000—most of it as fishmeal—and fished nearly 10 billion tons, making fishing the second-most important industry after mining. Fishing has been a mainstay in Peru for thousands of years, playing a key role in ancient societies. In modern times, fishing has boomed due to whaling in the late 19th century and demand for guano (bird dung), a byproduct of fishing found on small islands off the coast.

While always important, the full use of Peru's fishing resources did not occur until the mid-20th century with the introduction of fishmeal production. The star of the fishmeal, which is used for animal feed or fertilizer, is the Peruvian anchovy. For most of the 1960s and 1970s, Peruvian anchovies accounted for 44 percent of the world fish catch destined for non-human consumption. The fishing industry's participation in the GDP varies yearly, depending upon the catch and ocean conditions. In years when El Niño is present, such as 1998,

the sector's participation falls to below 1 percent of GDP. Fishing currently accounts for roughly 3.5 percent of GDP and, because it is not a labor-intensive industry, employs approximately 80,000 people.

The government began privatizing the fisheries industry, PescaPeru, in 1994 in a process that continues today. The government has sold its participation in all processing plants and fishing fleets, and is now preparing to privatize fishing ports as a general program to privatize all the nation's ports. The Fisheries Ministry is also beginning a process of privatizing experimental and research centers as well as fish-farming installations. The industry is facing another potential downturn because of the fear created by "mad cow" disease in Europe. The European Union nations voted in early 2001 to ban all feed products made from animals, including fishmeal. The scope of the ban was later reduced, but restrictions still apply. Peru's fishmeal exports to Europe declined by 41 percent in the first quarter of 2001.

MINING. Mining has been a central element in Peru's history for thousands of years. The Andes are rich in minerals and gold, and silver pieces can be found in numerous pre-Columbian societies. Mineral exports are a key to the country's economy, representing nearly half of Peru's exports in 2000. Peru ranks eighth worldwide in gold production (first in Latin America), second in copper, and among the top 5 producers of lead and zinc. Two of Peru's gold mines, Yanacocha and Pierina, are among the most productive and profitable gold mines in the world. Peru has an estimated 21 million fine ounces of gold reserves in mines currently under operation and 42 million fine metric tons of copper reserves. An additional 100 gold mines are predicted to come on line in the next 5 years. Also looming in the near future is the massive Antamina project, a Canadian-led mining operation that will require US$2.3 billion in investments and is expected to produce copper, zinc, lead, gold, and silver for the next 30 to 40 years. Antamina is the largest mining project underway in the world.

Mining activity and exports have grown exponentially since 1991, when the government adopted a series of new rules and tax benefits for large-scale mining, streamlined the process for filing a mineral claim, and allowed companies to re-invest upward to 80 percent of profits tax free. Mining exports grew from US$1.2 billion in 1987 to US$2.7 billion in 1997. Gold witnessed the greatest increase, rising from less than US$1 million in exports in 1987 to US$500 million in 1997. Gold exports are now US$1.2 billion, according to the World Gold Council.

Like fishing, however, mining is not a labor-intensive activity, creating few jobs and demanding huge investments for each job created. Nevertheless, mining represents one of the few money-making activities in the Peruvian highlands, particularly in areas higher than 12,000 feet above sea level where most mining operations are located. Mining represents 10 percent of GDP, according to the U.S. State Department's Country Commercial Guide.

MANUFACTURING. Because of its long dependence on raw material exports, Peru has never developed a strong manufacturing sector. The sector represents 15 percent of GDP and is tied heavily to mining, fishing, agriculture, and textiles. Manufacturing is mainly devoted to processing a percentage of the raw materials to gain a value-added advantage. The most promising sector is textiles, with Peru exporting nearly US$700 million in garments in 2000, mainly to the United States and Europe. Textiles represent the largest non-raw material portion of the Peruvian export economy. Peruvian textiles are currently exported **duty**-free to European Union nations under an agreement to help the country fight the drug trade. The U.S. Andean Trade Preference Act (ATPA), passed in 1991, has the same goal, exempting nearly 6,000 products produced in Bolivia, Colombia, Ecuador, and Peru (all major drug-producing nations) from tariffs. Textiles, however, were left off the list. The 4 governments are lobbying for the U.S. Congress to include textiles on the trade list when ATPA is renegotiated in December 2001. Peruvian garment makers generally produce high-end products for the U.S. markets, including brand names such as Ralph Lauren, Brooks Brothers, and Bobby Jones.

SERVICES

TOURISM. Tourism has represented a new growth industry in Peru since the early 1990s, with the government and **private sector** dedicating considerable energies to boosting the country's tourist destinations both to Peruvians and foreigners. Foreign tourist arrivals have jumped from approximately 90,000 in 1990 to more than 1 million in 2001, with a corresponding upswing in investment in services. The U.S. State Department's Country Commercial Guide estimates that US$330 million will be spent on new hotels alone between 2000 and 2005. The government estimates that 1 million new jobs will be created if it reaches the goal of 2.5 million tourists by 2005.

The public and private sector are promoting the country's tourist industry in 2 specific categories: **ecotourism** and historical/cultural tourism. The main draws are the Amazon rain forest and high Andes, including the Colca Canyon, the world's deepest, and archaeological sites such as Machu Picchu, considered to be the "lost city of the Incas."

FINANCIAL SERVICES. With the exception of Banco de Credito—Peru's largest financial institution (US$8.5 billion in assets)—nearly all the financial sector has fallen into foreign hands. The financial system has been on somewhat shaky ground since 1997, with a number of

bank mergers or failures. The number of banks in the system fell from 25 in 1998 to 16 in 2001. There were 2 interventions by the government to save banks in late 2000, and authorities say the system is solid although it might not be flush with cash.

RETAIL. Nearly all **retail** is concentrated in Lima and, with a few important exceptions, is controlled by foreign capital. The 2 major department store chains, Saga and Ripley, are Chilean-owned and one of the 2 supermarket chains, Santa Isabel, belongs to the Dutch conglomerate Ahold. The other supermarket, E. Wong, is Peruvian-owned and solid. Supermarket sales, however, account for less than 10 percent of overall sales nationwide. In the past 10 years, Peru has attracted international franchises from apparel to gas stations and fast-food chains, including McDonald's and Burger King. The most successful franchise in terms of profit has been Dunkin' Donuts.

INTERNATIONAL TRADE

Peru has had a trade deficit for the past few decades, with exports reaching US$6.7 billion (2000 estimate) and imports of US$7.4 billion (2000 estimate). The trade gap has narrowed since 1997, as the country has fallen deeper into recession and imports have declined. The United States is Peru's largest trading partner, absorbing 25 percent of the country's exports (1997). It is followed by China (8 percent, mainly minerals and fishmeal) and Japan (7 percent, mainly minerals). The United States is also the largest source of imports, representing 19 percent of goods. Other important sources for imports are Colombia (6 percent), Venezuela (5 percent), Chile (4 percent), and Brazil (4 percent). Major exports include fish products, minerals (gold, silver, copper, zinc, lead), agricultural products (coffee, asparagus), petroleum products, and textiles. Major imports include machinery, transportation equipment, food (wheat, corn, rice), petroleum, medical equipment, and iron and steel.

Peru is a founding member of the Andean Community of Nations, which groups together Peru, Colombia, Ecuador, Bolivia, and Venezuela. Peru has had difficulties with the group, and, under Fujimori, threatened to pull out. The Andean group has joined forces to lobby for an extension of ATPA and all nations are flirting with Brazil to test the possibility of adjunct membership in the Southern Cone Common Market (Brazil, Argentina, Uruguay, and Paraguay).

The incoming government promises to move the country away from raw material exports as a way of stimulating other industries and generating a trade surplus within 5 years. The emphasis will be on textiles, agroindustry (principally "niche" crops like asparagus where Peru has a comparative advantage because of climate), and fossil fuels. The massive Camisea natural gas fields, located in the south-central jungle region, should be completed within 3 years, giving Peru an energy surplus it hopes to export to Ecuador and Chile and possibly Brazil by hooking into a Bolivian natural gas pipeline already sending fuel to Brazil.

Trade (expressed in billions of US$): Peru

	Exports	Imports
1975	1.291	2.550
1980	3.898	2.499
1985	2.979	1.835
1990	3.231	3.470
1995	5.575	9.224
1998	5.723	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

MONEY

Peru has been in a recession since 1997, which has resulted in a tight money supply and declining internal consumption. Domestic demand fell by 0.9 percent in 1998 and by 2.4 percent in 1999. Demand did not increase in 2000, and the first quarter of 2001 showed that Peruvians were still cautious about spending their money. Demand growth for 2001 was estimated to be less than 1 percent, according to the U.S.-based Institute of International Finance.

While external factors like the economic crises in Asia, Russia, and Brazil affected the economy, the most serious effects came from political turbulence within Peru. Former president Alberto Fujimori's decisions to run for a third term in late 1999 and his victory in mid-2000 (in elections widely criticized as fraudulent), kept spending down and scared off foreign investors. The political crisis, which eventually saw Fujimori abandon the presidency and flee to Japan in November 2000, has had a negative effect on tax collection, with tax receipts dropping an average of 10 percent a month between October 2000 and February 2001.

Exchange rates: Peru

nuevo sol (S/.) per US$1	
Jan 2001	3.5230
2000	3.4900
1999	3.383
1998	2.930
1997	2.664
1996	2.453

SOURCE: CIA *World Factbook 2001* [ONLINE].

The crisis, however, has not affected the exchange rate or inflation, which have fluctuated but not taken off as in earlier times in Peru's history. Inflation has been declining annually since 1990, when it reached 7,600 percent. Inflation has been in low digits since the early 1990s and has been declining steadily since 1994, dropping from 15.4 percent to 3.7 percent in 2000. The currency has also remained stable, moving only from 3.38 nuevos soles to the U.S. dollar in 1999 to 3.5 by year-end 2000. The exchange rate in the first quarter of 2001 remained steady at 3.5 nuevos soles to the U.S. dollar.

The Peruvian government, in agreement with the International Monetary Fund, maintains a floating currency. The government has rejected any possibility of switching currency to the U.S. dollar, as has neighboring Ecuador, or pegging the rate to the dollar, as has Argentina in its "convertibility" plan.

The Lima Stock Market—re-opened in 1971—is relatively small, trading blue chips and local shares. Daily transactions average US$3.5 million.

POVERTY AND WEALTH

Despite years of promises and billions in social programs, the bulk of Peru's population (54 percent) lives in poverty, according to the *CIA World Factbook.* Of the poor, the UNDP estimates that 19 percent live in "absolute poverty," meaning they survive on less than US$1 a day.

The contrasts between rich and poor are clearly seen in Lima, the capital, which has more than doubled in size in the past 2 decades. The majority of the capital's population live in shantytowns, known as *pueblos jovenes* locally, most of which are perched on barren sand dunes near the Pacific coast or on rocky outcrops in the foothills of the Andes. The shantytowns surround upscale neighborhoods, most of which are a cross between Miami homes and Spanish villas.

Income distribution continues to be extremely skewed, with the top 10 percent of the population controlling 35.4 percent of the nation's wealth, while the bottom 10 percent controls just 1.6 percent. The gap is seen in access to basic services. While the wealthy neighborhoods have had access to potable water, waste removal, paved roads, and electricity for decades, these services are newcomers to most shantytowns. In fact, only in the 1990s did most of Lima receive electricity, and water for many areas is still brought in by cistern trucks.

Distribution of Income or Consumption by Percentage Share: Peru

Lowest 10%	1.6
Lowest 20%	4.4
Second 20%	9.1
Third 20%	14.1
Fourth 20%	21.3
Highest 20%	51.2
Highest 10%	35.4

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

The literacy rate in Peru is 88.7 percent and education is universal and free. An estimated 7 million children and adolescents are of school age. Of these numbers, the U.S. State Department estimates that 6 percent of children and 17 percent of young people either never attend or drop out of school. The high school drop-out rate in rural areas is more than 50 percent. An estimated 750,000 students attend nearly 50 state and private universities.

There are 455 hospitals and 1,083 clinics in Peru, serving a population of 27 million people. There are 23,700 doctors, 7,950 dentists, and 15,000 nurses.

The government tried to offset many of its social problems with programs, but these programs were aimed more at ensuring voter support than solving the root causes of the problems. In 2000, 60 percent of rural Peruvians and 40 percent of urban residents were receiving some sort of government aid through community soup kitchens, food give-aways, or school-based breakfast, lunch, or health-care programs. The incoming government has pledged to maintain most of the programs, but says it will de-politicize them.

The World Bank and International Monetary Fund estimate that the Peruvian economy needs to grow by 6 percent annually over a sustained period of time if the country is going to adequately reduce poverty levels. Compared to neighboring Bolivia and Ecuador, Peru is not doing poorly, but it lags well behind Chile and Colombia in terms of per capita income and access to goods and services.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Peru	2,835	2,777	2,452	2,012	2,611
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Ecuador	1,301	1,547	1,504	1,475	1,562

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Peru	26	7	17	13	5	7	25
United States	13	9	9	4	6	8	51
Brazil	22	13	18	15	34	4	−6
Ecuador	26	9	15	13	10	3	24

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

Because the Peruvian population is so young—with 53.8 percent of the population under the age of 25—the working-age population is growing by 300,000 people a year. The U.S. State Department's *2001 Human Rights Report* estimates the workforce to number 8.5 million, of whom 5 percent are unionized. Official unemployment, according to the International Labor Organization, was 10 percent in 2000, but even the government admits that the statistics are misleading. An estimated 60 percent of the population is underemployed. The workforce remains largely unskilled, with many skilled laborers leaving the country to search for work abroad. An estimated 1 million Peruvians now live abroad, the majority of them in the United States or Spain.

The government raised the monthly minimum wage to the equivalent of US$117 in March 2000. The U.S. State Department estimates that more than half the workforce earns less than the minimum wage.

The government began dismantling labor laws in the early 1990s as part of the efforts to streamline the economy, open the country to foreign investment, and privatize state-run industries. As a result, labor union activity has declined substantially with the Construction Workers Union and Teachers Union the only 2 organizations retaining a nationwide profile. Strikes called in 1999 and 2000 had little national importance. Under current laws, strikes not approved by the government are illegal.

The 1992 labor law made striking and collective bargaining difficult. While collective bargaining is legal, the law says it can only be carried out if it is "in harmony with broader social objectives." Local and international labor groups also complain about provisions that allow companies to hire 30 percent of the workforce on an "internship" basis, meaning 3-month contracts without social benefits. In addition to government changes to the laws, the Maoist Shining Path guerrillas also made it a policy to infiltrate unions or create their own unions as a way of weakening companies and whole economic sectors. While the Shining Path's leadership was jailed in 1992 and the group has all but disappeared, the stigma it created for unions remains.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1438–1530. Height of the Inca Empire, expansion north to Panama and south to Argentina.

1532. Francisco Pizarro lands in Peru and conquers the Incas.

1821. Independence from Spain is proclaimed.

1824. Independence is granted.

1879–83. War of the Pacific with Chile. Peru loses a large chunk of its southern territory, and its economy is destroyed.

1924. APRA party is founded.

1941. War with Ecuador.

1968. Left-wing military coup led by Gen. Juan Velasco. Agrarian reform begins; industries nationalized.

1975. Right-wing military coup; dismantling of statist model begins.

1980. Return to democracy. Fernando Belaúnde is elected president.

1980. Shining Path launches first attack.

1985. Alán García is elected president. Foreign debt cap is announced.

1988. The government attempts to nationalize the banks; economy collapses.

1990. Alberto Fujimori elected. Structural adjustment program announced. Inflation reaches 7,600 percent.

1992. Shining Path leadership arrested.

1993. Telephone company privatized for US$2 billion.

1995. Fujimori is re-elected.

2000. Fujimori re-elected in fraudulent May elections. He resigns in November.

2000. Valentin Paniagua takes over as interim president in November. Alejandro Toledo is elected Peru's new president.

FUTURE TRENDS

Peru is a nation rich in natural resources and human potential, but it has been plagued by political turmoil throughout its history. The country has had 109 presidents in less than 180 years as an independent nation. In 2000–01 alone it had 3 presidents. The past administration of Alberto Fujimori is accused of stealing as much as US$1 billion—roughly 10 percent of the government's annual budget—through bribes, kickbacks, and graft. Peru must rid its public administration of corruption if it hopes to attract foreign and local investors.

The current generation of politicians and economists are correct in pointing out that Peru needs to diversify its economy and its exports, relying less on raw materials and more on value-added goods. A decision to concentrate on the agricultural sector is sensible because it takes advantage of the country's natural wealth, exploits niches in the world market, and most importantly for Peruvians, creates jobs.

The government has hard choices to make in the coming years. The **budget deficit** cannot be greater than 1.5 percent of GDP as part of the agreement with the International Monetary Fund. Peru missed the target in 1999 and 2000, and another miss will not be taken lightly. The country needs to adopt a new round of reforms, including additional privatizations and reduced government spending, which will make already tough social conditions even more difficult. The government needs to find a balance where it can satisfy creditors and keep international channels open while making sure the basic needs of the population are met.

DEPENDENCIES

Peru has no territories or colonies.

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—Lucien O. Chauvin

PUERTO RICO

Commonwealth of Puerto Rico
Estado Libre Asociado de Puerto Rico

CAPITAL: San Juan.

MONETARY UNIT: U.S. dollar ($). One dollar equals 100 cents. There are coins of 1, 5, 10, 25, and 50 cents, and 1 dollar, and bills of 1, 2, 5, 10, 20, 50, 100, 500, 1,000, 5,000, and 10,000 dollars.

CHIEF EXPORTS: Pharmaceuticals, electronics, apparel, canned tuna, rum, beverage concentrates, medical equipment.

CHIEF IMPORTS: Chemicals, machinery and equipment, apparel, food, fish, petroleum products.

GROSS DOMESTIC PRODUCT: US$38.1 billion (purchasing power parity, 1999 est.).

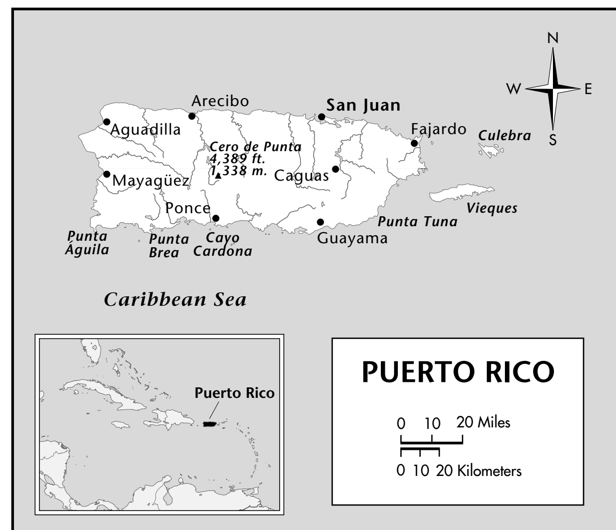
BALANCE OF TRADE: **Exports:** US$34.9 billion (f.o.b., 1999). **Imports:** US$25.3 billion (c.i.f., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Puerto Rico, an island situated between the Caribbean Sea and the Atlantic Ocean, lies just east of the Dominican Republic. With an area of 9,104 square kilometers (3,515 square miles), Puerto Rico is almost 3 times the size of the state of Rhode Island. As an island commonwealth with a coastline of 501 kilometers (311 miles), Puerto Rico shares no borders with other nations. San Juan, the capital, is located on the northeastern shore of the main island; there are also 3 small islands included in the Commonwealth: Vieques and Culebra to the east and Mona to the west. San Juan's location makes it one of the Caribbean Sea's most valuable ports. The Mona Passage, off Puerto Rico's west shore, is also a crucial shipping route to the Panama Canal. Major cities include Guánica, Playa de Ponce, and Guayanilla, all 3 along the southern coast, in east-to-west order. Puerto Rico's most important cities are port cities, vital to the Puerto Rican economy.

POPULATION. Puerto Rico's colonial history with Spain resulted in a racially mixed population (Spanish, African, and indigenous Taino), 85 percent of which is Roman Catholic. The population was estimated at 3,915,798 in July 2000, a growth of 10 percent between 1990 and 1999, according to the U.S. Census Bureau. People between the ages of 15 and 64 constitute two-thirds of the population, and people 14 and under make up roughly one-fourth. With an annual population growth rate of 0.56 percent as of 2000, the population is estimated to reach 4,117,633 by 2010. The average life expectancy of the population is 75.55 years.

Population growth is discouraged by the government, which supports family-planning programs and birth-control measures on the community and national levels. In the 20th century, large-scale migration to the U.S. mainland had slowed population growth and alleviated overcrowding, but since the 1990s there has been a growing movement of Puerto Ricans from the mainland returning to the island because of improved living conditions. The government also places high emphasis on education, which explains the high literacy rate on the



island (90 percent). Bilingual education measures are growing, and are the source of great debate on the island.

The population of Puerto Rico shows high concentrations in urban areas along the coastal lowlands. Several pairs of neighboring cities are virtually growing together due to urban expansion. For example, the capital and its surrounding areas have a population of more than 1.5 million. Still, almost 70 percent of the island's population remains rural.

OVERVIEW OF ECONOMY

Until about 1950, the Puerto Rican economy depended heavily upon the sugar plantations typical of Caribbean islands. By the mid-1950s, however, industry began to surpass agriculture as the base of the economy, especially in pharmaceuticals, electronics, textiles and clothing, petrochemicals, processed foods, and tourist-related businesses. By 1999, industry provided 45 percent of total GDP, and services provided 54 percent, with agriculture accounting for only 1 percent. Dairy and livestock production has replaced sugar as the leading source of agricultural income.

Puerto Rico is relatively poor in natural resources, which resulted in economic dependence on the United States. Imports include chemicals, machinery, food, textiles, and fuel, most of which come from the continental United States. Puerto Rico's ideal location, however, allows the island to profit greatly from trade and commerce, thanks to its many port cities. The island is situated on many paths between the Americas as well as paths from Europe to the Panama Canal.

Since Puerto Rico is a U.S. commonwealth, the United States has a large impact on the island's economy. Tax incentives and **duty**-free access to the island encourage the U.S. firms that have invested a great deal in Puerto Rico since the 1950s and that now dominate industry, finance, and trade on the island. An overwhelming majority of Puerto Rico's foreign trade is with the United States, but the North American Free Trade Agreement (NAFTA) also encourages Puerto Rico to trade with Canada and Mexico. Still, the economy relies heavily on the United States, and receives many forms of federal economic aid. The island's biggest government expenditures are in health, education, and welfare. As a U.S. commonwealth, Puerto Rico's **external debt** is part of the U.S. debt, but the island has a public debt approaching US$16 billion.

POLITICS, GOVERNMENT, AND TAXATION

The structure of the Puerto Rican government is similar to that of the United States, with executive, legislative, and judicial branches. The island has a governor and a resident commissioner who has a non-voting seat in the U.S. House of Representatives. The governor, 28-seat Senate, and 54-seat House of Representatives are popularly elected for 4-year terms. Members of the Supreme Court and lower courts are appointed by the governor with the consent of the Senate.

The 4 major political parties differ primarily in their views about whether Puerto Rico should change its relationship with the United States. The pro-statehood New Progressive Party emphasizes that the island is already economically dependent on the United States and believes that making the island a state would gain it representation in Washington. The Popular Democratic Party emphasizes the economic incentives that the island enjoys under its commonwealth status, including federal tax exemption and foreign-investment incentives. The 2 other major parties, the Puerto Rican Independence Party and the Puerto Rican Socialist Party, advocate independence for the island state. These latter parties are much smaller and less significant.

The Puerto Rican government is heavily involved in its economy. Fomento, the island's Economic Development Corporation, stimulates and guides economic growth. Since the 1950s, government involvement in economic affairs has included Operation Bootstrap, a plan to mix local labor and foreign investment by boosting industrialization based on exports; Fomento's efforts to promote petrochemicals and advanced technology industries in the 1960s; and high government spending in social welfare programs. In 1994, the government created the Foreign Trade Board to stimulate foreign investment and encourage exports. The board was mainly concerned with providing support to small businesses that had the potential to export goods to foreign markets. Puerto Rico's was the first economy in the world to become industrialized around a program that fully relied on exports, and Puerto Rico continues to focus its efforts on an economy for export, bolstering its image as an ideal location for tourism and business.

Since there is no official representation in the U.S. government, Puerto Rican citizens on the island do not pay federal taxes, although they do enjoy U.S. citizenship. Customs taxes and **excise taxes** on imports and exports go to the federal treasury. The island also has welfare programs similar to those in the United States. Today more than ever, the U.S. government plays a large role in Puerto Rico's economy, via tax incentives and exemptions, duty-free access, and wage and **infrastructure** incentives that encourage large U.S. firms and corporations to invest in the island's economy. As a U.S. commonwealth, Puerto Rico controls only its internal affairs; the U.S. federal government controls all interstate and international trade relations. The island has no military of its own, so, unlike the situation in most of Latin America, the military exerts no control over the economy. The

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Puerto Rico	1.322 M	169,265 (1996)	AM 72; FM 17; shortwave 0	2.7 M	18	1.021 M	76	110,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
Cuba	473,031 (2000)	2,994	AM 169; FM 55; shortwave 1	3.9 M	58	2.64 M	4 (2001)	60,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

island's tax system is independent of the U.S. tax system, with the U.S. legislature deciding how tax revenues are spent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Except for its lack of a public railway system, Puerto Rico has a well-developed infrastructure and transportation network. The island's minimal railways are used only for hauling sugarcane. The vast majority of the island's 14,400 kilometers (8,949 miles) of roadways are paved. Some 30 international and domestic airports allow for easy access to various cities on the island and provide transportation for industry and tourism. Economically speaking, the most important form of transportation in Puerto Rico is by water. Puerto Rico's location between the Americas and en route to the Panama Canal, coupled with its valuable port cities, boosts the economy through trade and commerce. There is no Puerto Rican merchant marine; the majority of its ships are owned by the United States. The advanced infrastructure and transportation systems also make it easier to profit from the booming tourism industry.

Power is widely available on the island, with even isolated rural villages receiving electricity and running water. The island is self-sufficient in power production; it produces and consumes almost 18 billion kWh each year (1998). Puerto Rico generates 98 percent of its electric power from oil, with coal and hydroelectric power accounting for the remainder. PREPA, the Puerto Rico Electric Power Authority, is the only distributor of power on the island.

Puerto Rico's media include a free press, some of which is independent and some of which is politically aligned. Local and U.S. mainland newspapers are easily accessible. The 2 major daily papers on the island are *El Vocero de Puerto Rico* and *El Nuevo Día*. Radio and television are easily accessible, and have programs similar to those on the U.S. mainland. As of 1997 there were 18 television stations and 3 stations of the U.S. armed forces. Islanders owned more than 1 million televisions and 2.7 million radio sets. Puerto Rico has a modern telephone network, integrated with the United States. The network includes digital and cellular services, and 18 Internet service providers.

ECONOMIC SECTORS

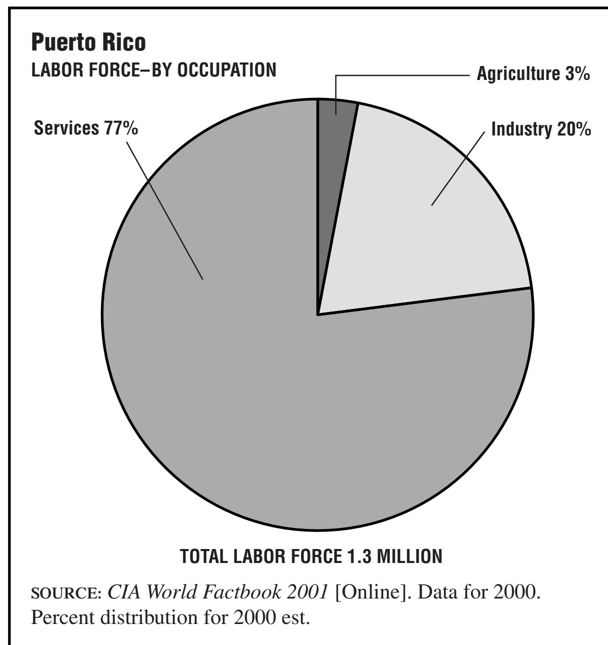
Before the 1950s, the Puerto Rican economy was typical for a Caribbean island, relying heavily on the plantation system. Agriculture was the primary source of income, and sugar production was particularly vital. From about 1950, largely due to government involvement in the island's economy, the industry and service sectors experienced exponential growth and quickly replaced agriculture as the foundation of the economy. As of 1999, agriculture provided only 1 percent of the island's GDP

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Puerto Rico	8,200	8,600	9,000	9,800	10,000
United States	28,600	30,200	31,500	33,900	36,200
Jamaica	3,260	N/A	3,300	3,350	3,700
Cuba	1,480	1,540	1,560	1,700	1,700

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 2000 est.

and provided jobs for only 3 percent of the island's **workforce**. Foreign investment incentives offered by the U.S. federal government have attracted much foreign capital, and by 1999, the industry sector produced 45 percent, and the service sector 54 percent, of total GDP. The island depends heavily on trade, commerce, and tourism, the latter of which is the most rapidly growing sector of the Puerto Rican economy currently.

AGRICULTURE

Puerto Rico lacks arable flat lands and natural resources. The only truly abundant resources on the island are clay, sand, and limestone. Despite these drawbacks, Puerto Rico depended heavily on agriculture until the mid-1950s, when industry and services showed rapid growth and development. Sugar, exported in large quantities to the United States, was the primary **cash crop**. Other major crops were coffee and tobacco. The production of these 3 crops has declined considerably since the 1950s, although sugar production is still important for the production of rum and molasses. Despite expansion in dairy products, livestock, poultry and eggs, and exotic citrus fruits, the importance of the agricultural sector has diminished. In addition, tropical and hard woods supply a very small furniture industry on the island. From an environmentalist standpoint, deforestation rates are almost nonexistent. Game fishing exists in the coastal regions, but most of the island's fish come from the U.S. fishing industry in waters closer to Africa. These U.S. fleets bring their catch to Puerto Rico to be processed and exported.

INDUSTRY

MANUFACTURING. With the government-run Operation Bootstrap, Puerto Rico began intensive industrialization efforts and strong economic development in the late 1940s and early 1950s. Investment incentives and tax exemptions also encouraged foreign investment in industry, and the island's labor force shifted from agriculture to manufacturing. The manufacturing sector also saw a rapid shift from labor-intensive industry (food, tobacco, leather, and clothing) to capital-intensive industry (pharmaceuticals, chemicals, machinery, metal products, and electronics). Industry now accounts for 45 percent of the island's GDP, while manufacturing accounts for almost three-fourths of that percentage. Many manufacturers are offshore extensions of U.S. companies, importing raw materials mainly from the United States, adding value with low-cost labor, and then exporting products back to the United States and other wealthy nations. Some 161 of the Fortune 500 companies have facilities in Puerto Rico. Major U.S. companies operating in Puerto Rico include the Pepsi-Cola Bottling Company, K-Mart, Walgreen's, Woolworth's, and Kraft General Foods.

CONSTRUCTION. The construction industry in Puerto Rico is one of the most rapidly growing components of the economy, particularly in response to heavy expansion in manufacturing and tourism. In 1994, Governor Pedro Rosello backed a US$7.5 billion construction project with aims to improve the country's image and tourist appeal. Large sums of money have been allocated to the construction of hotels, roads, and infrastructure, and the renovation of existing tourist industries. The Transportation Infrastructure Finance and Innovation Act of 1999 approved US$1.7 billion for the construction of a rail system called Tren Urbano. As with most industries, the United States backs the majority of the construction companies, and most materials and machinery parts are imported from the United States as well.

SERVICES

TOURISM. With visitors spending over US$2 billion each year, tourism has blossomed as the fastest growing industry on the "Enchanted Island" (the tourism marketing slogan). Puerto Rico's attractive beaches and tropical climate are perhaps the island's greatest natural assets. Virtually all of the major cities are coastal tourist attractions; the most popular include San Juan, Ponce, Mayaguez, Bayamón, and Caguas, which together attracted more than 4 million tourists each year during the 1990s. Puerto Rico's uniquely blended African, Spanish, and indigenous Taino traditions have produced colorful and diverse cuisine, music, and customs that appeal to the international tourist. The island has also effectively developed its transportation network to enhance the tourism indus-

try. Some 30 airports (domestic and international) provide easy access to a variety of locales on the island. Hotels, restaurants, and **retail** stores and centers have multiplied nearby.

Tourism produces 7 percent of the island's GNP and employs more than 60,000 islanders, a figure that is rapidly increasing. Hotels provide over 12,000 rooms, operating at full occupancy. Hotels built on the island enjoy a 90 percent local tax exemption while hotels built on Vieques and Culebra receive 100 percent exemptions. These exemptions also apply to condominiums, inns, theme parks, golf courses, marinas, and land used for other tourism-related activity. Largely due to the 1993 Tourism Incentives Act, the government is repaving roads, erecting signs and billboards around cities, financing a US$30 million facelift for the island's main airport, pouring money into cruise ships, and investing large sums of money in every aspect of the industry.

FINANCIAL SERVICES. By far, the United States is the island's largest trading and financial partner. More than one-third of U.S. investment in Latin America goes to Puerto Rico. Banks, retailers, hotels, restaurants, airlines, and many other firms have capitalized on the island's economy and have taken advantage of the booming tourism sector. The U.S. monetary system and tax incentives are among many forces that attract international investment in Puerto Rican finances.

Local corporations own most commercial banks. Banco Popular is the largest one, with more than 100 branches. The government owns and operates 2 banks: the Government Development Bank (GDB) and the Economic Development Bank (EDB). There are also several foreign-owned banks and 2 U.S. banks on the island: Citibank and FirstBank. The Federal Deposit Insurance Corporation insures all banks, which are subject to U.S. banking regulations and federal controls.

INTERNATIONAL TRADE

Puerto Rico's economy is highly dependent on imports and exports, both of which doubled between 1987 and 1997. In 1999, the island imported US$25.3 billion in goods, and it exported US$34.9 billion. For a century, the United States has been by far Puerto Rico's largest trading partner, accounting for 60 percent of imports and 88 percent of exports in 1999. The remainder of the island's trade is with various nations from Europe, Asia, and the Americas. The United States has created a variety of incentives for foreign investment in Puerto Rico, including tax incentives and exemptions, the use of U.S. currency, and government-backed startup costs. The island imports chemicals, machinery and equipment, clothing, food, fish, petroleum products, and raw materials; it exports pharmaceuticals, electronics, apparel, canned tuna, rum, beverage concentrates, and medical equipment.

Exchange rates: Puerto Rico

US$	
Jan 2001	1.0000
2000	1.0000
1999	1.0000
1998	1.0000
1997	1.0000
1996	1.0000

Note: US currency is used in Puerto Ricos.

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

As a commonwealth of the United States, Puerto Rico enjoys many benefits of the stable U.S. dollar, referred to as a "peso" by most local people, and the U.S. central banking structure. Economic trends tend to follow those on the mainland, and the dollar retains a relatively strong and stable monetary value. The monetary stability gives the island an advantage over many other Latin American countries. Puerto Rico's per capita income at **purchasing power parity** (an economic measure of the strength of a nation's currency) of US$9,800 (1999 est.) is one of the highest in all of Latin America, and the **inflation rate** is a relatively low 5.2 percent.

POVERTY AND WEALTH

The average family size in Puerto Rico is 3.6, and the average family income is just over US$27,000. The government has consistently focused on making education, health care, and better housing more available to the population. Some 7 percent of the island's GDP is earmarked for education. Although literacy has increased to 90 percent, and most children complete at least 8 years of school, a high drop-out rate is still a problem for Puerto Rico. The University of Puerto Rico,

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Puerto Rico	8,200	8,600	9,000	9,800	10,000
United States	28,600	30,200	31,500	33,900	36,200
Jamaica	3,260	N/A	3,300	3,350	3,700
Cuba	1,480	1,540	1,560	1,700	1,700

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

the main public university, offers a wide variety of programs. There are also several private universities. Vocational schools have recently helped to combat unemployment rates.

Health conditions and standards are approaching those of the United States. The government funds urban and rural health clinics to provide basic health care on a local level. Medicare, Medicaid, and other social programs have also contributed to maintaining health standards. The Urban Renewal and Housing Corporation oversees a broad range of specialized housing programs and focuses on projects in low-income areas. Although birth control and family planning efforts have helped reduce population growth, improved conditions on the island have recently encouraged many Puerto Rican outmigrants to return from the continental United States, which puts more strains on health-care delivery and housing.

Although Puerto Rico's per capita GDP is remarkably high in comparison to the rest of the Caribbean, it is still lower than the per capita GDP of the poorest U.S. state, Mississippi. Even though the GDP is growing more rapidly than the island's population, about half of the people in Puerto Rico receive Food Stamps, a benefit available only to those whose incomes fall below a certain level.

WORKING CONDITIONS

The largest obstacles to better working conditions in Puerto Rico are overcrowding, its high unemployment rate of 12.5 percent (1999 est.), and its high drop-out rate. Since Operation Bootstrap in the 1950s, the government has consistently worked to reduce unemployment. Working conditions in Puerto Rico are better than most in Latin America, largely due to its U.S. commonwealth status. U.S. labor laws, including those regulating minimum wages and workplace safety, apply to Puerto Rico and protect workers from abuse. Four major labor unions, with 115,000 members, protect workers' interests. The largest of them is the General Confederation of Puerto Rican Workers, with 35,000 members.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

PRE-1400s. Puerto Rico is inhabited by the Taino Indians.

1493. Christopher Columbus arrives; gold mining begins.

1508. Formal Spanish colonization begins.

1509. Repartimiento begins (a system of using the indigenous population as indentured labor).

1513. Spain brings first African slaves to the island.

1519. Spain establishes a capital at San Juan.

1530. Sugar becomes the most important agricultural product.

1570. Gold mines are depleted by the Spaniards.

1598. The British Navy conquers Spanish forces and holds the island for several months. Ginger emerges as the primary cash crop.

1810s-1820s. Liberal Party gains more political support; the island gains experience in self-government.

1897. Spain gives Puerto Rico powers of self-government.

1898. Spain cedes Puerto Rico to the United States after the Spanish-American War.

1917. United States grants Puerto Rico partial self-government powers.

1930s. Political parties organize around statehood/independence issue, a debate that continues into the 21st century.

1940. Overpopulation becomes a serious problem.

1946. The first native governor, Jesus T. Piñero, is appointed by the United States.

1952. Puerto Rico becomes a U.S. commonwealth under a constitution following the U.S. model.

1950s. Operation Bootstrap shifts economic priorities from agriculture to labor-intensive manufacturing industries.

1967. Commonwealth status is approved in a plebiscite, the first time Puerto Ricans vote for the status of their own island.

1987–97. Imports and exports double in value.

1992. North American Free Trade Agreement (NAFTA) is signed by the countries of North America, encouraging more trade between Puerto Rico and Canada and Mexico.

1993. Commonwealth status is approved by a very narrow margin over statehood in a controversial plebiscite boycotted by many voters.

1994. The Foreign Trade Board is established to promote foreign business and investment.

FUTURE TRENDS

Puerto Rico has excellent prospects for future economic growth and development. The incentives for do-

mestic and foreign investment provided by the U.S. government are highly successful and show no signs of slowing down. The island's severe lack of natural resources has been overcome by the practice of mixing local labor with external capital to produce a booming import/export economy. Improving social and economic conditions on the island may slow economic progress as Puerto Rican outmigrants return to the island from the continental United States. It is unlikely that the small independence movement will gain enough strength to be effective, but the United States is bound to respect Puerto Rican self-determination in regular plebiscites. If Puerto Ricans were to choose independence over commonwealth status, economic stability would be a significant challenge. Realistically speaking, the Puerto Rican economy is strong and well developed, and all signs point to a future of growth and prosperity.

DEPENDENCIES

Puerto Rico has no territories or colonies.

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—David L. Childree

ST. KITTS AND NEVIS

Federation of Saint Kitts and Nevis

CAPITAL: Basseterre.

MONETARY UNIT: The currency of St. Kitts and Nevis is the Eastern Caribbean dollar (EC$). One EC dollar equals 100 cents. There are coins of 10, 20 and 50 cents, and notes of 5, 10, 20, and 100.

CHIEF EXPORTS: Machinery, food, electronics, beverages, tobacco.

CHIEF IMPORTS: Machinery, manufactures, food, fuels.

GROSS DOMESTIC PRODUCT: US$274 million (purchasing power parity, 2000 est.).

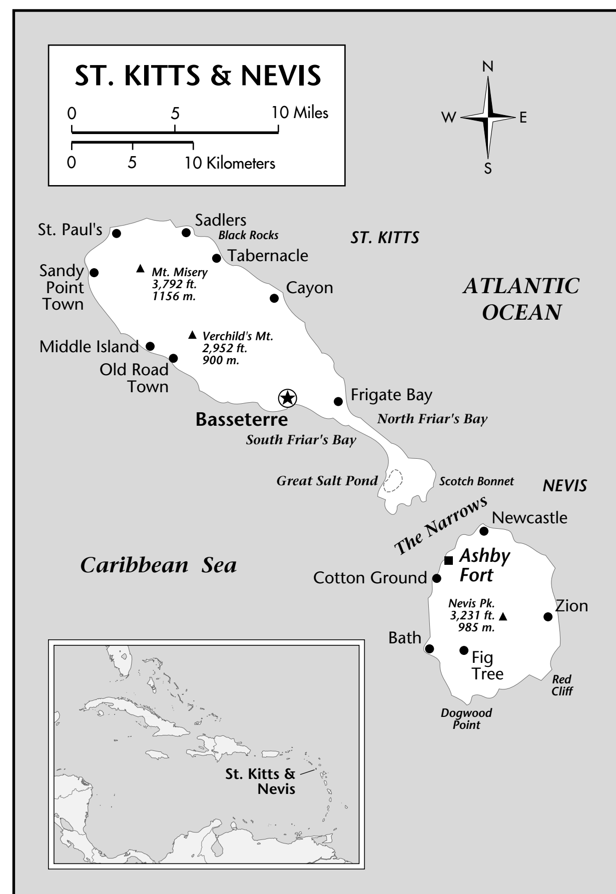
BALANCE OF TRADE: **Exports:** US$53.2 million (2000 est.). **Imports:** US$151.5 million (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. St. Kitts and Nevis are islands in the Caribbean Sea, in the Leeward Island chain to the west of Antigua. The area of the twin-island state is 261 square kilometers (101 square miles), with St. Kitts occupying 168 square kilometers (65 square miles) and Nevis 93 square kilometers (36 square miles). The country is approximately 1.5 times the size of Washington, D.C., and has a coastline measuring 135 kilometers (84 miles). The capital and main settlement of St. Kitts, Basseterre, is on the island's southern coast, while Charleston, the main town of Nevis, lies on the west coast.

POPULATION. The population of St. Kitts and Nevis was estimated at 38,819 in July 2000, a fall of 0.22 percent on the previous year's figure and a decline from the mid-1998 estimate of 40,700. According to the Caribbean Development Bank (CDB), the islands' population declined by an annual average rate of 2.4 percent between 1995 and 1998. The principal reason for the falling population is **emigration**, estimated at 11.85 migrants per 1,000 population in 2000. This migration is caused by **labor mobility** and a lack of employment and other opportunities on the islands.

Most Kittitians and Nevisians are of African descent, and there are smaller communities composed of people of mixed race and European descent. There is a small community in St. Kitts descended from immigrants of Middle Eastern origin. The population is fairly evenly distributed over age groups, with 30 percent of people aged between 1 and 14.



OVERVIEW OF ECONOMY

St. Kitts has been extremely dependent on sugar production, and, until the 1980s, sugar was the island's principal export and source of employment. Nevis, less fertile than St. Kitts, was a cotton-producing island. Both, however, have diversified their economies over the last 3 decades, although the sugar industry remains an important employer in St. Kitts. Currently the major industry in the islands is tourism, encouraged by government investment in cruise ship facilities and by **private-sector** investment in hotels.

In the late 1990s St. Kitts and Nevis were badly affected by recurring hurricanes. Extensive damage to agriculture and buildings occurred after Hurricane Georges in 1998 and Hurricane Lenny in 1999. In 1999 the government estimated that Hurricane Georges had caused over US$400 million of damage and was forced to turn to the International Monetary Fund (IMF) for emergency assistance with reconstruction. The devastation slowed tourist arrivals, due to damaged **infrastructure** and closed hotels, and also reduced the 1999 sugar crop. Construction, on the other hand, increased as people repaired their homes and the government rebuilt infrastructure.

The government has partly succeeded in reducing the country's dependence on sugar by encouraging other forms of agriculture, manufacturing, and financial services, as well as tourism. The light manufacturing sector includes electronic components, textiles, and packaging, for the U.S. market, while 1 industrial estate specializes in heavy operational machinery. Tourism, despite natural disasters, showed steady growth throughout the 1990s, and the government is attempting to build up an offshore financial sector. Nevis already has an international reputation as an established "**tax haven**."

St. Kitts and Nevis has a mix of small, local companies and larger, U.S.-owned corporations. The state sector is still large, despite attempts by the government to divest itself of the state-owned and anachronistic Sugar Company, which drains government resources and remains a liability rather than an asset. Despite this state of affairs and diversification, sugar continues to occupy a large place in the islands' economic and social life. One persistent cause for concern is the country's growing debt, made worse by hurricane damage and the need to borrow to pay for reconstruction projects.

POLITICS, GOVERNMENT, AND TAXATION

Since gaining its independence from the United Kingdom in 1983, the federation of St. Kitts and Nevis has experienced some turbulent political developments, particularly a concerted move by Nevisians to secede from the federation. There have also been political crises relating to disputed election results, alleged drug trafficking, and other forms of corruption.

In St. Kitts the main political party is the St. Kitts and Nevis Labour Party (SKNLP), which won elections in 1995 and 2000. Dominant in the 1960s and 1970s under self-government, in 1995 the SKNLP replaced a coalition government headed by the People's Action Movement (PAM), which remains the main opposition party. In Nevis the main party is the Concerned Citizens' Movement (CCM), which advocates secession from the federation and is opposed by the Nevis Reformation Party (NRP). A referendum on the issue of secession was held in Nevis in 1998, with 61.7 percent of the electorate voting in favor (just short of the two-thirds majority required for constitutional change). Relations between the 2 islands are sporadically tense, with Nevisians accusing St. Kitts of benefiting from their taxes without providing adequate services from central government.

Since its election in 1995, the SKNLP has made progress in modernizing the country's economy and attracting investment in manufacturing, tourism, and financial services. The party differs little from the PAM in terms of its general pro-business outlook but has attempted to put an end to the alleged corruption and drug-related activity that occurred in the early 1990s. Then in 1994 several high-profile murders occurred and British police officers were invited by the government to assist with anti-drug operations. The main issue of political difference remains between St. Kitts and Nevis, a conflict reminiscent of Anguilla's rebellion in 1969, which was based on Anguilla's desire not to be part of a state with St. Kitts and Nevis.

The government of St. Kitts and Nevis is able to exert considerable influence on economic development with its management of the state sector (which includes the money-losing St. Kitts Sugar Manufacturing Corporation), its policies on foreign investment, and taxation. About the former, it has tried to increase foreign investment by offering tax concessions and other inducements to companies and individuals willing to invest in a range of industries and sectors. Government policy on taxation has been to increase needed revenue by spreading the range of taxation over sales taxes, property taxes, fees, and other taxes paid by foreign businesses. There is no personal **income tax**, but the government raised electricity and water **tariffs** and introduced a substantial rise in petroleum prices in 2000. The revenue earned through these measures was offset by falling income from taxes on hotel-room occupancy and other forms of tourist expenditure in the wake of hurricanes.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
St. Kitts & Nevis	17,000	205	AM 3; FM 1; shortwave 0	28,000	1	10,000	16	2,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
St. Lucia	37,000	1,600	AM 2; FM 7; shortwave 0	111,000	3	32,000	15	5,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

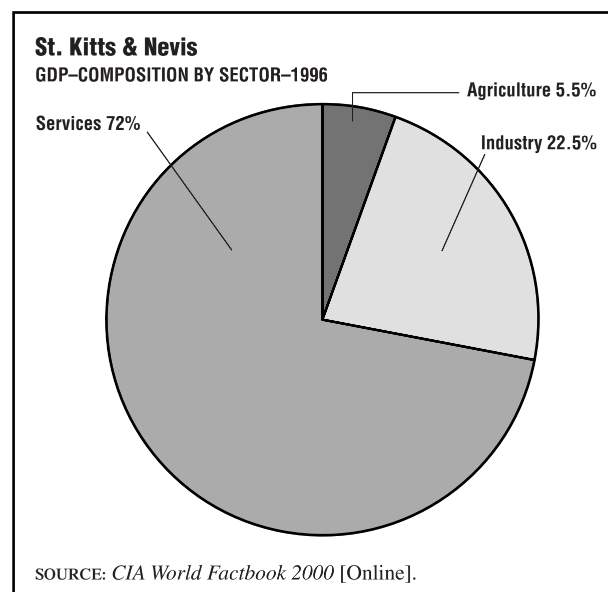
The road infrastructure in the islands is adequate though underdeveloped, with 320 kilometers (199 miles) of roads of which 136 kilometers (84 miles) are paved. There are 58 kilometers (36 miles) of railway track on St. Kitts for transporting sugarcane only. A deep-water port was opened in Basseterre in 1981, and more recently, the government has invested in cruise ship facilities in the capital, creating the Port Zante terminal that can receive 2 cruise ships at once. Other ports and harbors are less developed, and in Nevis there is only a small jetty at Charlestown. The main airport, R.L. Bradshaw International, is near Basseterre and can handle international flights. Nevis, on the other hand, has only a small airport and receives most of its tourists through St. Kitts, another source of friction between the 2 islands. The main focus for tourist infrastructure is now St. Kitts' southeast peninsula, where there are several large resorts. Much of the island, however, is undeveloped in tourism terms, but there are several hotels and guesthouses in former plantation houses.

St. Kitts and Nevis has no natural power resources and is obliged to import fuel, mostly oil from Trinidad and Tobago, for electricity generation. According to the CIA Handbook, electricity generation in 1998 was 85 million kilowatt hours (kWh) and consumption was 79 million kWh. Telecommunications have improved in recent years, with widespread access to telephones and growing use of cellular phones and the Internet. There are no recent statistics, however, regarding telecommunications.

ECONOMIC SECTORS

Although an important employer and source of export earnings, agriculture accounted for only 5.5 percent of the **gross domestic product** (GDP) in 1996. According to World Bank figures, by 1999 its share had decreased still further to about 3.6 percent of the GDP. This drop represents a massive fall from the 1960s when sugar was the major economic force on the island, contributing 25 percent of the GDP, and 1979 when agriculture represented 15.5 percent. Sugar remains the largest employer and source of revenue in agricultural terms.

Industry was estimated to contribute 22.5 percent of the GDP in 1996 and, according to the World Bank, 23.8 percent in 1999. Industry has always represented a high percentage of the GDP in St. Kitts and Nevis because the country has well-established, traditional manufacturing such as sugar refining.



SOURCE: *CIA World Factbook 2000* [Online].

The services sector has shown sustained growth, rising from 59.6 percent of the GDP in 1979 to 72 percent in 1996. The World Bank figure for 1999 is almost unchanged at 72.6 percent. The main service sector is tourism, but financial services are becoming an increasingly important source of revenue.

AGRICULTURE

The first British colonial possession in the Caribbean, St. Kitts with, to a lesser degree, Nevis, was among the earliest plantation economies in the region. Sugar production dominated the island for 350 years. According to Eric Williams in his *From Columbus to Castro: The History of the Caribbean, 1492–1969,* in 1897, when the peak of sugar production was long past, St. Kitts still had over 15,000 sugar workers, 136 factories, and 35 plantations with over 500 acres each.

What remains is a fragment of the former industry, but the extensive plantations of the St. Kitts Sugar Manufacturing Corporation (SSMC) still employed about 10 percent of the **labor force**, or 1,500 people, in 1994. In government hands since 1975, the SSMC loses money each year, and its output is subsidized by the government through the state-owned National Bank. According to the *St. Kitts-Nevis Observer,* production costs per ton are 25 percent higher than the price received from the European Union (EU), which offers the country a guaranteed annual quota of 15,600 tons. The United States also buys a fixed annual quota of sugar from St. Kitts-Nevis at above world market prices. But despite these preferential markets, the SSMC is a loss-maker, costing the government the equivalent of 3.5 percent of the GDP annually. In his 2001 New Year speech, Prime Minister Denzil Douglas spoke of the urgent need to reduce the SSMC's losses by divesting itself of its land and other assets to avoid a "national disaster."

The situation has been worsened by recent hurricane damage. In 1999 exports fell 24.7 percent from the previous year, totaling 17,178 tons and earning only US$9.6 million. This followed a brief upsurge in 1997, when production reached 31,374 tons. Bad weather conditions caused the tonnage of cane cut per hectare also to fall from 65 in 1998 to 53.5 in 1999. There is a recurring labor shortage in the industry since few younger Kittitians want to work long and hard hours for little reward. The government has been obliged to contract seasonal cane cutters from Guyana, and there have been complaints of low wages paid to these temporary workers and of their poor conditions.

The government has been encouraged by the IMF and others to diversify the country's agricultural output and to reduce the high food imports. There has been an increase in vegetable cultivation on St. Kitts, while Nevis produces sea-island cotton and coconuts. One successful by-product of the otherwise ailing sugar industry is cane spirit, a white rum exported to Europe or North America.

INDUSTRY

Traditional industries such as sugar refining, rum distilling, and tobacco processing are well established in St. Kitts. The island has also witnessed the steady growth of newer manufacturing interests in recent years, leading to a 23.8 percent share of the GDP in 1999. In fact, 4 industrial sites have been developed, specializing in heavy machinery, electronic components, and other manufactured goods destined for the North American market. Garment manufacturing has expanded since the mid-1990s and now accounts for a large share of export earnings. Upgrading the Port Zante harbor complex in Basseterre enables large container ships to call, further enhancing St. Kitts' attractiveness as an offshore manufacturing base. According to the World Bank, manufactured exports were valued at US$20 million in 1998 and 1999, suggesting that this sector was the least affected by hurricane damage. There is no manufacturing on Nevis. In 1997 the IMF estimated that 1,290 people worked in the manufacturing sector.

SERVICES

TOURISM. This sector was badly hit by the effects of the hurricanes in 1998 and 1999. The country had just started to rebuild after Georges in 1998 when Lenny created substantial damage in 1999. The Port Zante complex, where the pier and terminal buildings are located, suffered serious damage. In Nevis, the only large hotel was forced to close for 6 months, resulting in lay-offs of staff (although many were employed to re-landscape devastated gardens) and decreased government revenue. Overall visitor arrivals, both of those staying over and those on cruise ship calls, fell about 15 percent in 1999, with a resulting decrease in visitor expenditure from the 1998 figure of US$75.7 million.

Tourism has become important to St. Kitts and Nevis, which has created a network of often small but upmarket hotels and guesthouses in former plantation houses. Larger hotel complexes exist as well, especially in the Frigate Bay area of St. Kitts where there are golf courses, casinos, and condominiums. Cruise ships have become an important part of the tourist industry, especially since the construction of the Port Zante terminal. Tourism is vital to Nevis, where manufacturing and other economic activity is much less diversified than in St. Kitts. There is considerable concern that any slowdown in the United States or European economies could have a serious effect on the tourist industry if U.S. and Euro-

pean consumers should decide they cannot afford a Caribbean vacation.

FINANCIAL SERVICES. As elsewhere in the Eastern Caribbean, financial services are of growing importance. This is especially true in Nevis, which has a reputation as an efficient and discreet tax haven. Most investors are based in North America and Europe, and few are local. The banks and other businesses offer services to customers, individuals, and businesses seeking to avoid taxation in the countries in which they are based. According to the IMF, the current legal framework "provides for a high degree of confidentiality and for income tax exemption." In early 2001 the international Financial Action Task Force (FATF), supported by European and North American governments, named St. Kitts and Nevis, among other Caribbean countries, as a suspected location of financial irregularities. The government has agreed to close loopholes in its legal and regulatory structures about offshore financial transactions. There are several dozen banks and other businesses based in St. Kitts-Nevis, but they provide little local employment, as most business is conducted electronically. Details as to customer identity and the value of deposits are well-kept secrets.

INTERNATIONAL TRADE

St. Kitts and Nevis imports approximately 4 times more value than it exports (US$160 million in imports against US$42 million in exports in 1998). This trade imbalance is only partly offset by tourism and other service revenues. Most troubling is the large food import bill, much of which is due to foodstuffs imported for the tourist sector but which also suggests that the islands are dependent on imports for basic nutritional requirements. Other imports are machinery, cars, fuel, and—since the recent hurricanes—building materials.

According to 1995 figures (the most recent available), the United States was the most important export market, taking 68.5 percent of merchandise, mostly garments and electronic components. The United Kingdom took 22.3 percent of exports, primarily sugar, while Caribbean Community (CARICOM) countries received the remainder of exported goods. The United States was also the main source of imports (42.4 percent), with CARICOM countries supplying 17.2 percent, primarily food and fuel.

Trade (expressed in billions of US$): St. Kitts & Nevis

	Exports	Imports
1975	.022	.024
1980	.024	.045
1985	.020	.051
1990	.028	.110
1995	.019	.133
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: St. Kitts and Nevis

East Caribbean dollars (EC$) per US$1	
2001	2.7000
2000	2.7000
1999	2.7000
1998	2.7000
1997	2.7000
1996	2.7000

Note: The rate for St. Kitts and Nevis has been fixed since 1976.

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

Hurricanes notwithstanding, St. Kitts and Nevis enjoyed average annual GDP growth rates of 5 percent in the 1990s. **Inflation** has also been low, largely because St. Kitts and Nevis is a member of regional financial institutions such as the Eastern Caribbean Central Bank (ECCB). The Eastern Caribbean dollar, a currency shared with the 7 other members of the ECCB, is stable and has been pegged at a rate of EC$2.7 to US$1 for many years. Thus St. Kitts and Nevis is not too vulnerable to fluctuating **exchange rates**, although transactions with EU countries have been affected by the low value of the euro. There are plans for ECCB member countries to participate in a regional stock exchange, further integrating the economies of the small islands. In its 2000 analysis of the St. Kitts and Nevis economy, the IMF "considered that the exchange rate system operated by the Eastern Caribbean Central Bank has served the country well in maintaining **macroeconomic** stability and low inflation."

The ECCB is headquartered in Basseterre, and there are 3 major international banks as well as the international business companies (IBCs) that operate in the financial services sector.

POVERTY AND WEALTH

St. Kitts and Nevis is not one of the poorer countries of the Eastern Caribbean. The Caribbean Development Bank estimated per capita GDP at US$7,086 in 1998, which is above the regional average. There are no statistics for the distribution of wealth, but there are distinct pockets of poverty, especially in rural areas and those communities still dependent on the sugar industry. Few

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
St. Kitts & Nevis	N/A	2,569	3,123	4,479	6,716
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
St. Lucia	N/A	2,076	2,150	3,542	3,907

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

of the benefits from economic growth and diversification are to be seen in the more remote north-coast areas of St. Kitts, where living conditions and social services are still rudimentary. Although free primary education is available and there is a network of rural medical clinics, costs attached to education and medical treatment are too high for poorer families. In many cases, regular **remittances** from family members working overseas are an essential economic lifeline.

In contrast, there is a conspicuously wealthy class based in Basseterre, in the Frigate Bay area. Some of this wealth is alleged to derive from drug-trafficking and other illegal activity, while other, legal, sources of prosperity are linked to real estate, tourism development, and the growth of financial services. There is a sizable and wealthy British expatriate community, especially in Nevis, while some older people are rich after a lifetime of working and saving abroad. But neither St. Kitts nor Nevis has the facilities to cater to the really rich, and those with large **disposable incomes** shop in Miami, Caracas or, less expensively, larger Caribbean islands. Education and health facilities are also found abroad.

WORKING CONDITIONS

In 1997 unemployment was estimated at 4.5 percent. Conditions in the antiquated agricultural sector are poor, with long hours and hard labor demanded, especially during the cane-cutting season. Average day rates in the sugar industry can be as low as US$10. A part of the labor force, especially during the annual harvest, has to be imported from poorer nations such as Guyana. The sugar labor force varies according to the season, but in the cutting season from March to July there are approximately 1,500 workers employed. The St. Kitts-Nevis Labor Union, once a powerful voice for the rights of sugar workers, is now severely weakened.

In contrast, wages and conditions in manufacturing, tourism, and the financial services sector are average or above-average for the region, and trade unions are effective in monitoring compliance with labor laws. There is no **informal sector** and little evidence of child labor, while women are active in most areas of employment except the sugar industry. Basic labor rights such as sick pay are observed.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1493. Christopher Columbus sights and names St. Kitts and Nevis.

1623. St. Kitts becomes the site of the first British settlement in the Caribbean.

1783. St. Kitts is officially ceded to Britain after 150 years of shared Anglo-French occupation.

1816. St. Kitts, Nevis, Anguilla, and the British Virgin Islands are administered as a single colony.

1967. St. Kitts, Nevis, and Anguilla together become a "state in voluntary association with Britain" and is granted self-government.

1969. Anguilla unilaterally secedes from the tripartite grouping and is re-established as a separate British Crown Colony in 1971.

1983. St. Kitts and Nevis attains full independence as a federal state.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
St. Kitts & Nevis	33	4	11	5	13	18	14
United States	13	9	9	4	6	8	51
Jamaica	24	7	3	1	9	8	48
St. Lucia	40	5	11	4	17	11	11

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

1994. Political crisis occurs amid allegations of corruption and official involvement in drug trafficking.

1995. St. Kitts and Nevis Labor Party (SKNLP) returns to power.

1998. Secession referendum in Nevis narrowly votes to retain federation; Hurricane Georges causes US$400 million in damages.

2000. SKNLP wins a second term in office.

FUTURE TRENDS

Apart from the unpredictable issue of future hurricanes, economic prospects for St. Kitts and Nevis will be determined by the sugar industry and relations between the 2 islands. The government will seek to reduce its **subsidies** to the faltering state-owned sugar company, either by **privatizing** any profitable parts of its operations or by closing it altogether. The latter course of action would carry with it drastic social consequences, including wide-scale unemployment.

Much also depends on whether St. Kitts and Nevis remain within their federal relationship or whether Nevis eventually decides to go its own way. If it should do so, the island would be one of the smallest sovereign states in the world and even more vulnerable to unexpected economic shocks such as another hurricane. What is more likely is that Nevis will extract concessions from St. Kitts, especially on tax and government spending issues, and will remain within the federation, if rather reluctantly.

The broader picture for the 2 islands is also uncertain. If there is a general crackdown on offshore financial centers, as advocated by the wealthy nations of the OECS, then the budding financial sector in St. Kitts and Nevis will suffer as investors move their money elsewhere. Manufacturing, too, is also vulnerable to increased competition from elsewhere in the Caribbean and Latin America as trade barriers come down and foreign companies look for the cheapest sources of labor. Tourism, despite the risks it faces from weather and a possible **recession** in the United States, looks like the safest future option for these small and vulnerable islands.

DEPENDENCIES

St. Kitts and Nevis has no territories or colonies.

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—James Ferguson

ST. LUCIA

CAPITAL: Castries.

MONETARY UNIT: Eastern Caribbean dollar (EC$). There are coins of 10, 20, and 50 cents. One EC dollar equals 100 cents. The currency is fixed to the U.S. dollar at a rate of EC$2.70 to US$1.00.

CHIEF EXPORTS: Bananas, clothing, cocoa, vegetables, fruit, coconut oil.

CHIEF IMPORTS: Food, manufactured goods, machinery and transportation equipment, chemicals, fuel.

GROSS DOMESTIC PRODUCT: US$656 million (purchasing power parity, 1998 est.).

BALANCE OF TRADE: **Exports:** US$75 million (1998). **Imports:** US$290 million (1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. The island of St. Lucia is situated between the Atlantic Ocean and the Caribbean Sea, north of Trinidad and Tobago. Part of the Windward Island chain, it lies between the French overseas departments of Martinique and St. Vincent. Its total area is 620 square kilometers (239 square miles), approximately 3.5 times the size of Washington, D.C. Its coastline measures 158 kilometers (98 miles), and its capital and main town, Castries, lies in a sheltered bay on the island's northwest coast.

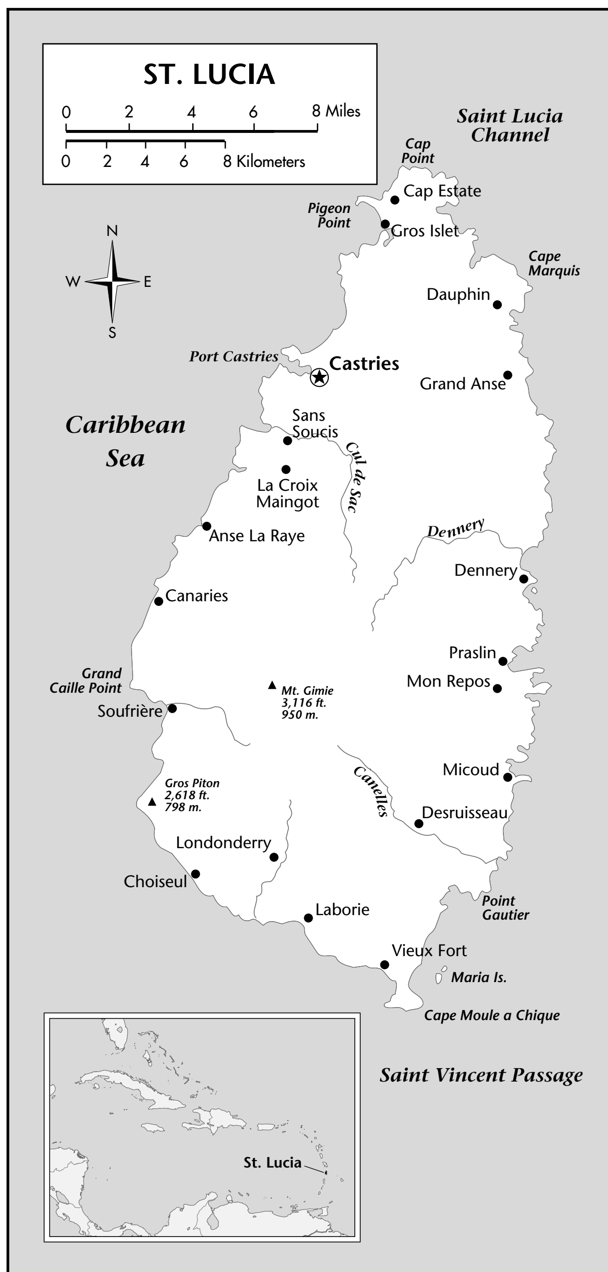
POPULATION. St. Lucia's population was estimated at 156,260 in mid-2000, an increase of 1.21 percent on the previous year. The island's population grew at an average annual rate of 1.5 percent between 1995 and 1998, and if current growth rates are sustained, its population will stand at approximately 180,000 in 2010. St. Lucia's population has grown steadily during the 1990s despite a high level of **emigration** (people moving away from the country), estimated at 4.67 per 1,000 people. This, however, is a lower rate of emigration than that experienced by the neighboring islands of Dominica and St. Vincent.

Approximately half of the population lives in or near the capital, Castries (57,401 in 1996), according to the Saint Lucia Statistics Department. The other important centers of population are Vieux Fort in the south (14,512 people) and Soufrière on the southwest coast (8,478 people). Otherwise, the population is scattered in small towns and villages, mostly near the flatter coastal regions. More than 90 percent of the population is of African descent, a legacy of the island's past as a plantation economy. African slaves were brought to St. Lucia by Europeans (mostly the French) to work on the plantations. English is the official language, but there are strong French influences because the island was colonized by France for much of the 17th and 18th centuries. Many St. Lucians speak a French Creole. Catholicism is the main religion.

OVERVIEW OF ECONOMY

St. Lucia has traditionally had an agricultural economy, one geared towards exporting tropical commodities and importing manufactured goods. Sugar was the main crop from the 17th century until the 1920s. The end of slavery in 1838 allowed those who had worked on the large plantations to start their own, privately-owned farms producing fruits and vegetables. Bananas were introduced in the 1950s and rapidly became the island's main export, benefiting from preferential access to the British market and, after independence from Britain in 1979, to the entire European market. The heyday of the banana industry was during the 1980s, when exports were consistently above 100,000 tons annually, representing as much as 70 percent of export income.

St. Lucia's banana industry was troubled by uncertainty and crisis during the 1990s. The World Trade Organization (WTO) ruled in 1995 that the European Union (EU) went against free trade legislation by giving preference to Caribbean banana exports. This caused concern that the St. Lucian banana industry had lost its most profitable fruit market. As a result, many farmers abandoned banana cultivation and planted other crops. Making matters worse for the banana industry, the government-supported St. Lucia Banana Growers' Association (SLBGA) was bankrupted in 1994 under rumors of corruption. The SLBGA helped banana growers, but the organization was also illegally used by the government to



control the island's money supply. Attempts to reform the SLBGA and **restructure** the banana industry met with only partial success after the scandal was revealed.

St. Lucia has quite a large manufacturing sector, mainly geared towards supplying the U.S. market with clothes and sporting goods, and there is a factory that produces cardboard packaging for bananas and other agricultural crops. Several plants closed and many jobs were lost in 1996 due to the difficult economic situation. The new administration attempted to impose taxes on foreign operations in St. Lucia, and failed. These manufacturing operations quickly closed and left the island, rather than pay corporate taxes.

The main areas of growth have been related to the tourism industry, in services and construction. On average, over 250,000 tourists visited the island each year during the 1990s. Government-sponsored **infrastructure** projects such as construction of new roads, ports, and several hotels have contributed to the economy's growth since the late 1990s. St. Lucia is also trying to establish itself as a center for **offshore banking**, where foreign investors and companies can avoid paying taxes in their own countries, and where the tax rates are comparatively low.

POLITICS, GOVERNMENT, AND TAXATION

St. Lucia is a multi-party parliamentary democracy, based on the British model of government. As part of the British Commonwealth, St. Lucia has the British queen serve as chief of state and is represented by a governor general. A prime minister and deputy prime minister lead the government. There is a **bicameral** parliament. The East Caribbean Supreme Court has jurisdiction over St. Lucia as well as several other Caribbean islands.

From 1964 until 1996 the island's politics were dominated by the United Workers' Party (UWP) led by John Compton. He held power during that entire period with the exception of 1979–82, when the St. Lucia Labour Party (SLP) was in office. Compton retired in 1996 under allegations of corruption, and in 1997 the SLP, headed by Kenny Anthony, won an overwhelming election victory. The SLP is generally considered to be more left-wing and sympathetic to the trade unions than the UWP, while the UWP was supported during the 1980s and early 1990s by a more prosperous sector of banana growers. Little separates the 2 parties in policy now that the banana industry has collapsed. Both are keen to diversify St. Lucia's economy away from dependence on bananas and both welcome foreign investments in all areas of the economy. The SLP government has particularly tried to promote the island as a reputable center for international finance, but as yet it has not attracted a large number of foreign financial ventures.

Until the reform of the SLBGA and the ousting of the UWP in 1996, the banana industry was primarily owned and operated by the government. The minority UWP continues to provide advice and support though the ministry of agriculture and other state bodies, but the SLP has majority power in St. Lucia's formal economic policies. The Kenny Anthony government is more active in promoting the country's industrial and financial development than in saving the banana industry. The National Development Corporation (NDC) offers incentives to potential foreign investors. Roads, ports, and industrial complexes have all been built by the government in order to attract foreign investment in manufacturing and services.

Tax concessions are offered to foreign investors and there are plans to open a **free zone** at Vieux Fort, where foreign businesses would be able to import and export goods without paying **duties**. The government raises revenue from foreign companies after a **tax holiday** has expired, but many foreign companies leave just before the tax holiday has ended. Other principal sources of government revenue are sales and property taxes as well as the various taxes charged to tourists, including hotel room taxes and airport departure taxes. In a 1999 report on the St. Lucian economy, the World Bank suggested that the government's concessions to foreign businesses were too generous and that the economy would benefit from the introduction of a uniform **value-added tax**.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

St. Lucia is a small island with a relatively underdeveloped infrastructure, although the government has invested in modernizing road and port facilities since the mid-1990s. There are 1,210 kilometers (752 miles) of roads, but only about a half of these are paved. Many rural roads, particularly in the interior, are unpaved and vulnerable to landslides and storm damage. In 2000 the government began a large-scale project to resurface and upgrade 116 kilometers (72 miles) of primary and secondary roads. There are 2 airports, of which Hewanorra, in the south near Vieux Fort, is the main international airport, while George F.L. Charles airport, near Castries, receives mostly inter-island flights. The main commercial port is at Vieux Fort, where modernized deep-water container facilities were opened in 1993. In addition to commercial ships, cruise ships call at Castries, where there is a specially constructed duty-free shopping complex at Pointe Seraphine.

St. Lucia imports oil from Trinidad and Tobago and Venezuela to meet its energy needs, and there is a large oil transshipment terminal south of Castries, used for **re-exporting** oil to other islands. In 1998 electricity production was estimated at 110 million kilowatts and consumption at 102 million kilowatts. Communications are generally good, but in early 2001 the island's dominant service provider, Cable and Wireless, was preparing to close after the government decided to end its **monopoly**. According to the World Bank, there were 268 mainline telephones per 1,000 people in 1998 and 136 personal computers per 1,000 people.

ECONOMIC SECTORS

The contribution made by agriculture to **gross domestic product** fell steadily throughout the 1990s, from 14.5 percent in 1990 to 8.1 percent in 1998. This fall reflected the crisis in the banana industry and the resulting decrease in agricultural production and exports. Attempts to diversify agricultural products (plant new kinds of crops) did not improve the agricultural sector as a whole. Despite the decline in output, agriculture was St. Lucia's second largest source of employment, providing jobs for 13,150 people in 1999 or approximately 20 percent of the workforce.

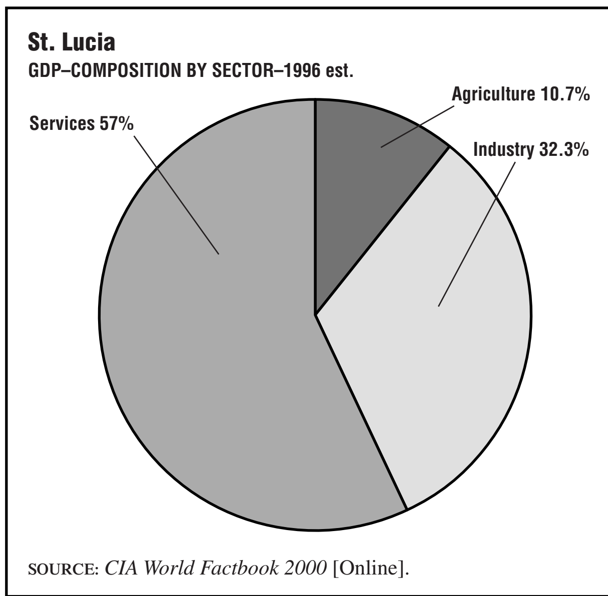
Industry's contribution to gross domestic product remained constant throughout the 1990s, rising only slightly from 18.1 percent in 1990 to 18.9 percent in 1998. The main sector of industry was manufacturing, which provided 5,160 jobs in 1999, or 8 percent of total employment. Most manufacturing work was done for the U.S. market, although there were also some industrial plants producing goods such as processed foods and beverages for the local market. Export-oriented

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
St. Lucia	37,000	1,600	AM 2; FM 7; shortwave 0	111,000	3	32,000	15	5,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
Bahamas	96,000	6,152	AM 3; FM 4; shortwave 0	215,000	1	67,000	19	15,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

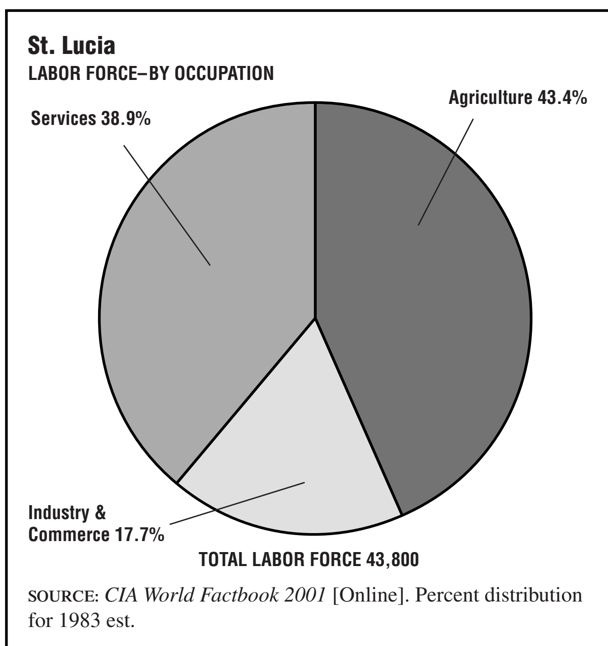
SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].

manufacturing declined during the 1990s, but was balanced out by a boom in construction activity.

Services grew as a percentage of gross domestic product through the 1990s, from 67.3 percent in 1990 to 72.9 percent in 1998. Tourism was the main factor in this growth, and the industry was responsible for 5,390 jobs in hotels and restaurants in 1998 (8 percent of employment). An additional 11,300 people, or 17 percent of the workforce, were employed in the **retail** sector, which had strong links with tourism. The fastest-growing economic force in St. Lucia during the 1990s was tourism, affecting not only the services and retail sectors, but the construction sector as well, accounting for at least 25 percent of workforce employment.



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1983 est.

AGRICULTURE

Since the heyday of the late 1980s, banana production in St. Lucia has faced a number of challenges and crises. The growers' association, the SLBGA, was plagued by inefficiency and corruption. After extensive reorganization, the newly elected SLP government paid off the SLBGA's debts and turned it into a private company, owned and managed by farmers. The new company, the St. Lucia Banana Corporation, was launched in 1998, but has been unable to reverse the decline within the industry. The biggest problem has been the loss of preferential access to the European market following the 1995 WTO ruling. The EU donated US$7.7 million in 1999 to support the reorganization and diversification of the agricultural industry.

Even so, bananas occupy a vital place within the island's economy, not merely in terms of employment but also as an earner of foreign exchange. During the 1980s and 1990s, St. Lucia could have been called a banana republic. In 2000, according to the Windward Islands Banana Development and Exporting Company (WIBDECO), St. Lucia exported 70,281 tons of bananas to Europe, earning slightly over US$30 million in export income. Bananas represented approximately 60 percent of the island's export income, but only a minimal amount of foreign exchange was gained when compared to the success of the tourism industry. Other agriculture in St. Lucia included dairy farming, flowers, and fisheries, but export income from these crops were still small.

INDUSTRY

Since the 1990s the government in St. Lucia has tried to build up a manufacturing sector as an alternative to the reliance on bananas and tourism. The island's population is too small to support the manufacture of goods for domestic consumption (St. Lucia's citizens cannot afford to buy expensive manufactured items), so the emphasis has been on export-oriented products such as garments, sporting goods, toys, and diving equipment. Most of the larger factories are situated in an industrial park near the container port at Vieux Fort, for the easy transportation of goods off the island. In 1996 the manufacturing sector was badly hit when 3 foreign companies closed because they were nearing the end of their 10-year tax holiday. Since then, more plants have closed and manufacturing as a whole has stagnated.

The majority of manufacturing plants in St. Lucia are owned and operated by foreign companies. They open plants on the island to take advantage of the cheap labor,

low tax rates, and easy access to the U.S. market. However, because the government of St. Lucia gives tax incentives to these companies, the island community does not receive many benefits from the arrangement apart from employment gains.

In employment terms, however, manufacturing is still much less important than agriculture and tourism, and 1999 export figures show that all manufacturing, including beverages and tobacco, earned only US$21 million. Construction, on the other hand, has grown sharply since the mid-1990s with a mixture of **public-sector** investment, such as roads, and **private-sector** hotel projects. Construction of a new large Hyatt hotel in the north of the island created many jobs and gave a boost to local builders and suppliers.

SERVICES

Services account for almost three-quarters of St. Lucia's gross domestic product, supported by tourism. There were 688,460 visitors to the island in 1999, according to the Caribbean Development Bank (CDB), with 259,371 of these staying on the island and 423,114 visiting briefly aboard cruise ships. In 1998 St. Lucia earned US$291.3 million from tourism, almost 10 times the value of banana exports. Unlike other Caribbean destinations, St. Lucia has enjoyed steady growth in its tourism industry since the 1990s, with an encouraging year-on-year increase in the number of visitors who spend a week or more on the island. Much of the tourism sector, however, is concentrated in the all-inclusive category, where vacationers prepay their accommodation, food, and leisure activities in a single package. This means that small, independent hotels and restaurants receive fewer customers, and tourists are deterred from spending money outside the hotel perimeter. Some smaller businesses have reported a 75 percent drop in earnings since the construction of the 8 main all-inclusive hotels.

Tourists come for the island's natural beauty, and St. Lucia hosts special events such as the annual jazz festival and the Atlantic Rally for Cruisers. This latter event alone earns the island US$2 million annually in tourism spending. But as tourism increases, there are concerns about its impact on the island's ecosystem as well as on its social structures. Reports of crimes committed against tourists are now commonplace, and there are anxieties about the long-term future of such natural splendors as coral reefs and the world-famous Pitons, the forest-clad mountains that rise steeply out of the sea.

The government has also declared its intention to turn St. Lucia into a center for international financial services, such as banking and insurance. Like other Caribbean countries, the island hoped to attract foreign investors, both corporate and individual, who wished to avoid paying taxes in their own countries. In early 2001, however, only 1 full bank had been registered in comparison to 117 International Business Companies, companies set up mainly to provide a system for foreign tax evasion. Unfortunately, the launching of the financial services sector coincided with a crackdown on illegal **tax havens** by the international Financial Action Task Force (FATF), supported by Europe and North America, aimed at stopping **money laundering**. In 1999 only 990 St. Lucians were employed in the financial sector.

INTERNATIONAL TRADE

St. Lucia's **trade deficit**, US$215 million in 1998, was balanced out by the island's income from tourism. In terms of exports, the main buyer was the United Kingdom, which paid St. Lucia US$33.2 million for goods in 1998 (mostly bananas). The second biggest buyer of St. Lucian goods was the Caribbean Community (CARICOM), at US$10.5 million. As for the island's imports, the biggest provider was the United States, which sold US$120.7 million of goods to St. Lucia in 1998, while CARICOM countries provided US$70.5 million of imports.

MONEY

After steady growth in the 1980s and early 1990s, St. Lucia's economy slowed, partly due to the banana crisis and hurricane damage, and partly to a decline in manufacturing output. Gross domestic product growth from 1996 averaged 1.5 percent annually, the lowest rate in the Eastern Caribbean apart from volcano-devastated Montserrat. In 1998 and 1999 gross domestic product growth increased to 2.9 percent and 3.1 percent, respectively, largely because of increased tourism and associated construction. **Inflation** has been low since the early 1990s, but prices rose by 3.5 percent in 1999, due in part to higher oil prices and increases in light and fuel bills.

St. Lucia's currency, the Eastern Caribbean dollar, is shared with the 7 other members of the Eastern Caribbean

Trade (expressed in billions of US$): St. Lucia

	Exports	Imports
1975	.017	.046
1980	.058	.124
1985	.057	.125
1990	.127	.271
1995	.109	.307
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: St. Lucia

East Caribbean dollars (EC$) per US$1	
2001	2.7000
2000	2.7000
1999	2.7000
1998	2.7000
1997	2.7000
1996	2.7000

Note: The rate for St. Lucia has been fixed since 1976.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: St. Lucia

Lowest 10%	2.0
Lowest 20%	5.2
Second 20%	9.9
Third 20%	14.8
Fourth 20%	21.8
Highest 20%	48.3
Highest 10%	32.5

Survey year: 1995

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Central Bank (ECCB): Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, and St. Vincent and The Grenadines. It is stable and has been fixed at a rate of EC$2.70=US$1.00. This means that St. Lucia is less vulnerable to the fluctuating **exchange rates** of other countries, although transactions with Europe are affected by the value of the euro. When the euro is worth less than the dollar, Europe is able to buy fewer bananas from St. Lucia than the United States. There are plans for ECCB member countries to participate in a regional stock exchange, further integrating the economies of the small islands.

POVERTY AND WEALTH

There is little drastic poverty in St. Lucia, but there are clear differences between a wealthy minority, a comfortable middle class, and a poor lower class. With per capita income estimated at approximately US$4,000 in 1998, the island is one of the more prosperous in the Eastern Caribbean. This is largely due to the success of the banana industry during the 1980s and the early 1990s, and continues because of the tourism industry. Many rural villages in banana-growing areas have solid housing and expensive imported vehicles, signs of the banana industry's economic impact. But there are also many smaller farmers, some with as little as an acre or two, who have not shared in the benefits of the banana boom.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
St. Lucia	N/A	2,076	2,150	3,542	3,907
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
Bahamas	8,030	12,727	13,835	13,919	N/A

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

In contrast, the wealthy minority in St. Lucia are situated in the plush residential developments to the north of Castries, around which many tourist resorts are to be found. Here, shopping malls, golf courses, and marinas testify to a luxurious lifestyle. Those who are richest in St. Lucia are white collar professionals such as lawyers and doctors, local managers of foreign companies, and people connected with successful tourism ventures and private sector construction. Included in this employment sector is a large number of European and American expatriates (citizens who moved from their native country to live in St. Lucia). The island's middle class is composed of urban professionals and those involved in traditional retail, while in the countryside there are many owners of large farms who have made enough money to consider themselves middle class.

Primary education is free and compulsory, but poor families often find it hard to afford uniforms and school books for their children. Medical care is available throughout the island, but doctors charge for visits and prescriptions are expensive. Housing conditions vary enormously, from the luxury villas of the island's northern tip to the ramshackle villages of the eastern coast.

WORKING CONDITIONS

The banana industry has depended on small family farms for over 150 years. Rural labor is different from many banana-producing countries in that there are few large plantations. The vast sugar plantations operating during colonial times have disappeared, replaced by small banana farms. As a result, rural working relationships tend to be based on the family or the community. Wages are generally US$5–10 per day. Manufacturing and the tourism sector offer better wages and conditions to St. Lucians, but pay is still approximately one-third of what would be paid for similar work in the United States.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
St. Lucia	40	5	11	4	17	11	11
United States	13	9	9	4	6	8	51
Jamaica	24	7	3	1	9	8	48
Bahamas	32	4	5	3	8	9	41

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

The St. Lucia government estimated that the total **labor force** was about 73,000 in 1999, and that the unemployed comprised about 15 percent of the workforce. There is no unemployment relief in St. Lucia and those without work quickly face extreme hardship.

Most workers, especially in the larger factories, are entitled to join trade unions and enjoy certain guaranteed rights such as sick pay. There is a national insurance scheme, which provides basic benefits for industrial injury, maternity leave for mothers, and pensions for the elderly. In most cases, however, payments are barely adequate to cover the essentials. Trade unions are influential in St. Lucia, especially those representing public sector employees. They are less active in the tourism industry, where employment is usually casual and part-time in nature. There is little overt child labor in St. Lucia, and women are well represented in all areas of work, especially in business and education.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1502. Alleged sighting and naming of island by Columbus on his fourth expedition.

1638. First English settlement on island lasts only 3 years before attack by Carib Indians.

1642. France claims possession of St. Lucia.

1814. St. Lucia finally becomes British Crown Colony after changing hands 14 times.

1838. Island included in colonial Windward Islands federation.

1950s. Beginning of banana industry.

1964. United Workers' Party starts 33 years of almost unbroken rule.

1967. Advent of full internal self-government.

1979. St. Lucia becomes independent from United Kingdom, but remains a member of the British Commonwealth.

1997. Sweeping election victory for St. Lucia Labour Party.

FUTURE TRENDS

St. Lucia's economic future depends to a large extent on the fate of its banana industry. If, as the pessimists fear, the EU is forced to abandon its preferential market arrangement, St. Lucia and the other Caribbean producers will be unable to compete with large-scale plantation economies in Latin America. This will spell the end of an export-oriented banana industry and may create severe hardship and increased unemployment in the countryside. It is possible that the banana industry will survive, but even so, the need for agricultural diversification remains acute. Some hope may lie in organic and fair-trade initiatives, especially in Europe, where growing numbers of consumers are prepared to pay higher prices for goods deemed to be environmentally and ethically produced.

Manufacturing does not seem to provide a working alternative to the banana industry as of yet. The greatest potential lies in continuing the growth of tourism and sustaining a program of construction works. St. Lucia's ambition to become a financial center may be realized, but that route is not without its own consequences. The construction of a financial industry on St. Lucia would leave the island open to illegal money laundering operations. The island's success story as a tourist destination offers the greatest grounds for optimism. The problem remains of how to link the tourism sector to the rest of the economy so that the benefits may be felt through all social classes on the island: farmers, tour guides, and bankers alike.

DEPENDENCIES

St. Lucia has no territories or colonies.

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—James Ferguson

ST. VINCENT AND THE GRENADINES

CAPITAL: Kingstown.

MONETARY UNIT: Eastern Caribbean dollar (EC$). One EC dollar equals 100 cents. There are coins of 1, 2, 5, 10, 25, and 50 cents and 1 EC dollar, and notes of 5, 10, 20, 50, and 100 EC dollars.

CHIEF EXPORTS: Bananas, fruit and vegetables, arrowroot, sporting goods.

CHIEF IMPORTS: Foodstuffs, machinery and equipment, chemicals and fertilizers, minerals and fuels.

GROSS DOMESTIC PRODUCT: US$309 million (1999 est.).

BALANCE OF TRADE: **Exports:** US$47.8 million (1998 est.). **Imports:** US$180 million (1998 est.).

COUNTRY OVERVIEW

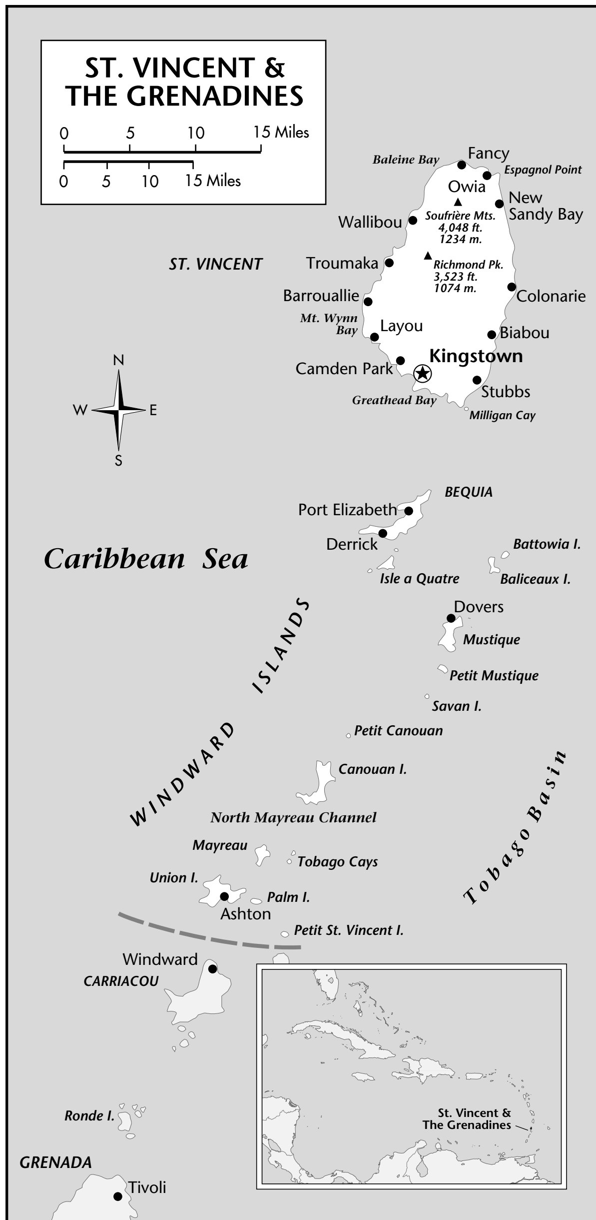
LOCATION AND SIZE. Saint Vincent and the Grenadines are islands situated between the Atlantic Ocean and Caribbean Sea, north of Trinidad and Tobago. They form part of the Windward Islands, which also include St. Lucia, Dominica, Grenada, and Martinique. The island of Saint Vincent has an area of 344 square kilometers (133 square miles) and its 32 dependent islands and cays in the Grenadine island chain have a total area of 45 square kilometers (17 square miles). The main inhabited islands of the Grenadines are Bequia, Mustique, Union Island, and Canouan. Others are privately owned. Saint Vincent is approximately twice the size of Washington, D.C., and has a coastline of 84 kilometers (52 miles). The capital and only town of any size is Kingstown, situated on the island's southwest coast.

POPULATION. The population of Saint Vincent and the Grenadines was estimated at 115,461 in mid-2000. This represented a population growth rate of 0.43 percent from the previous year, consistent with annual average increases of 0.4 percent from 1995 onwards. At this rate of growth, the population will stand at approximately 125,000 in 2010. The great majority of Vincentians live on the main island of Saint Vincent, with the population of Bequia, the largest dependency, numbering no more than 5,000.

Saint Vincent and the Grenadines' relatively low population growth rate is partly the result of family planning campaigns supported by the government and partly a consequence of marked patterns of migration. The island has traditionally depended on migration to the United Kingdom, United States, and other, larger Caribbean islands as a solution to its chronic unemployment problem, and in 2000 there were an estimated 7.75 migrants per 1,000 population. The country's population is evenly distributed among age groups, with 30 percent of Vincentians aged between 0 and 14 years, 63 percent between 15 and 64, and 7 percent 65 and older. Life expectancy on the islands is 72.3 years. Approximately 66 percent of the population is of African descent, with smaller communities of mixed-race, white, and Indian-descended Vincentians. The Anglican church is the largest in the country, attracting 47 percent of the population; 28 percent of the people are Methodists and 13 percent Roman Catholics, with the remainder adhering to other faiths. Most people live in small villages or towns, which are mostly situated around the coast.

OVERVIEW OF ECONOMY

Saint Vincent and the Grenadines' economy is largely based on agriculture, bananas in particular. It has been so for many years, but other economic activities have become more important in recent years, namely tourism, manufacturing, and financial services. Bananas have been Saint Vincent's main export and source of revenue since the 1950s, when the British colonial authorities actively encouraged the establishment of a local banana industry. The regularity of income from banana-growing lay behind the island's steady economic growth in the 1980s and early 1990s, but the crop is always vulnerable to hurricanes, drought, and disease, and suffered serious problems in 1994. The removal of preferential access into the European Union (EU) market was threatened by a 1997 ruling by the World Trade Organization (WTO). The ruling stated that the EU was unfairly favoring Caribbean producers at



the expense of Latin American exporters. This created a loss of confidence in the industry's long-term future. Even so, recent years have witnessed an attempt to improve the regularity and quality of banana exports through an irrigation and rehabilitation scheme initiated by the government and the Windward Islands Banana Development and Exporting Company (WIBDECO).

Recent governments have tried to encourage diversification into other agricultural exports, and Saint Vincent exports a wide range of fruits and vegetables both to the United Kingdom and to regional (that is, Caribbean) markets. The traditional cultivation of arrowroot has been expanded as an export industry, and fishing is an important sector within the economy.

Industry is divided between manufacturing for the local and regional market and that destined for export to North America. The former includes food processing (flour and rice) and brewing, while the latter includes some garment and electronic components assembly, as well as the manufacture of sporting goods such as tennis rackets. There is a mixture of small local companies and local subsidiaries of foreign corporations.

Saint Vincent and the Grenadines has also sought to develop a range of service industries, of which tourism is the most important. Tourist facilities range from extremely exclusive, mostly privately-owned resorts and villas on islands such as Mustique and Canouan to a growing cruise ship facility in Kingstown. Yachting is also extremely popular around the beautiful Grenadine island chain. In recent years, the country has entered the financial services sector, with a large number of banks and other financial institutions present in Kingstown. This sector has attracted some controversy on account of its alleged secrecy. Saint Vincent has also been subject to criticism from the United States, both for its large-scale marijuana cultivation and for the alleged role played by the southern Grenadine islands as shipment points for cocaine en route from South America to the United States.

According to the Caribbean Development Bank (CDB), Saint Vincent and the Grenadines had a total **external debt** of $99.3 million at the beginning of 1999. The country's major economic problem, however, remains a high level of unemployment, affecting at least 22 percent of the workforce in 1999. According to the World Bank, some 30 percent of people in the English-speaking Windward Islands live in conditions of poverty.

POLITICS, GOVERNMENT, AND TAXATION

Saint Vincent and the Grenadines is an independent state within the British Commonwealth. It claims as its head of state Queen Elizabeth, who is represented on the islands by a governor general. The nation's form of government is a parliamentary democracy. The governor general selects the prime minister, usually the leader of the majority party in the **unicameral** (one-house) House of Assembly. The House of Assembly consists of 21 seats (15 representatives chosen by popular election and 6 appointed senators). The Eastern Caribbean Supreme Court, based in Saint Lucia, carries out judicial functions. One judge from the court is based in Saint Vincent.

Vincentian politics have been dominated by the figure of Sir James Mitchell since he and his National Democratic Party (NDP) first won elections in 1984. Elec-

tions in 1998 gave the NDP its fourth consecutive victory, but there was considerable controversy. The NDP won 8 out of 15 seats in parliament but only 45.3 percent of votes cast. The opposition Unity Labour Party (ULP) won only 7 seats but 54.6 percent of the vote. After political unrest and subsequent mediation from representatives of the Caribbean Community (CARICOM) in 2000, it was agreed that fresh elections would be brought forward by 2 years to March 2001. In those elections the ULP took 56.7 percent of the vote and occupied 12 of the 15 seats in the National Assembly; the NDP took 40.7 percent of the vote and held only 3 seats. Ralph Gonsalves was subsequently appointed as prime minister.

There is little ideological difference between the 2 main parties in Saint Vincent and the Grenadines, and both support a mixed economy in which government encourages and regulates **private-sector** growth and foreign investment. Differences tend to be as much personal as political, although the ULP puts particular emphasis on the need to reduce unemployment through the continued rehabilitation of agriculture and government spending on **infrastructure**. Governments are able to exert particular influence on the economy, in part because it is so small and in part because there is a relatively large **public sector**.

Taxation is made up of a mixture of **income tax**, indirect sales taxes, and taxes levied on companies and foreign-owned financial institutions. In an attempt to increase fiscal revenues from International Business Companies (IBCs), the government introduced legislation in 1996 ensuring almost complete secrecy concerning their financial transactions. The government has also attempted to raise revenues by acting as a flag of convenience, offering registration facilities for foreign shipping companies. Both of these measures have led to criticism not only from the political opposition but also from international bodies concerned with **money-laundering** and marine safety.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The infrastructure of Saint Vincent and the Grenadines is not fully developed, although recent government initiatives have involved improvements in roads, port facilities, and hospitals. Of 1,040 kilometers (646 miles) of roads only 320 kilometers (199 miles) were paved in 1996. Roads in rural areas, particularly in the north of Saint Vincent, are often poor. There are no railways, and the single international airport, near Kingstown, is unable to receive wide-bodied jets. Discussions have taken place with potential foreign investors concerning the runway's extension, while opponents of this scheme favor a new airport.

Lack of infrastructure has hampered the growth of tourism, even though the government has recently invested in a cruise ship jetty (landing wharf) at Kingstown as well as an airport on Canouan. Small farmers also complain that poor roads are an obstacle to transporting fragile commodities such as bananas to dock or to inland collection points. Saint Vincent and the Grenadines also suffers from having to import most of its energy supplies, mainly petroleum, from Trinidad and Tobago. About one-third of the country's annual electricity production of 64 million kilowatt hours (kWh) is derived from hydro-electric schemes, while annual consumption is estimated at 60 million kWh.

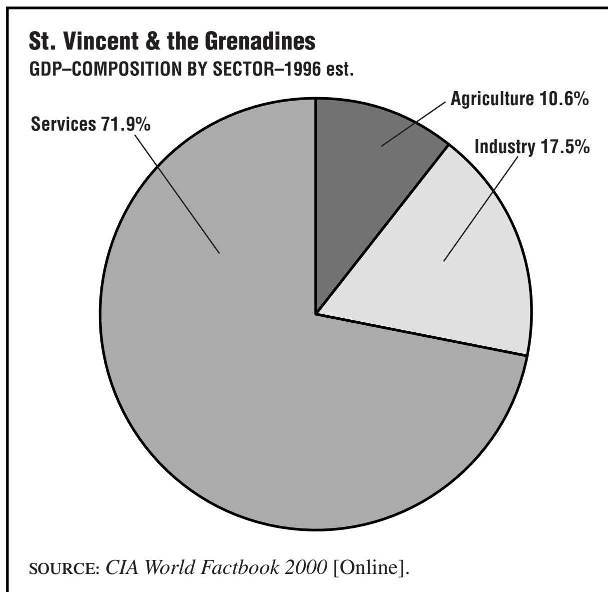
Telecommunications, dominated by Cable & Wireless, are generally good, and there is growing use of cellular phones. There were an estimated 20,500 main line telephones in use in 1998, but Internet use is as yet relatively underdeveloped.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
St. Vincent & the Grenadines	20,500 (1998)	N/A	AM 1; FM 3; shortwave 0	77,000	1	18,000	15	2,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Jamaica	353,000 (1996)	54,640 (1996)	AM 10; FM 13; shortwave 0	1.215 M	7	460,000	21	60,000
St. Lucia	37,000	1,600	AM 2; FM 7; shortwave 0	111,000	3	32,000	15	5,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

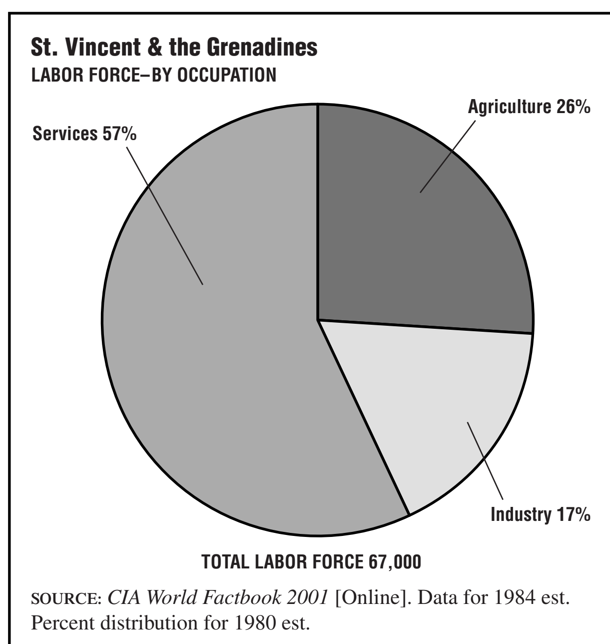


SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

The most recent available statistics (1996) show that agriculture accounted for 10.6 percent of Saint Vincent and the Grenadines' **gross domestic product** (GDP). Farming, and banana cultivation in particular, is, however, an important source of employment and constitutes the country's main export, valued at $14.4 million in 1999. The most recent employment statistics, dating from 1991, show that approximately 22 percent of Vincentians worked in agriculture.

Industry accounted for 17.5 percent of GDP in 1996 and has grown considerably since the 1980s. Even so, it is still a relatively small sector, comprising mainly food processing for local markets and some export-oriented manufacturing. In 1991, some 9 percent of the **labor force** was employed in manufacturing, with a further 11 percent working in construction.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1984 est. Percent distribution for 1980 est.

Services accounted for 71.9 percent of GDP in 1996. Leaving aside government services, the largest contributor to this sector was tourism, which produced approximately $74 million in visitor expenditures in 1998. Other growing segments of the service sector were those related to offshore financial transactions and related informatics (information science) or electronic data processing. In 1991, before the financial sector grew, about 5 percent of the working population were employed in hotels and restaurants, while less than 2 percent were classified as involved in "financial intermediation."

AGRICULTURE

Saint Vincent's mountainous terrain made it less suitable as a sugar-producing center than most other Caribbean islands, but the banana industry, beginning in the 1950s, was well suited to a territory mostly made up of small, family-run farms. A combination of protective quotas and stable prices guaranteed by Britain and then the European Union (EU) underpinned the steady growth of the banana industry in the 1980s and early 1990s, despite occasional hurricanes and other natural disasters. In the 1980s, bananas contributed, on average, 60 percent of export earnings and were the island's single biggest economic activity. This situation changed dramatically in 1995 when the United States complained to the WTO that the EU banana regime discriminated against Latin American producers. A series of legal rulings ensued, with the U.S. introducing trade **sanctions** against the EU, which has sought to find a compromise between the WTO ruling and its commitments to Caribbean banana producers. As a result, the late 1990s were marked by considerable uncertainty in Saint Vincent's banana industry and a drop in production from almost 80,000 tons in 1990 to 37,435 tons in 1999. According to the World Bank, the banana crisis has already caused "a decline in the central government's revenue growth, a slowdown in the pace of domestically financed investment, a rise in unemployment, and major financial difficulties for the Banana Growers' Association." Even so, recent efforts to improve banana production through irrigation schemes show a determination on the part of local farmers and their organizations to ensure the industry's survival. One possible strategy is to concentrate on the organic and "fair trade" markets in Europe.

Other important crops include coconuts, sweet potatoes, and ornamental flowers, some of which are exported to "niche markets" in the UK and U.S. The government

has encouraged diversified small farming by splitting up some 7,000 acres of state-owned land into 1,500 **smallholdings**. Arrowroot, traditionally used as a food thickener, is now grown as a dressing for computer paper, and acreage of this crop has expanded in recent years, making Saint Vincent and the Grenadines the world's largest producer. Less well documented is the significant cultivation of marijuana, which is believed to be grown in the mountainous interior of Saint Vincent. In January 2000, U.S. Marines participated in a controversial crop eradication program, in which millions of plants were reportedly destroyed.

The fishing sector has benefited from extensive foreign development funding, most notably from Japan. There are now jetties and fish refrigeration facilities in Saint Vincent, Bequia, and Canouan, the large complex in Kingstown having been dubbed "Little Tokyo."

INDUSTRY

Saint Vincent and the Grenadines has a small industrial sector, but one that has grown in importance in recent years. Most manufacturing revolves around food processing, such as rice milling and flour production, for the local and regional market. The major producer is the East Caribbean Group of Companies. There is also large-scale production of chicken feed and polypropylene bags, while the local brewery, the Saint Vincent Brewery Ltd., which produces beer and soft drinks, accounts for approximately 30 percent of total industrial production. The other industrial sector is geared towards exports into the North American market and includes a handful of assembly plants producing garments and sports goods, especially tennis rackets.

Saint Vincent's industrial growth (there is no industry on the Grenadines) is hampered by several factors, including poor infrastructure, relatively high wages, and fierce competition from lower-wage areas elsewhere in the Caribbean and Latin America. Increasingly, Saint Vincent's industrial output has been directed towards other territories in the Eastern Caribbean.

SERVICES

Saint Vincent came relatively late to tourism, although its dependencies such as Bequia and Mustique had developed a reputation for exclusive luxury tourism as early as the 1960s. In recent years, the main island of Saint Vincent has tried to capitalize on its spectacular natural beauty by encouraging cruise ship companies to include it on their itineraries and by developing the yachting sector. In 1999, according to the Caribbean Development Bank, these 2 sectors showed a marked increase in visitor arrivals, bringing total arrivals to 223,125. On the other hand, stayover arrivals declined slightly by 1.5 percent from the previous year. There are few large hotels in Saint Vincent or in its dependencies, and as a result the $75 million annual tourist expenditure is more widely distributed through small hotels and retailers than in many other Caribbean countries.

The government has sought to expand tourism by opening a new cruise ship pier at Kingstown, upgrading the airport on Canouan, and improving the Leeward Highway on the west coast. Deliberations on the enlargement of the existing airport or the building of a new one continue. But Saint Vincent, which has few white sand beaches and an otherwise underdeveloped infrastructure, is not suitable for mass tourism and has wisely concentrated on attracting a small "upmarket" tourist clientele.

The other major service sector deals with overseas financial business. The 1996 legislation ensuring near total secrecy on taxation and other financial activity encouraged the arrival of many IBCs, totaling 2,698 in 1999. But there have been persistent allegations that the country's stringent secrecy provisions have served to conceal illegal financial operations such as tax evasion and drug money laundering. In early 2001, the international Financial Action Task Force (FATF), supported by European and North American governments, named Saint Vincent and the Grenadines, among other Caribbean countries, as a suspected location of financial irregularities. Related to the financial sector is a small data processing sub-sector, in which there is limited employment in computerized financial dealings.

The **retail** sector is underdeveloped, with few large stores or supermarkets. Markets, both in Kingstown and Bequia, are busy, and many rural Vincentians depend on small village corner stores. The growth of tourism and yacht chartering in particular has produced a noticeable increase in specialist retail outlets.

INTERNATIONAL TRADE

With imports of $180 million and exports of $47.8 million in 1998, Saint Vincent and the Grenadines' import bill is on average approximately 4 times that of what it earns through exports. Its main source of imports in 1998 was the United States, which contributed some 35 percent of the total. The other main suppliers of the country's imports were other CARICOM countries (22 percent) and the United Kingdom (11 percent). The main imports of foodstuffs, fuel, and machinery are distributed among those suppliers.

The main export, bananas, is directed towards the United Kingdom, which accounts for 42 percent of Vincentian exports. The other main export market is

Trade (expressed in billions of US$): St. Vincent & the Grenadines

	Exports	Imports
1975	.008	.025
1980	.015	.057
1985	.063	.079
1990	.083	.136
1995	.043	.136
1998	.050	.193

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

comprised of CARICOM members such as Trinidad & Tobago, which imports much of Saint Vincent's agricultural produce. Rice, flour, and other food items are also exported regionally.

The deficit in the **balance of trade** is partly offset by tourism receipts and by revenue from the financial sector. Another important source of foreign exchange is the regular **remittance** payments sent back by Vincentians working overseas.

MONEY

Saint Vincent and the Grenadines has experienced steady growth in GDP in recent years (except in 1994), averaging over 3 percent annually since the mid-1990s. In 1999, GDP growth stood at 4.5 percent, a fall from the 1998 figure of 5.7 percent. This economic progress reflects a steady increase in tourism and the revenues generated by financial services, which has partly counterbalanced problems in the banana industry. **Inflation** has been low in recent years and, in 1999, was estimated at less than 1 percent. As a result, consumer prices are relatively low, and visitors from neighboring islands such as Grenada and Barbados now come to Saint Vincent to take advantage of lower prices.

Exchange rates: St. Vincent and the Grenadines

East Caribbean dollars (EC$) per US$1	
2001	2.7000
2000	2.7000
1999	2.7000
1998	2.7000
1997	2.7000
1996	2.7000

Note: The rate for St. Vincent and the Grenadines has been fixed since 1976.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Saint Vincent and the Grenadines' financial stability is in part because of its membership in regional financial institutions. The Eastern Caribbean dollar, a currency shared with the 7 other members of the Eastern Caribbean Central Bank (ECCB), is stable and has been pegged at a rate of EC$2.7: US$1 for many years. This means that Saint Vincent and the Grenadines is not particularly vulnerable to fluctuating **exchange rates**, although transactions with Europe have been affected by the low value of the euro. There are plans for ECCB member countries to participate in a regional stock exchange, further integrating the economies of the small islands, but by early 2001 little real progress had been made.

POVERTY AND WEALTH

Saint Vincent and the Grenadines is not a country of social extremes. There is a small middle class, traditionally involved in retailing and the professions, while a significant group of small farmers benefited from the "banana boom" of the 1980s, resulting in much improved housing conditions in many rural communities. Society is not prohibitively stratified, and educational opportunities exist for upward mobility. The literacy rate is high at 98 percent for both men and women.

There are no recent figures relating to income distribution in Saint Vincent and the Grenadines, but World Bank and other sources suggest that at least 30 percent of the population still lives in poverty, including the large numbers of unemployed. The most underdeveloped and marginalized area of the main island is the north, where villages such as Sandy Bay, Owia, and Fancy are still without electricity (although a project to connect them was underway in 2000). Here, the volcanic terrain limits the development of agriculture and there are few economic opportunities other than cultivating marijuana. The inhabitants of the poorest north coast settlements include the last descendants of the Black Caribs, a community descended from the island's indigenous population and slaves who escaped the sugar plantations in the 18th century and revolted against the British. On the east coast, the once thriving town of Georgetown is now almost deserted, abandoned since the government-owned sugar mill was closed

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
St. Vincent & the Grenadines	N/A	1,322	1,649	2,168	2,635
United States	19,364	21,529	23,200	25,363	29,683
Jamaica	1,819	1,458	1,353	1,651	1,559
St. Lucia	N/A	2,076	2,150	3,542	3,907

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
St. Vincent & the Grenadines	27	4	8	2	13	24	22
United States	13	9	9	4	6	8	51
Jamaica	24	7	3	1	9	8	48
St. Lucia	40	5	11	4	17	11	11

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

in the 1970s. Here, as elsewhere beyond the Kingstown area, educational and medical services are basic.

In contrast, the wealthier middle-class suburbs around Kingstown have a full range of amenities and facilities. The more prosperous banana-growing villages of the fertile inland valleys are also evidence of economic success. The wealthiest sectors of the population include those involved in the tourism industry, the new financial services sector and, according to critics, those with political connections.

WORKING CONDITIONS

Figures from 1991 (the most recent available) showed a total employed workforce of 33,440, with unemployment standing at 19.8 percent. More recent statistics, from 1999, suggest that unemployment stood at 22 percent. Figures cited by the newly elected Unity Labour Party say unemployment may be as high as 45 percent (although this number may be inflated for political reasons). Pay and working conditions are average by regional standards, and workers in agriculture, manufacturing, and the large public sector enjoy the protection of well-organized growers' associations and trade unions. According to the International Labor Organization (ILO), the government observes basic working legislation. Wages, although low by North American standards, are higher than in many poorer Caribbean nations and range between $100 and $300 per week for jobs in agriculture and manufacturing. The large civil service is well represented by trade unions and is able to negotiate substantial salary increases.

Conditions are toughest in agriculture, where many small farmers work remote and usually mountainous holdings without adequate irrigation or other inputs. Much of this work is carried out by families, and women, as well as some children, are widely involved in agricultural production as well as retailing.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1498. Saint Vincent sighted by Columbus on his third voyage of discovery.

1627–73. Islands claimed but not settled by Great Britain.

1673–1762. Jointly administered by Great Britain and France as neutral territory.

1763. Saint Vincent ceded to British after conflict with France.

1779–83. Islands occupied by French forces.

1796. Suppression and mass deportation of the Black Caribs by General Abercrombie.

1833–1960. Islands are part of the British Windward Islands colony.

1950s. First banana exports to United Kingdom.

1979. Islands declare independence from United Kingdom and become part of the British Commonwealth.

1984. James Mitchell of the conservative New Democratic Party becomes prime minister and dominates politics until 2000.

1987. Hurricane Emily destroys 70 percent of banana crop.

2000. Mitchell resigns amidst political controversy; Ralph Gonsalves, head of the United Labour Party, is elected in 2001.

FUTURE TRENDS

Saint Vincent and the Grenadines' short-term economic prospects depend to a large extent on the fate of its banana industry. If preferential access into the EU is removed or substantially reduced, the industry will not be able to compete with large Latin American producers and will collapse, creating widespread poverty among

small farmers. Attempts to diversify away from dependency on bananas have begun, but will need to be accelerated over the next decade. The country's food processing and export industry also faces potential threats from cheaper regional competitors such as the Dominican Republic, which are now involved in reciprocal free-trade agreements with CARICOM countries.

Tourism seems to have a more healthy future, and the potential of the main island and its dependencies has yet to be fully realized. The authorities will have to balance the need for increased visitor arrivals with keeping the islands' reputation as an unspoiled and exclusive destination for the wealthier tourist. More doubtful is the outlook for the financial services sector, especially if the government is forced to remove secrecy provisions through international pressure. Overall, the medium-term future for Saint Vincent and the Grenadines does not look particularly bright, and the government will face an uphill task in reducing current levels of unemployment and poverty.

The Unity Labour Party, which attained a majority in the 2001 parliamentary elections in March of 2001, has stated that its aim is to add 1,500 jobs to the economy right away, invest in infrastructure to allow for the creation of more jobs in the medium and long term, boost the information technology and tourism industries, and provide more support for the production of bananas, sugar, and arrowroot. However, it is too early to say whether these ambitious plans can be realized, especially as many of these plans rely on government expenditures which may not be possible given existing government funding.

DEPENDENCIES

St. Vincent and the Grenadines has no territories or colonies.

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—James Ferguson

SURINAME

Republic of Suriname
Republiek Suriname

CAPITAL: Paramaribo.

MONETARY UNIT: Surinamese guilder (SG). One guilder equals 100 cents. There are notes of 5, 10, 25, 100, 250, 500, and 1,000 guilders and coins of 1, 5, 10, and 25 cents and 1 and 2.5 guilders.

CHIEF EXPORTS: Alumina, aluminum, crude oil, lumber, shrimp and fish, rice, bananas.

CHIEF IMPORTS: Capital equipment, petroleum, foodstuffs, cotton, consumer goods.

GROSS DOMESTIC PRODUCT: US$1.48 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$406.1 million (f.o.b., 1998 est.). **Imports:** US$461.4 million (f.o.b., 1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Suriname sits on the northern shoulder of South America, facing the Atlantic Ocean between Guyana to the west, French Guiana to the east, and Brazil to the south. It shares with these 3 nations 1,707 kilometers (1,061 miles) of border and has a coastline of about 386 kilometers (240 miles). With an area of 163,270 square kilometers (63,038 square miles), Suriname is slightly larger than the state of Georgia. The capital, Paramaribo, lies on the Atlantic coast.

POPULATION. The population of Suriname was estimated at 431,303 in mid-2000. Population density is one of the lowest on earth: 6.9 people per square mile compared with 921.8 people per square mile in Aruba, another former Dutch colony in the region. The heaviest population density is on the coast, with around 45 percent of the population living in the capital district. The birthrate of 21.08 births per 1,000 people is relatively high (more than one and a half times that of Aruba's), but very high levels of **emigration**—8.92 out of every 1,000 Surinamers left in 2000—have kept the annual growth rate to a modest 0.65 percent. One-third of all Surinamers live abroad, mostly in the Netherlands, Netherlands Antilles, and the United States. The life expectancy is 71.36 years. About one-third of the population is younger than 15, and 6 percent is older than 65.

Suriname's ethnic composition is diverse. Slightly more than one-third of the population (37 percent) is of Indian origin, descended from 19th-century indentured laborers brought from northern India. Other large population groups are mixed black-white Creole (31 percent), Javanese (15 percent), and Maroons (10 percent), the descendants of West African slaves who were imported in the 17th and 18th centuries and escaped inland. The rest of the population is comprised of Amerindians (2 percent), Chinese (2 percent), whites (1 percent), and assorted others (2 percent). The official language is Dutch, though English is widely used, as is the Surinamese Creole, Sranang Tongo (also called Taki-Taki). Hindustani (a dialect of Hindi), and Javanese are also spoken.

OVERVIEW OF ECONOMY

Suriname is richly endowed with natural resources. With large reserves of minerals and timber and considerable opportunities for agriculture, industry, and fishing, Suriname has the makings of a prosperous nation, but years of political turbulence and military misrule have taken a heavy toll, and Suriname still struggles to turn its natural assets into national wealth.

The Surinamese economy had long been based on sugar cane, introduced by the Dutch in the 17th century. Most Surinamers are the descendants of African, Indian, and Javanese laborers imported to work on sugar plantations. Since the beginning of the 20th century, the core of the economy has been bauxite mining and processing, an industry that continues to supply over 70 percent of official export revenue. With geological surveys suggesting existing mines will be exhausted by 2006, continued

bauxite production will require the exploration and development of new mines, a difficult venture in the face of Suriname's serious infrastructural shortcomings.

Most of the country's population and **infrastructure** are concentrated on the narrow coastal plain, leaving the interior largely empty, inaccessible, and outside the government's full control. Consequently, exploiting Suriname's reserves of oil, gold, kaolin, stone, and timber tends to be difficult and expensive, and the natural resource sector, for all of its potential, remains underdeveloped.

Political uncertainty and mismanagement have also been significant problems. In 1982 the Netherlands, Suriname's largest benefactor, cut off aid to the military junta, exacerbating a pattern of economic deterioration. A **structural adjustment program** initiated in 1992 aimed at economic stabilization through improved tax collection, removal of certain government **subsidies**, and the harmonization of **exchange rates**. Although the program succeeded in taming Suriname's rampant **inflation** (bringing it from 400 percent in 1994 to less than 1 percent in 1996), it failed to address the more difficult reforms, such as trimming the civil service and **privatizing** government-owned industries. In the absence of a clear and rigorous economic plan, Suriname experienced a soaring **inflation rate** in the late 1990s and its currency began to tumble.

POLITICS, GOVERNMENT, AND TAXATION

Occupied by the Dutch in 1667, Suriname (then Dutch Guiana) was ruled from the Netherlands until 1954, when it gained autonomous status under Dutch sovereignty. Full independence was achieved in 1975. Since then Suriname has had a turbulent history. The first elected government was ejected by the military in 1980, followed by a long period of political instability and deteriorating economic conditions. Although popular pressure led to elections in 1988, the military reasserted itself in another coup in 1990. Elections in 1991 and 1996 resulted in the establishment of fragile coalition governments. Growing frustration at the worsening state of the economy led to widespread strikes and demonstrations and forced the government of President Jules Wijdenbosch to resign in 2000. After new elections, a coalition led by the New Front (Nieuw Front or NF) was formed under the leadership of Ronald Venetiaan, who had been president from 1991 to 1996.

The president is both the chief of state and the head of government. The president and vice president are elected by the 51-member National Assembly or, in case of deadlock, by the larger People's Assembly, which has 869 representatives from national, local, and regional councils. Legislative power is vested in the **unicameral** National Assembly, whose members are elected to 5-year terms. Judicial power is vested in a Court of Justice, in which justices serve for life.

While the transition to multi-party democracy has been essentially peaceful, the threat of civil disorder remains ever present. The government has little control over the interior, where remnants of the Maroon Jungle Commando rebellion, officially quelled in 1992, continue to operate, along with bandits, drug traffickers, and illegally armed gold miners, making development difficult and even dangerous. Corruption and favoritism in the bureaucracy also combine to undermine government's effectiveness. In October 2000 it was discovered that 98 percent of Suriname's gold reserves had disappeared. Foreign investors are discouraged by a legal and regulatory system they consider inefficient and unreliable.

Since the 1990s, relations with the Netherlands, once an important source of foreign aid, have been strained. The United States suspects Suriname of being a trans-

shipment base for both South American cocaine and illegal Chinese immigrants. Suriname is also embroiled in long-standing disputes with neighboring Guyana and French Guiana over rival territorial and maritime claims.

Suriname's **tariff** regime is cumbersome and complex. Average import **duties** range from 30 to 40 percent. New legislation is being drafted to **liberalize** and streamline the system. To compensate for losses in tariff revenues, the government plans to enact more aggressive strategies for collecting taxes from the country's large **informal economy**. **Direct taxes** accounted for only a third of revenue in 1996, and the government hopes to increase this by 20 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Suriname's poor transportation deteriorated further due to neglect during the period of military rule in the 1980s. The country has 4,530 kilometers (2,814 miles) of road, about 26 percent of which are paved. Although these roads have been joined together into 1 integrated system with the construction of bridges across the Coppename and Suriname Rivers in 1999 and 2000 respectively, they are overwhelmingly concentrated in the northern coastal region. Transportation into the heavily forested and sparsely populated interior is still extremely difficult. The logging and bauxite industries use Suriname's 166 kilometers (103 miles) of railway; others must depend on the river system, whose 1,200 kilometers (746 miles) of navigable waterways are an essential means of travel and transport, and on air transport. Paramaribo, the capital, is the major seaport and handles around 500 to 600 vessels a year. There are about 46 airports throughout the country, but only 5 paved runways. International air links are through Johan Adolf Pengel Airport outside Paramaribo.

Telecommunications are largely the preserve of the state-owned Telesur, though the **private-sector** operator ICMS is also active, and there are plans to open the industry up to full competition. Services are generally good, and infrastructural development has seen the number of telephones rise from 71 per 1,000 people in 1985 to 152 in 1998. By the late 1990s, there were 18 radio stations, 3 television stations, and 1 Internet service provider.

Suriname is largely self-sufficient in energy production. Three-quarters of its power consumption is supplied by the state-owned hydroelectric stations at Paramaribo and Nickerie and by the Suriname Aluminum Company's station on the Blommestein Meer, whose electricity is bought by the government. Oil production at the Tambaradjo oil field outside Paramaribo is 12,500 barrels per day (more than 300 percent over its 1982 levels), which is enough to meet all of Suriname's own oil needs, and leave about 40 percent for export. The government is planning to develop the industry further but needs an overseas strategic partner to help it with the cost of exploration.

ECONOMIC SECTORS

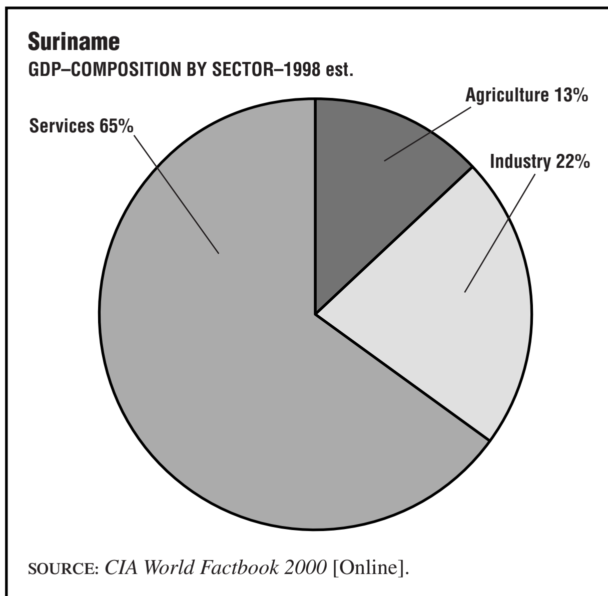
Precise data about the Surinamese economy are not always available, especially because of the large informal sector that runs from street vending and casual labor through illegal mining and drug trafficking. Mining is the predominant sector in the official economy, as it has been for most of the 20th century. Along with quarrying, it generated 14.5 percent of the GDP in 1998. Altogether, industry contributed 22 percent of the GDP, while agriculture contributed 13 percent and services 65 percent.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Suriname	64,000	4,090	AM 4; FM 13; shortwave 1	300,000	3 (2000)	63,000	2	10,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Brazil	17.039 M	4.4 M	AM 1,365; FM 296; shortwave 161 (1999)	71 M	138	36.5 M	50	8.65 M
Guyana	70,000 (2000)	6,100 (2000)	AM 3; FM 3; shortwave 1	420,000	3	46,000	3	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

AGRICULTURE. With only 0.4 percent of Suriname's total land area cultivable, cropping and farming play a secondary role in the economy, employing around 12 percent of the workforce. Half of the cultivable land, mostly in the alluvial coastland, is devoted to rice production, which makes up around 10 percent of Suriname's total exports. The rest is used for fruit and vegetable production, especially bananas, which account for 2.5 percent of total export revenues. As the European Union moves to scale down the special trading access it allows to developing nations, Suriname's rice and banana sales can be expected to suffer. Beef and cut-flower production are being investigated.

FORESTRY. About 90 percent of Suriname's land area is forest and woodland, but the government has tried to preserve its fragile ecology by opting against large-scale logging operations in favor of sustainable harvesting. Lumber generated about US$3 million in export receipts in 1998. A promising ancillary industry is the production of traditional homeopathic remedies from forest plants.

FISHING. Fishing, especially for shellfish, is an important sector, with wild-harvest shrimp accounting for US$29 million, or 6.7 percent of all exports in 1998, and scalefish another 0.8 percent. Fish, shrimp, and crabs are also farmed, though a major setback occurred in October 2000, when a ban was imposed on Suriname's aquaculture products because of unacceptably high levels of toxic residues.

INDUSTRY

Bauxite mining and alumina smelting are the backbone of Suriname's economy, bringing in two-thirds of its export revenues. With 3.9 million tons produced annually, Suriname is the eighth largest producer of bauxite in the world and responsible for an estimated 3.2 percent of all bauxite production globally in 1998. The industry is entirely in the hands of 2 corporations: the Suriname Aluminum Company (Suralco), a subsidiary of the Aluminum Company of America (Alcoa); and Billiton Maatschappij Suriname (BMS). The government is looking for new partners to develop mines in the western Bakhuys Mountains in preparation for the exhaustion of existing mines, expected around 2006.

In 1998 Suriname's gold production reached an estimated 770,000 ounces, but much of the gold mining industry, which includes some 14,000 small producers, either mines illegally or evades government tax **levies**. The government tried to bring miners into the formal economy by lowering the levy rate from 3 percent to 1 percent in 1997, but with limited success. Legitimate mining operations have been further discouraged by low prices for gold on the world market.

Other resources include oil, kaolin (used in ceramic, rubber, plastic, paper, and cosmetics production), nickel, silver, and granite. Deposits of manganese, platinum, uranium, iron ore, phosphate, and diamonds have also been found. The discovery of offshore oil and gas reserves also suggests significant promise.

Manufacturing, which generated around 12 percent of the GDP in 1998, is dominated by food processing, which accounts for 60 percent of the revenues of this sector, and by the refining of bauxite into alumina and aluminum.

SERVICES

TOURISM. Suriname has hopes of capitalizing on its lush forests and enormously diverse plant life to appeal to the **ecotourist** nature-holiday market. While the potential is significant, prospects are seriously hindered by the deficiencies in Suriname's infrastructure, which has few tourist amenities, and by the inaccessibility and hazards of so much of the rain-forested interior. Most of Suriname's 500 or so hotel rooms are in Paramaribo and cater to business travelers, who made up a large proportion of its 89,000 visitor arrivals in 1997; the remaining visitors were largely emigrants making trips home.

FINANCIAL SERVICES. Financial services are rudimentary and consist of the Central Bank of Suriname, which supplies the foreign exchange market and 3 major commercial banks. Difficulties in financing are further complicated by the economy's instability, especially the parallel currency markets. The financial services industry, a valuable source of foreign exchange for many of Suriname's neighbors, is a potential growth sector for the

country, and the government is preparing new legislation designed to stimulate activity.

RETAIL. Suriname's consumer tastes are fairly thoroughly Westernized, and the retail trade is consequently well developed, especially in the capital district. Complicated and expensive import procedures, however, do limit the availability of goods. Paramaribo also has a full complement of "American-style" fast-food chains such as Kentucky Fried Chicken, Pizza Hut, and McDonald's restaurants.

INTERNATIONAL TRADE

Suriname's bauxite exports and aid grants (especially from the Netherlands, Belgium, and the European Union) have tended to keep its trade account more or less balanced, and the country ran a **balance of payments** surplus until 1997. A heavy reliance on imports—especially food and **consumer goods**—combined with the fall of commodity prices for Surinamese products and the suspension of Dutch aid in 1997, pushed the account in 1998 into the red. In that year, exports were valued at US$406.1 million and imports at US$461.4 million.

In 1999 alumina and aluminum accounted for 71 percent of all exports, with the remaining 29 percent derived from rice, bananas, shrimp, and timber. Suriname's main export customers in that year were the United States (23.2 percent), Norway (19 percent), Canada (10.8 percent), and the Netherlands (9.6 percent). The main import suppliers were the United States (34.9 percent), the Netherlands (14.8 percent), and Trinidad and Tobago (12.2 percent).

Suriname joined the Caribbean Community (CARICOM) in 1995, eliminating all tariffs on CARICOM products in 1996 and with the hope that the region would one day be a pan-American free-trade area. This move has tended to shift trading relations away from Europe, Suriname's traditional source of imports, and towards the U.S. and Caribbean region.

Trade (expressed in billions of US$): Suriname

	Exports	Imports
1975	.277	.262
1980	.514	.504
1985	.329	.299
1990	.472	.472
1995	N/A	N/A
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Suriname

Surinamese guilders, gulden, or florins per US$1	
Dec 2001	N/A
Dec 2000	2,178.50
Dec 1999	987.50
Dec 1998	401.00
Dec 1997	401.00
Dec 1996	401.26

Note: Beginning in July 1994, the central bank midpoint exchange rate was unified and became market determined; during 1998, the exchange rate splintered into four distinct rates; in January 1999 the government floated the guilder, but subsequently fixed it when the black-market rate plunged; the government currently allows trading within a band of SRG 500 around the official rate.

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The withdrawal of Dutch support in 1982 forced the government to meet its budgetary shortfall by borrowing on the domestic market, diverting credit from private investment. The strain on the money supply sent inflation into triple digits. Brought briefly under control in the 1990s, the deficit began to increase again, and in 1999 it reached an estimated US$52.6 million, or 16 percent of the GDP. Debt has also climbed as the government substantially expanded its spending on the transportation infrastructure in the late 1990s. The debt rose from US$154 million in 1996 to US$282 million in August 2000. One of the consequences has been the separation of Suriname's currency, beginning in late 1998, into parallel markets, with its bank valuation falling well below the official exchange rate. The result was a 40 percent **devaluation** in January 1999 to SG998 per U.S. dollar. With the discovery of the disappearance of the country's gold reserves in October 2000, the rate fell even further, to SG2,200 per dollar. Inflation rose rapidly, increasing by 9 percent per month through 1999, and peaking at 126.7 percent in October 1999 before dropping back to 38.1 percent in June 2000.

POVERTY AND WEALTH

Suriname ranked 67th out of 174 countries in the **United Nations Development Program**'s development index, which places it in the middle spectrum of nations. This ranking conceals the wide variety of living standards in the country, ranging from Paramaribo, with its roads, full electricity and water services, cosmopolitan shops, and affluent suburbs, to the Maroon and Amerindian villages of the interior, often accessible only by river and with little or no telephone and electricity connections. The index also does not convey quality of life, which even in Paramaribo has been increasingly undermined by

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Suriname	888	930	801	787	N/A
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Guyana	873	819	626	554	825

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

urban crimes such as household burglary and armed robbery. The interior, which has considerably less police supervision, can be even more dangerous. Crime reflects growing disparities in wealth and opportunity, not just between the employed and growing numbers of unemployed, but even within the wage and salary sector, where industry salaries run significantly higher than those in the **public sector**.

WORKING CONDITIONS

Suriname has a workforce of around 100,000, of which half either work directly for the government or for government-owned businesses. Attempts to downsize the public sector have caused considerable unrest, leading to mass street demonstrations by opposition groups and labor unions in 1999, which forced President Jules Wijdenbosch from office. **Restructuring** and the slow pace of economic development has sent the unemployment rate up to 20 percent (1997) and precipitated an exodus of manpower that in 2000 ran to 8.92 Surinamers per 1,000. Most emigrants tend to be under 30 and well-educated; the literacy rate in Suriname, despite a long-neglected education system, is high (93 percent, according to 1995 estimates), and many speak English. This drain of expertise is likely continue.

The concentration of workers in government departments and large industries has created a powerful role for trade unions in the economy. This role has been further strengthened by the government's traditional sympathy for worker issues, enshrined in the 1947 labor laws that still regulate the labor market and safeguard worker rights. Union membership is high, and unions are instrumental in determining pay scales and wage increases.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1667. By the Treaty of Breda, England cedes Dutch Guiana (now Suriname) to the Netherlands in exchange for New Amsterdam (later New York City); Dutch colonization and plantation settlement begins.

1799–1815. Britain controls Dutch Guiana during the Napoleonic wars.

1863. Slavery is abolished.

1954. Suriname becomes internally autonomous (with foreign affairs and defense still controlled from the Netherlands).

1975. With independence from the Netherlands, Suriname becomes a republic under a new constitution.

1980. A military coup ejects the civilian government of Henck Arron and suspends the constitution, replacing it with a government by Lieutenant-Colonel Deysi Bouterse's National Military Council.

1982. The so-called "December Bloodbath" occurs in which 15 critics of the junta are murdered. Dutch aid suspended.

1988. Elective government is restored.

1990. Deysi Bouterse stages another military coup.

1991. Elections are held, but no party carries the required two-thirds majority of seats, so parliament chooses Ronald Venetiaan, a former education minister, as president.

1992. Deysi Bourtese resigns as army chief.

1994. Bread riots occur in Paramaribo.

1996. Elections are held; again no party carries the required two-thirds majority of seats, so parliament selects Jules Wijdenbosch as president and forms a 5-party coalition.

1997. The Dutch government again suspends aid after Suriname refuses to extradite Deysi Bouterse, indicted in the Netherlands on drug charges.

2000. President Wijdenbosch resigns in face of mounting crises and mass demonstrations; new elections are called; with no party able to command a two-thirds majority, parliament selects Ronald Venetiaan as president.

FUTURE TRENDS

Military rule in the 1980s, which was marked by poor economic management, the disappearance of foreign aid, and highly disruptive guerrilla insurgencies, ushered in a period of steep economic decline for Suriname. Subsequent economic policy has been concerned with addressing this legacy and rebuilding the country's economic foundations, especially dismantling the state's overly dominant role in the economy. The process has been a slow one, and the social cost of restructuring has prevented the government from pursuing these aims with

full vigor. Fundamental economic instability, with high inflation and a weak currency, continues to be a chronic problem. Positive indicators, such as an improving relationship with the Netherlands, the promise of better economic management by the Venetiaan government, and the strong state of the bauxite industry, will not be enough to stave off continued hardship and economic crisis for Suriname.

DEPENDENCIES

Suriname has no territories or colonies.

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—Alexander Schubert

TRINIDAD AND TOBAGO

Republic of Trinidad and Tobago

CAPITAL: Port of Spain.

MONETARY UNIT: The Trinidad and Tobago dollar (TT$). One TT dollar equals 100 cents. There are coins of 1, 5, 10, 25, and 50 cents and 1 dollar, and notes of 1, 5, 10, 20, and 100 dollars.

CHIEF EXPORTS: Petroleum and petroleum products, chemicals, steel products, fertilizer, sugar, cocoa, coffee, citrus, and flowers.

CHIEF IMPORTS: Machinery, transportation equipment, manufactured goods, food, and live animals.

GROSS DOMESTIC PRODUCT: US$9.41 billion (1999).

BALANCE OF TRADE: **Exports:** US$2.4 billion (1998 est.). **Imports:** US$3 billion (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The 2 islands of Trinidad and Tobago are between the Atlantic Ocean and the Caribbean Sea, northeast of Venezuela. The southern tip of Trinidad lies only 11 kilometers (7 miles) from the Venezuelan mainland, while Tobago lies approximately 30 kilometers (19 miles) northeast of Trinidad. The total area of the 2-island state is 5,128 square kilometers (1,980 square miles), of which Trinidad accounts for 4,828 square kilometers (1,864 square miles) and Tobago 300 square kilometers (116 square miles). Slightly smaller than Delaware, Trinidad and Tobago has 362 kilometers (225 miles) of coastline. Its capital and main urban center, Port of Spain, is on the northwest coast of Trinidad, while Tobago's capital, Scarborough, lies on the island's southwest coast.

POPULATION. Trinidad and Tobago's population was estimated at 1,175,523 in July 2000, declining 0.49 percent from the previous year and below the mid-1996 estimate of 1,263,600. The decline can mostly be explained by a relatively high level of **emigration**, estimated at 9.92 persons per 1,000 population in 2000. Most Trinidadians emigrate to the United States or Canada in search of better work opportunities and higher wage levels than those available at home. Because of emigration and government-sponsored birth control programs, the population is expected to decline to about 1.11 million by 2010.

Trinidad and Tobago has one of the most ethnically diverse populations in the Caribbean. According to the 1990 government census (the most recent available), 40.3 percent of the people are of "East Indian" descent. The "East Indians" are descended from indentured laborers brought to Trinidad in the second half of the 19th century to work on sugar plantations. Some 39.5 percent define themselves as of African descent, while 18.4 percent are classified as "mixed." There are significant communities of Chinese, Middle Eastern, Portuguese, and people of other European descent. The East Indian population tends to be more evenly distributed throughout rural areas, while the African-descended population is more urban in character. About one-half of the population lives in an urbanized east-west corridor stretching from Diego Martin in the west to Arima in the east.

OVERVIEW OF ECONOMY

In regional terms, Trinidad and Tobago is an economic powerhouse, endowed with extensive reserves of oil and natural gas and possessing a diversified range of manufacturing industries. Unlike other Caribbean nations, its dependence on tourism and agriculture is very limited, and tourism in Trinidad is not yet fully developed. Tobago, with much less heavy industry, is a much smaller, quieter island where tourism is an important source of employment and foreign exchange.

Trinidad's economic fortunes changed dramatically at the beginning of the 20th century when commercial petroleum extraction began. Previously, the island had been mainly a sugar producer, with large plantations established on the fertile central plains. Oil rapidly replaced

agriculture and by the 1950s represented almost 30 percent of **gross domestic product** (GDP). Since then, Trinidad and Tobago's economy has reflected the ups and downs of the world oil industry. During the 1970s, the country experienced a spectacular boom as international oil prices soared. During that time, the government was able to invest some of this income in **infrastructure** and state-controlled industries, especially gas production. From 1982 on, however, oil prices fell and Trinidad and Tobago underwent a long and painful **recession**, with the economy shrinking at an average annual rate of 6 percent between 1982 and 1987. Unemployment, poverty, and emigration all increased.

Since the early 1990s, the economy has recovered to a large extent, and oil and gas production income has generated steady growth, averaging 4 percent annually between 1994 and 1999. The economy grew strongly in 1999, by 6.9 percent, because of an oil price increase. Thanks to the oil boom of the 1970s, Trinidad is also a major exporter of petroleum byproducts such as methanol and ammonia. There is also a significant steel industry, powered by cheap natural gas, as well as a manufacturing sector that produces food, beverages, and cement for local and regional markets.

Agriculture has been neglected since the 1970s, and the main crop remains sugar, most of which is exported to the European Union (EU). Other crops are cocoa and citrus, but these are not grown on a large scale. Tourism is also less important in Trinidad than in most other Caribbean islands, although in the 1990s the government made efforts to attract a larger number of visitors. Tobago is the main tourist destination, with more than half of the country's hotel rooms.

Although Trinidad and Tobago remains vulnerable to fluctuations in world oil prices, it has developed other areas of its economy to balance its economic risks. It has also attracted a cross-section of foreign companies, principally involved in oil and gas production, while retaining a strong element of state control. Poverty remains a serious problem despite oil-related income. The World Bank estimated in 2001 that 21 percent of the population lives in poverty and 17 percent are unemployed.

POLITICS, GOVERNMENT, AND TAXATION

Trinidad and Tobago is a parliamentary democracy, with a president elected for a 5-year term by members of Parliament. A prime minister, usually the leader of the majority party, is appointed from among the members of Parliament after elections, which happen every 5 years. The **bicameral** (2-house) Parliament consists of a 31-seat Senate appointed by the president and a 36-seat House of Representatives elected by popular vote. The Supreme Court consists of a High Court of Justice and a Court of Appeals, to which judges are appointed by the president after consultation with the prime minister.

Politics in Trinidad and Tobago has tended to be organized along ethnic lines since self-government began in the 1950s. After independence from the United Kingdom in 1962, the dominant political party was the People's National Movement (PNM), led by the influential Dr. Eric Williams, until his death in 1981. The PNM remained in power throughout the following period until 1986, when an opposition alliance won elections. Although not explicitly racialist in outlook, the PNM attracted African-descended supporters and concentrated on the urban electorate with promises of jobs and welfare programs. The PNM returned to power in 1992, but in 1995, a party dominated by East Indians, the United National Congress (UNC), led by Basdeo Panday, took power with a prime minister descended from that ethnic group for the first time. The UNC won elections again in December 2000 but amidst considerable controversy over alleged irregularities.

Despite marked differences in ethnic composition and allegations of racial bias, the 2 main parties are not radically different in terms of ideas and policies. The PNM was initially in favor of strong state intervention and ownership during the 1960s and 1970s, but the recession of the 1980s forced the government to accept advice from the International Monetary Fund (IMF). This advice included reducing import **tariffs**, abolishing foreign-exchange controls and generally opening up the economy to foreign investors. The UNC government has maintained these policies, encouraging foreign investment in key areas of oil and gas extraction.

Governments in Trinidad and Tobago have a strong impact on economic development, largely because the state retains a controlling interest in the management of the country's natural resources. There are state-owned corporations in oil, gas, steel, and telecommunications. The government also influences the economy to a great extent by its relationship with foreign companies, from which it derives significant income in the form of taxation and royalties on oil and gas exports. Organizations such as the World Bank are critical of Trinidad and Tobago's large state sector, claiming that it is over-staffed, bureaucratic, and obstructive to real competition in the energy industries.

Tax revenues in Trinidad and Tobago come from a variety of sources. The oil industry accounted for about 20 percent of tax revenues in 1998, while **income tax** provided 30 percent, and sales and service taxes about 20 percent. A **value-added tax** (VAT) was introduced in 1990 at the suggestion of the IMF when oil revenues had fallen significantly.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Although a small country, Trinidad and Tobago has a developed infrastructure, revolving around its oil and gas industries and other manufacturing. There are 8,320 kilometers (5,158 miles) of roads, half of them paved, with main routes covered by 4-lane highways. Even so, traffic congestion has been a problem since the boom period of the 1970s, especially since petroleum is extremely cheap. There are extensive port facilities at the country's 6 major ports, specializing in container, cargo, and cruise shipping, with special infrastructure for oil, gas, cement, and bauxite. Tobago has a general port with cruise-ship facilities. The international airport near Port of Spain has regular connections to Europe and North and South America. The national airline, British West Indian Airways (BWIA), was **privatized** in 1996, with the government retaining a 33.5 percent share.

Trinidad and Tobago is self-sufficient in energy and a major exporter of fuels. In 1998, the country produced 4.763 billion kilowatt-hours (kWh) of electricity and consumed 4.43 billion kWh. The availability of low-cost fuels has been instrumental in building up the country's industrial infrastructure. In terms of tourism, the infrastructure is less developed than elsewhere in the region. Telecommunications are still dominated by the government-owned Telecommunications Services of Trinidad and Tobago (TSTT), and competition is restricted. Independent Internet providers are obliged to use TSTT lines, and cellular phones are also monopolized by the state sector. Radio and television ownership is widespread, and there were 4 national TV stations in 1997, with satellite service widely available.

ECONOMIC SECTORS

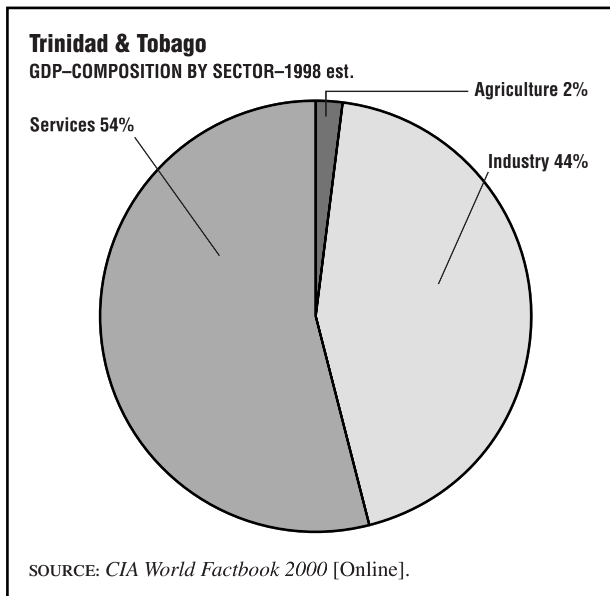
Once the mainstay of Trinidad's colonial economy, agriculture accounted for only 2 percent of GDP in 1998, as opposed to 6.9 percent in 1972. The sector is still an important source of employment, however, employing 8.1 percent of the workforce, or 40,000 people, in 1999. Sugar is the main commercial crop, with most production geared towards the guaranteed European Union market.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Trinidad & Tobago	123	534	334	N/A	20	3.9	46.8	28.20	30
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Venezuela	206	468	185	25.8	87	3.0	43.0	3.98	525
Uruguay	293	607	241	N/A	60	N/A	91.2	38.34	300

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

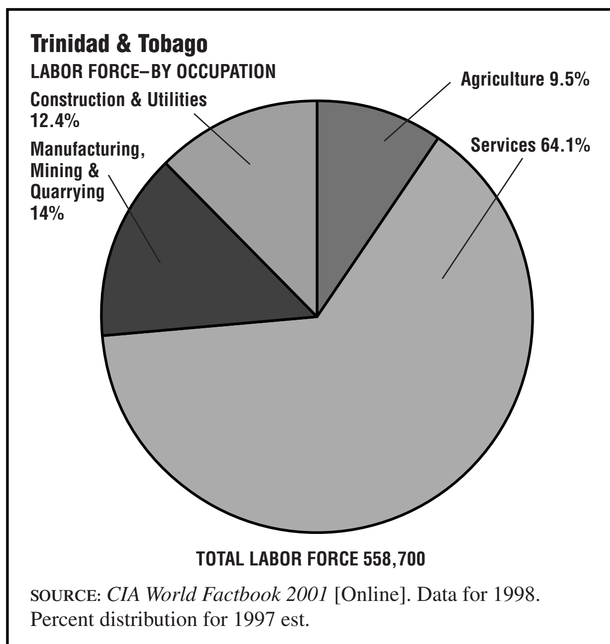
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

Industry is the dominant sector within Trinidad and Tobago's economy. The oil and gas industries are the most important, contributing 25 percent of GDP in 1999 and accounting for 73.1 percent of total exports. The petroleum sector is not, however, a major employer, providing jobs for only 3.2 percent of the workforce, or 14,000 people. Other manufacturing employs many more workers (11 percent of the workforce or 60,000 people) and contributed 8.1 percent of GDP in 1999. In 1998, industry's overall share of GDP stood at 44 percent.

Services accounted for 54 percent of GDP in 1998, encompassing transport, **retail**, government services, and tourism. Of these, personal services and retail were the most significant employers, providing jobs for 28 percent and 16 percent of the workforce, respectively. Tourism is a minor source of revenue and employment in Trinidad, with Tobago earning more in this sector.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998. Percent distribution for 1997 est.

AGRICULTURE

Agriculture experienced a sharp decline during the oil-boom decade of the 1970s, when food imports increased and wage levels in agricultural jobs were low in comparison to other sectors. Sugar remains the main export crop and the main employer, especially during the cane-cutting season. Sugar production reached 227,400 tons in 1965 but fell dramatically to 48,300 tons by 1982. In 1999, 112,100 tons were produced, falling short of the government's target of 130,000. Most production is carried out by the state-owned Caroni Ltd., which has 2 sugar factories, but smaller, independent farmers were responsible for growing 56 percent of cane in 1999. Most sugar exports go to Europe at preferential and guaranteed prices negotiated with the European Union, for which Trinidad and Tobago exports an annual quota of 43,751 tons. In 1998, sugar earned an estimated US$32 million. Despite this guaranteed market access, the sugar industry is highly unprofitable, with the government obliged to subsidize Caroni by $25 million in 1998. There have been repeated calls for the government to sell its sugar operations or to gradually abandon the industry altogether, but this would cause widespread unemployment. Cocoa and coffee have also declined in importance, with only 1,160 tons of cocoa and 343 tons of coffee produced in 1999. Some exotic flowers are exported to the United States, and a wide range of fruits and vegetables are grown for local consumption.

INDUSTRY

OIL AND GAS. Petroleum has dominated the economy since the 1950s, when offshore production began. In 1999, there were 18 international companies involved in oil and gas exploration and production, while the state-owned Petroleum Company of Trinidad and Tobago (Petrotrin) was involved in extraction and refining at its refinery at Pointe-à-Pierre. The oil and gas sectors are divided between foreign and national companies, the former paying the government a royalty on all oil and gas produced. In the 1990s, production of refined petroleum averaged 125,000 barrels per day. This increased in 1999–2000 when world crude oil prices rose from US$11.64 per barrel in early 1999 to US$17.37 6 months later. In 1998, total oil-related exports, including crude oil, refined petrol, and gas, earned just over $1 billion, but this was expected to rise from 1999 onwards.

Trinidad and Tobago's oil and gas industry appears to have many years ahead of it, with proven reserves of oil standing at 605 million barrels in 1999 (with possible reserves estimated at 2.6 billion barrels) and gas reserves standing at 22.9 billion cubic feet, enough to last 51 years at current rates of extraction. Recent findings have suggested that there may be even greater reserves of gas and oil off the shores of Trinidad. A relatively small amount of Trinidad's gas is exported, and most is used in other sectors of industry.

MANUFACTURING. Trinidad and Tobago's manufacturing sector is very different from that of other Caribbean countries in that it does not depend on cheap labor or the export of garments and electronics into the United States. Instead, the emphasis is on heavy industry and petrochemicals, all related to bountiful natural resources. Unlike other smaller Caribbean countries, Trinidad and Tobago is home to several large local companies, producing a wide range of **consumer goods** for national and regional markets. Manufacturing depends to a large degree on the availability of cheap fuel. In 1999, about 65 percent of the gas produced by the National Gas Company went towards producing ammonia and methanol, which in 1998 earned US$248 million and US$148 million, respectively. In 2000, Trinidad and Tobago became the world's largest exporter of methanol, a liquid used as a solvent or fuel, while it was also the world's leading exporter of ammonia, a gas used in industry. Locally produced gas also fuels the steel and cement industries; in 1998, Trinidad and Tobago earned US$206 million from steel exports. Cement, glass, and food and drink processing also benefit from cheap energy supplies.

SERVICES

TOURISM. Tobago has a significant tourism industry, with more than half of the country's 4,200 hotel rooms situated on the smaller island. But in energy-rich Trinidad, tourism has not been considered a priority, and most visitors come as business travelers or to visit relatives. The exception is the annual Carnival in February, when many thousands of tourists arrive to witness the famous calypso and steel band music and the colorful marches. In 1998, receipts from tourism amounted to US$201 million, with an estimated one-third of tourists arriving from the United States. Since the 1990s, the government has shown greater interest in tourism's potential and has invested in a cruise-ship terminal at Port of Spain and more international marketing. In 1999, cruise-ship arrivals rose significantly, reaching over 65,000.

RETAIL SERVICES. Retail is well developed in Trinidad and Tobago, with several large distributors, wholesalers, and supermarket chains. There are also many small local stores, especially in the countryside.

Trade (expressed in billions of US$): Trinidad & Tobago

	Exports	Imports
1975	1.757	1.471
1980	3.955	3.161
1985	2.196	1.586
1990	1.718	1.121
1995	2.455	1.714
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

INTERNATIONAL TRADE

Unlike most other Caribbean nations, Trinidad and Tobago does not suffer from a permanent **trade deficit** and frequently exports more than it imports. The main exports are oil and petroleum products. The deficit of US$600 million in 1998 was largely due to unusually high imports of machinery and other expensive goods for investment in heavy manufacturing. In 1999, the trade balance showed a surplus of US$63.6 million. In 1998, the United States was the main trading partner, accounting for 36.9 percent of exports. Caribbean Community (Caricom) countries took 29.4 percent of exports, mostly petroleum, while the European Union took 6.3 percent.

In terms of imports, the United States was again the major partner, supplying Trinidad and Tobago with 44.7 percent of its imports, including machinery, vehicles, and manufactured goods. Latin America was a major supplier of foods (18.9 percent of imports), and the European Union accounted for 13.7 percent.

Although the United Kingdom was its most important trading partner until the 1960s, Trinidad and Tobago is now increasingly diversified in its access to North and South American markets as well as being a major supplier of fuel and chemicals throughout the Caribbean.

MONEY

After the boom years of the 1970s, the recession of the 1980s came as a rude awakening. The government was forced to adopt a more cautious attitude towards spending and taxation. After enjoying an average annual GDP growth of 5.5 percent between 1974 and 1981, Trinidad and Tobago saw its GDP shrink by an average of 6.1 percent between 1982 and 1987, forcing the government to cut its spending, slash **public-sector** workers' salaries, and restrict imports with high taxes. Following the advice of the International Monetary Fund (IMF), the government raised taxes through the introduction of a value-added tax (VAT) and devalued the currency. Since the mid-1990s, the economic situation has been much

Exchange rates: Trinidad and Tobago

Trinidad and Tobago dollars (TT$) per US$1	
Jan 2001	6.2688
2000	6.2998
1999	6.2989
1998	6.2983
1997	6.2517
1996	6.0051

SOURCE: CIA *World Factbook 2001* [ONLINE].

more stable. There has been steady growth and relatively low levels of **inflation**, averaging 4 percent annually. The TT dollar stood at 6.26 to the U.S. dollar in 2001, representing a fall in value from 4.25 in 1993, when it was allowed to float freely against the U.S. dollar.

Trinidad and Tobago has a strong domestic banking sector, with 2 of the 5 principal banks under local, **private-sector** control. The country is also a regional center for financial services, with Trinidadian banks holding interests in subsidiaries elsewhere in the Caribbean. The Central Bank of Trinidad and Tobago acts as the country's central bank, controlling the flow of currency and setting interest rates. The Trinidad and Tobago Stock Exchange, which opened in October of 1981, listed 23 local companies and 4 companies from Barbados and Jamaica in 1999.

POVERTY AND WEALTH

Distribution of wealth has always been uneven in Trinidad and Tobago. Although there is a large middle class, there are also extremes of wealth and poverty. The wealthy minority is made up of those with interests in private-sector manufacturing and, it is widely rumored, with good contacts in politics and the state corporations. There is a small elite descended from the traditional plantation owners, often light-skinned and educated abroad, but there is also a larger group of entrepreneurs, many of whom owe their fortunes to the boom years of the 1970s when land prices rocketed and money flowed freely. Another wealthy group is comprised of business people of East Indian origin who have set up lucrative operations in the retail and import-export sectors. The richest citizens of Trinidad are to be seen in the hillside suburbs of Port of Spain, where large villas boast satellite dishes and swimming pools. Trinidad and Tobago's rich tend to live a transnational lifestyle, with assets and interests in the United States. Shopping trips to Miami or Caracas are commonplace, and some upper-class families prefer to send their children abroad for education rather than to the local University of the West Indies.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Trinidad & Tobago	3,302	4,615	4,731	4,095	4,618
United States	19,364	21,529	23,200	25,363	29,683
Venezuela	4,195	3,995	3,357	3,353	3,499
St. Lucia	N/A	2,076	2,150	3,542	3,907

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Trinidad and Tobago

Lowest 10%	2.1
Lowest 20%	5.5
Second 20%	10.3
Third 20%	15.5
Fourth 20%	22.7
Highest 20%	45.9
Highest 10%	29.9

Survey year: 1992

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

The other extreme is to be found in deprived inner-city ghettos such as Laventille, where the poorest members of society live. It is here, in areas of ramshackle shacks and self-built cinder-block houses, that the worst problems of poverty, unemployment, and crime grow unabated. Unemployment is worst among the 15–19 age group, of whom an estimated 43 percent are out of work. This has contributed to an alarming rise in violent crime, much of it connected with drugs and gang warfare. The other areas of greatest deprivation are small villages, often inhabited by agricultural laborers of Indian descent, around the central sugar belt.

Trinidadian society is not hugely stratified on color lines, although there is often considerable tension between the African- and Indian-descended sectors of the community. Social mobility is possible, but there is often little opportunity for poor families to improve their economic outlook other than through migration.

Despite areas of poverty, health care and education are generally of a high standard in Trinidad and Tobago, especially in the urban areas. Primary education is free and compulsory, and there is a high level of literacy, estimated by the Pan-American Health Organization at 95 percent. Secondary school enrollment, beginning at 12, is also free, but only 69 percent of eligible children were enrolled in 1999. Social security is extremely basic, and much of the care of the old and sick is entrusted to family networks or charitable agencies.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Trinidad & Tobagao	20	10	23	5	13	7	22
United States	13	9	9	4	6	8	51
Venezuela	30	6	17	16	13	7	12
St. Lucia	40	5	11	4	17	11	11

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

Trinidad and Tobago has an established tradition of strong trade unions, especially in the key oil sector. The Oilfield Workers' Trade Union is part of the National Trade Union Centre, an umbrella grouping of unions that protects its members' interests as regards pay and working conditions. Labor legislation, as a result, is generally observed in Trinidad and Tobago, and working conditions are often good. Although workers receive on average only a third of what similar workers in the United States would earn, they are better paid than in many other low-wage economies. Statutory sick pay and other benefits are widespread, while job security, particularly in the heavy industries, is good.

There is little child labor, and women are well represented in most areas of work, except heavy industry and sugar production. Agriculture tends to offer the worst in terms of pay and conditions, and for this reason few younger Trinidadians are attracted to such work.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1498. Trinidad sighted and named by Christopher Columbus.

1592. Large-scale Spanish settlement begins in Trinidad.

1797. Trinidad becomes British colony.

1814. British take control of Tobago from French.

1838. End of slavery creates labor shortages on plantations.

1845. First arrival of indentured Indian laborers.

1857. First oil well drilled.

1888. Trinidad and Tobago are formally combined as political entity.

1917. End of indentureship system.

1956. Self-government begins.

1962. Independence from Great Britain, but the country remains a member of the British Commonwealth. Eric Williams of the People's National Movement (PNM) becomes first prime minister, a position he holds until his death in 1981.

1976. Trinidad and Tobago declare independence as a republic, creating the office of president to take the place of the British monarch as chief of state.

1970S. Economic boom as world oil prices rise sharply.

1982. Collapse of oil prices leads to a 10-year recession.

1995. Indian-dominated United National Congress (UNC) wins elections.

2000. UNC wins second term in office amidst contested elections.

FUTURE TRENDS

Trinidad and Tobago's future, like its past, is inextricably linked to the international oil market and the price of petroleum. When world oil prices are high, the country prospers; when they fall, it suffers. Although not a member of the Organization of Petroleum Exporting Countries (OPEC), Trinidad and Tobago's economic well-being is largely decided by OPEC's manipulation of international oil prices. The advent of gas production and the policy of developing other industries has reduced Trinidad and Tobago's long-term dependence on oil, a direction that will be followed by the government in the future. At the heart of this industrial diversification will be the expansion of heavy industries and a growing capacity for manufactured exports.

Tourism will also be encouraged as the government contemplates the possibility of falling oil prices and even the eventual exhaustion of oil reserves. This sector has

barely been explored and has enormous potential, especially with the country's proximity to South America. At the same time, the government will seek to rid itself of the loss-making and old-fashioned sugar industry. It remains to be seen whether it also seeks to reduce the role of the state in the strategic oil and gas industries as well as telecommunications.

DEPENDENCIES

Trinidad and Tobago has no territories or colonies.

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—James Ferguson

UNITED STATES OF AMERICA

CAPITAL: Washington, D.C. (District of Columbia).

MONETARY UNIT: United States dollar ($). One U.S. dollar equals 100 cents. There are coins of 1, 5, 10, 25, 50 cents and 1 dollar. There are notes of 1, 2, 5, 10, 20, 50, 100, 1,000, and 10,000 dollars.

CHIEF EXPORTS: Capital goods, automobiles, industrial supplies and raw materials, consumer goods, and agricultural products.

CHIEF IMPORTS: Crude oil and refined petroleum products, machinery, automobiles, consumer goods, industrial raw materials, and food and beverages.

GROSS DOMESTIC PRODUCT: $9.963 trillion (2000 est.).

BALANCE OF TRADE: **Exports:** $776 billion (2000 est.). **Imports:** $1.223 trillion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The 48 states that make up the continental United States are located in North America between Mexico and Canada. The state of Hawaii is located in the Pacific Ocean, midway between North America and Asia, and the state of Alaska is located on the extreme northwest corner of North America. The United States also controls a number of small islands in the Caribbean and the Pacific. The nation is the third-largest country in the world in area behind Russia and Canada. It has a total area of 9,629,091 square kilometers (3,717,792 square miles). This total includes the 50 states and the District of Columbia, but not the nation's territories and dependencies. Of this territory, 9,158,960 square kilometers (3,536,274 square miles) are land, while there are 470,131 square kilometers (181,517 square miles) of water. The United States is about one-half the size of Russia, and slightly larger than either Brazil or China. It shares long borders with both Canada (8,893 kilometers or 5,526 miles) and Mexico (3,326 kilometers or 2,066 miles). The nation's total borders are 12,248 kilometers (7,610 miles) long. The Eastern United States borders the Atlantic Ocean and the Caribbean Sea, while the West Coast borders the Pacific Ocean. Areas of Alaska border the Arctic Ocean. In all, the country has 19,924 kilometers (12,380 miles) of coastline. The nation's capital is Washington, D.C., which is located on the East Coast, almost midway between Maine and Florida. The capital has a population of 519,000, but America's largest cities are New York, with a population of 7,428,162, followed by Los Angeles with 3,633,591 people, and Chicago with 2,799,050.

POPULATION. The population of the United States was estimated to be 275,562,673 in July 2000. Females slightly outnumbered males and there were 0.96 males for every female in the population. This phenomenon is most pronounced among the elderly and is partially the result of longer life spans for women. In the United States, the life expectancy for males is 74.24 years, but 79.9 for females. The elderly are the fastest growing segment of the population and thus have contributed to the "greying" (aging) of the American population. In 2000, those aged 65 and older accounted for 12.64 percent of the population. Meanwhile, those Americans age 14 and younger accounted for 21.25 percent of the population. The most significant factor causing the greying of the population is the aging of the baby-boomers (those people born in the aftermath of World War II when there was rapid population growth or a "boom" period of births). Over the next decade, many of the baby-boomers will reach retirement age, creating new pressures on the health-care and retirement systems. By 2030, the elderly population in the United States will have doubled.

After periods of dramatic population growth early in the 20th century, the American population is now growing at a slow rate of 0.91 percent per year. By 2010, the population is expected to be 297,976,000. The birth rate is 14.2 births per 1,000 people, and the mortality rate is 8.7 deaths per 1,000. The fertility rate is 2.06 children born per woman. Fertility rates have thus stabilized at replacement levels (a point at which there are just enough births to replace the children's parents). Much of the increase in the population is not the result of the birth rate, but rather because of **immigration**. There are about 3.5 new immigrants to the United States for every

1,000 people in the country. In 1998, there were 660,477 legal immigrants admitted to the United States. In addition, there were an estimated 500,000 to 1 million illegal immigrants.

The American population is one of the most diverse in the world and is constantly changing because of immigration and differences in birth rates. In 1970, nonwhite minority groups accounted for 16 percent of the population, but by 1998 these groups accounted for 27 percent of the population and estimates are that by 2050, minorities will account for more than 50 percent of the population. Currently, whites make up 72.2 percent of the population. African Americans are the largest minority group at 12.6 percent of the population, followed by Hispanics at 10.6 percent, Asians at 3.7 percent, and Native Americans at 0.8 percent. However, between 2005 and 2010, Hispanics are expected to overtake African Americans to become the largest minority group. The largest ethnic group in the United States is the Germans

(42.9 percent), followed by the Irish (28.6 percent), Africans (12.6 percent), and the Italians (10.8 percent).

For most of its history the United States was a rural nation, but through the 20th century there was increasing urbanization. In 2000, 76 percent of the American population lived in urban areas and 53 percent lived in or near the nation's 20 largest cities. There are now 9 cities in the United States that have populations of more than 1 million people. In order of size, they are New York, Los Angeles, Chicago, Houston, Philadelphia, San Diego, Phoenix, San Antonio, and Dallas. In addition, there are a number of cities, including Detroit and San Jose, with populations near 1 million.

Despite the nation's size, the population density of the United States is relatively low. There are 28.4 people per square kilometer (73.5 people per square mile) in the United States. However, this density is uneven. For instance, the population density of New York City is 8,880 per square kilometer (23,000 per square mile). The state with the highest population density is New Jersey (386 people per square kilometer, or 1,000 per square mile). Alaska has the lowest density with less than 1 person per square kilometer (at about 1 person per square mile). The United States also has one of the most mobile populations in the world. Although 84 percent of the population lives in the same residence as they have for the past 5 years, the average American will move 6 times during his or her lifetime.

OVERVIEW OF ECONOMY

The United States has the largest, most technologically-advanced, and most diverse economy in the world. While the United States accounts for only about 4 percent of the world's population, its GDP is 26 percent of the world's total economic output. The American economy is a free-market, private enterprise system that has only limited government intervention in areas such as health care, transportation, and retirement. American companies are among the most productive and competitive in the world. In 1998, 9 of the 10 most profitable companies in the world were American (even the non-U.S. exception, Germany's Daimler-Chrysler, has a substantial part of its operations in the United States). Unlike their Japanese or Western European counterparts, American corporations have considerable freedom of operation and little government control over issues of product development, plant openings or closures, and employment. The United States also has a clear edge over the rest of the world in many high-tech industries, including computers, medical care, aerospace, and military equipment.

In the 1990s, the American economy experienced the second-longest period of growth in the nation's history. The economy grew at an average rate of 3–4 percent per year and unemployment fell below 5 percent. In addition, there were dramatic gains in the stock market and many of the nation's largest companies had record profits. Finally, a record number of Americans owned their own homes. This long period of growth ended in 2001, when the economy slowed dramatically following a crash in the high-technology sector.

The United States has considerable natural resources. These resources include coal, copper, lead, phosphates, uranium, bauxite, gold, iron, mercury, nickel, silver, tungsten, zinc, petroleum, natural gas, and timber. It also has highly productive agricultural resources and is the world's largest food producer. The economy is bolstered by an excellent, though aging, **infrastructure** which makes the transport of goods relatively easy.

Despite its impressive advantages, the American economy faces a number of problems. Most of the products and services of the nation are consumed internally, but the economy cannot produce enough goods to keep up with consumer demand. As a result, for several decades the United States has imported far more products than it exports. This **trade deficit** exists entirely in manufactured goods. The United States actually has trade surpluses in agriculture and services. When adjusted for the surpluses, the U.S. trade deficit in 2000 amounted to a record $447 billion. The United States has been able to sustain trade deficits year after year because foreign individuals and companies remain willing to invest in the United States. In 2000, there was $270 billion in new foreign investment in American companies and businesses.

Another major problem for the American economy is growth of a 2-tier economy, with some Americans enjoying very high income levels while others remain in poverty. As the workplace becomes more technologically sophisticated, unskilled workers find themselves trapped in minimum wage or menial jobs. In 1999, despite the strong economic growth of the 1990s, 12.7 percent of Americans lived below the poverty line. There are other wage problems in the United States. Although the economy has grown substantially, most of the gains in income have gone to the top 20 percent of households. The top 10 percent of households earned 28.5 percent of the nation's wealth, while the bottom 10 percent accounted for only 1.5 percent. There is also a growing number of Americans who are not covered by medical insurance.

Although there is great diversity in the American economy, services dominate economic activity. Together, services account for approximately 80 percent of the country's GDP. Manufacturing accounts for only 18 percent, while agriculture accounts for 2 percent. Financial services, health care, and information technology are among the fastest growing areas of the service sector. Although industry has declined steeply from its height in the 1950s, the American manufacturing sector remains

strong. Two of the largest American corporations, General Electric and General Motors, have manufacturing and production as their base, although they have both diversified into the service sector as well. Meanwhile, despite continuing declines, agriculture remains strong in the United States. One of the main trends in the agricultural sector has been the erosion of the family farm and its replacement by the large corporate farm. This has made the sector more productive, although there has also been a decrease in the number of farmers and farm workers.

Since the middle of the 20th century, the United States has aggressively pursued free and open trade. It helped found a number of international organizations whose purpose is to promote free trade, including the General Agreement on Tariffs and Trade (GATT), now known as the World Trade Organization (WTO). It has also engaged in free trade agreements with particular nations. The North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico is an example of this. One continuing problem for American companies engaged in foreign trade is that the United States is much more open to trade than many other nations. As a result, it is easy for foreign companies to sell their goods and services in the United States, but American firms often find it difficult to export their products to other countries.

The nation is a net provider of economic aid. It provides $6.9 billion in direct aid to nations. In addition, the United States funds many international organizations. It provides 25 percent of the operating budget of the United Nations and almost 50 percent of the budget for day-to-day NATO operations. (The North Atlantic Treaty Organization is a military alliance of 19 countries in Europe and North America.) Nonetheless, this aid has only a small impact on the U.S. budget. All spending on international affairs, including the costs of maintaining embassies overseas, foreign aid, and support for international organizations, amounted to $19.5 billion in 1999. That was only 0.01 percent of the federal budget. In comparison, in 1999 the United States spent $26.7 billion to fund the Central Intelligence Agency (CIA).

POLITICS, GOVERNMENT, AND TAXATION

The United States is a democratic, federal republic. It is one of the oldest functioning democracies in the world. Government in the United States is divided into 3 levels: federal, state, and local. In addition to the national government, there are 50 state governments, and over 80,000 local governments, including counties, towns, and cities.

The chief executive and head of state is a president who is elected for a 4-year term, and who may not be elected more than twice. The nation's legislature is known as the Congress and is **bicameral** (it has 2 chambers). The upper chamber is the Senate. There are 2 senators from each state, and they are elected for 6-year terms. The lower house is the House of Representatives, which has 435 members who serve 2-year terms. The number of representatives a state has depends on its population. For example California has 52 representatives, while states such as North Dakota, South Dakota, and Wyoming only have 1 representative because of their small populations.

Both federal and state governments have only limited impact on the economy. There are laws that establish worker safety conditions and the minimum wage as well as restrictions on hazardous products and the manner in which companies do business. Most economic policies and laws are designed to protect consumers and workers and to promote economic development. The main impact of the government, besides taxation, is the operation of such agencies as the Post Office and regulatory agencies that oversee various aspects of the economy, including the Federal Trade Commission, the Securities and Exchange Commission, and the Nuclear Regulatory Commission.

In the United States, Congress and the president control **fiscal policy** while a semi-independent body, the Federal Reserve Board, controls **monetary policy**. The members of the Federal Reserve Board are appointed by the president and confirmed by the Senate, but once in office they have almost complete freedom of action to set interest rates and take action to control the amount of money in circulation.

There are 2 main political parties in the United States. The Democratic Party is liberal and generally supports government action to address economic or social problems. The Republican Party is conservative and advocates limited government and a strong national defense. Both parties support the **free market system**, but Republicans tend to be more supportive of free trade at the international level. Meanwhile the Democrats tend to emphasize workers' rights and increased social spending. Republicans controlled the presidency and the House of Representatives after the 2000 elections (in which George W. Bush was elected president) while the Democrats had a slim majority in the Senate.

The United States has an independent judiciary and a dual court system in which there are both federal and state courts. The highest court is the federal Supreme Court, whose 9 judges are appointed for life by the president. Each state also has a supreme court for state matters. The American court system is often the final arbiter for economic disputes. Consumers use the court system to get compensation for faulty products or service and to stop unfair business practices. Businesses and govern-

ments use the courts to settle disputes and enforce laws. For instance, the courts have been used to break up **monopolies**.

The nation's tax rate is low when compared with other industrialized nations. However, there are wide variations in taxation since the individual states also tax citizens. For instance, Arkansas, Florida, New Hampshire, South Dakota, Washington, and Wyoming do not have state **income taxes**, while other states, such as Ohio or California, have income taxes as high as 10 percent of earnings.

In 2000, the federal government's revenues were about $1.9 trillion and it spent about $1.75 trillion. The result was a $115 billion **budget surplus**. In the same year, state governments collected $500 billion in revenues and spent $800 billion (most of the $300 billion in excess spending was provided by the federal government). On the federal level, 47.8 percent of revenues came from individual income taxes. The tax rates ranged from 15 percent to 39.6 percent of income. Other sources of revenue were corporate taxes at 10.1 percent, **social security taxes** at 33.8 percent, and **excise taxes** (in the United States, these are taxes on goods such as gasoline and cigarettes) at 3.7 percent. There were also small amounts from gift and **estate taxes** and customs **duties**. The main government expenditures were social security ($408.6 billion), welfare programs ($274.6 billion), national defense ($274.1 billion), Medicare ($216.6 billion), and interest on the **national debt** ($215.2 billion). In 2000, the national debt was $5.7 trillion, or 67 percent of GDP. This is higher than the average for industrialized nations and payments on the large debt take an enormous amount of money out of the economy.

The American military influences the economy in an indirect way. The size of the nation's military and its needs for equipment and supplies have created a military-industrial complex (a series of deep relationships between the military and companies that provide services and equipment for national defense). This military-industrial complex has resulted in a number of multi-billion dollar companies that develop and sell expensive equipment to the military including naval ships and submarines, fighter aircraft, missiles, tanks, and other equipment. In 1999 alone, the federal government spent $48.9 billion to acquire new weapons.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

In general, the United States has an excellent infrastructure. Some areas of the country have aging or overburdened roadways and utility systems, but the nationwide infrastructure is capable of supporting the needs of the economy. Roadways connect all 50 states and 90 percent of all major cities and towns are serviced by expressways. The sheer size of the United States necessitates a vast highway network so that goods can be transported throughout the country. The nation has 6,348,277 kilometers (3,944,819 miles) of roadways, including 3,732,757 kilometers (2,319,535 miles) of paved roads. Of this total, 1 percent or 74,071 kilometers (46,036 miles) are interstate highways and a total of 180,959 kilometers (112,467 miles) are part of the national highway system. These roads are needed to accommodate the country's 208 million vehicles, including 199 million private cars and trucks, 7 million commercial trucks, and 697,000 buses.

The country's railway system is privately owned and includes 240,000 kilometers (149,136 miles) of mainline rail. There are 116,000 people in the United States who are employed by railways. Amtrak, the national passenger carrier, is government-owned, but there is ongoing discussion in Congress over whether the system should be **privatized**. Amtrak has 38,616 kilometers (24,000 miles) of track and services 500 stations across the country. The importance of transportation to the American economy is exemplified by the fact that in 1996, $847 billion, or 11 percent of the nation's GDP, was spent on transportation.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Canada	159	1,077	715	263.8	176	33.3	330.0	422.97	11,000
Japan	578	955	707	114.8	374	126.8	237.2	163.75	27,060
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Not counting the massive Great Lakes, there are 41,009 kilometers (25,483 miles) of navigable waterways in the United States. During the 19th century, a massive system of canals was constructed around the nation and many remain in use. The Mississippi River is one of the busiest waterways in the world and the main north-south shipping route. The United States is serviced by a number of ports. Among the busiest ports are Baltimore, Boston, Charleston, Chicago, Hampton Roads, Los Angeles, New Orleans, New York, Philadelphia, San Francisco, Savannah, Seattle, and Tampa. The nation's merchant marine has 386 ships with gross tonnages of more than 1,000 tons each. The total weight of the fleet is 11,634,608 gross tons. This does not include thousands of barges, tugboats, and smaller craft. In order to supply the nation's energy needs there is an extensive network of pipelines.

The United States also has an excellent telecommunications system. Telephone service is widespread and easily available. Many cities and states have large and state-of-the-art fiber-optic cable systems. There are also microwave radio relay stations and extensive coaxial cable networks. The nation has a well-developed and expanding cellular system which includes thousands of relay towers. There are an estimated 70 million mobile phones in use in the country. For international communications, there are 24 ocean cable systems to carry transoceanic communications. The telecommunications system is enhanced by a broad network of satellites. The United States has 70 satellite earth stations to relay transmissions. In 1999, there were 7,600 Internet service providers in the United States.

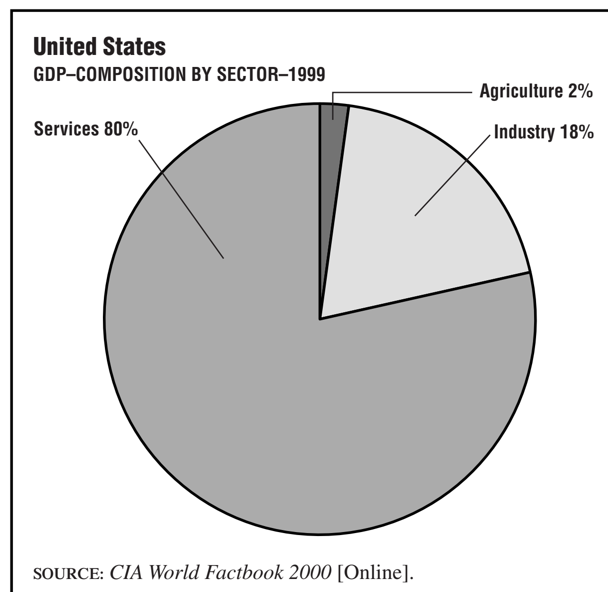
There are 14,572 airports in the United States, although only 5,174 have paved runways. There are also 118 heliports. Some 241,000 people were employed by the air transport companies as of early 2001, although after the terrorist attack on the World Trade Center in September of that year, the airlines began massive layoffs of employees. All American airlines are privately owned. The largest airlines in the country are American Airlines, United, Continental, Northwest, and Delta. The nation's busiest airports are Hartford International in Atlanta and O'Hare International in Chicago. The United States also has the world's largest space program. The National Aeronautics and Space Administration's (NASA) budget in 2000 was $13.7 billion. Of this total, $9.8 billion was spent on contractors. The largest payments were to Boeing, United Space Alliance, and Lockheed Martin. The space program is an example of government cooperation with private industry since NASA conducts many space launches for private companies (mainly satellite launches).

In 1998, the nation consumed 3.36 trillion kilowatt hours (kWh) of power. It imported 39.51 billion kWh (mainly from Canada) and exported 12.77 billion kWh. Domestic electricity production was 3.62 trillion kWh. The majority of electricity was produced by fossil fuels (70.34 percent). Atomic power supplied the second-largest share of electricity (18.61), followed by hydroelectric power (8.96 percent), and a variety of renewable energy sources including wind and solar power (2.09 percent).

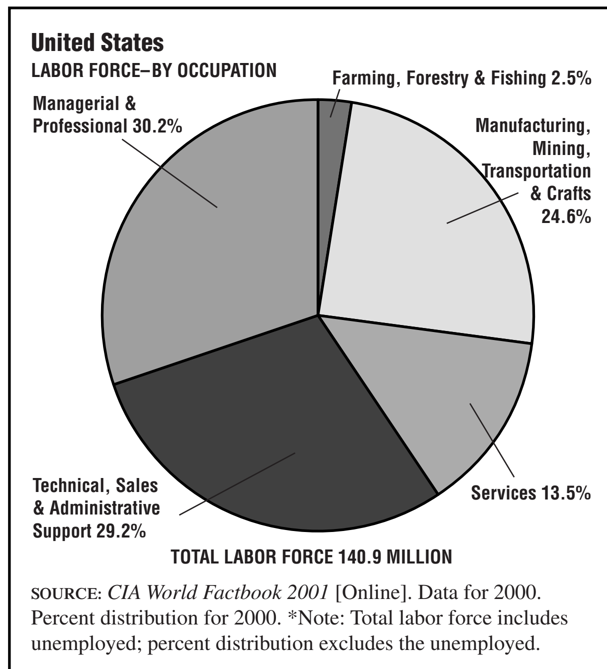
ECONOMIC SECTORS

The United States has a highly diversified economy with a mix of large and small companies and a variety of industries and services. Although relatively small when compared with the other sectors of the economy, American agriculture is highly diverse and well developed. The differences in climate, soil, and rainfall across the country allow for a great assortment of crops to be cultivated. Citrus products grow well in Florida and areas of California, while the Midwest is suited to raising wheat and corn, and areas of the Southeast produce the majority of the nation's tobacco and cotton. In overall terms, the main crops are wheat and other grains, corn, fruits, vegetables, and cotton. The main livestock products are beef, pork, poultry, dairy products, turkey, and fish. There is also a significant industry based on forest products such as timber. Most crops and livestock grown in the United States are used for domestic consumption, but the country also exports a considerable amount of products. Agriculture accounts for about 2.4 percent of total employment.

The United States remains the world's dominant industrial power. Like other economic sectors, industry in the United States is technologically sophisticated and includes a wide variety of different manufacturers and products. While industry has declined in relation to other



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 2000. *Note: Total labor force includes unemployed; percent distribution excludes the unemployed.

sectors, it has experienced steady growth. In 1999, industry grew by 2.4 percent. The leading industries are petroleum, steel, motor vehicles, aerospace, telecommunications, chemicals, electronics, food processing, **consumer goods**, lumber, and mining. Industry employs 24.5 percent of the American workforce. One ongoing trend in industry is the increasing consolidation and diversification of companies. Larger corporations have absorbed other companies both in an effort to reduce competition and also to branch into new markets. In 1997, there were a total of 11,128 business mergers or acquisitions in the United States, with a total value of $906 billion. American firms were involved in 9 out of the world's 10 largest mergers from 1989 to 1999. Mergers were particularly common in industries such as oil and natural gas processing, consumer goods, and medical equipment. American industry has also branched out into new areas. For instance, companies such as General Electric or General Motors no longer concentrate solely on manufacturing, but engage in a variety of economic endeavors including media broadcasting, financial services and telecommunications. Among the world's largest industrial companies are the American firms General Electric, Exxon, IBM, Ford Motor Company, General Motors, and Philip Morris.

The service sector is the largest component of the American economy. The United States has established itself as a world leader in telecommunications, financial services, and information technology or IT (computer-based information systems and communications). The growth of IT has propelled the "new economy" of the United States, based less on manufacturing and more on information products and services. By 1999, one-third of all new investments in the United States were in IT-based companies. The nation's **retail** sector is also strong. Consumer spending on products and services has helped drive the economic growth of the past decade. Major American retailers such as Wal-Mart, K-Mart, and Target have developed new methods of marketing and sales that have revolutionized the retail market. Services employ 77 percent of American workers.

AGRICULTURE

American agriculture is marked by several trends. The first is the continuing decline of small family farms. Since 1979, 300,000 small farms have disappeared in the United States, and since 1946 the number of people employed in agriculture has been cut in half. Increasingly, large companies such as Archer-Daniels Midland (ADM) have come to dominate American agriculture. In 2000, ADM had worldwide sales of $12.9 billion. In the beef industry, 4 firms control 80 percent of the U.S. market. Almost 91 percent of U.S. farms are considered to be small (less than 1,000 acres). Large farms (more than 1,000 acres) made up just 9 percent of farms but received 51 percent of total agricultural revenues in 2000. The second trend is the increasing productivity of the sector. Agricultural production in the United States has increased by an average of 5 percent each year since 1990. In addition, the output of each agricultural worker has grown by an average of 0.84 percent each year. On average, one American farmer produces enough food for 96 people. This improvement is partially as a result of the consolidation of farms and partially a result of new technologies and farming methods. The third trend is the growth in both exports and imports. In 1998 total agricultural exports were $60.5 billion. That same year, total imports were $48.9 billion. The fourth and final trend is the loss of agricultural **subsidies**. Some of these subsidies are in the form of outright payments in exchange for farmers not growing certain crops and are provided to keep the price of crops high. Since the early 1990s, Congress has gradually reduced these subsidies. However, support and aid for certain types of farmers, including tobacco farmers, continues. After declining to a low point of $9 billion in 1997, government spending on agriculture increased to $23 billion in 1999 and $38.4 billion in 2000. The increases mainly came from emergency aid to farmers because of natural disasters during these 2 years.

About 40 percent of the land in the United States is used for agriculture of some form, including livestock grazing. This includes 431.1 million acres of cropland, 396.9 million acres of pasture, and 71.5 million acres of forests. In 1998, the total crop output of the United States was 489,976,030 metric tons with a value of $102.14 billion. The largest single crop was corn, which accounted

for more than half of the nation's crop output with 247,882,000 metric tons. The second largest crop was soybeans with 74,598,000 metric tons. Wheat is third with 69,327,000 metric tons. Other major crops include sugar cane, sugar beets, potatoes, bananas, and coffee. Tobacco also provides substantial cash returns, although yields are small when compared with many other crops. Total animal output in 1998 was $94.19 billion while forestry products, including timber, totaled $24.68 billion. Of the total American livestock, there were 101.2 million head of cattle, 56.2 million pigs, 8.3 million sheep, 6.15 million horses and 1.5 billion chicken. The remaining livestock includes a variety of species such as bison, turkeys, and geese.

Commercial fishing has declined significantly in the United States over the past 30 years. The majority of U.S. fish cultivation is used domestically, and about half is for human consumption. There is a wide variety of species caught, including cod, haddock, pollock, tuna, and salmon. Various shellfish such as lobster, shrimp, or crab account for about 20 percent of the annual harvest, but provide about one-half of the total revenues. Commercial fish farms are increasingly common and used for species such as salmon, catfish, and shrimp. Total fish harvests amounted to $3.7 billion in 1998, of which shellfish totals were $1.6 billion.

There have been dramatic improvements in agricultural technology in the United States. Improvements include increased use of computers, scientific soil and crop analysis, and more sophisticated machinery. Genetic engineering of seeds has also increased crop yields but created controversy over the safety of genetically altered products. There has subsequently been a decrease in soil erosion caused by over-farming and an overall decline in the use of pesticides and fertilizers. However, the pesticides used are much more powerful and lethal than earlier chemicals. About two-thirds of the states have had deep reductions in agriculture. Agriculture has declined most significantly in the New England states and New Jersey. In the West and southern plains, some states have had minor declines, while others have had small increases. The only regions of the nation that have seen major expansion of agriculture have been the middle-Atlantic area and the Pacific Northwest. The states with the largest increases in output were Arkansas, Washington, Delaware, Florida, and Georgia.

Progress in technology and crop yields has made the United States among the most productive agricultural producers in the world. The United States produces about half of the world's corn and 10 percent of its wheat. It also accounts for 20 percent of the globe's beef, pork, and lamb. With such progress in increasing output and the efficiency of agriculture, food prices for American consumers have had little increase over the past 20 years. Americans spend less on food, as a proportion of their income, than any other nation in the world. U.S. consumers spent 10.9 percent of their income on food. In comparison, the average British consumer spent 11.2 percent, the French 14.8 percent, the Japanese 17.6 percent, and Indians spent 51.3 percent.

The United States is the world's largest producer of timber. About 70 percent of the nation's forests are privately owned, but there is also limited logging allowed in federally-owned or managed forests. Almost 80 percent of timber harvested is soft woods such as pine or Douglas Fir. Hardwoods such as oak account for the remaining 20 percent.

INDUSTRY

Although American industry has declined as a percentage of the nation's GDP, it remains an integral part of the economy and has experienced some growth in certain areas. Since the 1960s, manufacturing has been in an overall decline, but specific American-made products have increased their sales and become more productive by using new technology and manufacturing methods. For instance, the automotive industry has increased production and produced 1.2 percent of the GDP although there have been cutbacks and shifts in employment. Many automotive workers now work for smaller independent manufacturers instead of the large companies such as Ford and General Motors. One of the main trends in U.S. industry is the increasing consolidation of small and medium companies into larger firms.

In 1999, there were 390,000 manufacturing companies in the United States with 18.5 million employees. There were also 27,000 mining companies with 627,000 workers, and 634,000 construction companies with 5 million employees (this includes individual contractors involved in construction such as plumbers and electricians). The largest industrial companies in the United States in 2000 were General Motors with 392,000 employees, Ford Motor Company with 364,600 employees, General Electric with 316,500, and Boeing with 211,000 employees. Many companies that once concentrated in manufacturing now are engaged in a variety of economic activities. For instance, General Electric is one of the largest industrial companies, but only about half of its employees work in manufacturing. The rest are employed in such activities as media operations (General Electric owns the television network NBC), sales, and marketing.

MANUFACTURING AND CONSTRUCTION. The strong economy of the 1990s produced record profits for many American manufacturing firms. Sales of manufactured goods totaled $354.9 billion in 1999. One result of this has been increased investment in new factories and equipment and in research and development of new products.

Profits in industry have also been aided by the increased productivity of workers. New investment by industry increased by 9 percent since 1995.

In the manufacturing sector, durable goods (products that are designed to last 5 years or more) accounted for 9.5 percent of the nation's GDP while non-durable goods, such as food or clothing, accounted for 6.9 percent of GDP. In 2000, the main durable goods were electronic products, motor vehicles, industrial machinery, fabricated metal products, lumber and wood products, and other transportation goods (including airplanes and aerospace equipment). In 1999, there were 11.1 million people employed in the manufacture of durable goods. The main non-durable goods sectors were food and foodstuffs, printing and publishing, chemicals and pharmaceuticals, rubber and plastics, textiles and clothing, and tobacco. In 1999, there were 7.44 million Americans working in the non-durable goods production sector of the economy.

Because of increased production, many American workers in the manufacturing sector worked more than 40 hours a week in order to keep up with demand. In 1999, the average manufacturing employee worked 4.6 hours of overtime per week. Average earnings in the manufacturing sector were $13.24 per hour. This marked a 3.3 percent increase in earnings from the previous year. American manufacturing companies were operating at about 82 percent of total capacity in 1999. In comparison, throughout the 1980s and early 1990s these companies were operating at an average of only 76 percent of capacity. The greatest gains in productivity in the manufacturing sector were in electronics, industrial machinery, and automobile production.

In 1999, 6.4 million Americans worked in the construction industry. The total value of new construction that same year was $764 billion. This included $172.1 billion worth of construction by local, state, and national governments. There were 1.66 million new houses built and 299,700 business structures completed.

ENERGY AND MINING. The United States produces 74 percent of its energy needs. The nation has significant reserves of coal, natural gas, and hydroelectric power. The United States has the sixth-largest reserves of natural gas and is one of the world's largest producers of gas. The United States is also the third-largest exporter of coal. The nation has the twelfth-largest reserves of oil, but it is one of the world's largest importers of oil. About 57 percent of the oil consumed in the United States is imported. The majority of the nation's oil production is concentrated in Alaska, Texas, Louisiana, and California. Although profits for U.S. energy companies have doubled since 1990, many companies have shifted their efforts to develop new oil fields overseas. The 15 largest U.S. energy companies now have operations in such diverse places as Asia, Africa, and South America. There has been increased consolidation in the energy field. In 1999, Exxon and Mobil merged to form the largest private energy company in the world, worth $81 billion. This was followed in 2000 by a merger announcement between Chevron and Texaco. Rising oil prices in the United States contributed to the economic slowdown that began in 2000.

Non-fuel mineral production in the United States in 1997 amounted to $39.6 billion. The major minerals included zinc, lead, gold, iron ore, phosphates, and platinum. Eleven states accounted for 56 percent of total production. There were also $26.7 billion worth of mineral commodities produced. The main commodities were crushed stone, cement, copper, sand, lime and clays. Many of these products were used in the construction industry. In 1999, mining employed about 535,000 people.

SERVICES

While there has been a trade deficit in manufactured items between the United States and the rest of the world, the nation has built a trade surplus in services. In 1998, services accounted for 28 percent of total U.S. exports, but only 16.5 percent of imports. Since 1995, services have grown by an average of 6 percent per year. Leading segments of the service sector include telecommunications, financial services, and IT. The main export markets for American services are the European Union, which spent $85 billion on American services in 1999, Japan at $30 billion, and Canada at $21 billion. Among developing nations, Mexico was the number-one source for the export of U.S. services, and in 1999, it spent $13 billion.

FINANCIAL SERVICES. The financial sector is composed of banking, insurance, and real estate operations. Financial firms provide a range of services. Commercial banks provide loans to consumers and businesses, including revolving loans in the form of credit cards. They also offer a variety of safe investment opportunities, such as savings accounts. Most savings and checking accounts in U.S. banks are insured by the Federal Deposit Insurance Corporation for up to $100,000. Other financial firms concentrate on investment opportunities such as stocks and bonds, and manage long-term retirement plans. Still others provide a range of insurance needs including life, car, and home insurance. Financial service firms account for about 8.5 percent of all companies and just 5.8 percent of U.S. workers. Because of the high level of education and training required for employment in this sector, workers in financial services are among the highest-paid in the United States. In 1999, their average hourly wage was $14.61 compared with the national hourly average of $13.24. They also have a lower unemployment rate. Unemployment among financial service workers was just 2.3 percent in 1999, while the national unemployment rate

was 4.3 percent. The largest financial service firms are Citigroup with 173,500 workers, Bank of America with 163,400, Wells Fargo with 90,400, and Chase Manhattan with 73,800.

INFORMATION TECHNOLOGY. One of the fastest growing areas of the U.S. economy is IT. This includes the development of computer software and computer applications for business and government, as well as new methods of communication. The IT sector also covers systems that integrate new technologies. For instance, IT includes systems that link Internet access and mobile phones. Although IT accounts for only a small part of the U.S. GDP (8.3 percent in 2000), it is responsible for one-third of new output. In addition, spending on IT software and services accounted for 11 percent of the 14 percent increase in business spending on **procurement** in 2000. IT was also responsible for a 30 percent growth in personal income. Most of the technology involved in this sector of the economy was invented before 1990, including the personal computer, fax machine, cellular phone and Internet. It has only been since 1995 that systems have been developed that integrate these new technologies.

RETAIL. Retail and wholesale trade has posted substantial growth since 1993. By 2000, retail and wholesale trade employed 25 percent of all workers in the **private sector** and accounted for 19.3 percent of all businesses. Strong sales in these sectors have been bolstered by increases in productivity. Average worker productivity has increased by about 5 percent per year since 1995. Wages in the retail sector are far lower than the national average. In 1999, the average wage for retail workers was $9.08 per hour, while the national average wage was $13.24 per hour. In addition, retail workers usually work less than 40 hours per week (on average just 29 hours) and often do not have benefits such as health insurance and retirement.

Increases in sales and productivity have meant dramatic profits for many retailers. However, many companies have not been able to compete with the mega-retail firms such as Wal-Mart, K-Mart, and Target. By 2001, many of the country's oldest and most respected firms—including Montgomery Ward and Bradlees—were bankrupt. Wal-Mart is the nation's number-one retail store, and in 2000, it came in second place only to General Electric in overall sales among all American companies (including such firms as Ford, Microsoft, and Exxon Mobil). The number-two retail firm was Home Depot. Along with this trend has been the slow demise of the mom-and-pop stores (small, independent, often family-owned businesses that are usually involved in retail ventures such as service stations and neighborhood grocery stores). One of the fastest growing segments of the retail sector is **e-commerce** (business that is conducted through the Internet). The United States currently leads the world in e-commerce. In 2000, e-commerce was worth $35 billion in the United States as 11 million consumers purchased products via the Internet. However, initial estimates of wild growth in the sector have not come true and many online companies have struggled to become profitable. Official government estimates were that e-commerce would be worth $800 billion by 2005, but new estimates place that figure at only $230 billion.

TOURISM. The United States is the world leader in tourism. This is true of both tourists coming to the United States and Americans visiting overseas. In 2000, foreign visitors spent $75 billion in the United States, while American tourists spent $50 billion abroad. In 1998, some 45 million people visited the United States. The majority of these tourists were from Canada (14 million), followed by Mexico (9.8 million) and Europe (9 million). About 50 million Americans traveled abroad, mainly to Mexico and Canada.

INTERNATIONAL TRADE

Because of the massive size of the American economy, the country has a significant impact on global trade. When the American economy is expanding, it can prompt growth in other nations. However, when the U.S. economy contracts, it usually initiates parallel declines in other countries. Imports of foreign goods have helped keep prices low and meet consumer demand in the United States. The volume of these imports has resulted in a record $447 billion trade deficit, but foreign investment in the country has underwritten this deficit and provided new capital for the economy to expand. Exports in 2000 stood at $776 billion, while imports stood at $1.223 trillion.

In 2000, the country's main export partners were Canada at 23 percent of trade, Mexico at 14 percent, Japan at 8 percent, the United Kingdom at 5 percent, Germany at 4 percent and both France and the Netherlands at 3 percent each. The nation's main import partners are Canada at 19 percent, Japan at 11 percent, Mexico at 11 percent, China at 8 percent, Germany at 5 percent, and both the United Kingdom and Taiwan at 4 percent each. During the 1990s, trade with Canada and Mexico expanded as a result of trade agreements. Meanwhile, consumer demand for electronic products and automobiles led to increases in Japanese imports. At the same time, trade with Europe grew more slowly and even declined in certain markets.

The country's closest trade relationship is with Canada. On average, $1 billion worth of goods and services cross the border between the United States and Canada each day. Trade with Canada exceeds the volume of trade between the United States and all of South America or the European Union (EU). The volume of trade that moves between Michigan and the Canadian

Trade (expressed in billions of US$): United States

	Exports	Imports
1975	108.856	105.880
1980	225.566	256.984
1985	218.815	352.463
1990	393.592	516.987
1995	584.743	770.852
1998	682.497	944.353

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

province of Ontario is itself equal to the country's trade with Japan. While close trade relations have existed for 2 centuries, this interdependence began to be formalized in 1965 with the Auto Pact between the 2 nations, which removed restrictions on the automobile trade. In 1964, the 2-way trade in automobiles was $715 million, but with the Auto Pact it increased to $104.1 billion in 1999. This accord was followed in 1989 by the Free Trade Agreement (FTA) which removed trade restrictions on most goods and services. As a result, trade increased by 50 percent between the 2 countries. These open trade patterns between Canada and the United States were expanded to include Mexico in 1994, through the North American Free Trade Agreement (NAFTA). NAFTA established the largest free-trade area in the world with more than 380 million consumers.

American exports of services have doubled since 1989, rising from $118 billion that year to $255 billion in 1999. The United States is one of the world's leading suppliers of financial services. In 1997, U.S. firms had foreign insurance sales of $47.2 billion. Meanwhile, U.S. banking and financial service companies had $13.9 billion in direct sales and American-owned firms based in foreign nations had sales of $13 billion. The success of American service products in foreign markets has helped stimulate the export of other U.S. products to support these companies. For instance, U.S. firms that set up offices overseas usually select American telecommunications equipment and computers. This helps get these products into overseas markets.

The United States has signed a number of foreign trade agreements. In 1934, the nation signed its first reciprocal trade accord, which lowered **tariffs** on goods and services. Since then, the country has consistently promoted free and open trade. This includes efforts to establish trade relationships with individual countries and attempts to develop international trade organizations. In the 1990s, the United States signed more than 300 trade agreements with both specific countries and international groups. Individual trade agreements between the United States and individual countries in the Caribbean and South America are coordinated through the Caribbean Basin Economic Recovery Act (CEBRA) and the Andean Trade Preferences Act (ATPA).

On a global level, the United States has been responsible for much of the growth in free trade. In 1944, the United States sponsored the foundation of the Bretton Woods economic system. This global system created 3 institutions. The first was the World Bank, to provide loans to countries to rebuild or establish their economies and industry. The second was the International Monetary Fund (IMF), which helped regulate currency and aid countries with financial crises. The third was the General Agreement on Tariffs and Trade (GATT), which promotes free trade by establishing rules for its member states. The United States still provides about 25 percent of the funding for the World Bank and the IMF. In 1994, the World Trade Organization (WTO) replaced the GATT. The United States has used the WTO to its advantage to open trade with nations and to settle trade disputes. The United States is the most frequent user of the WTO Dispute Settlement system and used this to resolve 48 economic disputes between 1996 and 1998.

The WTO forms the main international trade agreement of the United States. The nation is also pursuing the establishment of regional trade agreements such as NAFTA. It is currently a member of the Asia-Pacific Economic Cooperation Forum (APEC) and has proposed the creation of a Free Trade of the Americas Agreement (FTAA), which would include all of North and South America, not just the NAFTA nations. The United States has also proposed the establishment of a Transatlantic Economic Partnership (TEP) which would open trade between the United States and the EU.

MONEY

The American dollar is the main currency used for trade throughout the world. A number of countries around the world have tied their currency to the dollar on a one-for-one basis, including Argentina and the Bahamas. Although the value of the dollar fluctuates freely on world markets, it has remained relatively stable. In late 2001, 0.67 British pounds equaled 1 U.S. dollar; 1.56 Canadian dollars equaled 1 U.S. dollar; 1.09 EU euros equaled 1 U.S. dollar; and 120.63 Japanese yen equaled 1 U.S. dollar.

The banking system of the United States is overseen by the Federal Reserve System, which is made up of 12 regional Reserve banks. These banks control the nation's money and credit supply. The Federal Reserve (commonly referred to as "the Fed") can raise or lower the discount rate that it charges banks to borrow money, thereby raising or lowering national interest rates. It can also control the amount of money in circulation by altering the

Exchange rates: United States

	British pounds per US$1	Canadian dollars (Can$) per US$1	yen per US$1
Jan 2001	0.6764	1.5032	117.10
2000	0.6596	1.4851	107.77
1999	0.6180	1.4857	113.91
1998	0.6037	1.4835	130.91
1997	0.6106	1.3846	120.99
1996	0.6403	1.3635	108.78

SOURCE: CIA *World Factbook 2001* [ONLINE].

banks' **reserve ratios**. The Fed also buys and sells government bonds.

Traditionally, the nation had a number of laws that made it difficult to establish branches of banks in other states. Although many of these laws have been rescinded, their impact has led to the establishment of thousands of individual commercial banks. Only recently have large mega-banks begun to establish multiple branches across the country. The nation is also served by thousands of small non-profit credit unions and savings and loan organizations. About 40 percent of all commercial banks in the United States belong to the Federal Reserve System. These banks account for almost 75 percent of total deposits. All banks that are incorporated under national charters must belong to the system, which imposes various requirements on its members, including the maintenance of specific reserve funds.

The 2 largest stock exchanges in the country are both based in New York City. They are the New York Stock Exchange and the American Stock Exchange. Other major stock exchanges include the Boston Exchange, Cincinnati Exchange, Pacific Exchange, and the Philadelphia Exchange. The main commodity exchange is the Chicago Board of Trade and the main currency market is the Chicago Mercantile Exchange. There are also a number of smaller stock markets across the country. The NASDAQ, which is part of the American Stock Exchange, was created in 1971 as the world's first electronic stock trading index (a listing of a predetermined group of stocks within an exchange). The NASDAQ contains many of the nation's high-tech companies and is the fastest growing of the indexes. Other major indexes include the Dow Jones Industrial Average (which lists the 30 largest industrial companies in the United States) and the Standard and Poor 500 (which lists 500 medium-sized companies).

From 1995 to 1998, the nation's stocks experienced one of their most dramatic periods of growth in U.S. history. However, beginning in 1998 the major stock markets underwent a series of corrections that lowered their overall value and contributed to an eventual economic slowdown. The total value of U.S. stock markets declined from $6.88 trillion in 1997 to $5.58 trillion in 1998. At the end of 1998, the value of the major U.S. stock markets were: New York, $4.695 trillion; American Exchange, $207.6 billion; Boston, $79.9 billion; Cincinnati, $58.6 billion; Pacific, $113.4 billion; and Philadelphia, $63.9 billion. In addition, the value of the Chicago Board of Trade was $131.2 billion, while the value of the Chicago Mercantile Exchange was $212.9 billion. Reevaluations of the value of technology stocks and an economic slowdown that began in 2000 have led to dramatic declines in the U.S. stock market. By March of 2001 the NASDAQ had fallen to its lowest level since November of 1998, while the Dow Jones declined by 8 percent to its lowest level since 1999. With declines of more than 20 percent in the major American stock exchanges, by early 2001 the United States was precariously close to slipping into a **bear market** as well as a **recession**.

POVERTY AND WEALTH

Income distribution in the United States has remained relatively constant since World War II, but by the 1990s the wealthiest groups had gained a larger share of the nation's wealth. In 1950, the richest 20 percent of Americans controlled 42.8 percent of wealth, the middle 20 percent controlled 17.4 percent, and the poorest controlled just 4.5 percent. By 1980, the wealthiest group controlled 41.6 percent, the middle group 17.5 percent, and the poorest 5.1 percent. However, by 1998, the poor and middle groups had lost some ground to the wealthy. The richest group controlled 49.2 percent of wealth, the middle group just 15 percent, and the poor just 3.6 percent. That same year the richest 5 percent of the population controlled 21.4 percent of wealth. The trend toward the greater concentration of wealth by the rich has accelerated throughout the 1990s. While the relative income of the poorest families in the United States declined by 11.6 percent since 1980, the income of the richest group increased by 17.7 percent.

The United States has a high standard of living and ranks number 3 in the world in human development ac-

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
United States	19,364	21,529	23,200	25,363	29,683
Canada	14,535	16,423	17,850	19,160	20,458
Japan	23,296	27,672	31,588	38,713	42,081
Germany	N/A	N/A	N/A	N/A	31,141

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: United States

Lowest 10%	1.8
Lowest 20%	5.2
Second 20%	10.5
Third 20%	15.6
Fourth 20%	22.4
Highest 20%	46.4
Highest 10%	30.5

Survey year: 1997

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

cording to the *Human Development Report 2000* published by the United Nations (Canada ranks number 1, while Norway ranks 2). The average American workweek is 39.2 hours and the per capita income is $29,683. The average household in the United States had 2.6 people in it, but 25 percent of all homes had only 1 person. Only 10.4 percent of households had 5 or more people.

Almost 100 percent of households in the country have access to electricity and 99.4 percent have access to safe drinking water. In addition, 93.9 percent of homes had telephones while 98.3 percent had televisions and 99 percent had radios. The nation's sewage system is highly developed and 77 percent of dwellings are serviced by public sewage systems, and most of the remainder by septic tanks (22.8 percent). The mobility of the population is reflected in the high level of car ownership (84.9 percent of the people own an automobile). The average American spends 22.4 minutes commuting to and from work each day. Almost 80 percent of people who drive to work commute alone, while 14.7 percent car pool and 5.3 percent use public transportation.

In spite of the high overall standard of living, many groups in the United States are excluded from the prosperity of the mainstream. For instance, the unemployment rate for African Americans and Hispanics is almost twice as high as that of Asians and whites. Among workers, average wages for white males was $600 per week, $450 per week for African American males, and $390 per week for Hispanic males. Wages for women mirror the trends among male workers, with the major exception that females on average earn about 70 percent of what males earn.

In 1997, the poverty level in the United States was $16,036 for a family of 4. As with income differences, the poverty rate varies greatly among ethnic groups. In 1997, the poverty rate for whites was 11 percent. For Asians it was 15 percent, while for African Americans it was 28 percent, and 29 percent for Hispanics. Differences in poverty and income have a major impact on health. African Americans and Hispanics are twice as likely as whites not to have health insurance. One result of this disparity in health care is that whites have longer life expectancies. In 1997, the average life expectancy for white women was 80 years, but for African American women it was 74 years. Meanwhile the life expectancy for white males was 75 years, but for African American males it was 66 years.

WORKING CONDITIONS

The American workforce numbers 139.4 million. This includes those working or actively seeking employment in the United States. In 2001 unemployment in the United States reached a 30-year low of 4.2 percent. In 1970, it was 3.9 percent, by 1980 it had risen to 7.5 percent, and it was 5.7 percent in 1990. Unemployment is higher among youths (age 18–24) than among the general population. In 2000, the youth unemployment rate was 8 percent. Unemployment is also higher among females with an average rate of 6 percent.

One long-term problem for the American workforce is the greying of the population. As more workers age and then retire, the financial burdens for the remaining workers will increase. In 1950, there were 12 workers for

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
United States	13	9	9	4	6	8	51
Canada	14	5	10	4	21	9	38
Japan	12	7	7	2	22	13	37
Germany	14	6	7	2	10	7	53

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

every 1 retiree, but currently there are only 3 and this ratio will continue to shrink. This means workers will have to pay higher taxes to support programs such as social security and Medicare (the government-funded health-care program for the elderly). At current projections, social security is predicted to go bankrupt in 2038 while Medicare will run out of money in 2035.

American workers have various legal protections that allow them to organize and join unions. However, the United States has one of the lowest rates of unionization among the major industrialized nations. Of those Americans who belong to unions, almost 75 percent are affiliated in some form with the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO). The major trend in organized labor in the United States has been the continuing decline in union membership. During the 1950s, about 40 percent of American workers belonged to unions, but by 1981, that proportion had fallen to 20.1 percent. In 2000, only 13.5 percent of American workers (16.3 million people) belonged to a union. However, there are widespread regional differences. Union membership is greatest in the Northeast and the industrial states of the Midwest. New York, New Jersey, and Michigan had union membership rates of more than 20 percent. On the other hand, all Southern states had union membership below 15 percent and 2 states, North Carolina and South Carolina, had rates below 5 percent. Among the different sectors of the economy, government employees at the local, state, and national level had the highest union rates (on average 37 percent). Unionization was lowest in the sales sector (3.5 percent).

Working conditions are governed by both state and federal law. There are national provisions against child labor, but states are free to enact supplemental legislation. For instance, many states set the minimum age for employment at 16, while others allow children as young as 14 to be employed with parental consent and impose other restrictions on the amount of hours worked. There are also both national and state laws that govern the number of breaks employees are entitled to and issues of worker safety. Enforcement of labor laws is the province of a variety of state and federal agencies. On the federal level, the Department of Labor, the Equal Employment Opportunity Commission of the Justice Department, and the Occupational Health and Safety Administration (OSHA) are the primary agencies which enforce labor and safety laws. Most state governments have similar agencies that mirror the federal organizations.

In 2001, the national minimum wage was $5.15 per hour, but many states have minimum wages that exceed that amount. The standard workweek is 40 hours, although many salaried positions (held by workers who are paid weekly or monthly, not by the hour) entail standard workweeks in excess of 40 hours. For hourly employees who work more than 40 hours, overtime pay equal to one and one-half times regular salary is standard. In addition to a number of national holidays, most American workers receive 2 weeks vacation per year and 2 weeks sick leave.

As with many other aspects of the economy, there are wide gaps in income depending on race, gender, and geography. Income levels for whites tend to be higher than minority groups, and average salaries for women are only about 75 percent of the pay of their male counterparts. Discrimination also continues to exist in hiring and promotion practices, so that many women and minorities have difficulty in obtaining jobs and promotions. There are also great regional differences in pay and cost of living, with the Northeast having the highest income levels and cost of living, while areas of the South have the lowest rates.

When compared with Europe's industrialized nations, American workers tend to be paid less and have to work longer hours. They also have less vacation time. Despite this, American workers are among the most productive in the world and produce more goods or services per hour than most of their European counterparts. On the other hand, Americans have significantly lower taxes and the cost of living in many regions of the nation is far lower than in other industrialized nations. As a result, the level of **disposable income** of the average American worker is among the highest in the world. One result of these factors has been continued immigration to the United States as people seek economic opportunity.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1492. Spanish explorer Christopher Columbus lands in the Caribbean and initiates the era of European colonization.

1565. The first permanent European settlement was established at St. Augustine, Florida, by the Spanish.

1607. The British establish their first permanent settlement at Jamestown in present-day Virginia.

1611. First tobacco harvests in Virginia.

1619. First Thanksgiving is celebrated. The first slaves arrive in Jamestown.

1775–1783. Revolutionary War. The United States becomes independent from Great Britain.

1787. The Constitution is adopted and the present system of government put in place.

1789. George Washington becomes the first president of the United States.

1790. Samuel Slater establishes the first textile factory in Pawtucket, Rhode Island.

1794. The Post Office is established. Eli Whitney invents the cotton gin which spurs the expansion of the cotton industry.

1797. Eli Whitney develops interchangeable parts. This dramatically speeds up production and makes it easier to replace parts.

1803. The United States purchases the Louisiana Territory for $15 million, tripling the size of the nation.

1817. Work on the Erie Canal is begun. When it is completed the canal stretches 363 miles and joins the Hudson River to Lake Eire.

1846–1848. The United States fights the Mexican-American War and gains the territory that will become Arizona, California, Nevada, New Mexico, Utah, and parts of Colorado and Wyoming.

1849. Gold is discovered at Sutter's Mill in California, initiating a gold rush and mass migration to the West.

1859. The oil well is used for the first time and an oil boom is initiated in Pennsylvania.

1861–1865. American Civil War. In 1862, President Abraham Lincoln issues the Emancipation Proclamation which frees the slaves in the Confederate states.

1867. Barbed wire is invented. This makes it easier for Americans to settle the West. The United States purchases Alaska from Russia for $7.2 million.

1869. The transcontinental railroad is completed.

1898. The Spanish-American War ends with a U.S. victory and the nation acquires the Philippines, Guam, and Puerto Rico.

1901. The Open Door Policy is established to guarantee American companies the right to trade in China.

1913. The Sixteenth Amendment establishes the income tax.

1917–1918. The United States becomes involved in World War I.

1919. In separate constitutional amendments, women are given the right to vote and prohibition is established, making alcohol illegal in the United States.

1929. The New York Stock Exchange crashes and falls to its lowest level. The Great Depression begins.

1941–1945. The United States fights in World War II. The war ends when the United States drops the first atomic bombs on Hiroshima and Nagasaki, Japan. The United States helps establish the United Nations. The Cold War begins between the United States and its allies and the Soviet Union and its allies.

1951. The first commercial computer, UNIVAC, is sold to the U.S. Census Bureau.

1963–1973. American forces fight in Vietnam.

1965. The United States and Canada sign the Auto Pact.

1970s. The United States undergoes its worst economic recession since the Great Depression, partially as the result of oil crises in 1972 and 1979.

1989. US-Canada Free Trade Agreement goes into effect.

1992. The Cold War is officially declared to be over. The nation begins the second-longest period of economic expansion in its history.

1994. The United States, Canada, and Mexico establish the North American Free Trade Agreement (NAFTA).

2001. Terrorist attacks on New York's World Trade Center and the Pentagon on September 11 draw the United States into a military conflict with Taliban forces in Afghanistan.

FUTURE TRENDS

The fundamental structure of the American economy is very strong. All of the major sectors of the economy experienced growth through the 1990s. After declining for many years, agriculture and manufacturing have stabilized and undergone significant transformations that have made them more successful. Throughout the economy, company consolidation as a result of mergers and acquisitions continues. Large firms are increasingly common, but small companies still make up the majority of American businesses. These big American firms have also sought to acquire companies in foreign countries in order to broaden their business and to enter new markets. In 1996, some 364 foreign companies were acquired by U.S. firms, either through mergers or outright sales. The value of these acquisitions was $59 billion. As a result, American firms have become increasingly global, and this trend will continue. By expanding into other markets and countries, American companies have reduced their economic risks by diversifying and spreading their assets.

The main strengths of the U.S. economy are its adaptability and the workforce productivity. During the 1970s, the country underwent a traumatic transformation away from industry toward a service-oriented economy. By the mid-1980s, the main elements for the dramatic growth of the 1990s were in place. Increases in productivity and the development of new technologies, goods, and services combined with increased consumer demand to spur the growth of the 1990s. The United States leads

the world in the development of IT and other high-tech goods and services. This area of the economy has been one of the main sources of new growth and it will continue. These factors will remain in place for the near future so that the economy should remain strong for the next decade.

The nation has a low tax burden, which attracts foreign investment and provides workers with more income for purchasing products. Recent government surpluses have fueled the incentives for tax reduction. A number of states have already reduced taxes, and in 2001, the Congress passed the president's massive tax rebate. Increased free trade arrangements have resulted in lower-cost imports and reduced both the cost of production for U.S. companies and the cost of many goods and services for U.S. consumers. Lower taxes and production costs for U.S. companies will continue to spur the economy.

There are several main weaknesses of the U.S. economy that will affect future growth. The nation's dependency on energy imports makes it vulnerable to increases in oil prices. Since the majority of oil imports come from the Middle East, an area of political instability, actions that affect the region also have an impact on the United States. Another major problem in the American economy is the growing gap between rich and poor. The resultant 2-tier economy may mean that a segment of the American population will untouched by future economic growth.

The aging of the American population is another of the most significant potential problems. This problem exists on 2 levels. First, as more Americans retire over the next 20 years, there will be fewer employees in the workforce to provide goods and services. Second, fewer workers mean that there will be less money going into the national retirement system, Social Security. Social Security is expected to begin having financial problems in 2035 as it has to pay more money out to retirees while it receives less money in revenues.

DEPENDENCIES

GUAM. As part of the Treaty of Paris, which ended the Spanish-America War in 1898, Guam became part of the United States. The island is currently a dependency of the nation, but many on Guam seek commonwealth status, like Puerto Rico, which would give the territory increased autonomy and control over its government and economy. The territory has an elected governor and assembly and sends 1 non-voting representative to the U.S. House of Representatives.

Guam is located in the Pacific Ocean and has an area of 541 square kilometers (211 square miles). Its population is 150,000. The territory's GDP is $4.6 billion and its **GDP per capita** is $24,000. Guam uses the American dollar as its currency. There is a substantial U.S. military presence in Guam, with 23,000 troops and their dependents. The main products and industries of Guam's economy include petroleum products, tourism, retail sales, construction materials, and fish. Its main trading partners are the United States and Japan.

In 1997, Guam had a total of 2,707 businesses, which ranged from construction companies to retail stores and included hotels and a variety of service companies. Total employment on Guam in 1997 was 42,477 (this does not include the military and those engaged in **subsistence farming** and fishing). Tourism plays a strong part in the territory's economy and hotels and motels had $460 million in revenues in 1997, while tourist shops and souvenir businesses had $415.9 million in sales. Total sales for the retail sector were $1.8 billion. Total employees numbered 15,334. Two factors have helped maintain the growth of the retail industry. The first is sales to military families. The second is sales to foreign tourists. Guam allows tourists to buy goods without paying a sales tax. Since U.S. products are cheaper on Guam than in Japan, this tax-break further lowers the cost and has made the island a popular stop for Japanese tourists to shop. The island is also home to the world's largest K-Mart store.

Behind retail and tourism, all other service industries including, legal, medical, maintenance and transportation services had combined total revenues of $1.18 billion and employed 15,336 people. Manufacturing and construction made up only a small part of the economy. In 1997, manufacturing employed 1,320 people and had revenues of $164 million. Construction employed 7,094 people and had revenues of $505 million.

During the 1990s, the economy of Guam expanded significantly. Although construction was down by 29 percent during the decade, most other segments of the economy have posted impressive gains. Retail sales were up by 65 percent while wholesale revenues have increased by 120 percent. Service revenues have increased by 81 percent and manufacturing by 49 percent. This growth has led to a higher **inflation rate** than the American average, 4 percent compared with 1.7 percent. The economy will likely continue to grow in the near future. The island's dependency on food imports and tourism makes it vulnerable to price increases and economic slowdowns by its major trade partners.

THE VIRGIN ISLANDS. The territory of the U.S. Virgin Islands consists of 3 islands and small cays (low island or reef) in the Caribbean. The 3 main islands are St. Croix, St. Thomas, and St. John. Combined, these islands have a total area of 350 square kilometers (135 square miles). The total population of the territory is 125,000. The majority of the population lives on St. Croix and St. Thomas (only about 4,500 people live on St. John).

In 1997, the GDP of the Virgin Islands was $2.3 billion and its per capita GDP was $17,000. The economy of the Virgin Islands employs about 41,800 people. There are a further number of seasonal jobs that are dependent on tourism, and a percentage of the population works outside of regular businesses in subsistence farming and fishing. The dominant industry is tourism. There is also a significant retail sector in the islands and some minor oil refining. The territory's main trade partners are the United States and Puerto Rico. The majority of the citizens of the islands are of African descent (75 percent), but there is also a significant community of whites who moved to the islands from the United States (13 percent) as well as Puerto Ricans (5 percent).

Because of their strategic importance as naval ports, the United States purchased what is now the U.S. Virgin Islands from Denmark at the outbreak of World War I in 1914 for $25 million. The islands were granted home rule in 1970 and remain unincorporated American territories.

Tourism dominates the economy of the Virgin Islands. Not only does it provide income for people who directly work in tourist-related activities, but it also drives the retail and service sectors of the economy. The islands are serviced by most major American airlines and many of the world's major cruise lines. About 2 million tourists visit the islands each year. Services, including tourism and retail sales, produced $1.8 billion in revenues in 1997. This represented a 20 percent increase since 1990. Retailers and wholesalers employed about 9,000 people, while other services—including lodging, transportation and personal services—employed 10,600 people.

Industry, mainly oil production and construction, employed 3,500 workers and had a total output of $200 million. A small number of financial institutions have established themselves on the islands. Financial services, including banking, insurance and real estate, employ about 1,900 people.

The economy of the Virgin Islands was stable throughout the 1990s, but the tourist industry experienced a period of slow—and in some years, negative—growth. Crime and high costs prompted many tourists to go elsewhere in the Caribbean. As a result, several major airlines cut service to the territory. A reform program that cut the number of government workers from 12,000 to 10,200 employees caused a slight increase in unemployment. These factors will continue to constrain the economy and limit the potential for future growth.

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—Tom Lansford

URUGUAY

Oriental Republic of Uruguay
República Oriental del Uruguay

CAPITAL: Montevideo.

MONETARY UNIT: Uruguayan peso (UP). One peso equals 100 centésimos. There are notes of 50, 100, 500, 1,000, 5,000, and 10,000 pesos and coins of 1, 2, 5, and 10 pesos.

CHIEF EXPORTS: Meat, rice, leather products, vehicles, dairy products, wool, and electricity.

CHIEF IMPORTS: Road vehicles, electrical machinery, metal products, heavy industrial machinery, and crude petroleum.

GROSS DOMESTIC PRODUCT: US$28 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$2.1 billion (1999 est.). **Imports:** US$3.4 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Uruguay is located in the southern region of South America. It is bordered by Argentina on the west and Brazil on the north and east. Its southern coastline of 660 kilometers (410 miles) is formed by the Rio de la Plata, which separates Uruguay from Argentina and opens into the Atlantic Ocean. The nation's total area is 176,220 square kilometers (68,038 square miles), including 2,600 square kilometers (1,004 square miles) of water. The country is slightly smaller than the state of Washington. The nation's capital, Montevideo, is located on the southern coast, where the Rio de la Plata meets the Atlantic Ocean. The capital is also the nation's largest city, with a population of 1.4 million.

POPULATION. The population of Uruguay was estimated at 3,334,074 in July 2000. The country has a very stable population, with a low growth rate of 0.77 percent. By 2010, the population is expected to be 3.6 million. Uruguay's birth rate is 17.42 per 1,000 people; its fertility rate is 2.37 births per woman. The infant mortality rate is 15.14 deaths per 1,000 live births. This rate is high when compared with nations such as Canada (which has a rate of 5.08 deaths per 1,000 live births), but is average when compared with most Latin American countries. The nation's overall mortality rate is 17.42 deaths per 1,000. Uruguay loses a small portion of its population to **emigration** (0.63 emigrants for every 1,000 people). Since 1980, about 500,000 Uruguayans, mostly younger people, have emigrated, mainly to Argentina and Brazil. The life expectancy is 71.9 years for males and 78.75 years for females. The elderly population is small, with only 13 percent of Uruguayans over the age of 65. This segment of the population is growing rapidly and is expected to increase by 40 percent by 2010.

The majority of the Uruguayan population is urban. Almost 80 percent live in towns or cities. About half of the population lives in the greater Montevideo urban area and the rest of the urban population is concentrated in about 20 towns. Population density is 19 people per square kilometer, one of the lowest rates in the Western Hemisphere. (By comparison, U.S. density is 29 per square kilometer and Mexico's is 50.) However, the high urban concentration makes the figure misleading, since density in major urban areas is 55 per square kilometer.

Uruguayans are generally well-educated, and the nation's literacy rate is 97.3 percent. While Spanish is the official language, a mixture of Portuguese and Spanish known as Portunol or Brazilero, is commonly spoken in the border regions between Uruguay and Brazil. Some 88 percent of the population is white and of Spanish or other European descent. Mestizos (people of mixed ethnic backgrounds, mainly Spanish and Native American) make up 8 percent of the population, and blacks make up 4 percent. During the colonial period, the Native American population was nearly eradicated. Although 66 percent of the nation professes to be Roman Catholic, only about half the population attends church. About 2 percent of Uruguayans are Protestant, and another 2 percent are Jewish. About 30 percent have no religious affiliation.

OVERVIEW OF ECONOMY

Uruguay has a strong domestic economy which provides a high standard of living and moderately high **GDP per capita** of US$8,500. The country is small, with limited markets, and geographical and historical factors have made Uruguay dependent on trade with its larger neighbors, Argentina and Brazil. These trade linkages were formalized in 1991 through the creation of the MERCOSUR free-trade area that links Uruguay, Argentina, Brazil, and Paraguay (Chile and Bolivia are associate members). Montevideo is the administrative capital of MERCOSUR.

While MERCOSUR has lowered **tariffs** and increased trade, it has also furthered the dependence of Uruguay on its trade partners. Almost half of the nation's imports and exports are with other members of the group. Hence, when Argentina and Brazil underwent economic downturns in 1998 (including the **devaluation** of the Brazilian currency), the impact was significant in Uruguay. In 1999, after 8 years of positive growth, the Uruguayan economy declined by 3.4 percent. In 2000, the economy continued its stagnation with a decline in GDP of 0.5 percent. This decline is significant because it marked the end of the longest, sustained period of economic growth since the 1970s. In 1999, exports declined by 20 percent and imports dropped by 12 percent. The economic slowdown led to an increase in unemployment, from 10.1 percent in 1998 to 11.2 percent in 1999. In August of 2000, it reached its highest level in 15 years, a peak of 12.4 percent.

During the 1970s, the nation underwent a period of dramatic economic reform. In response to a deep **recession** and declining economic performance, the government began to **restructure** the economy by reducing **inflation** and decreasing government's role in business. However, after the peso declined in value against the U.S. dollar by 140 percent, the nation's GDP fell by 16 percent. This led to another recession in 1982–83. Although there was positive economic growth for the rest of the 1980s, inflation continued to be a problem. By lifting **price controls** and **privatizing** government-controlled companies, Uruguay was eventually able to reduce inflation from 130 percent in 1990 to 44.1 percent in 1995 and to 4 percent in 1999.

By 1995, the government had privatized numerous companies and sectors, including the national airline, the national gas company, all seaport services, the insurance industry, and home-mortgage services. At the same time, the size of the civil service was drastically reduced, as was government spending. Even so, the government still plays a major role in the economy and continues to operate the nation's telecommunications services, electric-power industry, and railway freight services.

Uruguay has a prosperous and developed economy that includes agriculture, industry, and a diversified service sector. While agriculture accounts for only 7 percent of the country's GDP, it continues to dominate the economy in several ways. Agriculture is responsible for more than half of exports, and many of the country's industries and services are related to or dependent on the agricultural sector. The main industries include meat processing, leather production (including footwear, accessories, and apparel), and textiles. Services are a growing part of the nation's economy, but efforts to improve the financial-services sector have yet to succeed since foreign investment remains low.

In an effort to attract more foreign companies and investment, successive governments have established a number of **free-trade zones** in the country. In these areas, foreign firms are offered tax incentives and reduced tariffs in exchange for locating new factories and businesses there and employing a workforce that is at least 75 percent Uruguayan. The nation benefits from **foreign**

direct investments totaling US$5.4 billion. The United States is the single largest investor, contributing 32 percent (US$1.72 billion) of the total.

Despite recent economic problems, the Uruguayan economy is recognized as one of the most solid in Latin America. Uruguay is the only nation in MERCOSUR and one of only two countries in all of Latin America to have investment-grade status. This means that major international financial registries, such as Standard & Poor's or Moody's, recommend the country's government bonds to financiers. Following a slight decline in 2000, GDP growth is expected to resume in 2001.

Uruguay's economic stability is based in part on the high usage of the U.S. dollar in financial transactions. More than 90 percent of private savings in Uruguay is dollar-denominated, as is more than 81 percent of credit granted to the **private sector**. Many consumers use dollars for their purchases of expensive products.

Beginning in 1988, successive governments worked to lower the nation's debt as a percentage of GDP. The economic downturn in 1998 reversed this trend, and the debt-to-GDP ratio increased by 5 percent to 15 percent of GDP, or US$3.1 billion for the year. About 90 percent of the total debt ($8 billion in U.S. dollars) is owned by private investors. Uruguay receives no formal foreign aid, although the European Union (EU) and the United States do help underwrite specific economic projects. In 1996, the EU provided 6.68 million euros for vocational-training centers and 147,000 euros for the development of tourist programs. In 1997, the United States provided US$8 million in aid to train the military for peacekeeping missions and purchase equipment for such missions.

POLITICS, GOVERNMENT, AND TAXATION

Uruguay become independent from Spain after a revolt that began in 1811, but the nation then joined a federation with Argentina. In 1821, Brazil annexed Uruguay, but the country achieved full independence in 1828 after an Argentine-backed revolt. In the early 20th century, President José Batlle Y Ordonez led the creation of the first **welfare state** in Latin America, with broad government participation in the economy and the social system. This tradition continues to influence Uruguay.

Political turmoil led to a new constitution in 1967, and in 1973, the military took control of the government, remaining in power until 1984, when Maria Sanguinetti was elected president. Under the Sanguinetti administration, the government carried out reforms that stabilized the economy and reinforced democracy. Luis Alberto Lacalle succeeded Sanguinetti in 1989. It was he who negotiated inclusion of Uruguay in MERCOSUR and began efforts to curb inflation and cut government involvement in the economy. His economic reform efforts were curtailed in 1992, when voters rejected a plan to privatize ANTEL, the national telephone company. Sanguinetti was reelected in 1994 and oversaw constitutional changes in 1996. In 1999, Jorge Batlle was elected president on a platform that promised to increase international trade and expand economic reforms, including reducing the size and scope of government.

Uruguay is a constitutional democracy with a political system similar to that of the United States. Elected for a 5-year term, the president is the head of state and chief of the government. If no presidential candidate receives an absolute majority of 51 percent of the vote, there is a runoff election in which only the top 2 candidates compete. The president chooses the cabinet and generally sets government policy, subject to oversight from the nation's legislature. The legislative branch of government is the **bicameral** (2-chamber) General Assembly. The upper house, the Chamber of Senators, has 30 members who serve 5-year terms. The lower house, the Chamber of Representatives, has 99 members who also serve 5-year terms. The judicial branch of government is headed by a national Supreme Court. The country is organized into 19 regional departments or states, each headed by an elected governor.

All of Uruguay's major political parties support economic reforms and free trade. There are 3 main political parties. The Colorado Party, which traditionally represented the urban areas and the working class, is led by President Batlle and ex-President Sanguinetti. In the 1990s, this party increased its support for smaller government and less state control. The National Party, or Blanco, is the main party of rural voters, and is generally regarded as the most conservative of the nation's parties and a staunch supporter of free enterprise. Ex-President Lacalle belonged to Blanco. Encuentro Progresista-Frente Amplio (EP-FA) is a leftist coalition that supports limited free trade and private enterprise, but favors the implementation of an **income tax** as a means to redistribute wealth and increase social spending.

In 1998, the government's budget amounted to US$4.6 billion, while its revenues were US$4.4 billion. Because of the economic downturn in 1999, government revenues fell and the nation's deficit increased 4-fold to 3.9 percent of GDP. The government projects a reduction of the deficit to 1 percent by the end of 2001. Uruguay has made commitments to the International Monetary Fund (IMF) not to raise taxes in its effort to reduce the deficit and to pay down the debt in exchange for a short-term credit line of US$200 million to be used in fighting inflation. Uruguay has one of the proportionally lowest defense budgets of all of the Latin American

nations, spending just US$172 million, or 0.9 percent of GDP, on defense.

Since the late 1980s, successive administrations have tried to reduce the role of government in the economy by privatizing government-owned businesses, such as PLUNA, the national airline, Montevideo Gas Company, and most port services. Government-owned enterprises account for 18 percent of GDP and the same percentage of total employment. The government continues to own a variety of businesses, including those engaged in insurance, water supply, telecommunications, electricity, railways, banking, and petroleum refining. The nation's social security system, which prior to 1996 had a deficit equal to 6 percent of GDP, was successfully privatized. By allowing individuals to join private pension plans, privatization has reduced the social security deficit to 1 percent of GDP. Nationwide, 550,000 people, one-third of the workforce, have opted for the private plans that now manage $700 million.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Uruguay is situated in the middle of a corridor that connects the Atlantic and Pacific oceans and is the gateway to the Panama-Paraguay River transportation system. The corridor is inhabited by 40 million people and covers an area of 3.1 million square kilometers (1.2 million square miles). To take full advantage of its geographic position, Uruguay needs to make significant improvement to its transportation **infrastructure**. This would reduce Uruguay's freight costs, which are among the highest in South America.

The nation has 8,983 kilometers (5,582 miles) of roads, almost all paved. There are plans to build a combination passenger railway and underground subway system for Montevideo and its suburbs. Uruguay and Argentina are constructing a 35-kilometer (22-mile) bridge between Buenos Aires, Argentina, and Colonia, Uruguay. This bridge, the longest of its kind in the world, will greatly expand direct trade between the 2 nations. Uruguay has 2,073 kilometers (1,288 miles) of railways and 1,600 kilometers (994 miles) of navigable waterways, many of which are used to transport small quantities of goods. Uruguay, Paraguay, Argentina, Bolivia, and Brazil have announced plans to develop the 4,022 kilometer (2,500 miles) Panama-Paraguay-Uruguay rivers in order to transport goods to ports on the Atlantic Ocean. The plans call for a combination of construction, dredging, and port development that will ultimately cost US$935 million. Uruguay's main port is Montevideo; other ports include Fray Bentos, Nueva Palmira, Paysandu, Punta del Este, Colonia, and Piriapolis. The nation's merchant marine consists of only 1 ship, a petroleum tanker.

Uruguay has 65 airports, but only 15 have paved runways, served by 10 international airlines and the national carrier, PLUNA. Carrasco International Airport in Montevideo is the nation's main international airport. It is undergoing a $60 million renovation that will significantly expand capacity. The nation is also building a $40 million airport at the resort town of Punta del Este.

There are 27 telephones per 100 people in Uruguay. Plans to privatize the telecommunications industry may dramatically lower costs and expand service, especially in the mobile phone market. In 1998, there were 100,000 mobile phones in the country, and 5 Internet service providers for the 12 percent of the population with access.

Uruguay has no fossil-fuel resources. More than 50 percent of its energy needs are met through imported oil (an average of 38,000 barrels per day). While natural gas currently does not contribute to the nation's energy needs, an $8 million, 19-kilometer (12-mile) pipeline was constructed in 1998 to provide natural gas from Argentina. A more substantial 213-kilometer (133-mile) pipeline is being constructed by British Gas and Pan American Energy (a **joint venture** between BP, Amoco, and ANCAP). These pipelines will eventually supply natural gas to over 70 Uruguayan towns and cities. In 1998, the nation's

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Uruguay	293	607	241	N/A	60	N/A	91.2	38.34	300
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Paraguay	43	182	101	N/A	41	N/A	9.6	2.43	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

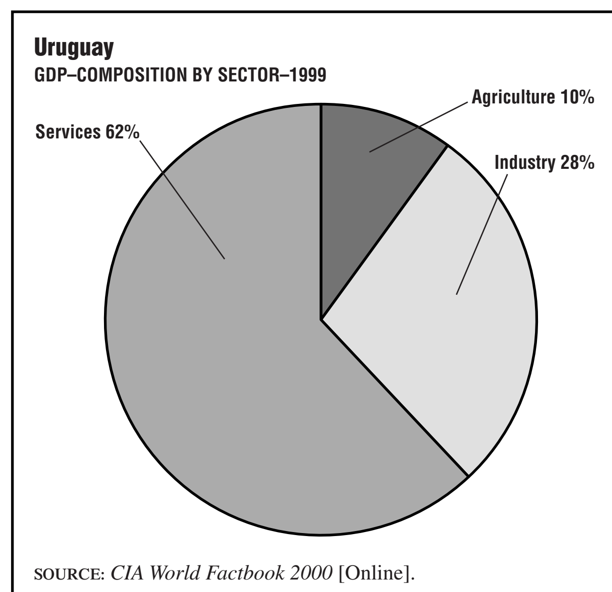
power plants produced 9.474 billion kilowatt-hours (kWh) of electricity, 95.62 percent of which was provided by water power. In 1998, electricity consumption in Uruguay was 6.526 billion kWh. The nation has one of the highest rates of electrification, 96 percent, in the Western Hemisphere.

ECONOMIC SECTORS

While agriculture accounted for only 4 percent of the nation's workforce, it provided 10 percent of Uruguay's GDP and more than half of the country's exports. More significantly, agricultural products provided the main raw materials for the nation's largest industries. Among the main agricultural products are beef, wool, grains, fruits, and vegetables. Agriculture is also one of the few areas of the economy in which there is little government interference. A late 1990s devaluation of the Brazilian currency hurt Uruguayan agriculture by making Brazilian products cheaper and Uruguayan goods more expensive. As a result, agricultural output declined by 8 percent in 1999. For the 3-year period prior to 1999, agriculture experienced little or no growth.

Industry accounts for 28 percent of the nation's GDP and 30 percent of the workforce. The nation's main industries include food processing, construction, and leather production. In the late 1990s, Uruguayan industry has had mixed performance. In 1999, manufacturing fell by 8.4 percent, but construction grew by 6 percent.

Services make up the largest segment of the Uruguayan economy, accounting for 62 percent of GDP (1999) and 66 percent of the workforce. While much of the Uruguayan economy declined in 1999, services experienced 2 percent growth (even though general commerce, including the **retail** trade, declined by 3 percent). The major elements of the service sector include banking and financial services, tourism, and commerce.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

The geography of Uruguay makes the nation well-suited to pastoral agriculture, including raising cattle and sheep. As a result, much of the countryside (90 percent) is used for such agriculture. After experiencing a period of substantial growth in the 1990s, Uruguay's agricultural sector experienced a period of stagnation in the late 1990s. In 1996, the last year of significant growth, agricultural production grew by 8.6 percent. In 1997, agricultural production declined by 1.3 percent, and continued to decline, by 1 percent in 1998 and 8 percent in 1999. These declines resulted from increased competition in foreign markets and contractions in the economies of Uruguay's main trade partners, Argentina and Brazil. In 1998, the total value of agricultural exports was $1.49 billion, but the nation also imported $458.2 million in agricultural goods. Employment in agriculture has remained relatively constant since the mid-1990s, at approximately 50,000.

While the overall agricultural sector has been stagnant, crop production has increased. After 2 years of decline, in 1999 crop harvests grew by 10.5 percent and total output was 2.4 million tons. The main food crops are rice, wheat, corn, potatoes, barley, sugarcane, and soybeans. Production of rice in 1999 was 1.3 million tons, wheat 377,200 tons, and corn 242,500 tons. Barley harvests dropped significantly as a result of reduced demand, falling from 340,000 tons in 1996 to 111,000 in 1999.

Total livestock exports were worth US$1 billion in 2000. The primary livestock products are beef, veal, horse, chicken, duck, goose, lamb, pork, and turkey. There were 10.5 million head of cattle in Uruguay in 1999, and 14.4 million sheep. An outbreak of foot-and-mouth disease in 1999 led several nations to ban the import of Uruguayan beef and lamb, but efforts to eradicate the disease were successful and in 2000 there were record exports. Beef, the main livestock export, accounted for 58.6 percent of exports in 2000, followed by lamb (4.12 percent) and horsemeat (1.4 percent). Mixed meat by-products accounted for 30.8 percent of exports. Israel was the number-one market for Uruguayan beef, taking 25.09 percent of exports, although the North American Free Trade Agreement (NAFTA) countries—the United States, Canada and Mexico—were the main overall market with 33.4 percent of exports. MERCOSUR accounted for 16 percent of livestock exports and the EU 10.8 percent.

The fishing sector employs about 12,000 people. Uruguay has substantial stocks of a variety of fish species, but fishing accounts for only 0.1 percent of GDP. Pollu-

tion from Uruguayan ports, such as the 1997 oil spill by the Argentine ship San Jorge off the coastal resort of Punta del Este, has significantly impacted fish stocks. This spill affected 20 miles of Uruguayan coastline and did significant damage to a variety of species ranging from sea lions to croaker. Currently, hake accounts for about 70 percent of catches, followed by croaker (14 percent) and striped weakfish (5 percent). There are increasing efforts to develop the industry to catch deep-water species such as swordfish, squid, and anchovy. In 1998, swordfish catches surpassed 930 tons and the nation exceeded its quota under international fishing regulations. The United States is the major destination for fish exports.

INDUSTRY

Manufacturing and refining employ some 250,000 people in Uruguay. Much of the country's industrial sector is linked to agriculture. About half of all industrial production is based on food processing or the refining of agricultural products such as leather. Food and beverage production are the largest single manufacturing sectors, with food processing accounting for 25 percent of production and beverages accounting for 11 percent. Exports of processed foods were valued at US$1.06 billion in 1997, or 40 percent of all exports. Prepared rice, chocolate, meat, cookies, and pasta were the main exports, although frozen foods have been growing steadily in value. This sector of industry has been the recipient of almost 50 percent of all new foreign investment in Uruguay. The main markets for processed foods and beverages are Uruguay's MERCOSUR partners. The nation's principal food processing plants are concentrated in the towns of Fray Bentos and Paysanduu.

Since 1997, most other industries in Uruguay have experienced declines in production and value. Industries such as textiles, clothing, chemicals, and metallic products have suffered the largest declines, with mining and oil refining the main exceptions. After 3 years with annual growth of more than 6.5 percent, mining grew by 2.6 percent in 1999. It still accounted for only 0.2 percent of GDP and employed about 2,000 people. Gold is the major mineral produced by the mining sector; in 1998, 2000 kilograms were mined from the nation's proven gold reserves of 5.06 metric tons. Marble, stone, granite, and bauxite are also produced. The nation's crude-oil imports are refined at the La Teja refinery in Montevideo. The refinery is owned by the state-owned oil company, ANCAP, and has a capacity of 37,000 barrels per day.

The construction industry, which employs about 80,000 people, has also continued to grow, although the growth rate has slowed, especially in private construction. The average growth rate for the sector has been 4.6 percent since 1996. Government infrastructure programs and the construction of tourist-related facilities have been leading segments in the construction industry.

SERVICES

Services in Uruguay account for the highest level of GDP and the greatest employment, with almost 80,000 Uruguayans working in some segment of the service sector. Financial services and tourism are among the best performing sectors of the economy, and services also account for a significant proportion of foreign investment.

FINANCIAL SERVICES AND BANKING. The financial sector employs about 60,000 Uruguayans. The country's private banking sector has 21 banks, 9 financial institutions, and 10 savings and loan organizations. There are also 11 **offshore banks**. These banks and institutions account for about 50 percent of the financial sector. Major foreign-owned banks include American Express Bank, Citibank, Bankboston, and Republic National Bank. The rest of the financial sector is controlled by 3 government-owned banks, including the Central Bank. The largest bank is the government-owned Banco de la Republica Oriental del Uruguay, which has 30 percent of the nation's total savings. Total banking assets in Uruguay were US$7.1 billion in 1999 (including US$600 million from foreign sources). In 1996, the government **deregulated** the insurance and mortgage sectors and opened them to private investment. The government-owned Banco Hipotecario del Uruguay (BHU) remains the largest mortgage lender. The nation has 2 small stock markets, but both are undervalued. U.S. investment in Uruguayan financial services totals US$37 million.

COMMERCE AND TRADE. Hotels, restaurants, retail, and wholesale trade employ 200,000 Uruguayans. The franchising of stores and restaurants has produced dramatic growth in many areas of Latin America, but in Uruguay there are only a limited number of food, hotel, car-rental, and some clothing outlets. This is mainly the result of the small size of Uruguay's domestic market. Increased Internet use and the potential deregulation of the telecommunications industry have fueled growth in the sale of electronic equipment, though most of these products have to be imported.

TOURISM. Tourism has become the main source of foreign currency earnings for Uruguay and the third-largest component of GDP. It provides an average of $800 million per year to the economy. Since 1998, the number of foreign visitors has declined by 5 percent because of contractions in the Brazilian and Argentine economies that have reduced the number of tourists from these countries. Since 1997, the average number of tourists has been 2.3 million per year. Argentina is the number-one source of foreign visitors (78 percent in 1998). American hotel chains, such as Sheraton, Radisson, Holiday Inn, and

Trade (expressed in billions of US$): Uruguay

	Exports	Imports
1975	.384	.556
1980	1.059	1.680
1985	.909	.708
1990	1.693	1.343
1995	2.106	2.867
1998	2.769	3.808

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Uruguay

Uruguayan pesos per US$1	
Jan 2001	12.5610
2000	12.0996
1999	11.3393
1998	10.4719
1997	9.4418
1996	7.9718

SOURCE: CIA *World Factbook 2001* [ONLINE].

Days Inn, have a presence in Uruguay. The main tourist destination is the coastal resort area of Punta del Este.

INTERNATIONAL TRADE

Uruguay is a member of a variety of international organizations that promote free trade. In addition to membership in MERCOSUR, Uruguay also belongs to the World Trade Organization (WTO) and the Latin American Integration Association (ALADI). Membership in these organizations has dramatically lowered the tariffs Uruguay places on imported goods. Tariffs on raw materials have been reduced to 2–6 percent of the value of the imports and now average 8–10 percent on all goods. MERCOSUR rules still allow for tariff rates as high as 23 percent on certain goods, and tariffs of 20 percent are common on some **consumer goods**.

Uruguay has also sought to develop bilateral (one-on-one) free trade agreements, such as the one signed with Mexico in 1999, with major European and Asian nations. Uruguay does not have such a treaty with the United States, although the United States is a major trading partner and the largest foreign investor in Uruguay (with 32 percent of all foreign investment).

The government actively seeks to attract foreign companies to Uruguay. In 1999, there were 756 foreign companies operating in Uruguay. Foreign investment in Uruguay was US$5.6 billion in 1999. There are no restrictions on foreign ownership of businesses, and the government offers certain tax breaks and other incentives to foreign companies that relocate to Uruguay. In the government-sponsored free-trade zones, companies may be exempt from all taxes except **social-security taxes**. Goods can be shipped to and from these zones without any tariffs or export **duties**.

In 2000, Uruguay imported US$3.4 billion in goods and services and exported US$2.1 billion. Uruguay's main export markets are its MERCOSUR partners (45 percent of exports), the EU (20 percent) and the United States (7 percent). The main import providers are the MERCOSUR nations (43 percent), the EU (20 percent), and the United States (11 percent).

MONEY

The Uruguayan peso has declined in value since the 1990s, mainly due to inflation. In 1994, 5.0439 pesos equaled US$1; by 1999 the peso had declined to 11.3393 per dollar. In an effort to maintain the value of the peso, the Uruguayan Central Bank uses its reserves to purchase dollars.

Monetary policy is overseen by the nation's Central Bank, which also issues currency. The Central Bank is not independent, but is subject to control and influence by the government. Almost 90 percent of bank deposits and transactions in Uruguay are done in U.S. dollars. Uruguay's financial reserves declined in 1999 by US$13 million as a result of the government's deficit. In 2000, the reserves totaled US$2.4 billion, or enough to service the nation's debt for at least 2 years.

POVERTY AND WEALTH

Uruguay has one of the most equal distributions of income and wealth in the world. Since 1986, taxation and social services have been used to redistribute income from the nation's wealthiest 10 percent to the less affluent members of society. The wealthiest 10 percent of Uruguay's population controls about 25 percent of the nation's

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Uruguay	4,092	4,962	3,964	4,611	6,029
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Paraguay	1,297	1,871	1,754	1,816	1,781

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Uruguay

Lowest 10%	2.1
Lowest 20%	5.4
Second 20%	10.0
Third 20%	14.8
Fourth 20%	21.5
Highest 20%	48.3
Highest 10%	32.7

Survey year: 1989

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

wealth, which is still low by regional standards: comparable figures for the amount of wealth controlled by the richest 10 percent are 41.9 percent in Brazil, 39 percent in the United States, and 34.3 percent in Argentina.

In 2000, 8 percent of the population of Uruguay was considered to be living in poverty, not having enough income to pay for basic needs, including food, housing, and health care. In an effort to reduce poverty further, the government is engaged in a long-term program to improve education. Since the mid-1990s, it has spent an additional 0.1 percent of GDP on improvements to the educational system, including classroom renovations, teacher training, and programs to keep youths in school. The main impetus for these programs is the fact that 40 percent of all Uruguayan children under the age of 5 live in the poorest 20 percent of households.

WORKING CONDITIONS

The Uruguayan workforce is highly skilled and educated. The nation's literacy rate, 97 percent, is the highest in Latin America and comparable to that of the United States. There is some evidence of racial and gender disparity. The nation's blacks have an unemployment rate 1.5 times higher than that of the general population, and their average pay is 20 percent lower than their white counterparts in the same occupations. While women have full equality under the law, they face discrimination in hiring, promotion, and wages. A government study in 1999 found that women receive only 65 percent of the pay men receive in similar occupations.

There is little legislation concerning unions in Uruguay, although workers have the right to strike and to collective bargaining. About 15 percent of the workforce is unionized, mainly those employed in construction, industry, and banking. Union membership in the **public sector** is almost 80 percent, but the rate for private companies is 5 percent. All employees, including those who work for the government, may join unions. The government has the legal power to end a strike if it poses a threat to public welfare. Although workers may organize in the nation's free-trade zones, there are no unions in these areas. Foreign workers have the same rights and legal protections as Uruguayans.

The nation's minimum wage is equivalent to US$93 per month, not enough to support a family, though the overwhelming majority of workers earn more than the minimum. Uruguay's standard work week is 48 hours in industry and 44 hours in commerce. In both sectors, workers must have a minimum 36-hour rest period per week and they receive overtime pay for excess hours worked. All workers are entitled to a minimum of 20 days paid vacation per year. The national retirement age is 60. Because of the country's extensive social security system, employers must pay taxes that equal 50 percent of each worker's pay.

The government forbids forced labor and child labor under the age of 14. Children 16 and older may work if they have completed 9 years of compulsory education. Some children drop out of school and work illegally on the streets as vendors or beggars. The nation has started a program to pay parents $83 a month in exchange for taking these children off the streets and returning them to school. In order to encourage employers to hire more youths, the government provides tax reductions of 12–18

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Uruguay	22	7	14	11	30	12	3
United States	13	9	9	4	6	8	51
Brazil	22	13	18	15	34	4	−6
Paraguay	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

percent on social security taxes for these employees. Unemployment in 2000 was 12 percent and about 0.5 to 2 percent higher in Montevideo and other urban areas. GDP per capita in Uruguay is equivalent to US$8,500.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

10,000–20,000 B.C. Uruguay is settled by Native Americans.

1516. An indigenous tribe, the Charrua, kill the Spanish explorer Juan Diaz de Solis and members of his party as they explore the coast of Uruguay.

1600s. The Charrua develop trade relations with the Spanish.

1680. The Portuguese establish a settlement at Colonia on the Rio de la Plata in order to counterbalance the Spanish colony of Buenos Aires.

1811. Jose Gervasio Artigas launches a revolution against Spain that ultimately results in independence and a regional federation with Argentina.

1821. Uruguay is annexed to Brazil by Portugal.

1825. Rebels initiate an independence movement against Brazil.

1828. Uruguay becomes independent.

1830. The nation's first constitution is adopted.

1838–51. Supporters of a federal union with Argentina conduct a war against nationalist forces. The 2 groups ultimately form Uruguay's main political factions, the liberal Colorados and the conservative Blancos.

1903. Jose Batlle y Ordonez is elected president; during his 2 terms (1903–07 and 1911–15), he initiates a series of reforms that give Uruguay one of the most advanced **social welfare systems** in the hemisphere.

1960s. The nation's prosperity declines as state-owned companies become inefficient and corrupt and the nation's industries cannot compete on the world market.

1967. An urban guerrilla movement, the Tupamaros, initiates an armed struggle against the government. A new constitution is put in place.

1971. Because of the armed insurrection, the military is invited to join the government. As a result, the Tupamaros are effectively destroyed.

1973. Congress is suspended by the military.

1978. In an effort to control inflation, the government initiates a program of currency devaluation.

1982–84. Uruguay experiences a severe economic recession.

1984. After national elections, the military relinquishes power to a new civilian government.

1985. After a lengthy period of economic stagnation, Uruguay begin a modest period of recovery.

1991. Uruguay joins MERCOSUR.

1992. Voters reject a government proposal to privatize ANTEL, the nation's telecommunications company.

1999. Uruguay undergoes a significant recession.

FUTURE TRENDS

Continuing economic problems in Argentina and Brazil will limit the Uruguayan economy since the majority of the nation's trade is with these countries. The country's continuing recession has made it less attractive to foreign investment. The inability of the government to enact further privatizations also reduces the attractiveness of the nation to foreign investors and prevents competition in certain sectors. The high level of unemployment has caused increased government spending that has itself led to increases in the government's operating deficit and the nation's total debt.

The nation's high standard of living and the high level of education and skill continue to make it attractive to foreign businesses. This is especially true as the Uruguayan government expands its system of free-trade areas. While the economic downturns in Argentina and Brazil have harmed Uruguayan trade, these conditions have also increased the flow of investments from these nations into Uruguay as investors have sought to protect their money. Uruguayan membership in international trade organizations will continue to expand trade as tariffs are reduced. As such, Uruguay has been a strong supporter of the establishment of a Free Trade Area of the Americas.

Uruguay's plans to continue economic **liberalization** will help the economy become more efficient and productive. The main goals of the government in the economic sphere are directed toward reductions in unemployment, inflation, and deficit spending. Programs to improve the nation's infrastructure, including renovations to airports and transport systems, are also designed to enhance the economic base. The government plans to continue privatization of state-owned industries and to reduce the size of government and the government's share of the nation's GDP.

DEPENDENCIES

Uruguay has no territories or colonies.

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—Tom Lansford

VENEZUELA

Republic of Venezuela
República de Venezuela

CAPITAL: Caracas.

MONETARY UNIT: Bolívar (B). One bolívar (B) equals 100 céntimos. There are coins of 5, 10, 25, and 50 céntimos and 1, 2, and 5 bolívars. There are notes of 5, 10, 20, 50, 100, 500, and 1,000 bolívars.

CHIEF EXPORTS: Petroleum, bauxite and aluminum, steel, chemicals, and agricultural products.

CHIEF IMPORTS: Raw materials, machinery and equipment, transport equipment, and construction materials.

GROSS DOMESTIC PRODUCT: US$146.2 billion (2000 est.).

BALANCE OF TRADE: **Exports:** US$32.8 billion (2000 est.). **Imports:** US$14.7 billion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Venezuela, located on the northern coast of South America, has an area of 912,050 square kilometers (352,143 square miles), with a total coastline of 2,800 kilometers (1,740 miles). It is bordered by Colombia to the west, Guyana to the east, and Brazil to the south. Venezuela is a little more than twice the size of California. Caracas, the capital, is located on its northern coast.

POPULATION. As of July 2000, the population of Venezuela was estimated to be 23,542,649, an increase of 21.8 percent over the population in 1990. In 2000, the birth rate was 21.09 per 1,000, and the death rate 4.94 per 1,000. Based on a projected annual growth rate of 1.6 percent, the population is expected to number 27.3 million by 2010. Until 1990, Venezuela had one of the highest population growth rates in the world (3.4 percent annually from 1950–86), despite an educated populace and the wide availability of contraceptives. This high population growth rate is credited to improved sanitary and health conditions from the 1950s onward that resulted in a high birth rate and a low death rate.

People of mixed race (pardo) or Indian/Spanish heritage (mestizo) are estimated to account for two-thirds of the population of Venezuela. The term *pardo* refers to people who are the product of any racial mixture while the term *mestizo* refers specifically to people who are of Indian/Spanish heritage. Caucasians represent 21 percent of the population, Africans about 10 percent, and Indians about 2 percent of the population. This is a relatively young population: only 4 percent of Venezuelans are over the age of 65 while 33 percent are under the age of 14. It has been estimated that 60 to 70 percent of the population is under the age of 30. Some 88.8 percent of the population live in urban areas, while 11.2 percent live in rural areas. Almost all of the population growth since 1940 has occurred in urban areas, a consequence of the modernization that has resulted from Venezuela's development of its oil industry.

It has been estimated that 75 to 85 percent of the population lives on just 20 percent of the country's land mass, while 4 or 5 percent of the population lives on 50 percent of the land. The most densely populated region is the upper northwest, where Venezuela's 3 largest cities are located. The most sparsely populated portion is the southern and eastern portions of the country, even though the government has tried to relocate industry there. The 2 regions are separated by the Orinoco river.

OVERVIEW OF ECONOMY

Venezuela is very much a country built by oil. Among Latin American countries, it has the highest GDP and the fifth highest **GDP per capita**. Oil was first pumped from the bed of Lake Maracaibo, in upper northwest Venezuela, in 1917. Some 75 percent of Venezuela's oil continues to be pumped from the area in and around Lake Maracaibo. Before 1917, cocoa and coffee were

Venezuela's main exported products, but oil has been its chief export since 1926. In 1960, Venezuela was a founding member of the Oil Producing and Exporting Countries (OPEC), a cartel (a group of countries that work together to control the buying and selling price of a product) that has enormous influence in world oil prices. Until 1970, Venezuela was the world's largest exporter of oil; it has since fallen to third place.

The extent to which the country relies of oil production can be seen in the numbers: in 1999, oil production contributed 27.9 percent to the Venezuelan GDP, 60 percent of the government's revenues, and 78 percent of the country's export earnings. As a result of this dependence on oil production, when oil prices have gone up on the world's market, the country's economy benefits. After OPEC increased world oil prices by 400 percent in 1973 Venezuela enjoyed a large windfall; in the 5 years from 1974 to 1979, the government earned—and spent—more money than it had in the preceding 144 years put together. In 1999, the Venezuelan economy shrank as a result of falling oil prices. The economy then experienced a **recession** (a fall in GDP for 2 consecutive quarters) with GDP falling by 7.2 percent in comparison to the GDP of the previous year. With oil prices rising again in 2000, the economy rebounded with annual growth of 3.2 percent.

Despite these fluctuations, the average annual growth of the GDP from 1979 to 1999 was only 0.9 percent. During that time, the population grew by 2.5 percent every year, causing per capita income to fall. Consumer prices rose an average of 54 percent per year from 1995 through 1999, a period when 12 percent of the **labor force** was unemployed. Dependence on oil also means that the government must borrow money when oil revenues are not available. Venezuela's **external debt** in 1998 was one-

third of that year's GDP, and one-third of the government's oil revenues had to be used to pay the interest on the debt. Dependence on oil means that the Venezuelan economy cannot devote the resources to produce the food that its people consume, as it was able to do before 1920. Since the 1980s, Venezuela has had to import even the most basic foodstuffs, such as sugar and potatoes.

Despite periods of dictatorship and official corruption and patronage over the years, the general economic and political trajectory for Venezuela in the 20th century has been a positive one, and, since 1958, it has devoted much of its public funds to building a physical and social **infrastructure** for its people. Since that time, the government has practiced more or less free-market policies, allowing others to participate in the economy as it has seen fit. For example, **multinational corporations** were forced to sell their rights to pump oil to the government in 1976, but they were allowed back into the country in 1996.

POLITICS, GOVERNMENT, AND TAXATION

Under its present constitution, approved in 1999, Venezuela is a federal republic with 1 federal district, 2 federal territories, 23 states, and 72 federal (island) dependencies. The president is elected to a 6-year term and can be reelected. The president selects a cabinet that is called the Council of Ministers. Legislative power is vested in a National Assembly of 165 members elected to 5-year terms. Upon receiving nominations from various civilian groups, the legislature selects the 18 judges of the Supreme Justice Tribunal for 12-year terms. The Supreme Justice Tribunal is the highest court in Venezuela; its 18 judges appoint lower-court judges and magistrates. Local government officials are chosen in local elections.

The political history and the economic history of Venezuela are inseparably intertwined. This is because since 1936, the government has pursued a policy of "sowing the oil," or using the government revenues from the tax on the sale of oil to promote the economic growth of the country. That policy has been pursued in earnest since the time of Venezuela's first democratically elected president, Rómulo Betancourt, in 1958. From the time of its independence from Spain in 1811 until 1958, Venezuela was ruled by a series of military dictators. From 1936 to 1958, although some public projects were constructed by the government, much of the government's oil revenues ended up in the pockets of the dictators and various government officials. From 1958 until the present, Venezuela has enjoyed uninterrupted democratic rule.

Two political parties dominated Venezuelan politics from 1958 to 1993: the liberal Democratic Action or Acción Democrática (AD) party, and the conservative Partido Social Cristiano, known as COPEI. The policies of these 2 parties did not differ from one another because of an agreement called the Pact of Punto Fijo signed by party political leaders in 1958. Under that pact, political leaders decided on a policy agenda before the election and agreed to divide cabinet and other government offices among the major parties after the election regardless of which candidate won in the vote count. The agreement ultimately broke down because political appointments were increasingly being made on the basis of patronage and because neither political party had succeeded in controlling excessive government spending. Dissatisfaction with the policies of the major political parties manifested itself in riots in 1989 that left hundreds dead, and in 2 unsuccessful military coups in 1992. In 1993, Rafael Caldera won the presidency under a 19-party alliance called the Convergencia Nacional (CN). It was the first time since 1958 that the presidency was held by a candidate from a party other than the AD or the COPEI.

Caldera faced a banking crisis in 1994, a fall in world oil prices (with decreasing government revenues) in 1997, and was ultimately forced to adopt unpopular budget cuts. His successor, Hugo Chávez Frias, elected in 1998, had been one of the military officers involved in the attempted coups of 1992. He campaigned on promises of changing the constitution to fight corruption and patronage, and also promised to move the economy away from its dependence on oil. A new constitution was adopted in 1999, and Chávez was reelected president. His party, the Movimiento Quinta República (MVR) has formed a governing alliance with the **socialist** party, the Movimiento al Socialismo (MAS).

Moving the economy of Venezuela away from its dependence on oil will be a difficult task. This is because government spending based on oil revenues has been the engine of economic growth for so long. The increased tax revenues that resulted from the higher oil prices after 1973 were used by the government to **nationalize** the entire oil industry. The government also established hundreds of new state-owned industries, as in steel, mining, and hydroelectricity. The Chávez government has continued the effort of the Caldera government to **privatize** a number of these industries.

If Venezuela is to move away from its dependence on oil, its government will have to increase the tax revenues it gets from other sources. Venezuela has an **income tax** on all economic activity by individuals and businesses, but tax evasion by individuals remains a significant problem. In 1996, the government was taxing the profits of private oil companies at the very high rate of 67.7 percent. It is not clear that the taxing of other entities within Venezuela will provide sufficient revenues to the government.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Venezuela	206	468	185	25.8	87	3.0	43.0	3.98	525
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Brazil	40	444	316	16.3	47	3.1	30.1	18.45	3,500
Colombia	46	581	217	16.7	49	4.8	27.9	7.51	664

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Venezuela has the distinction of having the most paved highways of any country in Latin America, 60 percent of its 94,929 kilometers (58,989 miles) of roads. Most of these highways are located in the northern part of the country, where population density is greatest. The southern half of the country is more heavily dependent on aircraft or river travel for transport. Almost 98 percent of goods are moved by trucks over the nation's highways. Although the capital city of Caracas has a subway system, the rest of the country is served by a very small railway system of 584 kilometers (363 miles). The railway system is used to transport freight, and the government is seeking ways to expand this system.

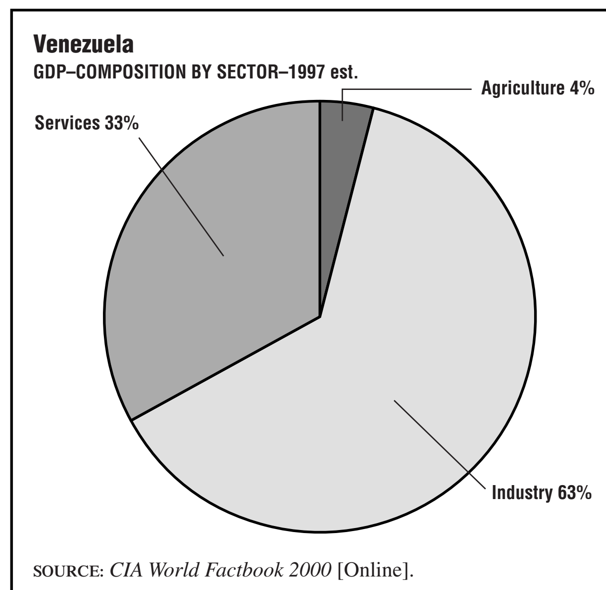
Venezuela has 11 international and 36 domestic airports, with the major one in Caracas processing 90 percent of international flights, 84 percent of air cargo, and 40 percent of domestic passengers. Many of the country's airports are not high quality facilities. Venezuela has 13 ports and harbors, but 80 percent of bulk cargo is handled by 3 ports on the Caribbean Sea: Maracaibo, La Guaira, and Puerto Cabello. The facilities at La Guaira were significantly damaged by the December 1999 mudslides.

Venezuela produced 70.39 billion kilowatt-hours (kWh) of electricity in 1998, of which 65.463 billion were consumed internally, giving the country one of the highest electricity consumption levels in South America. Some 90 percent of households have electricity. Three-fourths of Venezuela's power comes from hydroelectric plants on its rivers. With reserves of 143 trillion cubic feet, Venezuela is believed to have the fifth largest reserves of natural gas in the world, 11 percent of which is consumed daily to generate power. Since 1998, the government has been privatizing its power-production system.

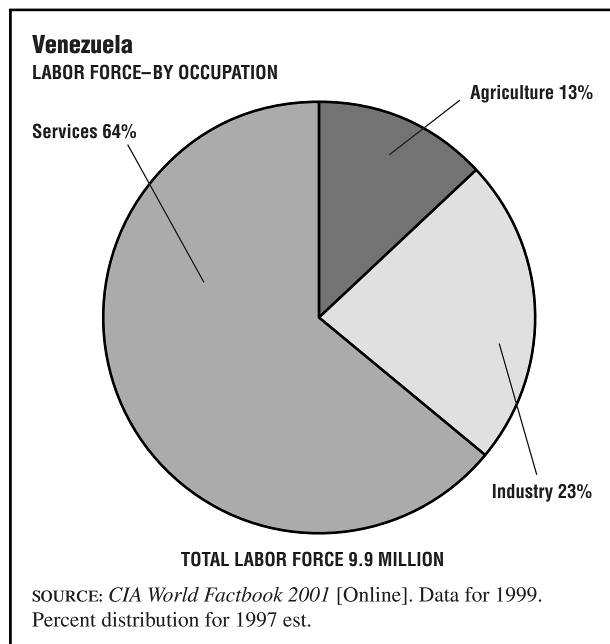
After the oil industry, the telecommunications industry is the fastest growing industry in Venezuela. The government recently ended its **monopoly** on fixed-line telephone service. CANTV, the national telephone company, has 2.5 million customers, compared with 3.5 million in the cellular telephone market. Venezuela had 11 Internet service providers in 1999, servicing 650,000 users, a number that is expected to double in 2000. In 1997, there were 10.75 million radios and 4.1 million televisions in Venezuela.

ECONOMIC SECTORS

The single most important sector in the Venezuelan economy is mining, which includes the large oil industry. In 1999, 24 percent of Venezuela's GDP was accounted for by industry (80 percent of which came from the oil industry), 71 percent by services, and just 5 percent by agriculture. Various government administrations have attempted to diversify the Venezuelan economy away from its dependence on oil, but, as indicated by the figures above, oil production continues to increase as a



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1997 est.

percentage of GDP. Other minerals that can be found in abundance in Venezuela are iron, bauxite, and natural gas.

In 1995, the manufacturing sector accounted for 16.6 percent of GDP, dropping to 14.2 percent by 1999. The services sector, another source that could help reduce Venezuela's dependence on oil, has not reflected consistent growth in its contributions to the Venezuelan GDP. One exception to that is the transport and communications industry, which has shown a consistent annual growth from 1995 to 1999 (4.9 to 6.0 percent of GDP).

AGRICULTURE

For centuries prior to the beginnings of the oil industry in 1917, agriculture served as the engine of the Venezuelan economy. As recently as the 1930s, agriculture employed 60 percent of the labor force and accounted for 21 percent of GDP. Today, agriculture is one of Venezuela's weakest sectors: as of 1999, it employed 13 percent of the labor force and accounted for 5 percent of GDP. Major crops include sugar cane (56 percent of total production in 1999), bananas (9 percent), maize (7 percent), and rice (5 percent). Crops are grown in the northern mountains of Venezuela and their foothills. In 1998, of the country's 15.367 million heads of livestock, 61 percent were cattle and 19 percent were pigs. Cattle grazing takes place in the plains (Llanos) area of Venezuela. This is an area about 800 miles wide that lies between the Mérida mountain range in the east of the country and the Orinoco River in the middle. Of its 2.708 million tons of livestock product in 1998, 56 percent came from cow's milk, 18 percent from poultry meat, and 13 percent from beef and veal.

Subsidization (government payments to farmers to grow or not grow their crops) of agriculture is a tool that has been consistently used by various administrations to assist Venezuela's ailing agricultural sector. The right of farmers to receive government **subsidies** was made a part of the new 1999 Venezuelan Constitution. This policy has given rise to a powerful farmers' lobby that is dedicated to maintaining the subsidies, often criticized for maintaining inefficient and obsolete production techniques and ineffective management strategies. Since the 1980s, however, subsidies have resulted in an increase in the country's agricultural output.

Another approach used by the Venezuelan government to bolster the agricultural sector has been the redistribution of land that can be used for planting and grazing. These land giveaways have had the added benefit of addressing the problem of land concentrated in the hands of a few owners. Today, only 3 percent of landowners hold 70 percent of the agricultural land in Venezuela. In 1999, after 12,350 acres of land were forcibly occupied by squatters, the government responded by promising that it would redistribute 6.175 million acres of government land, create 504,000 farming jobs, and give significant tax breaks to farmers. The government had been pursuing such policies since 1958, when it created its National Agrarian Institute. Although at least 10 percent of the country's land has been redistributed, these redistribution policies have had limited success because the dropout rates for participants has been as high as 33 percent. The government has also tried to protect Venezuelan farmers from international competition by limiting the number of competing crops that can be imported into the country.

Despite all of these difficulties, the Venezuelan agricultural industry has remarkable promise. In the 1990s, only 4 percent of the country's land area was being used for agriculture, but it has been estimated that 30 percent of the total is suitable for such purposes. Some 50 percent of the agriculture industry's revenues came from cattle ranching in 1999, though production of such basic food crops like rice and maize has been declining.

INDUSTRY

OIL. The country ranks sixth in the world in proven oil reserves. In 1999, Venezuela had 74.1 billion barrels of proven reserves of crude oil, another 270 billion barrels of heavy oil has been found in the belt in and around the Orinoco River, and more has been found in the eastern Venezuela basin. From 1929 to 1970, Venezuela exported more oil than any other country, and, since 1990, has ranked third, behind Saudi Arabia and Iran. In 1989, production and sale of oil accounted for 13 percent of

GDP, 51 percent of government revenues, and 81 percent of exports. By 1999, oil accounted for 27.9 percent of GDP, 46 percent of government revenues, and 75 percent of exports. In 1999, the country's national oil company, Petróleos de Venezuela, S.A. (PDVSA), exported 90 percent of its oil and paid 70 percent of its profits to the government. More than 60 percent of oil exports were to the United States.

Although the PDVSA was not formally established until later, it was in 1935 that the government began its policy of "sowing the oil" or using oil wealth to develop the Venezuelan infrastructure. The policy was pursued in earnest in 1958, with the administration of Rómulo Betancourt, Venezuela's first democratically elected civilian president. In 1960, the government established the predecessor of the PDVSA, the Venezuelan Petroleum Corporation, for the purpose of overseeing the oil industry. In 1975, it nationalized the oil industry and, in 1977, the PDVSA was formed, and 14 foreign oil companies were compensated for their assets. This was helped by the fact that the Venezuelan government was flush with capital because the OPEC oil **embargo** of 1973 had increased oil prices by 400 percent.

From 1975 to 1995, decreases in the price of oil made it clear that Venezuela could not rely completely on itself for the production of its oil. Especially after 1981, the PDVSA began to face financial difficulties. Complete nationalization of the oil industry was proving to be a costly idea. For example, in 1981, decreasing oil prices resulted in decreased government revenues, causing the government to borrow capital and thereby increase the country's **foreign debt**. In 1982, the Central Bank of Venezuela responded to this crisis by simply seizing US$6 billion of PDVSA's profits to pay off some of the country's foreign debt. In 1995, private companies were once again allowed to explore and mine Venezuela's oil fields. While PDVSA remains a viable entity that has expanded into the oil-refining business, the idea of complete and exclusive nationalization has given way to an arrangement in which the PDVSA coexists with private companies. However, the government has not succeeded in its goal of reducing the country's dependence on the oil industry.

IRON. After oil, iron is the second most-mined mineral in Venezuela. It is estimated that Venezuela has 1.8 billion tons of high-grade iron ore reserves. In the 1950s, the Venezuelan government gave mining rights to 2 American companies, Bethlehem Steel and the United States Steel Corporation. In 1960, the government formed a corporation, the Venezuelan Corporation of Guayana, that was given mining rights to several iron-ore mines and an interest in the country's only steel complex, Siderórgica del Orinoco (Sidor), that had been built in 1955 by the American companies. In 1975, the government nationalized Sidor and in effect purchased the foreign interest in iron and steel production. The transition was smooth and the American companies were compensated. Because of government mismanagement and the large capital outlay involved, Sidor did not show its first profit until 1986, fully 11 years after the government had acquired it. In 1998, Sidor was privatized once again. In 1999, steel production fell to its lowest point in 7 years because of low prices on the world market, though it rebounded in 2000. In 1998, 35 percent of Venezuela's iron and steel exports went to the United States, its largest trading partner.

ALUMINUM. In the 1980s, Venezuela enjoyed a reputation as one of the most efficient aluminum producers in the world. During that time, Venezuela exported 60 percent of its aluminum which, after oil, brought in the most foreign dollars. As of 1990, Venezuela's proven reserves of bauxite (aluminum ore) stood at 500 million tons, with 5 billion more tons in probable reserves. As a result of mismanagement the government's aluminum production facilities have debts amounting to US$1.25 billion. The government has consistently refused to sell its interests in its aluminum subsidiaries and is seeking private entities to partner with. Production of aluminum has declined from 627 thousand tons in 1995 to 570 thousand tons in 1999.

OTHER MINERALS. Venezuela's coal reserves total 10.2 billion tons of coal. The country's largest coal field, Carbozulia, is located in the state of Zulia and is controlled by a subsidiary of PDVSA. In 1999, the government announced that the coal field would close because it had consistently operated at a loss. Venezuela also has estimated gold reserves of 10,000 tons. Exploitation of one of the country's main gold mines, Las Cristinas, has been placed in limbo because of a legal dispute between 2 Canadian companies. In early 2000, a Chinese company announced its intention of reopening the Sosa Méndez gold mine that had been closed for 30 years.

MANUFACTURING. In 1998, the latest year for which data is available, 13.9 percent of the Venezuelan labor force worked within the manufacturing sector, which accounted for 16 percent of GDP in that year. As measured by the value of their output, the two most important industries were the food products industry with 17.8 percent, and the refined petroleum industry with 10.9 percent. The remaining 71 percent of the manufacturing sector's output was accounted for by industrial chemicals, iron and steel, transportation, and tobacco. From 1980 to 1990, the GDP produced by the manufacturing sector increased by an average of 4.3 percent per year, a figure that fell to 1.8 percent per year from 1990 to 1997.

As of 1988, slightly more than half of Venezuela's manufacturing firms were categorized as basic industries like food processing and wood products, 75 percent of

which were small, family-owned businesses. Another 18 percent of firms were categorized as intermediate, like paper or plastics manufacturers. Some 19 percent of firms produced **capital goods** (goods used to make other products), and 9 percent made miscellaneous goods. Despite the existence of many small firms, as of 1988, a few large firms employed 64 percent of the manufacturing-sector labor force and produced 78 percent of its output.

Venezuela's manufacturing sector benefited and grew as a result of government policies pursued in the 1950s and especially in the 1970s, when the country's oil wealth was abundant. The government's ownership interest in manufacturing grew from 4 percent in the early 1970s to 42 percent by the late 1980s. The fall in the price of oil in the 1990s and loss of oil wealth has caused the government to scale back its subsidization of the manufacturing sector. The result has been a dramatic fluctuation in the sector's output. For example, manufacturing output grew 6.8 percent in 1995, contracted 5.2 percent in 1996, grew 4.4 percent in 1997, and shrank again in 1998.

SERVICES

In 1999, services accounted for roughly 71 percent of Venezuela's GDP and in 1997, employed 64 percent of its labor force. According to estimates by the World Bank, the GDP attributable to the services sector grew by an average of 0.5 percent every year from 1980 to 1998. In 1997, the largest part of the services sector was the 15.4 percent generated by the **retail**, restaurants, and hotels sector. Another 12.4 percent of GDP was generated by finance, insurance, real estate, and business services. Transport, storage, and communication accounted for 8.4 percent, followed by other services (7.2 percent), construction (5.1 percent), government services (4.8 percent), and electricity and water (1.5 percent).

RETAIL. Retail operations in Venezuela do not look very different from those in the United States. Although there are few department stores, there are numerous malls, and price haggling is uncommon. In 1995, 69.5 percent of the national income (GDP) was spent on private consumption, a figure that fell to 63.2 percent in 1996, rose to 65.8 percent in 1997, to 72.1 percent in 1998, and fell again to 70.2 percent in 1999. The year 2000 saw an increase in sales by clothing and food stores, sellers of telecommunication equipment, electrical appliances, and lottery tickets. Decreased sales were experienced by sellers of cars, pharmaceutical products, and hardware items. Venezuela has a well-developed professional services sector (physicians, attorneys, accountants, engineers and architects), with prestige attached to being a member of one of these professions.

TOURISM. Tourism has improved considerably in Venezuela since the late 1990s, and the industry contributes roughly 6 percent of GDP. In 1999, Venezuela received about 1 million tourists, 3 times greater than 1993 numbers. The government has targeted tourism as one of its priority areas, and intends to partner with the **private sector** to expand the country's tourist attractions. As of 1994, the latest year for which data are available, a large number of tourists visited from Europe and North America, attracted to Venezuela's beaches, the Andes Mountains, and Angel Falls, the world's highest waterfall.

FINANCIAL SERVICES. Since the 1950s, and especially in the 1970s, this industry grew rapidly thanks to profits from the oil industry. By 1989, Venezuela had an extensive array of specialized financial institutions, including 41 commercial banks (9 of them **public-sector** banks) with hundreds of branch offices, 23 development finance institutions owned by the government, and 29 finance companies. In 1994, a banking crisis forced the closure of a number of the nation's 41 commercial banks, while some others were taken over by the government. By 1999, 41 percent of Venezuela's banks were partially foreign-owned.

Commercial banks remain at the heart of this industry, and they are estimated to hold 70 percent of financial assets. Another 20 percent of those assets are held by finance companies that provide consumer loans and short-term and medium-term loans to industry. Mortgage banks and savings-and-loan institutions hold the remaining financial assets within the economy. In 1999, Venezuelan banks continued to charge an interest rate high enough to allow them to earn a profit given the high cost of money. In that year, when the **inflation rate** was 20 percent, the banks charged at least 31.89 percent on loans.

CONSTRUCTION. Perhaps more so than any other sector, the construction sector has been affected by fluctuations in government spending. The industry thrived from the 1970s through the 1980s when the Venezuelan government used its oil revenues to improve and expand the country's infrastructure. In the 1980s and the late 1990s, with a decrease in government spending, the impact on the construction sector was disproportionately negative. Although the Venezuelan economy suffered a recession of 7.2 percent in 1999, the construction industry experienced a contraction of 20.4 percent, with an unemployment rate of 40 percent. The industry is expected to benefit from construction projects in the state of Verges, which experienced significant destruction from mud slides in 1999, and from a government program to build 63,000 new homes.

INTERNATIONAL TRADE

Venezuela's imports increased 3-fold between 1975 and 2000. The increased importance of oil to the nation's economy has caused Venezuela to import more

Trade (expressed in billions of US$): Venezuela

	Exports	Imports
1975	8.800	6.000
1980	19.221	11.827
1985	14.438	8.106
1990	17.497	7.335
1995	18.457	12.650
1998	17.161	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

machinery, equipment, and food because enough resources cannot be devoted to producing those items at home. Imports have also increased because the availability of foreign currency resulting from the sale of oil has increased the demand for foreign goods in Venezuela. A large portion of Venezuela's imports and exports has traditionally been provided by the United States. In 1998, Venezuela exported US$9.157 billion of goods (52 percent of its exports) to the United States, with oil accounting for 57.6 percent of the total. Other exported goods included chemicals, iron and steel, and aluminum. The next most important export-trading partner for Venezuela was Colombia, which received 8.3 percent of Venezuela's exports, followed by Suriname, the Netherlands Antilles, and Brazil. Oil accounted for 45.6 percent of the total value of Venezuela's exports overall.

In 1998, Venezuela imported US$6.520 billion (44 percent of its imports) from the United States. The next most important import-trading partner was Colombia, from which it received 6.4 percent of its imports, followed by Japan, Italy, Germany, and Brazil. Machinery and transport equipment accounted for 53 percent of Venezuela's imports from the United States in 1998.

Because of fluctuations in the world market price of oil, the value of Venezuela's exports can vary significantly from year to year. In 1997, for example, when world oil prices fell by 33 percent, the value of Venezuela's exports declined from US$23.707 billion in 1997 to $17.564 billion in 1998, a fall of 25.9 percent. With oil prices rebounding in 2000, the value of exports rebounded to US$32.8 billion in 2000. Venezuela has also been running a negative **balance of trade** in services, as when Venezuelans take money out of the country by traveling abroad, or when they purchase foreign products, like automobiles, thereby subsidizing both the foreign manufacturer and the shipping companies that deliver the vehicle to them. In 1998, Venezuelans imported US$5.054 billion in services while exporting only US$1.457 billion. However, Venezuela's overall trade balance is positive. In 2000, that trade surplus reached US$18.1 billion, on imports of US$14.7 billion.

Venezuela has amassed foreign debt as a result of the government borrowing money abroad and individual Venezuelans investing their money overseas because of fears of political and economic instability. It has been estimated that Venezuelans have invested US$50 billion abroad. In 1990, the country's foreign debt was estimated at US$38 billion, which the government has tried to reduce by **restructuring** (changing the terms of the loan and reducing the interest rate it owes).

MONEY

Since 1985, Venezuela's currency, the bolívar, has become worth much less in terms of the U.S. dollar. In 1985, US$1 could buy 7.5 bolívars, but by 1999, it could buy 648.25 bolívars. **Inflation**, resulting from government spending in excess of revenues, is primarily responsible for this phenomenon. Since 1996, Venezuela has used a "**crawling peg**" **exchange rate** system, which attempts to slow down the process by which the bolívar loses value against the dollar. The annual rate of inflation has gradually declined since 1996, to a rate of 23.6 percent in 1999 and 13 percent in 2000. One reason for this is because demand for goods and services in Venezuela has declined. It is not clear if more economic reforms will be implemented in 2001, because the government of President Chávez has made it clear that its first priority is political, not economic, reform.

There are 3 small stock exchanges in Venezuela. The most active of these is the Caracas Stock Exchange, where the shares of only 91 companies are listed and only 12 are actively traded. The dollar value of the shares traded fell by 46.6 percent in 1999, partly as a result of the 7.2 percent recession that the economy experienced that year.

POVERTY AND WEALTH

The oil wealth that has, within the past 50 years, transformed the Venezuelan economy from an agrarian,

Exchange rates: Venezuela

bolivares (B) per US$1	
Jan 2001	699.700
2000	679.960
1999	605.717
1998	547.556
1997	488.635
1996	417.333

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Venezuela	4,195	3,995	3,357	3,353	3,499
United States	19,364	21,529	23,200	25,363	29,683
Brazil	3,464	4,253	4,039	4,078	4,509
Colombia	1,612	1,868	1,875	2,119	2,392

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Venezuela

Lowest 10%	1.3
Lowest 20%	3.7
Second 20%	8.4
Third 20%	13.6
Fourth 20%	21.2
Highest 20%	53.1
Highest 10%	37.0

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

rural economy to a modern, urban one, has also significantly transformed Venezuelan society. Venezuelans today are more literate (91.1 percent in 1995 as opposed to 30 percent in the 1920s) and have a longer life expectancy (73.07 years in 2000 as opposed to 43 years in 1940). Still, in 1997, 67 percent of the population lived below the poverty line, and poverty appears to be increasing due to inflation and the 70 percent decrease in **real wages** since the 1980s. Venezuela has made great strides in meeting the basic needs of its citizens since the 1950s, but economic problems since the 1980s have eroded these early successes.

Education is compulsory in Venezuela up to the age of 14, and 75 percent of the country's students are enrolled in its public primary and secondary schools, though there are high rates of absenteeism attributed to poverty. Since the 1980s, educational spending has fallen below the average in South America. In 1983, Venezuela spent 7.4 percent of its GDP on education, but only 3.8 percent in 1998, and low pay has led to teacher shortages.

There are 99 public and private colleges and universities in Venezuela. The public university system in Venezuela has fared better than the lower education system. Venezuela boasts a number of national universities in various states that offer degrees through to the graduate and professional level. There are 2 national universities in Caracas alone. Tuition is free. Promising students are often given scholarships to study at foreign universities. The ministry of education has also begun to emphasize the importance of technical and vocational education in secondary schools. A system of adult-education has been developed to teach literacy and job skills to Venezuelans.

Venezuela enjoys some of the highest health standards in South America in terms of infant mortality (26.4 per 1,000 population) and longevity (73.07 life expectancy). Much of this was made possible by government intervention. Much of the population gets its medical care from facilities and hospitals operated by the Venezuelan Social Security Institute. Treatment at the country's clinics is free, though there is a small charge for prescription drugs. At the public hospitals, the poor receive treatment for free, and a small fee is charged to those who can afford to pay it. There is also a public welfare program that provides survivor and old-age pensions, maternity benefits, and payment for work-related accidents and illnesses. The institute finances its activities by a mandatory payment of 12 percent of the salaries of all Venezuelan workers. The government has had great success in implementing programs of prenatal care and children's immunization, improving water and sanitary conditions, and eliminating diseases.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Venezuela	30	6	17	16	13	7	12
United States	13	9	9	4	6	8	51
Brazil	22	13	18	15	34	4	−6
Colombia	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

The 1999 constitution guarantees to Venezuela's citizens a health-care system that is funded by the government. In 1979, 14 percent of the government's budget was targeted to providing health services, but by 1999, that percentage had fallen to 6 percent of the national budget. A fall in the salaries of health care providers has been accompanied by a decrease in the quantity and quality of services provided. One response to this problem has been for the central government to allow the states to make more decisions about how to spend the country's health care budget. This approach has had some success in improving the delivery of health care in some areas. Another approach, rejected by the Chávez government, called for the privatization of the Venezuelan Social Security Institute.

The urbanization of Venezuelan society since the 1950s has created its own class structures by leaving behind many rural workers, many of whom are poor, illiterate, and undocumented. Some of them live in public housing, others live rent-free in the barrios (slums) of Venezuela's cities, of which there are more than 1,000 in Caracas alone.

WORKING CONDITIONS

In 1999, some 10.225 million Venezuelans were part of the formal labor force (accounted for in official statistics), but it is possible that another 4 million workers may be part of the informal labor force (workers, mostly in menial jobs, who lack legal protections and benefits). Working conditions in Venezuela appear to vary according to the degree of urbanization that the worker enjoys, with more workers in cities represented by a union. Many of the work benefits made available by the Venezuelan Social Security Institute (such as maternity benefits or payment for work-related illnesses) are less available to rural workers than to their urban counterparts. Although only 25 percent of workers in the formal labor force are organized, the unions have been able to exert an influence over politics that is far greater than the number of workers they represent. For example, unions were instrumental in getting a 10 percent increase in the minimum wage in 1999 and a 20 percent increase in 2000. The Constitution of 1999 includes progressive provisions that regulate working hours and conditions.

Urbanization has also encouraged the increased participation and empowerment of women in the Venezuelan workforce. In 1987, women constituted 31 percent of the labor force. Still, women continue to receive lower salaries than men for comparable work, and are more likely to be members of the informal labor sector.

Venezuelans with a university degree are more likely to hold the prestigious jobs in business and the professions, and they are generally more philanthropic and active in their communities than their counterparts in other South American countries.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1498. Christopher Columbus arrives in Venezuela.

1527. The city of Coro is founded.

1567. Caracas is founded after Spanish defeat Caracas and Teque Indians.

1728. Merchants from the Basque region of Spain are given a monopoly by the Spanish king over imports and export of cocoa in Venezuela. African slaves are imported and the economy prospers.

1811. On July 5, Venezuela declares independence from Spain. Francisco Miranda becomes the dictator of the First Republic. Spanish royalists retake Caracas and other cities in Venezuela within the year.

1813. Simón Bolívar invades Venezuela, liberates Caracas, and establishes the Second Republic, of which he is dictator. The Second Republic is destroyed by royalists by 1814, but Bolívar retakes the country and forms the Third Republic by 1817.

1818. Republic of Gran Colombia (Colombia, Venezuela, Ecuador) is proclaimed.

1829. Venezuela breaks away peacefully from Gran Colombia, led by José Páez.

1830. First Venezuelan Constitution is adopted.

1858–72. Civil wars and political disputes between liberals and conservatives disrupt the country. By 1872, the liberals gain control, introduce a new constitution, and institute economic reforms.

1899. The rule of the Andinos (5 military rulers from the Andean state of Táchira) begins with the military takeover of Caracas by General Cipriano Castro. The rule of the Andinos continues until 1958 (with exception of 1945–48).

1908–35. Dictatorial General Juan Vicent Gómez assumes power and rules until 1935.

1945. First revolution by a political party with popular support (Acción Democrática party). Liberal junta rules, headed by Rómulo Betancourt. Schools, hospitals and public housing are built.

1947. In the first free election in Venezuelan history, Rómulo Gallegos is elected president, but is deposed by the military after 9 months in office.

1951. Major Marcoz Pérez Jiménez assumes power, outlawing all political activity.

1958. A military coup against the Pérez government returns civilian rule and Rómulo Betancourt is re-elected as president.

1969. First peaceful transition of power from Betancourt's AD to COPEI.

MID-1970s. Booming oil prices lead to increased government spending.

1979. Decrease in oil revenues leads to increasing inflation, unemployment, and **capital flight**.

1985. An austerity plan is put in place by President Lusinchi. The austerity measures lead to massive riots in which hundreds are killed in 1989.

1992. Junior military officers, including Hugo Chávez, make 2 unsuccessful coup attempts.

1993. Rafael Caldera is elected president.

1998. Hugo Chávez Frias is elected president; a new constitution is approved by the people. Venezuela experiences the worst natural disaster in its history, with floods and mudslides in the northern state of Vargas.

2000. Chávez reelected president under the new constitution.

FUTURE TRENDS

The single most important issue that faces the Venezuelan economy today is its dependence on oil. Fluctuations in oil revenue have led to a predictable cycle of deficit spending, currency **devaluation**, inflation, recession, and unemployment. Venezuela is rich in natural resources and has a concerned citizenry, which can bolster the government's efforts to promote economic stability through privatization and the discipline of the marketplace. Though there is promise for Venezuela, the road ahead is fraught with difficulties.

The adoption of a new constitution in 1998 and the nationwide federal and local elections held in 2000 have ensured the legitimacy of the government. Now that government must continue to encourage growth in non-oil related industries. Telecommunications and power generation hold great promise for growth in the coming years, as do petroleum-related industries. Should the economy remain fairly strong, construction should also gain strength. Venezuela's future looks bright if it can spur similar growth in other, export-oriented industries, while maintaining its strengths in oil production.

DEPENDENCIES

Venezuela has no territories or colonies.

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—Linz Audain

GLOSSARY

Advance Tax: A percentage of the previous year's tax bill which is paid at the beginning of the new fiscal year and later credited back at its end.

Agribusiness: Agricultural and livestock production on a large scale, often engaged in by large, multinational companies; also used to refer to the companies themselves.

Arrear: Usually plural, **arrears**. Unpaid, overdue debt.

Bad Loan: An unrecoverable loan; the amount cannot be reclaimed by the lender.

Balance of Payments: The measure of all the money coming into a country and all the money leaving the country in a given period, usually a year. The balance of payments includes merchandise exports and imports, the measure of which is called the **balance of trade**, as well as several other factors.

Balance of Trade: A measure of the value of exports and imports, not including services. When imports exceed exports, there is a trade deficit. When exports exceed imports, there is a trade surplus.

Bank of Issue: The bank that is given the right to issue and circulate currency in a country.

Barter System: An exchange of goods and/or services for other goods and/or services, rather than for money.

Bear Market: A sustained period of negative growth in the stock market.

Bicameral: A legislative body consisting of two houses or chambers.

Black Market: An informal market in which buyers and sellers can negotiate and exchange prohibited or illegal goods (such as exchanging local money for foreign currency). Black markets often exist to avoid government controls. *See also* **Informal Sector.**

Budget Deficit: A government budget deficit occurs when a government spends more money on government programs than it generates in revenues. Governments must borrow money or print currency to pay for this excess spending, thus creating potential financial difficulties. *See also* **Budget Surplus.**

Budget Surplus: A government budget surplus occurs when a government generates more revenues than it spends on government programs. Governments can adjust to surpluses by lowering tax rates, paying down the national debt, or stockpiling the money. *See also* **Budget Deficit.**

Cadre: A group of important and influential members of political parties who direct the actions of that party.

Capital Adequacy: The state of a bank having enough capital to maintain its loans and operating costs.

Capital Flight; also called **Capital Outflow:** Money sent abroad because investors fear that economic conditions within a country are too risky.

Capital Good: A manufactured good used in the production of other goods. For example, factories or machinery used to produce goods are considered capital goods.

Capitalism: An economic system based on the private ownership of the means of production and on an open system of competitive markets. It is assumed that producers in a capitalist system can use their skills and capital in the pursuit of profit.

Capital Outflow: *See* **Capital Flight.**

Cash Crop: An agricultural good produced for direct sale on the market.

Centrally-planned Economy: An economy in which the government exerts a great deal of control over economic planning, including the control of production, the allocation of goods, distribution, and prices. Common in **socialist** countries.

c.i.f.: Abbreviation of **cost, insurance, and freight**; a method of determining the value of imports or exports that includes cost, insurance, and freight in determining the total amount.

Commonwealth of Independent States (CIS): A loose union of 12 of the former republics of the Soviet Union, excluding Estonia, Latvia, and Lithuania.

Communism: An economic system in which the means of production and distribution are held in common by all

members of the society, and in which the rewards are distributed based on need. In actual communist countries, the state usually controls all the capital and land, and the economy is centrally planned. *See also* **Centrally-planned Economy.**

Consumer Good: A product sold directly to the end user, or consumer, such as food and clothing.

Crawling Peg: A fixed **exchange rate** between two currencies which is adjusted incrementally based on the movement of an economic indicator such as inflation.

Currency Board: An arrangement whereby a currency's value is fixed in some proportion to a strong foreign currency and such an exchange rate is guaranteed by the country's foreign exchange reserves.

Current Account Balance: The portion of the **balance of payments** that includes merchandise imports and exports (known as the **balance of trade**) plus imports and exports of services.

Debt Relief: Partial or full forgiveness of debts, offered to impoverished countries by lenders, usually after it becomes clear that continued payment on such debt is likely to ruin the country's economy.

Debt Service: Payment of interest on a loan or other debt. Debt servicing can be very expensive and debilitating for developing countries.

Deflation: Falling prices across an economy, expressed as a percentage per year. *See also* **Inflation.**

Dependency Ratio: The ratio of **pensioners** to the number of people employed.

Deregulation: A lessening of government restrictions on the economy.

Desertification: The progressive drying of the land.

Devaluation: An act by the government or central bank which decreases the official price of a nation's currency. When a currency is devalued, it can result in the country's exports becoming cheaper and more attractive.

Direct Tax: A tax levied directly on individuals or companies, such as income and property taxes. *See also* **Indirect Tax.**

Disposable Income: Those parts of a household income not needed for essentials such as food, healthcare, or housing costs. Disposable income may be saved, invested, or spent on non-essential goods.

Duty: A tax imposed on imported goods. *See also* **Indirect Tax.**

E-commerce: Economic activity conducted on the Internet.

Ecotourism: Tourism to natural and cultural areas which tries to minimize environmental impacts.

Embargo: A prohibition by a government against some or all trade with a foreign nation. *See also* **Sanctions.**

Emerging Market: A country with still evolving economic, social, and political structures that shows evidence of moving toward an open market system.

Emigration: To leave one's country to live elsewhere.

Enterprise Entry: The creation of new, predominantly small and medium size enterprises.

Enterprise Exit: The removal of businesses from an economy, either through bankruptcy or downsizing.

Equity: The value of all the shares in a company.

Estate Tax: A tax on inherited property and wealth.

Exchange Rate: The rate at which one country's currency is exchanged for that of another country.

Exchange Rate Mechanism (ERM): A mechanism set up in 1978 to handle fluctuations in the **exchange rates** of various European currencies. Each currency in the ERM may fluctuate only within agreed limits against any other currency.

Exchange Rate Regime: The mode of determining the **exchange rate** between the national currency and other major foreign currencies. In a fixed exchange rate regime, a currency is fixed or "pegged" to the currency of another, usually very stable currency, such as that of the United States. In a **floating** or flexible exchange rate regime, governments allow the value of their currency to be determined by supply and demand in the foreign exchange market.

Excise Tax: A tax on the sale or use of certain products or transactions, sometimes luxury or non-essential items.

Exclusive Economic Zone (EEZ): The area extending from a country's coastline over which that country has exclusive control of its resources.

External Debt: The total amount of money in a country's economy owed to enterprises and financial institutions outside the country.

Fiduciary: Related to a trust or trusteeship.

Fiscal Policy: The programs of a national government relating to spending on goods, services, **transfer payments**, and the tax system.

Fiscal Year: Any period of 12 consecutive months for which a company or a government calculates earnings, profits, and losses.

Fixed Exchange Rate: *See* **Exchange Rate Regime.**

Floating Exchange Rate: *See* **Exchange Rate Regime.**

Floor Price: The minimum price for a good or service which normally cannot be further reduced due to political, economic, or trade considerations.

f.o.b.: Abbreviation of **Free on board**; a method of determining the value of exports or imports that considers the value of goods excluding the cost of insurance and freight charges.

Foreign Debt: *See* **External Debt.**

Foreign Direct Investment (FDI): The total value of investment by foreign entities in a country, usually expressed on an annual or cumulative basis.

Foreign Exchange Reserves: The amount of money a country has in its treasury consisting of currency from foreign countries.

Free Market System: An economic system based on little government intervention and the freedom of private association and control of goods. *See also* **Capitalism.**

Free Trade Zone: Also called **Free Zone.** An industrial area where foreign companies may import, store, and sometimes export goods without paying taxes.

Full Employment: The level of employment at which a minimal amount of involuntary unemployment exists. It is considered the maximum level of employment in an economy.

Fully Convertible Currency: A currency that can be freely traded in international foreign exchanges for units of another currency.

GDP per Capita: Gross domestic product divided by the number of people in a country. GDP per capita is a convenient way to measure comparative international wealth.

Gini Index: An index used to measure the extent to which the distribution of income within an economy deviates from perfectly equal distribution. A score of 0 would mean perfect equality (with everyone having the same level of wealth) and 100 would signify perfect inequality (with a few extraordinarily wealthy people and the large majority living in dire poverty).

Glut: An excess of goods in a particular market, which typically causes the price of that good to fall.

Grey Economy: Economic activity that takes place in both the formal and **informal economy,** meaning that some but not all economic activity is reported to authorities such as tax collectors.

Gross Domestic Product (GDP): The total market value of all goods and services produced inside a country in a given year, which excludes money made by citizens or companies working abroad.

Gross National Product (GNP): The total market value of all goods and services produced in a year by a nation, including those goods produced by citizens or companies working abroad.

Guarantor: An institution or individual that guarantees to pay the debts of another institution or individual in the case of bankruptcy.

Guest Worker: Persons from a foreign country who are allowed to live in a host country so long as they are employed. Many guest workers send **remittances** to their native country.

Hard Currency: Money that can be exchanged on the foreign market and is stable enough to purchase goods from other countries.

Hawking: Selling wares, often pirated goods, in the **informal sector.**

Holding Company: A company that owns or controls several other companies.

Immigration: To move into a country that is not one's native country.

Import Substitution: A policy which calls for the local production of goods that have traditionally been imported. The goal of import substitution is to lessen a country's dependence on foreign suppliers.

Income Tax: A **direct tax** on an individual's earned income.

Indirect Tax: A tax which is not paid directly, but is passed on as part of the cost of an item or service. For instance, **tariffs** and **value-added taxes** are passed on to the consumer and included in the final price of the product. *See also* **Direct Tax.**

Inflation: A persistent increase in the average price of goods in an economy, usually accompanied by declining purchasing power of the national currency.

Inflation Rate: The rate at which prices rise from one period to the next.

Informal Sector: Also called **Informal Economy**. The part of an economy that lies outside government regulations and tax systems. It usually consists of small-scale and usually labor-intensive activities; it often includes illegal activities. *See also* **Black Market.**

Infrastructure: The system of public facilities, services, and resources in a country, including roads, railways, airports, power generation, and communication systems.

Intermediate Good: A good used as an ingredient or component in the production of other goods. For instance, wood pulp is used to produce paper.

Internally Displaced Person: A person fleeing danger (such as war or persecution) who has not crossed international boundaries. Those who relocate to another country are called "refugees."

Joint Sector: An economic sector in which private enterprise and the government invest jointly.

Joint Venture: A special economic initiative or company formed by a foreign firm and a domestic company, usually in a developing state. The domestic partner often holds a majority interest, thus allowing the host country to control the amount and kind of foreign economic activity. Can also be a simple joint operation by two or more companies.

Labor Force: Also called **Workforce**. The total number of people employed in a country plus the number of people unemployed and looking for a job.

Labor Mobility: The ability and readiness of workers to move to regions or sectors of higher growth within a country or economy.

Levy: A tax based on the assessed value of personal property and/or income.

Liberal Economy: An economy in which markets operate with minimal government interference and in which individual choice and private ownership are the guiding forces.

Liberalization: The opening of an economy to free competition and a self-regulating market, with minimal government-imposed regulations or limitations.

Liquidity: Generally, the amount of money on hand. When related to government, it refers to the amount of money in circulation.

Macroeconomics: Economic issues large enough to impact the nation as a whole.

Market Capitalization: The total market value of a company, expressed by multiplying the value of a company's outstanding shares by the current price of the stock.

Marxism: A set of economic and political theories based on the work of 19th century theorists Karl Marx and Friedrich Engels that holds that human history is a struggle between classes, especially those who own property and those who do not (the workers). Marxism provided the theoretical basis for the economic systems of modern **communism** and **socialism.**

Microcredit: The lending of small amounts of startup capital to the very poor as a way of helping them out of poverty. The World Bank and other aid agencies often make mircrocredit loans to small-scale entrepreneurs in the developing world.

Monetary Policy: A government policy designed to regulate the money supply and interest rates in an economy. These policies are usually determined by the central bank or treasury in order to react to or to anticipate inflationary trends and other factors that affect an economy. They are said to be "tight" when interest rates are raised and other measures are implemented in an effort to control inflation and stabilize currency values.

Monetized Economy: An economy based on money as opposed to barter.

Money Laundering: A method used by criminal organizations to hide income gained from illicit activities, such as drug smuggling, by manipulating banks to provide a legitimate explanation for the source of money.

Monopoly: A company or corporation that has exclusive control over the distribution and availability of a product or service.

Multinational Corporation (MNC): A corporation which has economic ties to or operations in two or more countries.

National Debt: The amount of money owed to lenders by a government. The debt occurs when a government spends more each year than it has raised through taxes. Thus, to spend more than it has, the government must borrow money from banks or through the issuance of bonds.

Nationalization: The movement of privately-owned (and usually foreign-owned) companies into government ownership. Companies have often been nationalized by the developing countries whose government argued that the foreign firms involved did not pay their fair share of the profits to the host country and unfairly exploited it in other ways.

Nomenklatura: The elite members of the Communist Party in communist nations, who were often given privileges not extended to ordinary citizens.

Nomenklatura Privatization: A system of **privatization** in communist nations that openly or covertly transferred ownership of state assets to the **nomenklatura.**

Non-performing Loan: A delinquent loan or one in danger of going into default.

Offshore Banking: Banking operations that offer financial services to people and companies from other countries, usually with associated tax benefits. Offshore banking operations are often suspected as a cover for **money laundering** or other illegal financial activities.

Overheated Economy: An economy that is growing at a very high annual rate, which leads to low interest rates, a high borrowing rate, and an abundance of money in the economy—all of which can lead to **inflation.**

Parastatal: A partly or wholly government-owned enterprise.

Participation Rate: The ratio between the labor force and the total population, which indicates how many people are either working or actively seeking work.

Pensioner: A retired person who lives off a government pension.

Price Control: Artificial limitation on the prices of goods set by the government, usually in a **centrally-planned economy.**

Price Index: An index that shows how the average price of a commodity or bundle of goods has changed over a period of time, usually by comparing their value in constant dollars.

Primary Commodity: A commodity, such as a particular crop or mineral, which is a natural rather than manufactured resource.

Private Sector: The part of an economy that is not directly controlled by the government, including businesses and households.

Privatization: The transition of a company or companies from state ownership or control to private ownership. Privatization often takes place in societies that are making a transition from a **socialist** or mixed-socialist economy to a **capitalist** economy.

Procurement: The purchase of goods or services by the government.

Progressive Taxation: An income taxation system in which tax rates rise in accordance with income levels. Thus, a person making a large salary will be taxed at a higher rate than someone who makes less money.

Proportional Representation: An electoral system whereby the number of legislative seats allocated to a particular political party is decided in proportion to the number of votes that party won in an election.

Protectionist Policy: A government policy used to protect local producers from competition from imported foreign goods. Countries may erect various trade barriers such as **tariffs** or quotas in an effort to protect domestic firms or products.

Public Sector: The part of the economy that is owned and operated by the government.

Purchasing Power Parity (PPP): The purchasing power parity method attempts to determine that relative purchasing power of different currencies over equivalent goods and services. For example, if it costs someone in the United States US$300 to buy a month's worth of groceries, but it costs someone in Ghana only US$100 to buy the same amount of groceries, then the person in Ghana can purchase three times as much for the same amount of money. This means that though the average citizen of Ghana may earn less money than the average citizen of the United States, that money buys more because goods and services cost less in Ghana. The PPP calculation attempts to account for these differences in prices and is used to calculate **GDP** and **GDP per capita** figures that are comparable across nations. Note: GDP figured at purchasing power parity may be three or more times as large as GDP figured at **exchange rate** parity.

Pyramid Scheme: Fraudulent investment strategy involving a series of buying and selling transactions that generate a paper profit, which, in turn, is used to buy more stocks. They were prevalent in Eastern Europe following the fall of the Soviet Union, and preyed on the average citizen's lack of understanding of **free-market** investment transactions.

Real GDP: The **gross domestic product** of a country expressed in constant prices which are determined by a baseline year. Real GDP thus ignores the effects of inflation and deflation and allows for comparisons over time.

Real Wage: Income measured in constant dollars, and thus corrected to account for the effects of inflation.

Recession: A period of negative growth in an economy, usually defined as two consecutive quarters of negative **GDP** growth. A recession is characterized by factors such as low consumer spending, low output, and high unemployment.

Re-export: An imported good that does not undergo any changes (e.g., not turned into a new product) before being exported.

Relative Income Poverty: This is a measure of the overall equality in income among employed workers. Relative income poverty is high when a high percentage of the sum of total income is concentrated in the hands of a small percentage of the working population, and it is low when income is more equally spread among all workers.

Remittance: Money that is sent back to people, usually relatives, living in the home country of a national working abroad.

Repatriation: Taking money out of a foreign country in which it had been invested and reinvesting it in the country where it originated.

Reserve Ratio: The percentage of a bank's assets in reserve against the possibility of customers withdrawing their deposited funds. Some governments impose a minimum percentage, usually enforced by a central bank in proportion to the total amount of currency in circulation.

Restructuring: A catch-all phrase for turning around a company, involving cutting costs, restoring finances, and improving products.

Retail: The sale of goods and services to individuals in small amounts.

Sanction: A penalty, often in the form of a trade restriction, placed on one country by one or several other countries as a penalty for an action by the country under sanctions. Sanctions are designed to force the country

experiencing them to change a policy, such as its human rights practices.

Shadow Economy: Economic interactions that are invisible to standard accounting and taxing procedures. See **Informal Economy.**

Sharecropper: A farmer who works someone else's land in exchange for a share of the crops they produce.

Smallholder: A farmer who has only a very small farm or plot of land.

Social Security Tax: A **direct tax** levied partly on the worker and partly on the employer in order to provide funds for a nation's **social welfare system.**

Social Welfare System: A set of government programs that provides for the needs of the unemployed, aged, disabled, or other groups deemed in need of government assistance.

Socialism: An economic system in which means of production and distribution are owned by the community, and profits are shared among the community. Countries with socialist economies put a premium on centralized control over an economy rather than allowing market forces to operate, and tend to have a relatively equal distribution of income.

Solvency: Financial stability.

Statist Economic Policy: A policy in **capitalist** or quasi-capitalist countries that favor state control or guidance of companies or sectors of the economy that are thought to be vital.

Strategic Industry: An industry considered extremely important to the well being of a country.

Structural Adjustment Program (SAP): A set of economic programs and policies aimed at stabilizing the overall structure of a troubled economy. Structural adjustment programs are often required by international lending agencies such as the World Bank and the International Monetary Fund. These programs often involve devaluing the currency, reducing government spending, and increasing exports.

Structural Unemployment: Unemployment caused by a mismatch between the needs of employers and the skills and training of the labor force.

Subsidy: A payment made by a government to an individual or company that produces a specific good or commodity. Some countries subsidize the production of certain agricultural crops, while others may subsidize mass transit or public art.

Subsistence Farming: Farming which generates only enough produce to feed the farmer's family, with little or nothing left over to sell.

Tariff: An **indirect tax** that is applied to an imported product or class of products.

Tax Haven: A place where investors shield their money from the national taxes of their own country. *See also* **Offshore Banking.**

Tax Holiday: A period of time in which businesses or investors enjoy exemptions from paying taxes. Tax holidays are offered as a lure to investment or business development.

Technocrat: Government official who is expert in specialized—usually technological—areas.

Trade Deficit: *See* **Balance of Trade.**

Trade Surplus: *See* **Balance of Trade.**

Transfer Payment: Cash paid directly to individuals by a government, usually as part of a **social welfare system.**

Transfer Pricing: A method used by foreign firms to overprice their overseas costs and thereby reduce their local tax liabilities.

Treasury Bill: Also called a **T-bill**. A guaranteed government investment bond sold to the public. They usually reach maturity after short periods, for example, three months or six months.

Trickle Down: An economic theory that contends that tax relief and other governmental incentives should be given primarily to the highest income earners in a society, on the assumption that their increased economic investment and other activity will provide benefits that "trickle down" to the lower- and middle-income wage-earners.

Turnover: The measure of trade activity in terms of the aggregated prices of all goods and services sold in the country during a year.

Two-tier Economy: An economy where skilled or educated workers enjoy a high standard of living, but unskilled workers are trapped in poverty.

Underemployment: A situation in which people are not reaching their economic potential because they are employed in low-paying or part-time jobs. For example, an engineer who is working in a fast food restaurant would be said to be experiencing underemployment.

Underground Economy: Economic transactions that are not reported to government, and therefore not taxable. **Informal sectors** and **black markets** are examples of underground economic activity.

Unicameral: A legislative body consisting of a single house or chamber.

United Nations Development Program (UNDP): The United Nations' principal provider of development advice, advocacy, and grant support.

Value Added: The increase in the value of a good at each stage in the production process. When a company adds value to its products it is able to gain a higher price for them, but it may be liable for a **value-added tax.**

Value-added Tax (VAT): A tax levied on the amount of **value added** to a total product at each stage of its manufacture.

Vertical Integration: Control over all stages of the production and distribution of a certain product. For example, if one company owns the mines, the steel plant, the transportation network, the factories, and the dealerships involved in making and selling automobiles, it is vertically integrated.

Voucher Privatization: A system for selling off state-owned companies in which citizens are given "vouchers" which they may invest in such companies. This system was devised to allow all citizens the opportunity to invest in formerly state-owned businesses; however, in practice many citizens invest their vouchers in voucher funds, which are professionally managed investment groups who amass vouchers in order to exert control over the direction of companies.

Welfare State: A government that assumes the responsibility for the well-being of its citizens by providing institutions and organizations that contribute to their care. *See also* **Social Welfare System.**

Workforce: *See* **Labor Force.**

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  Cameroon, **I:**60
  Central African Republic, **I:**79
  Chile, **II:**99
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  Congo, Republic of the, **I:**112
  Côte d'Ivoire, **I:**122
  Croatia, **IV:**88
  Denmark, **IV:**111
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  Gabon, **I:**183
  Germany, **IV:**171
  Ghana, **I:**200
  Guinea-Bissau, **I:**219
  Hungary, **IV:**200
  Indonesia, **III:**179
  Ireland, **IV:**220
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  Korea, South, **III:**287–288
  Laos, **III:**319–320
  Latvia, **IV:**250
  Liberia, **I:**247
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  Luxembourg, **IV:**280
  Malaysia, **III:**349–350
  New Zealand, **III:**413–414
  Nicaragua, **II:**274
  Pakistan, **III:**437
  Panama, **II:**284
  Papua New Guinea, **III:**456
  Peru, **II:**309
  Samoa, **III:**486
  São Tomé and Príncipe, **I:**376
  Solomon Islands, **III:**522
  South Africa, **I:**422
  Suriname, **II:**350
  Swaziland, **I:**444
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  Guinea, **I:**210
  Kyrgyzstan, **III:**309
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  Suriname, **II:**350
  Uzbekistan, **III:**652
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- Afghanistan, **III:**5*f,* 8*t*
- Albania, **IV:**4*f,* 6*t*
- Algeria, **I:**6*f,* 9*t*
- Andorra, **IV:**14*t*
- Angola, **I:**16*f,* 19*t*
- Antigua and Barbuda, **II:**4*f,* 6*t*
- Argentina, **II:**14*f,* 20*t*
- Armenia, **IV:**19*f,* 22*t*
- Australia, **III:**15*f,* 20*t*
- Austria, **IV:**30*f,* 34*t*
- Azerbaijan, **III:**28*f,* 30*t*
- The Bahamas, **II:**28*f,* 30*t*
- Bahrain, **III:**36*f,* 37*t*
- Bangladesh, **III:**46*f,* 51*t*
- Barbados, **II:**36*f,* 38*t*
- Belarus, **IV:**40*f,* 43*t*
- Belgium, **IV:**52*f,* 58*t*
- Belize, **II:**44*f,* 46*t*
- Benin, **I:**24*f,* 26*t*
- Bhutan, **III:**60*f,* 62*t*
- Bolivia, **II:**54*f,* 57*t*
- Bosnia and Herzegovina, **IV:**66*f,* 68*t*
- Botswana, **I:**32*f,* 33*t*
- Brazil, **II:**67*f,* 72*t*
- Brunei Darussalam, **III:**68*f,* 71*t*
- Bulgaria, **IV:**75*f,* 78*t*
- Burkina Faso, **I:**41*f,* 44*t*
- Burma, **III:**77*f,* 81*t*
- Burundi, **I:**50*f,* 52*t*
- Cambodia, **III:**89*f,* 91*t*
- Cameroon, **I:**59*f,* 64*t*
- Canada, **II:**82*f,* 88*t*
- Cape Verde, **I:**70*f,* 72*t*
- Central African Republic, **I:**78*f,* 80*t*
- Chad, **I:**86*f,* 88*t*
- Chile, **II:**98*f,* 104*t*
- China, **III:**100*f,* 107*t*
- Colombia, **II:**112*f,* 116*t*
- Comoros, **I:**94*f,* 95*t*
- Congo, Democratic Republic of the, **I:**103*f,* 105*t*
- Congo, Republic of the, **I:**112*f,* 114*t*
- Costa Rica, **II:**124*f,* 129*t*
- Côte d'Ivoire, **I:**121*f,* 124*t*
- Croatia, **IV:**87*f,* 90*t*
- Cuba, **II:**137*f,* 139*t*
- Cyprus, **III:**118*f,* 119*f,* 123*t*
- Czech Republic, **IV:**98*f,* 101*t*
- Denmark, **IV:**110*f,* 114*t*
- Djibouti, **I:**130*t,* 133*t*
- Dominica, **II:**146*f,* 148*t*
- Dominican Republic, **II:**154*f,* 157*t*
- Ecuador, **II:**164*f,* 167*t*
- Egypt, **I:**140*f,* 145*t*
- El Salvador, **II:**175*f,* 178*t*
- Equatorial Guinea, **I:**154*f,* 156*t*
- Eritrea, **I:**162*f,* 164*t*
- Estonia, **IV:**122*f,* 123*t*
- Ethiopia, **I:**171*f,* 176*t*
- Fiji, **III:**130*f,* 132*t*
- Finland, **IV:**131*f,* 137*t*
- France, **IV:**146*f,* 152*t*
- French Polynesia, **III:**138*f,* 140*t*
- Gabon, **I:**182*f,* 184*t*
- The Gambia, **I:**190*f,* 192*t*
- Georgia, **IV:**158*f,* 161*t*
- Germany, **IV:**170*f,* 176*t*
- Ghana, **I:**199*f,* 201*t*
- Greece, **IV:**184*f,* 189*t*
- Grenada, **II:**194*f,* 196*t*
- Guatemala, **II:**203*f,* 205*t*
- Guinea, **I:**209*f,* 211*t*
- Guinea-Bissau, **I:**219*f,* 220*t*
- Guyana, **II:**212*f,* 214*t*
- Haiti, **II:**220*f,* 222*t*
- Honduras, **II:**228*f,* 232*t*
- Hong Kong, **III:**149*f,* 154*t*
- Hungary, **IV:**199*f,* 202*t*
- Iceland, **IV:**209*f,* 211*t*
- India, **III:**164*f,* 168*t*
- Indonesia, **III:**178*f,* 182*t*
- Iran, **III:**194*f,* 199*t*
- Iraq, **III:**207*f,* 210*t*
- Ireland, **IV:**219*f,* 223*t*
- Israel, **III:**217*f,* 220*t*
- Italy, **IV:**234*f,* 240*t*
- Jamaica, **II:**238*f,* 242*t*
- Japan, **III:**231*f,* 236*t*
- Jordan, **III:**244*f,* 247*t*
- Kazakhstan, **III:**255*f,* 260*t*
- Kenya, **I:**227*f,* 231*t*
- Kiribati, **III:**268*f,* 269*t*
- Korea, North, **III:**276*f,* 278*t*
- Korea, South, **III:**287*f,* 292*t*
- Kuwait, **III:**299*f,* 301*t*
- Kyrgyzstan, **III:**308*f,* 311*t*
- Laos, **III:**318*f,* 322*t*
- Latvia, **IV:**249*f,* 251*t*
- Lebanon, **III:**329*f,* 332*t*
- Lesotho, **I:**238*f,* 240*t*
- Liberia, **I:**246*f,* 249*t*
- Libya, **I:**254*f,* 257*t*
- Liechtenstein, **IV:**260*t*
- Lithuania, **IV:**267*f,* 271*t*
- Luxembourg, **IV:**279*f,* 282*t*
- Macau, **III:**338*f,* 340*t*
- Macedonia, **IV:**288*f,* 290*t*
- Madagascar, **I:**264*f,* 266*t*
- Malawi, **I:**272*f,* 274*t*
- Malaysia, **III:**348*f,* 354*t*
- Maldives, **III:**362*f,* 365*t*
- Mali, **I:**280*f,* 282*t*
- Malta, **IV:**296*f,* 298*t*
- Marshall Islands, **III:**370*f,* 372*t*
- Mauritania, **I:**288*f,* 290*t*
- Mauritius, **I:**296*f,* 299*t*
- Mexico, **II:**250*f,* 255*t*
- Micronesia, **III:**378*f,* 380*t*
- Moldova, **IV:**304*f,* 306*t*
- Monaco, **IV:**314*t*
- Mongolia, **III:**386*f,* 388*t*
- Morocco, **I:**307*f,* 310*t*
- Mozambique, **I:**317*f,* 322*t*
- Namibia, **I:**331*f,* 333*t*
- Nauru, **III:**394*t*
- Nepal, **III:**401*f,* 405*t*
- Netherlands, **IV:**320*f,* 326*t*
- Netherlands Antilles and Aruba, **II:**265*f,* 269*t*
- New Zealand, **III:**412*f,* 416*t*
- Nicaragua, **II:**274*f,* 276*t*
- Niger, **I:**341*f,* 343*t*
- Nigeria, **I:**355*f,* 360*t*
- Norway, **IV:**336*f,* 339*t*
- Oman, **III:**422*f,* 425*t*
- Pakistan, **III:**435*f,* 441*t*
- Palau, **III:**449*t*
- Panama, **II:**283*f,* 286*t*
- Papua New Guinea, **III:**456*f,* 458*t*
- Paraguay, **II:**295*f,* 300*t*
- Peru, **II:**308*f,* 312*t*
- Philippines, **III:**465*f,* 469*t*
- Poland, **IV:**348*f,* 354*t*
- Portugal, **IV:**365*f,* 369*t*
- Puerto Rico, **II:**317*t*
- Qatar, **III:**478*f,* 480*t*
- Romania, **IV:**379*f,* 383*t*
- Russia, **IV:**393*f,* 399*t*
- Rwanda, **I:**368*f,* 369*t*
- St. Kitts and Nevis, **II:**325*f,* 328*t*
- St. Lucia, **II:**334*f,* 336*t*
- St. Vincent and the Grenadines, **II:**342*f,* 344*t*
- Samoa, **III:**485*f,* 488*t*
- San Marino, **IV:**409*t*
- São Tomé and Príncipe, **I:**376*f,* 378*t*
- Saudi Arabia, **III:**498*f,* 502*t*
- Senegal, **I:**385*f,* 388*t*
- Seychelles, **I:**396*f,* 398*t*
- Sierra Leone, **I:**404*f,* 406*t*
- Singapore, **III:**511*f,* 514*t*
- Slovakia, **IV:**414*f,* 418*t*
- Slovenia, **IV:**424*f,* 427*t*
- Solomon Islands, **III:**522*f,* 524*t*
- Somalia, **I:**413*f,* 415*t*
- South Africa, **I:**421*f,* 427*t*
- Spain, **IV:**438*f,* 442*t*

Gross Domestic Product (GDP) (*continued*)
- Sri Lanka, **III:**532*f,* 535*t*
- Sudan, **I:**436*f,* 439*t*
- Suriname, **II:**350*f,* 352*t*
- Swaziland, **I:**443*f,* 445*t*
- Sweden, **IV:**451*f,* 455*t*
- Switzerland, **IV:**465*f,* 470*t*
- Syria, **III:**543*f,* 547*t*
- Taiwan, **III:**556*f,* 563*t*
- Tajikistan, **III:**570*f,* 573*t*
- Tanzania, **I:**453*f,* 457*t*
- Thailand, **III:**582*f,* 588*t*
- Togo, **I:**467*f,* 469*t*
- Tonga, **III:**597*f,* 599*t*
- Trinidad and Tobago, **II:**358*f,* 360*t*
- Tunisia, **I:**476*f,* 479*t*
- Turkey, **III:**608*f,* 615*t*
- Turkmenistan, **III:**624*f,* 627*t*
- Tuvalu, **III:**635*t*
- Uganda, **I:**487*f,* 491*t*
- Ukraine, **IV:**479*f,* 483*t*
- United Arab Emirates, **III:**640*f,* 644*t*
- United Kingdom, **IV:**493*f,* 498*t*
- United States, **II:**368*f,* 374*t*
- Uruguay, **II:**385*f,* 387*t*
- Uzbekistan, **III:**651*f,* 654*t*
- Vanuatu, **III:**659*f,* 662*t*
- Venezuela, **II:**394*f,* 399*t*
- Vietnam, **III:**669*f,* 672*t*
- Yemen, **III:**680*f,* 682*t*
- Yugoslavia, **IV:**514*f,* 517*t*
- Zambia, **I:**499*f,* 502*t*
- Zimbabwe, **I:**509*f,* 512*t*
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- Costa Rica, **II:**129
- Croatia, **IV:**91
- Denmark, **IV:**108–109
- Ecuador, **II:**167
- El Salvador, **II:**178
- Finland, **IV:**138–139
- Georgia, **IV:**162
- Germany, **IV:**165–166, 176–177
- Greece, **IV:**189
- Hong Kong, **III:**154
- Ireland, **IV:**224
- Japan, **III:**236
- Jordan, **III:**247–248
- Kazakhstan, **III:**261–262
- Malaysia, **III:**354
- Oman, **III:**425
- Pakistan, **III:**442
- Peru, **II:**312
- Philippines, **III:**470
- Poland, **IV:**354–355
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- Spain, **IV:**443
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- South Africa, **I:**423
- Spain, **IV:**439
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House of Lords, United Kingdom, **IV:**490

Household consumption
- Albania, **IV:**6*t*
- Antigua and Barbuda, **II:**7*t*
- Argentina, **II:**20*t*
- Armenia, **IV:**22*t*
- Australia, **III:**21*t*
- Austria, **IV:**35*t*
- Azerbaijan, **III:**30*t*
- The Bahamas, **II:**30*t*
- Bahrain, **III:**38*t*
- Bangladesh, **III:**52*t*
- Belarus, **IV:**44*t*
- Belgium, **IV:**58*t*
- Belize, **II:**47*t*
- Benin, **I:**26*t*
- Bolivia, **II:**58*t*
- Botswana, **I:**34*t*
- Brazil, **II:**73*t*
- Bulgaria, **IV:**79*t*
- Cameroon, **I:**64*t*
- Canada, **II:**88*t*
- Chile, **II:**104*t*
- Congo, Republic of the, **I:**114*t*
- Côte d'Ivoire, **I:**125*t*
- Croatia, **IV:**91*t*
- Czech Republic, **IV:**102*t*
- Denmark, **IV:**115*t*
- Dominica, **II:**149*t*
- Ecuador, **II:**168*t*
- Egypt, **I:**146*t*
- Estonia, **IV:**124*t*
- Fiji, **III:**133*t*
- Finland, **IV:**137*t*
- France, **IV:**152*t*
- Gabon, **I:**184*t*
- Georgia, **IV:**161*t*
- Germany, **IV:**176*t*
- Greece, **IV:**190*t*
- Grenada, **II:**197*t*
- Guinea, **I:**212*t*
- Hong Kong, **III:**154*t*
- Hungary, **IV:**202*t*
- Iceland, **IV:**212*t*
- Indonesia, **III:**183*t*
- Ireland, **IV:**224*t*
- Israel, **III:**221*t*
- Italy, **IV:**241*t*

Jamaica, **II:**243*t*
Japan, **III:**237*t*
Jordan, **III:**248*t*
Kazakhstan, **III:**261*t*
Kenya, **I:**232*t*
Korea, South, **III:**292*t*
Kyrgyzstan, **III:**312*t*
Latvia, **IV:**252*t*
Lebanon, **III:**333*t*
Lithuania, **IV:**272*t*
Luxembourg, **IV:**283*t*
Macedonia, **IV:**290*t*
Madagascar, **I:**267*t*
Malawi, **I:**275*t*
Mali, **I:**283*t*
Mauritius, **I:**299*t*
Mexico, **II:**256*t*
Moldova, **IV:**307*t*
Mongolia, **III:**389*t*
Morocco, **I:**311*t*
Nepal, **III:**406*t*
Netherlands, **IV:**327*t*
New Zealand, **III:**417*t*
Nigeria, **I:**360*t*
Norway, **IV:**339*t*
Oman, **III:**426*t*
Pakistan, **III:**442*t*
Panama, **II:**287*t*
Peru, **II:**313*t*
Philippines, **III:**470*t*
Poland, **IV:**355*t*
Qatar, **III:**481*t*
Romania, **IV:**383*t*
Russia, **IV:**400*t*
St. Kitts and Nevis, **II:**328*t*
St. Lucia, **II:**337*t*
St. Vincent and the Grenadines, **II:**345*t*
Senegal, **I:**389*t*
Sierra Leone, **I:**407*t*
Singapore, **III:**515*t*
Slovakia, **IV:**418*t*
Slovenia, **IV:**427*t*
Spain, **IV:**443*t*
Sri Lanka, **III:**536*t*
Swaziland, **I:**446*t*
Sweden, **IV:**456*t*
Switzerland, **IV:**470*t*
Tajikistan, **III:**573*t*
Tanzania, **I:**458*t*
Thailand, **III:**588*t*
Trinidad and Tobago, **II:**361*t*
Tunisia, **I:**479*t*
Turkey, **III:**616*t*
Turkmenistan, **III:**628*t*
Ukraine, **IV:**483*t*
United Kingdom, **IV:**499*t*
United States, **II:**375*t*
Uruguay, **II:**388*t*
Uzbekistan, **III:**655*t*
Venezuela, **II:**399*t*
Vietnam, **III:**673*t*
Yemen, **III:**683*t*
Zambia, **I:**503*t*
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Congo, Republic of the, **I:**111
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Ethiopia, **I:**171
Ghana, **I:**198
Kenya, **I:**227
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Laos, **III:**318
Nepal, **III:**400–401
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Tajikistan, **III:**571
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Income distribution
Algeria, **I:**9*t*
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Austria, **IV:**34*t*
Bangladesh, **III:**52*t*
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Luxembourg, **IV:**282*t*
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Mali, **I:**282*t*
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Mexico, **II:**255*t*
Moldova, **IV:**306*t*
Mongolia, **III:**389*t*
Morocco, **I:**310*t*
Mozambique, **I:**322*t*
Nepal, **III:**405*t*
Netherlands, **IV:**326*t*
New Zealand, **III:**416*t*
Nicaragua, **II:**276*t*
Niger, **I:**343*t*
Nigeria, **I:**360*t*
Norway, **IV:**339*t*
Pakistan, **III:**441*t*
Panama, **II:**287*t*
Papua New Guinea, **III:**458*t*
Paraguay, **II:**300*t*
Peru, **II:**312*t*
Philippines, **III:**469*t*
Poland, **IV:**354*t*
Portugal, **IV:**370*t*
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Sri Lanka, **III:**536*t*
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Thailand, **III:**588*t*
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PREFACE

The *Worldmark Encyclopedia of National Economies* joins the Worldmark family of encyclopedias and attempts to provide comprehensive overviews of the economic structure and current climate of 198 countries and territories. Each signed entry provides key data and analysis on a country's economic conditions, their relationship to social and political trends, and their impact on the lives of the country's inhabitants. The goal of this set is to use plain language to offer intelligent, consistent analysis of every important economy in the world.

It is our sincere hope that this set will open the reader's mind to the fascinating world of international economics. Contained within this collection are a number of fascinating stories: of Eastern European nations struggling to adapt to capitalist economic systems in the wake of the collapse of communism; of Pacific Island nations threatened with annihilation by the slow and steady rise of ocean levels; of Asian nations channeling the vast productivity of their people into diversified economies; of the emerging power of the European Union, which dominates economic life across Europe; of Middle Eastern nations planning for the disappearance of their primary engine of economic growth, oil; and many others. To make all this information both accessible and comparable, each entry presents information in the same format, allowing readers to easily compare, for example, the balance of trade between Singapore and Hong Kong, or the political systems of North and South Korea. Economics has a language of its own, and we have **highlighted** those economic terms that may not be familiar to a general reader and provided definitions in a glossary. Other terms that are specific to a particular country but are not economic in nature are defined within parentheses in the text.

This set contains entries on every sovereign nation in the world, as well as separate entries on large territories of countries, including: French Guiana, Martinique, and Guadeloupe; Macau; Puerto Rico; and Taiwan. The larger dependencies of other countries are highlighted within the mother country's entry. For example, the entry on Denmark includes a discussion of Greenland, the United Kingdom includes information on many of its Crown territories, and the United States entry highlights the economic conditions in some of its larger territories.

ENTRY OBJECTIVES

Each entry has two objectives: one, to offer a clear picture of the economic conditions in a particular country, and two, to provide statistical information that allows for comparison between countries. To offer comparable information, we have used some common sources for the tables and graphs as well as for individual sections. Even the most exhaustive sources do not provide information for every country, however, and thus some entries either have no data available in certain areas or contain data that was obtained from an alternate source. In all entries, we tried to provide the most current data available at the time. Because collection and evaluation methods differ among international data gathering agencies such as the World Bank, United Nations, and International Monetary Fund, as well as between these agencies and the many government data collection agencies located in each country, entries sometimes provide two or more sources of information. Consequently, the text of an entry may contain more recent information from a different source than is provided in a table or graph, though the table or graph provides information that allows the easiest comparison to other entries.

No one source could provide all the information desired for this set, so some sources were substituted when the main source lacked information for specific countries. The main sources used included: the *World Factbook 2000* and *2001,* which provided the common information on the countries' gross domestic product (GDP) at purchasing power parity, the division of labor, balance of trade, chief imports, chief exports, and population, unless otherwise noted in the text; the World Bank's *World Development Indicators,* which was a valued source for information about the infrastructure and consumption patterns of many countries; the *Human Development Report,* from the United Nations, which provided GDP per capita information on many countries; and the International Monetary Fund's *International Financial Statistics Yearbook,* which provided historical records of trade balances for most countries. Each entry also contains a bibliography that lists additional sources that are specific to that entry.

ENTRY ORGANIZATION

All entries are organized under 16 specific headings to make it easy to find needed information quickly and to compare the conditions in several different countries easily. (The sole exception is the entry on the Vatican, whose unique features necessitated the removal of several sections.) The sections are as follows:

COUNTRY OVERVIEW. This section includes information about the size of all land surfaces, describing coastlines and international boundaries. It also highlights significant geographical features in the country and the location of the capital. The size of the country is compared to a U.S. state or, for smaller countries, to Washington, D.C. Also included is information on the total population, as well as other important demographic data concerning ethnicity, religion, age, and urbanization. Where relevant, this section also includes information about internal conflicts, major health problems, or significant population policies.

OVERVIEW OF ECONOMY. This overview is meant to provide an analysis of the country's overall economic conditions, mentioning those elements that are deemed most important to an understanding of the country. It provides context for the reader to understand the more specific information available in the other sections.

POLITICS, GOVERNMENT, AND TAXATION. This section identifies the structure of the government and discusses the role the government, political parties, and taxes play in the economy.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS. This section offers a description of the roads, railways, harbors, and telecommunications available in the country, assesses the modernity of the systems, and provides information about the country's plans for improvements.

ECONOMIC SECTORS. This section serves as an overview for the three more specific sections that follow, providing a general description of the balance between the country's different economic sectors.

AGRICULTURE. This section discusses the agriculture, fishing, and forestry sectors of the country.

INDUSTRY. This section discusses the industrial sector of the country, including specific information on mining, manufacturing, and other major industries, where appropriate.

SERVICES. This section concentrates on major components of the diverse services sector, usually focusing on the tourism and banking or financial sectors and sometimes including descriptions of the retail sector.

INTERNATIONAL TRADE. This section focuses on the country's patterns of trade, including the commodities traded and the historical trading partners.

MONEY. This section offers a brief description of the changes in inflation and the exchange rates in the country, and the impact those may have had on the economy. It also mentions any recent changes in the currency and the nature and impact of the central banking function.

POVERTY AND WEALTH. This section paints a picture of the distribution of wealth within the country, often comparing life in the country with that in other countries in the region. It includes governmental efforts to redistribute wealth or to deal with pressing issues of poverty.

WORKING CONDITIONS. This section describes the workforce, its ability to unionize, and the effectiveness of unions within the country. It also often includes information on wages, significant changes in the workforce over time, and the existence of protections for workers.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT. This section provides a timeline of events that shaped the country and its economy. The selected events create a more cohesive picture of the nation than could be described in the entries because of their bias toward more current information.

FUTURE TRENDS. To provide readers with a view to the future, the entry ends with an analysis of how the economic conditions in the country are expected to change in the near future. It also highlights any significant challenges the country may face.

DEPENDENCIES. This section discusses any major territories or colonies and their economies.

BIBLIOGRAPHY. The bibliography at the end of the entry lists the sources used to compile the information in the entry and also includes other materials that may be of interest to readers wanting more information about the particular country. Although specific online sources are cited, many such sources are updated annually and should be expected to change.

In addition, a data box at the beginning of each entry offers helpful economic "quick facts" such as the country's capital, monetary unit, chief exports and imports, gross domestic product (GDP), and the balance of trade. The U.S. Central Intelligence Agency's *World Factbook* (2000 and 2001) was the main source of this information unless otherwise noted. Each entry also includes a map that illustrates the location of the country. Since economic conditions are often affected by geography, the map allows readers to see the location of major cities and landmarks. The map also names bordering countries to offer readers a visual aid to understand regional conflicts and trading routes.

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COMMENTS

We encourage you to contact us with any comments or suggestions you may have that will benefit future editions of this set. We want this set to be a meaningful addition to your search for information about the world. Please send your comments and suggestions to: The Editors, *Worldmark Encyclopedia of National Economies,* The Gale Group, 27500 Drake Road, Farmington Hills, MI 48331. Or, call toll free at 1-800-877-4253.

—Sara Pendergast and Tom Pendergast

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INTRODUCTION

THE POWER OF ECONOMIC UNDERSTANDING

The economies of the world are becoming increasingly interconnected and interdependent, a fact dramatically illustrated on 2 July 1997 when the Thai government decided to allow its currency to "float" according to market conditions. The result was a significant drop in the value of the currency and the start of the Asian economic crisis, a contagion that spread quickly to other Asian countries such as the Republic of Korea, Indonesia, Malaysia, and the Philippines. Before long the epidemic reached Brazil and Russia.

In this way, a small economic change in one less-developed country sent economic shock waves around the world. Surprisingly, no one predicted this crisis, though economist Paul Krugman in a prominent 1994 *Foreign Affairs* article argued that there was no Asian economic miracle and the kind of growth rates attained in recent years were not sustainable over the long term. In such an interconnected global economy, it is imperative to have an understanding of other economies and economic conditions around the world. Yet that understanding is sorely lacking in the American public.

Various studies have shown that both young people and the public at large have a low level of literacy about other nations. A survey of 655 high school students in southeast Ohio indicated that students were least informed in the area of international economic concerns, and the number of economics majors at the college level is declining. The economic and geographic illiteracy has become such a national concern that the U.S. Senate recently passed a resolution calling for a national education policy that addresses Americans' lack of knowledge of other parts of the world.

The information provided by the media also frequently reflects a distorted understanding of world economies. During the Asian economic crisis, we often heard about the collapse of various Asian countries such as Korea and Thailand. They were indeed suffering a severe crisis, but usually companies, not countries, collapse. The use of the "collapse" language was therefore misleading. In another example, a distinguished journalist writing in a prominent East coast newspaper claimed that Vietnamese women paid more in transportation and food costs than they were earning while working in a factory manufacturing Nike shoes. Such a statement, while well intended in terms of genuine concern for these women workers, makes no economic sense whatsoever, and is actually not accurate. The wages of these women are indeed extremely low by U.S. standards, but such wages must be viewed in the context of another society, where the cost of living may be dramatically lower and where low salaries may be pooled. At other times, a fact—such as the fact that a minority of the Japanese workforce enjoys employment for life—is exaggerated to suggest that the Japanese economy boomed as it did in the 1980s *because* of the Japanese policy of life-long employment. Such generalizing keeps people from understanding the complexities of the Japanese economy.

"THINGS ARE NOT WHAT THEY SEEM." In defense of this lack of economic understanding, it must be said that understanding economics is not easy. Paul A. Samuelson, author of the classic textbook *Economics* (1995), once stated about economics "that things are often not what at first they seem." In Japan, for example, many young women work as office ladies in private companies as an initial job after completing school. These young ladies often stay at home with their parents and have few basic expenses. Over several years they can accumulate considerable savings, which may be used for travel, overseas study, or investing. Thus, as Samuelson noted in his textbook, actual individual economic welfare is not based on wages as such, but on the *difference* between earnings and expenditures. Wages are not the only measure of the value of labor: one must also consider purchasing power and how costs of living vary dramatically from place to place. Without taking into account purchasing power, we overestimate economic well-being in high-cost countries such as Japan and Switzerland and underestimate it in low-cost countries such as India and Cambodia.

Consider the following examples: The cost of taking an air-conditioned luxury bus from the Cambodian capital of Phnom Penh to its major port, Sihanoukville, is less than $2. The same bus trip of equal distance in Japan or the United States would cost $50 or more. Similarly,

a (subsidized) lunch at a factory producing Nike shoes in Vietnam may cost the equivalent of 5 U.S. cents in 1998, while lunch at a student union on a U.S. college campus may cost $5. Thus a teaching assistant on a U.S. campus pays 100 times more for lunch than the Vietnamese factory worker. Who is more "poorly paid" in these situations? Add to this the reality that in many developing countries where extended families are common, members of the family often pool their earnings, which individually may be quite low. To look only at individual earnings can thus be rather misleading. Such cultural nuances are important to keep in mind in assessing economic conditions and welfare in other nations.

Various economic puzzles can also create confusion and misunderstanding. For example, currently the United States has the highest trade deficit in world history: it imports far more that it exports. Most countries with huge trade deficits have a weak currency, but the U.S. dollar has remained strong. Why is this the case? Actually, it is quite understandable when one knows that the balance of trade is just one of many factors that determine the value of a nation's currency. In truth, demand for the U.S. dollar has remained high. The United States is an attractive site for foreign investment because of its large and growing economic market and extremely stable politics. Second, the United States has a large tourism sector, drawing people to the country where they exchange their currency for U.S. dollars. Several years ago, for the first time ever, there were more Thais coming to the United States as tourists than those in the United States going to Thailand. Third, the United States is extremely popular among international students seeking overseas education. Economically, a German student who spends three years studying in the United States benefits the economy in the same way as a long-term tourist or conventional exports: that student invests in the U.S. economy. In the academic year 1999-2000, there were 514,723 international students in the United States spending approximately $12.3 billion. Thus, the services provided by U.S. higher education represent an important "invisible export." Fourth, 11 economies are now dollarized, which means that they use the U.S. currency as their national currency. Panama is the most well known of these economies and El Salvador became a dollarized economy on 1 January 2001. Other countries are semi-officially or partially dollarized (Cambodia and Vietnam, for example). As the result of dollarization, it is estimated by the Federal Reserve that 55 to 70 percent of all U.S. dollars are held by foreigners primarily in Latin America and former parts of the U.S.S.R. Future candidates for dollarization are Argentina, Brazil, Ecuador, Indonesia, Mexico, and even Canada. With so many countries using U.S. dollars, demand for the U.S. dollar is increased, adding to its strength. For all these reasons, the U.S. currency and economy remained strong despite the persisting large trade deficits, which in themselves, according to standard economic logic, suggest weakness.

SYSTEMS OF CLASSIFICATION. As in other fields, such as biology and botany, it is important to have a sound system of classification to understand various national economies. Unfortunately, the systems commonly used to describe various national economies are often flawed by cultural and Eurocentric biases and distortion. After the end of World War II and the start of the Cold War, it became common to speak of "developed" and "underdeveloped" countries. There were two problems with this overly simplistic distinction. First, it viewed countries only in terms of material development. Second, it implied that a nation was developed or underdeveloped across all categories. As an example, "underdeveloped" Thailand has consistently been one of the world's leading food exporters and among those countries that import the least amount of food. Similarly, in "developed" Japan there are both homeless people and institutions to house the elderly, while in "underdeveloped" Vietnam there are no homeless and the elderly are cared for by their families. Which country is more "developed"?

Later the term "Third World" became popular. This term was invented by the French demographer Alfred Sauvy and popularized by the scholar Irving Horowitz in his volume, *Three Worlds of Development.* "First World" referred to rich democracies such as the United States and the United Kingdom; "Second World" referred to communist countries such as the former U.S.S.R. and former East Germany. The term "Third World" was used to refer to the poorer nations of Africa, Latin America, and Asia (with the exception of Japan). But this distinction is also problematic, for it implies that the "First World" is superior to the "Third World." Another common term introduced was modern versus less modern nations. The Princeton sociologist Marion J. Levy made this distinction based on a technological definition: more modern nations were those that made greater use of tools and inanimate sources of power. Thus, non-Western Japan is quite modern because of its use of robots and bullet trains. Over time, however, many people criticized the modern/non-modern distinction as being culturally biased and implying that all nations had to follow the same path of progress.

More recently, economists from around the world have recognized the importance of using a variety of factors to understand the development of national economies. Each of these factors should be viewed in terms of a continuum. For example, no country is either completely industrial or completely agricultural. The entries in this volume provide the basic data to assess each national economy on several of these key criteria. One can determine, for example, the extent to which an economy is industrial by simply dividing the percentage of

the economy made up by industry by the percentage made up by agriculture. Or one can determine how much energy national economies use to achieve their level of economic output and welfare. This provides an important ecological definition of efficiency, which goes beyond limited material definitions. This measure allows an estimate of how "green" versus "gray" an economy is; greener economies are those using less energy to achieve a given level of economic development. One might like to understand how international an economy is, which can be done by adding a country's exports to its imports and then dividing by GDP. This indicator reveals that economies such as the Netherlands, Malaysia, Singapore, and Hong Kong are highly international while the isolationist Democratic People's Republic of Korea (North Korea) is far less international.

Another interesting measure of an economy, particularly relevant in this age of more information-oriented economies and "the death of distance" (Cairncross 1997), is the extent to which an economy is digitalized. One measure of this factor would be the extent to which the population of a given economy has access to the Internet. Costa Rica, for example, established a national policy that all its citizens should have free access to the Internet. In other economies, such as Bhutan, Laos, and North Korea, access to the Internet is extremely limited. These differences, of course, relate to what has been termed "the digital divide." Another important factor is whether an economy is people-oriented, that is, whether it aims to provide the greatest happiness to the greatest number; economist E.F. Schumacher called this "economics as if people mattered." The King of Bhutan, for example, has candidly stated that his goal for his Buddhist nation is not Gross National Product but instead Gross National Happiness. Such goals indicate that the level of a country's economic development does not necessarily reflect its level of social welfare and quality of life.

Another important category that helps us understand economies is the degree to which they can be considered "transitional." Transitional economies are those that were once communist, state-planned economies but that are becoming or have become free-market economies. This transitional process started in China in the late 1970s when its leader Deng Xiaoping introduced his "four modernizations." Later, Soviet leader Mikhael Gorbachev introduced such reforms, called *perestroika,* in the former Soviet Union. With the dissolving of the U.S.S.R. in 1991, many new transitional economies emerged, including Belarus, Uzbekistan, Kyrgyzstan, and the Ukraine. Other countries undergoing transition were Vietnam, Laos, Cambodia, and Mongolia. These economies can be grouped into two types: full transitional and partial transitional. The full transitional economies are shifting both to free markets and to liberal democracies with free expression, multiple parties, and open elections. The partial transitional economies are changing in the economic realm, but retaining their original one-party systems. Included in the latter category are the economies of China, Vietnam, Laos, and Cuba. This volume provides valuable current information on the many new transitional economies emerging from the former Soviet world.

KEY THEMES IN THE WORLD ECONOMY. In looking at the economies of countries around the globe, a number of major common themes can be identified. There is increasing economic interdependence and interconnectivity, as stressed by Thomas Friedman in his recent controversial book about globalization titled *The Lexus and the Olive Tree: Understanding Globalization.* For example, the People's Republic of China is now highly dependent on exports to the United States. In turn, U.S. companies are dependent on the Chinese market: Boeing is dependent on China for marketing its jet airliners; the second largest market for Mastercard is now in China; and Nike is highly dependent on China and other Asian economies for manufacturing its sports products. Such deep interdependence augurs well for a peaceful century, for countries are less likely to attack the countries with whom they do a vigorous business, even if their political and social systems are radically different. In fact, new threats to peace as reflected in the tragic terrorist attack of 11 September 2001, primarily relate to long-standing *historical* conflicts and grievances.

Conventional political boundaries and borders often do not well reflect new economic realities and cultural patterns. Economic regions and region states are becoming more important. The still-emerging power of the European Union can be gauged by reading the essays of any of the countries that are currently part of the Union or hoping to become a part of it in the coming years. This volume may help readers better understand which nations are becoming more interconnected and have similar economic conditions.

The tension between equity (fairness) and efficiency is common in nearly all national economies. In some economies there is more stress on efficiency, while in others there is more stress on equity and equality. Thus, as should be expected, countries differ in the nature of the equality of their income and wealth distributions. For each entry in this volume, important data are provided on this important factor. The geographer David M. Smith has documented well both national and international inequalities in his data-rich *Where the Grass is Greener* (1979).

Invisible and informal economies—the interactions of which are outside regulated economic channels—represent a growing segment of economic interactions in some countries. In his controversial but important volume, *The Other Path* (1989), the Peruvian economist Hernando de Soto alerted us to the growing significance of the informal economy. In countries such as Peru, research has

shown that in some cases individuals prefer work in the informal to the formal sector because it provides them with more control over their personal lives. The Thai economist Pasuk Phongpaichit and her colleagues have written a fascinating book on Thailand's substantial invisible economy titled *Guns, Girls, Gambling, and Ganja* (1998). Thus, official government and international statistical data reported in this volume often are unable to take into account such data from the hidden part of economies.

In an increasingly internationalized economy in which transnational corporations are highly mobile and able to move manufacturing overseas quite rapidly, it is important to distinguish between real foreign direct investment and portfolio investment. At one point during Thailand's impressive economic boom of the late 1980s and early 1990s, a new Japanese factory was coming on line every three days. This is foreign direct investment, involving actual bricks and mortar, and it creates jobs that extend beyond the actual facility being constructed. In contrast foreign portfolio investment consists of a foreign entity buying stocks, bonds, or other financial instruments in another nation. In our current wired global economy, such funds can be moved in and out of nations almost instantaneously and have little lasting effect on the economic growth of a country. Economies such as Chile and Malaysia have developed policies to try to combat uncertainty and related economic instability caused by the potential of quick withdrawal of portfolio investments.

Some argue that transnational corporations (owned by individuals all over the world), which have no national loyalties, represent the most powerful political force in the world today. Many key transnational corporations have larger revenues than the entire gross national products of many of the nations included in this volume. This means that many national economies, especially smaller ones, lack effective bargaining power in dealing with large international corporations.

Currently, it is estimated by the International Labor Office of the United Nations that one-third of the world's workforce is currently unemployed or underemployed. This means that 500 million new jobs need to be created over the next 10 years. Data on the employment situation in each economy are presented in this volume. The creation of these new jobs represents a major challenge to the world's economies.

The final and most important theme relates to the ultimate potential clash between economy and ecology. To the extent that various national economies and their peoples show a commitment to become greener and more environmentally friendly, ultimate ecological crises and catastrophes can be avoided or minimized. Paul Ray and Sherry Anderson's *The Cultural Creatives: How 50 Million People Are Changing the World* (2000) lends credence to the view that millions are changing to more environmentally conscious lifestyles.

In trying to understand the global economy, it is critically important to have good trend data. In each of the entries of this volume, there is an emphasis on providing important economic data over several decades to enable the reader to assess such patterns. Some trends will have tremendous importance for the global economy. One phenomenon with extremely important implications for population is the policy of limiting families to only one child in China's urban areas. This deliberate social engineering by the world's most populous country will have a powerful impact on the global economy of the 21st century. The global environmental implications are, of course, extremely positive. Though there is much debate about the economic, political, and socio-cultural implications of this one-child policy, overall it will probably give China a tremendous strategic advantage in terms of the key factors of human resource development and creativity.

THE POWER OF UNDERSTANDING. By enhancing our knowledge and understanding of other economies, we gain the potential for mutual learning and inspiration for continuous improvement. There is so much that we can learn from each other. Denmark, for example, is now getting seven percent of its electrical energy from wind energy. This has obvious relevance to the state of California as it faces a major energy crisis. The Netherlands and China for a long period have utilized bicycles for basic transportation. Some argue that the bicycle is the most efficient "tool" in the world in terms of output and energy inputs. Many new major highways in Vietnam are built with exclusive bike paths separated by concrete walls from the main highway. The Vietnamese have also developed electric bicycles. The efficient bullet trains of Japan and France have relevance to other areas such as coastal China and the coastal United States. Kathmandu in Nepal has experimented with non-polluting electric buses. In the tremendous biodiversity of the tropical forests of Southeast Africa, Latin America, and Africa, there may be cures for many modern diseases.

We hope to dispel the view that economics is the boring "dismal science" often written in complex, difficult language. This four-volume set presents concise, current information on all the economies of the world, including not only large well-known economies such as the United States, Germany, and Japan, but also new nations that have emerged only in recent years, and many microstates of which we tend to be extremely uninformed. With the publication of this volume, we hope to be responsive to the following call by Professor Mark C. Schug: "The goal of economic education is to foster in students the thinking skills and substantial economic knowledge necessary to become effective and participating citizens." It is our hope that this set will enhance both economic and

geographic literacy critically needed in an increasingly interconnected world.

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AFGHANISTAN

Islamic State of Afghanistan
Dowlat-e Eslami-ye Afghanestan

CAPITAL: Kabul.

MONETARY UNIT: Afghani (Af). One afghani equals 100 puls. There are coins of 1, 2, and 5 afghanis and notes of 10, 20, 50, 100, 500, 1,000, 5,000, and 10,000 afghanis.

CHIEF EXPORTS: Opium, fruits and nuts, hand woven carpets, wool, cotton, hides and pelts, precious and semi-precious gems.

CHIEF IMPORTS: Capital goods, food and petroleum products, and most consumer goods.

GROSS DOMESTIC PRODUCT: US$21 billion (purchasing power parity, 1999).

BALANCE OF TRADE: **Exports:** US$80 million (1996 est.; does not include opium). **Imports:** US$150 million (1996 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Afghanistan is located in southern Asia and shares a border with 6 countries: China, Iran, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. Landlocked, with an area of 652,000 square kilometers (251,737 square miles), Afghanistan is a mountainous country dominated by the Hindu Kush and the Himalayan mountain ranges to the north and arid desert to the south. Afghanistan endures the most extreme temperatures on earth. Comparatively, the area occupied by Afghanistan is slightly smaller than the state of Texas. The capital city, Kabul, is located in the northeastern part of the country.

POPULATION. The 1976 census estimated the Afghan population at 16.6 million, but 4 years later, similar research put the population at 15.5 million. In 1999, a United Nations (UN) sponsored census, carried out by the Taliban (originally, a group of Afghans trained in religious schools in Pakistan) put the population at 23 million, indicating an annual population growth of 2.8 percent. Finally, the CIA *World Factbook* estimates the population in July 2000 at 25,838,797. Doubts about the true figures stem from the war that began as a result of the invasion of the country by the Soviet Union in 1979. Not only did this war result in the loss of approximately 1 million lives but an estimated 5 million Afghans went into exile abroad, to countries such as Pakistan and Iran, thus creating the world's largest refugee population. Mass migration from the rural areas to the urban centers occurred and the population of the capital city of Kabul more than doubled after 1979. Over one-third of Afghan families have migrated to Kabul since 1995 and the share of the urban population increased from 10 percent in the 1970s to over 30 percent in 1995. The return of the Afghan refugees began in April 1992, following the victory of the mujahideen (anti-Soviet freedom fighters; from the Persian word for "warrior"), and by the middle of 1996 over half of the refugees had been **repatriated**. However, when the United States began military strikes against Afghanistan for harboring terrorist Osama bin Laden in 2001, another wave of refugees fled the country.

The principal linguistic and ethnic group in Afghanistan are the Pashtun. These people represent just over half of the population and live mostly in the south or in the east. Persian-speaking Tajiks, who live in the eastern valleys, make up 20 percent of the population; another 10 percent of the population is of Turkmen and Uzbek origin, and they live on the northern plains. There are an additional 20 other different ethnic groups of which the Baluch, the Hazaras, and the Nuristanis are the most well known, and these groups speak over 30 different languages. The vast majority—84 percent—of Aghanis follow the Sunni Muslim faith, while a significant minority—15 percent—are Shi'a Muslims.

Following the collapse of the **communist** regime in 1992, a civil war has been fought largely along ethnic lines between the Pashtuns, the Tajiks, the Uzbeks, and the Hazaras.

OVERVIEW OF ECONOMY

Following the end of 40 years of peaceful monarchical rule in July 1973, Afghanistan was plunged into a war that continued into the 21st century. The end of the monarchy was followed by the setting up of a communist-style regime that collapsed when 100,000 Soviet troops invaded the country in December 1979. For 10 years Soviet forces occupied the country and dictated its governance, but local rebel forces, known as the mujahideen, drove the Soviets out in 1989. The victory by the mujahideen brought no peace to the troubled country, however. For the next several years fighting continued between rival mujahideen factions. By 1996 the sitting government had collapsed, and effective control of the country was seized by the radical Islamic Taliban faction. The Taliban remained in power until 2001 when U.S. attacks toppled the faction from power.

In economic terms, Afghanistan is among the world's poorest countries due to the incessant fighting that has placed the economy on the verge of collapse and taken hundreds of thousands of lives. Two decades of war and political strife left the country's **infrastructure** in ruins and its people almost entirely dependent on foreign aid. The majority of administrative, economical, and social institutions were wiped out due to the Soviet invasion, mass migration, and continued fighting.

The principal source of revenue in Afghanistan traditionally came from the agricultural sector, and under normal circumstances the country is capable of producing not only enough food to feed its entire population but surplus food to export abroad. But as of 2001 the country was able to produce enough food no longer. Given that the country is heavily dependent on subsistence agriculture, the decline in income levels and the

increased lack of food security (a country's ability to feed its own people) increased poverty and caused other economic difficulties. Much of the land that was previously devoted to wheat farming began to be used to cultivate opium poppies, which are used in the production of heroin. The country's transport system was almost entirely broken down, as well as most industry and the agricultural infrastructure. These sectors were so seriously damaged that only sustained massive investment could salvage them.

Before the Soviet invasion in 1979, the economy was almost entirely controlled by the government of Afghanistan, with most investments taking place within the **public sector**. The **private sector** extended only to agriculture and trade. The past 2 decades have seen the dismantling of centralized governance and an increase in private sector participation. In 2000 the private sector played a major role in the country's traditional economic activities, and there was still much room for private sector investment in small-scale industries, provided that political stability was achieved. The Taliban emerged in the mid-1990s and swept through the country, taking control in a remarkably short period of time. Political stability was then entirely dependent on the future course the Taliban chose to follow and the economic policies they chose to pursue. The Taliban movement established nominal government in most parts of the country, but it was only recognized by Saudi Arabia, Pakistan, and the United Arab Emirates.

The Afghan economy is famously dependent upon the decisions made by its neighbors' governments. In the past, the country was heavily dependent on economic relations with the former Soviet Union, and in 2001 it was sensitive to economic decisions made by the Pakistani government. An example of this dependency can be seen within the markets. An increase in the prices of essential commodities (basic foodstuffs such as bread and rice) in Pakistan led to an increase in prices of the same commodities in Afghanistan. In addition, when Pakistan devalued its currency in 1998, the value of the Afghan currency was also reduced. Because of the lack of a governmental infrastructure, there were no reliable economic indicators available for such data as GDP, foreign trade, or national income.

POLITICS, GOVERNMENT, AND TAXATION

Due to its strategic geographical position, Afghanistan has been invaded throughout history and conquered by the Persians, the Macedonians, the Parthians, the Kushan Empire, the Huns, and the Arabs. The only peaceful period in the country's recent past was between 1933 and 1973 when it was ruled by King Zahir Shah. However, following the dissolution of the monarchy in 1973, a communist-style regime was established. The watershed event in the modern era was the 1979 invasion by the Soviet Union, which was launched in order to keep Afghanistan from becoming too independent. After a long, entrenched war which many have called "the Soviets' Vietnam," the USSR finally withdrew from the country in 1989. After that, the Taliban took control of most of the country, but a protracted war still continued with opponents of the Taliban, who practiced the same kind of guerilla warfare against the Taliban that they carried out against the Soviet Union.

Afghanistan has not had an effective central government capable of exerting its authority across the entire country because the population is structured by tribes. When the communist administration in Kabul crumbled in 1992, the religious, linguistic, and ethnic differences within the country deepened, leading to the fragmentation of Afghanistan into a series of fiefdoms controlled by warlords. The Taliban originated in the refugee camps on the Pakistani border towns and was initially comprised of religious students who blamed the failure of the previous government on its unwillingness to impose the tenets of fundamentalist Islam (the religion of the world's Muslims and the chief religion in the Middle East; Islam literally means "submission to the will of God"). The Taliban played cleverly on the deep divisions within the country, and in 2000 only 10 percent of the entire country was controlled by non-Taliban groups. This student militia ran the country in accordance with the strict Islamic principles laid out in Sharia Law (Sharia is the law of Islam, based upon the Qur-an, the Sunna, and the work of Muslim scholars in the first two centuries of Islam). Their rigid and often brutal interpretation of Islam caused the Afghan people tremendous suffering, especially among women who were entirely deprived of their rights. The Taliban's successful rise to power was attributed to the substantial help that it received from the Pakistani government combined with the inability of the opposing parties to organize themselves and join together to form an effective opposition. The main political figures within Afghanistan prior to the downfall of the Taliban were Mohammad Omar, the spiritual leader of the Taliban, and Colonel Ahmad Shah Massoud, the leader of the remaining opposition forces.

Afghanistan under the Taliban regime essentially had no central government—no executive branch, no legislature, and no independent and impartial judicial system. Many critics of the regime charged that there was no rule of law, no constitution, no civil society, and no system in place to monitor human rights abuses or address grievances. The Taliban's distaste for the standards of international human rights was made clear to the international community. The UN Security Council imposed **sanctions** on the Taliban in November 1999 under

Security Council Resolution 1267. (Sanctions are imposed unilaterally or multilaterally by states onto countries that violate international norms of behavior and can take many forms, from denying government aid or other benefits to banning any form of trade.) The UN demanded that the Taliban hand over the terrorist Osama bin Laden, who is suspected of being involved in the 1998 bombing of U.S. embassies in Tanzania and Kenya and the September 2001 attacks on the Pentagon in Washington, D.C., and the World Trade Center in New York City. When the Taliban refused to comply, the UN declared that UN member states may not operate commercial aircraft in Afghanistan, and all known funds and other financial resources controlled by the Taliban outside of the country were frozen. With the downfall of the Taliban regime in 2001, an interim government composed of tribal and Northern Alliance leaders was formed to restore stability to the country. However, fighting amongst the different leaders threatened the effectiveness of this new government. It is possible that lasting peace and stability will only come to Afghanistan under the watchful eye of an international peacekeeping force stationed in the country.

There has never really been a formal tax system in this essentially tribal country. Local tribal leaders often used to **levy** arbitrary taxes on commercial goods passing through their territory, but this revenue never reached Kabul. The Taliban tried to gain popularity by removing checkpoints erected for the collection of taxes, and local traders rewarded them with large donations.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Before the Soviet invasion in 1979, considerable investment from the United States and development agencies had been channeled into the reconstruction of the Afghan road networks. Over 2,000 kilometers (1,243 miles) of roads were built linking the principal cities, giving the country a distinctly modern feel. The long war has undone much of the work carried out by development agencies in the 1970s. In 1993, the **United Nations Development Program** (UNDP) estimated that 60 percent of the 2,500 kilometers (1,553 miles) of paved roads needed to be totally rebuilt and that minor roads linking rural areas were in very poor condition. The country has just 21,000 kilometers (12,050 miles) of total roadways. Since 1993 the condition of the roads in Afghanistan has further deteriorated and hundreds of bridges have been destroyed, cutting off many remote mountain areas.

The telecommunications infrastructure has improved since 1999, and in 2001 it was possible to phone between 2 of Afghanistan's major urban centers, Kabul and Kandahar. Telephone calls were also possible to 13 foreign countries, including the United States, the United Kingdom, Canada, and Saudi Arabia. All calls made to Afghanistan have to go through an operator, and calls out of Afghanistan must be made on satellite telephones. In 2000, the Taliban signed a contact with a company based in the United Arab Emirates to increase the number of telephone lines in the country to 1 million by September 2001. This project also aims to put the country in touch with over 99 other countries instead of just 13 within the same time frame.

The aviation infrastructure was almost completely destroyed by the war. Most of the national fleet of aircraft is now unusable or too dangerous to fly commercially. When the first round of sanctions were imposed by the United Nations in 1999, Afghanistan's national airline, Ariana, was hit badly because its airplanes were no longer allowed to fly abroad. The country has only 14 airports with paved runways and another 32 dirt landing strips.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Afghanistan	29,000 (1996)	N/A	AM 7; FM 1; shortwave 1 (1999)	167,000 (1999)	10	100,000 (1999)	1	N/A
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
India	27.7 M (2000)	2.93 M (2000)	AM 153; FM 91; shortwave 68	116 M	562	63 M	43	4.5 M
Pakistan	2.861 M (1999)	158,000 (1998)	AM 27; FM 1; shortwave 21	13.5 M	22	3.1 M	30	1.2 M

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

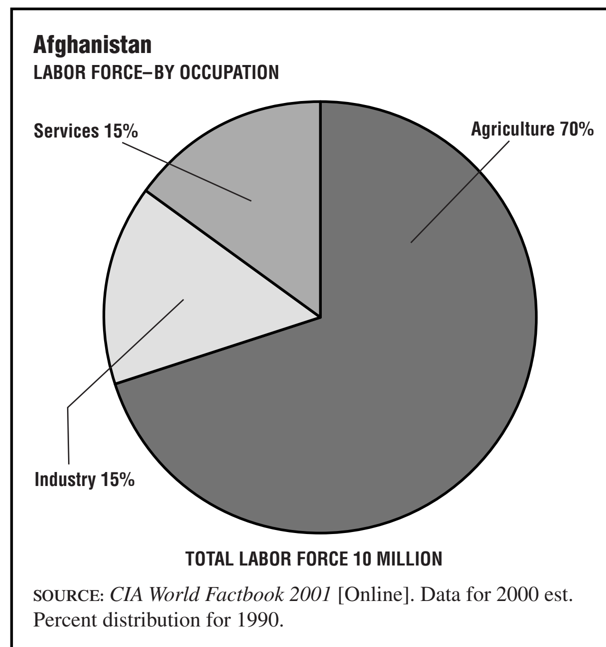
SOURCE: CIA *World Factbook 2001* [Online].

Before the Soviet invasion in 1979, energy consumption per capita was among the world's lowest. However, as a result of war and the Soviets' development of the country's gas reserves, consumption levels increased. In 1992 the authorities stated that Kabul's winter requirement was 300 megawatts even though the installed capacity was only 150 megawatts. Between 1992 and 1996, much of the capital had no power. In 1993 the UNDP estimated that over 60 percent of the gas transmission lines were not functioning. In July 2000, the Taliban initiated a project to build an electrical grid from Afghanistan to Turkmenistan; however, the project has not progressed due to a lack of funds. Reports coming out of the country in 2001 indicated that the severe winter had claimed hundreds of Afghan lives.

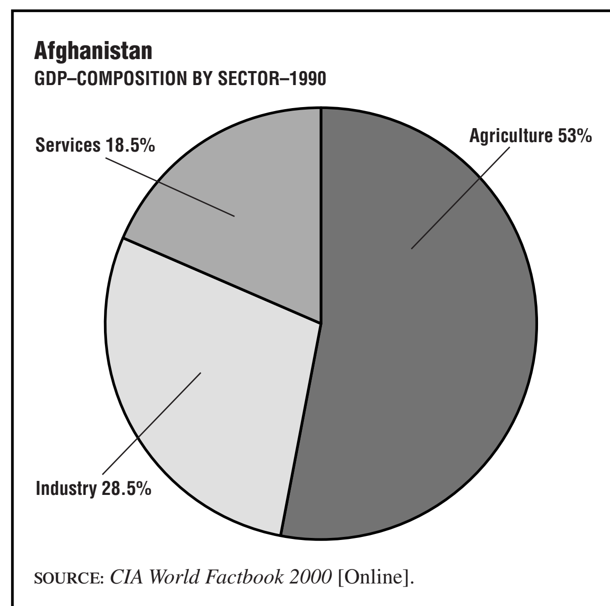
ECONOMIC SECTORS

The economy of Afghanistan, one of the world's least developed, has never been properly documented. Prior to the Soviet invasion in 1979 the very few economic data were often wholly unreliable. Official statistics almost entirely ground to a halt in 1979 and have not been produced since the communist government fell in 1992. Nevertheless, the CIA World Factbook estimated that in 1990 the agricultural sector produced 53 percent of GDP while industry contributed 28.5 percent and services 18.5 percent. In 1980 it was estimated the 68 percent of the workforce worked in agriculture, 16 percent in industry, and 16 percent in services.

Over 2 decades of war have either destroyed or seriously damaged the infrastructures of the agricultural, industrial, and service sectors. Nevertheless, the agricultural sector is still the largest employer. Its output is largely dependant on changing political conditions and, to a lesser extent, the weather.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1990.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agriculture has traditionally driven the Afghan economy, accounting for approximately 50 percent of GDP before the Soviet invasion in 1979. Nevertheless, the agricultural sector has never produced at full capacity. Before the invasion, only 30 percent of the total arable land of 15 million hectares was cultivated. At that time the main exports were sugarcane, sugar beets, fruit, nuts, vegetables, and wool. However, the continuing war reduced production significantly. Soviet troops planted land mines all over the country, rendering large areas of land useless and forcing large sections of the population to become refugees. The resulting cut in production caused massive food shortages. Kabul University produced a report in 1988 which found that agricultural output was 45 percent less than the 1978 level. The UNDP estimated that in 1992 only 3.2 million hectares of land were cultivated of which only 1.5 million hectares were irrigated. In 2001, the principal food crops were corn, rice, barley, wheat, vegetables, fruits, and nuts. In Afghanistan, industry is also based on agriculture, along with raw materials. The major industrial crops are cotton, tobacco, castor beans, and sugar beets. Sheep farming is also extremely valuable. The major sheep product exports are wool and sheep skins.

In 2000, Afghanistan experienced its worst food crisis ever recorded because of a very severe drought. Such low levels of recorded rainfall had not been seen in the

country since the 1950s. The water used to irrigate the lands comes from melting snow, and in 2000 the country experienced very little snowfall. The southern parts of the country were badly affected, and farmlands produced 40 percent of their expected yields. Half of the wells in the country dried up during the drought, and the lake feeding the Arghandab dam dried up for the first time since 1952. The barley crops were destroyed and the wheat crops were almost wiped out. In the middle of 2000, the drought's consequences were felt in Kabul, when more and more displaced people were migrating to the capital.

The prices of staple foods have also increased in different parts of the country because demand is much higher than supply. For instance, in Kabul, a family of 7 can earn US$1.14 a day if the head of the family is lucky enough to find employment, whereas a loaf of bread costs US$0.63, roughly half an individual's income per day. A large segment of the Afghan population depends on food imported from abroad or distributed by aid organizations. The civil strife and drought increased the country's food import requirements to a record 2.3 million metric tons in 2000/2001, according to the UN World Food Programme. Much of the needed imports come from the international community and the rest from Pakistan. The disruption to the flow of this international aid caused by the 2001 war between U.S.-led forces on the Taliban has threatened widespread famine and starvation to much of the Afghan population.

The number of livestock was greatly reduced during the years of war. In 1970, the total livestock population was estimated at 22 million sheep, 3.7 million cattle, 3.2 million goats, and 500,000 horses. According to a survey carried out in 1988, the number of cattle had declined by 55 percent, sheep and goats by 65 percent, and the number of oxen used to plow the fields was down by 30 percent. Much of the livestock is malnourished and diseased.

Afghanistan in 2000 was the world's largest producer of opium, used to produce the drug heroin. The total opium production for 1998 was estimated at 2,102 metric tons against a total of 2,804 metric tons in 1997. This reduction in the level of poppy production was due to heavy and continuous rains and hailstorms in some of the major poppy producing provinces. However, in 1999, the country produced a staggering 4,600 metric tons. The rotting economy forced farmers to grow the opium poppies as a **cash crop**, and this practice was supported by the Taliban until 2001, because it provided farmers with money that they would otherwise not be able to earn. However, in 2001, the Taliban ordered the country's farmers to stop growing poppies following an edict by Mullah Omar, the supreme religious leader, that opium cultivation is not permitted under Islam. While analysts contend that the reason had more to do with convincing the United Nations and the international community to lift sanctions, officials from various countries argued that this was done in order to boost the market price for heroin. Heroin still flowed from Afghanistan, only at a much higher price—after the Taliban's ban on opium growing, the price shot from $44 to $700 per kilo. This caused speculation that the Taliban had stockpiled a large supply of the drug, and the higher proceeds allowed them further funding for military and government operations. With the September 2001 attacks on the United States, opium production was believed to be resumed.

INDUSTRY

Afghanistan's significance from an energy standpoint stems from its geographical position as a potential transit route for oil and natural gas exports from Central Asia to the Arabian Sea. This potential includes the proposed multi-billion dollar oil and gas export pipelines to be built in Afghanistan by UNOCAL, an American oil company, and Bridas, an Argentinean firm. However, political instability has thrown these plans into serious question, and it is unlikely that construction will be approved until the fighting in the country stops.

GAS. Afghanistan's proven and probable natural gas reserves are estimated to be around 150 billion cubic feet. Afghan gas production reached 275 million cubic feet per day (mcf/d) in the mid-1970s. However, due to declining reserves from producing fields, output gradually fell to about 220 mcf/d by 1980. At that time, the largest field, Djarquduq, was tapped and was expected to boost Afghan gas output to 385 mcf/d by the early 1980s. However, sabotage of infrastructure by the anti-Soviet mujahideen fighters limited the country's total production to 290 mcf/d. During the 1980s, the sale of gas accounted for up to 50 percent of export revenues. After the Soviet pullout and subsequent Afghan civil war, roughly 31 producing wells were closed, pending the restart of gas sales to the former Soviet Union. In 1998, Afghan gas production was only around 22 mcf/d, all of which was used domestically. In February 1998, the Taliban announced plans to revive the Afghan National Oil Company, which was abolished by the Soviet Union after it invaded Afghanistan in 1979. The company is expected to play an important role in the resumption of both gas and oil exploration in Afghanistan.

OIL. Soviet estimates from the late 1970s placed Afghanistan's proven and probable oil reserves at 100 million barrels. Despite plans to start commercial oil production in Afghanistan, all oil exploration and development work, as well as plans to build a 10,000 barrel per day (bbl/d) refinery, were halted after the 1979 Soviet invasion. In September 1999, Afghanistan signed a deal with Consolidated Construction Company of Greece to

explore for oil and gas in the area of Herat in southwestern Afghanistan near the Iranian border. This area is believed to be potentially rich in hydrocarbons (any of a variety of organic compounds—including oil and coal—that can be harnessed to produce energy). In the meantime, Afghanistan reportedly receives some of its oil imports from Saudi Arabia as foreign aid. There have also been reports that Pakistan has offered to assist Afghanistan in constructing an oil refinery, as well as in repairing damaged roads in order to facilitate transport of oil products from Turkmenistan to Afghanistan and Pakistan.

COAL. Besides gas and oil, Afghanistan is also estimated to have significant coal reserves (probable reserves of 400 million tons), most of which are located in the northern part of the country. Although Afghanistan produced over 100,000 tons of coal annually as late as the early 1990s, the country was producing only around 4,000 tons as of 1998.

MANUFACTURING. Almost all manufacturing businesses have shut down or are producing at well below capacity because of the damage caused during the war and the lack of raw materials available in the country. Before this sector collapsed, it was mainly processing local agricultural raw materials. However, the country's cotton mills, woolen textiles, and cement plants were still not producing at full capacity. In 2000, the Taliban announced the startup of 26 production and servicing projects that would create 1,500 jobs, including the production of alcohol-free beverages, printing, syringe-making, and chemical products.

SERVICES

Like the other sectors of the economy, the services sector has been devastated by years of war. There are no reliable figures for **retail** trade in Afghanistan, and the current economy cannot support anything approaching a vigorous retail trade sector. There is no tourism sector in Afghanistan because the country remains unstable, extremely volatile, and dangerous for foreigners.

FINANCIAL SERVICES. In 1932, Afghanistan's banking system was founded by Abdul Majid Zabuli, who developed the economy and imported the necessary goods to start up plants and factories. His bank eventually developed into the Afghan National Bank, which has served roles as both the country's central and commercial bank. Until the beginning of the 1990s, the Afghan National bank had 7 branches in Kabul and 10 other branches in other major cities. It also had offices in Hamburg, Paris, London, and New York. However, like all institutions in 2001, the banking system has been severely affected by the war, and it virtually collapsed when the mujahideen seized power in 1992. The other important banks in Afghanistan are the Construction Bank, the Industrial Credit Fund, the Industrial Development Bank, the Agriculture Bank, and the Export Promotion Bank. The sanctions imposed on Afghanistan in 1999 forced the smaller banks to close, and by 2001, the resources of the remaining banks were very limited, allowing them to engage only in trade-related work.

Those who provide financial services to the average Afghan are not the banks, but money changers who operate in the streets. This situation has meant that opium has become vitally important for Afghanistan's poor, who otherwise would not be able to afford basic foodstuffs. These moneylenders give out informal loans in exchange for a fixed amount of crop. Clearly, opium production or its being banned affects income levels for the poor. These effects remain difficult to determine.

INTERNATIONAL TRADE

The Soviet invasion in 1979 damaged Afghanistan's industrial and agricultural sectors significantly, and as a result the country's exports, of which gas was very important, diminished. This shift naturally meant that the import bill had to rise to provide the Afghan people with basic commodities such as food and petroleum products and most **consumer goods**. Rising imports during the 1980s resulted in a serious **trade deficit**, although accurate figures are impossible to estimate, since official statistics exclude most illegal trade. From 1985 to 1986 and from 1989 to 1990 the value of exports fell almost 50 percent from US$566.8 million to US$235.9 million, with declining natural gas exports accounting for much of the difference. Other crucial earners of foreign exchange included the sale of nuts and vegetables to Pakistan and India and sheepskins to Europe. Imports declined somewhat during the 1980s as Afghanistan and the Soviet Union became more and more integrated. Between 1989 and 1991, the USSR was consuming 72 percent of Afghanistan's exports and supplying it with 57 percent of its imports. Despite the difficulties in determining trade figures, the CIA *World Factbook* estimated imports of

Trade (expressed in billions of US$): Afghanistan

	Exports	Imports
1975	.217	.350
1980	.670	.841
1985	.567	1.194
1990	.235	.936
1995	.026	.050
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

US$150 million in 1996 and exports of US$80 million, not including opium.

When the Soviet Union collapsed in 1991 and the communist government simultaneously fell in Kabul, most imports started to flood in from Pakistan. Under the Afghan Transit Trade (ATT) agreement, signed in 1965, Pakistan allows Afghanistan to have access to the sea and to engage in commerce with the international community to the extent required by Afghanistan's economy. Most of the goods imported under the ATT are reportedly electronics and other consumer items, which cross Pakistan's territory free of **duty**.

Since the Taliban's rise to power, trade has increased significantly with Pakistan, but most of it is not officially recorded. Trade between these 2 countries involves the importation of fuel, wheat, and cement and had included the export of opium. There has been an increase in the volume of trade between Afghanistan and Turkmenistan since 1998. In September 1998, the Taliban authorities signed an agreement with the government of Turkmenistan to begin importing gasoline, diesel, and jet fuel. This action has, to some extent, reduced Afghanistan's dependency on fuel imports from Iran. According to a World Bank report, the total trade between Afghanistan and Pakistan was estimated to be US$2.5 billion in 1996–97, of which US$1.96 billion was estimated to be the value of **re-exported** goods from Afghanistan into Pakistan.

MONEY

In 1993, the official **inflation rate** was more than 150 percent. While there has been no official figure since then, one estimate put the figure at a whopping 240 percent for Kabul in 1996. This kind of skyrocketing price increase in a society is often called "hyperinflation." Thus, a loaf of bread in the capital city may have cost US$1 in 1995 and risen to US$2.50 in 1996. The value of the afghani has also plummeted against the U.S. dollar, going from 36,000 afghanis to the dollar in October, 1998, to 45,000 afghanis to the dollar 6 months later. Weaker currency values can lead to higher prices and **inflation**. Until Afghanistan establishes normal relations with the rest of the world, there is little hope that its currency will have any stability or value.

Exchange rates: Afghanistan

afghanis (Af) per US$1	
Jan 2000	4,700
Feb 1999	4,750
Dec 1996	17,000
Jan 1995	7,000
Jan 1994	1,900
Mar 1993	1,019

Note: These rates reflect the free market exchange rates rather than the official exchange rate, which was fixed at 50.600 afghanis to the dollar until 1996, when it rose to 2,262.65 per dollar, and finally became fixed again at 3,000.00 per dollar in April 1996.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

At meeting of the World Health Organization in Copenhagen in March 1995, its director, Dr. Hiroshi Nakajima, stated that "There can be no social development or sustained economic growth without health. . . . Poverty remains the main obstacle to health development." These remarks clearly describe the situation concerning poverty in Afghanistan in 2001.

In 1996, a report published by the United Nations ranked Afghanistan as the third poorest country in the world. Very few Afghans have access to drinkable water, health care, or education. In Kabul, safe drinking water is enjoyed by only 1 out of every 8 families because the reservoirs have been polluted by the waste accumulated through war. Of all infant deaths, 42 percent are related to diarrhea and dehydration, which are caused by unsafe drinking water and unclean conditions. Unlike in the United States, children are not immunized against infant diseases such as polio or tuberculosis. There are very few polio-endemic countries left in the world today; Afghanistan is one of them.

Afghanistan has the third highest infant mortality rate in the world (185 per 1,000 live births), following Niger and Angola. It has a maternal mortality rate (number of mothers dying in child birth) of 1,700 per 100,000 live births, according to the UN. Life expectancy in 2001 was just 45 years for men and 46 years for women.

In 1997, UNICEF carried out a study in Kabul which concluded that the children of Afghanistan suffer from severe psychological trauma. Seventy-two percent of children interviewed had experienced the death of one or more family members between 1992 and 1996, and 40 percent of them had lost one parent. Almost all the chil-

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Afghanistan	800	800	800	800	800
United States	28,600	30,200	31,500	33,900	36,200
India	1,600	1,600	1,720	1,800	2,200
Pakistan	2,300	2,600	2,000	2,000	2,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

dren had witnessed acts of extreme violence, and all the children had seen dead bodies in the streets. Ninety percent of the children interviewed believed that they would die in the conflict. Unsurprisingly, all the children interviewed suffered from nightmares and anxiety attacks.

The Taliban forbade women to work or enter any workplace, decreeing that they should stay confined to their homes. But due to the country's critical shortage of doctors, the Taliban decided to allow some female doctors to work in public hospitals in 1997. These women doctors were allowed to treat only female patients. The U.S. Senate Foreign Relations Committee heard a report in 1998 about the mistreatment of female doctors. The report indicated that these doctors were often beaten by hospital guards in an attempt to uphold the policy of the Department of Commanding Good and Forbidding Evil. Male doctors were not allowed to treat female patients except members of their own family and female patients who actively sought medical advice were often attacked and beaten and ordered not to appear again in the street. According to Amnesty International, in 1994 a pregnant woman delivered her baby in a street in Kabul, while her husband was being beaten by the guards for trying to take her to the hospital.

WORKING CONDITIONS

Most of the Afghan **labor force** in 2001 was employed in agriculture, domestic trade, and, increasingly, cross-border trade. There are no exact figures, but it is estimated that many Afghans work as casual laborers in neighboring Pakistan and Iran. While income derived from **remittances** is not known, it is estimated to be increasing by the year. Unemployment has risen significantly in services, industries, and other formal institutions since the civil war began. Afghanistan's total workforce was estimated in 1997 as 8 million. The unemployment rate in 1995 was estimated at 8 percent, according to the CIA.

The Taliban's harshly discriminatory policies against women have affected the Afghan economy in a devastating way by cutting the labor force by almost three-quarters. The UN estimates that 60 to 75 percent of the Afghan population is composed of women, and there are hundreds of thousands of widows in Afghanistan, of whom 50,000 live in Kabul alone. Over 150,000 women in Kabul were not allowed to work under the Taliban.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1893. The Durand Line, created by the British and Russia, creates the border between India and the kingdom of Afghanistan.

1894. Tarzi Amanollah seizes power, becomes king, and launches a successful war against British domination.

1923. Amanollah initiates constitutional reforms, bringing Afghanistan closer to the USSR.

1933. Zahir Shah is crowned king and remains in power for 40 years.

1973. President Mohammed Daoud assumes the presidency of Afghanistan after a military coup and abolishes the monarchy. King Zahir Shah is sent into exile.

1977. A new constitution is drawn up establishing a one-party parliamentary system with additional powers given to the president.

1978. The president and his family are murdered in a military coup, and Nur Mohammed Taraki becomes president of a new communist-style regime.

1979. Soviet troops invade Afghanistan and install a government.

1980. Armed tribal groups begin a *jihad* (holy war) against the Soviet-installed government; the Afghan refugee population in Pakistan reaches 1.5 million.

1980s. Armed mujahideen groups fight Soviet and government forces; hundreds of thousands of Afghans die in the struggle, and millions more become refugees.

1986. President Mohammed Najibullah takes office.

1989. Soviet troops withdraw from Afghanistan.

1989–1992. Conflicts increase between government and opposition forces.

1992. In April, President Najibullah is replaced by a 4-member council under a United Nations plan; later, an interim government led by Professor Sebghatollah Mojadedi, takes over. Refugees begin to return to Afghanistan.

1992–1995. Intertribal fighting spreads to all major cities.

1994. The Taliban emerge as a major force in the ongoing internal conflict.

1996. The Taliban gain control of Kabul.

1998. Taliban forces capture key Northern Alliance stronghold of Mazar-e Sharif.

1998. U.S. cruise missiles strike alleged terrorist bases in Afghanistan in response to attacks on U.S. diplomatic facilities by groups led by Osama bin Laden.

1999. The Taliban rule out Osama bin Laden's extradition, leading the UN Security Council to impose sanctions restricting flights and the sales of arms.

2000. UN Security Council imposes further sanctions on the Taliban. The destruction of Buddha statues in the Bamian province by the Taliban sparks worldwide condemnation, further isolating Afghanistan.

2001. Following a devastating terrorist attack on the U.S. World Trade Center and the Pentagon by al-Qaeda terrorists in September, U.S.-led military action against the Taliban and the al-Qaeda terrorist group begins. The Taliban is forced to surrender all of its territory after attacks by U.S. and British forces, in conjunction with the Northern Alliance, a rebel group of tribal chieftains.

FUTURE TRENDS

After the September 2001 terrorist attacks on the United States, the U.S. military action initiated on Afghanistan resulted in the Taliban being stripped of their territory and power, but Afghanistan's future remains in serious disarray. Negotiations to set up an interim government began in Germany in November 2001, and while the participants claimed a desire for peace and a new beginning, Afghanistan's legacy of war and destruction certainly leaves the success of such platitudes open to doubt. Once the U.S.-led military action ends, an international peacekeeping presence will certainly be required to prevent further bloodshed. Given the volatile nature of the country and region, the international community will be called upon to help rebuild Afghanistan and protect the fledgling government that comes out of this latest conflict. Any sort of normalized economic relations are likely several years away.

The United Nations has recognized the need for massive humanitarian intervention in Afghanistan in order to prevent famine in the drought-stricken parts of the country in which 8 to 12 million people live. Of these people, 1.6 million faced starvation in January 2001. The UN made arrangements for weekly humanitarian flights to Kandahar with supplies and there was a project underway to fly extremely sick children to Germany for treatment. Many non-governmental organizations are calling for increased awareness and urgent action on the part of the international community.

DEPENDENCIES

Afghanistan has no territories or colonies.

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—Salamander Davoudi

AUSTRALIA

Commonwealth of Australia

CAPITAL: Canberra.

MONETARY UNIT: Australian Dollar (A$). One dollar equals 100 cents. There are coins of 5, 10, 20, and 50 cents, and 1 and 2 dollars. There are notes of 5, 10, 20, 50, and 100 dollars. An interesting feature of Australia's banknotes is that they are made out of thin plastic rather than paper.

CHIEF EXPORTS: Coal, wheat, gold, meat, wool, aluminum, iron ore, machinery, and transport equipment.

CHIEF IMPORTS: Machinery and transport equipment, computers and office machines, telecommunication equipment and parts, crude oil, and petroleum products.

GROSS DOMESTIC PRODUCT: US$445.8 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$69 billion (f.o.b., 2000 est.). **Imports:** US$77 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Australia is a continent and a country in the Southern Hemisphere, lying to the south of Southeast Asia, and dividing the Indian and South Pacific Oceans. The total area of Australia is 7,686,850 square kilometers (2,967,892 square miles), with land constituting 7,617,930 square kilometers (2,942,282 square miles) and water 68,920 square kilometers (26,610 square miles). Australia is about the same size as the United States, not including Alaska. The only country that occupies an entire continent, the Commonwealth of Australia does not share any land boundaries with other nations. The length of the country's coastline is 25,760 kilometers (16,007 miles). The capital, Canberra, is located in the southeast corner of the nation and lies approximately halfway between the 2 largest cities, Sydney and Melbourne.

POPULATION. The population of Australia was 19,169,083 as of July 2000, with a population density of about 2.4 people per square kilometer (6.19 people per square mile). Most of the population is concentrated along the southeast coast of the country, in an arc running from the city of Brisbane to the city of Adelaide. This arc is sometimes called the "boomerang coast" because of its shape. All of Australia's large cities (those with more than 1 million people)—Sydney, Melbourne, Brisbane, Perth, and Adelaide—are on the coast. The population living inland (more than 200 kilometers, or 124 miles, from the coast) is rather small, and a large part of this region, called the Outback, is extremely sparsely populated. Australia's population is mostly urbanized, with about 88 percent of its people living in an urban area. Sydney alone has over 20 percent of the country's people.

Australia's population has become increasingly multicultural. In 2000, 21.8 percent of Australia's people were born overseas. Australia is still a land of immigrants and each year attracts new residents from all over the world. Fewer than 3 percent of the population is identified as Aboriginal or Torres Strait Islander (the latter being a Melanesian group native to northern Queensland). The country's population has doubled since World War II. With the exception of rapid growth shortly after the war, Australia's population growth has been steady at around 1 to 1.5 percent annually. The population in 1985 was 15.75 million, and in 1990 it was 17.06 million. The country's population is expected to reach 21 million by 2010. The Australian government has not found the need to create explicit population controls, given this slow rate of increase. Australia has a slowly aging population, with 21 percent between the ages of 0–14, 67 percent between 15–64, and 12 percent over the age of 65.

OVERVIEW OF ECONOMY

The Australian economy developed rapidly in the twentieth century to become relatively stable and

prosperous in world terms. Australia is characterized by an abundance of resources and a diverse yet predominantly primary sector-oriented economy. Grains, livestock, minerals, processed metals, and coal have been the mainstays of economic growth since European settlement in 1788 and continue to play the dominant role in export revenue. The **gross domestic product (GDP) per capita** continues to be high, with Australia ranked 17th out of 191 countries, with a GDP per capita of about US$17,575 in 1998. Australia's standard of living and lifestyle are similar to those of the United States and Europe.

Australia's economy depends on trade. Traditionally, Australia exported raw materials to its former colonial power, Great Britain, and to other European countries. When Great Britain joined what is now called the European Union (EU), trade between Great Britain and Australia declined. Australia has compensated by seeking new markets for its exports in Asia, especially in Japan and Southeast Asia. Japan, especially, has been a major purchaser of Australia's mineral and agricultural products. With the Asian financial crisis of the late 1990s, Australia sought to increase its exports to Europe and the United States while still maintaining a high level of trade with Asia.

Australia's geographic position and its topography have had an impact on its economy. The country is located relatively far from most world population centers and markets. Australia's immediate neighbors, with the exception of New Zealand, are developing countries. The Australian continent is generally dry and contains poor soils, limiting agricultural potential and requiring imports of water and fertilizers. Most of the continent's interior, the Outback, is unsuitable for agriculture except for limited cattle grazing. Australia is a generally flat continent with its few small mountain ranges being low in elevation; they primarily run north-south at the eastern edge of the country. Obstacles to road and railroad building are generally the great distances between population centers and between resources and population centers.

Australia's dependence on mineral and agricultural exports and the small size of the country's economy mean that it is exposed to fluctuations in world commodity prices. Fortunately, the diversity of minerals and agricultural products in Australia means that when some commodity prices are low, others are likely to be high, protecting the Australian economy from devastating shocks. Australia is self-sufficient in most resources including food and minerals; the major exception is oil, of which 20 percent of Australia's needs must be imported.

In the 1990s, the Australian government encouraged the **privatization** of government-owned companies. Large blocks of government-owned shares in the national telephone company, Telstra, and the national airline, Qantas, among other companies, were sold to the public. The Australian government has increasingly pursued a more free market approach to its economy, with fewer regulations and controls on business.

Australia's **external debt** is estimated at US$222 billion, and in 2000 the debt was estimated at approximately 3.3 percent of the GDP. The hosting of the Summer Olympic Games in 2000 contributed significantly to the rise in debt. However, Australia's debt has been declining as a percentage of both value of exports and GDP. **Debt servicing** continues but has little effect upon the performance of the economy as a whole, as it is large and strong enough to make interest payments without problems.

Australia is a contributor to global aid programs, but most aid is concentrated in the Asia-Pacific region. Australia contributes US$1.43 billion in overseas aid per year, and a significant proportion of this goes to Papua New Guinea, which is Australia's nearest neighbor and a former Australian colony. Australia is seen as a safe investment target for both domestic and overseas corporations. The mix of small, medium, and large companies is similar to that of the United States or Great Britain.

POLITICS, GOVERNMENT, AND TAXATION

The Commonwealth of Australia is a federal system with 6 states, 2 domestic territories, and a number of overseas territories, the latter consisting of small islands and a part of Antarctica. (However, the United States and many other countries do not recognize Australia's or any other country's territorial claims in Antarctica.) The 6 states are New South Wales, Victoria, Queensland, Tasmania, South Australia, and Western Australia. The 2 domestic territories are the Northern Territory and the Australian Capital Territory, the last of which, a small district containing the national capital, Canberra, is similar politically to the District of Columbia in the United States.

Australia is a constitutional monarchy with Queen Elizabeth II of England as the formal head of state. She is represented in Australia by a governor general. In practice, the political system is headed by the prime minister and the Australian parliament, which resembles that of Great Britain or Canada. Australia's parliament has 2 houses: the lower is the House of Representatives and the upper is the Senate. Australia is a member of the British Commonwealth. This organization of former British territories should not be confused with the formal name of the country, the Commonwealth of Australia. Australia's national government is usually called the Commonwealth government.

The major political parties in Australia are the Australian Labor Party, Australian Democratic Party, Liberal Party, National Party, and Green Party. The current Commonwealth government is a coalition of the conservative Liberal and National parties. The economic goals of these 2 parties are the promotion of free enterprise through reducing government regulation, privatization of government enterprises, and decentralization of government services, policies similar to those of the Republican Party in the United States. The leading opposition party, Labor, advocates policies similar to those of the Democratic Party in the United States.

Australia has a federal system, like that of the United States, which means that government income and expenditure is divided between the Commonwealth and state governments. Approximately half of the national government's revenues derive from a national **income tax**. Other leading sources of the national government's income include company taxes, sales taxes, excise **duties**, interest and dividends on investments, and various other taxes. The principal expenditures of the national government include social security programs, which account for about 37 percent of expenditures, followed by health care at about 15 percent, assistance to state governments at about 12 percent, defense at about 7.5 percent, general public services at about 7 percent, and education

at about 7 percent, with other expenditures making up the remainder.

For state governments, most revenue (about 52 percent) is derived from various state taxes, followed by transfers and payments from the national government (40 percent), and income from public utilities (8 percent). The major state government expenditures are on health, education, general services, transportation, law and order, community services, and other matters including cultural and environmental issues.

The Commonwealth government has played a very active role in the development of the economy towards reduced regulation, lowering of taxation rates, and the privatization of government corporations such as Telstra, the largest telephone company. Foreign investment is generally unrestricted and the United States is the largest source of **foreign direct investment**. The government does not usually interfere with the takeovers of domestic enterprises by foreign investors, nor does it offer any tax incentives for foreign investment. The Federal Treasury, however, regulates foreign investment through the Foreign Investment Review Board (FIRB). This regulation is a screening process to ensure conformity with Australian law and policy. As with many government controls, the greater part of regulating, promoting, and developing investment has been handed down to the control of the Australian states. Recent tax reform has introduced a 10 percent Goods and Services Tax (GST) nationwide, which replaced former taxes such as payroll and wholesale taxes. Most goods and services are now taxed through the GST at the flat rate of 10 percent. Corporate income, capital gains, and branch tax rates are all 36 percent. Personal income taxes are progressive, meaning that the rates increase with the taxpayer's income.

The Australian Defense Force, comprising army, navy, and air force branches, has 54,000 personnel currently serving, and in 1997 recorded an expenditure of US$8.4 billion. The Australian Defense Force is apolitical and does not play any role in economic development. The government has recently sought to increase funding for the Defense Force because of political instability in neighboring countries such as Fiji and Indonesia.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Australia's transport and communications **infrastructure** has developed rapidly in close conjunction with the expansion of the country's main industries. The development of transport infrastructure in Australia has been almost entirely related to moving commodities for sale in cities or to gaining access to seaports.

ROADS. In 1996, Australia had 913,000 kilometers (567,338 miles) of roads, of which 353,331 kilometers (219,559 miles) were paved. Freeways constitute 13,630 kilometers (8,469 miles) of total roads in Australia. Road infrastructure in Australia is generally very good. Both urban and inter-city roads are well developed across the country. However, congestion, especially that caused by competition between freight and passenger road users, is becoming a problem in the large cities. The main cities affected are Adelaide, Melbourne, Sydney, and Brisbane; Sydney has the worst congestion problems, followed by Melbourne, then Brisbane. Intra-urban movement constitutes about half the total tonnage of road freight in Australia.

RAIL. In 1999 there was a total of 33,819 kilometers (21,015 miles) of rail lines in Australia. Rail infrastructure exists in both urban networks (mostly commuter rail) and regional networks (mostly freight rail). Rail infrastructure in Australia has never received much government support, despite the country's relatively flat topography and large distances. The consequence has been the development of a few high demand corridors being serviced by relatively poor infrastructure. While current rail infrastructure has sufficient capacity to deal with demand, major investments, totaling at least US$2 billion, have been identified as necessary to deal with the expected in-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Australia	293	1,376	639	43.6	286	48.6	411.6	477.85	6,000
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
India	N/A	121	69	18.8	1	0.2	2.7	0.18	2,800
Indonesia	24	156	136	N/A	5	0.9	8.2	0.76	900

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

crease in transport demand over the next 20 years. Additionally, conflicts between commuter and freight rail operators are becoming typical of the rail transport centers of Sydney, Melbourne, and Brisbane.

AIR. Australia currently has 408 airports, 15 of which serve as major intersections and destinations. The national air carrier is Qantas Airways. The country's second largest air carrier, Ansett Airlines, also has an extensive domestic network. The primary commercial airports are Sydney, Melbourne, Brisbane, Adelaide, and Perth. There are an additional 254 regional airports with paved runways across the country. Almost all of Australia's air movements constitute passenger travel. While Australia's air infrastructure is well developed, it has become increasingly overused and overworked and faces increasing maintenance and development costs. Between 2000 and 2020, an estimated US$1.4 billion in new investment will be required to adequately service air travel demand. Of this amount, roughly 67 percent will be directed at terminal expansion for the primary international airports. Currently, Australia's largest and most congested airport, the Kingsford Smith Airport in Sydney, remains efficient by world standards. Australia's main regional airports (Canberra, Coolangatta, Cairns, Darwin, and Hobart) are operating within capacity.

SEA. Australia has 14 major seaports, including Fremantle (Perth), Darwin, Brisbane, Newcastle, Sydney, Port Kembla, Adelaide, Melbourne, Davenport, and Hobart. In addition, export-dedicated seaports are located at Gladstone, Weipa, Hay Point, Dampier, and Port Hedland. Australian seaports are currently under-utilized, and most ports have the infrastructure to meet demand for the next 2 decades. The Bureau of Transport and Communication Economics found in 1996 that spending on infrastructure development will not likely exceed US$500 million over the next 20 years.

POWER. Australia does not import or export electricity. The country produces its own electricity supply, which is generated from coal (89.85 percent), hydro-electricity (8.35 percent), and other sources, mainly renewable energy (1.8 percent). Australia does not generate or consume electricity from atomic power. Total electricity production in Australia was 186.39 billion kilowatt hours (kWh) in 1998, with total consumption being 173.34 billion kWh for the same year.

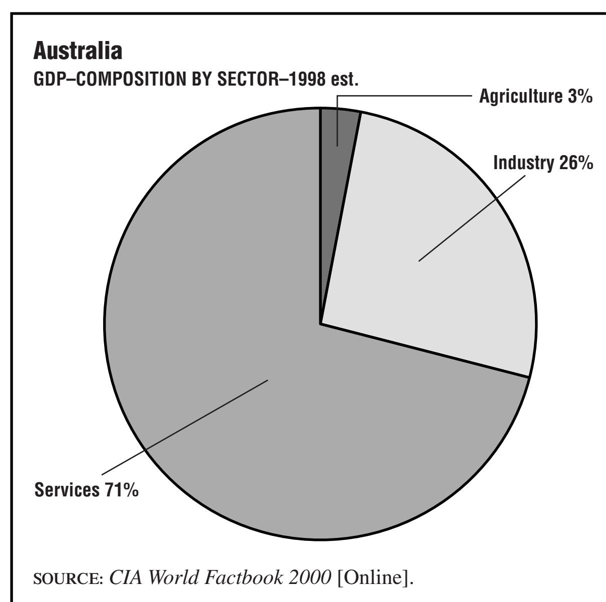
COMMUNICATIONS. In 1997, there were 9.5 million phone lines in use in Australia, representing a 15 percent increase since 1993. For the same period (1993–97), subscriptions to cellular phone networks increased 667.3 percent, with a total of 3.8 million users in 1997. Thus, Australia has one of the world's highest rates of cellular phone use. Recent upgrades to the digital phone system have achieved almost total coverage across the country. In 1999 Australia had 709 Internet service providers.

ECONOMIC SECTORS

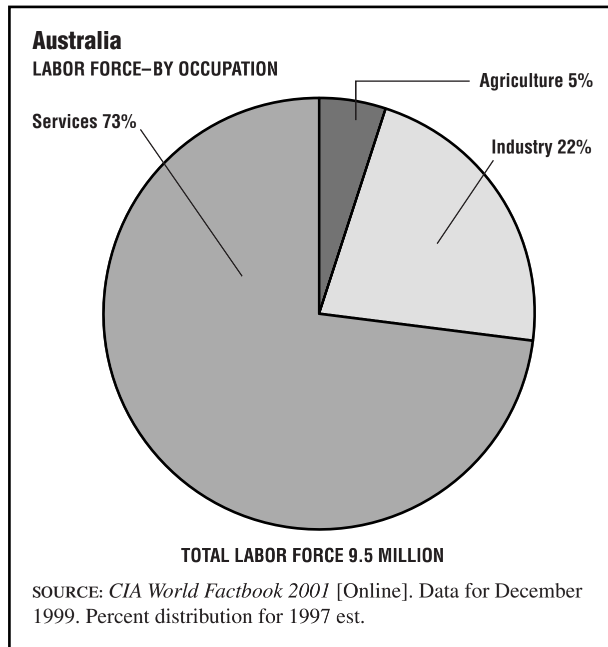
The export of agricultural and mineral resources has been the mainstay of Australia's economy for many years and continues to be a significant contributor to the GDP. Commodities produced in these sectors generate 57 percent of the value of total exports. The services sector (driven partly by the continuing development of the tourism industry) makes up an increasingly dominant proportion of GDP. The dependence on the export value of commodities puts Australia somewhat at the mercy of fluctuations in world commodity prices. Australia's attempts to increase manufactures have met with competition from the global market. Therefore, Australia has focused on developing its service sector.

During the 1990s, many Australian government-owned or partially government-owned companies were privatized or partially privatized. Notable examples of this process include the partial privatization of the Commonwealth Bank, the national airline Qantas, and the telephone company Telstra. Currently, public enterprises account for about 10 percent of total economic output in the country.

Australian companies are regulated by a number of government agencies. Chief among these is the Trade Practices Commission, which has the responsibility of encouraging competition and preventing **monopolization** in any industry. The Trade Practices Commission is concerned with price discrimination, resale price maintenance, misuse of market power, types of exclusive dealing, and anti-competitive agreements. Another government body, the Prices Surveillance Authority, identifies prices that are deemed excessive and establishes inquiries to determine if high prices result from anti-competitive or collusive com-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for December 1999. Percent distribution for 1997 est.

pany behavior. A third government body, the Industry Commission, is concerned with the allocation of resources in the economy as a whole. The Industry Commission advises the government on the setting of **tariffs** and other protective barriers needed to support Australian industry or to make it more competitive globally.

AGRICULTURE

Historically, agriculture has been as important in the development of Australia, as it was in the United States. Australia's traditional dominance in wheat and sheep continues into the 21st century. Recently Australian agriculture has become increasingly diversified. The considerable expanses of arable land have helped Australia to become a leading world exporter of grains, meats, and wool. Both grains (predominantly wheat and barley) and wool markets around the world are dominated by Australian exports. The market for cattle is more regional but is becoming increasingly important globally, given health concerns about European-produced beef. While only about 6 percent of Australia is suitable for crops and pasture, a considerable amount (60 percent) of the land area is suitable for cattle grazing.

Agriculture contributes roughly 3 percent of the GDP and employs about 4 percent of the total workforce directly. While the sector's contribution to the GDP is small, raw and unprocessed agricultural commodities contribute about a quarter of Australia's total export earnings each year. Australia exports a great deal more agricultural produce than it imports. In 1998 agricultural exports from Australia were estimated at US$15.14 billion, in comparison to the US$3.11 billion worth of agricultural imports for the same year. The main agricultural crops grown in Australia are wheat, coarse grains (barley, oats, sorghum, maize, and triticale), rice, oilseeds (canola, sunflowers, soybeans, and peanuts), grain legumes (lupins and chick peas), sugarcane, cotton, fruits, grapes, tobacco, and vegetables. The main livestock production is in sheep (wool and lamb), beef, pork, poultry, and dairy products. Exports account for over 90 percent of wool and cotton production, nearly 80 percent of wheat, over 50 percent of barley and rice, over 40 percent of beef and grain legumes, over 30 percent of dairy products, and nearly 20 percent of fruit production.

The distribution of agricultural production in Australia is largely determined by the physical environment and climate. The traditional large farm system of wheat and sheep production is spread fairly uniformly between parts of New South Wales, Victoria, South Australia, and Western Australia. Queensland, New South Wales, and Victoria produce the majority of beef, and New South Wales has the largest and most numerous poultry farms. Sugarcane and large-scale vegetable production occurs almost entirely in the tropical state of Queensland, while cotton is produced in both New South Wales and Queensland. Tropical fruits, such as mangoes and bananas, are grown in parts of New South Wales, Queensland, Western Australia, and the Northern Territory.

A notable characteristic of Australian farming and agricultural production is the extent to which net farm income varies from year to year. Australia's weather is subject to extreme fluctuations, which has an impact on annual production and ultimately on farm income.

Farm sizes range from relatively small part-time farms to operations of more than 5000 hectares. In general, Australian farming is characterized by large scale, highly mechanized and efficient operations, one of the key reasons why only a small percentage of the workforce is employed in this sector. Environmental factors have long been ignored in the production of agricultural commodities due to their importance to the economy. At the beginning of the 21st century, however, Australia is forced to pay more attention to the growing evidence of environmental stress and degradation caused by farming. In the past, the agricultural sector carried considerable political weight, being represented by the Labor and National political parties. Currently, there is increasing political pressure from urban residents to remove most **subsidies** and other forms of protection given to farmers. Australian farmers already do not receive many of the subsidies given to farmers in the United States and Europe.

INDUSTRY

MINING. Australia's mining sector is important to both Australia and the world. The mineral sector is the largest

primary sector in the economy, accounting for 6.5 percent of the GDP but for more than 60 percent of export earnings. World-wide, Australia is the third largest producer of minerals and metals (not including coal and petroleum). About 80 percent of total mineral production is exported.

Australia is the world's leading producer of alumina and bauxite (both used in the production of aluminum), diamonds (mainly industrial, not gems), opals, and sapphires. The country is the world's second largest producer of lead and zinc; the third largest producer of gold and iron ore; the fourth largest producer of cobalt and uranium; the fifth largest producer of aluminum, coal, copper, nickel, and silver; and the sixth largest producer of salt. Australia is virtually self-sufficient in most minerals and metals. The main exception is oil, but Australia does produce 80 percent of its own needs, mainly from offshore wells. However, Australia does have large deposits of coal, natural gas, liquified petroleum gas, and uranium, all of which are exported.

Many minerals are widespread throughout the country, but others are concentrated in particular areas. Most mining takes place in remote or rural Australia. Bauxite, diamond, and iron ore production is concentrated in the tropical north. Coal, lead, and zinc are mined primarily in New South Wales and Queensland. Uranium production is limited to a few mines in the Northern Territory and South Australia. Every Australian state and the Northern Territory have substantial mining activity. Most of Australia's oil is found offshore. The northwestern coast of the continent and Bass Strait, between Tasmania and the mainland, are the principal locations for petroleum extraction.

Of Australia's total mineral and energy production, 40 percent consists of metals, 30 percent of petroleum group products, 25 percent of coal, and 5 percent of industrial minerals (such as construction materials, clay, and salt).

Minerals of particular interest include coal, which is the largest foreign exchange earner in the sector, accounting for 25 percent of the minerals sector and 15 percent of the country's total export earnings. Australia is the sixth largest producer of coal in the world, but the world's largest exporter, most of which is sold to Japan and other Asian countries.

Australia's uranium mining has been controversial, as much of it has been conducted in environmentally sensitive World Heritage areas (sites recognized by the United Nations Educational, Scientific and Cultural Organization [UNESCO] as having global cultural significance). Some groups have protested against Australia's mining of uranium because of its role in energy production. Australia itself does not use atomic power and operates only one experimental reactor. Australia does not sell uranium for use in weapons and maintains strict controls on exports. Foreign investment in Australia's uranium industry was allowed in 1996. Australia has the world's largest reserves of uranium, about 25 percent of world total.

With respect to the ownership of minerals and mineral rights, each Australian state owns resources in its own area, while the Commonwealth government owns resources in the territories and offshore. However, the Commonwealth government has given control over non-uranium minerals within the boundaries of the Northern Territory to the territorial government.

Mining in Australia has frequently led to conflict with Aboriginal groups over ownership of land and resources. Much of Australia's mining takes place in remote areas, including the Outback, where Aboriginal people form a high percentage of the population. Aboriginal people have protested against mining activity which disturbs or destroys sacred sites, causes environmental damage, and negatively affects the customs of Aboriginal communities. The proposed expansion of the Ranger uranium mine, at Jabiru in the Northern Territory, has been criticized by Aboriginal people living in the area. Australian legislation in the 1990s belatedly recognized Aboriginal concerns. In 1996, the *Wik* ruling of the High Court of Australia determined that mineral leases in Australia are subject to Aboriginal claims. The effect that this ruling will have on mining is still uncertain, but it will probably have little financial impact on the mining sector as a whole.

Foreign companies control a majority of mining, smelting, and refining in Australia. Many mineral companies are vertically integrated, in that they mine, refine, and distribute their products globally. Australia's largest mining company, Broken Hill Proprietary (BHP), is one of the world's largest mining companies. It operates in Australia as well as overseas. BHP's recent merger with the South African mining company, Billiton, made it one of the three largest mining companies in the world. The new company is known as BHPBilliton. Two other large mining companies, Anglo American (South Africa) and Rio Tinto (Great Britain), also have substantial investments in Australia.

MANUFACTURING. The manufacturing sector has grown substantially since the 1950s, and while it remains a key sector in terms of its contribution to the GDP and employment, it also faces fierce competition from competing regional economies, especially those in Asia.

The relatively small population of Australia, and hence its small domestic market, has traditionally limited the development of certain types of manufacturing, such as sophisticated industrial equipment and electrical goods. Otherwise Australia is well equipped locally to

produce most manufactured goods competitively. Key manufacturing industries in Australia are industrial machinery, chemical production, transport equipment, food processing, and steel production. Australia has the ability to manufacture most of its needs and can obtain most raw materials domestically. About one-fifth of Australia's workforce is employed in manufacturing industries, and the growth of the sector since World War II has been fairly uniform. Australia has its own automobile industry, although foreign companies have overall control and ownership. Large investors include General Motors, Ford, Toyota, and Mitsubishi. General Motors owns the Australian automobile company, Holden, that produces its own line of Australian cars.

The manufacturing sector in Australia has been stable and sound, with a broad spectrum of industries that have had little need for tariff protection or government subsidies. However, the rapid development of similar industrial manufacturing industries in Asia has created many cheaper **import substitutes**. High levels of industry regulation (such as union-driven working conditions) and smaller margins of trade have also put the manufacturing sector under stress. Many **value-added** goods, refined fossil fuels, and metal products are now produced more cheaply in Asia, reducing the competitiveness of Australia.

The manufacturing sector in Australia is located almost completely in the urbanized regions of eastern Australia, with the exception of considerable steel and primary industry production in the state of Western Australia. Working conditions are generally very good, with "award wages" (nationally legislated working conditions and minimum wages) and Occupational Health and Safety measures addressing workers' interests. In 1998, 54 percent of employees did not take any time off work because of a work-related injury or illness. The manufacturing industry is one of the most unionized employment sectors in Australia and has taken a leading role in promoting an improvement in working conditions.

SERVICES

The service sector contributes approximately 69.2 percent of the GDP and employs an estimated 73 percent of the **labor force**. The recent growth in tourism, **retail**, and financial services contributes to a steady increase in these numbers.

TOURISM. By the end of the 20th century, tourism had become Australia's largest "resource," surpassing coal in value. In 2000 approximately 4.6 million international tourists arrived in Australia, bringing an estimated US$9.02 billion into the country, a 73 percent increase from tourist revenues in 1993. International tourist arrivals for 2001 are estimated to increase substantially to 5.2 million. International tourists come mostly from New Zealand, accounting for 17 percent, and Japan, accounting for 15 percent. Tourists come from other regions as well: the Americas, 12 percent; Asia (except Japan), 26 percent; Europe, 24 percent; and others, 6 percent. Some 99 percent of international tourists in Australia arrive by air.

The Australian Tourist Commission (ATC) is responsible for promoting Australian tourism internationally. According to their recent policy statements, the ATC "positions" Australia differently in tourism markets, meaning that they present different aspects of Australia in different countries. For example, in Japan, Australia is promoted as "close, affordable, safe," and with "inspirational experiences of nature and culture." In other overseas markets, Australia is typically positioned as "the most naturally free-spirited and liberating country in the world" and as a destination for a regular vacation rather than as the "trip of a lifetime."

Australia's scenery, variety of landscapes, distinctive animals, beach culture, modern cities, and relaxed lifestyle are all promoted as reasons to visit the country. The relatively weak Australian dollar, which has steadily declined in value against the U.S. dollar, makes Australia an affordable destination, as foreign travelers increasingly receive more Australian dollars per unit of their own currency. The 2000 Summer Olympics held in Sydney was a major factor driving an increase in international tourism to Australia. Televised events revealed many aspects of the country to potential visitors. The success of Australian films, particularly the *Crocodile Dundee* series, and television programs such as *Survivor II* and *The Crocodile Hunter* have also sparked an interest in visiting Australia. International tourists are forecast to increase by an average of 7.8 percent per year until 2010.

RETAIL. Australia has a diverse range of retail enterprises, similar in complexity to that of the United States or Great Britain. Australian-owned national retailers are numerous but are considerably outnumbered by smaller retailers. Small businesses (those employing fewer than 20 people) accounted for 95 percent of total retail businesses but only 38 percent of total retail income in the period 1998–99. For the same period, large businesses (those employing more than 200 people) made up less than 1 percent of total retail businesses but generated 41 percent of total retail income. The remaining 4 percent of retail businesses and 21 percent of income was attributable to medium-size businesses (21–200 employees).

The larger retail businesses in Australia are mainly comprised of department stores and supermarkets, which contribute 99.6 percent of total income. At the end of June 1999, there were 98,289 retail businesses in the country, generating about US$90 billion in revenue. Since 1991–92, the number of retail businesses has in-

creased by 18 percent, and employment in this sector has increased by 33 percent, with an annual sector-wide revenue growth rate of 5 percent. In the same period (since 1991–92) the operating profits of Australian retailers doubled.

Small businesses are most numerous and tend to dominate the total income for domestic repair and service industries, such as household equipment repair and motor vehicle services and maintenance. Small businesses also comprise the greater part of the total income for recreational goods, specialty foods, furniture, housewares, and appliances. Small enterprises and the large national retailers alike are subject to "award conditions" which specify minimum wages and employment conditions. The retail industry, while having a very high union membership rate, is not controlled by unions, and the Commonwealth government and business alike support moves towards direct employer-employee workplace agreements.

FINANCIAL SERVICES. Financial services is a growing sector in the Australian economy. With respect to commercial banking, the sector is dominated by 4 large private banks: the National Australia Bank, Commonwealth Bank (partially government owned), Westpac, and ANZ Bank. Together these 4 account for about 70 percent of market share and provide both retail and wholesale banking services (services to individuals and to companies). In an increasingly globalized economy, Australia's banks face international competition but have generally thrived. Australia's banking system has been consistently modernized by technological developments. For example, checks and checking accounts are no longer widely used, and Automated Teller Machines (ATMs) and electronic banking have replaced both the use of checks and in-person banking transactions.

Australia's financial services sector also includes many non-bank financial institutions. These include financial intermediaries such as building societies, credit unions, money market dealers, and finance companies. Building societies, similar to Savings and Loan companies in the United States, have generally been declining as they are no longer competitive and have been bought out by banks. Funds managers and trusts are other non-bank financial institutions. These institutions manage insurance funds, superannuation (retirement) funds, and real estate assets, among other matters.

Australia's central bank is the Reserve Bank of Australia, similar in concept to the Federal Reserve system in the United States. The Reserve Bank's functions include managing and issuing the currency, controlling the money supply, supervising the private banks, assisting the government in formulating economic policy, providing banking services to the government, managing the foreign **exchange rate**, and managing the Australian government's overseas financial holdings. The overall objectives of the Reserve Bank are to maintain the stability of Australia's currency, maintain **full employment** in the country, and ensure the economic prosperity of Australia.

INTERNATIONAL TRADE

Historically, Australia's largest trading partners were Great Britain and the rest of Europe. This historical trading relationship reflected Australia's colonization by Great Britain and the British need for new markets for manufactured goods as well as sources of raw materials. The cultural affiliation between Australia and its "mother country" also contributed to this historic trading pattern. Since the 1970s, however, Australia's international trade has shifted towards Asia and Pacific countries. When Great Britain joined what is now known as the European Union in the 1970s, Australia lost many trading advantages with that country and sought new markets closer to home. Japan, Singapore, other Southeast Asian countries, and the United States have all become important Australian trading partners. The composition of Australia's exports has largely remained the same, but new markets (including more recently South America and the Middle East) have been sought. The marked failure of some key Southeast Asian economies, particularly Indonesia, Thailand, and Hong Kong in the late 1990s, has had only a limited effect on the Australian economy. As of 2001, political events outside Australia, such as disturbances in the neighboring countries of Indonesia and Fiji, have had almost no impact on Australia's trade.

Australia's principal exports are meat, wheat, cotton, machinery and transport equipment, coal, iron ore, aluminum, gold, and other minerals. The largest destination for exports is Japan, which purchased almost US$9 billion worth of Australian products in 1999. The United States was the second-largest purchaser, at about US$4 billion, followed by South Korea, New Zealand, Taiwan, Hong Kong, China, Singapore, Great Britain, Indonesia, Malaysia, and Italy. Eight of the top twelve importers of Australian products are in Asia.

Trade (expressed in billions of US$): Australia

	Exports	Imports
1975	11.948	10.697
1980	21.944	22.399
1985	22.604	25.889
1990	39.752	41.985
1995	52.692	61.283
1998	55.895	64.668

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Australia's main imports are machinery and transportation equipment (mostly motor vehicles), computers and office machines, telecommunications equipment, oil and petroleum products, medical and pharmaceutical products, aircraft and related equipment, and clothing. Australia's largest source of imports is the United States. Australia imported nearly US$10 billion worth of goods from the United States in 1999. Other leading sources of imports to Australia are Japan, Great Britain, China, Germany, South Korea, New Zealand, Indonesia, Taiwan, Singapore, Italy, and Malaysia. With the exceptions of Hong Kong and Germany, Australia's top twelve trading partners are the same for both exports and imports.

The recent (2000) sharp drop in the value of the Australian dollar, especially against the U.S. dollar, could have an impact on Australia's current **trade deficit**. A devalued currency means that Australia's exports become relatively cheaper, while imports become more expensive. Thus, a weak Australian dollar may give the country a competitive edge over Canada, the United States, and other countries in selling raw materials to Japan, to take one example. However, the flip side is that imported products become more expensive, as Australians require more dollars to purchase the same product. For example, a product selling for US$100 would be the equivalent of A$153 in 1999, assuming all other factors to be equal. But with the drop in the value of the Australian dollar, the same US$100 product would be the equivalent of A$192 in 2001. Therefore, many Australian consumers might find imported products too expensive and stop buying them. If this situation continues, Australia's exports could increase and its imports decrease, leading to a decline in the amount of the trade deficit.

MONEY

Australia's economic performance depends on the world prices of mineral and agricultural commodities. The value of Australia's currency can considerably affect the value of export earnings. Australia has also managed to steer clear of **recession** and sharp fluctuations in the rate of **inflation** during the past 2 decades. Government policies of the 1990s, including allowing the value of the currency to fall, **deregulating** industry, and encouraging foreign investment, allowed Australia to weather the Asian economic crisis of that decade. In this period, inflation was low, averaging between 1 to 3 percent per year. Inflation is a controversial topic among economists and is still not clearly understood. However, within the past 2 years price increases in Australia have been attributed to the introduction of the Goods and Services Tax (GST) of 10 percent on most products and services; the fall in the value of the Australian dollar, which makes imports more expensive; and the increase in world oil prices, which are passed on to Australian consumers. Nevertheless, steady economic growth of around 4 percent per year has characterized the greater part of economic performance.

Australia has an established stock exchange. The Australian Stock Exchange (ASX) opened in 1987 through the merger of smaller, very well established (100 years or so of trading) exchanges. In 1998, there were 1,162 companies listed on the exchange.

POVERTY AND WEALTH

Australia has sometimes been called a "classless society," though this is not strictly true. Class in Australia is generally defined on the basis of income or self identification. The terms "working class," "middle class," and "upper class" are all in use, but are difficult to define statistically. Social mobility in Australia is high and there are no formal or cultural obstacles to movement between social or economic classes. Australia's high level of multiculturalism, with many recent immigrants, also contributes to class mobility. Immigrants are often concerned to get the best possible education for their children so that they will move upwards economically. There are some differences in standards of living between rural and urban residents, as the cost of providing basic services to rural areas is generally higher. Rural regions often have more limited services and higher prices for **consumer goods**.

In Australia the general living standards are very high, but differences remain between the country's richest and poorest. Moreover, the gap between rich and poor

Exchange rates: Australia

Australian dollars (A$) per US$1	
Jan 2001	1.7995
2000	1.7173
1999	1.5497
1998	1.5888
1997	1.3439
1996	1.2773

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Australia	14,317	15,721	17,078	18,023	21,881
United States	19,364	21,529	23,200	25,363	29,683
India	222	231	270	331	444
Indonesia	385	504	603	778	972

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Australia

Lowest 10%	2.0
Lowest 20%	5.9
Second 20%	12.0
Third 20%	17.2
Fourth 20%	23.6
Highest 20%	41.3
Highest 10%	25.4

Survey year: 1994

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

is growing. The poorest 20 percent of households earned 1 percent of private income, while the richest 20 percent earned 50 percent. For a small minority of the population (nearly all Aboriginal), levels of education and health are very low, and these people are often at or below the poverty line. Australia has been internationally criticized for this situation. The richest minority in Australia are very wealthy and play key roles in international finance. On the whole, the majority of Australia's population would probably be defined as middle class.

Poorer families in Australia are generally characterized by financial struggle and limited opportunities. The national government has an obligation to provide basic services to such families. Australia, like many developed western economies, is partly a **welfare state**. The poorest citizens, and those on low wages or dependant upon care, receive social security and are granted access to free or reduced price health services, education, transportation, and housing. A poorer family in Australia will most likely live in a cheaply constructed, and often highly subsidized public housing area. Many of the basic family services provided by the Commonwealth government, such as rent assistance, childcare assistance, health care, and legal aid, are often busy and run on stretched resources. This situation is more extreme in the country's rural areas. General health levels among such families are low, primarily from inferior housing, poor diet, and increased susceptibility to the abuse of alcohol and drugs. While free education has been the hallmark of the Australian school system, budget cuts have increased the actual cost of sending children to school, with poor families having to pay for many extracurricular activities. The lifestyle of a poor family in Australia is characterized by the need to work to live and support a family in the short term. Rarely, even if members of a family are employed full time, is there the financial ability to take time off work for vacations. Access to higher education, the Internet and even basic computer knowledge, and inclusion in political decision-making are all limited.

The typical family in the higher income brackets of Australian society enjoys many more opportunities, choices, and luxuries than do poorer families. Many richer families have the choice of living outside busy urban centers in rural areas within commuting distance of the cities. Those who choose to live in the major metropolitan areas enjoy spacious, well built, modern or traditional heritage housing. Education has traditionally been a priority for the richer families, and children will often be sent to private schools where the educational standards are usually far better and more inclusive of physical and personal development programs. It is not uncommon for such children to attend boarding schools in another state or region. Almost universally, higher-income families take advantage of a well-developed private health care system, with education being a key factor in better levels of health among such families. While domestic violence, drug abuse, and support services are commonly associated with poorer families in Australia, such abuses transcend socio-economic boundaries and can also occur among the richer families. Richer families have ease of access to private vehicles, typically 1 per person in the family, and the ability to take time off work for domestic and international vacations. In contrast to poorer families, substantial and self-funded retirement plans are

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Australia	24	5	9	2	16	9	36
United States	13	9	9	4	6	8	51
India	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Indonesia	47	3	6	5	14	3	22

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

universal among richer families. Such families easily access personal or home information and entertainment technology. Personal computers, reliable and private access to the Internet, cellular telephones, and entertainment technologies are common and form the basis of better connections to news, information, and public opinion. Richer families have a considerable political voice through their ability to make contributions to political parties, to be informed about current affairs, and to participate in debate.

WORKING CONDITIONS

In world terms, Australian working conditions are of a high standard. Australian industrial relations are characterized by fairly high union membership and a federally driven, but state determined, compulsory arbitration and conciliation system. Industrial relations practices are specified in the Conciliation and Arbitration Act (1904), which encouraged employer associations to recognize unions and empowered these unions to make working condition claims on behalf of employees. In Australia there are 7 distinct systems of industrial regulation and relations: the national system is supplemented by those of the 6 states, each having its own distinct industrial relations legislation and arbitration processes. As a result, there has long been a high degree of state intervention in the labor market. There is now only 1 main central union confederation, the Australian Council of Trade Unions (ACTU). "Awards" are the legal decisions made by independent industrial organizations, and they specify minimum standards of pay and working conditions that an employer must meet or otherwise face legal penalties. Working conditions are regulated by legislation and industrial awards.

While Australia carries no social restrictions on employment opportunities for women, the percentage of women in the formal workforce has traditionally been smaller than that of men. Female participation in the workforce has been increasing steadily since the early 1960s, when women comprised 25 percent of the workforce. In 1993, women's participation in the workforce was still increasing at 42 percent. The national Affirmative Action (Equal Employment Opportunity for Women) Act (1986) obliges employers to take steps specifically designed to remove discrimination towards women and promote equality in employment. Despite this act and award conditions for equal pay for equal work being well established, women's earnings on average remain slightly less their male counterparts. This inequity is partially due to the fact that women remain concentrated in industries where pay and working conditions remain relatively less favorable than other occupations and professions. More recent trends in equal opportunity employment address factors such as childcare, maternity and paternity leave, affirmative action, and sexual harassment, and sees them as significant industrial relations issues rather than exclusively women's issues.

Unemployment in Australia has been between 6 and 8 percent since the early 1980s and continues to remain in this range. Many Australian employers have readily employed immigrant workers, especially in times of labor shortages.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1770. Captain James Cook claims Australia for Great Britain.

1788. Australia is settled as a British penal colony.

1793. The first free settlers arrive.

1817. Australia's first bank, the Bank of New South Wales, is established.

1851. Gold is discovered in New South Wales and Victoria.

1883. Silver is discovered at Broken Hill, New South Wales.

1901. The Commonwealth of Australia, a federation of the colonies, is proclaimed. Australia adopts a federal system similar to the United States.

1914–18. Australia sends troops to fight for Great Britain in World War I.

1917. Transcontinental railroad opens.

1920. Qantas, the national airline, is founded.

1927. The national capital is moved from Melbourne to Canberra.

1940–45. Australian troops serve in World War II.

1942. Japanese planes bomb the Northern Territory capital of Darwin. Japanese midget submarines penetrate Sydney harbor.

1952. Uranium is discovered in the Northern Territory.

1960. Aboriginal people are granted Australian citizenship. The Reserve Bank of Australia is established.

1961. Iron ore deposits are discovered in Western Australia.

1966. Australia changes its currency from the British pound to the Australian dollar.

1992. The *Mabo* decision in the High Court allows Aboriginal people to claim title to their traditional lands.

1997. The Asian financial crisis weakens Australia's economy.

1999. A referendum to change Australia from a constitutional monarchy to an independent republic is defeated.

2000. The Summer Olympics in Sydney lead to a boom in tourism.

FUTURE TRENDS

Australia's well rounded economy is likely to see continued growth in both the near and distant future. The country's importance as a leading supplier of minerals and agricultural products, its increasing presence in financial services and specialized technology industries, and its growing appeal as a tourism destination all hold great promise. The diversity of the Australian economy, its many trading partners, and its peaceful democratic political system all help stabilize economic conditions and encourage new investment. The Asian financial crisis of the late 1990s slowed Australia's exports, particularly of minerals, but is unlikely to have any long-term effects on the overall economy. Australia's economy is a careful balance of free market policies with close regulation of key economic sectors, combined with extensive social services programs. Australia's standard of living is assured of remaining one of the world's highest.

The Australian economy will have to increasingly address environmental and Aboriginal issues. Environmental damage caused by mining and agriculture, especially, have come under frequent media attack. Current issues include soil erosion caused by overgrazing, urbanization, and poor farming practices; increases in soil salinity largely due to farming practices; depletion of fresh water supplies, again largely due to farming and urbanization; and coastal damage, especially around the Great Barrier Reef on the Queensland coast, caused by shipping and extensive tourism. Mining impacts on the environment, such as the release of toxic substances, tend to be more localized. Mining and agricultural enterprises are becoming more responsive to environmental issues, but there is still room for improvement. Australia only recognized the potential land claims of its Aboriginal population in the 1990s, placing it far behind the political history of indigenous-settler relations in other countries such as New Zealand, Canada, and the United States. The *Mabo* and *Wik* High Court decisions of the 1990s recognized that Aboriginal title to land may still exist and that it can overlap with pastoral and mining leases. The implications of these decisions have not yet been worked out. They will probably have no major impact on the Australian economy as a whole but will give Aboriginal people a greater voice in managing natural resources on their traditional lands.

DEPENDENCIES

Australia has no territories or colonies.

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—Michael Pretes and Rory Eames

AZERBAIJAN

Azerbaijani Republic
Azarbaichan Respublikasy

CAPITAL: Baku.

MONETARY UNIT: Manat. One manat equals 100 gopiks; however, there are no gopiks in circulation due to inflation in the early 1990s. The currency comes in denominations of 50, 100, 250, 500, 1,000, 10,000, 50,000, and 100,000. Some coins may still be found of 10, 20 and 50 gopik.

CHIEF EXPORTS: Oil, gas, machinery, cotton and foodstuffs.

CHIEF IMPORTS: Machinery and equipment, foodstuffs, metals and chemicals.

GROSS DOMESTIC PRODUCT: US$14 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$885 million (1999 est.). **Imports:** US$1.62 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Azerbaijan, a country of eastern Transcaucasia, is located on the western border of the Caspian Sea, between Iran and Russia. It is bounded by Russia to the north, Georgia to the northwest, Armenia to the west, Turkey to the southwest by the border of Nakhichevan, and Iran to the south. Azerbaijan has an area of 86,600 square kilometers (33,436 square miles), of which 86,100 square kilometers (33,243 square miles) is land and 500 square kilometers (193 square miles) is water. The area is slightly smaller than Maine. The total area includes the exclave (portion of the country separated from the main part) of Nakhichevan Autonomous Republic and the enclave (a distinct territorial, cultural, or social unit enclosed within foreign territory) of Nagorno-Karabakh, a region whose autonomy was abolished by the Azerbaijani Supreme Soviet on 26 November 1991. The coastline on the Caspian Sea is about 800 kilometers (497 miles). The total borderline of the country is 2,013 kilometers (1251 miles) long. The capital, Baku, is located on the Caspian Sea border and the other major cities, Ganja and Sumgait, are located to the west and just to the north of Baku, respectively.

POPULATION. The population of Azerbaijan was estimated at 7.75 million as of 2000, an increase of 10.6 percent from the 1990 population of 7 million. The population growth rate declined from 3 percent between 1959–1970, to 1.3 percent in the late 1980s, and 0.27 percent in 2000. The population is expected to reach 8.6 million in 2010. Approximately 63 percent of the population is between the ages of 15 and 64, whereas people of ages 0–14 account for 30 percent of the population, while those of ages 65 and over account for 7 percent. The most populous city of Azerbaijan is the capital, Baku, with over 1.7 million inhabitants. As of 1999 the urban and rural population rates were 51.7 percent and 48.3 percent respectively.

The Azerbaijani population consists of different ethnic groups: Azeris are the majority with 90 percent share in the total population. The rest is made up of Dagestani (3.2 percent), Russian (2.5 percent), and Armenian (2 percent) groups.

OVERVIEW OF ECONOMY

Azerbaijan is a nation of Turkic Muslims. It became an independent republic following the collapse of the Soviet Union in 1991. The country has come into conflict with Armenia over the Azerbaijani Nagorno-Karabakh enclave, when almost 20 percent of total land in Azerbaijan was occupied by Armenia. In comparison to Armenia and Georgia, the industrial sector in Azerbaijan is less developed, with its main focus on the oil industry. There is high **structural unemployment**, and a low standard of living.

Following the break-up of the Soviet Union in 1991, Azerbaijan's economy suffered from serious problems. **Real gross domestic product** (GDP) declined by 60 percent between 1991 and 1995, by which time high **inflation**

had eroded real incomes, the **exchange rate** had weakened, and monetary reserves were nearly depleted. This sudden economic decline had a disastrous effect on the people's living standards. Per capita GDP declined from US$5,841 in 1988 to US$1,770 in 1999, the **inflation rate** rose as high as 1,664 percent in 1994, and from 1988–1998 food prices multiplied as much as 28,750 times. Economic recovery started only after 1996, mostly driven by investment from abroad in the oil, construction, and communications industries. Foreign companies, primarily from the United States, were eager to control Azerbaijan's oil-rich lands.

The main products of the economy are oil, natural gas, and cotton. In order to improve industrial development, Azerbaijan signed arrangements with foreign firms, which have already committed US$60 billion to oil field development. The conflict with Armenia over the Nagorno-Karabakh region, however, stands as an obstacle to economic progress, including stepped-up foreign investment. Due to the fact that old Soviet ties have been broken in the transformation to a market economy, trade with Russia and the former Soviet republics has decreased, while the country has involved itself with other regions like Turkey, Iran, the United Arab Emirates, and Europe. Oil is a very important product of the country, and economic success will depend on world oil prices and the agreements over a pipeline project in the region. In 2000 the construction of a prospective oil pipeline, originating in Baku, passing through the Republic of Georgia, and terminating at Ceyhan, a Turkish port on the Mediterranean coast, was still considered a high cost project. Increasing oil prices will likely make the project more affordable in the near future.

The **external debt** of the country increased steadily from 1991 onward due to economic **restructuring**, and was recorded at US$684 million in 1998. Though economic stabilization measures improved the economic climate considerably during the second half of the 1990s, and inflation improved (exceeding 1,000 percent in both 1993 and 1994, but thoroughly contained in 2000) Azerbaijan needed increasing amounts of International Monetary Fund (IMF) credits. As a result of successful restructuring with the aid of the IMF, Azerbaijan started to repay its debts after 1999.

POLITICS, GOVERNMENT, AND TAXATION

After the declaration of the independence of the republic in 1991, severe political and economic instability lasted until 1994. Heydar Aliyev seized power in June 1993 through a military coup, toppling the democratically elected Abulfaz Elchibey. In October 1993, however, Aliyev legitimized his rule by winning presidential elections. In 1998 the incumbent president was reelected to office for a second term which continues through October 2003.

In the executive branch of the government, there is a president, a prime minister, and a Council of Ministers appointed by the president and confirmed by the National Assembly. The president is elected by popular vote for a 5-year term. The prime minister and cabinet members are appointed by the president and confirmed by the National Assembly. The National Assembly is **unicameral** (one-chambered), has 125 seats, and the members are elected by popular vote for a 5-year term. Parties in the Assembly from 1998 were: the New Azerbaijan Party (center party) chaired by the president Aliyev, the Party of the Popular Front of Azerbaijan (nationalist) chaired by Abulfaz Elchibey, the Party for National Independence of Azerbaijan (nationalist) chaired by Etibar Mammadov, and the Musavat Party (liberal) chaired by Isa Gambar.

Azerbaijan's government consumes about 11 percent of the GDP. However, in 1998 Azerbaijan received only 1.28 percent of its revenue from state-owned enterprises and from government ownership of property. The **privatization** program following independence was poorly thought out and was derailed by poor administration and

corruption. It was thought necessary to privatize state-owned companies so that they could perform better in the market. However, the government mostly sold small firms rather than the large-scale companies that were poor performers. What made this process worse was that the opportunities for foreign participation were never properly defined. As a result of these major problems with the privatization program, the **public sector** remains large in the country's economic life. For example, 75 percent of outstanding loans in the banking system were from publicly owned enterprises in 2000, many of which chronically record operating losses. As high as that debt is, it represented some improvement from a 90 percent ratio of such loans in 1995.

The main revenue generators for the government are an **income tax** (levied on the employee's income at progressive rates ranging from 12 percent to 35 percent), a profit tax (0.5 percent), a **value-added tax**, and a **social security tax** (the employer is required to pay an amount equal to 33 percent of the gross salary of the employee). The contribution of these taxes reached 2.6 percent, 2.1 percent, 4.5 percent, and 3.7 percent of GDP in 1998, respectively.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Azerbaijan's **infrastructure** of roads and railways is poorly maintained and needs investment. Important transport links with Russia were periodically cut off due to the war in Chechnya (an autonomous Muslim republic in southwestern Russia) that disrupted much of the road and rail links. The total length of the railways is 2,125 kilometers (1,320 miles) in common carrier service, excluding industrial lines. Much of these rails need an overhaul; however, Azerbaijan does not own repair facilities. The 24,981 kilometers (15,523 miles) of roads are also in poor condition. The European Union has sponsored a project to provide new transit routes. The number of passenger cars was 35.5 per 1000 people in 1998.

There are 69 airports in Azerbaijan, 29 of which have paved runways. There are flights to other former Soviet republics, Germany, the Netherlands, Switzerland, Israel, Iran, Turkey, the United Kingdom, and the United Arab Emirates. Baku, Ganja, and Nakhichevan have international airports that are in need of reconstruction and repair. Turkish Airlines, Lufthansa, and British Airways have offices in Baku.

Azerbaijan has maritime connection to the high seas only through the Volga-Don canal, a Russian waterway. Baku has the largest port on the Caspian Sea, but it needs repair. Azerbaijan has a 55-ship marine fleet (1000 GRT or over) and a total of 3000 kilometers of pipelines for crude oil, petroleum products, and natural gas, which are also main sources of export income.

Azerbaijan has an 18.9 billion kilowatt electricity generating capacity (1998), which is sufficient for domestic consumption. Hydroelectric power stations account for 18 percent of the total generation capacity. The generation technology is in need of replacement. The government subsidizes the household consumption of electricity, yet the collection of charges from the consumers is a persistent problem due to the fact that for many consumers the cost is still high considering the low income levels.

As a result of heavy investment during the Soviet era, Azerbaijan has an extensive natural gas distribution and use system. Its gas distribution network extends to over 80 percent of the population and comprises 4,500 kilometers (2,797 miles) of high-pressure transmission lines, 7 compressor stations, and over 31,000 kilometers (19,263 miles) of medium and slow pressure distribution lines. While the country was at one time self-sufficient in gas, declining oil and gas production in recent years has led to a need for substantial gas imports to meet increasing supply shortfalls. The gas sector recovered in 1998, after Azerbaijan managed to eliminate gas imports from suppliers such as Turkmenistan. Azerbaijan is likely to become a gas supplier to Turkey within 10 years.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Azerbaijan	27	23	254	0.1	8	N/A	N/A	0.23	8
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Armenia	23	224	218	0.4	2	0.1	4.2	1.85	30

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

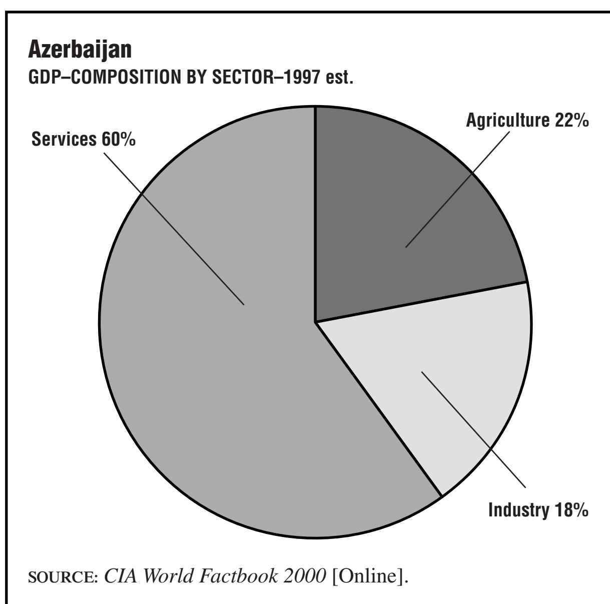
SOURCE: World Bank. *World Development Indicators 2000.*

Azerbaijan's telecommunications system is poorly developed. Baku has the most telephones, whereas about 700 villages still do not have public telephone service. Although fixed telephone users are very small in number, mobile phone use is increasing, especially among a growing middle class, large commercial ventures, international companies, and most government officials. The Ministry of Communications (Azertel) handles international telephone requirements through the old Soviet system of cable and microwave which is still serviceable, and the satellite service between Baku and Turkey, which provides access to 200 countries. Azerbaijan is a signatory of the Trans-Asia-Europe Fiber-Optic Line (TAE) that is hoped to improve international communication; however, the lines are not yet laid.

Though Internet and e-mail services are available only in Baku, it is strictly controlled by the government. As of January 2001, Internet service cost was about US$0.62 per hour; however, given the relatively high cost of this service for many Azerbaijanis, the poor conditions of phone lines, and the high costs of imported personal computers and modems, the average number of Internet hosts was only 20 per 100,000 residents in January 2001. The number of television sets was estimated to be around 2 million in 1998.

ECONOMIC SECTORS

The main economic sectors are agriculture, industry, and construction, which have shown much improvement from foreign investment. Agriculture, about 90 percent privatized, represented 21.7 percent of GDP in 1999. Cotton was the leading crop; however, caviar production was world famous. Industry accounted for 23.6 percent of GDP in 1999, the main contributors to which were the metallurgy and fuel industries. It was widely estimated that about 10 percent of the world's oil reserves were located in Azerbaijan and the Caspian Basin. In 1999, construction accounted for 9.4 percent of GDP.



SOURCE: *CIA World Factbook 2000* [Online].

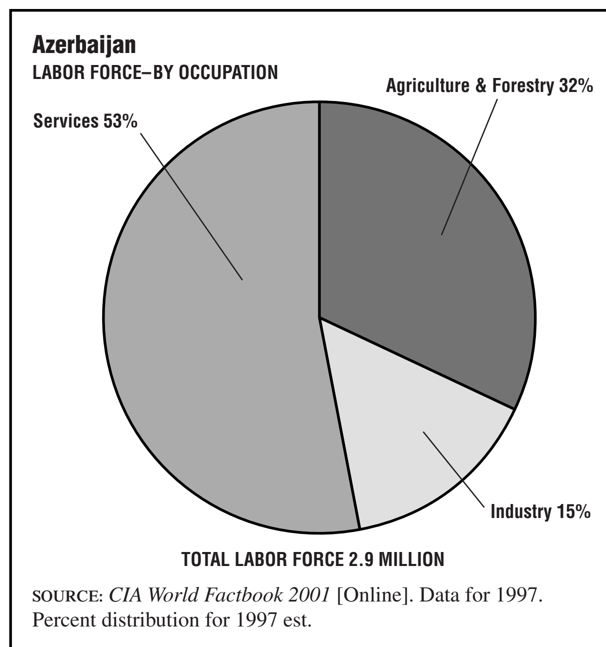
AGRICULTURE

Agriculture is the largest employer in Azerbaijan. In 1999, it had 32 percent of the total workforce and a 22 percent share of the total GDP. The primary products are grains, cotton, tobacco, potatoes, other vegetables, grapes, melons and gourds, fruits, and tea. The sector meets most of Azerbaijan's grain needs. Farming is concentrated in central Azerbaijan along the Kura and Araxes rivers, where the land is fertile. The collective and state farms that were common in the Soviet times have been dismantled, leaving room for smaller farms. Cotton, an important export crop, experienced sharp declines in production in 1999 due to shortages and price increases of fertilizers, defoliants, and spare parts of harvesting machinery.

The total value of agricultural exports decreased from US$168.2 million in 1994 to US$96 million in 1998, representing a decrease of 43 percent. Agricultural exports accounted for 26.2 percent of total exports in 1994, decreasing to 15.8 percent in 1998. Fishing also is an important sector, with 90 percent of the world's caviar production coming from the Caspian Sea.

INDUSTRY

MINING. The main mining product of Azerbaijan is oil. At the beginning of the 20th century, Azerbaijan ac-



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997. Percent distribution for 1997 est.

counted for nearly half of the world's total oil production. Although at the end of the century it lost this place to Middle Eastern countries, Azerbaijan is still the most geopolitically important country among the former Soviet republics, being relatively the closest to the high seas and possessing an open investment environment, which is crucial in terms of oil transportation. The State Oil Company of the Azerbaijan Republic (SOCAR) is the largest employer of the country, with 78,000 workers. The revenues from exports of oil products accounted for US$434 million in 1998, 64 percent of total exports. In addition, the expenses for imports of the oil sector accounted for US$355.7 million in 1998, or 20.6 percent of total imports.

Other mineral sources of Azerbaijan include iron, bauxite, zinc, copper, arsenic, molybdenum, marble, and fire clay. There are also small reserves of gold. Large reserves of iron and aluminum are located in the Dashkesen Mountains. Since the only buyer of the iron, Georgia, stopped purchases after the dissolution of the Soviet Union, iron production has been suspended. The mining industry is in need of modernization due to the aging technology and equipment employed in the sector.

MANUFACTURING. Oil equipment manufacturing and related sectors such as instrument-making, electrical engineering, and radio electronics sectors produce almost 20 percent of the total manufacturing sector. The government considers the oil engineering sector of strategic importance and the sector is not included in privatization plans. After independence, the manufacturing sector experienced a decrease in non-oil-related production. The majority of heavy industry is located in Sumgait, just north of Baku. However, much of this capacity is declining, due to a lack of government incentives, foreign capital, and infrastructure. Other important sectors include textile, food, and beverages. However, these sectors, too, have experienced a sharp decline and lost their competitiveness against imported goods for the same reasons.

CONSTRUCTION. The share of construction in total GDP increased from 8.1 percent in 1990 to 9.4 percent in 1999. Construction work related to the oil industry accelerated after 1995. Turkish companies are also active in the construction of homes and businesses.

SERVICES

BANKING. The Azerbaijan National Bank (ANB), responsible for **monetary policy** and the supervision of the financial sector, was established in 1992 and privatized in 1995. There are many commercial banks, but most of them are small and undercapitalized. After a consolidation in the number of the banks, as of July 2000, Azerbaijan had 66 commercial banks, the central bank, the state-managed International Bank of Azerbaijan, and the United State Industrial Bank. The ANB informally protects the state-owned banks from foreign competition by allowing only 30 percent of capital to be foreign-owned in the national banking system.

INTERNATIONAL TRADE

During the late 1980s, exports and imports accounted for 37 percent and 46 percent of GDP, respectively. In 1999, exports stood at US$885 million, and imports totaled US$1.62 billion. After a brief **trade surplus** was achieved in 1992, a deficit occurred again in 1993. Due to increases in the purchase of machinery and equipment for the oil industry and increased imports of **consumer goods**, there was a rapid increase in imports. Accordingly, there was a chronic current account deficit, which was expected to shrink with the increase of oil exports by 2001.

Azerbaijan relies heavily on crude oil exports. Oil export figures reached 68.9 percent of total exports in 1998. Turkey was the main trading partner of Azerbaijan for both exports and imports, accounting for 22.4 percent and 20.4 percent of total exports and imports in 1998, respectively. This high rate is mainly due to the special relationship between the countries (Azerbaijan citizens speak a dialect of modern Turkish and have the same religious and cultural background as Turkey). Other major trading partners include Russia, Georgia, Ukraine, Italy, the United Arab Emirates, and Iran.

MONEY

After independence Azerbaijan suffered from the mismanagement of the economy by the former Soviet Union. The country applied severe monetary and **fiscal policies** in order to stabilize the economy. Inflation was reduced from upwards of 1000 percent to single digit rates. The fiscal system, banking services, and exchange system were entirely overhauled. Azerbaijan remained in the Russian ruble zone (a monetary system used by the former Soviet countries) until 1993. Leaving the zone

Trade (expressed in millions of US$): Azerbaijan

	Exports	Imports
1994	637	777
1995	637	667
1996	631	960
1997	781	794
1998	606	1077
1999	N/A	N/A

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

Exchange rates: Azerbaijan

manats per US$1	
Feb 2001	4,579
Oct 1999	4,342
1999	4,373
1998	3,869
1997	3,985.38
1996	4,301.26

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Azerbaijan	N/A	N/A	N/A	1,067	431
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Armenia	N/A	N/A	N/A	1,541	892

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

marked the beginning of effective economic policy making. The manat became the only legal currency after January 1994.

The first 2 years of stabilization included tight monetary and fiscal policies, overseen by the central bank, the Azerbaijan National Bank. The gradual **liberalization** of prices caused interest rates and the exchange rates to become more realistic and led to a more stable financial situation. In order to prevent the currency from over appreciation due to high oil-related capital inflows, the exchange rate was also managed by the state. Oil-related foreign capital inflows increased the amount of foreign currency in the Azerbaijani money markets. These inflows, and the sharp decrease in inflation, caused the appreciation of the manat over foreign currencies. Therefore, to control the **balance of payments** and make the country's export-driven sectors more competitive, the government chose to depreciate the national currency by launching a managed float policy.

With the drop in oil prices during 1998 and 1999 and the tight monetary policies of the previous decade, the annual average inflation rate slowed to -8.5 percent in 1999, compared to 1,664 percent in 1994. Since then, basic foods such as bread, vegetables, meat, and dairy products have become more accessible to Azerbaijanis. There are no stock exchanging facilities in Azerbaijan.

POVERTY AND WEALTH

The level of poverty in Azerbaijan was officially estimated to be 34 percent of the population in 1989. However, with **subsidies** for employment, food, housing, and social services, poverty rarely meant severe deprivation. After independence, on the other hand, poverty increased dramatically. Average food prices multiplied as much as 28,750 times from 1988 to 1998. According to the Azerbaijan Survey of Living Conditions that was conducted in 1995, over 61 percent of the population was poor. Poverty was substantially higher among internally displaced people (due to Armenian occupation in the Nagorno-Karabakh region).

The gap between the rich and the poor widened after independence, especially when the oil-related sector began surging while the other industries (manufacturing, mining) deteriorated. The country consists of an upper class (2–4 percent) living in extraordinary luxury, while the majority of the population (80–85 percent) suffers from very low wages and poor living conditions.

Although poverty is high, human development indicators such as school enrollment, literacy levels, and infant mortality rates are positive. However, public spending on education declined by three-quarters from 1992 to 1996. The health system also suffers from mismanagement, deteriorating quality, excess capacities, and access problems. In 1998, the number of hospital beds was 9.6 per 1000 people. Bribes from patients were

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Azerbaijan	51	5	16	9	2	4	14
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Armenia	52	3	8	3	18	9	23

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

a major form of financing adequate health care. During the 1990s, public health spending decreased. In 1999, the government's health spending was only about 20 percent of its 1990 level.

WORKING CONDITIONS

High incomes are mostly seen in the oil-related sectors and especially in foreign companies. The legal workweek is 40 hours. In order to ensure that citizens enjoy healthy and safe working conditions, a Labor Protection Law was passed in Azerbaijan on 19 September 1992. According to the law, labor protection is defined as a system of socioeconomic, organizational, technical, sanitary, and hygienic measures and means designed to ensure the safety, health, and working capacity of persons engaged in work activities. However, these regulations are not strictly applied.

Azerbaijan is a participant of the International Labor Organization. A minimum wage, which is about US$3 per month, exists. This wage is not sufficient to provide a decent standard of living for a worker and family. The recommended monthly wage level to meet basic subsistence needs was estimated to be US$50 per person as of 1999. Since practically all persons who work earn more than the minimum wage, enforcing its low level is not a major issue in labor or political debate. According to the European Commission, the average monthly wage rate was about US$44 in September 2000.

The largest labor organization is the Azerbaijan Confederation of Trade Unions (or the Azerbaijan Labor Federation), which depends on government support. Its main functions are to promote employment, develop the labor market, support social insurance, ensure employee health and safety, enforce the legal regulation of labor relations, and provide social partnership. The constitution provides the right to strike. Unions are free to form federations and to affiliate with international bodies; but none have done so.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1918. The first Republic of Azerbaijan is established.

1919. The Soviet Union conquers Azerbaijan, absorbing it back into the country.

1989. Azerbaijan calls for withdrawal from the Soviet Union. The conflict in Nagorno-Karabakh begins.

1990. Soviet military intervenes. Moscow appoints Ayaz Muttalibov as the leader of Azerbaijan.

1991. Azerbaijan declares independence in October.

1992. The war with Armenia dominates Azerbaijani politics.

1992. Abulfaz Elchibey wins the presidential election in June.

1993. Heydar Aliyev is elected president in October, with 98.9 percent of the votes.

1994. A ceasefire is signed with Armenia.

1995. A new constitution is adopted by referendum.

1998. Aliyev wins reelection as president.

2000. Aliyev's party wins parliamentary elections in November.

FUTURE TRENDS

Azerbaijan still has to go through a severe democratization process (including proper representation of the people, free elections, and the improvement of human rights), as observed in the parliamentary elections in November 2000, which proved to be a failure in the election mechanism.

Economically, Azerbaijan is improving, with some reservations in the non-oil sectors, which have deteriorated sharply due to the focus on oil. There has been a significant fall in the agricultural, mining (excluding oil), and manufacturing sectors' production levels, decreasing the export levels at the same time. Between 1994 and 1998, agricultural exports decreased by 43 percent, metals by 87.3 percent, chemicals and petrochemicals by 50.4 percent, and machinery and equipment by 62.6 percent.

Energy remains the keystone of Azerbaijan's economic future. In the oil sector, pipeline projects and the gains from production are estimated to reach substantial levels in 2010–2015, giving Azerbaijan political and economic leverage in the region. The production of oil and the supplementary sectors in the oil industry are of importance. In addition, recent discoveries of gas deposits will help supply both Azerbaijan's energy needs and provide exports to Turkey and Eastern Europe. Privatization is another important task. Renovation of the infrastructure, including roads, railways, communications, power generation and distribution, will gain importance as trade relations improve.

The resolution of the Armenian conflict over Nagorno-Karabakh will also affect economic and social conditions in the region and will help improve the international relations of Azerbaijan.

DEPENDENCIES

Azerbaijan has no territories or colonies.

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—Yüksel Sezgin

BAHRAIN

State of Bahrain
Dawlat al-Bahrayn

CAPITAL: Manama (Al-Manamah).

MONETARY UNIT: Bahrain dinar (BD). One dinar equals 1000 fils. There are coins of 5, 10, 25, 50, and 100 fils. There are notes of 500 fils, and 1, 5, 10, and 20 dinars.

CHIEF EXPORTS: Petroleum and petroleum products (61 percent), aluminum (7 percent).

CHIEF IMPORTS: Non-oil imports (59 percent, including machinery and transport equipment, manufactured goods, chemicals, food, and live animals), crude oil (41 percent).

GROSS DOMESTIC PRODUCT: US$10.1 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$5.8 billion (f.o.b., 2000). **Imports:** US$4.2 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Bahrain is the smallest country and the only island-state in the Persian Gulf and the wider Middle East. It covers an area of 620 square kilometers (385 square miles), about 3.5 times the size of Washington, D.C. Bahrain consists of 33 islands, of which only 3 are inhabited. The capital, Manama, is on the main island of Bahrain, which contains most of the population and is linked to Saudi Arabia by a causeway. A southern portion of the main island is a restricted zone where the U.S. Middle East Operations Force is based.

POPULATION. With an estimated 645,361 inhabitants in 2001, Bahrain has the smallest population of all Gulf States, but its annual population growth of 3 percent (1990–98) was among the highest in the world, with an equally high fertility rate (3.2 percent). According to UN figures, it is estimated that the population will double by 2017. Approximately one-third of the population is under 14 years of age. Bahrain's population is highly urbanized: 91.06 percent of Bahrainis lived in cities in 1998.

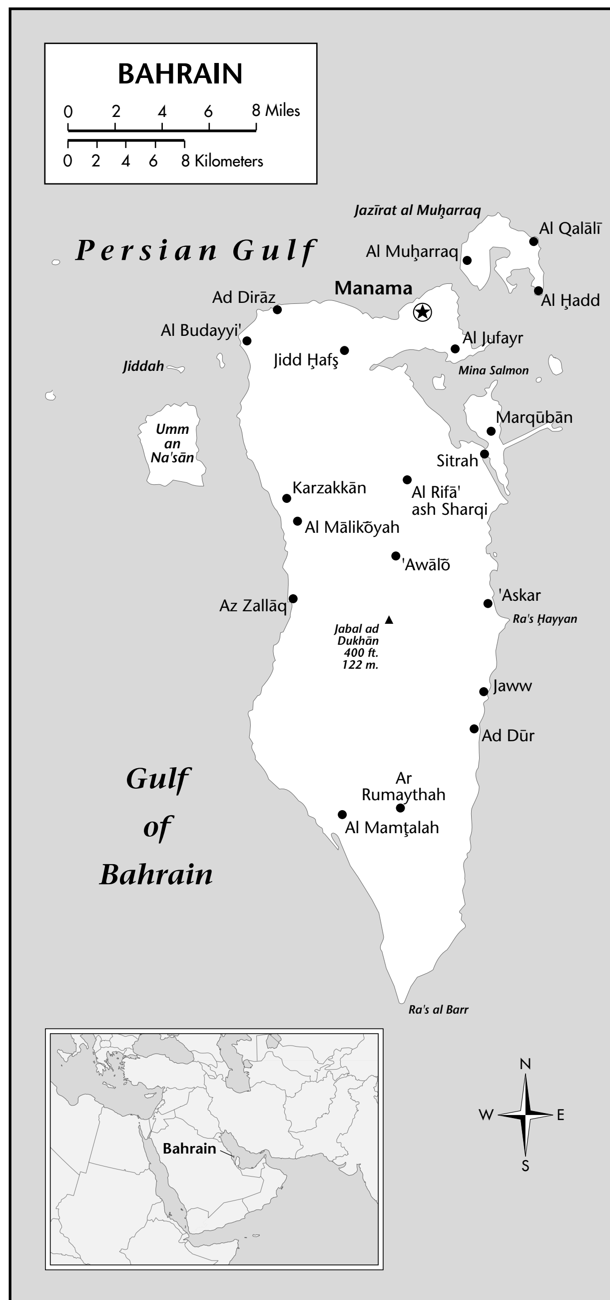
As much as one-third of the people are non-nationals, mainly foreign workers from Asia (19 percent) or other Arab countries (10 percent). Some 8 percent of the population is of Iranian descent, and the majority of the people (85 percent) are Muslims, 75 percent of whom are members of the Shi'a branch of Islam and 25 percent of the Sunni branch. Half of the Shi'a population is under 15 years old. The remaining 15 percent of the population is made up of Christian, Jewish, Hindu, and Parsee minorities.

OVERVIEW OF ECONOMY

Bahrain was the first country on the Arabian side of the Persian Gulf to discover oil in 1932. Oil wealth dramatically improved education and health care, but the country's oil reserves are relatively limited in comparison to most of its neighbors. Bahrain has therefore developed a more diversified economy than most of the Gulf States.

During the 1960s and 1970s, Bahrain emerged as the principal financial and communications center of the Gulf region. Oil and gas, however, still play a dominant role in the country's economy, providing about half of the government's income and accounting for two-thirds of exports. An undersea pipeline pumps oil from Saudi Arabia to Bahrain's large refinery, Sitrah. An estimated 70 percent of Bahrain's oil revenues come from the sale of products refined from crude oil extracted from an oilfield that is shared with Saudi Arabia, but from which Bahrain takes all the income. In effect, therefore, Saudi Arabia supplies Bahrain with financial aid. In addition, it enjoys grants from Abu Dhabi and Kuwait, which contribute considerably to the government budget. Most of the budget (60 percent) is used to pay salaries to Bahrainis and foreigners working in the **public sector**.

Until very recently, wholly or partially government-owned enterprises dominated much of the Bahraini



economy, but there has been an increase in **private sector** activity in recent years. This situation stems from the general decline in oil prices during the 1980s, which resulted in decreasing revenues. This financial downturn made an increase in free enterprise and foreign investment necessary in order to maintain the country's high standard of living and to guarantee its economic welfare. Bahrain became a member of the World Trade Organization (WTO) in 1992 and has since overhauled many laws and regulations. Nevertheless, the government has been slow to implement required measures. For example, it has only partially **privatized** 14 government-owned companies, and only one of these is an important industrial enterprise.

POLITICS, GOVERNMENT, AND TAXATION

Bahrain is characterized by autocratic tribal rule, with authority invested in a single family. The al-Khalifa family, minority Sunni Muslims in a majority Shi'a country, hold 11 of the 20 cabinet posts, while the rest are controlled by the prime minister, Sheikh Khalifa, who is the uncle of the ruler, Sheikh Hamad Bin Isa al-Khalifa. The present emir (prince) succeeded to the throne in March 1999, on the death of his father, and depends to a large degree on his much more experienced uncle, the prime minister, for the running of everyday government affairs. While Sheikh Hamad himself, and his son, Crown Prince Sheikh Salman bin Hamad, are in favor of implementing cautious political reforms, the prime minister is seen as the vanguard of the old order.

In 1899, the al-Khalifa family became the first of the ruling families in the Gulf to sign a so-called "exclusive agreement" by which local rulers granted control of foreign affairs to Britain in exchange for military protection. On August 14, 1971, during the reign of Sheikh Isa bin Salman, which lasted from 1961 until his death in 1999, Bahrain became independent, and a constitution was issued in May 1973. The elected National Assembly convened in December 1973 but was dissolved only 20 months later when the emir decided that radical assembly members were making it impossible for the executive to function properly. For 20 years, the country functioned without a representative body.

Since 1993, there has been a Consultative Shura Council, which is wholly appointive and does not possess any legislative power. There are no political parties and no elections for government positions. In many ways, Bahrain is a typical rentier state, i.e., a state whose political system benefits from large revenues from the sale of natural resources, in this case oil. The government distributes the state income to its citizens by providing them with jobs and a generous welfare system; in addition, the level of taxation is very low. In return, these citizens are tied to the state and remain loyal to undemocratic regimes. Such a relationship is often encapsulated in the phrase, "no taxation, no representation."

During the mid-1990s, the country experienced civil unrest directed against the regime, during which several people were killed. Protests, mainly orchestrated by the underprivileged Shi'a majority, have since continued, although on a lesser scale. The new emir, Sheikh Hamad, has promised municipal elections in the near future and has made new appointments to the Shura Council, including a woman and a Jewish representative. In addition,

a Supreme Council for Economic Development, chaired by the prime minister, was created in 2000 with the aim of identifying, developing, and promoting foreign investment opportunities. In February 2001 Bahrainis voted to approve a new constitution that would institute a partially elected parliament and grant political rights to women.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Bahrain's **infrastructure** is modern, and the government is currently forging ahead with several major projects. These include constructing a new water distribution network, upgrading the Sitrah power and water station, and expanding other water, power, and waste-treatment facilities. Bahrain invested heavily in its infrastructure during the years of the oil boom, but the demand for water and electricity already taxes available capacity, and the expansion of the present facilities is a major priority.

The country's road network, with 2,433 kilometers (1,511 miles) of paved roads, is excellent. The low fees of Bahrain International Airport, located on Al-Muharraq Island, have turned it into a regional hub. The principal port, Mina' Salman, handles most of the country's general cargo, and petroleum products are loaded at the Sitrah jetty. A national bus company provides public transport throughout the populated areas of the country. There are no railways in Bahrain.

POWER. There are 3 main power stations. Rifaa, with a capacity of 700 Megawatts (mw), is the largest. Domestic demand for electricity was estimated to have reached 5.752 billion kilowatt-hours (kWh) in 1999, and this demand is more than exceeded by production of 6.185 billion kWh in 1999.

TELECOMMUNICATIONS. Bahrain is the communications center of the Gulf and has invested heavily in the sector since the late 1960s. There are excellent cable and satellite services using the latest digital exchange technology. The Bahrain Telecommunications Company (BATELCO) owns a 60 percent stake in the telecommunications network, which is operated by the United Kingdom's Cable & Wireless company. BATELCO is also the country's **monopoly** Internet service provider (ISP) and has recently begun to cut its relatively high access rates in an effort to boost subscriptions. Bahrain's cellular phone network has about 170,000 subscribers, according to the U.S. Department of State's *Country Commercial Guide* for 2001.

ECONOMIC SECTORS

Due to its small size and shortage of natural resources other than oil, Bahrain has developed a relatively diversified economy in comparison with the other Gulf states, which are almost exclusively dependent on oil. Oil, gas, and related products still dominate the economy, but finance, banking, industrial production (mainly in aluminum), and tourism are also important sectors in the country's economy and are becoming increasingly significant.

AGRICULTURE

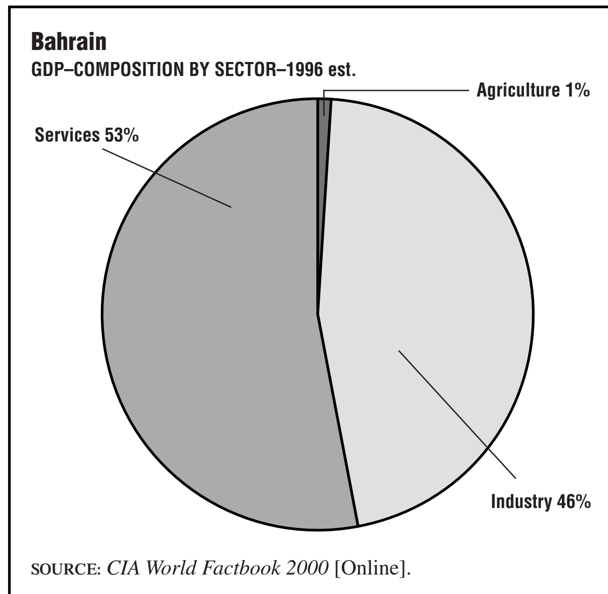
The agricultural sector accounted for only 1 percent of **gross domestic product** (GDP) in 1998 and employed 2 percent of the workforce. The development of agriculture is limited by lack of water and the strong salinity (saltiness) of the soil. Over a period of 30 years since 1971, Bahrain's cultivated area has been reduced from around 6,000 hectares to less than 1,500 hectares. The major crop is alfalfa for animal fodder, although farmers also grow dates, figs, mangos, pomegranates, melons, papayas, water turnips, potatoes, and tomatoes, and produce poultry and dairy products for the local market.

Communications

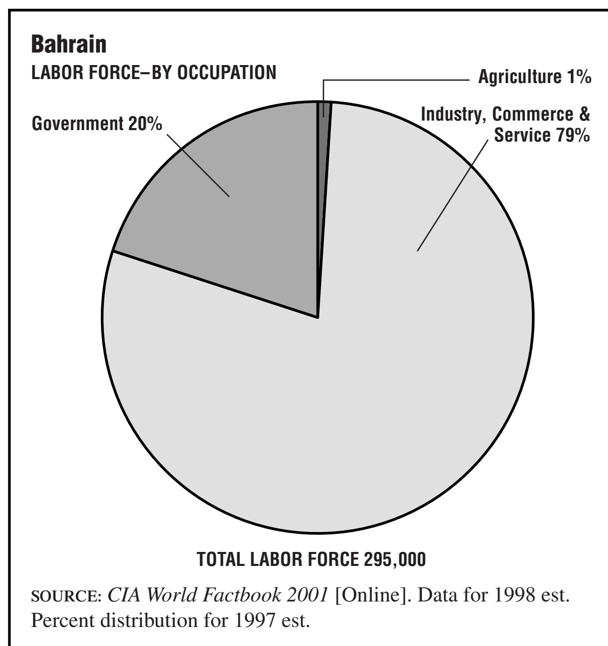
Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Bahrain	152,000	58,543	AM 2; FM 3; shortwave 0	338,000	4	275,000	1	37,500
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Saudi Arabia	3.1 M (1998)	1 M (1998)	AM 43; FM 31; shortwave 2	6.25 M	117	5.1 M	42 (2001)	400,000 (2001)
Qatar	142,000	43,476	AM 6; FM 5; shortwave 1	256,000	2	230,000	1	45,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est. Percent distribution for 1997 est.

Bahrain's fishing industry is small and only serves the domestic market. In the 1970s, the fishing industry declined, largely as a result of pollution and over-fishing in the Gulf. Since 1993, the government has been releasing young fish into local waters in order to boost stocks. Since 1997, trawlers have been banned from operating during the breeding season.

INDUSTRY

The industrial sector contributed 19 percent to GDP in 1996 and employed 34 percent of the **labor force**. Bahrain's aluminum industry was launched some 30 years ago as a measure to diversify the economy and take advantage of the country's low energy costs. The government-owned Aluminum Bahrain (ALBA) is one of the largest single-site aluminum smelters in the world and the biggest aluminum producer in the Middle East. Aluminum exports are one of Bahrain's biggest earners, particularly in light of increasing world prices. ALBA dominates the manufacturing sector with a production capacity of 500,000 metric tons per year.

Iron and steel production is increasing, and various free industrial zones have attracted export-oriented light and medium industries. These include plastics, paper, steel wool and wire-mesh producers; marine service industries; aluminum extrusion, assembly, and asphalt plants; cable manufacturing; prefabricated building; and furniture. In 1997, it was announced that the government was investing US$2.8 billion in the construction of a new seaport and a new industrial area in the eastern part of the country, and work was underway by 2000.

MINING/HYDROCARBONS. The mining and hydrocarbons (oil and related products) sector contributed 20.8 percent to GDP in 1998 but employed only 1 percent of the workforce. Bahrain is not a member of Organization of Petroleum-Exporting Countries (OPEC) and is thus not faced with production quotas but is a member of the Organization of Arab Petroleum Exporting Countries (OAPEC). Total oil reserves are estimated at between 150–200 million barrels, a minimal quantity in comparison with neighboring Arab monarchies.

SERVICES

Services contributed 53 percent of GDP in 1996. Tourism is Bahrain's fastest-growing industry and a heavily-promoted sector. It already accounts for over 10 percent of GDP and employs 16.7 percent of the workforce. Most visitors (3.3 million in 1999) come from the states of the Gulf Cooperation Council (GCC), especially Saudi Arabia, to enjoy the beaches and the comparatively liberal atmosphere in Bahrain, where alcohol is served and Muslim women are not forced to cover their heads. As of July 2000, the government has allowed citizens from member states of the GCC to visit the country using their local identity cards, and the number of tourists is expected to increase substantially over the next few years.

FINANCIAL SERVICES. Bahrain's banking sector has shown consistent growth, particularly since the outbreak of the Lebanese civil war in 1975, when many foreign banks began searching for an alternative regional base. There are now more than 200 financial institutions present in Bahrain. Assets of the country's **offshore banking** units have risen by more than 50 percent in the past decade. Bahrain also has the largest concentration of Islamic bank-

ing operations in the Middle East. Islam prohibits interest rates, and Islamic banking thus employs other methods of creating financial gains from investments.

INTERNATIONAL TRADE

Over the course of the last 30 years, Bahrain has maintained a relatively even **balance of trade**, with imports usually slightly exceeding exports. In 2000, however, the situation was reversed, with imports of US$4.2 billion trailing exports of US$5.8 billion. Bahrain's main export destinations are India (14 percent), Saudi Arabia (5 percent), the United States (5 percent), the United Arab Emirates (5 percent), Japan (4 percent), and South Korea (4 percent). All these countries import mainly processed and refined oil and oil-related products, which have the largest share in Bahrain's exports. Another important export for Bahrain is aluminum, accounting for about 7 percent. Bahrain's total exports rose by nearly 63 percent from 1998 to 2000, while oil-related exports increased from 52 percent of total exports in 1998, to 66 percent in 1999, and back down to 61 percent in 2000.

Bahrain's imports come from a similarly large range of countries. France supplies the majority of imports, with 20 percent, followed by the United States (14 percent), the United Kingdom (8 percent), Saudi Arabia (7 percent), and Japan (5 percent). The heavy trade volume between Bahrain and Saudi Arabia stems from the undersea pipeline between the 2 countries and the shared oilfield located in Saudi Arabia. Bahrain's imports, mainly machinery, manufactured goods, chemicals and food, come from developed industrial states.

MONEY

The **exchange rate** of the Bahraini dinar is fixed to the U.S. dollar, which means that developments in the American economy have repercussions for Bahrain. Bahrain's central bank is the Bahrain Monetary Agency (BMA), an independent organization praised for its adherence to international standards.

Trade (expressed in billions of US$): Bahrain

	Exports	Imports
1975	1.107	1.189
1980	3.606	3.483
1985	2.897	3.107
1990	3.761	3.712
1995	4.113	3.716
1998	N/A	3.463

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Bahrain

Bahraini dinars (BD) per US$1	
2001	0.3760
2000	0.3760
1999	0.3760
1998	0.3760
1997	0.3760
1996	0.3760

Note: Fixed rate pegged to the US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

The Bahrain Stock Exchange (BSE) opened in 1989, and in 1995 Bahrain and Oman signed an agreement linking their stock exchanges. The link-up allows cross-listing of companies on both exchanges, which between them have 110 listed companies with a total **market capitalization** of US$8.1 billion. In 1996, the Bahraini and Jordanian stock exchanges linked up, and the BSE also has links with the Sri Lankan and Bangladeshi exchanges and plans to link up with the Bombay Stock Exchange.

POVERTY AND WEALTH

Although Bahrain is generally a wealthy country, there is a considerable gap between the rich and the poor. Wealthy families shop for the latest fashions in spacious new malls, young Saudi Arabians cruise the broad highways and enjoy the relaxed atmosphere of the island state, and foreign employees of the national oil company take advantage of huge leisure centers built for their exclusive use. The poor live only a short drive away from the cities, in many villages all over the island. Shiites, who make up 75 percent of the Muslim population, are often excluded from government jobs and form the poorest segment of Bahraini society. The ruling al-Khalifa family is Sunni Muslim and has "imported" many Sunnis from other Arab countries, and it is they who form the backbone of the widely resented security forces.

Most members of the ruling political elite are Sunni Muslims, and Bahrain's wealth is heavily concentrated

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Bahrain	N/A	12,022	8,797	8,551	9,260
United States	19,364	21,529	23,200	25,363	29,683
Saudi Arabia	9,658	11,553	7,437	7,100	6,516
Qatar	N/A	N/A	N/A	N/A	N/A

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Bahrain	32	7	8	1	6	9	37
United States	13	9	9	4	6	8	51
Saudi Arabia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Qatar	22	12	11	5	13	8	29

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

among them, while there are only a few wealthy Shiites in the country. Many Shiites have charged that there has been a systematic process of discrimination against them. Their dissatisfaction with the political and economic situation came to the fore in demonstrations and protests that turned violent in 1994 and 1995, triggering the first change of cabinet for more than 20 years in 1995.

For decades, the country has seen an influx of foreign workers who can earn good salaries in the oil industry or as domestic servants and in other jobs locals do not want to do, further exacerbating the plight of the Shi'a community. **Immigration** to Bahrain began in the early years of the oil boom and resulted in the employment of foreigners rather than Bahraini Shiites, who are often less educated and treated with suspicion by the ruling Sunni minority.

WORKING CONDITIONS

Due to the sharp rise in the growth of the local population since the 1980s and the increasing levels of education, the government, as in many other states in the Gulf region, needs to provide young Bahrainis entering the job market with employment. It plans to gradually reduce dependence on foreign labor by training the local workforce and by insisting that expatriates coming to Bahrain to work must have better expertise and skills and be willing to train their local counterparts. After decades of importing foreign labor, foreigners comprised about 44 percent of the workforce of 295,000 in 1998.

Population growth has been proportionately higher among foreigners and Shiites than among Sunni Muslims, who have enjoyed relative job security in government positions. Foreign workers and Shiites have increasingly had to compete for both skilled and unskilled jobs. Since Bahraini Shiites are not allowed to join the armed forces and are discriminated against for senior positions in the civil service, an increasing number of young Shiites try to enter the job market with few qualifications and few opportunities for work.

Officially, unemployment stands at only 2.4 percent, but the United States embassy in Bahrain estimates that the actual rate is closer to 18 percent. Among the Shi'a community in Bahrain, especially those under the age of 30, unemployment may be as high as about 30 percent. In rural areas, agricultural laborers represent about 25 percent of the population. Women are traditionally confined to the household and cannot participate freely in the labor market. Thus, only about 19 percent of the labor force is female, equaling figures in other Middle Eastern countries.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1820. Bahrain becomes a British protectorate with the signing of the General Treaty of Peace but is ruled by the al-Khalifa family. Treaties of protection with Britain are re-signed in 1861, 1892, and 1951.

1928. Iran claims ownership of Bahrain. The dispute is not resolved until 1970 when Iran accepts a United Nations report stating that the vast majority of Bahrainis want to retain complete independence.

1932. Oil is first discovered in Bahrain, to be followed shortly thereafter by discoveries in Saudi Arabia and Kuwait.

1968. Bahrain joins Qatar and the Trucial States (now the United Arab Emirates) in the Federation of Arab Emirates. These countries had all enjoyed the protection of Great Britain up until this point.

1971. Bahrain gains complete independence on August 15, leaving the Federation of Arab Emirates.

1973. A constitution is adopted and elections held for the National Assembly. The Assembly is disbanded in 1975 and indefinitely suspended in 1976.

1981. Bahrain is one of the six founding members of the Gulf Cooperation Council (GCC).

1990. Bahrain actively supports the allied forces against Iraq in the Gulf military conflict, and is the target of an Iraqi missile attack.

1994–97. Civil unrest breaks out following the decline of the economy and expectations of more political rights for the mainly Shiite population after the Gulf war.

1999. Sheikh Isa Bin-Sulman al-Khalifa dies and is succeeded by his son Sheikh Hamad Bin Isa al-Khalifa in March.

2001. In February Bahrainis vote to approve a new constitution that would institute a partially elected parliament and grant political rights to women.

FUTURE TRENDS

With high oil prices in 2000 and 2001, the pressure on the Bahraini government to reform the economy has recently eased a little. But given that the country cannot sustain its dependence on oil for much longer, economic reform remains necessary. The government is expected to push for limited privatization, starting with public transport, although the major state revenue-generating organizations such as the Bahraini Petroleum Company (BAPCO) and Aluminum Bahrain (ALBA) will remain off limits.

At the end of 2000, a new corporate law was introduced, aimed at streamlining regulations and enticing foreign investment. In addition, the establishment of a new international Islamic banking system in Bahrain in October 2001 suggests that there will be further progress in developing the offshore financial services sector. Unemployment among locals remains the government's main economic and social problem. The government will continue to emphasize training to enhance the skills of existing workers and the 6,500 new entrants into the job market each year. But where government policy clashes with the interests of foreign firms—for example, over efforts to encourage companies to replace foreign workers with locals (the so-called "Bahrainization" of the workforce)—the development of a welcoming business environment will take precedence.

Politically, there are several challenges ahead. The emir has signaled his will to broaden political participation but is still struggling with the prime minister over the pace of reform. In the long run, however, both political and economic **liberalization** will prove unavoidable, with one reinforcing the other to the benefit of the country.

DEPENDENCIES

Bahrain has no territories or colonies.

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—Ralph Stobwasser and Markus R. Bouillon

BANGLADESH

People's Republic of Bangladesh
Gana-Prajatantri Bangladesh

CAPITAL: Dhaka.

MONETARY UNIT: Taka (Tk). One Bangladeshi taka equals 100 paisa. Notes are in denominations of 1, 2, 5, 10, 20, 50, 100, and 500 taka. There are coins of 1, 5, 10, 25, 50, and 100 paisa.

CHIEF EXPORTS: Garments, jute and jute goods, tea, leather and leather products, frozen fish, and seafood.

CHIEF IMPORTS: Machinery and equipment, chemicals, fertilizers, iron and steel, textiles, raw cotton, food (mainly rice and wheat), crude oil and petroleum products, and cement.

GROSS DOMESTIC PRODUCT: US$187 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$5.523 billion (1999). **Imports:** US$8.381 billion (1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Bangladesh is situated in southern Asia, on the delta of the 2 largest rivers on the Indian subcontinent—the Ganges and Jamuna (Brahmaputra). It borders with India in the west, north, and east, with Burma (also known as Myanmar) in the southeast, and with the Bay of Bengal in the south. The country's area is 144,000 square kilometers (55,598 square miles), and it is divided into 6 administrative divisions (Dhaka, Chittagong, Khulna, Barisal, Rajshai and Sylhet) and 4 major municipal corporations (Dhaka, Chittagong, Khulna and Rajshahi). Comparatively, the territory of Bangladesh is slightly greater than the state of New York. Bangladesh's capital city, Dhaka, is located in the central part of the country. Bangladesh occupies the eastern part of the Bengal region (the western part of the region is occupied by the Indian state of West Bengal), which historically was part of the great civilizations in the northeast of the Indian subcontinent.

POPULATION. The population of Bangladesh was estimated at 129,194,224 in July of 2000, making Bangladesh the tenth-most populous state in the world. Having a total area the size of New York state, the country has a population equal to half that of the United States or 8 times the population of New York State. It has almost doubled since the 1960s, due to improved health, medical facilities, and longer life expectancy. In 2000 the birth rate stood at 25.44 per 1,000 (slightly higher than the world average), adding around 190,000 people every month. Meanwhile the death rate stood at 8.73 per 1,000. The estimated population growth rate is 1.59 percent, and if the current trend remains unchanged, the population could double within the next 45 years.

The Bangladesh population is relatively homogeneous, with Bengalis making up 98 percent of the population and other ethnic groups, including various tribal groups, making up the remaining 2 percent. Religion plays a very important role in this country, and the main division is between Islam and Hinduism. Almost 88.3 percent of the population are Muslims, 10.5 percent are Hindus, and 1.2 percent are Buddhists, Christians, or animists. The Bangladesh population is very young, with 36 percent below age 14 and just 4 percent of the population older than 65. In 1998 over 80 percent of Bangladeshis were living in rural areas, although during the last decade the growth of the population in the urban areas was twice as fast as in rural areas (due to both the migration of the rural population and the high birth rate). The rapid growth of the urban population is especially noticeable in the urban centers of Dhaka, Chittagong, Khulna, and Rajshahi.

In 1970, the population of Bangladesh was about 66 million, and the country at one time had one of the highest birth rates in Asia. The country's population doubled between 1950 and 1977 and almost doubled again between 1977 and 2001, putting severe pressure on the natural resources and leading to land shortages. In the 1970s the government introduced population control and family

planning initiatives, aided by various international organizations, including United Nations Children's Fund (UNICEF), United Nations Population Fund (UNFPA), and the World Bank. The fertility rate (the average number of children born to a woman) in Bangladesh declined from 6.8 babies per woman in 1965 to around 3 per woman in 1999. However, these population control initiatives were undermined by the fact that two-thirds of the population still lives in rural areas, where historically population growth was very high, and by the fact that almost two-thirds of the people in the country are illiterate. A number of issues still need to be addressed, including the supply of safe drinking water, malnutrition among children (which remains the highest in the world), early and forced marriages, and illiteracy among the population in general and women in particular.

The population growth in the country was offset by rapidly rising **emigration** of people, both permanent and temporary, in the 1980s and 1990s. The major destinations for Bangladeshi workers seeking temporary jobs are Kuwait, Malaysia, Qatar, Saudi Arabia, Oman, and the United Arab Emirates, where they are employed mainly in the low-skill and low-wage construction and service sectors and in agricultural plantations. Other popular destinations for emigration are Western Europe, the Americas and Australia, where large Bangladeshi communities formed during the last 3 decades. According to the *CIA World Factbook,* the emigration rate stood at the 0.77 migrant(s) per 1,000 population in 2000, or around 1 million a year.

OVERVIEW OF ECONOMY

Agriculture and labor-intensive manufacturing remain the 2 major pillars of the Bangladeshi national economy. Historically, a tropical climate and warm temperatures throughout the year made it possible to grow 2 or 3 crops of rice each year, although floods and cyclones regularly damaged crop yield. Flourishing trade, manufacturing—traditionally in light manufacturing and agricultural processing—along with the wealth of the region's nobility, attracted English, French, and Dutch traders. The British East India Company had slowly but steadily advanced into the region in the 17th and 18th centuries, acquiring trade privileges from the Mogul emperors and exploiting rivalries between local rulers, and gradually established control over the trade between India and Europe. The company and its often corrupt administration had greatly benefited from the trade between India and Europe. The British East India Company established control over administration of the Bengal province in 1765. However, in 1858 the company was abolished, and the British crown assumed direct control over British India, in response to the local uprising of 1857 to 1858 and to growing evidence of the company's inefficiency. Throughout the colonial era, East Bengal (the territory of modern Bangladesh) received very limited investments in its industrial sector or toward development of its transportation system, and largely relied on the production and export of its agricultural goods, including jute, rice, and tea. The British colonial rule in India was accompanied by uprisings, greater polarization of society, and a decline in the traditional values and institutions of the society; nevertheless, it included India in the global trade of the early capitalist era and introduced the British legal and political systems and the technological innovations of that era.

In August 1947, India was granted independence within the British Commonwealth and was divided into the dominions of India and Pakistan. Pakistan, which included the areas populated predominantly by the Mus-

lims, was itself divided with the West Pakistan comprising the area now known as Pakistan, and East Pakistan, occupying what had been Eastern Bengal. Powerful West Pakistan was politically and economically dominant over East Pakistan, giving rise to a secessionist movement in the eastern province. Despite attempts to ease the tensions, these factions gradually grew into open hostility and in 1971 a brief but bloody civil war flared up that lasted for 2 weeks and ended with the intervention of Indian troops. On 17 December 1971 a new government in Dhaka declared the independence of the new state, Bangladesh.

After achieving independence in 1971, Bangladesh confronted the challenging task of developing and diversifying its economy, as the country had very limited natural resources and arable land with which to support its rapidly growing population. The task was complicated by years of political turbulence and military coups (in 1975, 1981, and 1982) that did little to attract international investors and by devastating natural disasters that regularly visited Bangladesh in the 1970s and 1980s. By the beginning of the 21st century, according to the World Bank, Bangladesh had become one of the poorest and least-developed economies in Asia.

During the 1970s and 1980s the government of Bangladesh promoted economic development based on heavy state involvement both in economic management and economic planning. In fact, after achieving independence, the government led by the Awami League, **nationalized** large and medium-sized enterprises in jute, cotton textile, sugar processing, banking and insurances. Its economic policies were centered on 5-year plans (the first 5-year plan was launched in 1973), which aimed at development and public resource allocation modeled on the Soviet 5-year experience. However, the Bangladeshi experiment with **socialism** did not last long, and the government eschewed radical changes. The country's average **gross domestic product** (GDP) growth of around 3.3 percent in the 1970s and 4.4 percent in the 1980s (World Bank calculation) were very impressive, but this growth was offset by even more rapid growth of the population.

In 1991 the first free and fair election was held in Bangladesh and the Bangladesh National Party (BNP) won the election. The new civilian government considerably revised the economic policies of the previous government, introducing elements of free market economy, limiting state intervention, downsizing the government, launching **privatization** and attempting to attract **foreign direct investments** (FDIs) and technologies. The political stability of the 1990s and the new economic policies attracted international investors and greatly contributed to the economic growth of around 5 percent throughout the 1990s. However, Bangladesh still depends heavily on international assistance and loans, as well as **remittances** from Bangladeshis working abroad. According to the International Monetary Fund's (IMF) *Country Report,* in 1999 the country's **external debt** stood at US$15.145 billion, or 35 percent of GDP. This amount is relatively small according to international standards and mainly due to past capital account restrictions. According to the IMF, one of the peculiarities of the Bangladeshi **foreign debt** that makes it different from that of Indonesia or Malaysia is that it is almost entirely public, with private debt accounting for a low 5 percent of the total country's debt. Bangladeshi official reserves stood at a level of US$1.522 billion in 1999.

The structure of the Bangladeshi economy changed gradually over the last 3 decades. According to the World Bank, the contribution of agriculture to the country's GDP has been steadily declining from 55 percent in 1970 to 31.6 in 1999, although it still provides employment to large numbers of people. Bangladesh remains one of the world's leading producers of jute and rice, although most of the rice is for domestic consumption rather than export. The proportion of manufactured production grew from 9 percent of GDP in 1970 to 19.3 percent of GDP in 1999. Manufactured products accounted for around 60 percent of gross export earnings in 1999, with clothing goods becoming the single most important product. Tourism is a very small but rapidly growing sector of the economy that increased by around 42 percent between 1993 and 1998. Approximately 171,000 tourists visited the country in 1999, contributing Tk2.4 billion to the national economy. By comparison, tiny Singapore attracts a similar number of tourists every week.

For a long time Bangladesh struggled to diversify its economy. Large and medium state-owned enterprises dominate the manufacturing sector, although a number of private enterprises were established during the 1990s. Medium and small farms dominate the agricultural sector, and many farmers are still engaged in subsistence agriculture. Meanwhile, a number of medium and small, usually family-owned, enterprises dominate the service sector, especially **retail**. Bangladesh tried to catch up with the information technologies boom in the 1990s, but unlike neighboring India, it failed to promote this sector of its economy on a similar scale.

Economic growth and stability failed to bring economic prosperity to a large proportion of the population, especially in rural areas. Since the 1970s there has been an outflow of large numbers of the young and the most talented people from the country through various legal and illegal channels. Allegedly, organized criminal groups connected to drug trafficking control this outflow. Drugs are another important issue, as Bangladesh shares a border with Burma (Myanmar), which is a part of the world's largest opium producing region called the "Golden Triangle" (an area between Burma, Laos, and

Thailand). The **shadow economy** is believed to be very large due to incomplete economic activities data collection, tax evasion, and a strong tradition of cash economy, although this shadow economy is not necessarily related to organized criminal activities. In 1996 a national account task force was formed to upgrade the outdated and inefficient system of national accounting, having among other goals to deal with the problem of calculating and capturing shadow economy activities.

POLITICS, GOVERNMENT, AND TAXATION

Bangladesh is a parliamentary democracy largely influenced by the British parliamentary system. Executive power is in the hands of the prime minister, who is the head of the cabinet, and who must be a member of the 300-seat Jatiya Sangsad (**unicameral** parliament). She/he recommends the council of ministers to the president. The president is the constitutional head of state and is elected for a 5-year term by the parliament, but plays a largely ceremonial role. The president can act only on the advice of the prime minister, as the presidential power was significantly reduced in accordance with constitutional changes in 1991.

All adult citizens (18 years old and over) are eligible to vote, including women and ethnic minorities. One of the unique features of the political system in Bangladesh is that 30 seats (10 percent) in the parliament are reserved for female members, and they are elected by the members of the parliament.

Bangladesh experienced a number of military coups after achieving independence in 1971, and several military governments tried to restrict activities of political parties. However, after the return to civil rule in 1990, all political parties may openly function in the country. There are a number of political organizations in Bangladesh. Most prominent of them are: the Awami League (a coalition of 8 parties); the Bangladesh Nationalist Party; the Jatiya Party; and the Jamaat-e-Islami Party. The Awami League (AL), which led the country to independence in 1971, generally supports more government interventionist policies and has a very cautious attitude towards **liberalization** or opening of the national economy to international competition; in fact, in the early 1970s the party had strong pro-socialist elements in its economic policy. The Bangladesh Nationalist Party (BNP), which was the ruling party from 1991 until its defeat in the parliamentary election of 1996, is more free-market oriented. The BNP introduced the policy of economic liberalization and privatized some state-owned enterprises. It opened the national economy to international competition in an attempt to attract foreign investors.

Once Bangladesh had achieved independence, political stability, the creation of a viable national economy, and the elimination of poverty became the major political issues shaping political debate and conflict in the state. The political process in the country was complicated by the hostility and often violent confrontations between the 2 leading parties, AL and BNP. The Awami League won the first post-independence general elections while promulgating ideas of nationalism, socialism, democracy and secularism. In economic areas, this government took a strongly interventionist role in the development and industrialization of the national economy. The party, however, could not overcome the economic and political divisions within Bangladeshi society and lost its power in a military coup in August 1975. The coup pushed the country towards even greater political instability, which continued until 1990, when charismatic General Hossain Ershad was forced to resign. Military rule failed to bring stability to the country because it did not stop the rivalry between the 2 major parties, the AL and BNP. In fact, the army was drawn into the groups' political confrontations.

In 1991, the first free and fair election was held in Bangladesh. Begum Khaleda Zia (widow of General Ziaur Rahman, the president from 1978 until his assassination in 1981) and her party (BNP) won the election. The new government brought radical changes to the economic policy, promoting private entrepreneurship, especially among representatives of poor communities, and supporting small- and medium-size businesses and privatization. This program was successful, and Bangladesh experienced economic growth throughout the 1990s. According to the World Bank, between 1989 and 1999 the average annual GDP growth was around 4.8 percent, with industrial production growing at an annual average of 7.3 percent and exports of goods and services at an annual average of 14.2 percent, albeit from a very low base. For the first time in decades the Bangladeshi government had brought a sense of stability to the country.

The 1996 parliamentary election, however, was again accompanied by irregularities and almost pushed the country into chaos again. The BNP won the February 1996 parliamentary election, which was boycotted by the AL-led opposition. The confrontation escalated in violence, and the BNP handed power over to a caretaker government. After 2 decades in opposition, the Awami League won the June 1996 parliamentary election, with support from the Jatiya Party. This time the Awami Party significantly moderated its position, supporting a gradual liberalization of the national economy, encouraging private entrepreneurship, and advocating the secular state; it had largely abandoned socialist ideas. One of the most important achievements of the 1990s was the diminishing role of the army in the political life of the state, al-

though the army threatened to take matters into its own hands during the period of political conflict in 1996.

According to the IMF *Country Report,* the major source of government revenue comes from taxes, although the tax ratio of 7.6 percent of GDP remains one of the lowest in the world. Total government revenue was Tk210 billion in the 1997/1998 financial year. Tk51 billion came from **value-added tax** (VAT), Tk43.5 billion from customs **duties**, Tk20.0 billion from income and profit taxes, Tk21 billion from supplementary duties, and the rest from other sources. According to the U.S. Department of State, the maximum customs duty rate has been reduced from 350 percent in 1991 to around 37 percent in 2000.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Bangladesh is a country of a thousand rivers, large and small, and most of its territory is regularly flooded during the monsoon season. This fact makes it extremely difficult and expensive to build modern transportation and communication networks. The river boats and ferries traditionally used for transportation are cheap, but slow and inefficient. The situation is further complicated by the fact that the Bangladeshi government has sharply limited resources not only for building new **infrastructure** but also for maintaining the existing one. From the colonial era Bangladesh inherited underdeveloped and unevenly distributed infrastructure and transportation networks. Poor and inefficient infrastructure undermined the economic development in the country, and only recently has the government been able to address the problem systematically and channel investments towards expanding its highways, railroads, seaports, and airports. More recently, with international assistance the government has also started to modernize its telecommunications infrastructure and introduce the Internet.

According to the *CIA World Factbook,* Bangladesh is served by a network of 201,182 kilometers (125,014 miles) of primary and secondary roads, but only around 10 percent of them, or 19,112 kilometers (11,876 miles) are paved. In June 1998 the huge US$1 billion Jamuna Multipurpose Bridge was completed, becoming the 12th-longest bridge in the world. The bridge connected for the first time the eastern and western parts of Bangladesh. The completion of this project made an important contribution to the development of the country's transportation network and significantly boosted the quality and speed of passenger and freight transportation. The number of privately-owned cars grew throughout the 1990s, albeit from a very low level (there were 40,000 private cars in 1994). Many cars are very old and in poor repair and produce high levels of pollution on the congested roads of the capital and other major cities. Despite all the problems with the roads and the often-outdated equipment, 66 percent of all freight and 73 percent of all passengers are carried by roads; however, animal-driven carts are still a part of the national landscape, as they provide the cheapest and most reliable transportation for people and goods in most of the country's rural areas.

Bangladesh has a railway system of about 2,745 kilometers (1,706 miles), of which only 923 kilometers (573.5 miles) is a broad gauge (1.676 meter gauge) and the remaining 1,822 kilometers (1,132 miles) is narrow gauge (1.000 meter gauge), according to CIA estimates for 1998. Major links run from the largest Bangladeshi port, Chittagong, to Dhaka and further to the north of the country; other links connect such centers as Khulna and Rajshahi. Historically, the railway was built by the British colonial administration in 1884, running between Calcutta (now India) and Khulna (now Bangladesh). Rail services were halted following the Indo-Pakistan war in 1965. In the 1970s cargo trains resumed their services between the 2 countries. According to a BBC report on 26 January 2001, the government of Bangladesh has expressed its interest in "seriously studying the potential of linking the national railways with the proposed Trans-Asian Railway Network." The Bangladeshi railway system remains a state-owned **monopoly** requiring large

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Bangladesh	9	50	6	N/A	1	N/A	N/A	0.00	50
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
India	N/A	121	69	18.8	1	0.2	2.7	0.18	2,800
Burma	10	95	7	N/A	0	0.1	N/A	0.00	1

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

subsidies, as it is notorious for its poor management and a long-established tradition of ticketless travel among the local population. In recent moves, the government began the privatization of some railway services, including ticket reservation and in-service catering. Despite all shortcomings, the railway remained an important mode of transportation, operating 3.7 billion passenger-kilometers and carrying 3.76 million metric tons of goods in the 1998–99 financial year.

The waterways are an important mode of transportation, especially to some remote areas of the country, as no other mode of transportation is available during monsoon season. Bangladesh has 3 major seaports, at Chittagong, Dhaka, and Mongla, and several smaller ports. The largest and most important port is Chittagong, situated around 200 kilometers (124 miles) southeast of Dhaka. According to the *EIU Country Report,* in 2000 the Chittagong seaport handled around 80 percent of country's imports and 75 percent of exports, or 14.6 million metric tons of cargo and 420,850 containers. There have been several plans backed by private investors to set up 2 modern container terminals (in Chittagong and in Dhaka), but these plans have met opposition from the labor unions. According to the U.S. Department of State, in 1998 the U.S.-based company Stevedoring Services of America (SSA) signed a US$440 million contract to develop a private container project, which includes the construction of 2 container terminals.

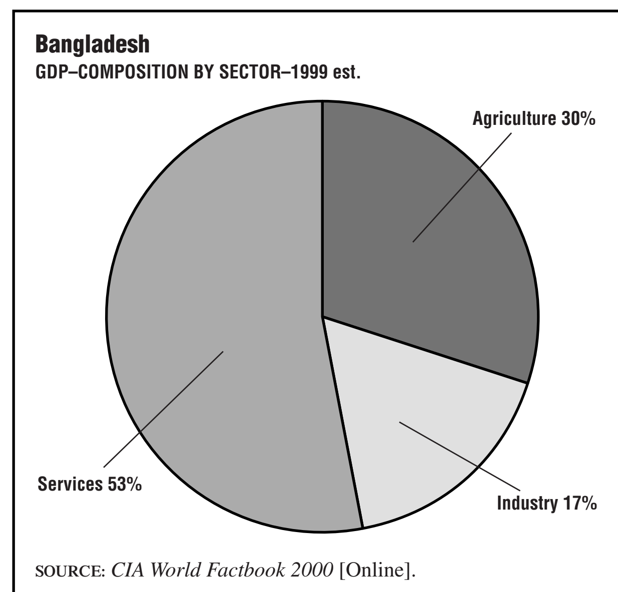
Currently, Bangladesh is putting considerable efforts into developing its aviation industry to serve growing tourism and business needs. According to the *CIA World Factbook,* the country has 16 airports with paved runways, including 2 international airports (Chittagong and Dhaka). The largest, Zia International Airport at Dhaka, is capable of handling 25 million passengers and 1.2 million tons of cargo annually. Bangladeshi Biman Airline, the national air carrier, operates a fleet of about 15 aircraft, including 3 Airbus 310–300s, flying to 25 international destinations and serving several domestic routes. In the 1998–99 financial year it carried 1.22 million passengers and 30,869 metric tons of cargo.

Bangladesh belongs to the group of countries with the lowest commercial energy consumption per head in the world. The CIA estimated that in 1999 the country produced 12.5 billion kWh, 85 percent of which was produced using gas, 7.0 percent was produced at hydroelectric power plants, and around 8 percent by using liquid fuel. According to the *EIU Country Profile,* 85 percent of households in Bangladesh have no electricity and in these places where it is delivered, 40 percent of the electricity generated is not paid for. The country experiences regular electricity blackouts and shortages, and its poor reliability is often cited among factors driving away foreign investors. The Bangladeshi government is willing to address the problem but in general has not had enough resources to build new electric power generating plants. In a recent trend, the Asian Bank of Development (ABD) approved a US$140 million loan to construct a 450-mw gas-fired power station near Dhaka, scheduled for completion in 2003.

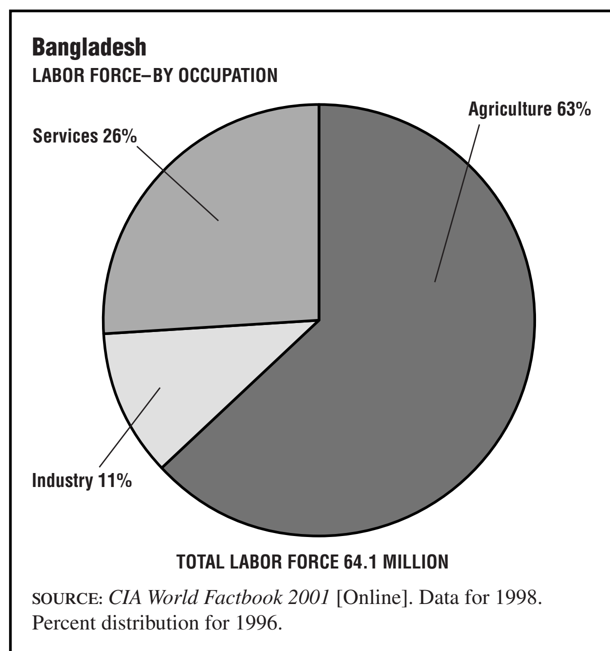
Telecommunication services in Bangladesh are underdeveloped and provide one of the lowest rates of telephone ownership per 1,000 inhabitants in the world. The largest company is the Bangladesh Telegraph and Telephone Board (BTTB), which enjoyed a state monopoly until 1972, when private operators were allowed. As most of the telephone service uses outdated analogue technology, the quality of telecommunication services is often poor and in need of upgrades. In 2000 the country had a mere 490,000 telephone lines and 52,000 mobile phones serving 129 million people. The government is aiming to provide telephone coverage of remote towns and villages that until now have had no telephone connections. With international assistance and increasing private investments, Bangladesh is upgrading its telecommunication system, replacing analogue technology with digital, introducing the Internet and e-mail services, and expanding cellular mobile services.

ECONOMIC SECTORS

According to the *World Bank Development Indicators,* Bangladesh is the 50th-largest economy in the world, judged by its gross national income, although it is the 10th-largest state in the world if judged by its population. Although it has a good environment and climate for the production of various crops and huge potential for developing a tourist industry, the country suffers from



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998. Percent distribution for 1996.

scarcity of natural resources, shortage of arable land, regular natural disasters (flooding and cyclones), and a lack of investment.

For decades after independence, political instability, low demand in the local market, and economic stagnation hindered the economic development of the country. Since establishing a civil government in 1991, Bangladesh has been struggling to diversify its economy, to reform its agricultural sector, and to expand its industrial sector, as it needs average annual economic growth of at least 7 percent in order to eliminate widespread poverty. In the 1990s while Bangladesh was unable to solve its economic difficulties and eliminate poverty, it achieved impressive growth in many areas, including manufacturing and agriculture. Recognizing the difficulties, the Bangladeshi government was willing to accept the IMF's recommendations and to conduct structural changes, which included relinquishing its socialist orientation and state control over the economy, decentralization of economic management, and privatization, although many of these changes were painful and implemented only slowly.

Agriculture is still the single most important sector of economy. Between 1989 and 1999, it experienced stagnation with an average annual growth of only 1.6 percent, which was not enough to support a rapidly growing population. Throughout the 1980s and 1990s, Bangladesh tried with some success to achieve politically and economically important self-sufficiency in food production, increasing productivity and diversifying the crop base. Nevertheless, the share of agriculture in the GDP declined from 55 percent in 1970 to 19.6 percent in 1999.

The role of the manufacturing sector is growing, but the growth is painfully slow due to a lack of foreign investment, small demand in the local market, and red tape and inefficiency in the local bureaucracy. According to the World Bank, the industrial sector in Bangladesh grew at an average annual rate of around 4.1 percent between 1979 and 1989 and around 7.3 percent between 1989 and 1999. Bangladesh has a relatively large reserve of gas, which has become increasingly important as a source of energy and has potential to become a source of export revenue.

Bangladesh tries to promote its service sector, especially tourism and the information technologies sector. However, in doing so it has to compete with neighboring India. Local trade, tourism, and other services currently make important contributions to the country's GDP, providing employment for 26 percent of the **labor force** in the country.

AGRICULTURE

Agriculture remains the most important sector of Bangladeshi economy, contributing 19.6 percent to the national GDP and providing employment for 63 percent of the population. Agriculture in Bangladesh is heavily dependent on the weather, and the entire harvest can be wiped out in a matter of hours when cyclones hit the country. According to the World Bank, the total arable land in Bangladesh is 61.2 percent of the total land area (down from 68.3 percent in 1980). Farms are usually very small due to heavily increasing population, unwieldy land ownership, and inheritance regulations. The 3 main crops—rice, jute, and tea—have dominated agricultural exports for decades, although the rice is grown almost entirely for domestic consumption, while jute and tea are the main export earners. In addition to these products, Bangladeshi farmers produce sugarcane, tobacco, cotton, and various fruits and vegetables (sweet potatoes, bananas, pineapples, etc.) for the domestic market.

Rice is the staple food in the everyday diet of Bangladeshis. The production of rice, which can be harvested 2 or even 3 times a year, reached 19.9 million metric tons in 1998–99. The production of wheat reached about 2 million metric tons in 1998–99. Both crops play an important role in achieving self-sufficiency in food production. However, due to weather conditions the production of rice and wheat fluctuate greatly, forcing Bangladesh to import food from the international market or turn to international aid. Bangladesh imported 1.6 million tons of wheat (mainly from the United States) in 2000 in order to meet the demand in the local market.

Jute, often called the "golden fibre" of Bengal, is the main export-earner for Bangladeshi agriculture, as Bangladesh remains the world's second-largest producer

of jute (after India) and the world's largest exporter of fiber. Jute is traditionally used for the fiber of carpet backing, burlap bags, cheap paper, and various other purposes. Its importance for the Bangladeshi economy comes from the fact that almost 3 million farms are involved in jute production. In 1999 Bangladeshi export earnings from jute amounted to US$55 million, with the country producing 720,000 metric tons of jute, although this is about one-third of the jute production of the middle of the 1980s. The decline in jute production is attributed to declining world prices for this crop and to farmers switching to other crops.

Bangladesh also produces tea leaves, mainly for export, although the export of this product contributes only 1 percent of the country's **hard currency** earnings. In 1998–99 the country produced 56,000 metric tons of tea leaves, but it could produce twice that amount. The main obstacle to increasing production is in falling prices for tea in the international market and in management and regulation problems in the industry in the country.

Tropical rainforest is important for maintaining the ecological balance in Bangladesh, and forestry contributes 1.9 percent to the GDP (1999–2000). The forest covers around 17 percent of the country's territory, or 2.5 million hectares (6.18 million acres). The timber is used by the construction industry as a source of building materials, by the printing industry as a source of materials to produce paper, and in the agricultural sector as a source of firewood. Commercial logging is limited to around 6.1 million cubic feet, and the government plans to plant more trees within the next 15 years.

Fishing is another important activity in the country, contributing 4.9 percent to the GDP (1999–2000) and providing 6 percent of the total export income. The overall fish production was around 1.6 million metric tons (1999–2000). Bangladesh mainly exports its shrimp to the international market.

INDUSTRY

MINING. The main commercially viable natural resource in Bangladesh is gas, although there are reports of the existence of moderate-sized reserves of coal. Total gas reserves are estimated at 21,000 billion cubic feet. In 2000 Bangladesh utilized 370 billion cubic feet, mainly for domestic consumption. The major gas fields are situated in Greater Sylhet district, the Bay of Bengal, and Greater Chittagong district. Transnational corporations are keen to be involved in gas exploration in Bangladesh and its exportation to the huge Indian market, however the Bangladeshi government is resistant to the idea of exporting the gas, as according to local experts' estimates the proven reserves could run out within the next 30 to 40 years.

MANUFACTURING. During the 20th century Bangladesh, like neighboring Burma (Myanmar) and Nepal, largely missed the industrialization wave that changed the economies of many countries in the Asian region, such as Malaysia, Singapore, and Taiwan. At the beginning of 2001, manufacturing contributed about 24.3 percent of the GDP, providing employment to 6.2 million people or 11 percent of the workforce. Between 1989 and 1999, the manufacturing sector in Bangladesh grew at an average annual rate of around 7.2 percent, albeit from a very low base. The cheap, reliable, and abundant labor available in Bangladesh is attractive to the world's leading transnational corporations, but they have been very slow to move into the country, as they face regular industrial unrest led by radical trade unions, poorly developed infrastructure, red tape, and a very small local market. As in neighboring India, the Bangladeshi government promoted the idea of state-led industrialization combined with heavy state involvement in and state control of enterprise activities.

The manufacturing sector in Bangladesh comprises mainly small, privately-owned, often unmechanized enterprises or large, state-owned, often loss-making enterprises. The main industrial centers are Dhaka, Chittagong, Khulna, and Rajshahi, which have (by local standards) well-developed transport infrastructure, including access to seaports and railways and the sizeable and very cheap unskilled and skilled labor force. The industrial enterprises concentrate mainly on the production of jute goods, ready-made garments, foodstuff processing, and chemical production.

Most of Bangladeshi jute goods are produced in large state-controlled enterprises for export to the United States, Europe, and other markets, contributing Tk13.3 billion in 1997–98 to the country's export earnings and Tk11.7 billion in 1998–99. According to the *EIU Country Profile,* Bangladesh accounts for 90 percent of world jute fiber exports. The jute processing enterprises are vulnerable to downturns in the regional and international market and experienced some **recession** in 1998–99. Additionally, during the last few years the demand for jute in the international market has been in decline due to increasing use of synthetic materials in the areas where jute was previously used. However, these jute processing businesses still have plenty of the cheap local supply of raw materials and, if they continue to improve the quality of their products, with efficient management and marketing they may expand their export potential.

During the last 2 decades Bangladesh has found a strong niche in ready-made garments (RMG), becoming one of the world's leading exporters of these products. There are around 2,600 small and medium-size garment-manufacturing enterprises, providing employment for about 1.4 million local workers, mainly women. Access to cheap and reliable local labor makes Bangladeshi

RMG manufacturers very competitive in the international market, although most of the fabrics and machinery must be imported (in 2000 Bangladesh imported 160,000 metric tons of cotton from the United States). According to the U.S. Department of State, total clothing exports reached about US$5 billion in 1999–2000, mainly to the United States, Europe, and Canada. Bangladesh especially benefited from the multi-fiber arrangement with the United States and the generalized system of preferences with the European Union, which set special quotas for the RMG imports from Bangladesh. The RMG sector experienced rapid growth during the last 5 years, but with the rise of free trade and elimination of the quota system at the end of 2004, Bangladesh will face very tough competition from other Asian countries such as China, India, Indonesia, Thailand, and Vietnam.

Bangladesh has a well-established food processing sector, which relies on domestic agricultural production and is oriented mainly to domestic needs. It includes sugar refining and milling, production of edible oils, processing and preserving of fruits and fruit juices as well as fish processing, especially shrimp and prawns. As a tropical country Bangladesh has a plentiful domestic supply of exotic fruits and sea species.

In the 1990s 2 major changes affected the development of the industrial sector in Bangladesh. First, the end of the numerous military coups and the establishment of civil government brought in political stabilization, which attracted direct international investments and encouraged the inflow of foreign aid. Secondly, the policy of economic liberalization, structural adjustment, and privatization helped to increase the competitiveness of the local industries and encouraged them to search for new overseas markets. In order to promote the attractiveness of the Bangladesh economy, the government established special export-processing zones (EPZ). They are situated in Chittagong, Dhaka, Chalna (near Mongla port in Khulna) and in Commila, where investors are given access to well-developed infrastructure and enjoy tax breaks and other privileges. By the year 2000, the EPZs had attracted around US$415 million worth of foreign investments and more than 150 firms had moved there. According to the U.S. State Department, the United States is the single largest foreign investor in Bangladesh with total fixed direct investment of about $750 million. The major investment projects were in the chemical, electronics, and electrical industries. The United States is followed by Malaysia, Japan, and the United Kingdom, and the next tier of investors are Singapore, India, Hong Kong, China, and South Korea. The U.S. State Department estimates U.S. investment in Bangladesh will be about $2.5 billion in 2 to 4 years.

SERVICES

TOURISM. Tourism is a small but rapidly growing sector of Bangladeshi economy. According to the International Labor Organization, together with the wholesale and retail sector it provides employment for almost 6.0 million people (1996), or around 10.8 percent of the labor force. Government statistics state that 171,000 tourists visited the country in 1998, contributing Tk2.4 billion to the national economy. Most visitors were from India, Australia, Germany, the United Kingdom, and the United States.

Tourism could only take off in the 1990s, after the stabilization of the political situation in the country and the end of the tribal insurgency in the Chittagong Hill Tracts area (southeast of the country). Bangladesh has huge potential for attracting foreign tourists as it has a deep cultural heritage, a number of ancient monuments and temples, and a rich natural heritage, including tropical forests, beautiful hills, rivers, and national parks. The country offers bargain-shopping and exotic souvenirs, as well as a wide variety of activities, from eco-friendly to adventure tourism. However, it needs to renovate and expand its hotels' infrastructure and other services, which are still underdeveloped.

FINANCIAL SERVICES. The financial service industry remains underdeveloped in spite of a decade of major reforms conducted under the Financial Sector Reforms Program. According to the International Labor Organization, this sector provides employment for 213,000 people (1996). Since independence it has been under state control, as the major commercial banks were nationalized soon after independence. The local banks are often accused of providing poor financial services and being beset by corruption, inefficient management and capital inadequacies. Bangladesh lags behind in the introduction of computerized banking payment systems, the development of electronic payment systems, and electronic banking. The Agrani Bank, Janata Bank, Rupali Bank and Sonali Bank are the main financial institutions still under state control. They account for almost half of all deposits.

In 1999 the government launched a Commercial Bank Reform Project intended to improve the functioning of the private commercial banks. One bank has provided a success story: the Grameen Bank, which was founded by university professor Mohammad Yunus, pioneered in providing small credits to local communities in need. At present the IMF and the World Bank, which are often notoriously ineffective in the poor countries of Asia and Africa, have carefully studied the Grameen Bank's **microcredit** model with a view to applying it in other developing countries.

RETAIL. In Bangladesh, as in many other Asian countries, many small- and medium-sized businesses have

been built around the retail sector and are often associated with small shops and restaurants. The retail sector provides employment for a large number of people, but it still remains relatively underdeveloped, due to a generally low level of income among the population. There are still a number of small family-run traditional shops and cafes, selling mainly locally-made products.

The United States has found that the enforcement of intellectual property rights is "weak" and that "intellectual property infringement is common." The Bangladeshi government has begun to address this problem seriously, introducing a new Copyright Act in 2000 in order to bring the country's copyright laws into compliance with the WTO. This act updated the Patents and Design Act of 1911, and some other outdated regulations.

INTERNATIONAL TRADE

Bangladeshi international trade is extremely small relative to the size of its population, although it experienced accelerated growth during the last decade. It is not very diversified and depends on the fluctuations of the international market. The Bangladeshi government struggles to attract export-oriented industries, removing red tape and introducing various financial and tax initiatives. Between 1990 and 1995 Bangladesh doubled its exports from US$1.671 billion in 1990 to US$3.173 billion in 1995 and then almost doubled them again from US$3.173 billion in 1995 to US$5.523 billion in 1999.

During the 1990s, the United States has been the largest trading partner for Bangladesh, with its exports to the United States reaching 35.7 percent in 1998–99. This percentage consisted mainly of Ready-Made Garments (RMG). Germany is the second-largest export market, with the proportion of goods reaching 10.4 percent; and the United Kingdom is in third place at 8.3 percent. Other export destinations are France, Italy, the Netherlands, Belgium, and Japan.

India, China, and Singapore are the 3 largest sources of imports. Most Bangladeshi imports originate from neighboring India, reaching 20.8 percent in 1998–99. The second most important source is China, totaling 9.3 percent, third is Singapore with 8.6 percent, with Hong Kong fourth at 7.6 percent.

During the last decade, Bangladeshi exports shifted from the sale of agricultural products and raw and processed natural resources to labor-intensive manufactured goods (including clothing, footwear, and textiles), but the country, unlike neighboring India, could not catch up with the exporters of skill-intensive products. While India is becoming an important international player in the field of software and applications development, Bangladesh lags far behind, despite the government's efforts to promote this area.

Bangladesh has a long history of maintaining a negative trade balance, importing more goods than it exports. In the 1970s and 1980s it imported goods and services twice and sometimes 3 times as much as it exported. Even during the relatively successful 1999 financial year, the country exported just US$5.523 billion worth of products while it imported US$8.381 billion worth of products, leaving a large trade shortfall of US$2.858 billion.

At present, Bangladesh faces growing economic competition from India, Pakistan, and Indonesia, countries which could offer better infrastructure and larger and growing domestic markets. A border conflict between Bangladesh and India, the worst in the last 30 years erupted in April 2001, bringing political and economic uncertainty to the region and undermining international investor confidence in the Bangladeshi market. If the investors move out, they could cause further social polarization and increased poverty in the country.

MONEY

The Bangladeshi government tightly controls the **exchange rate** of the taka against the U.S. dollar and major regional currencies. During the last decade the value of the currency showed a steady decline, mainly due to the **devaluation** of many of the neighboring currencies

Trade (expressed in billions of US$): Bangladesh

	Exports	Imports
1975	.327	1.321
1980	.793	2.599
1985	.999	2.772
1990	1.671	3.598
1995	3.173	6.497
1998	3.831	7.042

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Bangladesh

taka (Tk) per US$1	
Jan 2001	54.000
2000	52.142
1999	49.085
1998	46.906
1997	43.892
1996	41.794

SOURCE: CIA *World Factbook 2001* [ONLINE].

(especially the Indian and Pakistani rupees). In 1995 the Bangladeshi taka was valued at 40.278 taka per US$1; in January 2000 the value of the taka declined to 51.000 taka per US$1. According to the IMF, the Bangladesh Central Bank has followed a policy of gradual depreciation of the taka against the U.S. dollar since the middle of the 1990s, devaluing the taka in gradual steps of 1 to 2 percent 2 or 3 times a year. The taka's market value has been protected by the large sums of foreign currencies Bangladesh receives every year through aid transfers and through remittances from overseas workers. The taka is still not fully convertible. The government periodically revises its exchange control regulations, introducing further liberalization of the controls. The government lifted restrictions on the **repatriation** of the profit and dividends from foreign direct investments (in the industrial sector); however, non-residents are not allowed to buy money market instruments or **treasury bills**.

During the period between 1970 and 1980 inflationary pressure was relatively small, as the country's economy was closed to outside influences and was tightly controlled by the government. In the 1990s consumer prices became more volatile, fluctuating between a low of 2.9 percent and a high of 8.9 percent a year, due to the liberalization and gradual opening up of the national economy to international competition.

The Bangladeshi banking system suffers from a lack of capital and poor management. Other problems include banks' exposure to corruption and to **bad loans** allegedly made to politically well-connected businessmen. There are 43 private banks in the country, including 29 domestic and 14 foreign banks, but most of them are active in major urban areas (Dhaka and Chittagong). The foreign banks are represented by such names as the Scotiabank of Canada and Societe Generale of France.

The 1997 Asian financial crisis did not bring damages in the scale of the economic and financial downturn in Indonesia, although it did negatively affect Bangladeshi exports. This escape was mainly due to the limited size of the Bangladeshi market, existing currency exchange controls and the relatively closed nature of its economy. Nevertheless, the Bangladeshi taka depreciated between 1997 and 1999 at a faster rate, declining from Tk43.892 in 1997 to Tk49.085 in 1999.

Bangladesh has 2 stock exchanges, the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE; opened in 1995). Share prices shot up after the 1996 parliamentary election and **market capitalization** reached US$6.0 billion in November 1999; however, share prices fell dramatically the following year, with some shares losing up to 60 or 70 percent of their value. The all share indexes both in the DSE and the CSE still remain far below those of the 1996 levels.

POVERTY AND WEALTH

Bangladesh belongs to the poorest group of countries in the world; during the last 3 decades its **GDP per capita** income barely increased from US$203 in 1975 to US$348 per capita in 1998. The World Bank's *World Development Indicators* puts Bangladesh in 170th place (out of 207 countries) in the global ranking of gross national income per capita. Despite considerable international assistance, Bangladesh has been unable to eliminate extreme poverty and hunger. There is a huge disparity between standards of living in urban and rural areas of the country. The urban areas, especially the capital Dhaka, and major industrial cities such as Chittagong, Khulna, and Rajshahi, enjoy a better quality of living, with electricity, gas, and clean water supplies. Still, even in the major cities a significant proportion of Bangladeshis live in squalor in dwellings that fall apart during the monsoon season and have no regular electricity. These Bangladeshis have limited access to health care and to clean drinking water. The rural population, meanwhile, often lives in traditional houses in villages with no facilities associated with even the most modest standards of living.

Disparities encompass 3 dimensions that define considerable differences: geographic, educational, and gender. There is still considerable inequality in the distribution of income between rural and urban populations. In general, the urban population, in the areas around Dhaka, Chittagong, and other large cities, has long been involved in small- and medium-sized businesses or employed in various industries. They benefited from the recent growth and have higher incomes. Meanwhile, the rural population experience chronic shortages of land and regular floods and cyclones, which often a within matter of hours sweep away the results of months of hard work. The 1998 flood, for example, affected two-thirds of the country, wiping out the entire winter crop and displacing millions of people.

Education is another problem, as the adult literacy rate reached just 60 percent in 2000, despite the fact that primary education is universal, compulsory and free. The illiterate section of the population is generally much

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Bangladesh	203	220	253	274	348
United States	19,364	21,529	23,200	25,363	29,683
India	222	231	270	331	444
Burma	N/A	N/A	N/A	N/A	N/A

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Bangladesh

Lowest 10%	3.9
Lowest 20%	8.7
Second 20%	12.0
Third 20%	15.7
Fourth 20%	20.8
Highest 20%	42.8
Highest 10%	28.6

Survey year: 1995–96

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

poorer as they are missing employment opportunities in the industrial sector as well as government and international assistance in form of micro-credits, and awareness of better cultivation methods and other market skills. Also, women in Bangladesh, especially those with large families, have heavier workloads and often fewer skills than the male population; the illiteracy rate is much higher among women than men. These differences may be seen in the statistical data. The wealthiest 20 percent of Bangladeshis control 42.8 percent of the wealth. The poorest 20 percent of the population control only 3.9 percent of the wealth. In fact, the poorest 40 percent of the population controls just 20.7 percent of the wealth.

Since the 1970s, the Bangladeshi government has implemented a social policy aimed at the elimination of poverty and social inequality, and largely funded by international organizations and individual donors. This policy aims at increasing the literacy rate, providing access to safe drinking water, family planning, and micro-crediting the poorest and most disadvantaged groups of society.

Throughout the 1990s the Bangladeshi government achieved some positive results, although the 1998 floods put pressure on scarce government resources, brought hunger to some areas of the country, and made food prices higher. These difficulties particularly affected the most vulnerable social groups of society, both in rural areas and in major urban centers. The chronic poverty, **underemployment** and unemployment forced large numbers of people to migrate from the country, using all possible legal and illegal channels. Bangladesh's quality of life remains much lower than in neighboring India, Pakistan, or Sri Lanka. According to the *CIA World Factbook,* in 1996 around 35.6 percent of the population lived below the poverty line, most of them in rural areas of the country.

WORKING CONDITIONS

Due to rapid growth of the population in the last few decades the Bangladeshi labor force has grown rapidly, as there was a large proportion of young people born in the 1960s and 1970s. According to the *EIU Country Profile* the Bangladeshi labor force almost doubled in a matter of a decade, growing from 30.9 million people in 1985–86 to 56.0 million people in 1995–96. Although all sectors of the national economy experienced significant growth, they were far below the speed of the labor force growth. According to Bangladeshi national statistics, in 1995–96 only 12.4 percent of the labor force had formal employment, while 40 percent were considered "employed in family-based" businesses, 29.6 percent were considered "self-employed," and 17.9 percent had their jobs on a "daily basis." In general, the competition for working positions in the country is intense, and the working conditions are very harsh, especially in rural areas, where 63 percent of the labor force are employed.

The Bangladeshi government pays special attention to improving education at all levels, as it wants to attract labor-intensive manufacturing and services to the country. Primary education is compulsory. Various initiatives have been tried, including direct special stipends, designed to increase the proportion of female students at school. However, as the government admits, the country's education system suffers from poor quality education, chronic shortages of trained teachers, and a shortage of books. Secondary education is not accessible for

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Bangladesh	49	4	18	8	9	4	8
United States	13	9	9	4	6	8	51
India	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Myanmar	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

children from many poor families. The government channels considerable funds into tertiary education, and the quality of teaching in some areas, particularly in technical subjects, is relatively strong. Nevertheless, the overall quality of the Bangladeshi universities' graduates often does not match the demands of modern technological developments in many areas, including information technologies and engineering. A number of Bangladeshis, receive their education overseas, many with state or international organizations' support, although in the past many of the students have opted not to return home after graduating from overseas universities. Bangladesh suffers shortages of medical doctors, information technology specialists, qualified teachers, and professionals in various other areas.

The very low wages, starting from Tk1,500, and harsh working conditions drive large numbers of people to seek jobs as temporary workers in Kuwait, Malaysia, Qatar, Saudi Arabia, Oman, and the United Arab Emirates. According to some unofficial estimates there are as many as 20 million Bangladeshi illegal immigrants in neighboring India. Many are hired to work in the low-skill and low-wages construction and service sectors and on agricultural plantations. The workers' remittances, sent home regularly, are one of the most important sources of hard currency not only for the extended families of these workers, but also for the national economy as well, totaling, according to the IMF's figures, US$1.706 billion (1998–99) or equivalent to the Bangladeshi gross official currency reserves in 1998–99.

The trade unions are very strong in Bangladesh, although only 3.5 percent of the workforce is unionized, but most of the unions are limited to the **public sector** or state-controlled enterprises. According to the International Confederation of Free Trade Unions (ICFTU), there are a total of 23 national trade union centers in Bangladesh and approximately 5,450 trade unions. The largest of these are the Bangladesh Jatio Sramik League (BJSL); the Bangladesh Jatiyatabadi Sramik Dal (BJSD); the Jatiya Sramik Party (JSP); the Bangladesh Free Trade Union Congress (BFTUC); and the Jatio Sramik League (JSL). These bodies are organized together in the ICFTU Bangladesh Council. About 1.8 million of the country's workers belong to unions, out of a total workforce of approximately 58 million. The unions tend to have strong links to major political parties or are controlled by political figures, and they often lead political action and strikes in the country. The power of the trade unions is exemplified in the fact that their continuous general strikes (hartals) forced the BNP government to resign in 1996, and their support led to the victory of the Awami League in the 1996 parliamentary election. Strikes are extremely common in Bangladesh and can paralyze business activities for weeks. The **private sector** is less unionized and trade unions are practically banned from the Export Processing Zones (EPZ), as the EPZ is exempted from certain labor laws. In case of industrial dispute the problems are supposed to be solved through the Labor Tribunal.

Unlike many Middle Eastern countries, women in Bangladesh enjoy considerable freedom and are generally involved in education and labor, although the employment and literacy rates among them generally are lower than among men. Recent surges in the garment industry brought new employment opportunities for women, as around 95 percent of people employed in this sector are women. However, in the rural areas the women very often are disadvantaged and among the poorer members of the communities. Currently, more than 37 percent of the labor force is women. However, unionization among women, and hence the protection of their rights, is generally lower than among men.

Despite the presence of strong trade unions, the use of child labor was quite common until recently. Not until 1995 did the Bangladeshi garment exporters' association agree to eliminate children from the industry. However, according to the International Confederation of Free Trade Unions, included in export sectors such as garments and leather production, there are over 6 million child laborers between the ages of 5 and 14 years who work for pay and are not enrolled in school. About 1.9 million working children are below the age of 10. In addition to remunerated employment, children often have to work alongside other family members in small-scale and subsistence agriculture. Bangladesh has not ratified either of the ILO core conventions on child labor, although there are various laws and regulations protecting children.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1500 B.C. Hinduism, the system of beliefs, practices, and socio-religious institutions of the Hindus, is introduced in the Indian subcontinent.

327 B.C. Alexander the Great invades the province of Gandhara, in northwest Indian subcontinent.

800s A.D. The first Muslim Arabs appear in the north of the Indian subcontinent, and the first Muslim trading communities are established in various parts of the region.

1192. Muhammad of Ghur wins the battles of Taraori, which leads to the establishment of the Delhi sultanate, principal Muslim sultanate in North India from the 13th to the 16th century.

1341. Most of Bengal becomes independent of Delhi.

1498. Vasco da Gama, Portuguese traveler and adventurer, lands at Calcutta.

1576. Akbar, the great Mogul emperor, conquers the territory of modern Bangladesh.

1608. Dhaka becomes the Mogul's capital of Bengal province.

1757. The nawab (ruler) of Bengal is defeated by Robert Clive's British force at Plassey.

1765. The British East India Company establishes control over the administration of the territory of Bengal.

1857. Indian Sepoys (soldiers) in the Bengal army of the British East India Company rebel against British rule in India (known as the Sepoy Rebellion).

1858. The East India Company is abolished, and the British crown assumes direct control over British India.

1885. The Indian National Congress is founded.

1905. The British colonial administration introduces division into West Bengal and East Bengal, with East Bengal being more or less within the territory of modern Bangladesh, although the partition is withdrawn in 1911.

1947. Bangladesh becomes independent as a part of Pakistan under the name "East Pakistan."

1970. In November, a powerful cyclone hits Bangladesh, causing great damage and more than 500,000 deaths, one of the worst natural disasters of the 20th century.

1970. In December, Sheikh Mujibur Rahman (popularly known as Sheikh Mujib) and his political party, Awami League (AL), win both national and provincial elections and demand greater autonomy for East Pakistan.

1970. The AL declares its intention to achieve independence from West Pakistan.

1971. With the help of Indian forces, the Bangladeshi pro-independence movement wins independence.

1974. A state of emergency is declared in Bangladesh.

1975. Sheikh Mujibur Rahman becomes president and assumes absolute power.

1975. President Sheikh Mujib is assassinated in a military coup in August.

1975. Abusadat Muhammad Sayem becomes president but resigns 2 years later.

1978. General Ziaur Rahman wins the presidential election.

1981. President General Ziaur Rahman is assassinated in a military coup.

1981. Abdus Sattar wins the presidential election in November.

1982. General Hossain Ershad takes power in a military coup.

1985. General Hossain Ershad wins the presidential election and bans all active political opposition.

1988. Devastating floods hit three-quarters of the country, leaving 30 million people homeless and causing food shortages.

1990. General Hossain Ershad resigns.

1991. The first free and fair election is held in Bangladesh. Begum Khaleda Zia (widow of General Ziaur Rahman) and her party, Bangladesh Nationalist Party (BNP), win the election.

1991. A powerful cyclone hits Bangladesh, causing the deaths of more than 120,000 people and great damage to the economy.

1996. Begum Khaleda Zia wins the April parliamentary election, which is accompanied by violence and a low turnout, but is forced to resign shortly after.

1996. Hasina Wajed, daughter of Sheikh Mujib, and her Awami League (AL) win the June parliamentary election.

1996. An important 30-year agreement is reached with India on the sharing of the Ganges River's water.

1997. A peace treaty is signed between the government and Chakma rebels, ending a 20-year uprising.

1998. Another powerful cyclone hits the country, causing extensive damage to the national economy.

2001. Indian and Bangladeshi forces clash on the border between their 2 countries.

FUTURE TRENDS

For decades after 1971 the development of the Bangladeshi national economy has been hindered by political instability, poor economic performance, pressure on scarce natural resources by the rapidly growing population, and an ineffective bureaucracy. The major changes introduced during the 1990s included more flexible economic policies, export-oriented industrialization, and inflow of foreign direct investments. **Inflation** remains low and is under control. The Bangladeshi currency exchange managed to avoid any spectacular failures similar to Indonesia or South Korea during the Asian financial crisis of 1997, and it is still stable, tightly regulated and pegged to the basket of the regional currencies. In 1999 and 2000 Bangladesh achieved strong economic recovery after the devastating floods of 1998, and if the regional and global economic environment remains positive, the Bangladeshi economic annual growth rate of 5 to 6 percent might continue. This development may ease the poverty, low standards of living, underemployment, and unemployment problems.

Nevertheless, there are several issues to be addressed. There is strong potential for all the problems, including political instability and recession, to return if the government fails to improve the economic situation in the country or if global recession or global competition negatively affect the country's exports. Both the border clashes with Indian border guards in early 2001, which led to heavy casualties, and confrontations along the border with Burma (Myanmar) show how fragile regional stability is. Meanwhile, although the changes brought some positive results to the national economy and some level of prosperity to some groups of the population (often limited to the educated urban population of the large metropolitan areas), they also brought new social ills such as growing criminality and drug usage among youth. The government has often been criticized for its intervention in economic development and its inability to improve economic management or to conduct further reforms, including privatization. There is also a serious problem with widespread corruption, with some political groups accused of wasting public resources. The experience of Indonesia shows how dangerous corruption and political instability are. It remains to be seen whether economic liberalization combined with the force of globalization measures will strengthen the performance of the national economy.

In the longer term, Bangladesh will need to maintain its international competitiveness, since the current globalization trend eliminates borders for international trade and brings growing competition from **emerging markets** for FDIs and for the transfer of modern technologies. Political and social unrest in neighboring Burma might affect Bangladesh, threatening and undermining regional stability and thus scaring off potential investors. Environmental issues are also very important for Bangladesh in the longer term, as global climate change and the rise of the surface level in the world's seas may undermine the country's agriculture, which still plays a dominant role in the national economy. In fact, a warmer Earth could well witness sizeable areas of the country covered by water, or it might increase salinization of the currently arable land, making it impossible to continue agricultural activities.

DEPENDENCIES

Bangladesh has no territories or colonies.

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—Rafis Abazov

BHUTAN

Kingdom of Bhutan
Druk-Yul

CAPITAL: Thimpu.

MONETARY UNIT: Ngultrum (Nu). One ngultrum equals 100 chetrum. Notes in circulation are Nu1, 2, 5, 10, 100, and 500. Indian currency (rupees) is also legal tender and at par value with Bhutanese currency.

CHIEF EXPORTS: Cardamom, gypsum, timber, handicrafts, cement, fruit, electricity, precious stones, and spices.

CHIEF IMPORTS: Fuel and lubricants, grain, machinery and parts, vehicles, fabrics, and rice.

GROSS DOMESTIC PRODUCT: US$0.44 billion (1999). [CIA reports GDP at purchasing power parity to be US$2.1 billion (1999 est.).]

BALANCE OF TRADE: **Exports:** US$146 million (1999). **Imports:** US$243 million (1999). [The *CIA World Factbook* reports exports to be US$111 million (f.o.b., 1998) and imports to be US$136 million (c.i.f., 1998).]

COUNTRY OVERVIEW

LOCATION AND SIZE. A landlocked country located in South Asia, north of India and south of China, Bhutan has an area of 47,000 square kilometers (18,1467 square miles). Comparatively, the area occupied by Bhutan is about half the size of Indiana. Bhutan's capital city, Thimpu, is centrally located towards the country's western border with India. Bhutan shares a 605-kilometer (376-mile) border with India and a 470-kilometer (292-mile) border with China.

POPULATION. In 2000 the population of Bhutan was estimated at 2,005,222 by the *CIA World Factbook.* The UN *Statistical Yearbook* gave the population as 1,034,774. Giving a third figure, the World Bank *World Development Report 2000/1* estimated the population at 782,000. The disparity between population estimates is caused by 2 different ways of counting people: the government of Bhutan's population estimate, the World Bank figure, is based upon those who have "official" citizenship, and the CIA estimate seems to account for those who claim such status or live in the country and may not be recognized by the government. Uncertainty in population figures is also connected to Bhutan's ongoing problem with the Lhotshampa people (Bhutanese of Nepalese origin), who have lost their citizenship or are simply not recognized due to a series of nationality-specific laws enacted in the 1980s. The government claims that a large number of the Lhotshampa are illegal immigrants who threaten the cohesion of traditional Bhutanese society, while the Lhotshampa argue that they are rightful citizens. Another problem with such estimates is the limited number of statistical gathering mechanisms in Bhutan, partly due to the country's limited financial resources and **infrastructure**. As a result, statistical indicators such as **gross domestic product** (GDP) or the quantity of telephones per capita are difficult to estimate. Clearly, the formulation of statistical averages depends upon which population estimate is used. To encourage comparative consistency, this entry indicates what population estimates are used to express particular statistical data.

In 2000 the birth rate stood at 36.22 per 1,000, while the death rate was 14.32 per 1,000. The overall population density is very low at 12.5 people per square kilometer, but this figure does not take account for the fact that, with 92.9 percent of the population living in rural areas, access to arable land is primary in any estimate of population density. Therefore, if the ratio of population to arable land is taken into account then density rises to 100 people per square kilometer. Bhutan has a very young population with almost 50 percent aged 17 years or younger. Given the continuation of Bhutan's current annual population growth of 2.19 percent, the United Nations Development Programme (UNDP) in Bhutan projects that there will be 3.64 million people living in Bhutan by 2025, from a 1998 level of 1.91 million. The

UNDP also estimates that 31,000 people live in Thimpu city (the capital and administrative center) and another 25,000 in Phuentsholing (the primary commercial center on the Indo-Bhutanese border).

OVERVIEW OF ECONOMY

In 2001 Bhutan's economy remained one of the smallest and least developed in the world, almost entirely dependent upon basic agricultural production, forestry, and hydroelectricity. In 2000 rural inhabitants constituted 92.9 percent of the total population, a slight decline from the 1990 level of 94.8 percent. A large majority of agricultural activity is subsistence-based and takes place outside of the **monetized economy**. In other words, **subsistence farmers** do not use the ngultrum (the national currency) in their day-to-day lives; they trade and **barter** goods for the few basic manufactured essentials that they might need. However, in 2000 the government cited indications that the monetized economy was experiencing substantial growth.

Bhutan is a very poor country with a **GDP per capita** of only US$197 (based upon a population of 1.03 million), although it is important to note that because the majority of subsistence farmers are outside of the monetized economy this figure is not an adequate representation of actual living standards.

After the serious attacks upon Buddhism in Tibet by the **communist** government in China during the late 1950s, Bhutan began to develop more links with India in order to counter the possibility of a similar fate. In 1960, Bhutan closed its borders with Tibet and, with considerable Indian financial and technical assistance, began to construct roads to link India with Bhutan. This action constituted a key turning point for Bhutan's economic development, and by 2001 the national economy was highly dependent upon Indian trade, aid, and investment.

It must be stressed that the government emphasizes the concept of "Gross National Happiness" (GNH) as an essential indicator and factor in Bhutan's development, a very specific approach to developmental ideology. The GNH idea stresses the importance of cultural heritage, the stability and protection of the natural environment, greater self-sufficiency, and human development. This approach, with its roots in the traditional Buddhist principles of compassion, compromise, and pragmatism, is in direct contrast to the globally dominant view of the primacy of economic and material development. As the government maintains in a policy document for the UNDP in 2000 that GNH "means that development is only valuable if it is an 'efficient means' to happiness and human development."

National debt in Bhutan is relatively stable and controllable in amount. The government has actually been able to reduce total **public sector** debt from US$139.5 million in 1993–94 to US$115.8 million by 1997–98. Consequently, over the same period **debt service** payments declined from US$17.6 million to US$9.6 million. Official development assistance from both individual governments and international financial institutions in 1997 consisted of US$59.9 million in grants and US$10.1 million in loans. The Asian Development Bank (ADB) made 2 loans to Bhutan in 2000. The first, of US$10 million, was to assist Bhutan in setting out a health reform program, The Bhutan Health Trust Fund, which has the aim of maintaining the free supply of medicines to the public. The second, of US$9.6 million, was for the regeneration of the country's primary road, the east-west highway. The ADB had made another loan of US$10 million in 1999 for a Sustainable Rural Electrification Project to provide electricity to the poorer and more remote areas of Bhutan.

POLITICS, GOVERNMENT, AND TAXATION

Bhutan is the world's only Buddhist kingdom. The Bhutanese name for their country is *Druk Yul* which means "Land of the Thunder Dragon." Ruled by a hereditary monarchy since 1907, Bhutan received full independence from India in 1949 after the British colonial ad-

ministration withdrew from India. Bhutan's political system is unlike historical precedents in the West and is most appropriately categorized as a "Buddhist monarchy."

The third hereditary monarch, Jigme Dorji Wangchuck, ruled Bhutan from 1952 to 1972. He is generally considered the "architect of modern Bhutan." In 1953 he established the National Assembly. Consisting of representatives of the people, the civil service, and the Buddhist monastic order, the National Assembly meets once a year to debate aspects of public policy and development. The Royal Advisory Council was formed by the king in 1965 to constantly monitor the progress of National Assembly resolutions and advise the king on day-to-day policy matters.

In a similar vein, his son King Jigme Singye Wangchuk (who acceded to the throne in 1972 and continued to reign in mid-2001) has also followed a reformist approach to rule. In 1999 an analyst of Bhutanese affairs, Thierry Mathou, maintained: "Many Bhutanese . . . were stunned by the suddenness and amplitude of the changes introduced by the king. . . . [c]ontrary to most countries with monarchies where royals have resisted democratic politics, Bhutan's has always been the leading force of change." For example, in 1998 the king pushed a political reform that reduced his authority through the devolution of executive powers to the cabinet. Nonetheless, the king continued to have final say on matters relating to security and sovereignty as well direct administration of the Royal Bhutan Army.

Even though Bhutan's governmental system of monarchy is justified on the grounds of maintaining traditional values and national identity by the country's ruling elite, it has received considerable criticism both domestically and internationally. For example, Freedom House (a U.S.-based political liberties and civil rights organization) classified Bhutan in 2000 as "Not Free." Freedom House measured this conclusion upon the lack of democratic representation of the people and the apparent mistreatment of critics of the regime. In its report for 2000, Amnesty International (a London-based human rights organization) maintained that individuals in Nepali-speaking communities faced police discrimination when they attempted to get permission to open a bank account, when attempting to travel abroad for training, for work, or to send their children to school.

In fact, discrimination against Lhotshampa is rife. A series of laws passed in the 1980s revealed tough remits for the acquisition of citizenship, even if an individual were married to a Bhutanese national, and the fact that naturalized citizenship can be terminated if a person criticizes the government. Still, there is some justification for this policy because militant Lhotshampa movements have called for a merging of Bhutan into a greater Nepal. Some of these militants, whom the government calls "anti-nationals," have been involved in campaigns of violence and have done damage to some infrastructure and development projects.

Nationalism and tradition are actively promoted in Bhutan. In part due to the economic and military-political weakness of the country in international relations and also due to the perceived threat from the Lhotshampa community's tendency to reduce Bhutanese identity, the government emphasizes rules of national dress, the code of etiquette (driglam namzha), and the national language (Dzongkha).

A serious ongoing security problem for the government is the presence of the communist guerrilla group, the United Liberation Front of Assam (ULFA) and the Assamese (Bodo) guerrilla insurgency in east and south Bhutan. These groups are fighting for independence for Assam. Although there has been vocal engagement between the ULFA and the Bhutanese government, a solution to their presence has yet to be reached. The existence of these anti-Indian government forces on Bhutanese territory could led to a deterioration in the special friendship between India and Bhutan.

Non-tax revenue constituted 61 percent of total revenue in 1998–99. The Chukha Hydro Power Corporation, the Department of Power, and the Department of Telecommunications are some of the key sources of this revenue. Government revenue from the power sector provided 42 percent of total national revenue in 1998–99. **Direct tax** collection improved in the late 1990s from Nu831 million in 1997–98 to Nu914 million in 1998–99. Of this direct tax 65 percent was from corporate **income tax**. Taxation on rural areas is very low, around 0.02 percent of total revenue in 1998–99, in order to encourage the population to remain on their farms and thus reduce the strain of uncontrolled urbanization. However, it should be noted that rural inhabitants contribute via the application of their labor to the construction and maintenance of local schools, water supplies, and health centers.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Bhutan's infrastructure is limited although the government is actively attempting to open the more isolated areas of the country by improving the road network. Around 14,000 passenger vehicles were in use on Bhutan's 3,285 kilometers (2,041 miles) of roads in 1999. In 1997 the Road Surface Transport Authority was established to improve the efficiency and quality of the road infrastructure and to enforce the observation of transport regulations. There are no railways in Bhutan. In accordance with the government policy of allowing a restricted opening-up of Bhutan for both citizens and foreigners, total passengers on scheduled flights rose from 8,000 in

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Bhutan	6,000	N/A	AM 0; FM 1; shortwave 1	37,000	0	11,000	N/A	500
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
China	135 M (2000)	65 M (2001)	AM 369; FM 259; shortwave 45	417 M	3,240	400 M	3	22 M (2001)
Nepal	236,816 (2000)	N/A	AM 6; FM 5; shortwave 1 (2000)	840,000	1 (1998)	130,000	6	35,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

1990 to 36,000 in 1997. The national airline, Druk Air, owns 2 planes which fly to and from Paro International Airport which opened a new terminal building in the late 1990s. Bhutan is landlocked; the nearest seaport is 435 miles away in Calcutta.

Electricity, gas, and water provided 11.8 percent of **value-added** activity to the economy in 1997. In 2000, Bhutan's electricity-generating capacity was 3530 megawatts, 97 percent of which is hydro power and the rest thermal. The central role of electricity production to Bhutan's economy is likely to expand in the early 21st century. New large-scale hydro power stations were under construction by 2001 which are expected to provide considerable government revenue. However, over 95 percent of domestic energy consumption in Bhutan consists of biological mass, predominantly firewood.

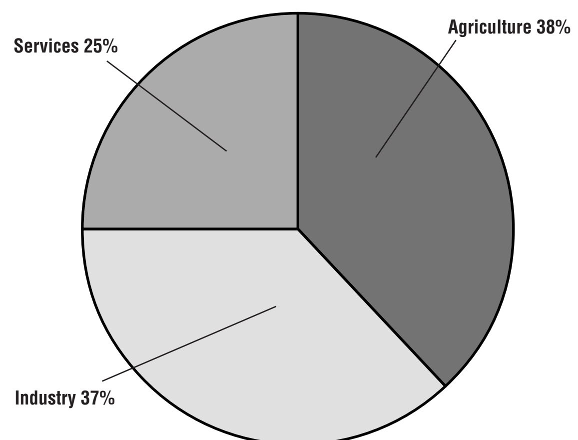
Bhutan was cut off from the outside world for centuries. Television only began to be provided by the state-run Bhutan Broadcasting Service (BBS) Corporation in 1999 and was limited to a small number of hours a day of programming (consisting solely of national news and documentaries about Bhutan). Nonetheless, (based upon a population of 1.03 million) there were already 5.5 televisions per 1,000 population in 1997, which by 2000 received 25 channels from 2 cable television companies. By 1997, there were 19 radios per 1,000 inhabitants. According to UN estimates there is only 1 telephone per 100 inhabitants. In 1999, a Japanese-funded project to provide domestic digital telecommunications was completed. The Internet became operational in Bhutan in 1999.

ECONOMIC SECTORS

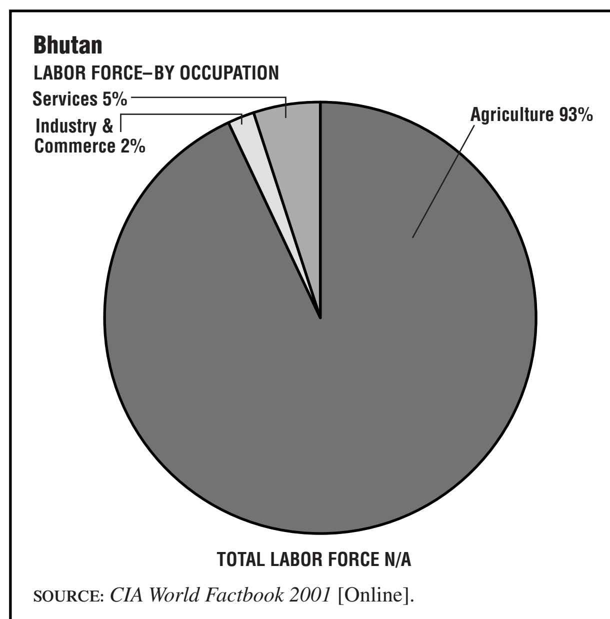
Bhutan's economic sectors are small like the country; the country has limited population, domestic markets, and natural resources. Geographical isolation caused by highly mountainous terrain and political isolation due to a formerly inward-looking society means that the economy's integration into the world economy is minimum. Isolation in combination with previously low levels of education means that a medium and large-scale **private sector** is almost non-existent. The majority of the monetized economy is dominated by **parastatals**.

Bhutan's economy is primarily agricultural, mostly subsistence farming, although some export-oriented commercial farming of fruit and spices does exist. Industry is limited to the production of hydro power and basic manufactures. Services to support these sectors are basic. Tourism, whilst small in size, provides a high proportion of the country's foreign exchange.

Bhutan
GDP–COMPOSITION BY SECTOR–1998



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

AGRICULTURE

The agricultural sector provided 38.5 percent of GDP in 1997, a significant decline from the 55 percent in 1985. The 1997 GDP consisted of a total production of 18.1 percent crops, 11.4 percent of economic activity in the forestry sector, and 9 percent livestock production. Of the 970,000 people who were employed in Bhutan in 1998 (using a population estimate of 2 million) 93.8 percent were engaged in agricultural activities. There were 160,000 hectares of arable land under permanent crops in 1998, compared to the 1980 level of 122,000. In 1998 only 40,000 hectares of this land was irrigated, an improvement upon the 1980 level of 26,000 hectares.

Cereal production increased from 95,000 metric tons in 1989 to a consistent level of 112,000 tons per annum in the period 1995 to 1998. While self-sufficient in maize, barley, millet, and buckwheat, Bhutan is only 50 percent self-sufficient in rice and 30 percent in wheat. In total the country is around 60 percent self-sufficient in cereals. Other key crops which are actually exported are potatoes, spices (mainly cardamom and nutmeg), and fruit which in 1997 consisted mainly of oranges (54,000 metric tons) and apples (13,600 metric tons). In total, agricultural goods provided 13.7 percent of Bhutan's total exports in 1997.

Bhutan continues to import substantial amounts of essential food items. The Food Corporation of Bhutan imports subsidized food items from India, among which are rice, wheat, edible oils, sugar, and salt. Between 1994–98 an annual average of 12,500 metric tons of rice, 12,500 tons of wheat, and 3,600 tons of sugar were imported. It is important to note that 58 percent of farming households own less than 2 hectares. This small level of landholding makes some households susceptible to seasonal shortages of food, to poor health, and even to malnutrition.

FORESTRY. The government is actively trying to maintain the economic exploitation of Bhutan's extensive forestry resources at sustainable levels. In keeping with the GNH concept, plans by the Forest Services Division of the Ministry of Agriculture for improved harvesting of forests are being undertaken to assure environmental balance. For example, 60 percent of Bhutan's total land area is required to have good tree cover; by 2000 72 percent was covered. In 1997–98, 27,770 cubic meters of trees were felled for commercial logging and an additional 22,884 cubic meters for housing construction and public works. The gross sales of Bhutan Board Products in 1998 were Nu383.8 million.

INDUSTRY

HYDRO POWER. The electricity sector showed an average growth of 48.2 percent in the period 1985–1995. In 1998–99 hydro power contributed 30 percent to total exports. This rate will increase considerably in the early 21st century when new hydro power stations being built in Tala, Kurichhu, and Basochhu are completed. Hydro power has also acted to stimulate the growth of the manufacturing and services sectors.

MANUFACTURING. Manufacturing provided 12.8 percent of value added activity to the economy in 1997. The production of cement is one of the principal enterprises in Bhutan's industrial sector. In 1998, Penden Cement Authority had gross estimated sales of Nu564.7 million, a substantial increase from the 1997 level of Nu265.5 million. Another cement plant was due to be completed by 2002, but due to disturbances related to Assam insurgents this project was suspended. The processing of Bhutan's agricultural produce is another significant dynamic factor in the manufacturing sector. For example, Bhutan Fruit Products enjoyed gross sales of Nu112.3 million in 1998; these sales were mainly of juices and canned fruit.

SERVICES

TOURISM. Bhutan is one of the safest countries in the world. Crime rates are minimal and foreign visitors are treated politely and with respect. The country's history, culture, and isolation offer a great deal to the more adventurous tourists who have been visiting Bhutan since 1974. The **privatization** of the tourism sector in 1991 led to fast-paced growth in hotels and travel agencies. This growth was so rapid that by 2001 there was excess capacity in tourism services. The failure to fully exploit this

capacity is primarily due to government restrictions on the number of tourists admitted into Bhutan, a policy devised to reduce outside influence upon national traditions. Consequently, only 6,203 tourists entered Bhutan in 1998, and these people provided US$7.8 million in much-needed foreign currency. Around 40 percent of these tourists came from EU countries, 24 percent from the United States, and 17 percent from Japan. Nonetheless, this is a significant rise from the 1993 level of 2,984 where only US$3 million in tourism receipts were recorded. The high level of foreign exchange earnings from tourism is partly due to a compulsory government charge on tourists of US$200 a day.

Exchange rates: Bhutan

ngultrum (Nu) per US$1	
Jan 2001	46.540
2000	44.942
1999	43.055
1998	41.259
1997	36.313
1996	35.433

Note: The Bhutanese ngultrum is at par with the Indian rupee which is also legal tender.

SOURCE: CIA *World Factbook 2001* [ONLINE].

INTERNATIONAL TRADE

Bhutan's engagement with international trade is highly dependent upon its neighbor and ally, India. In 1997, US$114.2 million of Bhutan's exports were purchased by India, which constituted 94.6 percent of the total. Bangladesh received US$5.1 million of Bhutanese goods. In the same year, the direction of the flow of Bhutan's imports consisted of US$97.6 million from India, 69.4 percent of the national total. In addition, Bhutan imported US$23.8 million of goods from Japan, US$4 million from Singapore, and US$1.8 million from Germany.

Bhutan is a founding member of the South Asian Association for Regional Co-operation (SAARC), whose other members are Bangladesh, India, Nepal, Pakistan, and Sri Lanka. Bhutan will host the 2002 SAARC summit meeting. As part of its policy of engagement with the world economy, Bhutan is preparing to join the World Trade Organization.

MONEY

The widespread use of money in Bhutan only began in the early 1960s with the growth of trade with India and the initiation of bilateral development aid from India to Bhutan. Even though Bhutan's economy is highly underdeveloped the price of **consumer goods** has remained fairly stable. The average percentage change of prices each year was only 10 percent between 1990 and 1998. Total international currency reserves by major Bhutanese holders (mainly the Royal Monetary Authority, Bank of Bhutan, and Bhutan National Bank) rose dramatically in value from US$106.9 million in 1993–94 to US$218.2 million in 1997–98.

Two banks operate in the country: the Bhutan National Bank has offices in Thimpu and a branch in Phuentsholing, and the Bank of Bhutan has branches in the country's main centers. No restrictions are placed on the quantity of currencies that can be taken into Bhutan although they are limited to the main international currencies. In the late 1990s Bhutan National Bank was partly privatized when the government sold 40 percent of its shares to Citibank and the Asian Development Bank; the government now owns only 27 percent of the bank. Bhutan has a stock exchange but it is not open to external investment.

POVERTY AND WEALTH

From the 1960s free basic health services began to be provided by the government across most of Bhutan where populations were concentrated. Nonetheless, by 2000 the UNDP estimated that 20 percent of the population still lacked sufficient access to health services.

Trade (expressed in billions of US$): Bhutan

	Exports	Imports
1975	N/A	N/A
1980	.017	.050
1985	.022	.084
1990	.068	.078
1995	.103	.112
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Bhutan	N/A	232	292	387	493
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Nepal	149	148	165	182	217

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Lack of health care is a serious drawback because the general diet lacks sufficient fruits and vegetables. Consequently, over half of the country's children 6 and younger suffer from stunting, and over 30 percent are underweight. Poor nutrition is not nation wide, however, but determined by regional, urban-rural, and socio-economic factors. For example, in Pemagatshel average calorie consumption per day is 1,647 whereas in Punakha it is 3,227.

The incidence of rural poverty is as high as 90 percent. Unhygienic conditions are prevalent in Bhutan with 42 percent of the population lacking access to safe water and 30 percent of the people living in conditions of poor sanitation. Nonetheless, poverty in Bhutan has declined as indicated by the rise of average life expectancy from 37 years in 1960 to 66 years in 1994. The increased longevity suggests that the consistent government policy of providing a socially oriented infrastructure, in accordance with the GNH concept, is effective even though much work remains to be done.

WORKING CONDITIONS

Bhutan is yet to ratify the key International Labour Organization Conventions Number 87 (Freedom of Association and Protection of the Right to Organize, 1948) or Number 98 (Right to Organize and Collective Bargaining). Trade unionism is not permitted in Bhutan, nor does it exist in practice. In fact, terms and conditions as well as salaries are generally fixed by the government, which requires employees and employers (at least in the formal economy) to engage in formal written contracts of agreement. The population employed in Bhutan is estimated at 970,000 (based upon a population of 2 million).

Education has received considerable emphasis by the government of Bhutan, and primary schooling is available in even the remotest areas. The Bhutanese government spent 7 percent of total expenditure on education in 1997. Mainly due to government initiatives in its drive to reduce illiteracy, levels fell from 71.9 percent in 1980 to 52.7 percent in 2000. The Bhutanese workforce is becoming more skilled, although this is problematic because there are serious limits upon the amount of educated workers required in what is essentially an agricultural economy. Consequently, while there are rising employment expectations amongst the literate population the labor market cannot provide sufficiently skilled work.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1616. Bhutan is unified by Zhabdrung Ngawang Namgyal who makes comprehensive laws and local administrations.

1907. The hereditary monarchy is created.

1949. The Indo-Bhutan Treaty of friendship is signed, and Bhutan receives full independence.

1952. Jigme Dorji Wangchuck (the "architect of modern Bhutan") becomes king.

1953. The National Assembly is established.

1960. Trading is entirely oriented toward India.

1965. The king forms the Royal Advisory Council.

1972. Jigme Singye Wangchuk becomes king.

1974. Bhutan begins to encourage tourism.

1983. The South Asian Association for Regional Cooperation is established.

1998. The king devolves some of his executive powers to the cabinet.

FUTURE TRENDS

Problems with the Lhotshampa population seem likely to continue into the 21st century. Unless the Bhutanese government finds an amicable solution to this problem, Lhotshampa militancy is likely to intensify. Similarly, the security issue of the presence of Assam independence insurgencies on Bhutanese territory needs to be addressed in order to avoid embittering relations with militarily powerful India. This point is all the more important due to the ongoing flow of free trade with India. Bhutan is highly dependent upon developments within India's economy. As a result, levels of integration with the world economy will closely follow those of India. Planned membership of the WTO will exacerbate Bhutan's economic openness.

In 2001, Bhutan's excellent environmental conservation and balance meant that the economy had greater ability to use its forestry and hydroelectricity resources. For example, while the government insists that 60 percent of the country remain forested, the 2000 coverage of 72 percent indicated room for increased use without compromising governmental policy. Similarly, the 3 hydroelectricity plants to be completed early in the 21st century are projected to contribute vast amounts of government revenue without significantly damaging the environment. This revenue is intended to support human-centered development. If the government remains true to these policies and continues to widen political freedoms, Bhutan has a bright political, social, and economic future.

DEPENDENCIES

Bhutan has no territories or colonies.

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—Liam Campling

BRUNEI DARUSSALAM

Nation of Brunei, Abode of Peace
Negara Brunei Darussalam

CAPITAL: Bandar Seri Begawan.

MONETARY UNIT: Brunei dollar (B$). One Brunei dollar equals 100 cents. The Brunei dollar is at par with the Singapore dollar, and the currencies are interchangeable. There are coins of 1, 5, 10, 20, and 50 cents, and bills of 1, 5, 10, 50, 100, 500, 1,000, and 10,000 dollars.

CHIEF EXPORTS: Crude oil, liquefied natural gas, and petroleum products.

CHIEF IMPORTS: Machinery and transport equipment, manufactured goods, food, and chemicals.

GROSS DOMESTIC PRODUCT: US$5.9 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$2.55 billion (f.o.b., 1999). **Imports:** US$1.3 billion (c.i.f., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in Southeast Asia, bordering the South China Sea and Malaysia, Brunei is geographically divided by Malaysia into 2 unconnected parts. Brunei has an area of 5,770 square kilometers (2,228 square miles) and a total coastline of 161 kilometers (100 miles). Comparatively, the area of Brunei is slightly smaller than the state of Delaware. Brunei's capital city, Bandar Seri Begawan, is located on the northeastern coast of the country.

POPULATION. The population of Brunei was estimated at 336,376 in July of 2000, with a growth rate estimated at 2.17 percent. In 2000 the birth rate stood at 20.81 per 1,000, and the death rate stood at 3.39 per 1,000.

The population is generally young, with 31 percent below the age of 14 and just 3 percent over the age of 65. In 2000, male life expectancy was estimated at 71.23 years and female at 76.06, and that of the population as a whole at 73.58 years. By 1995, the literacy rate of the total population was relatively high at 88.2 percent, with 92.6 percent of males and 83.4 percent of females over the age of 15 able to read and write.

The Malay people comprise 62 percent of Brunei's population, with Chinese accounting for 15 percent, indigenous people 6 percent, and other groups 17 percent. Islam is Brunei's official religion and Muslims account for 67 percent of the population. About 13 percent are Buddhist, Christians make up 10 percent, and those with indigenous beliefs make up the remaining 10 percent.

OVERVIEW OF ECONOMY

Brunei is a wealthy oil-rich country in Southeast Asia. Oil and natural gas have been the basis of the country's wealth. Dependency on this single valuable commodity has made it vulnerable to international market fluctuations, however, and the government has been making efforts to diversify the economy. The economy is dominated by the oil and gas sector, but large-scale government expenditure on **infrastructure** programs has made the construction sector the second largest economic sector in Brunei. The country's main exports are oil and gas products, but it must import most of its food.

Brunei has a limited **labor force**. Most ethnic Malays work in the **public sector** administration and government departments and enjoy substantial benefits, but the Malay labor force is limited in number. The country hosts a large number of foreign skilled and unskilled workers, especially in the construction sector. In order to maintain the leadership of Brunei Malays, government policies protect and promote Malays involved in industry and commerce.

The government of Brunei has very large foreign reserves from oil, no **foreign debt**, and is a significant international investor. The Brunei Investment Agency (BIA) manages foreign reserves for the government

(excluding the ruling sultan and other members of the royal family). The BIA tries to increase the value of Brunei's foreign reserves by spreading its investments across the United States, Japan, Western Europe, and the countries of the Association of South East Asian Nations (ASEAN).

POLITICS, GOVERNMENT, AND TAXATION

Brunei has long been ruled by sultans (kings), though for much of its modern history those sultans have ruled in cooperation with European colonial powers. Spanish and Dutch colonists began arriving in Brunei in the 16th century. English colonists came during the 17th century, and the country was made a British protectorate in 1888, which meant that Britain provided military and economic assistance. During World War II (1941), the Japanese occupied the country. The British returned after the war, and negotiations began for Brunei's eventual independence. In 1959 a written constitution was introduced granting Brunei internal self-rule under British protection. In 1984 Brunei achieved full independence and became an independent sovereign sultanate governed on the basis of a written constitution.

The 1959 constitution granted the sultan full executive authority, but called for an elected legislative council. A limited effort to meet this requirement with a partially elected legislative body was tried but quickly abandoned. In 1962 the Partai Rakyat Brunei (Brunei People's Party, PRB) won the election for the legislative council but was denied access to office. The party's ensuing uprising was rapidly crushed by the ruling sultan and the PRB was then banned. Since that time the legislative council has been an appointed body. Currently, the Brunei Solidarity National Party (PPKB), with closer allegiance to the government, is the only legal political party. In 1995, for the first time in 10 years, the PPKB was permitted to hold its national assembly, but its activities were circumscribed, and the party has had little influence.

Brunei is an Islamic sultanate. The hereditary sultan is the head of state and holds ultimate authority. He is also the country's prime minister, minister of finance, and minister of defense, and presides over a council of ministers, a religious council, a privy council, and a council of succession, all of whose members he appoints. There are no popular elections and the Legislative Council functions in a purely consultative capacity. The concept of Melayu Islam Beraja (Malay Muslim Monarchy, MIB) was introduced as a state ideology, invoking Brunei's history of monarchy, Brunei Malay culture, and Islamic values, in order to justify absolute monarchy.

The government plays a large role in the economy. In the 1990s the government has made concerted efforts to diversify the economy from oil and gas. Industries promoted by the government are agriculture, manufacturing, tourism, commerce, and banking. In the Seventh National Development Plan (1996–2000), the government allocated more than B$7.2 billion for the implementation of various projects and programs. Thanks to such commitments, the non-oil sector's contribution to the GDP rose from 24.3 percent in 1991 to 66 percent in 1998. The government actively encourages more foreign investment. It extends "pioneer status" to aircraft catering services as well as the cement, textile, furniture, glass, plastics, and synthetic rubber industries. Pioneer status companies can get exemption from the 30 percent corporate tax.

One of the government's most important priorities is to encourage Brunei Malays to move into the **private sector** from the public sector where most are employed. The government policy of "Bruneisation" of the workforce encourages Brunei Malays to work in the private sector. The Brunei Shell Petroleum (BSP) company and the 2 largest foreign banks, the Hong Kong and Shanghai Banking Corporation and Standard Chartered Bank, have

had to increase the number of Brunei Malays on their staffs under this policy. The Bruneian government also boosts private business to nurture Brunei Malay leaders in industry and commerce.

The sole tax levied by the government of Brunei is the corporate tax, generally 30 percent. Otherwise, everything that is normally taxed in other countries—capital, gains, import and export, sales, manufacturing—is free of tax, and there is no personal **income tax**. The huge government revenues from oil and gas are sufficient to finance government expenditures, and Brunei is the least taxed country in the region and perhaps in the world.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Brunei's infrastructure is well developed. The road network serving the entire country is being expanded and modernized and totaled 2,525 kilometers (1,569 miles) in 1998. A 1,150-kilometer (715-mile) main highway, of which 399 kilometers (248 miles) are paved, runs the entire length of the country's coastline. It conveniently links Muara, the port at the eastern end, to Belait, the oil-production center at the western end of the state. Per capita car ownership in Brunei is one of the highest in the world. In 1995 there were 167,786 cars, of which 139,658 were private cars. Since 1996 the Brunei government has attempted to improve public transit by expanding taxi and bus services in Bandar Seri Begawan and its vicinity. Bus services to other districts are infrequent and irregular. Other than a 13-kilometer (8-mile) private railway line, there are no rail services in Brunei.

Brunei has 2 major ports: a large, deepwater harbor at Muara and a smaller port at Kuala Belait. They offer direct shipping to Hong Kong, Singapore, and several other Asian destinations. An expanded international airport is located at Bandar Seri Begawan. Royal Brunei Airlines (RBA) serves long-distance destinations in Asia, Australia, the Middle East, and Europe, as well as several short-haul destinations to East Malaysia and Indonesia, and Brunei Shell Petroleum (BSP) owns a small airport in the oil field at Seria.

Brunei has one of the best telecommunication systems in Southeast Asia. The rate of telephone availability is currently 1 telephone for every 3 persons. There are 2 earth satellite stations providing direct telephone, telex, and facsimile links to most parts of the world. There are 2 television broadcast stations and, by 1997, there were 196,009 TV sets. Brunei was connected to the Internet in September 1995 through Brunet. By the end of 1999 there were 15,000 registered Internet users in the country. Keen to develop **e-commerce**, the government is investing B$55 million in installing a countrywide multimedia highway called RAGAM 21 to serve both the private and public sectors.

According to the CIA *World Factbook 2000*, 2.56 billion kilowatt-hours (kWh) of electricity were generated and 2.381 billion kWh consumed in Brunei in 1998. There were no exports or imports of electricity. All the electricity is produced from fossil fuels (oil and gas). The country has no nuclear or hydro-power plants.

ECONOMIC SECTORS

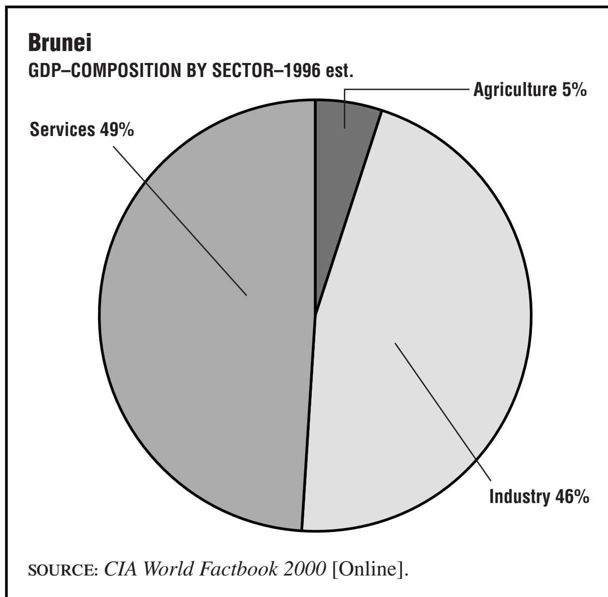
Brunei's status as a major oil and natural gas producer and its political goal of promoting **full employment** for ethnic Bruneian Malays are the 2 forces most responsible for the shape of the Bruneian economy. Because it is the third largest oil producer in Southeast Asia, and the fourth largest producer of liquified natural gas in the world, the oil and gas sector dominates the private

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Brunei Darussalam	79,000 (1996)	43,524 (1996)	AM 3; FM 10; shortwave 0	329,000 (1998)	2	201,900 (1998)	2	28,000 (2001)
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7M	33	500,000
Malaysia	4.5 M (1999)	2.698 M (1999)	AM 56; FM 31; shortwave 5 (1999)	10.9 M (1999)	27 (1999)	10.8 M (1999)	7	1.5 M

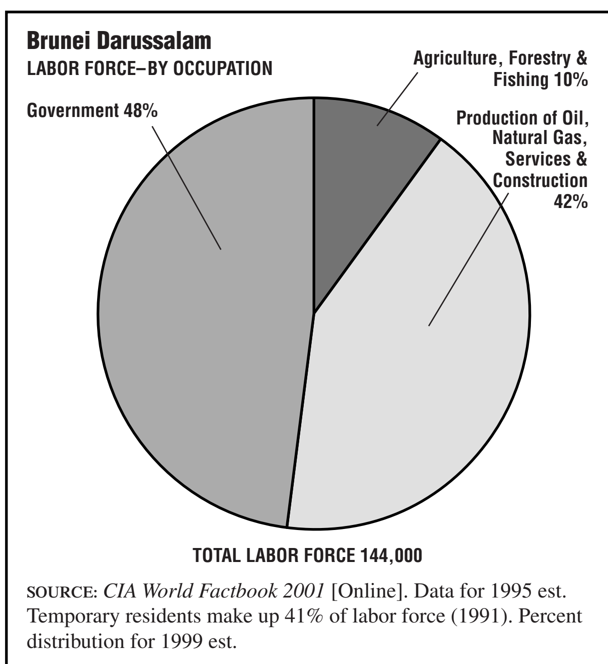
[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].

economy. Along with the construction which is heavily funded by the Bruneian government, oil and gas contributed some 46 percent of GDP in 1996. The construction industry was greatly affected by the Asian financial crisis in 1997–98, but the industrial sector as a whole was expected to thrive with rising world oil prices in 2000. Services, including finances, accounted for 49 percent of GDP in 1996. Within the service sector, community, social, and personal services contributed a large percentage of GDP. The government has made consistent efforts to diversify its economy to boost non-oil sectors.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1995 est. Temporary residents make up 41% of labor force (1991). Percent distribution for 1999 est.

Government estimates, which do not divide employment according to agriculture, industry, and services, indicate that 48 percent of the population is employed by the government and 42 percent in the oil, gas, services, and construction industries. Only an estimated 10 percent of the workforce are employed in Brunei's agricultural sector, which contributed about 5 percent of GDP in 1996.

AGRICULTURE

Agricultural activity in Brunei is not high. The government has attempted to increase agricultural production in order to achieve self-sufficiency in food, but results have been unsatisfactory. Agriculture made up only 5 percent of the GDP in 1996, and the country has had to import 80 percent of its food needs. While land, finance, and irrigation facilities are available, agricultural activities lack manpower resources. The gap between wages in farming and the public sector is large, and most Bruneians have little interest in agricultural production.

Brunei is nearly self-sufficient in vegetables, but only 1 percent of the nation's rice is produced locally. The production of tropical fruits is being encouraged. Cattle—both beef and dairy—buffalo, and goat rearing are also being promoted. Pig farming has been banned since 1993, but the country is self-sufficient in egg production and nearly self-sufficient in poultry.

FISHING. Fish is an important part of the local diet. The fishing sector, comprising catch, aquaculture, and seafood processing, contributed about 0.5 percent to the total GDP in 1998. In 1996 more than 60 percent of fish and prawns sold in Brunei were imported. The government hopes to develop the fishing industry, including fishing fleets and fish-processing factories, and sees foreign **joint ventures** as the way to obtain finance and expertise. The government believes the sector could become an important export revenue earner and employer. Brunei declared a 200-nautical mile fisheries limit in 1983.

FORESTRY. Because of Brunei's mostly urban population and the wealth deriving from oil and gas, forest use has been limited. Currently about 80 percent of Brunei's total land is covered by forests, nearly 60 percent of it virgin. Forestry accounted for only 0.3 percent of the total economic output in 1998. The government is committed to preserving the important environmental, biotechnological, and other economic and social functions of its forests and hopes to develop their potential as a tourist attraction. Consequently, logging, limited to 100,000 cubic meters annually, is confined to meeting local needs only, and timber extraction for export is strictly prohibited.

INDUSTRY

PETROLEUM PRODUCTS. Oil and natural gas mining is the backbone of Brunei's economy. In 1998 the oil and gas sector contributed an estimated 34 percent to GDP and dominated exports. In 1998 crude oil and partly refined petroleum accounted for an estimated 39 percent of total exports and natural gas for 49 percent. Brunei is the third largest oil producer in Southeast Asia and the fourteenth largest in the world; it ranks fourth in production of natural gas. Oil and gas mining is a capital-intensive industry and employs only a small percentage of the total labor force (5.2 percent in 1995). At the beginning of 1993 reserves were estimated at 1.4 billion barrels of oil and 320 billion cubic meters of gas. The government has pursued a national depletion policy since 1988 aimed at preserving resources and continuing exploration of new fields.

Brunei Shell Petroleum (BSP) is the biggest oil mining company. It has 7 offshore and 2 onshore oil fields in Brunei. The Brunei government is an equal shareholder with the Royal Dutch Shell Group in the company. Another important oil-exploration company is Jasra-Elf, a joint venture that has been actively exploring for hydrocarbons offshore and has made some discoveries.

Brunei's annual sales of liquefied natural gas (LNG) sales are currently nearly 6 million metric tons. LNG is as important a revenue earner as oil exports, and the bulk of it is purchased by 3 Japanese utility companies: Tokyo Electric, Tokyo Gas, and Osaka Gas. About 10 percent of LNG is used for domestic consumption.

Following the regional economic crisis in 1997, combined with concerns about falling oil prices throughout 1998, the Brunei government realized that the oil and gas industry can no longer limit itself just to exploration, drilling, and export. It is now aiming at developing a hydrocarbon products industry in Brunei.

CONSTRUCTION. The construction sector is the second most important industry in Brunei, contributing 6.6 percent of GDP in 1998. The sector's performance depends heavily on government spending. Indeed, the development of this sector is the direct result of increased government investment in developing infrastructure projects such as government offices, hospitals, schools, mosques, housing, fire stations, and sporting facilities.

Hit by the regional economic crisis in 1997–98, private sector construction projects almost collapsed. The government cut development spending on infrastructure projects by 50 percent from B$950 million in 1999 to B$550 million in 2000. Thus, growth in this sector is expected to be sluggish.

MANUFACTURING. Manufacturing contributes only a small portion of Brunei's economic output. Its contribution to GDP has increased from 0.8 percent in 1980 to an estimated 3 percent in 1998. The major large-scale industries include food and beverage processing, garment making, cement production, and the production of precast concrete structures. According to International Monetary Fund (IMF) data for the year 2000, 23 industrial sites are being established in Brunei. Food processing and furniture manufacture are designated for further development, while ceramic tiles, cement, chemicals, plywood, and glass are considered to have development potential by the government.

SERVICES

TOURISM. Before the mid-1990s the only tourists visiting Brunei were relatives and friends of expatriates who were working there. Several factors have held back the development of tourism: access to alcohol is limited; the cost of accommodation in the capital is high; accommodation and transport outside the capital is not available; and the general perception about the country is that there is little of interest to see. However, Brunei does offer both natural and cultural attractions, and the government is now actively promoting tourism as an important part of economic diversification.

The capital, Bandar Seri Begawan, is a neat, clean, and modern city. The cultural attractions there include the sultan's magnificent palace, the Brunei Museum, the Malay Technology Museum, and the Omar Ali Mosque. Kampung Ayer is a centuries-old collection of 28 water villages built on stilts in the Brunei River, and Jerudong Park is a recreational center located close to Tutong. The large tropical rain forest areas have been earmarked for **ecotourism** in sites such as Temburong National Park. However, the underdeveloped transport and accommodation facilities remain an obstacle to the expansion of the tourism sector.

In 1996 Brunei had 703,300 foreign visitors, most of them from the neighboring Sabah and Sarawak regions of Malaysia. Passengers on RBA flights to and from Australia are stopping over in the capital in increasing numbers. With 2000 designated as "Visit Brunei Year," the Asia-Pacific Economic Co-operation (APEC) meetings were held in Brunei and proved a boost for Brunei tourism.

FINANCIAL SERVICES. The contribution of financial services to the GDP was 6.4 percent in 1998. There are 9 banks operating in Brunei. The 2 largest foreign banks in the country are the Hong Kong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank. There are a number of Malaysian banks and 3 locally incorporated banks: the Islamic Bank of Brunei (IBB), Baiduri Bank, and the Development Bank of Brunei (DBB). The IBB offers savings and loan facilities in ac-

cordance with Islamic principles. The other Islamic financial institution is the Tabung Amanah Islam Brunei (Brunei Islamic Trust Fund, TAIB). The financial sector also includes a number of locally incorporated and international finance and insurance companies. The authorities have been preparing to implement a comprehensive financial regulatory system via the proposed new Banking Act.

RETAIL. Until the late 1980s the **retail** sector in Brunei was not particularly sophisticated. Aside from the local market, there were only coffee shops, general provision shops, Chinese supermarkets, and a few Chinese restaurants. In 1986 a Japanese store group, Yaohan, opened its first department store in Brunei. Since 1995 a more international range of shops has come to Brunei, including the Body Shop, and the fast food chains McDonald's, Pizza Hut, and Kentucky Fried Chicken. The new Sultan Foundation complex of shops now stands in the center of Bandar Seri Begawan.

INTERNATIONAL TRADE

In 1999 the value of Brunei's exports reached US$2.55 billion, while imports were valued at US$1.3 billion. The country's export trade is dominated by petroleum products. In 1998 crude oil and partly refined petroleum accounted for an estimated 39 percent of total exports and natural gas for 49 percent. By far the most important export market is Japan, which took 42 percent of Brunei's exports in 1999, followed by the United States (17 percent), South Korea (14 percent), and Thailand (3 percent).

Since only a few non-oil products are produced locally, Brunei has to rely exclusively on imports for nearly all of its manufactured goods and most of its food. Singapore is the largest supplier of imported goods, accounting for 34 percent in 1999. The United Kingdom and Malaysia both provided 15 percent of imports, while the United States provided 5 percent. As in many other countries, Japanese products such as motor vehicles, construction equipment, electronic goods, and household appliances dominate Brunei's local markets.

Trade (expressed in millions of US$): Brunei Darussalam

	Exports	Imports
1994	3290	2760
1995	3402	2959
1996	3498	3516
1997	3648	3258
1998	3443	2598
1999	N/A	N/A

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

Exchange rates: Brunei Darussalam

Bruneian dollars (B$) per US$1	
Jan 2001	1.7365
2000	1.7240
1999	1.6950
1998	1.6736
1997	1.4848
1996	1.4100

Note: The Bruneian dollar is at par with the Singapore dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Although Brunei enjoyed a positive trade balance (a **trade surplus**) throughout the late 1990s, that surplus has been shrinking. This phenomenon was caused by reduced earnings from petroleum and an increase in imports due to a demand for higher living standards.

MONEY

Brunei's financial system is operated by a **currency board** which regulates the issue and management of the currency. There are laws that govern and regulate the activities of banks and financial institutions, designed to ensure a stable and fiscally sound business environment.

The Brunei dollar is at par with the Singapore dollar and both are freely traded in their respective countries. The trend of interest rates follows that of Singapore. The peg to the Singapore dollar has helped maintain a stable **macroeconomic** environment. There are currently no exchange controls in Brunei.

The Brunei dollar appreciated (grew in value) steadily for years until the beginning of the Asian economic crisis in 1997, when the depreciation of currencies in neighboring countries caused the Brunei dollar to weaken in 1997 and 1998. The Brunei dollar continued to appreciate against these neighboring currencies but was offset by its depreciation against the U.S. dollar, Japanese yen, and major European currencies. This combined effect helped moderate imported inflationary pressures since ASEAN members account for 45 percent of Brunei's total imports, while the United States, Japan, and Europe account for 39 percent.

POVERTY AND WEALTH

As the monarch of a rich state, Brunei's ruler, Sultan Hassanal Bolkiah, has been named as one of the richest men in the world. His wealth mainly comes from oil,

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Brunei Darussalam	21,758	29,442	21,152	18,716	18,038
United States	19,364	21,529	23,200	25,363	29,683
Philippines	974	1,166	967	1,064	1,092
Malaysia	1,750	2,348	2,644	3,164	4,251

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

and he has attracted international attention by purchasing luxury hotels in Singapore, Britain, and the United States, while making generous donations in the United Kingdom. All members of the Bruneian royal family are engaged in business transactions such as property purchasing and rental.

Wage and benefit packages in Brunei tend to be generous and the labor shortage ensures that most citizens command good salaries. There are nonetheless unemployed and poor members of society, but most of these live under the protection of an extended family system, where idle youth can find shelter and the aged and infirm are cared for. The citizens enjoyed a per capita GDP of US$17,600 in 2000.

Oil-rich Brunei has a wealth that enables the sultanate to maintain a **welfare state**. All Brunei citizens receive free education (through university for those who qualify), free health care, and various other **subsidies** such as subsidized housing, food, fuel, and low-interest loans for government employees. Brunei's health care system is one of the best in Asia. Every citizen of Brunei pays only a nominal fee for medical and dental services. Medical treatment unavailable in Brunei will be conducted overseas (usually in Singapore) at government expense.

WORKING CONDITIONS

Brunei suffers a serious shortage of both skilled and unskilled labor and has to recruit large numbers of these from abroad. It was estimated in 1997 that 60,000 out of the total workforce of 130,000 were foreigners. Many unskilled and manual workers from neighboring Malaysia, Thailand, the Philippines, and Bangladesh work mainly in the construction industry. The government is concerned that too large a number of foreigners in the country might disrupt Brunei's society and thus only issues work permits for short periods. Despite the need for foreign workers, there are still unemployed Bruneians, since they are reluctant to accept manual work (e.g. in the construction sector) and are not qualified to fill other vacancies. The unemployment rate in 2000 was 5 percent.

Brunei's dependence upon foreign labor stems from a cultural predisposition for public sector employment. Most Brunei Malays prefer to work in well-paid government jobs or for large companies such as Brunei Shell Petroleum (BSP), Royal Brunei Airlines (RBA), and the banks. In the private sector, which is subject to chronic labor shortage in both professional and unskilled fields, Chinese and other foreign nationals make up the bulk of the workforce.

Women's participation in the labor force has increased significantly from 29.5 percent in 1986 to 52.3 percent in 1999, partly offsetting the labor shortage. Brunei law protects women and children. Women under age 18 are not allowed to work at night or on offshore oil platforms, and the employment of children below the age of 16 is prohibited. The government has continued to set up a number of technical and vocational training institutions to improve the abilities of job seekers. Occupational health and safety standards apply, but enforcement is lax in the unskilled labor sectors, especially where foreign laborers work.

Trade unions in Brunei are legal but must be registered. Conditions, however, are not conducive to the development of trade unions: the cultural tradition favors consensus over confrontation and workers have little interest in participating. There are only 3 trade unions, all in the oil sector, and they are not particularly active.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1847. Brunei signs a trade relations treaty with Britain.

1888. Brunei becomes a British-protected state.

1906. A treaty is established with Britain, introducing a representative of the British government, known as a British resident, to advise the sultan on all matters with the exception of local customs and religious matters.

1929. Oil is discovered and explored at Seria.

1941–45. Brunei is occupied by the Japanese during World War II.

1950–67. Sultan Omar Ali reigns.

1959. An agreement is signed with Britain replacing the 1906 treaty and giving Brunei self-governance under a new constitution. The British remain responsible for both internal and international security.

1962. The Brunei People's Party wins election to the recently established legislature but is denied access to office. Its ensuing armed uprising is crushed, and the sultan claims full executive authority.

1967. Brunei issues its own currency.

1967. The 28th sultan, Omar Ali, voluntarily abdicates in favor of his eldest son, Hassanal Bolkiah.

1970. The state capital, Brunei Town, is renamed Bandar Seri Begawan.

1971. The 1959 agreement with Britain is amended to give Brunei responsibility for its own internal security.

1972. A deep-water port is opened in Muara.

1973. The world's largest liquefied natural gas (LNG) plant opens.

1974. The Brunei International Airport is opened, followed a year later by the creation of the Royal Brunei Airlines.

1979. Brunei and Britain sign The Treaty of Friendship and Co-operation laying down a timetable for complete Bruneian independence some 5 years later.

1984. Brunei resumes full independent political sovereignty. Brunei joins the Association of Southeast Asian Nations (ASEAN), the Organization of the Islamic Conference (OIC), and the United Nations.

1997. The Asian financial crisis brings a **recession** to Brunei and hits the construction sector especially hard.

FUTURE TRENDS

In 1998, hit by the Asian financial crisis and falling world oil prices, the Brunei economy slipped into a mild recession with a 1 percent growth rate. Rising oil prices in late 1999 increased Brunei's economic growth, estimated at between 3 and 3.5 percent in 2000. Despite the beneficial rise in oil prices, Brunei has continued with plans to **restructure** its economy away from overreliance on oil and gas. The Brunei Darussalam Economic Council (BDEC) will oversee this development. The government will continue with its short-term economic stimulus plan, boosting manufacturing and tourism and attempting to create an offshore financial center. However, the diversification effort remains impeded by high public sector remuneration, restrictions on activities open to foreign participation, and cumbersome foreign investment approval procedures.

Whether Brunei can achieve sustained economic growth and maintain high living standards depends heavily on the world economy, especially on world oil prices, and on the government's ability to formulate and implement successful economic measures to bring economic diversity.

DEPENDENCIES

Brunei Darussalam has no territories or colonies.

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—Xingli Zhang

BURMA (MYANMAR)

Union of Burma
Pyidaungzu Myanma Naingngandaw

CAPITAL: Rangoon (Yangon).

MONETARY UNIT: Kyat (Kt). One kyat is equal to 100 pyas. There are coins of 1, 5, 10, 25 and 50 pyas and 1 kyat, and notes of 1, 5, 10, 15, 20, 40, 90, 100, 200, 500, and 1,000 kyat.

CHIEF EXPORTS: Pulses and beans, prawns, fish, rice, teak, and opiates.

CHIEF IMPORTS: Machinery, transport equipment, construction materials, and food products.

GROSS DOMESTIC PRODUCT: US$59.4 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$1.2 billion (1998). **Imports:** US$2.5 billion (1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. Situated between Indian and Thailand, Burma is a southeast Asian nation. From the borders of India and China in the north, the country extends into the Andaman Sea and the Bay of Bengal in the south. The country also shares borders with Laos and Bangladesh. Slightly smaller than the state of Texas, Burma has an area of 678,500 square kilometers (261,969 square miles). Its land borders are 5,876 kilometers (3,651 miles) long and its coastline, home to many excellent natural harbors, is 1,930 kilometers (1,199 miles) long. Burma's capital, Rangoon (also known as Yangon), is in the south. Mandalay, Moulmein, Pegu, Bassein, Taunggyi, Sittwe, and Myanwa are the other most important cities in the country.

POPULATION. The population of Burma, according to July 2000 estimates, was 41,734,853. A high mortality rate caused by AIDS is factored into this estimate; it is estimated that at least 1 million people are infected with HIV, the virus that causes AIDS. This high mortality rate from AIDS has slowed population growth to a projected rate of growth of 0.64 percent. The country registered a birth rate of 20.61 per 1000 population and a death rate of 12.35 per 1000; consequently, the population of Burma in 2015 is expected to be 45,925,967.

In the past, the government of Burma sought to restrict **emigration** (people leaving the country) and **immigration** (people settling there from outside the country). Burmese authorities negotiated with India to reduce the number of people of Indian origin in the country. As a result, Burma **repatriated** about 100,000 people to India between 1963 and 1965. Thousands of Burmese also fled to neighboring countries to escape military repression and armed conflicts in the ethnic minority areas.

Ethnic diversity is an interesting feature of the Burmese population. Burmans, an ethnic group related to the Tibetans, constitute the majority at 68 percent of the population. Shan (9 percent), Karen (7 percent), Rakhine (4 percent), Chinese (3 percent), Mon (2 percent), Indian (2 percent), and other ethnic groups account for the rest of the population mix. Buddhism is the major religion, with 89 percent of the population; there are minorities of Christians and Muslims. A majority of the people, 65 percent, are between the ages of 15 and 64. Only 5 percent of the population is older than 65, while 30 percent of the population is under 14 years of age. This is in sharp contrast to Japan, west European countries, and the United States where the number of older people in the population is much higher. The density of population is about 65.2 per square kilometer (169 per square mile). With agriculture as the most important occupation, a majority of the people live in the rural areas and only an estimated 27.3 percent (1999) reside in cities.

OVERVIEW OF ECONOMY

Despite many attempts to industrialize and modernize, Burma remains an essentially agricultural economy. Attempts in the 1990s to encourage foreign investments,

revitalize the economy, and promote the tourism industry as a source of income and employment have been only moderately successful. Agriculture remains the most dominant sector of the economy, generating 59 percent of the **gross domestic product** (GDP) in 1997 and employing more than 65 percent of the workforce in 1999.

Only 10,680 square kilometers (4,123 square miles) of the country's arable land was irrigated in 1993. Agriculture, for the most part, depends on the monsoon rains. Periodic droughts are a major problem. Similarly, natural disasters such as cyclones, earthquakes, floods, and landslides, especially during the long monsoon season, can have an adverse impact on agricultural production.

Until it became independent in 1948, Burma was a British colony. The colonial authorities promoted agriculture by encouraging the settlement of people in the delta regions. Roads, bridges, and ports were built to facilitate the movement of agricultural products. This development led to an internal migration from the dry northern regions to south of the country. The delta produced large quantities of rice. The British were not interested in encouraging industries in Burma. Foreign domination of the economy was complete.

During the 1950s, the capital of Rangoon was one of the commercial centers of Southeast Asia. At the time, the World Bank estimated that Burma would become one of the most prosperous countries of the region. But independence, democracy, and a free market economy failed to produce political stability or economic prosperity. In 1962, a military takeover of the government led to **socialism** and central economic planning. Foreign businesspeople—especially those from India, China, and Pakistan—were expelled and foreign investment in Burma stopped. The new rulers adopted a "Burmese road to socialism"—a policy of state socialism and isolationism (a policy of keeping foreign influence and involvement to a minimum so that a country can develop on its own). Economic conditions did not improve under the harsh rule of the generals; rather, they worsened. In 1987, the United Nations declared the country a "Least Developed Nation."

Many people in Burma remained antagonistic toward the military rule and the state-controlled economy. This opposition finally led to mass protests and violence in March 1988, which the government sought to suppress. The army chief of staff took control of the government, abandoned the 3-decade-old period of state socialism, and freed the market from most of the state controls.

Burma now has a mixed economy with a private, state, and a joint private-state sector. Agriculture, light industries, and other businesses are in the **private sector**. Heavy industries that require huge capital investment are in the state sector. The economic reforms of the last decade sought to promote **joint ventures** between private Burmese and foreign firms. Therefore, foreign investments were once again encouraged with modest success. The state sector continues to be inefficient, and attempts to **privatize** at least a portion of it remain on the books. **External debt** amounts to 10 percent of the GDP, and imports exceed exports by 2 to 1, causing a serious trade imbalance.

Burma is a top producer of illicit drugs and contributes 80 percent of all Southeast Asian production of

opium. Most of the heroin available in the United States originates from Burma. The trafficking in drugs is illegal; thus, an accurate assessment of its contribution to the economy is impossible to gauge. A parallel **black market**, perhaps bigger than the state's economy, continues to pose problems for the authorities.

During the 1998–99 **fiscal year**, Burma received an estimated US$99 million in economic aid. In 1995, the figure was about US$157 million. Economic **sanctions** imposed by the United States, the European Community, and other nations have contributed to this decline. These sanctions are in response to continued political repression and human rights violations by the military regime. In 1990, the opposition National League for Democracy (NLD) had won a clear victory in the elections, but the generals refused to transfer power to the duly-elected representatives of the people. Moreover, the leaders of the NLD were harassed, detained, tortured, and even murdered by the regime.

Politically and economically, Burma remains a pariah (outcast) nation. Except for its membership in the Association of Southeast Asian Nations (ASEAN), the country is not befriended by most nations. In May 2000, U.S. president Bill Clinton imposed new sanctions on the military junta (a group of military personnel who overthrow a government) making it difficult for the Burmese authorities to get foreign loans, economic assistance, and foreign investments. Many American companies such as Apple Computer, Oshkosh B'Gosh, Eddie Bauer, Reebok, Levi Strauss, Pepsi Cola, and Liz Claiborne have withdrawn from the country. Therefore, the attempts of the military junta to revitalize the economy have been only partly successful.

Despite the introduction of banking and trade regulations in the late 1990s, Burma failed to achieve fiscal or monetary stability. **Inflation** continues to be high. Although poor and undeveloped, Burma is rich in natural resources. Nevertheless, the decline of the agricultural sector, regional economic crises, international sanctions, and shortages of electricity have all contributed to a slowdown in the economy since 1997.

POLITICS, GOVERNMENT, AND TAXATION

Burma fought for independence from Great Britain in the late 1940s under the Anti-Fascist People's Freedom League led by Aung San, U Nu, and Ne Win. The independence movement was a pro-Burman, anti-British, and anti-foreign movement that emphasized Burmese values, symbols, and experiences. This movement had very strong socialist leanings in response to Chinese and Indian domination of the Burmese economy during the British rule. In 1948, the country became independent under the leadership of U Nu because his political opponents had already killed Aung San, the father of Burmese nationalism. In 1962 the army, under the leadership of Ne Win, overthrew the democratic government and set up the Burmese Socialist Party, **nationalized** schools, banks, and factories, and followed a policy of socialist central planning and international isolationism. Later on, the party of the generals changed its name to the Burma Socialist Program Party. In 1974, all political parties were abolished.

In September of 1988, amid massive demonstrations against the government, a new regime seized power in a military coup. Calling themselves the State Law and Order Restoration Council (SLORC), the new regime also changed the name of the country from Burma to Myanmar, something that opposition groups still object to. Following the anti-government protests, riots, and bloodshed in 1988, the opposition parties coalesced into the National League for Democracy (NLD) under the leadership Aung San Suu Kyi, the daughter of the martyred national hero, Aung San.

Responding to nationwide protests, the SLORC allowed national elections in May of 1990. The NLD dominated the elections, winning 80 percent of the seats in the National Assembly, but the ruling SLORC refused to concede power and imprisoned NLD leader Aung San Suu Kyi. Since that time the SLORC has exercised complete control over all branches of government. The National Assembly elected in 1990 has in fact never convened, the judicial system is bankrupt, and all executive positions are held by military representatives of the SLORC.

In 1997 the ruling SLORC was reorganized as the State Peace and Development Council (SPDC) amid a shakeup that saw several high officials dismissed for corruption. Five top generals, including Secretary Khin Nyunt, consolidated their power but showed no signs of ceding control of the government to the opposition, most of which was banned from any official forms of organization. Like the SLORC, the SPDC is primarily concerned with cracking down on opposition and not on improving the economic fortunes of the country.

The government's mounting deficit financing, resulting mostly from declining tax revenue and escalating military expenditures, has had a negative impact on the economy. The regime's policies led to the growth in the money supply and accelerated inflation. Mounting **foreign debt** and depleting **foreign exchange reserves** also affected the health of the economy. Military expenditures increased while the funding for health and education declined. The government's oppressive attitude towards the opposition has caused international censure, prompting foreign firms to pull out or cut back on their activities. Because of foreign economic sanctions, Burma is unable

to get assistance from other countries or loans from international funding sources.

The country's tax base shrank in the last years of the 20th century, due to the government's inability to collect taxes because of a corrupt bureaucracy and a black market perhaps as large as the legitimate market. The sources of government revenue include general sales and **value-added taxes**, income from state enterprises, taxes on international trade, fees, and grants from donor nations and international agencies. The government also collects customs at its border posts, but most of the border trade is unrecorded.

The judicial system that Burma inherited from its British colonial masters was abolished in 1974. The new constitution calls for a council of People's Justices. In addition, there are lower courts at the state, town, village and ward level. The courts settle both civil and criminal cases. The armed forces—controlling most aspects of the country's politics and government—also exert influence over Burma's judicial system.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

In most developing countries of the world including Burma, inadequate **infrastructure**—roads, bridges, canals, railways, ports and communication facilities—impedes economic growth. Burma's long coastline is home to many excellent natural harbors such as Bassein, Bhamo, Mandalay, Rangoon, and Tavoy. The government has taken steps to develop new ports and maintain the existing ones, although all the ports are not used to their maximum capacity. A salient geographic feature of Burma is its many rivers, especially the Irrawaddy. The country's waterways remain the most important traditional mode of transportation to many remote areas of the country. Of more than 12,800 kilometers (7,954 miles) of waterways, 3200 kilometers (1,988 miles) are navigable by large commercial vessels.

Since the economic **liberalization** in 1989, the government started many public works programs. Early in the 1990s the government used forced rural labor to work on these projects. However, due to international criticism, the government began to engage the armed forces on these construction projects starting in mid-1990s. These projects did not bring about major improvement in the infrastructure needs of the country. The result has been that economic expansion was made difficult because in the absence of adequate transportation facilities, distribution of goods and services has been extremely difficult and costly.

In 1996, Burma had a total of 28,200 kilometers (17,523 miles) of roads, of which only 3,440 kilometers (2,138 miles) were paved. Although the government attempted to improve many major roadways during the final years of the 20th century, most remain in poor repair and are not passable during the monsoon season. A major effort in this regard was to reconstruct the Old Burma Road from Mandalay to the borders of China. As of late 2000, the work on the project was still incomplete.

Rail services remain poor despite attempts in the 1990s to renovate the existing lines, add new ones, and upgrade railway services on the main routes. Burma has a total of 3,991 kilometers (2,480 miles) of railways, over 320 locomotives, and more than 4,000 rail cars. The recent efforts include upgrading Rangoon-Mandalay rail line and beginning a new 162-kilometer Ye-Dawai Rail track project. In the 1995–96 fiscal year the railways carried 53,400,000 passengers and 3,280,000 tons of freight.

Burma has 80 airports and 1 heliport. Only 10 airports have paved runways. Both the private sector and the state sector are active in air transportation. The Department of Civil Aviation is responsible for the airports and the state-run airline. Air Mandalay, Myanma Airways, and Myanma Airways International are the chief airlines of the country. Burma's chief airports at Rangoon, Mandalay, and Bago were upgraded in the late

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Burma	10	95	7	N/A	0	0.1	N/A	0.00	1
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Thailand	63	232	236	10.1	32	2.5	21.6	4.49	800

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

1990s. During the 1995–96 fiscal year state-run airlines carried a total of 719,000 domestic passengers and 138,000 international passengers.

Light transportation such as buses and cars are a private sector activity in Burma. As of March 31, 1996, Burma had 151,934 passenger cars, 42,828 trucks, 15,639 buses, 88,521 motorcycles, and another 6,611 registered vehicles.

Also during 1996, state-owned maritime vessels carried 24,491,000 passengers and 3,158,000 tons of freight. These numbers show an increase over the same period of the previous fiscal year.

Industrial production and expansion are limited due to inadequate production and intermittent supply of electric power. Electricity production of 4.38 billion kilowatt-hours (kWh) in 1998 was far below demand. Around 38 percent of the electricity is generated by hydroelectric projects while the remaining 62 percent comes from fossil fuels. Chronic shortages and frequent disruptions of supply exist. Therefore, state and private enterprises operate far below their capacity. Moreover, very often they have to depend on their own diesel-run power generators to meet their electrical needs.

As of 1995, there were 158,000 main telephone lines. In 1997, there were 500 exchanges with a capacity to reach 320 of the 324 townships in the nation. The number of mobile cellular phones was only 2,007 in 1995. Although the telephone system is capable of providing basic services, it is inefficient and outdated. Attempts in the 1990s to upgrade the system yielded only minimal results. Cellular and wireless phones function more efficiently than the traditional lines. The switching system is incapable of meeting current demands, and people have to wait for a long time for a telephone connection to their homes and factories. International service powered by a satellite earth station is relatively good.

The 2 television stations in Burma service 260,000 (1997) television sets. TV Burma is able to transmit 82 percent of its broadcasts to 267 of the 324 townships in the country with the help of 120 TV relay stations. These are in addition to Burma's 2 AM, 3 FM, and 3 shortwave radio stations. In 1997 the country had a total of 4.2 million radio sets. Radio and television stations are state-owned and operated. In 1996, there were 5 newspapers with an estimated circulation of 449,000, a significant decline from 1994 circulation figures.

There are about 50,000 computers in all of Burma. Public access to the Internet is prohibited for fear that it could encourage and widen political dissent and protest. Unauthorized ownership of modems is punishable by up to 15 years in jail. E-mail is restricted to foreigners and businesspeople with close ties to the administration. Private e-mail providers are prohibited, and only the Ministry of Post and Telegraph is allowed to provide e-mail service.

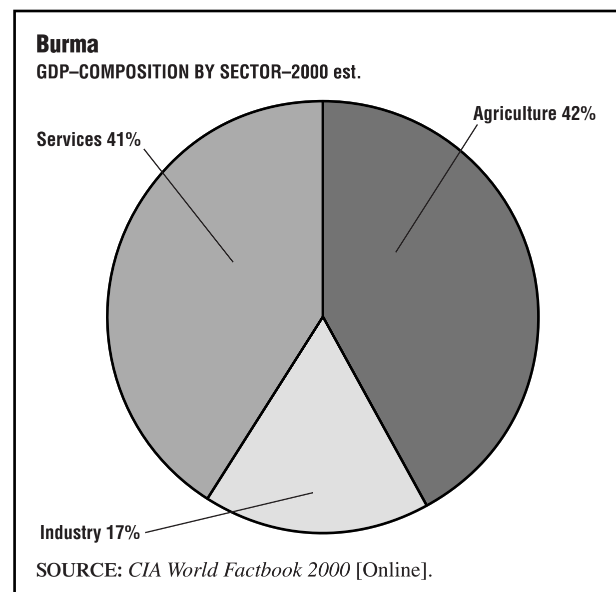
Improvements in the infrastructure were partly funded by deficit spending. In the absence of adequate funds, the government is unable to fully develop the country's transportation and communication systems and facilities. This situation had a negative impact on modernization and economic growth of the country for many decades.

ECONOMIC SECTORS

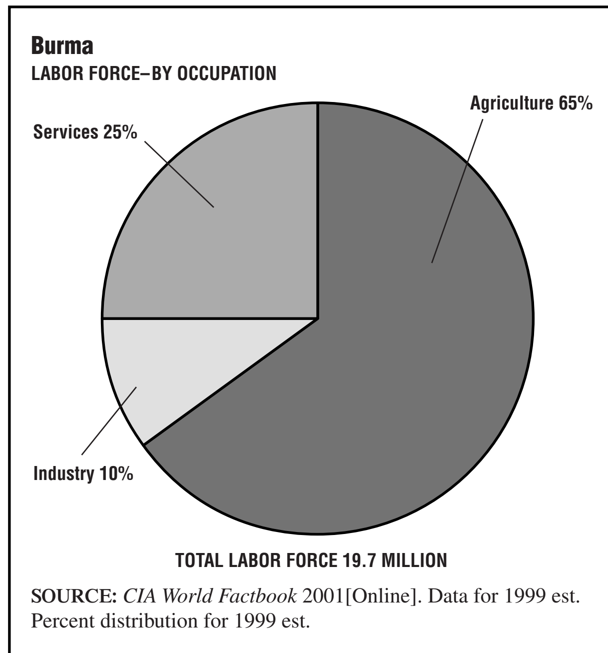
Agriculture, industries, energy and tourism are the main sectors of the Burma economy. Agriculture, however, is the dominant sector and accounts for almost 60 percent of the GDP. The heavy industries are owned and operated by the state. Agriculture is mostly a private activity, although rice exports are a state **monopoly**. Recent government initiatives to improve agricultural production failed because drought and flooding diminished in rice production. The cultivation of pulses and beans, however, has increased significantly.

Industrial manufacturing is still undeveloped. Government attempts to privatize some industries have stalled, even though government-owned concerns continue to lose large sums of money. Foreign investments, although encouraged, have failed to generate enough international interest due to sanctions and boycotts protesting the military regime's human rights violations. All told, industry contributed just 11 percent of GDP in 1997.

The energy sector grew considerably during the late 1990s. The exploration and discovery of petroleum and



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook* 2001[Online]. Data for 1999 est. Percent distribution for 1999 est.

natural gas deposits continued during this period. The construction of the Yadna gas pipeline to Thailand was a major development and is expected to be a major source of revenue. The lack of sufficient electrical power contributes to the country's poor economic growth.

Following the military crackdown on the pro-democracy movement in 1988, there was a sharp decline in the number of foreign tourists visiting the country. Early in the 1990s the government placed great emphasis on tourism development. The government's attempt to turn tourism into a "cash cow" has not materialized, although the number of people visiting Burma has certainly increased in the last several years.

Realizing the difficulties on the road to rapid industrialization, the government of Burma, while not giving up on industrialization, is hoping to make the agricultural sector the centerpiece of its plans for economic revitalization of the country. This sector, however, has seen declining financial returns. Burma is caught in a vicious circle of inflation, deficit financing, unemployment, and poverty. In an age of increasing international interdependence, Burma cannot expect to develop without the cooperation of the international community.

AGRICULTURE

Agriculture, which includes crop production, hunting, fishing, and forestry, is the mainstay of the Burma economy. This sector is responsible for much of the income and employment in the country. About 60 percent of the GDP comes from agriculture, and as much as 65 percent of the **labor force** is employed in this sector alone. Burma produces enough food to feed its entire population. In the absence of purchasing power, however, many people go hungry. Further, about a third of the rural households do not have any land or livestock. Only half of the arable 45 million acres is under cultivation.

Rice is the most important agricultural commodity of Burma. Rice production increased from 5,200,000 metric tons in 1950 to 16,760,000 metric tons in 1993. The crop is cultivated along the river valleys, coastal areas, and in the Irrawaddy River delta. A wide variety of crops are cultivated in the northern dry zone. Rubber and other commercially useful products are cultivated in the Irrawaddy and Tenasserim regions. Agricultural products form the bulk of the export trade and include rice, teak, prawns, beans and pulses, and opiates.

Burma's agriculture is heavily dependent on the monsoon rains. While some areas suffer from too much rain, other regions receive too little. Government efforts in the 1990s increased the amount of irrigated land to 2.2 million acres. Many agricultural products like tobacco, sugar, groundnut, sunflower, maize, jute and wheat, however, have not reached their pre-1985 production levels. This reduction is offset by higher production in rice, pulses and beans. Rice production increased due to supportive government policies as well as favorable market forces. According to Asian Development Bank estimates, however, real annual growth in agriculture declined from 5.0 percent in 1996–97 to 3.7 percent in 1997–98 and to 2.8 in the 1998–99 fiscal years. Further, per-acre yield of the crops has not increased because of inadequate application of fertilizers and pesticides. One factor that helped to improve production was the removal of government controls over the agricultural sector.

Deforestation has been a major concern in Burma. The slash-and-burn method of agriculture is destroying the forests of the country, causing soil erosion and depletion of fertility. Periodic droughts, floods, landslides, and cyclones sometimes have devastating effect on agriculture. For example, flooding in Pegu and Irrawaddy during the 1997–98 growing season did considerable damage to rice production. Consequently, Burma exported only 28.4 thousand metric tons of rice in the 1997–98 season as opposed to 93.1 thousand metric tons in the previous year.

The heavy reliance on monsoons is a major handicap for Burmese agriculture. The authorities have recently renovated dams and reservoirs, built new ones, pumped water from rivers and streams and taken other measures to improve irrigation. More remains to be done in this regard. Another impediment to agricultural improvement is the inability of farmers to secure adequate loans to enhance cultivation. Private lenders charge exorbitant rates, and there are not enough banking institutions to serve people in the rural areas. As a result, farm-

ers are not able to buy fertilizers and pesticides for their crops. Financial services need to be improved to make funds available to the cultivators.

The economic liberalization policies of the military junta have transformed the agricultural sector. Under the new economic system, the government distributed land among the landless, improved irrigation facilities, and increased the **floor price** of paddy that the government procures from the farmers. Some private activity in the export sector has been allowed since economic liberalization began in 1989. Consequently, the share of the agricultural sector in the GDP has gone up.

LIVESTOCK. Burmese farmers raise a variety of animals including cattle, water buffalo, goats, sheep, chickens, and pigs. Oxen and water buffalo serve as draught animals in agriculture and for rural transportation. The GDP share of the livestock has increased slightly during the past decade. Most of the cattle are raised in the dry zone in the north.

FORESTRY. Burma is rich in forests and woodland. While its neighbors, India, China and Thailand, have already depleted their forests, Burma is still regarded as the "last frontier of biodiversity in Asia." (Biodiversity refers to ecosystems that are rich, varied, and largely unpolluted or tampered with by human development.) Most of the timbers, especially teakwood, consumed in these Asian countries come from Burma, although most of these exports are illegal. In their search for precious foreign exchange, the military junta is engaged in indiscriminate destruction of forests. Deforestation increases erosion and landslides and threatens the lives of many already endangered species in the rain forests.

Burma is the leading supplier of teak in the international market. In addition to hardwoods, Burma also produces large quantities of bamboo in the delta regions and in the areas of heavy rainfall. Elephants and water buffalo play a key role in hauling teak and other hardwoods.

FISHING. Burma is blessed with some of the world's most bountiful fishing grounds that extend from the Bay of Bengal to the Gulf of Martaban. Fish, often dried and salted, is part of Burmese cooking and is the most important source of protein in the diet. The government took many steps to encourage deep-sea fishing although the people prefer fresh-water fish. There has been a steady increase in the catch since the 1980s. Since 1989, Thai companies have been given permission to fish in the Burma waters. They use a modernized trawler fleet to harvest fish. The government also encourages fresh-water fish farms with a view to increasing fish production. Moreover, the Tenasserim area is home to some of world's finest pearls. As a result, the export value of fish and fish products alone has gone up from 159.4 million kyats in 1995–1996 to 227.8 million in 1996–97.

INDUSTRY

Primarily an agricultural country, Burma has always lagged behind in industrial production. The colonial authorities discouraged industrialization and encouraged only the production of raw materials, although there were some industrial developments towards the end of the colonial period.

World War II caused serious damage to the country's infant industries. It took a long time for production to catch up to pre-war levels, and in 1952, the government established the Industrial Development Corporation to stimulate industrial production. The country's effort to industrialize without foreign assistance was successful to a certain extent in areas such as petroleum and natural gas production. In the 1960s, under military rule, many industries were nationalized. Since the 1970s, there has been a steady growth in industrial production. In 1988, the government liberalized the economy, abandoned state socialism, and encouraged foreign investment.

Much of the industrial sector, especially heavy industries, is controlled by the government, although the share of private enterprise in this area is steadily growing. Industry accounts for only about 11 percent of the GDP and employs only 10 percent of the total labor force. Most of the industries center around agricultural processing, textiles, footwear, wood and wood products, copper, tin, tungsten, iron, construction materials, petroleum and natural gas, pharmaceuticals, and fertilizers. Cars and television sets are also assembled in the country. In 1999, the annual rate of growth of industries was estimated at 4 percent. The heavy losses of the **public sector** factories and industries are in part responsible for slow industrial growth.

Pegu is the seat of most industrial activity. In addition, the government has opened 17 special industrial zones all over the country, 5 of which are in the Rangoon area. Foreign investment is encouraged in 2 of the zones. While these zones are not fully developed, several factories and plants manufacturing clothing, **consumer goods**, and iron and steel materials are already operating there.

MINING. Although their GDP contribution is not very significant, mineral products are important in earning foreign exchange. Burma has large amounts of mineral deposits. They include tin, zinc, copper, tungsten, lead, silver, gold, iron and antimony. Coal, natural gas, and crude oil are also extracted. Jade, rubies, sapphires, and gold are also found in Burma. Should the country ever open to foreign investment there may be significant opportunities for development in this sector.

OIL AND NATURAL GAS. Burma's petroleum industry dates back to pre-independence days. During 1963–1964,

the government took complete control of petroleum exploration, extraction, and purification. Petroleum is found in the Irrawaddy basin, the delta region, and at offshore sites. Burma is self-sufficient in oil.

The discovery of natural gas reserves in the Gulf of Martaban added to Burma's energy reserve. In 1986 the country produced 32,600 million cubic feet of natural gas. Burma also has large deposits of natural gas in the Andaman off-shore fields. In its efforts to facilitate the growth of its energy sector, the government built the Yadana natural gas pipeline, connecting natural gas stores off the Andaman Islands and Thailand, with the help of Unocal and Total, 2 international petroleum companies. According to government estimates, the energy sector grew approximately 88 percent in 1998. Government projections showed a 77 percent growth for the year 1999.

SERVICES

With just 30 percent of GDP and 25 percent of the workforce, the services sector is not a dominant part of the economy as it often is in developed countries.

TOURISM. Like the cash-strapped countries of Jamaica and Cuba, Burma is also actively promoting itself as an island paradise to increase tourism. Both the government and private enterprises are heavily engaged in the tourism industry. In order to attract tourists, the country has improved roads, built international standard hotels, and other facilities. In 1988, roughly 40,000 foreigners visited the country, although following the suppression of the democracy movement that same year, tourism decreased. Between 1993 and 1996, tourism once again revived. The government proclaimed 1996 as "Visit Burma Year" and hoped to attract 500,000 tourists. However, only 180,000 people showed up. In the 1997–98 fiscal year 191,000 tourists visited the country. Both the government and the private sector, having invested heavily in new tourist facilities, were disappointed.

Nevertheless, Burma—the land of Buddhist pagodas—has great tourism potential. Rangoon, Mandalay, Pagan, Pegu, and Tawnggys, with their palaces and shrines and pagodas, are the centers of tourism. However, the tense political situation, human rights violations, and boycotts by the international community have deterred many people from visiting. Tourism, so far, makes up only a small percentage of the GDP.

FINANCE. During the post-independence days, most financial institutions were private. In 1964, the military junta nationalized all of the country's 24 banks. In their place, the government created 4 state banks. In 1990, the financial sector was revamped under the provisions of the Central Bank of Myanmar Law. Since then the financial institutions are the Central Bank of Myanmar, the Myanmar Agricultural and Rural Development Bank, the Myanma Economic Bank, the Myanma Foreign Trade Bank, the Myanma Industrial and Commercial Bank, the Myanma Small Loans Enterprise, and Myanmar Insurance. The 1990 law also allowed for both private and foreign banks. As a result, by February 1996, 16 private banks were formed, most of them in Rangoon. During the same period, more than 20 foreign banks opened branches or offices in Myanmar.

The banking sector is still underdeveloped. The people have yet to maintain regular banking habits. The **inflation rate** is so high that the real rate of interest does not encourage deposits. But without deposits, banks cannot provide credit. In contrast, during the 1970s, when the interest rate was raised, people deposited more money in the banks.

The Burma Securities Exchange was founded in 1996 as a joint venture between Japan's Daiwa Institute of Research and Myanma Economic Bank. The financial sector contributes only a small percentage of the GDP.

INTERNATIONAL TRADE

Historically, most of Burma's export-import trade was with Asian countries. In 1999, more than 80 percent of the country's export-import trade was with Asian nations, including about half with ASEAN countries. Japan, Singapore, Malaysia, and China are its major trading partners. Singapore is the single most important partner both in terms of imports and exports, providing 31 percent of imports and taking 10 percent of exports. There has been a decline in trade with Europe and the United States since the 1988 military crackdown on the democracy movement. Burma's export-import trade with the United States constitutes about 5 percent of the total foreign trade.

The country's exports are mostly agricultural products. They include pulses and beans, teak, prawns, rubber, rice and other agricultural products. There is a large black market that smuggles live animals, gems, minerals, teak, and rice into the neighboring countries. Burma

Trade (expressed in billions of US$): Burma

	Exports	Imports
1975	.173	.197
1980	.472	.353
1985	.303	.283
1990	.325	.270
1995	.846	1.335
1998	1.067	2.666

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

also conducts brisk trade in narcotics. During the 1997–98 fiscal year, imports included raw materials, transport equipment, construction materials, and food items. While priority was given to the importation of materials needed for the Yadana natural gas pipeline, the government took measures to control importation of non-essential goods.

In 1998 the country exported $1.2 billion in goods and services while importing $2.5 billion, reflecting a steady increase of imports over exports during the 1993–98 period. In fact, the trade imbalance has been a chronic problem for the country for well over 2 decades. During the 1965–75 period, rice exports fell, and Burma cut back on imports. During the 1976–80 period, although exports increased, there was a corresponding increase in imports. By the mid-1980s, exports declined, but imports continued to soar. The adverse **balance of payment** situation continues to plague Burma.

This imbalance has a negative impact on the economy as a whole, forcing Burma to spend its precious foreign exchange reserves. To compensate for this situation, the government has printed currency to buy foreign exchange, thereby accelerating the inflationary tendencies of the economy. This inflation has wiped out many of the gains the country made as a result of economic liberalization in the 1990s. Making matters worse, the government had to buy foreign exchange from foreign sources at commercial rates. Consequently, Burma was unable to service its debt payment, prompting the World Bank to sever ties with the country. The net effect for Burma's people is that their purchasing power and standard of living declined.

The regime, while continuing to increase military spending, was forced to cut back on education, health, and other essential services. Growing international concern about human rights abuses and the regime's inability to tackle narcotics trafficking have led many countries, including the United States, and international financial institutions, to refuse aid or loans to the country. The government's use of forced labor has also led to boycotts of Burmese goods.

MONEY

Adverse balance of payments, decreasing tax revenues, high defense spending, and deficit financing all have led to the printing of more currency and price inflation. The official **exchange rate** of the kyat to dollar, however, remains unchanged. There are 4 different rates for currency exchange: the official exchange rate, the customs rate, the official market rate, and the black market rate. Officially, US$1 equals 6.73 kyats, whereas in the black market the dollar may fetch 375 or more kyats.

Exchange rates: Burma

kyats per US$1	
Jan 2001	6.5972
2000	6.5167
1999	6.2858
1998	6.3432
1997	6.2418
1996	5.9176

SOURCE: CIA *World Factbook 2001* [ONLINE].

The Asian currency crisis of 1997 added to Burma's currency woes. The sharp decline in the Thai bhat had a negative impact on the kyat. During the 1997–98 fiscal year, according to U.S. embassy estimates, the kyat lost 54 percent of its value. Between April and December 1997, the kyat declined from 167/dollar to 257/dollar. In 1997 and 1998, when the kyat fell, the government intervened to prop up the value of the kyat and took strong measures to keep foreign exchange from leaving the country. It put a monthly cap of $50,000 on **remittances**, cut the number of banks allowed to handle foreign exchange transactions, and placed stiff controls on trade.

The Asian economic crisis prompted foreign investors to either withhold investments or stay out of the Burmese market. Crises in the neighboring countries, Burma's principal trading partners, cost the country its export markets. The resultant ballooning of the **trade deficit** prompted the country to expand its money supply and draw down on foreign exchange reserves. According to the U.S. State Department *Commercial Guide* for 1999, the country was "virtually bankrupt."

POVERTY AND WEALTH

Like most countries of the world, Burma has extremes of wealth and poverty. Once prosperous, Burma was, in 2001, one of the poorest countries of the world.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Burma	1,120	1,190	1,200	1,200	1,500
United States	28,600	30,200	31,500	33,900	36,200
China	2,800	3,460	3,600	3,800	3,600
Thailand	7,700	8,800	6,100	6,400	6,700

Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

Most people live in the 40,000-odd villages of the country, while the majority of the urban population resides in the capital city of Rangoon. Among the population engaged in agriculture, 37 percent of the people do not have any land or livestock. Poverty and misery have increased in the past 3 decades. In 1997 the CIA *World Factbook* estimated that 23 percent of the Burmese population had incomes that placed them below the poverty line.

The economic crisis of 1997 added to the problem. Inflation as of 1999 was at an all-time high of 50 percent on domestic goods and 104 percent on imported items. The government's policies have not helped to diminish inflation, which has eroded the purchasing power of Burma's citizens. The gap between rich and poor and rural and urban areas has increased. According to the International Monetary Fund (IMF), per capita income registered only a minimal increase in the 1990s. Many poor people are forced to send their children to work. Many women reportedly are sent to work in Thailand. The number of street children has also increased, and malnutrition among children is widespread. Sanitary conditions are far from satisfactory. Malaria, diarrhea, dysentery, tuberculosis, and more recently HIV/AIDS (due to drugs and prostitution) are the major health hazards of the country.

In the countryside, a bullock cart (a 2-wheeled cart drawn by 2 castrated bulls) is the most popular means of transportation. Most farmers own a pair of oxen or water buffalo, a hoe, and a bullock cart for agricultural purposes. The rural houses (actually huts without running water or toilets) are made of bamboo. One portion is used for cooking and the other for sleeping. In the major towns and cities, there are houses made of brick and concrete. They are usually small and overcrowded.

The government's socio-economic policies have not helped the people. Large outlays of money have been spent on the military, while only meager funds have gone to education and health issues. The numbers of children who do not attend school or who have dropped out reportedly increased in the 1990s. According to World Bank estimates, only 46.9 percent of the secondary school-age children were enrolled in schools during 1995. Education beyond the primary age is not compulsory. Burmese authorities boast a literacy rate of 83 percent, though independent observers have suggested that the rate may be as low as 30 percent. Most universities have been closed since December 1996.

Health care in the rural areas was marginal until the 1960s. The government has opened more rural health centers and directed more doctors to the rural areas. As a result, the doctor-patient ratio has decreased considerably, from 1 per 15,560 to 1 per 3,578 in 1986. Health care is provided free of charge.

WORKING CONDITIONS

The Burmese labor force is estimated to be 19.7 million strong and consists of people between the ages of 15 and 59. About 65 percent of the labor force is employed in the agriculture sector. Of the remaining 35 percent, 10 percent is employed in the industrial sector while the remaining 25 percent is employed in a variety of service sectors. The official government unemployment rate for the fiscal year 1997–98 was reported as 7.1 percent.

One serious concern about the Burma labor situation is the reported use of forced labor on public works projects. In November 2000, the International Labor Organization (ILO) concluded that Burmese authorities had not discontinued the practice and advised member nations to review their relations with Burma. In response, Burmese authorities said that they would stop cooperating with the ILO. The government has maintained that the ILO action represented an effort by its member states to exert improper influence on Burma's internal affairs.

According to U.S. sources in Rangoon, the government lessened its dependence on forced labor. Instead, it was using military personnel on some of these projects. Military authorities, however, continue to force civilians to work for them. Many women and children, for instance, have to work as porters for the army.

There are reports of the continued prevalence of child labor in the country. Legally, children must be 13 or above before they can be employed. This and the compulsory education law, however, are not fully enforced. Consequently, a large number of children never enroll in school and many do not complete the primary school course. Therefore, children are frequently employed in many areas, especially in the arts and crafts industries.

Since the military takeover in 1962, the authorities have consistently denied the people their freedom of speech, press, assembly, and association. Also in 1964, the government abolished all trade union organizations. Substituting for independent unions are government-sponsored Regional Workers Councils. In 1985, there were 1.8 million members. Coordinating the work of the regional councils is the central workers organization in Rangoon, formed in 1968. The Central Arbitration Board is given the responsibility to settle major labor disputes but is inactive. Minor labor concerns are addressed by the township level agencies. One labor organization, the Federation of Trade Unions-Burma (FTUB), is an anti-government group that was formed in 1991 by Burmese living in exile.

Working conditions were set forth in a 1964 law called The Law on Fundamental Workers' Rights and the Factories Act of 1951. An abundance of labor and the failure of the government to protect the workers have led

to substandard working conditions. The public sector employees follow a 5-day, 35-hour workweek. Employees in the private sector and state enterprises have a 6-day, 44-hour workweek. The law provides for overtime pay. However, these laws cover only a small percentage of the workers. Moreover, the workers are not allowed to organize in unions and bargain collectively. In the public sector industries, the government sets the wages and benefits. The **joint sector** companies are discouraged from paying their employees more than their counterparts in the public sector.

As of March 2000, all institutions of higher education, with the exception of a military academy and a medical school affiliated with the army, were closed. The middle class is frustrated that their children are not able to get an education. Many Burmese of all classes have fled the country for fear of oppression. Thousands of Burmese refugees remain in camps in Thailand and Bangladesh.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1044. Pagan empire is founded on the banks of Irrawaddy.

1824. First Anglo-Burmese war leads to Burmese defeat and loss of territory.

1886. Burma is defeated in the Second Anglo-Burmese war, and Britain annexes the remainder of the country's territory.

1941–45. Japanese forces invade Burma and occupy much of the country during World War II.

1948. Burma becomes an independent, democratic country with a free market economy.

1962. The military under General Ne Win overthrows democracy, establishing the "Burmese way to socialism" and nationalizing banks and other private industries.

1974. The government establishes a new constitution and announces the formation of the Socialist Republic of the Union of Burma.

1988. Amid widespread protests and riots, a military junta headed by Generals Ne Win and Saw Maung replaces the civilian president with a new government called the State Law and Order Restoration Council (SLORC). The SLORC renames the nation the Union of Myanmar, dropping the name "Burma," and liberalizes the economy.

1990. Elections are held, and the opposition National League for Democracy wins a clear majority. The SLORC refuses to cede power and opposition leaders are jailed.

1997. The Asian economic crisis damages Burma's economy.

2000. The International Labor Organization concludes that Burma is in violation of rules regarding forced labor and advises member nations to review their relations with Burma.

FUTURE TRENDS

Burma is a resource-rich, naturally beautiful, and culturally significant country. Its potential for growth and prosperity is tremendous. Yet Burma can never reach its potential until the military regime negotiates with the opposition and transfers power to the elected representatives of the people. The regime, however, has been trying to eradicate the opposition. Most international observers agree that the government must end human rights violations, release political prisoners, establish sound **monetary policies**, increase the tax base and revenue, enhance the infrastructure, and further liberalize the public sector if the country has any hopes of taking its place in international commerce. Despite announcing plans for such improvements, however, the ruling SPDC seems most concerned with retaining its grip on power through violence and intimidation of internal opposition and disengagement with the international community. In the absence of a change in this program, economic stagnation, poverty, disease, and illiteracy will remain Burma's most notable features.

DEPENDENCIES

Burma (Myanmar) has no territories or colonies.

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—George Thadathil

CAMBODIA

Kingdom of Cambodia
Preahreacheanachakr Kampuchea

CAPITAL: Phnom Penh.

MONETARY UNIT: Cambodian riel (KHR). One riel equals 100 sen. There are no coins in use, but there are notes of 100, 200, 500, and 1,000 riel. The 1,000 riel note (worth about a quarter in U.S. currency) is the most commonly used. In recent years Cambodia has basically become a dollarized economy. People often pay for goods and services in dollars, but receive small change in riel banknotes.

CHIEF EXPORTS: Timber, garments, rubber, rice, and fish.

CHIEF IMPORTS: Cigarettes, gold, construction materials, petroleum products, machinery, and motor vehicles.

GROSS DOMESTIC PRODUCT: US$16.1 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$942 million (f.o.b., 2000). **Imports:** US$1.3 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Cambodia is one of the ten nations of Southeast Asia and part of mainland Southeast Asia. It is bordered on the north by Laos and Thailand, on the west by Thailand, and on the east by Vietnam. Its geographic area is 181,040 square kilometers (69,900 square miles), making it slightly smaller than the state of Oklahoma. Its total land boundaries are 2,572 kilometers (1,598 miles), and it has a coastline on the Gulf of Thailand of 443 kilometers (275 miles). The Mekong River flows directly through the country from north to south, eventually flowing into the Mekong Delta of Vietnam. Cambodia's largest city and capital, Phnom Penh, is on the Mekong River. The other major cities in Cambodia are Battambang, Siem Reap (the gateway to Angkor Wat), and Kampong Saom (Sihanoukville), Cambodia's major port.

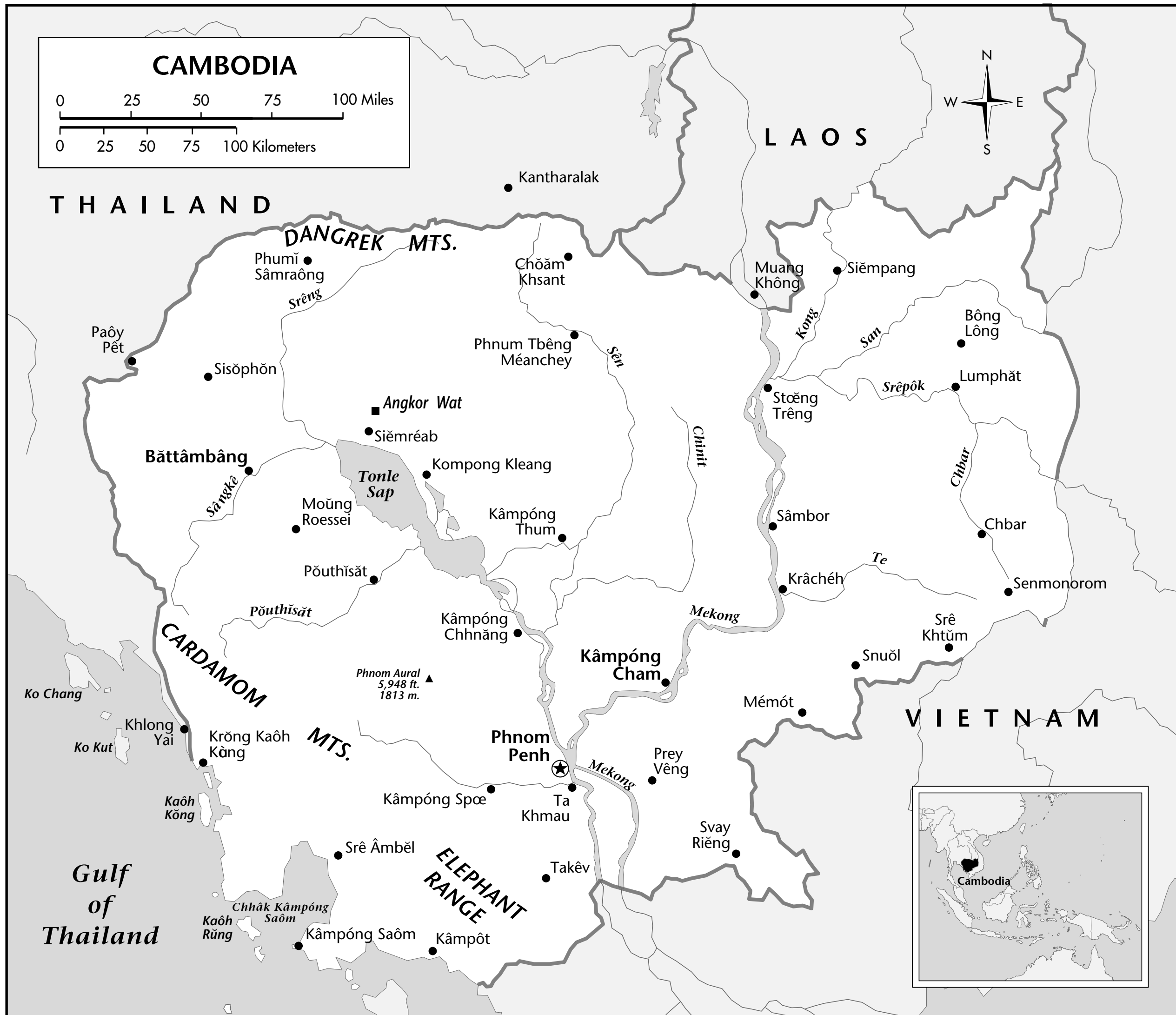
POPULATION. Cambodia's population was 12,491,501 in July of 2001, according to the CIA *World Factbook.* This compares with a population of 5,728,772 in 1962; 6,682,200 in 1981; and 11,426,223 in 1998. The current population growth rate is a relatively high 2.25 percent. If this population rate were to continue, the country's population would double to approximately 25 million by the year 2033. The major cause of this high population growth rate is the high fertility rate of Cambodian women. The average Cambodian woman has 4.74 children.

With such a high fertility rate and the loss of much of the adult population through the prolonged civil war (1970–75, 1979–98), the Cambodian population is extremely young. Around 41.25 percent of the population is less than 15 years of age, and only 3.47 percent of the population is over 65. Unfortunately, Cambodia has a serious AIDS problem, which will have a negative effect on its future population growth. In 1999, it was estimated that the HIV/AIDS incidence among adults was 4.04 percent.

Unlike many other Southeast Asian countries such as Laos, Burma, Indonesia, and the Philippines, the Cambodian population is relatively homogenous. Approximately 90 percent of the population is Khmer, with 5 percent Vietnamese, 1 percent Chinese, and 4 percent other (Cham, Lao, Tai, and various hill peoples in northeastern areas such as Ratanakiri and Mondulkiri). Khmer is also the official language. Theravada Buddhists are the dominant religious group, claiming 95 percent of the population.

OVERVIEW OF ECONOMY

Cambodia is one of the world's poorest economies, and, thus, economic development is its highest priority. Much of its population is involved in **subsistence**



farming (families producing what is needed for daily living). About 66 percent of the country is forested or woodlands, with only 13 percent of the land arable.

Another major disadvantage has been Cambodia's long period of turmoil and civil strife, which began in 1970 with the overthrow of the government of Prince Sihanouk. That strife and instability lasted 28 years and severely and adversely affected the Cambodian economy, its human resource base, and its physical **infrastructure**.

With respect to its economic history, Cambodia is an excellent example of pre-development (advanced development centuries before the European Renaissance). Its prehistory dates back to the fourth millennium B.C. By 500 B.C., the use of metal had become widespread. As early as the 3rd century there was an Indianized trading state named Funan with Mon-Khmer inhabitants. In the last half of the 6th century, a new state Chenla emerged.

The years from 802 to 1432 mark the period of the great Angkor Khmer civilization. This Khmer civilization produced the largest religious monument in the world, the Angkor Wat complex. The Chinese sailor, Chou Ta-kuan, visited Angkor and described vividly the Khmer Empire at that time. The dynamic leadership of King Jayavarman VII produced an impressive network of hospitals, royal roads, rest houses, and advanced hydraulic irrigation schemes which allowed for as many as 3 crops of rice each year. During the reign of Jayavarman VII the Khmer Empire encompassed what is currently Cambodia and much of what is Thailand, Laos, and the southern part of Vietnam. After Jayavarman VII's death, Khmer power declined at the hands of the Siamese and later the Vietnamese. After the Siamese sacked Angkor several times the capital moved to Phnom Penh, which became a center for maritime trade. During the 19th century, Cambodia fell under Siamese and Vietnamese domination.

In 1863 the French then established a protectorate over Cambodia, and in the early 1900s Cambodia became part of colonial French Indochina. Under its colonial rule, the French established plantations to exploit Cambodian natural resources such as rubber. In 1953 Cambodia achieved its independence from France. Under the leadership of Prince Sihanouk, Cambodia enjoyed peace and stability. In terms of its economy, the country was poor, but most of the population enjoyed affluent subsistence. Farmers, for the most part, had their own land and there was adequate fish, rice, fruit, and vegetables for much of the population.

In 1970, Cambodia became a war-plagued economy. With a coup against Prince Sihanouk in March of that year, Cambodia was drawn into the vortex of the Cold War and the U.S. war in Vietnam. For the next 5 years there was civil war between the Khmer Rouge (the Cambodian communists) and the U.S.-backed rightist government of General Lon Nol. The United States provided both military and economic assistance to the Lon Nol government. The secret bombing of the Cambodian countryside by the United States and the civil war drove hundreds of thousands of rural people into the capital of Phnom Penh and devastated the economy.

On 17 April 1975, the Khmer Rouge captured the capital and immediately evacuated the population to the countryside. There then ensued the most radical **socialist** experiment in the history of the world, in which basically the entire population became a huge work camp engaged in various agricultural activities. As a result, as many as possibly 2 million Cambodians may have died between 1975 and 1978, due to starvation, overwork, disease, and executions (of those who were part of the old elite, those perceived to be a threat to the state, or those who were uncooperative).

In December 1978, the Vietnamese intervened to drive the Khmer Rouge to the remote countryside in the west and northwest and installed a new Vietnamese-oriented Cambodian government, which was called the People's Republic of Kampuchea (PRK). Then Cambodia became a normal economy, though it still suffered from continued conflict with the Khmer Rouge. During this period, it also suffered from an economic boycott by the United States and other countries who would not recognize the legitimacy of the new government. In 1991, **communism** came to an end with the establishment of the State of Cambodia and the 2-year presence of the United Nations Transition Authority in Cambodia (UNTAC) to oversee the transition to a multi-party democracy and free market economy. UN-supervised national elections were held in 1993. However, real political stability came to Cambodia only in 1998 with new national elections and the death of Khmer Rouge leader Pol Pot in April 1998.

With this new stability, the Cambodian economy shows signs of recovering. Its being a dollarized economy (an economy which uses the U.S. dollar) gave it some immunity from the currency **devaluations** suffered by its close neighbors, such as Thailand and Laos. Cambodia achieved impressive economic growth of 4.5 percent in 1999 and 5 to 5.5 percent in 2000.

Two industries which have greatly helped the recovery of the Cambodian economy have been the garment industry and tourism. Output from the garment industry in 1993 was only US$4 million, but by 1999 it had increased dramatically to US$600 million. Cambodia is extremely fortunate to be home to the great Angkor Wat complex, recently publicized in the popular adventure feature film *Tomb Raider*. Cambodia wisely decided to allow direct international flights to Siem Reap, the gateway to Angkor Wat, and is one of the few countries in the world (if any) to allow international airlines to fly domestic flights within Cambodia. This flexibility has been a boon to Cambodian tourism, which was up 34 percent in 2000. A 3-day pass to visit Angkor Wat costs US$60. Thus, tourism is a major new source of significant foreign exchange earnings. Cambodia also benefits from considerable international aid, constituting 61 percent of its public funds.

POLITICS, GOVERNMENT, AND TAXATION

Prior to 1991, Cambodia had long been dominated by authoritarian regimes. Since 1993, however, Cambodia has had a multi-party democracy. During its first phase of democracy, Cambodia actually had 2 prime ministers, 1 from each of the 2 major political parties, as a kind of political compromise. In 1993, Cambodia became a constitutional democracy with the popular Norodom Sihanouk serving as the king. Sihanouk has been an important force in contributing to compromise among competing political factions. The system of having 2 prime ministers, however, became unworkable and was highly inefficient. It also created a particularly complex environment for international investors or others pursuing economic or development activities in Cambodia. New national elections in 26 July 1998, resulted in a new government with only 1 prime minister.

Cambodia has a **bicameral** legislature, consisting of a popularly elected National Assembly (122 seats) and a Senate (61 seats). The members of both bodies serve 5-year terms. The king chooses the prime minister after a vote of confidence by the National Assembly. Since 1998, the prime minister has been Hun Sen. There is also a judicial branch led by the Supreme Court.

Taxation and the ability to collect revenues by the government remain weak, though government revenues

increased 40 percent between 1998 and 1999. Such revenues represented only 11 percent of the GDP and **direct taxes** accounted for only 6 percent of total domestic revenue. Corruption and an inability to collect taxes plagued the government throughout the 1990s.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

As the result of decades of conflict and civil war, Cambodia's infrastructure is extremely weak. There is a limited train system which runs to the southern seaport of Kampong Saom and to the northwest (Poipet) on the Thai border. There are plans to rehabilitate the railway to Poipet and to build a new railway linking Phnom Penh and Ho Chi Minh City in Vietnam as part of the trans-Asia railway. These railways cover a total of 603 kilometers (375 miles). The country has 35,769 kilometers (22,227 miles) of highways, of which only 11.6 percent are paved. The best road is from the capital to the seaport of Kampong Saom. Past U.S. aid facilitated the renovation of that important road. Many factories are locating along that road because of its excellent access to a major Pacific seaport. Travel to many remote provinces is often done by plane. The country has 19 airports. The country also has 3,700 kilometers (2,299 miles) of navigable waterways, and it is possible to travel to the famous Angkor Wat complex by jetboat using the Tonle Sap River and the great Tonle Sap Lake.

In Cambodia's agricultural sector traditional forms of power such as waterwheels are still being used. Much of the population, especially in rural areas, does not have access to electricity. In 1999, Cambodia's electricity production was 147 million kilowatt-hours (kWh), of which 40.8 percent were derived from hydroelectric power; the rest was from fossil fuels.

Communications in urban areas has greatly improved in recent years. The number of mobile phones (which were estimated at 80,000 in 2000) are now 4 times greater than the number of conventional phone lines. Few rural areas have access to conventional phone lines. There are 10 radio and 5 television stations. In the capital of Phnom Penh, inexpensive cable television is available with a great number of diverse channels in many languages such as Thai, Japanese, Chinese, English, and French. The country had an estimated 97,000 televisions in 1997.

Cambodia has joined the Internet and has a .kh suffix. However, Internet access in Cambodia is extremely expensive relative to local income levels, which greatly restricts the use of the Internet by non-wealthy Cambodians.

With respect to print media, there has been a rapid expansion in recent years. There are currently 3 English language papers, a French language paper, 88 Khmer language newspapers, 19 Khmer language magazines, and 6 Khmer language bulletins.

ECONOMIC SECTORS

During the decade of the 1990s, Cambodia's agricultural sector grew at an average of 2.1 percent, its industrial sector grew at an annual rate of 9.6 percent, and its service sector grew at a rate of 6.9 percent, resulting in shifts in the economic structure of Cambodia. In 1998, agriculture contributed 43 percent of GDP, industry contributed 20 percent, and services contributed 37 percent.

Based on the 1998 census, the active **labor force** in Cambodia was 4,909,100. Around 76.8 percent of these individuals were engaged in agriculture; only 3.4 percent in industry; and 19.8 percent in services.

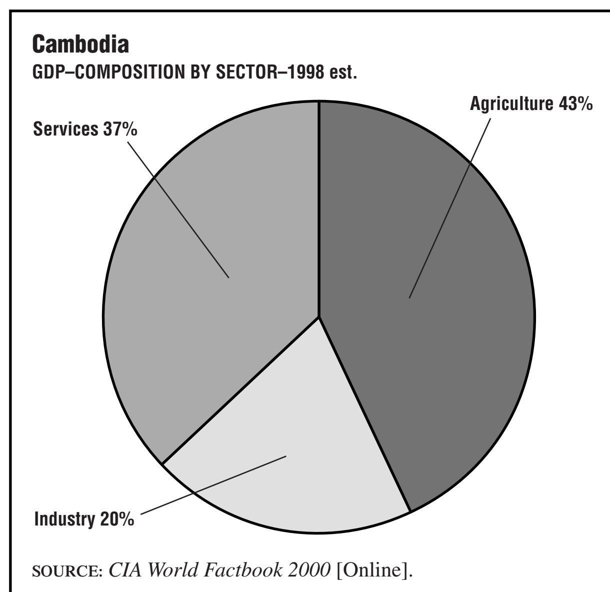
Though most Cambodians are still involved in agricultural work, the country's industrial and service sectors are both growing rapidly. With Cambodia's excellent tourism potential and its low cost labor in close proximity to a major seaport, the economy will continue to shift in the direction of greater industry and services. Nike, for example, is now sourcing apparel production in Cambodia.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Cambodia	2	127	123	N/A	6	0.3	0.9	0.12	4
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Vietnam	4	107	47	N/A	2	0.3	6.4	0.00	100

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

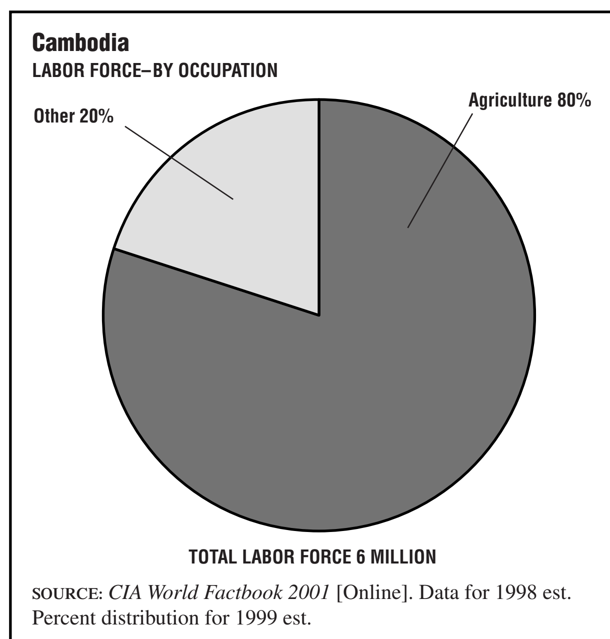
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

With a population density of just 263 persons per square kilometer (681 per square mile) of arable land, Cambodia has special advantages compared to much more densely populated rural areas such as Bangladesh, Vietnam, or Indonesia, whose densities are 3 or 4 times as great. However, the sector is far below its potential. The 80 percent of the workforce engaged in agriculture account for only 43 percent of GDP in 1998. Average rice paddy yield in 1997 was 1.8 tons per hectare, compared to an average of 2.7 tons per hectare achieved by neighboring countries. Among numerous problems affecting agricultural productivity are a lack of irrigation, shortage of male manpower, and the continued presence of land mines in the northwest region of the country, a major rice-growing area. At present only 16 percent of rice land is irrigated, though the government has the goal to increase this figure to 20 percent by the year 2003. Important secondary food crops are maize, cassava, sweet potatoes, beans, vegetables, and fruit. Among industrial agricultural crops are cotton, soybeans, sesame, jute, sugar cane, and rubber. Principal crops in 1999 in order of magnitude of production were rice, cassava, vegetables, sugar cane, maize, soybeans, sweet potatoes, and mung beans.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est. Percent distribution for 1999 est.

FORESTRY AND LOGGING. In 1969, 73 percent of Cambodia was forested. By 1997, only 58 percent of the country was forested. Much of this deforestation has resulted from illegal logging activities, with logs destined for Thailand, which has had a long-standing ban on logging. Illegal logging seriously threatens the long-term viability of Cambodia's timber resources. With sustainable forestry, the government could earn an estimated US$40 million to US$80 million in government revenue per year according to some estimates.

FISHING. Major sources of freshwater fish are the great Tonle Sap Lake in the center of Cambodia and the Mekong and Tonle Sap Rivers. However, deforestation represents a serious threat to freshwater fishing because of increased runoff into rivers and lakes. In 1999 Cambodia produced 124,000 metric tons of fish, of which 57.3 percent were freshwater fish.

INDUSTRY

Industry now employs approximately 250,000 people, 5 percent of the labor force. Until the mid-1990s, Cambodia's industry was dominated by rice mills (of which there were approximately 1,500) and 80 to 100 state-owned enterprises, a legacy from the communist period. The major new development in the latter half of the 1990s is the rapid development of Cambodia's garment industry, facilitated by the achievement of political stability, an abundant supply of cheap labor, good road access to Cambodia's major seaport, and having Most Favored Nation trading status since 1997 for exports to the large U.S. market. By the end of 1999, there were approximately 200 garment factories employing about 100,000 workers. In 1995, by comparison, there were only 13 such factories. Another major growth area associated with the need to build and rebuild Cambodia's infrastructure has been construction, which is expected to increase in importance as more investment is made in infrastructure.

MINING. Mining contributed only 0.3 percent of the GDP in 1999 and the country has few commercially viable mineral resources. However, in western Cambodia

in the Pailin area near Thailand, there is an abundance of high-quality gems, primarily sapphires and rubies. The trade in such gems was a major source of revenue for the Khmer Rouge in support of their guerilla warfare. Even currently the trade in gems is largely part of the **informal economy** and does not provide benefit to the central government.

SERVICES

BANKING AND FINANCE. Under the new capitalist system, the former socialist state bank became the National Bank of Cambodia (NBC) in 1992. The new system allows for private commercial banks, of which there are now approximately 30. Use of such banking services is limited, since much of the population has a preference for keeping their savings in either gold or U.S. dollars.

GOVERNMENT EMPLOYMENT. With the shift from a socialist to a capitalist system, the **public sector** has been downsized. Nearly all of the former state enterprises have been **privatized**. Many individuals lost jobs through this process. Major efforts have also been initiated to reduce the size of the military and police forces, including the elimination of "ghost soldiers" and "ghost police" who were listed only for budgetary purposes.

TOURISM. Cambodia has excellent potential to develop its tourism sector, which has grown significantly since the achievement of political stability in 1998. In 1999 tourism revenues increased 41 percent, and tourist arrivals have been growing 20 to 30 percent annually since 1998. In 1999, the number of visitors was 271,100. The largest number of tourists are from the United States, followed by China, France, and Taiwan.

Cambodia's major tourist attractions are the great Angkor Wat complex, attractive beaches with related tourist infrastructure at Kompong Saom (Sihanoukville), and **ecotourism** in pristine Ratanakiri Province in Cambodia's remote northeast. The capital Phnom Penh also is a charming city with numerous attractions. Its famous Royal Hotel has been totally remodeled. In the Angkor Wat area the Grand Hotel d'Angkor has been remodeled by the Raffles Group. At one point, 1 cabinet minister even proposed to have all of Cambodia become a national park as part of an effort to make Cambodia unique and attractive. This proposal was not approved, though Cambodia has developed an extensive system of national parks.

The operation of direct international flights to Siem Reap, gateway to the Angkor Wat area, has significantly improved Cambodian tourism, while adversely affecting tourism to the capital, Phnom Penh, which is no longer the sole gateway to Angkor Wat.

Primarily as the result of the presence of many UN military forces in the 1991–93 period and the shift to a free market capitalist system, a commercial sex industry has emerged which has contributed to international tourism, especially to Phnom Penh. Numerous Vietnamese prostitutes are guestworkers in this industry.

RETAIL AND THE INFORMAL ECONOMY. With a high level of unemployment and **underemployment**, an informal **retail** economy provides employment to large numbers, especially in urban areas. In Phnom Penh there are a number of local markets and 2 large markets popular with tourists (the Central and Russian Markets).

INTERNATIONAL TRADE

For years Cambodia has been running a negative trade balance, meaning that the value of its imports exceeds that of its exports. In 1997 the deficit was US$328 million; in 1998, US$391.4 million; and US$215.7 million in 1999. Contributing to an improved trade balance was the dramatic growth in the export of garments, now the country's major export. The export of garments more than doubled in value between 1997 and 1999. Cambodia's major exports in 1999 (in order of value) were garments, logs and sawn timber, and crude rubber. Its major imports (in order of value) were petroleum products, cigarettes, motorcycles, gold, and other vehicles. In 2000, Cambodia had exports of US$942 million and imports of US$1.3 billion.

Cambodia's leading export markets (in order of importance) in 1999 were Singapore, Hong Kong, Thailand, Vietnam, Taiwan, Japan, and Malaysia. Its imports were primarily from (in order of importance) Thailand, Hong Kong, Singapore, Vietnam, Japan, Indonesia, and France. Its greatest **trade deficit** is with Thailand followed by Vietnam and Hong Kong. It has a trade surplus with Singapore, Malaysia, and Taiwan. With the collapse of the Soviet Union and its shift to **capitalism**, Cambodia's trade with Russia has declined dramatically.

MONEY

Since Cambodia is basically a dollarized economy, the National Bank of Cambodia has only limited influ-

Exchange rates: Cambodia

new riels per US$1	
Jan 2001	3,909.0
2000	3,840.8
1999	3,807.8
1998	3,744.4
1997	2,946.3
1996	2,624.1

SOURCE: CIA *World Factbook 2001* [ONLINE].

ence with respect to **monetary policy**. Given the strength of the dollar and, thus, Cambodia's relative immunity to currency devaluation problems, the country has done well in avoiding **inflation**, which was virtually nil in 2000, 4 percent in 1999, and only 12 percent in 1998, despite the Asian economic crisis. In fact, inflation has been extremely low since 1994.

POVERTY AND WEALTH

Cambodia is currently one of the poorest countries in the world. Its per-capita income is only US$260. However, if adjusted for **purchasing power parity** (which takes into account the low prices for goods in Cambodia), its per-capita income jumps rather dramatically to US$1300. Approximately 36 percent of the population is living below the poverty line. Because of the years of civil war and strife, more than 25 percent of households in Phnom Penh are headed by a single mother. The existence of poverty and unemployment among less-educated women has contributed to the emergence of a commercial sex industry. This industry is part of a large informal economy in Cambodia that is not reflected in the official statistics reported in this entry.

Distribution of Income or Consumption by Percentage Share: Cambodia

Lowest 10%	2.9
Lowest 20%	6.9
Second 20%	10.7
Third 20%	14.7
Fourth 20%	20.1
Highest 20%	47.6
Highest 10%	33.8

Survey year: 1997

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

WORKING CONDITIONS

Working conditions in Cambodia are best for those with good education who can find modern sector employment, particularly in the rapidly growing service sector such as in tourism or banking. There are also now in Cambodia a large number of both international and local non-governmental organizations (NGOs) which hire more educated Cambodians for work on diverse development projects.

Those working in the public sector, such as public school teachers, face the problem of receiving extremely low wages. Thus, they often are forced to take other part-time work to pay for their expenses.

Farmers possessing their own adequate land can enjoy a certain degree of affluent subsistence, if they can grow adequate rice, fruit, and vegetables and have access to fish resources. Recently, however, farmers, especially from western Cambodia, have complained about losing their land to business interests planning various kinds of development or **agribusiness**.

For those working in the rapidly expanding garment industry, there is concern about working conditions and low wages, though these jobs are desperately needed. Conditions are likely to vary considerably depending on the sub-contractors involved. Also, it is not appropriate to look simply at salaries of such workers in dollar terms. People with modern sector jobs tend to pool their "low" salaries in extended family situations. Also costs are much lower in Cambodia than in many other countries, particularly more advanced industrial countries.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Cambodia	N/A	N/A	N/A	240	279
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Nepal	149	148	165	182	217

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

2ND-6TH CENTURIES. The state of Funan, predecessor to Cambodia, is established in the Mekong Delta.

9TH-15TH CENTURIES. The glorious Angkor Empire reigns in present-day Cambodia.

1863. France establishes a protectorate over Cambodia.

1953. On 8 November, Cambodia claims its independence from France.

1955–70. The reign of Prince Sihanouk as ruler of the Kingdom of Cambodia; Cambodia remains neutral and peaceful in a sea of political turmoil.

1970. Neutral Prince Sihanouk is ousted by General Lon Nol and Prince Sirik Matak, who abolish the monarchy and rename the country the Khmer Republic (KR). Subsequently U.S. and South Vietnamese armies invade eastern Cambodia and the economy is totally disrupted by the civil war that ensues.

1973. The United States carries out an intensive campaign of bombing rural Cambodia, forcing a tremendous influx of people into Phnom Penh and other cities and disrupting Cambodian agriculture.

1975. In April, Phnom Penh is overtaken by the radical Khmer Rouge, who are led by Pol Pot. The urban population is forced into the countryside and over the next 3 years, the country—renamed Democratic Kampuchea (DK)—becomes a massive work camp, with up to 2 million dying from overwork, starvation, poor health, and executions.

1978. Vietnam invades Cambodia and overthrows the Pol Pot regime.

1979–89. The Vietnamese-backed government (People's Republic of Kampuchea, PRK) wages a long civil war against the Khmer Rouge. Though the economy returns to near normalcy, it is boycotted economically by the United States, the Association of Southeast Asian Nations (ASEAN), and many other nations because of its ties to Vietnam and the former USSR.

1993. United Nations-supervised elections are won by Prince Sihanouk's party, FUNCINPEC; as a compromise, a new 2-headed government is formed with 2 prime ministers, 1 representing FUNCINPEC and the other representing the Cambodia People's Party (CPP), the former communist party.

1997. The 2-headed government ends with military action by CPP Prime Minister Hun Sen.

1998. New national elections won by CPP and Hun Sen. Following the death of Khmer Rouge leader Pol Pot in April, peace and stability return to Cambodia for the first time in 3 decades, and tourism begins to grow rapidly.

2001. The consultative group of international donors pledge US$560 million of international aid to Cambodia, primarily for infrastructure development.

FUTURE TRENDS

With its debilitated infrastructure resulting from 3 decades of civil war and strife, Cambodia faces tremendous economic challenges in the years ahead. Major disparities between rural and urban areas remain a persistent problem. Reform implementation, particularly in the area of governance, also remains a major issue. There is considerable debate about the government and its commitment to reforms. In June, 2001, the International Monetary Fund representative in Cambodia stated "that the donors generally recognize that Cambodia, more than many other countries, has shown a high level of commitment to reform." The 2001 increase in aid pledges by the consultative group reflects such underlying confidence.

With its great Angkor Wat complex, Cambodia has tremendous tourism potential. The 11 September 2001 attacks on the United States will adversely affect Cambodian tourism in the short term, but in the long term, its tourist industry will provide substantial revenues to the government, which can be used for both physical and human infrastructure improvements. This special resource is not seen in many other developing countries. The country is also fortunate to have a deep seaport at Sihanoukville, which is being upgraded. With its great Tonle Sap Lake and with little of its agricultural land currently irrigated, it has considerable potential for improvements in agriculture as well. Finally, Cambodia has a special "wild card" that has been ignored. A good portion of its current population are survivors of the Khmer Rouge tragedy and, thus, represent a special genre of individuals with unusual capacities for survival, perseverance, and flexibility. Such a special human resource base augurs well for the economic future of Cambodia.

DEPENDENCIES

Cambodia has no territories or colonies.

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—Gerald Fry

CHINA

People's Republic of China
Zhonghua Renmin Gongheguo

CAPITAL: Beijing (Peking).

MONETARY UNIT: Chinese Renminbi (in Chinese "Renminbi" means "People's Currency") Yuan (RMB). One yuan equals ten jiao; one jiao equals ten fen. Paper bills include 1, 2, 5, 10, 20, 50, and 100 yuan; 1 jiao, 2 jiao, 5 jiao; 1 fen, 2 fen, 5 fen. There are coins of 1 yuan; 1 jiao, 2 jiao, 5 jiao; 1 fen, 2 fen, and 5 fen.

CHIEF EXPORTS: Crude oil, textile yarn, fabrics, chemicals, coal, soybeans, vegetable oil, rice, and small machinery.

CHIEF IMPORTS: Machinery, steel and other metals, wheat, chemicals, and fertilizers.

GROSS DOMESTIC PRODUCT: US$4.8 trillion (purchasing power parity, 1999 est).

BALANCE OF TRADE: **Exports:** US$194.9 billion (f.o.b., 1999). **Imports:** US$165.8 billion (c.i.f., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. China is situated in the eastern part of Asia, on the west coast of the Pacific Ocean, in the southeastern part of the Eurasian continent, bordering the East China Sea, Korea Bay, Yellow Sea, and South China Sea, between North Korea and Vietnam. Its border countries include Afghanistan, Bhutan, Burma, (Hong Kong), India, Kazakhstan, North Korea, Kyrgyzstan, Laos, (Macau), Mongolia, Nepal, Pakistan, Russia, Tajikistan, and Vietnam. The land area consists of 9,596,960 square kilometers (3,696,000 square miles), the third largest in the world after Russia and Canada. The country's coastline is 14,500 kilometers (9,010 miles) long. China is divided into 22 provinces, 4 municipalities, 5 autonomous regions, and 2 special administration regions (Hong Kong and Macau). Beijing, the capital, is also the cultural and educational center of China. The city has an area of 65 square kilometers (25 square miles) and is partially surrounded by walls that were built in the 15th century.

POPULATION. The population of China was estimated at 1,262 million in July of 2000, an increase of 10.36 percent from the 1990 population of 1,143 million. In 2000 the population growth rate was estimated at 0.9 percent, the birth rate was 16.12 per 1,000, and the death rate was 6.73 per 1,000. With a projected annual population growth rate of 0.9 percent between 2000 and 2010, the population is expected to reach 1,392.5 million in 2010. A simulation study conducted by the China State Statistics Bureau indicates that country's total population will peak at 1,402 to 1,550 million in the 2030s or 2040s.

The population of China consists of 56 ethnic groups. Han Chinese make up 91.9 percent while Zhuang, Uygur, Hui, Yi, Tibetan, Miao, Manchu, Mongol, Buyi, Korean, and other ethnic minorities make up 8.1 percent. The great majority, 68 percent of the population, is between ages 15 and 64; while 25 percent is at the age of 14 or below, 7 percent is at 65 or older. The life expectancy at birth in 2000 is estimated at 71.4 years (total population), 69.6 years (male) and 73.3 years (female). The country's high life expectancy and low infant mortality rates are envied by much richer nations.

In 1949, when China became a **communist** nation, the population was about 541 million. Over the following 10 years, it increased by another 118 million. It continued to rise through the 1960s. The government encouraged this increase so China could develop water control and communication infrastructures. The government also thought increased production could help produce more food and strengthen the nation's defense. Twenty years later, the millions born during that period contributed to another baby boom. By 1970, there were roughly 830 million Chinese. The over-growing population had generated serious problems and negatively affected the national economy.

To slow the population growth the government introduced a one-child-per-family policy in the late 1970s.

The policy was created not only to deal with the huge population problem but as a prerequisite for the social and financial planning necessary in a **socialist** system. The policy is more strictly enforced in urban areas and is unpopular in the rural areas where male children are more important. However, it is enforced enough to make most couples obey it. With the introduction of the one-child policy, the population growth has slowed, with probably 250 million fewer births since 1979. Two types of obvious changes in population have taken place. First, the people are aging. The number of people 65 or older is estimated at 87.8 million in 2000 and is expected to be 167 million by 2020, compared with an elderly population of 66 million in 1990. Second, the population is becoming more urban. For instance, the urban population was at 297 million in 1990, up 90 million from 1982. During the same period, the populations of the 2 largest cities, Beijing and Shanghai, have increased 17 percent and 13 percent respectively.

Overpopulation is the number-one global problem. Many people question controlling population through legislation. Even after the 20 years that the Chinese civilization has trusted this solution to solve their problem, some still violate the policy. However, this does not imply that legislative control is wrong, especially when dealing with the extremes facing China. Backers of China's population policy say that such state-mandated birth control and family planning is necessary not only for the well-being of China but for that of the whole world.

OVERVIEW OF ECONOMY

China's economy has grown increasingly faster since the 1978 introduction of economic reforms. The Chinese

official statistics show that **real gross domestic product** (GDP) from 1979 to 1999 was growing at an average annual rate of 9.7 percent, making China one the world's fastest growing economies. According to the World Bank, China's rapid development has raised nearly 200 million people out of extreme poverty.

Since its establishment in 1949 and until the end of 1978, China maintained a centrally planned, or command, economy. The state directed and controlled a large share of the country's economic output; the state set production goals, controlled prices, and allocated resources throughout most of the economy. By 1978, nearly three-fourths of the country's industrial production was produced by centrally controlled state-owned enterprises (SOEs) according to centrally planned output targets. There were almost no private enterprises or foreign invested firms in China. It was estimated that China's real GDP grew at an average annual rate of about 5.3 percent from 1960 to 1978. Because the central planning economic systems and government economic policies put little emphasis on profitability or competition, the country's economy was relatively stagnant and inefficient. As a result the Chinese living standards were substantially lower than those of many other developing countries. The Chinese government took steps to improve economic growth and raise living standards in the late 1970s.

The first of China's economic reforms started in 1978 when Den Xiaoping came into power again. The reforms concentrated on the agricultural production system in rural areas. The central government initiated price and ownership incentives for farmers; for the first time, farmers were able to sell a portion of their crops on the free market. In addition, the reforms tried to attract foreign investment, boost exports, and begin the importation of high technology products into the country. To do this, the government established 4 special economic zones (SEZs). Additional reforms followed in stages that sought to decentralize economic policymaking in several economic sectors, especially trade. As a part of the decentralization of economic policymaking, provincial and local governments took economic control of various enterprises, allowing them to operate and compete on free market principles.

The economic reforms had produced such promising economic growth that by the middle of 1980s the government selected additional coastal regions and cities as open cities and development zones to test more free market reforms and to offer tax and trade incentives to attract investment from overseas. Moreover, the state gradually eliminated the **price controls** on a wide range of products. Agricultural output doubled in the 1980s, and industry also demonstrated major gains, especially in coastal areas close to Hong Kong and opposite Taiwan, where foreign investment helped stimulate output of both domestic and export goods. Even more reforms were initiated in late 1993 when China's leadership approved additional long-term reforms which would allow the state enterprises to continue to dominate many key industries in what was now termed "a socialist market economy."

The transition of the country's economic system from a command to a market-based economy helped fuel a strong average growth. Between the start of an economic reform program in 1978 and 1995, the GDP growth was 8.0 percent a year. The growth remained strong from 1996 to 2000. In 1999 China became the second largest economy in the world, after the United States. But China's **GDP per capita** of US$3,800 was much less than the United States.

China's trade and investment reforms as well as its incentives led to a surge in **foreign direct investment** (FDI), which has served as a major source of China's capital growth. Annual utilized FDI in China grew from US$636 million in 1983 to US$45.6 billion in 1998 (but dropped to an estimated level of US$40.5 billion in 1999), making China, in the late 1990s, the second largest destination of FDI (after the United States). About two-thirds of FDI in China comes from Hong Kong and Taiwan. The United States is the third largest investor in China, accounting for 8.0 percent (US$24.6 billion) of total FDI in China from 1979 to 1999.

Since the reforms, China has made great strides in improving its social welfare. Both consumption and saving have more than doubled, and the poverty rate has declined. According to the World Bank, about 200 million Chinese who used to live in absolute poverty have been raised above the minimum poverty line. And only 10 percent of the country's population of 1.25 billion were illiterate.

Although the reforms were encouraging, the Chinese government experienced various difficulties. It struggled to collect revenues due from provinces, businesses, and individuals; to reduce corruption and other economic crimes coinciding with the reforms; and to maintain daily operations of the large state-owned enterprises. Many of the state-owned enterprises had not participated in the vigorous expansion of the economy, and some of them had lost the ability to pay full wages and pensions.

POLITICS, GOVERNMENT, AND TAXATION

China's form of government is a communist state known as a People's Republic. The Chinese Communist Party (CCP) is the leading political party in China. Unlike parties in Western democracies, CCP is a tightly organized political force that controls and leads society at all levels. The party sets policy and controls its execution

through government officials who are required to be CCP members. It is organized as a hierarchy, with power concentrated at the top. Above the local units, or cells, is a pyramid-like structure of party congresses and committees at various levels, culminating in the National Party Congress.

Generally, CCP's national congress is supposed to meet every 5 years, though this has not always been the case. When it is not in session, direction of the party is in the hands of a Central Committee of about 200 members, which is symbolically elected by the congress according to the name list distributed by the congress board. The symbolically elected Central Committee, in turn, elects the Political Bureau. It is within the Political Bureau and its elite Standing Committee that power is concentrated, which make the state's highest-level decisions. There is also a secretariat, which carries on the day-to-day business of the party.

Theoretically, party membership is open to anyone over 18 years of age who accepts the party program and is willing to work actively in one of its organizations. In reality, only those who are deemed to be fellows of local CCP branch leaders will have the chance to be recruited into the party. Members are expected to abide by the party's discipline and to serve as model citizens. The backbone of the party consists of full-time paid workers known as **cadres** (Chinese, *ganbu*). The term *cadre* is also used for public officials holding responsible positions, who may or may not be members of the party.

The People's Republic was first governed according to the "Common Program" and organic laws adopted in 1949. Since 1954, 4 constitutions followed, each reflecting shifts in policy and the balance of power among factions of the top leadership. The government structure forms a pyramid, ranging from local units such as residents' (urban) and villagers' committees through counties, prefectures, and then to the 22 provinces, 5 autonomous regions, and 4 special status municipalities (Beijing, Shanghai, Tianjin, and Chongqing), each with its own people's congress and administrative organs, and 2 special administration regions (Hong Kong, Macau). At the top of the government structure is the national government in Beijing.

The chief of state is President Jiang Zemin, who has served as president since 1993. The president and vice-president are elected to 5-year terms by the National People's Congress. The head of government is Premier Zhu Rongji, who has served in his position since 1998. The president nominates the premier who is confirmed by the Congress.

The National People's Congress is the legislature of China and serves annual sessions with 5-year terms. The Standing Committee of the Congress exercises its functions between sessions. The highest administrative organ is the State Council (similar to the United States Cabinet), headed by the premier. The court system parallels the administrative system. However, the Chinese have traditionally tended to resolve conflicts through social rather than legal or judicial mediation, and the rule of law as it is known in Western countries is currently not well-known. The number of lawyers is very small compared with many Western countries, and legal methods are not familiar to most Chinese.

The judiciary is headed by the Supreme People's Court, which consists of 1 president and 1 vice president, who each serve 4-year terms. Other courts include Special People's Courts and Local People's Courts. Supreme People's Procuratorates and Local People's Procuratorates enforce laws.

Tax policies are administered by the Ministry of Finance (MOF) and the State Administration of Taxation (SAT). The SAT is the central tax authority at ministerial level. Tax policy is the exclusive domain of the central government although the local government may input some efforts in taxation. With the adoption of a new tax system in 1994, the country adopted a tax revenue-sharing system. This means that some taxes, mostly **direct taxes**, are assigned to local government, while other taxes, such as **value-added tax** (VAT), are shared between the central government (75 percent) and local government (25 percent). Shared taxes are levied on the same tax base and then allocated between different levels of governments at pre-determined ratios.

The ratio of the total tax revenue to GDP has declined over the 1990s, although the total tax revenue has increased substantially. The main reason for the decline is the rapid growth of the service sector, whose tax burden is lower than that of manufacturing, and an increase in foreign investment, mostly in special zones where very generous tax incentives have been granted. The 1994 tax reform emphasized taxation on consumption, and currently efforts are being made to fine tune these **indirect taxes**, particularly the administration and collection of VAT. The abuse of invoices is a serious, continuing tax fraud problem. The main tax types for business, citizens, foreign enterprises, and foreigners in China are value-added tax (VAT); consumption tax; business tax; foreign enterprises **income tax**; individual income tax; customs **duties**; urban **estate tax**; vehicle and vessel usage and license plate tax; land appreciation tax; stamp duties; resources tax; and deed tax.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Infrastructure in China varies from fairly good to very poor. Resources for industry are currently heavily constrained by infrastructure shortages. The government

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Japan	578	955	707	114.8	374	126.8	237.2	163.75	27,060
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

recognizes infrastructure as the key to achieving full-industrialized status and to offsetting a diminishing cheap labor advantage. Energy and transportation needs in particular have stalled growth and fueled **inflation**, while telecommunications is acknowledged as a requirement for further economic growth.

RAILWAYS. China has an estimated 69,412 kilometers (43,131 miles) of railroad. Every province-level administrative unit except Tibet was served by rail, and plans were being made to extend a line south from the Lanzhou-Urumqi line to Lhasa, in Xizang (Tibet). Railways have been the most important tools for transportation in China. For example, more than 50 percent of the country's traffic is moved by the railroad system. China's railway network consists of a series of north-south trunk lines, crossed by a few major east-west lines. Most of the large cities are served by these trunk lines, forming a nationwide network, with Beijing as its hub.

ROADS AND HIGHWAYS. China has 1,209,800 kilometers (751,894 miles) of highway in total, among which 271,300 kilometers (168,586 miles) are paved (with at least 24,474 kilometers or 15,200 miles of expressways). The network of all-weather roads and highways is not a unified national system with consistent standards; the conditions of many of the roads are poor. Despite its shortcomings, the road network is probably adequate to meet the country's current needs. China has a small number of cars, trucks, and buses as compared with the United States or Japan. In the early 1990s there were about 7 million motor vehicles, two-thirds of which were trucks and buses. It produces about 200,000 trucks annually and limited automobiles. An increasing number of cars are owned privately, which will lead fast demand for qualified highways. The highway network accounts for only about 2 percent of total freight traffic.

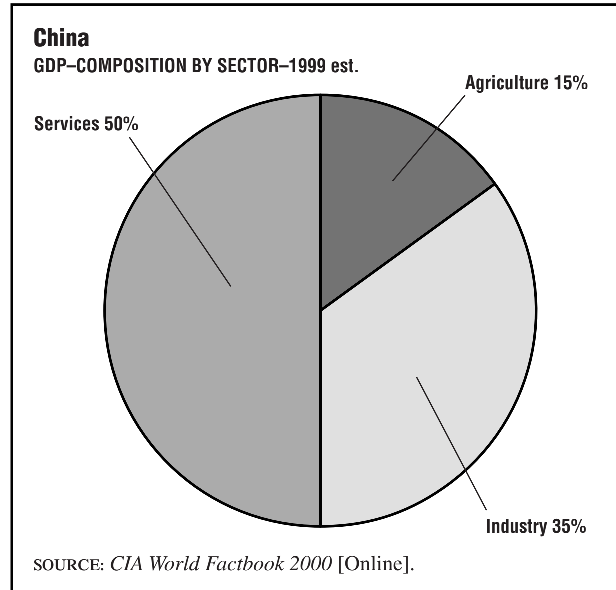
AIR TRANSPORTATION. China set up the General Administration of Civil Aviation of China (GACAC) after 1949, which has continued to serve as the nation's domestic and international air carrier. Most major cities are served by domestic flights, and a few large cities like Guangzhou, Shanghai, and Beijing have international service. GACAC planes fly to Europe, Japan, the United States, and South Asia. Some provincial and urban authorities operate intercity airlines that carry passengers and freight. There are 206 airports (1996 est.), among which 192 have paved runways.

SHIPPING. China has 110,000 kilometers (68,354 miles) of navigable waterways and 1,746 ships (merchant marine). It has 9,070 kilometers (5,636 miles) of crude oil pipelines, 560 kilometers (348 miles) of petroleum products pipelines and 9,383 kilometers (5,830 miles) of natural gas pipelines (1999 est.).

POWER. China's power sector has performed impressively in support of economic growth during the past twenty years. Faced with the need to expand its power capacity, the state is investing heavily in the construction of new power plants and self-financing capability. Equally significant in the development of the national power sector are the establishment of regional power grids and the implementation of an electricity **tariff** reform to tackle the problems of inefficient power distribution and usage. Electrical power is supplied mainly by the state-owned enterprises. China has effectively **restructured** its power industry by closing a large number of small thermal power plants with high coal consumption, heavy pollution, and poor economic efficiency. According to the official statistics, the country generated 1.16 trillion kilowatt hours (kWh) of electricity in 2000, a 6 percent increase from the previous year; the country has made headway in building and renovating 87 urban power grid projects and 1,590 rural ones. China has also developed its enormous hydroelectric potential so that a larger share of its domestic demand for electric power can be met with renewable hydropower. Renewable hydropower is tapped from moving water such as waterfalls and fast-moving streams.

The reform and opening up policies have brought great leaps and bounds to the development of the coun-

try's nuclear power industry. Meanwhile, China attracts foreign funds to supplement the domestic shortage of funds in power construction and to upgrade the technological equipment of the power industry. According to the statistic communiqué of the PRC on the 1998 national economic and social development issued in February of 1999, the newly-increased annual production capacity in 1998 through capital construction projects included 16.9 million kilowatts of power generation by large and medium-sized generators and 47.26 million kilovolt-amperes of power transformer equipment (including 7.79 million kilovolt-amperes of updated power grid in urban and rural areas). China is the country to deliberate the biggest nuclear power station construction plan in the world. According to the central government's plan, by year 2020, China will possess 40,000,000 KM of nuclear power installed capacity.



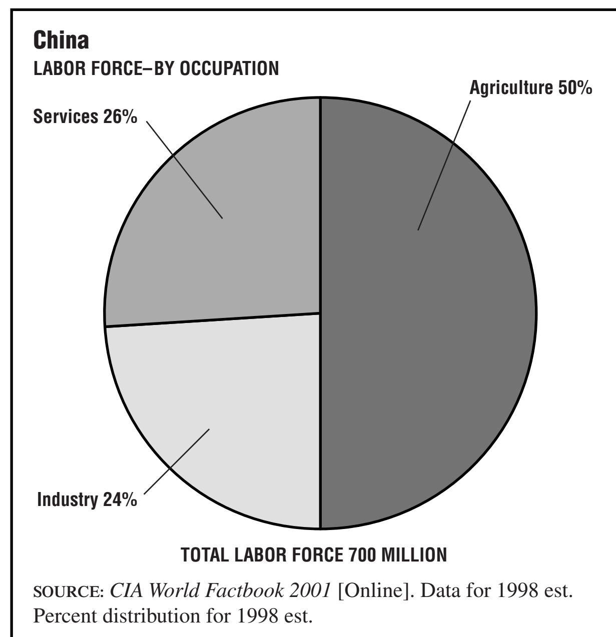
SOURCE: *CIA World Factbook 2000* [Online].

COMMUNICATION. Considerable effort has been expended on the postal and telecommunications systems in China since 1949, but they are still far from meeting Western standards of speed and efficiency. The mail is mainly carried by the nation's railroad. As is the case with transportation, the telecommunications system is sufficient enough to meet the needs of a growing economy. There were 110 million main lines in use (1999 est.) and 23.4 million mobile cellular phones in use (1998). Domestic and international services are increasingly available for private use; an unevenly distributed domestic system serves principal cities, industrial centers, and most small and middle-sized towns. Domestically, inter-provincial fiber-optic trunk lines and cellular telephone systems have been installed; a domestic satellite system with 55 earth stations is in place. Internationally, China has 5 Intelsat (4 Pacific Ocean and 1 Indian Ocean), 1 Intersputnik (Indian Ocean region), and 1 Inmarsat (Pacific and Indian Ocean regions), as well as several international fiber-optic links to Japan, South Korea, Hong Kong, Russia, and Germany. The country had 673 radio broadcast stations—369 AM, 259 FM, 45 shortwave—and 417 million radios. In 1997, the country had 3,240 television broadcast stations, (of which 209 are operated by China Central Television, 31 are provincial TV stations and nearly 3,000 are local city stations), and 400 million televisions. In 1999, the country had 3 Internet service providers (ISPs).

ECONOMIC SECTORS

Over the years, China has become gradually more industrialized. Like other modernizing countries, for instance, the contribution of China's agricultural sector to its GDP has kept decreasing, from 37.9 percent in 1965 to 28.4 percent in 1985 and then to 18.4 percent in 1998—a net decrease of 19.5 percent in the 3-decade period. At the same time, the contribution of the industrial sector to GDP has kept increasing, from 35.1 percent in 1965 to 43.1 percent in 1985 and then to 48.7 percent in 1998, a net increase of 14.6 percent in the 3-decade period. The contribution of tertiary industry (service) to the GDP has increased from 27.0 percent in 1965 to 28.5 percent in 1985 and then to 32.9 per cent in 1998, a total increase of only 5.9 percent in the same period.

The world's economic development history indicates that as a country heads toward modernization, the ratio of agriculture to its GDP is set to drop, the ratio of service to its GDP will go up, while the ratio of industry to its GDP will first go up and then drop. China's economic



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est. Percent distribution for 1998 est.

development followed the same patterns. For instance, the ratio of agriculture's **value added** to the world's GDP was 7 percent in 1980 and fell to 5 percent in 1998. The ratio of agriculture's value added to the GDP of developed countries is normally 2 to 3 percent. The popular development model also demonstrates that when the GDP annual per capita income stood between US$300 and US$500, the proportions of agricultural and industrial sectors were virtually similar in the GDP while the employment proportion was higher in agricultural sector; when the annual per capita income reached US$1,500, the proportions of the industrial sector and service sector were basically similar in the GDP while the employment proportion in agricultural sector fell to the lowest proportion. However, China's situation varies somewhat from the traditional development model. For instance, in 1999, the per capita income in China exceeded US$1,000 (using the **purchasing power parity** method), while the proportion of the employment in the agricultural sector was still as high as 50 percent.

As shown above, non-agricultural industries' value amounts to the main body of the national economy, but the proportion of employees in the agricultural sector dominates the workforce at present and will do so in the future. The conflict of a dual economic structure is still obvious. It is reflected in the enlarged income gap between industry and agriculture, rising from 2.12 in 1991 to 5.25 in 1995, and its estimated value will reach 5.62 in 2005. Obviously, the changes of the industrial structure and employment structures are not consistent with other developing countries. The Chinese government and scholars have noticed this phenomenon, and many efforts have been made to reshape the structure more properly.

AGRICULTURE

In the thousands of years that farming has been practiced in China, the Chinese have refined and perfected their agricultural techniques. Traditional Chinese agriculture is labor intensive; the emphasis is on using many workers to increase the crop yield per unit of land rather than on increasing the productivity of the individual worker. Chinese agricultural practices have been shaped by the a shortage of farmland in the country, at least relative to the population.

Agriculture and rural activities are important in China for many reasons. First, farming provides the food and fiber needed for the sustenance of China's people. At the same time, nearly 65 percent of the people depend on agriculture or other rural economic activities for their livelihood. Second, agriculture has always provided the means of employment for most new workers entering the **labor force**. With between 12 and 16 million new workers entering the labor force annually since the 1980s, agriculture must continue to absorb tremendous numbers of new workers while continuing to find ways to use these workers productively. Finally, the agricultural sector has been an important source of investment money. If, through hard work, good management, and the application of sound, scientific farming, Chinese agriculture can be more productive, capital surpluses can be created and invested in other sectors of the economy, which could accelerate the rate of economic growth and ultimately benefit all of China's people.

China's grain output hit over 500 million tons in recent years, while current annual consumption is 463.5 million tons. Grain reserves now stand at historically high levels. However, it is true that the weak and fragile foundations of the agricultural system remain basically unchanged. Grain supply is still threatened by a series of unfavorable factors in production, circulation, consumption and foreign trade. A recent detailed estimate forecasts that the country's grain consumption requirements in the year 2030 would be between 632.8 and 725.8 million tons, with projected production at that time of 662.5 million tons. So even faced with the maximum shortfall of 63.3 million tons, the country would still be able to satisfy 90 percent of its own needs. Over the past decades, China has imported about 12 million tons annually, or 3 to 4 percent of consumption. Considering the trend of grain shortages in the medium and long term, China might need to import about 5 percent of its grain demand, or 20 million tons, in regular years.

CROPS AND LIVESTOCK. China's principal food crops are rice, wheat, corn, *gaoliang* (Chinese sorghum), millet, barley, and sunflower seeds. China is the world's largest producer of rice, and rice accounts for almost half of the country's total food-crop output. Rice, wheat, and corn together make up more than 90 percent of China's total food grain production, and these crops occupy about 85 percent of the land under cultivation. Grain production has risen steadily since rural economic system reform started in 1978. There has also been a steady rise in the output of industrial crops, the most important of which are cotton, oil-bearing crops (such as peanuts and rapeseed), sugar (both cane sugar and beet sugar), tobacco, baste fiber (for cordage, matting, and similar uses), tea, and fruits. Poultry and livestock production, though rising, remains the weakest sector of Chinese agriculture. Livestock numbers are high, but the amount of meat produced per animal is low. Thus, China has 15 percent of the world's livestock and about 40 percent of its pigs, but it provides only 7 percent of the meat products and 15 percent of the pork.

FORESTRY. Despite China's large land area, its forest resources are modest. Much of the western interior is too high or too dry to support dense forest stands. In the humid east, the forests were harvested for centuries for

building material and firewood; limited effort was made to regenerate them. In 1949, it was estimated that about 8 percent of the total surface of the country was covered with forests. Since then, an active program of forestation has been undertaken, and it is estimated that the forested area has been increased to 12 to 13 percent. In recent years about 2.5 million acres (1 million hectares) of forestland have been added annually. The state is aiming to have 20 percent of the country's surface in forest. In contrast, more than 30 percent of the United States is forested.

FISHING. China has a long tradition of ocean and freshwater fishing and of aquaculture. Pond raising has always played an important role and has been increasingly emphasized to supplement coastal and inland fisheries threatened by over-fishing. China produces about 17.6 million tons yearly, first among the world's nations. More than 57 percent of the total catch is from the ocean. The remainder comes from rivers, canals, lakes, and ponds. China's coastal zone is rich in fish. All the coastal seas have extensive areas of shallow water over the continental shelf. In these seas, especially the Yellow River and East China River, cold and warm ocean currents mix, creating an environment that is particularly suitable for many species of ocean fish, including croakers, mackerels, tuna, herring, and sharks. Several varieties of shellfish and specialties such as squid and octopus are also produced.

INDUSTRY

Since 1949 when the People's Republic of China was established, and especially since 1978, China's transformation from a traditional agricultural society to a modern industrial society has been greatly accelerated by a rapid industrial restructuring. China's industrial structure developed according to the objective of industrialization, which aimed at the proportion of agriculture being declined ceaselessly, the proportion of the industrial sector being ascended continually, and the proportion of the services sector being ascended greatly. The industrial goods produced in China all range from **capital goods** to consumption goods currently, though certain consumer products remain in short supply.

China's factory outputs extend from textiles to railway locomotives, jet planes, and computers. China is the largest producer of inexpensive cotton textiles in the world and exports large quantities of textiles and garments. Food processing is very important, and many agricultural goods are exported. China is one of the leaders of cement production in the world. Iron- and steel-making has declined recently, the production having dropped somewhat to about 44 million tons annually. Other industrial products include television sets, bicycles, cars, trucks, and washing machines. The product quality and production technology lag behind those made in Japan, the United States, and the European countries. The processing and manufacture of chemicals, including fertilizers, petroleum products, and pharmaceuticals, is another large and expanding segment of Chinese industry.

China has become an industrialized country to some extent. The pillar industries, such as the auto industry and the housing industry, in the interim of industrialization have developed by leaps and bounds. Iron and steel manufacturing are also major industries in China. The most important export products are machinery and electric equipment; while the most important import products are raw materials. In recent years, due to economic extroversion, China's industry has competed internationally, and as a result, the country's industrial development is increasingly influenced by international economic environments. On one hand, exporting becomes more difficult and export prices keep declining; on the other hand, market share of foreign products and foreign-invested enterprises' products keeps growing. The above 2 factors increase the difficulties for the country's domestic industry in terms of producing and selling; the state-owned enterprises are impacted particularly. In fact, textile and other light industries have slowed their growth since 1985. Since 1989, the production capability of durable consumption goods has become idle; after the mid-1990s, bottleneck sectors including steel, oil, and raw material began to fall into market saturation. Large-scale IC chips account for only 40 percent of all IC chips made in China; 80 percent of the Chinese telecom equipment and instrument market is taken by foreign enterprises.

Generally, China's industrial system has a low level of technology; the high-tech industries are simply in their starting periods. The technologies of major industrial sectors are poor and lack self-equipment capability. Average life cycle for more than 2000 kinds of Chinese leading products is 10.5 years, 3.5 times that of the same products in America. And fewer Chinese work in the information sector than do U.S. citizens, for example. About 45 percent of the American workforce is involved in information technology, but only 10 percent of the Chinese workforce is. Chinese technological level of industries needs to be raised, particularly high-tech oriented industries, so that the country's industries can be advanced toward a knowledge economy in the 21st century.

MINING. With one of the largest and richest stocks of minerals of any country, China has enough minerals to support a modern industrial state. Mining of all types of minerals is expanding rapidly. The most significant minerals are coal, iron, tin, copper, lead, zinc, molybdenum, tungsten, mercury, antimony, and fluorspar. China has the world's largest coal reserves, which are estimated at more than 600 billion tons. These reserves would keep

the country supplied with coal for about 500 years, if usage were to continue at its present level.

PETROLEUM. The country also has substantial petroleum reserves, both on land and offshore. Offshore prospecting is under way in several locations, with a number of Western and Japanese petroleum companies assisting China. Such minerals as tungsten, aluminum, titanium, and copper have export possibilities. Extensive deposits and promising sites were located in 1960s. The main production centers are in the North China Plain and in the Northeast. For instance, Daqing petroleum production basis in Heilongjiang Province is one of the largest petroleum producers in the country. Since the mid-1970s, China has been ranked as one of the ten largest oil-producing countries in the world, with the capacity to produce more than 1 billion barrels yearly. A small quantity of this output has been exported for earning foreign currency.

MANUFACTURING. Chief manufactured products include cement, rolled steel, chemical fertilizer, paper and paperboard, sulfuric acid, sugar, cotton yarn, cotton fabrics, cigarettes, television sets, and washing machines. Generally, the Chinese industrial structure has a higher level of manufacturing although it is far from high manufacturing in terms of productivity. Since 1978, the proportion has decreased, largely of output of low-level manufacturing sectors in light industry with agricultural products as raw material and mining sectors in heavy industry, but low-level expansion and repetitious construction in these sectors are still very serious. Product quality upgrade is still behind the demand of structures' upgrade, which in turn leads to the dependence on import of high-level manufactured goods for economic growth. The proportion of the 2 preceding sectors dropped from 34.1 percent and 8.19 percent in 1985 to 27.16 percent and 5.97 percent in 1998, dropping in total by 7.03 percent and 2.22 percent respectively. Compared with the United States and other developed countries, the horizontal industrial expansion with low levels of manufacturing causes low-level malignant competition in the domestic manufacturing sector. The same effects can be found in high-level consumption of energy and raw materials. For this reason inflated demands bring about a large increase of sectors with low technology content and delay upgrade of industrial structures.

SERVICES

According to a State Development Planning Commission (SDPC) document entitled *Report on China's National Economic Growth and Social Development for the Year 2000,* China's fast growing service sector has become the country's key employer. Preliminary statistics indicate that the service sector created 5.71 million new jobs in 1999, making up 70 percent of China's total new employment in the year. The service sector employed the majority of the country's urban new labor force and at the same time rehired the redundant labor force from the other 2 sectors. The SDPC data show that employment in the service industry by the end of 1999 rose 0.6 percent from 1998 to 192.5 million people, accounting for 27.3 percent of the total national workforce.

The service industry has become a major factor in boosting national economic growth. The key growth areas for the service industry in recent years include community services, domestic tourism, higher and non-compulsory education, information, culture and other intermediary services. In the first 4 years of China's 9th 5-Year Plan (1996 to 2000), the average contribution of the service industry to the GDP was 40.8 percent, a 10.4 percentage point increase over the 8th 5-Year Plan (1990–95). The state aimed at encouraging more involvement by the **private sector** in the development of the service industry by channeling more private investment into the industry.

FOOD SERVICE. Dining out is one of the most important social activities for both personal and business reasons in China. The food service can be categorized as fine dining, family restaurants, neighborhood restaurants, quick-serve restaurants, street vendors, food courts, and cafeterias operated by the institutions or corporations. Since the 1980s, Western-style chain restaurants have been the driving force for the development of service, quality, value and distribution in the Chinese food service industry. A recent survey indicates that China has approximately 2.2 million restaurants and cafeterias. With the growth of China's economy, the changing life styles, and increased **disposable incomes** for the potentially largest group of middle-income families in the world, China is expected to be the new leader in the growth of the food service industry in the 21st century.

TOURISM. China is a world-class destination that offers several thousand years of history and brilliant cultural achievements. Tourism has been designated as an important growth area under the current national restructuring. Remarkable progress has been made in China's tourism since 1978, when it barely existed as an industry. In 1978, on the eve of the open-door policy, China received a mere 760,000 tourists and US$260 million in tourism-related foreign exchange earnings.

During the 1980s, the state council strengthened its management over tourism and adopted a policy of enlisting support from all quarters—the state, the collectives, related ministries or departments, individuals and foreign investors. China began the construction of a large number of tourist hotels by using foreign capital and also improved the ability of its travel agencies to solicit tourists. In 1988, the national tourism industry earned

US$2.24 billion in foreign exchange, or 10 times the figure in 1978. Meanwhile, efforts have continued to open up new scenic spots, tap new visitor sources and improve tourism-related rules and laws. Drawing experience from developed countries, China improved its management skills and the overall quality of employees to optimize the environment for tourism expansion.

In the 1990s, the country began to design special tourism projects. The Visit China '97 program was a big success, with overseas visitors hitting 57.6 million and foreign exchange earnings reaching US$12.074 billion, thus catapulting China's place in world tourism earnings from 41st to 11th. At the same time domestic tourism also reached a new record with the number of tourists jumping to 644 million and earnings reaching US$27 billion. As a result, tourism income in the year totaled over US$38 billion, or 4.1 percent of the GDP. Massive infrastructure investments and rising living standards helped to stabilize the basic tourism market and improve the overall environment for tourism expansion. China's tourism earnings in the year 2000 were estimated as US$43.9 billion, or 5 percent of the GDP, with US$14 billion in foreign exchange earnings from overseas.

RETAIL. **Retail** was one of the fastest growing sectors in China in the earlier 1990s. Since retail industry reforms began in 1992, the government has adopted some new policies highlighted by the proclamation of the Provisional Rules on Retailing and Wholesaling in June 1999. These policies have propelled the retail industry through a process of fundamental transformation. While shopping in the past meant visiting a run-down department store and choosing from a limited range of low-quality products, currently the Chinese consumer is exposed to a growing number of sophisticated retail formats and wooed by a wide range of foreign and domestic products. The existing retail formats in China are warehouse/discount stores, supermarkets, department stores, convenience stores, franchised service or chain-store outlets, specialty stores, shopping centers, catalogue sales, TV home shopping, and recently developed **e-commerce**.

One eye-catching development is that local governments, in spite of central regulations, approved a large number of joint commercial ventures. Some Chinese retail stores in large cities are even beginning to hire foreign managers or are being contracted to a foreign management team. Large **multinational corporations** have made considerable inroads into China's consumer markets. They do so by forming **joint ventures** with domestic manufacturers to produce and sell their own brand-name products. By doing so they effectively take over the well-developed distribution channels of the domestic firms, and consequently their market shares improve steadily. In this area, Asian businesses (especially overseas Chinese ones) again enjoy an edge because of their familiarity with the Chinese consumption culture. They are not deterred by the lack of policy transparency and inadequate legal infrastructure. They thrive on personal connections cultivated with state officials and often regard these as a better guarantee for security. In 2000, the activities of foreign-invested retailers remained subject to tight regulation although the government took its first steps towards opening the retail sector to real foreign participation in 1992. A pilot program restricted Sino-foreign retail joint ventures to 11 cities, with only 2 such ventures allowed in each pilot site.

INTERNATIONAL TRADE

International trade has been used to bring in new equipment and technologies and to meet scarcities in the domestic economy since China has sought to modernize its economy. Exports have been used as a means of producing foreign earnings to pay for the imports. The state has sought to maintain an even **balance of trade** so that the country can pay for imports rather than buying on credit. With 1.2 billion people and the world's fastest growing major economy, China is hailed as potentially the "market of all markets," which has helped to attract investments from around the world at such a magnitude that China is now the second largest recipient of foreign capital (next only to the United States). However, it has also given the government more reasons to carefully guard its market. The issue of market entry has been a contentious one, bogging down its negotiations to join the General Agreement on Tariffs and Trade and the World Trade Organization for over a decade.

The total volume of China's exports was US$232 billion (**f.o.b.**, 2000), according to the CIA *World Factbook.* The country's principal commodities are machinery and equipment, textiles and clothing, footwear, toys and sporting goods, and mineral fuels. The United States bought 21 percent of China's exports, Hong Kong 18 percent, and Japan 17 percent; Germany, South Korea, the Netherlands, the United Kingdom, Singapore, and Taiwan are other main export partners.

Trade (expressed in billions of US$): China

	Exports	Imports
1975	7.689	7.926
1980	18.099	19.941
1985	27.350	42.252
1990	62.091	53.345
1995	148.797	129.113
1998	183.589	140.305

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

China exports agricultural commodities and goods (about one-third of total exports) and manufactured goods (about half), as well as mineral products such as oil and coal. Foodstuffs account for about 6 percent of total imports, and industrial supplies and materials such as crude steel and chemicals account for about 50 percent. The remainder consists chiefly of expensive capital goods such as machinery, precision instruments, and transportation equipment.

In 1998, machinery and transport equipment took the first place among the exports, amounting to 50.2 billion dollars. The proportion of it is 48.4 percent, much higher than the proportion of light and textile industrial products (26.5 percent). On the other hand, export structure of machinery and transport equipment is changing for the better. The proportion of more technologically-intensive products is growing up, and labor-intensive products are slowing down. Also, the interim structure of traditional export products, such as light and textile industrial products, changed tremendously. Resource and labor-intensive, low value-added, low-technological products declined, lower labor-extensive but higher technological and value-added products increased.

China imports a total volume of US$197 billion (2000). The principal commodities China imports are machinery and equipment, mineral fuels, plastics, iron and steel, and chemicals. Japan provides the main source (20 percent) of China's imports. The United States provides 12 percent, Taiwan 12 percent, and South Korea 10 percent. Other trading partners include Germany, Hong Kong, Russia, and Singapore.

The 5 top import products of China during the first semester in 1999 included mechanical and electrical products at US$35 billion (up 28 percent from 1998); plastics in primary form at US$4.1 billion (up 3.9 percent from 1998); steel products at US$3.4 billion (up 14.6 percent from 1998); computer parts at US$1.8 billion (up 18.7 percent from 1998); and crude petroleum oil at US$1.6 billion (down 23.6 percent from 1998). The commodities China imports are materials essential to modernizing China's economy and increasing export-oriented industries.

MONEY

China embarked on its open-door economic policy in 1979 by reforming the agricultural sector and establishing several special economic zones (SEZs). The high export-led growth rates in the SEZs contributed to an annual **inflation rate** of over 10 percent in the 1980s. As a result the economy was overheating. The monetary authorities were ineffective in dealing with inflation. Fiscal revenues declined during the reform period and pressed the Ministry of Finance (MOF) to sell bonds to the central bank in exchange for currency to cover its **budget deficit** and to release aggravating inflationary pressures. By 1994, laws were passed to create a more consistent and more transparent tax system, which would reverse the steady decline in fiscal revenues. The new laws also banned fiscal overdrafts on the financial system. In reflecting tighter **monetary policies** and stronger measures to control food prices, inflation dropped sharply between 1995 and 1999.

Exchange rates: China

yuan per US$1	
Jan 2001	8.2776
2000	8.2785
1999	8.2783
1998	8.2790
1997	8.2898
1996	8.3142

Note: Beginning January 1, 1994, the People's Bank of China quotes the midpoint rate against the US dollar based on the previous day's prevailing rate in the interbank foreign exchange market.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Financial reform first appeared in 1984, when the People's Bank (monobank) discarded its commercial banking functions to become a central bank. The 3 specialized banks were reformed as commercial banks, passing on their policy lending to newly established policy banks. The banking system was decentralized, and inter-bank competition was allowed. Urban and rural credit cooperatives were established as alternative banking institutions. Interest rates remained under government control; preferential lending rates have been removed in certain sectors but continue in many others. Although lending rates are a highly political issue for the impact on state-owned enterprise (SOE) **debt-servicing** obligations, **deregulating** lending rates and deposit will be on the official agenda. Various ministries, including the monobank and the State Planning Commission, are in charge of a credit plan that involves a multi-step, highly negotiated process in which lending quotas are allocated to the state banks (lenders) based on their balance of deposits against borrowings. A re-lending facility allows the central bank to reallocate deposits from surplus to deficit ones at bank levels or regional levels. The mechanism is funded by reserves set at 20 percent of deposits; thus, deposit-poor lenders are assured that their allocated funding requirements will be covered by monobank loans.

Under the re-lending facility the loans are generally rolled over, which make up 30 percent of state banks' liabilities and are estimated to equal 3 to 4 percent of the GDP. The continuing injection of funds to SOEs under

the credit plan allowed many profitless SOEs to remain in business, some SOEs even staying while making a net loss. Many of the loans to SOEs could not be called back and eventually became the bank's liabilities, which suggests that any financial sector reform and resolution of the SOE debt problem are intricately linked. Moreover, the continued reliance on state bank loans to support SOEs has also exacerbated the government's fiscal weakness, as it causes the lack of funds for much-needed enterprise and welfare reforms.

China used 2 systems of currency between 1979 and 1994: Renminbi and Foreign Exchange Certificates (FEC). Foreign exchange could be obtained through either FEC exchange centers (FECs) or foreign exchange adjustment centers (FEACs) until the 1994 currency unification. There were over 100 FEACs, or swap centers, where foreign currency was exchanged at a floating rate that varied widely among the centers in the 1980s. By 1993, 80 percent of all foreign exchange transactions were handled by FEACs. With the currency unification of 1994 came the gradual, complete withdrawal of FECs altogether from foreign exchange. The yuan's **exchange rate** is determined by the swap centers. It is noticeable that the movements toward convertibility of the current account have allowed foreign firms to make their transactions through designated foreign exchange banks and through FEACs. However, the domestic firms must sell all of their foreign exchange holdings to designated banks.

BANKING. The financial sector's main regulatory authority is the People's Bank of China (PBOC), the country's central bank. The PBOC controls the money supply, determines interest and deposit rates, and handles **foreign exchange reserves** through its division, the State Administration of Exchange Control. The PBOC also supervises banks' operations, uses the credit plan to administratively control overall lending, and oversees the People's Insurance Company of China as well as through its branches, trust and investment companies (TICs).

China has 4 state banks and eleven commercial banks. The state banks were created in 1984, when specialized banks and part of the monobank were transformed into commercial banks. The Agricultural Bank of China provides finance services in rural areas. The People's Construction Bank of China is responsible for medium- and long-term finance for capital construction. The Bank of China functions as the main international and foreign exchange bank, and the Industrial and Commercial Bank of China, the largest state bank, extends working capital loans to SOEs for fixed-asset investment. State banks with a network of branches, newly created affiliates, and special departments are responsible for implementing the credit plan.

More than 60,000 urban and rural credit cooperatives were established as an alternative to banks by 1999. Urban cooperative banks, small and manageable, are structured in a 2-tier system: the upper tier interfaces with capital markets and acts as a supervisor for the system, while the lower tier, a number of small-scale banks, handles deposits and loans. The rural or agricultural cooperative banks, acting under the guidance of the Agricultural Development Bank, have limited autonomy in management and lending decisions. Their clients are mainly rural townships and enterprises.

The state-owned People's Insurance Company of China (PICC) used to be a **monopoly** insurer. In 1993, it still handled over 95 percent of China's total insurance business. The new insurance law of 1995 limited the PICC to commercial insurance business and transferred its social insurance business to the Ministry of Labor. Currently, although the PICC and several government financial authorities own 17 regional life insurers, there are 3 other regional insurers and 2 independent national insurers. The market for life insurance and household casualty insurance is still small in China, and corporate customers purchase most casualty insurance. Most assets have to be deposited with domestic banks in interest-bearing accounts, while other investments need to be spread among safe investments and are limited to short-run commitments.

STOCK EXCHANGES. The Shanghai and Shenzhen Stock Exchanges, China's only 2 stock exchanges currently, were established in 1990 and 1991, respectively. No cross listing exists between these 2 exchanges. Since their founding, securities markets have grown rapidly, especially in the later 1990s. Securities exchange centers, limited to government and corporate bond trading only, exist in 18 larger cities. Securities exchange centers were established in the mid-1980s when SOEs were allowed to sell bonds to employees, other companies, and, to some extent, to the public. Securities exchange centers are linked to the stock exchanges through electronic trading networks.

Chinese companies offer 2 types of shares: A shares, which are exclusively sold to Chinese nationals, and B shares, denominated in Renminbi but traded and purchased in foreign currency exclusively by foreigners originally. By March 2001, B shares could also be purchased by Chinese citizens using foreign currency. B shares are restricted to limited liability shareholding companies. To be qualified, companies must have been profitable for at least 2 consecutive years; must possess sufficient foreign exchange revenues to pay dividends and cash bonuses; must be able to provide financial statements and earning forecasts for 3 consecutive years and at the time of listing; and must have a price-earning ratio of less than 15.

The state planning commission formulates quotas for stock and debt listings, which sets a figure for the aggregate offering price of issuances in a given year. The

formulated quotas are then allocated on a provincial level. This process generates some problems, such as politicized selection and approval process, lowered quality of issuer with a large number of small issuers, the lack of predictability in the schedule of announcements of annual quotas, and the fact that announced quotas change yearly according to market conditions. Furthermore, the quota system pushes non-quota activity into unofficial and semi-official channels such as the securities exchange centers. Because of these problems, it is widely agreed that the Chinese stock markets are far from formal and mature and, thus, are full of myth and risks.

FOREIGN PARTICIPATION. Foreign banks are generally restricted to **hard currency** operations, although the government has announced its intention to partially open a local currency business to foreign banks in its bid to join the WTO. Foreign banks are allowed to set up branches and local subsidiaries and to establish joint venture banks with Chinese partners in selected cities and SEZs. However, their activities must be limited to wholesale banking and only a limited number of foreign exchange transactions such as foreign exchange deposits and loans for joint ventures, foreign exchange investments and guarantees, and the settlement of import and export accounts. Foreign non-bank financial institutions consist of 6 finance companies and 6 fully-licensed insurance companies. Generally, it takes about 3 years for foreign insurance companies to obtain a PBOC-issued insurance license.

POVERTY AND WEALTH

In the early decades after the communist state was founded in 1949, incomes were low and roughly the same. However, according to a newly conducted investigation, economic reforms over the past 20 years have created a substantial class of very wealthy Chinese, with more than 5.3 million families boasting annual incomes of US$6,000 or more. The average annual urban income is about US$600, and the average earned by rural residents is about US$230. Private businessmen and managers make up the core of the newly affluent. Others include scientists who own patents, teachers who tutor privately, consultants, securities traders, entertainers or advertising executives. There are roughly 30 million Chinese considered to be well off, which makes only a small fraction of China's population of 1.2 billion. Heavily concentrated in major cities such as Beijing and Shanghai, the affluent Chinese represent a newly **emerging market** for all sorts of luxuries. China is counting on the desire of the well-to-do for better housing and **consumer goods** to help keep the economy growing.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
China	138	168	261	349	727
United States	19,364	21,529	23,200	25,363	29,683
Japan	23,296	27,672	31,588	38,713	42,081
Russia	2,555	3,654	3,463	3,668	2,138

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: China

Lowest 10%	2.4
Lowest 20%	5.9
Second 20%	10.2
Third 20%	15.1
Fourth 20%	22.2
Highest 20%	46.6
Highest 10%	30.4

Survey year: 1998

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

URBAN-RURAL INCOME INEQUALITY. Economic reforms have made substantial improvements in the living standards of rural residents. Since 1978, the farmers boosted their incomes by engaging in specialized agricultural activities such as animal husbandry, agriculture, and orchard production, in addition to raising traditional crops. Furthermore, township and village enterprises (TVEs) accounted for the bulk of increased wage income earned by the rural residents. As the result, the disposable income among rural residents has increased dramatically since the early 1980s. However, in spite of these improvements, the rise in income of rural residents is markedly small when compared to that of urban areas. The total rural incomes are only 40 percent of urban incomes in China when in most countries rural incomes are 66 percent or more of urban income. The gap in income between rural and urban residents has grown at an increasing rate since the late 1980s. In fact, such disparity has been the most important contributor to the problem of social **equity** in China, followed by interregional disparity.

REGIONAL INCOME INEQUALITY. Decades of strict central planning created serious disparities in incomes among citizens in different regions. The average annual income is high, for example, in Jiangsu province located in the eastern region, but Guizhou, located in the western region, has a low income level. The difference is quite enormous. For instance, in 1996, per capita annual income of Jiangsu was 2613.54 yuan while in Guizhou it

was 609.80 yuan; the ratio between the two was 4.3:1. In the same year, per capita GDP and the total GDP of the eastern region were 1.9 times and 5.5 times larger, respectively, than those of the western region.

INTRA-URBAN INCOME INEQUALITY. In addition to the gap between urban and rural areas, city dwellers also feel the income inequality among themselves. According to the Urban Socio-Economic Survey Organization of the State Statistics Bureau, in the middle 1990s the per capita income of the top 20 percent income earners was 4.2 times greater than the bottom 20 percent, worsened from 2.9 times in the later 1980s. Although many enterprises in urban areas have either stopped working or closed down, many of the idle employees who have been laid off are waiting for future employment that would provide them the minimum incomes to maintain the basic standard of living in the urban areas. Currently, many idle workers are either receiving low incomes or no incomes at all. The wage level of retired employees is also quite low, and, considering the effects of inflation, their living standard is falling.

POVERTY REDUCTION. About 10 percent of the Chinese population lives below the poverty line. One of the largest challenges in China is poverty alleviation and elimination. According to the World Bank, due to aggressive measures, China has achieved great success in its anti-poverty struggle in the past 2 decades. The impoverished population dropped from about 250 million in 1978 to 125 million in 1985 because rural areas experienced economic growth. The Chinese government has been planning and organizing a number of large-scale anti-poverty programs all over the country since 1986. By the end of 1992, the poverty population of rural China was reduced to 80 million, reducing the poverty rate to 8.8 percent.

In 1994, in order to accelerate the poverty alleviation and ultimately eliminate poverty by the end of last century, the Chinese government launched the “8–7 Plan,” the main point of which was to eliminate absolute poverty in 7 years through the tax favorite policy, financial support, and social-economic development program. For the convenience of implementing the “8–7 Plan,” the central government selected the 592 poorest counties from the more than 2000 counties nationwide and designated them as “national poor counties.” It was estimated that more than 70 percent of the 80 million poor concentrated in these 592 counties had very bad natural environments and under-developed social-economic conditions.

After 4 years, the poor population of rural China was reduced to 42.1 million, and the poverty rate was 4.6 percent by the end of 1998. The Chinese government spent 24.8 billion yuan (US$3 billion) on poverty alleviation in 1999, 30 times more than in 1980. Rural per capita income among China’s 870 million rural residents in 1999 was 2,210 yuan. Only 3 percent of the rural population remained impoverished or living below the 635-yuan standard, making China’s rural poverty rate the lowest among developing nations. In 2000, China announced that it had eliminated “absolute poverty.”

WORKING CONDITIONS

China has the largest labor force in the world. According to Chinese official data, over 700 million people were employed by the end of 1990s. More than half of its labor force is engaged in agriculture, although that sector accounts for less than 20 percent of China’s GDP. In other words, China’s agricultural labor force is over 100 times as large as its U.S. counterpart. By the middle of the 1990s, most of China’s urban workers were employed in state-owned enterprises (SOEs). In the 1990s, China’s increasingly dynamic service sector employed more workers than industrial enterprises for each of the last 3 years. Latest sources from the State Statistics Bureau show that 6.4 percent of labor force in rural China shifted to the country’s secondary and tertiary industries in 1999. With 0.5 percent of its rural labor force having made a change in their life from agricultural to non-agricultural labor, the net shifting amount of rural labor force was placed at 5.9 percent of the rural total, up 0.4 percent over the same period in 1998. According to one official survey, as many as 50 million people leave rural areas in search of urban jobs every year. Of this number, approximately 30 million people leave their home provinces.

Shifting labor forces experienced a big rise in proportion on a provincial, regional, or municipal scale. About 79 percent of surplus labor force became locally employed in the industrial and service sectors in the country in 1999, up 11 percentage points over 1998. East China remains the hottest destination for drawing rural laborers, although more people began to focus on west China. Among the rural laborers leaving their native place to seek employment in other provinces, 79.8 percent headed for the East in 1999, down 2.5 percentage points compared with the same period of 1998. About 10 percent chose central China for employment, up 0.6 percentage points. More than 10.2 percent went to the country’s west, up 1.9 percentage points over 1998. Most of the laborers are young or people in their prime. People ages 18 to 40 accounted for 77.3 percent. Of these, 57.9 percent were between 18 and 30 years of age.

EMPLOYMENT PROBLEMS. Chinese labor has benefitted significantly from economic reforms. During the 8th 5-Year Plan (1991–95), real incomes increased by 7.7 percent annually in urban areas and 4.5 percent annually in the countryside. However some serious problems existed in the labor market, which threatened to impede economic reforms and to disrupt social stability. Increased lay-offs

(officially labeled as “temporarily losing a job”), placing workers “off post” (*xiagang*), as well as delayed wage and pension payments, resulted in a number of demonstrations by workers and retirees in several Chinese cities. Within a certain period, typically 1 year, these “laid off” workers are usually encouraged to take other types of jobs, generally with less pay and/or status than their original positions. Many workers also take second jobs. Some continue to draw a basic salary and benefits from their previous employer for whom they do little or no real work. By 2001, the problems caused by the increasing lay-offs from SOEs, along with several other issues, became the first worries of the nation’s leaders.

The official unemployment rate was officially reported to be 6 percent by the end of 1990s. Labor officials readily admitted that the official unemployment rate did not include 2 large and important groups that are effectively unemployed, redundant state sector workers and rural surplus laborers. By official estimate, the **underemployed** population in the countryside, defined as those with productive employment less than half of the year, exceeds 200 million people. Some probably more accurate estimates of urban unemployment vary anywhere between 10 and 23 percent. Even according to the official unemployment criteria, a report completed by China’s State Commission for economic restructuring in early 1997 projected that China could have 15 to 20 million unemployed urban workers by 2000. Meanwhile, it is estimated that between the years 2000 and 2010 over 40 million new entrants will be brought into the urban workforce.

LABOR LAW. A national labor law effective 1 January 1995 codified earlier regulations and provides a framework for labor reform. New provisions in the law require workers at all types of businesses to sign labor contracts with the employers; establish arbitration and inspection divisions at all levels of government; set out a preliminary framework for collective bargaining at all types of enterprises; and empower managers to dismiss workers for economic reasons. However, the local governments are less effective in enforcing strict worker safety and overtime provisions of the Labor Law. As the result, industrial accidents, particularly in the mining sector, claim a high number of lives every year.

The Labor Law also requires localities to establish local minimum wages. For instance, the monthly minimum wage in Beijing at the end of 1996 was RMB 270 (approximately US$33); RMB 300 (approximately US$36) in Shanghai; RMB 398 (approximately US$48) in Shenzhen; and RMB 140 (approximately US$17) in Guizhou province. Other parts of China, including Guangdong, Jiangsu, and Shandong provinces, have created a sliding scale of minimum rates for different trades and localities. The minimum wage level determinations are generally higher than the local poverty relief ceiling but lower than the current wage level of the average worker.

Labor disputes, including delayed wages and strikes, have been increasing over the last several years in China. The upward trend has made some labor and union officials become defensive. The official media continuously pay attention to worker abuse, invariably at small, export-oriented foreign ventures with Asian (Hong Kong, Taiwan, South Korea) investment. However, many unofficial observers indicate that working conditions are generally worse in private Chinese enterprises and in domestic small town and village enterprises, which are often owned by local government. Most labor disputes are solved through arbitration and recently some cases reached the courts. According to official statistics, based on National Mediation Center and Labor Bureau records, 48,121 labor disputes occurred nationwide in China during 1996.

ALL-CHINA FEDERATION OF TRADE UNIONS (ACFTU). For the most part, unions in China maintain their primary function of enhancing production and sustaining labor discipline, rather than supporting worker rights. Local unions also perform a variety of social and welfare functions, such as handling disability benefits and housing funds and operating clubs, eating facilities, nurseries, and schools. The All-China Federation of Trade Unions (ACFTU), the country’s only officially recognized workers’ organization, remains focused on the state sector. There is still little evidence to suggest that ACFTU is being positioned to assume the new role of worker advocate mandated by article seven of the labor law, although some union officials at the working level may be increasingly interested in representing the interests of workers, particularly on safety issues.

For the ACFTU, improving labor discipline and mobilizing workers to achieve party and government goals are their primary objectives. However, since the early 1980s, additional objectives have been to increase productivity and encourage participation in, and support for, economic reforms. Generally, the membership is limited to the workers in SOEs. Over half of the country’s non-agricultural workers are not members of the ACFTU, those who are outside the state industrial structure in collectives, private and individual enterprises, foreign-invested enterprises, and township and village enterprises.

WORKING CONDITIONS. The working conditions are generally poor in China, especially in the rural areas. The rate of industrial accidents had remained high until 1996 when, according to Ministry of Labor statistics, for the first time in many years the number of industrial accidents actually dropped. Total accidents stood at 18,181, 13.5 percent less than in 1995, with total fatalities at 17,231, a 13.9 percent drop from 1995. By 2001, there

was no evidence to confirm whether this decline represents a permanent trend. The official media continue to criticize the overall high number of work-related accidents and fatalities. The majority of industrial accidents in China occur in mines, particularly in poorly regulated small-scale private, township, and village mines. For instance, in 1996 there were 7,695 mining accidents and 9,974 workers were killed.

Work safety issues attracted the attention of senior government leaders; occupational safety and health became the subject of constant campaigns. All work units are required to designate a safety officer. Since 1991, the Ministry of Labor has conducted an annual "industrial safety week" during May, to promote safety consciousness among managers and workers. As of mid-1997, the Ministry of Labor fulfilled new National Occupational Safety and Health legislation. Labor Ministry officials have also indicated that they have the responsibility of drafting improved National Mine Safety legislation. However, much evidence demonstrates that enforcement of existing regulations, rather than the drafting of new legislation, is what is needed most. Moreover, pressures for increased output, lack of financial resources to maintain equipment, lack of concern by management, poor enforcement of existing regulations, and a traditionally poor understanding of safety issues by workers, all make it difficult, if not impossible, to lower the high rate of accidents.

On 1 May 1995 China reduced the national standard workweek from 44 to 40 hours, excluding overtime. The Labor Law mandates a 24-hour rest period weekly and does not allow overtime work in excess of 3 hours a day or 36 hours a month. The Labor Law also sets forth a required scale of remuneration for overtime work that is set at no less than 150 percent of normal wages. Enforcement of these regulations varies according to region and type of enterprise. The official media regularly report cases of workers required to work long overtime hours at small-scale foreign-invested enterprises, particularly in special economic zones and other areas of Southeast China. Similar abuses in non-state sector enterprises are also widely acknowledged to occur.

WOMEN IN THE WORKFORCE. Economic reforms have increased employment opportunities for both men and women in China. The growth of the less regulated non-state sector and the declining role of the government in job assignments has also increased the likelihood that women will face employment discrimination in China. In 1995 while hosting the U.N. Fourth World Conference on Women (FWCW), China pledged to pay more attention to the problems faced by women in the workforce. The state council promulgated the national program for Chinese Women's Development in August 1995 with the goal of increasing enforcement of the right to education and employment and asserting the status of women. Responding to the hesitancy demonstrated by government ministries to hire women at a Beijing job fair in early 1996, the All-China Women's Federation (ACWF) called for stricter safeguards of women's rights.

In SOEs, women are more likely to be forced into early retirement or placed "off-post." A joint study of sample enterprises in 5 cities performed by the Ministry of Labor and the ILO in early 1995 indicated that 70 percent of workers described as "surplus" were women. According to an official survey completed in Shanghai in August 1996, women were the first to be affected by unemployment in the city because of their overall lower level of skills. The 1988 Women's Protection Law provides a minimum of 3 months of maternity leave and additional childcare benefits for women. The law also provides exclusion for breastfeeding mothers from certain categories of physical labor and night shifts. However, the regulations are designed to provide additional incentives to women workers of childbearing age to abide by family planning policies, which do not affect rural workers.

AGE DISCRIMINATION. China perhaps is one of few countries that discriminates against middle aged and older workers in terms of re-entering employment after being laid off. Many employers will state openly in their job advertisements that they would not hire those who are over 45 years old. Older workers are also finding it increasingly difficult to compete. Some managers complain that older workers do not have the skills needed for the current marketplace; others note that older workers are in poor health. Older workers are likely to be the first to be affected by downsizing in the state sector. By all accounts, older women have an especially difficult time maintaining their employment. Many older women are poorly educated upon entry into the job force and receive little opportunity to upgrade their skills thereafter. While managers may want to keep on a certain number of experienced men, most view older women simply as a burden. Older women find the differences in China's statutory retirement age especially rankling. The retirement age for men is 60, while for women it is 50 in industry and 55 elsewhere. Although traditional views hold that women want to retire early to take care of grandchildren, women today, especially educated women, prefer to make this decision themselves and not be forced out of the workforce before they are ready.

CHILD LABOR. In theory, child labor is forbidden in China. For instance, the 1995 National Labor Law specifies, "No employing unit shall be allowed to recruit juveniles under the age of 16." Administrative review, fines, and revocation of business licenses of those businesses that hire minors are specified in article 94 of the Labor Law. Chinese children are entitled to receive 9

years of compulsory education and to receive their subsistence from parents or guardians. Laborers between the ages of 16 and 18 are referred to as “juvenile workers” and are prohibited from engaging in certain forms of physical work including labor in mines. The Labor Law mandates the establishment of labor inspection corps at all administrative levels above county government. The rapid growth of China’s non-state sector has outpaced the evolution of government inspection and enforcement regimes. However, in poorer, isolated areas, child labor in agriculture is widespread given the few options available to minors who have completed their primary school education at approximately 13 years of age. According to official statistics, 10 million children between the ages of 6 and 14, two-thirds of whom were girls, dropped out of Chinese primary schools during 1996. Presumably they ended up performing some type of labor to help the family’s financial well-being.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

2205–1783 B.C. Early Bronze Age occurs, as does use of metal.

1783–1134 B.C. Economy is based on agriculture, with some hunting and animal husbandry. More advanced bronze metallurgy appears. Silk fabric appears.

1134–770 B.C. Feudalistic society appears. Routine taxation on agriculture begins. Systematic irrigation, fertilization, and animal-drawn plows are used in farming. Iron tools appear in farming and mining. Cowry shells, silk, jade, pearls, leather, and pieces of silver are used in trading.

770–246 B.C. Commerce improves through coinage and technology.

246–206 B.C. Standardization of legal codes, bureaucratic procedures, coinage, writing, philosophical thought, and scholarship take place. Walls from warring states are combined to make a Great Wall. Public works projects begin, including an imperial road.

206–1 B.C. Merchant class grows wealthy due to agricultural enterprises (cereals and rice), cattle, fish farming, cloth mills, private foundries, lacquer factories, shops, and money lending. State foundries appear in most areas. Technological advances occur, noticeably in paper and porcelain.

1–88. Government supports free, no-interest loans to curb usury. Regional commissions set prices on staple goods. Granaries hold surplus food in case of famine. State Wine Monopoly is formed. State monopolies in iron and salt are abolished.

89–166. Embassies from various nations are established.

220–265. Advances in medicine, astronomy and cartography occur. State supports silk weaving workshops, each with thousands of workers. Gunpowder is introduced in fireworks.

300–399. Oil wick lamps and umbrellas appear. Coal is used in lieu of wood in making cart iron.

400–499. Harness with paddle-horse collar is invented. Fusion process is used in making steel. First true porcelain is made in China.

552. Byzantine emperor, Justinian, sends missionaries to China to smuggle out silk worms and mulberry leaves.

600. Man-powered paddle-wheel boat appears. Merchants from 27 different lands meet at Zhang-ye on silk road to discuss trade.

618–907. Tang Dynasty adopts function of state affairs over public administration, finances, rites, army, justice, and public works. A censorate ensures compliance of governmental performance with plans. Use of receipts of deposit, for exchange of commercial transactions, begins. Earlier restrictions on business activities are ignored. Tang dynasty recognizes middle class over peasants.

894–1300. Japan severs all relations with China; however, it allows informal commercial visits by private traders with luxury goods.

960–1126. K’ai-feng becomes a major city, under the Northern Song Dynasty, with broad roads, wide canals, all-day markets, eateries, and restaurants, merchants, vendors, and entertainers. Invention of navigational compasses, astronomical instruments, celestial globes, water-driven mechanical clocks, blast furnace using coke, and spinning wheel occurs. Government prints promissory notes. Civil servants manage state monopolies. The government recognizes association of merchants and artisans and “chambers of commerce.” Silk working machinery aids production. Specialization in pottery occurs. Tea and cotton are major cultivated crops.

1000–99. Large-scale iron and steel complexes are built in the north using blast furnaces and employing some 3,000 workers. An industrial complex is built to mass-produce ceramic for imperial court.

1068–85. Under emperor Shen Tsung, provincial money taxes are substituted for labor obligation to reduce peasant’s dependence on moneylenders. A financial bureau reduces budget by 40 percent. Government loans cash or grain to poor to protect usury on crop loans.

1100–99. Intaglio printing is used in money printing to prevent counterfeiting.

1260–94. Kublai Khan rules over the Mongol empire, Central Asia, Persia, North China, and Mongolia. He

retains the salt and iron monopolies. Discrimination against the Huns begins. Three types of paper money are established: one based on silk and two based on silver. Fixed taxes are adopted and large **levies** of Song Dynasty are abolished. Government is reorganized to include a bureau of imperial manufactures (industrial matters), a secretariat (civilian matters), a privy council (military matters), a censorate (evaluating officials), and offices of personnel, revenue, rites, war, justice, and public works. Banners are used to advertise wine. Pawnshops are first seen.

1277. Marco Polo is appointed agent to the imperial council.

1287. Kublai Khan replaces paper money with new currency to fight against rapid inflation.

1295. Marco Polo returns to Italy, incites interest in trade with China.

1342. Weapons, fans, screens, laquerware, and books are traded during Japanese trading expeditions.

1368–1644. Ming Dynasty begins, and government is re-organized. Silk is reserved for imperial use. Nationwide tax system is implemented, and corrupt Mongols are replaced. Slavery is abolished. Large estates are confiscated and poor peasants rent land. The wealthy are taxed heavily. Contact with foreigners is restricted. Elementary school system is established.

1420. Ming navy produces combat vessels. More than 250 are capable of long-range voyages.

1421. Beijing becomes the capital. The imperial workshop employs more than 27,000 craftsmen in trade and foreign relations.

1557–97. Chinese allow Portuguese colonization and development on Macau.

1637. First English factory is established in Canton.

1644–1912. Manchu overthrow Ming Dynasty, and China enters Qing Dynasty.

1800. China produces 33.3 percent of the world manufacturing output. Foreign merchants exchange opium for goods.

1842. Treaty of Nanking is signed; Britain gets control of Hong Kong. Shanghai and other coastline cities are open to foreign settlements.

1873–90. Modern non-military enterprises begin to form, owned and operated by Chinese compradors and merchant middlemen.

1900–01. Boxer Rebellion tries to force foreigners out, suppressed by Britain, United States, France, and Japan. China pays US$330 million in restitution.

1916–31. Japanese receive commercial rights to Inner Mongolia and Southern Manchuria and create the puppet state of Manchuria.

1937. Japanese forces invade and eventually occupy Beijing.

1949. People's Republic of China is formed when Communists take over the government. A mass exodus of entrepreneurs to Hong Kong and nationalists to Taiwan occurs.

1958. Great Leap Forward begins by creating communes to increase production and increase collectivism. However, it fails to increase economic growth.

1966. Great Cultural Revolution is launched, attacking bourgeoisie ideology and capitalist thought, which leads to rioting and instability. These events have a devastating impact on the economy.

1976. The death of Mao Zedong and arrest of Gang of Four end Great Cultural Revolution.

1980. Special Economic Zones are extended for capitalist enterprises north of Hong Kong. The country's first management program is established and forms the Chinese National Center for Industrial Science and Technology at Dalian Institute of Technology.

1985. The development of consumer-based industry occurs. The first stockbroker in Shanghai trades with 10 corporations.

1989. The first Beijing International Fair opens, which is the first and the biggest international fair held independently by China. Growing student objections to official corruption lead to violence after a demonstration in Tiananmen Square.

1990. The 4th Asian Trade Promoting Meeting is held in Beijing. Official census counts 1 billion people. China is granted observer status in GATT.

1991. China Stock Association announces its establishment in Beijing.

1992. China announces that the goal of the economic reform is to set up a socialist market system.

1993. Electric power groups (North, East, Middle, Easter-North, and West-North) were permitted to be set up by the State Council.

1994. The launching ceremony of Yangtzi River Three Gorges is held and its construction started.

1995. The China Investment Association announces its establishment in Beijing.

1996. With sharp economic growth and controlled inflation under control, China achieves the goal of macro economic control.

1997. China decreases tariffs and promises to reduce the average tariff of the industrial products to 10 percent.

1998. In order to protect China's growing economy from the Asian economic crisis, Chinese government issues 1,000 billion **national debts** for the construction of domestic infrastructure and civil services.

1999. China resumes the collection of tax on the interest of personal savings.

2000. China successfully completes the 9th 5-Year Plan for economic growth; and the country's GDP reaches US$10,000 billion.

FUTURE TRENDS

Since 1978, China's economic system has undergone a market-oriented reform and begun its open-door policy. In more than 20 years, although system devolvement and structural transformation were mostly driven by domestic factors, China has been increasingly influenced by economic globalization and worldwide industrial upgrade. In the 21st century, it is estimated that Chinese economic development will be influenced by world economy, especially the economy of the Asian area. The Chinese economy will depend on the attitude and strategy China will take toward being involved in the globalization process.

OUTLOOK FOR CHINA'S ECONOMY. The long-term outlook for the Chinese economy remains unclear. China's commitment to join the WTO appears to represent a major commitment on the part of the Chinese government to significant economic reform and greater access to its domestic markets. Some observers believe that the Chinese government views accession to the WTO as an important, though painful, step towards making Chinese firms more efficient and competitive in the world market. In addition, the government hopes that **liberalized** trade rules will attract more foreign investment to China. It is expected that over the long run a more open market system would boost competition, improve productivity, and lower costs for consumers, as well as for firms using imported goods as inputs for production. Economic resources would be redirected towards more profitable ventures, especially those in China's growing private sector. As a result, China would likely experience more rapid economic growth than would occur under current economic policies. It is estimated that WTO membership would double China's trade and foreign investment levels by the year 2005 and raise real GDP growth by an additional 0.5 percent per year.

In the short run, due to increased foreign competition, widespread economic reforms (if implemented) could result in disruptions in certain industries, especially unprofitable SOEs. As a result, many firms would likely go bankrupt and many workers could lose their jobs. How the government handles these disruptions will greatly determine the extent and pace of future reforms. The central government appears to be counting on trade liberalization to boost foreign investment and spur overall economic growth; doing so would enable laid-off workers to be employed in higher growth sectors, especially in the growing private sector. However, the Chinese government is deeply concerned about maintaining social stability. If trade liberalization were followed by a severe economic slowdown, leading to widespread bankruptcies and layoffs, the central government might choose to halt certain economic reforms rather than risk possible political upheaval.

In February 1998 the officials announced their intentions to spend US$750 billion on infrastructure development over the next 3 years, although many analysts have questioned China's ability to obtain funding for such a massive financial undertaking in such a short period of time. It is likely that China intends to attract foreign investment for much of its infrastructure needs.

However, Chinese restrictions on ownership, profits, and operational control of major projects, China's demands for subsidized financing and sharing of technology, and uncertainties regarding obtaining approval from Chinese officials at the central and local levels have made foreign investors reluctant to invest in major Chinese infrastructure projects.

WEST REGION DEVELOPMENT. The central government has decided to accelerate the economic development in its west regions over the next few decades. China will build more highways in its western region, including 2 linking the heartland with the Tibet Autonomous Region, over the next 5 to 10 years. There are already 3 highways linking the inland areas with Tibet. China will also build another 14 main highways in the western region in the coming 10 years. China will have completed a modern highway network in the west by 2030. At the moment, roads in the western region are poor and insufficient. There are only 7.8 kilometers of highways per 100 square kilometers in the region, only half the national average. China has made the improvement of infrastructure the priority in its program to develop the vast western region. This development is expected to become one of the most dynamic forces in the country's economic growth.

ENVIRONMENTAL PROTECTION. The last 2 decades of rapid economic growth, urbanization, and industrialization have been accompanied by steady deterioration of the environment in China. The concentration of both air and water pollutants are among the highest in the world, causing damage to human health and lost agricultural productivity. Some major Chinese cities have particulate and sulfur levels from 2 to 5 times World Health Organization and Chinese standards. Soil erosion, deforestation,

and damage to wetlands and grasslands have resulted in deterioration of the national ecosystems and pose a threat to future agricultural sustainability.

China has already taken some steps to reduce pollution and deforestation and has staved off an abrupt worsening of environmental conditions in general. A system of pollution control programs and institutional networks for environmental protection is being constructed at the national and local levels. As part of the recent government reorganization, China's environmental agency, the State Environmental Protection Agency (SEPA), has been upgraded to full ministerial rank and its coverage expanded to include the "green" issues. For better urban and industrial pollution control, China has focused increasingly on river basin management, greater use of economic incentives, and increased use of public information campaigns. Issues of vehicle emissions in urban areas are being tackled through improved traffic management, public transport initiatives, changes in transport fees, and phasing out of leaded gas, which has already been implemented in the largest city centers. Coastal zone management has been introduced, and energy conservation efforts and the development of renewable sources of energy have been expanded.

DEPENDENCIES

China has no territories or colonies.

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—Robert Guang Tian and Camilla Hong Wang

CYPRUS

Republic of Cyprus
Kypriaki Dimokratia

CAPITAL: **Republic of Cyprus:** Nicosia. **Turkish Republic of Northern Cyprus:** Lefkosia.

MONETARY UNIT: **Greek zone:** Cypriot pound (CP). One Cypriot pound equals 100 cents. There are coins of 1, 2, 5, 10, 20, and 50 cents and 1 pound. Paper notes include a 50 cent note, and 1, 5, 10, and 20 pound notes. **Turkish zone:** Turkish lira (TL). One Turkish lira equals 100 kurus. This zone uses the same currency as used in Turkey. The smallest unit in circulation in the TRNC is TL50,000. The kuru is no longer in circulation due to high rates of inflation and the devaluation of the currency. Paper money comes in bills of 50,000, 100,000, 250,000, 500,000, 1 million, 5 million, and 10 million lira. There are coins of 5,000, 10,000, 25,000, 50,000, and 100,000 lira.

CHIEF EXPORTS: **Both Greek and Turkish zones:** Citrus, potatoes, and textiles. **Additional exports from the Greek zone:** Grapes, wine, cement and shoes.

CHIEF IMPORTS: **Greek zone:** Consumer goods, petroleum and lubricants, food and feed grains, machinery. **Turkish zone:** Food, minerals, chemicals, machinery.

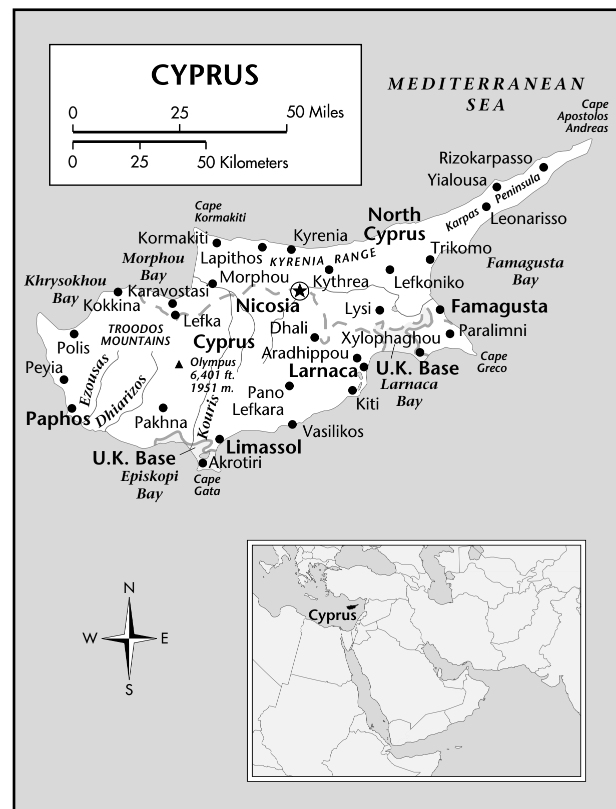
GROSS DOMESTIC PRODUCT: **Greek zone:** US$9 billion (1998 est.). **Turkish zone:** US$820 million (1998 est.).

BALANCE OF TRADE: **Exports:** *Greek zone,* US$1 billion (1999); *Turkish zone,* US$63.9 million (1998). **Imports:** *Greek zone,* US$3.309 billion (1999); *Turkish zone,* US$421 million (1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of Cyprus is the internationally recognized government on the island. In 1983, a separate Turkish administration declared the northern territory an independent state and calls itself the Turkish Republic of Northern Cyprus (TRNC). Unless otherwise indicated, the "Republic of Cyprus" or "the government of Cyprus" mentioned in this entry refers to the internationally recognized government administered by the Greek Cypriots. For practical purposes, the terms "Greek zone" and "Turkish zone" are used to describe the 2 parts of the island.

The third largest Mediterranean island after Sicily and Sardinia, Cyprus is located in the East Mediterranean Basin 75 kilometers (47 miles) south of Turkey. The island has an area of 9,251 square kilometers (3,571 square



miles) and a coastline of 648 kilometers (402 miles). Comparatively the island is only about half the size of the state of Connecticut. The capital, Nicosia, is located in the central part of the island. It is a militarily-divided capital, with the Greek Cypriots controlling the southern portion of the city (called Nicosia) and the Turkish Cypriots controlling the northern portion of the city (called Lefkosia).

POPULATION. The population of the entire Republic of Cyprus in 2000 was 758,363. The predicted growth rate for the population is 0.6 percent, according to 2000 estimates. The country is relatively young, with the age group between 0 and 14 making up about 23 percent of the total population. The life expectancy is 72 years for women and 70 for men in the Turkish zone, but 80 and 75, respectively, in the Greek zone.

The population of the Turkish Republic of Northern Cyprus, according to the revisions of the 1996 census, was 200,587. Of this number, 164,460 were Turkish Cypriot citizens, 30,702 Turkish citizens, and 5,425 people with citizenship in other countries. The natural rate of population growth in the Turkish zone is 0.9 percent.

The Greek Cypriots make up slightly more than three-fourths of the island's population, with 99.5 percent of them living in the Greek zone and the remaining 0.5 percent in the Turkish zone. Turkish Cypriots make up nearly all of the remaining population, with 98.7 percent of them living in the Turkish zone and 1.3 percent in the Greek zone. Other ethnic minorities make up less than 5 percent of the island's total population, and they live mainly in the Greek zone. Turkish nationals can enter the Turkish zone without passport formalities. However, entry is restricted from the Turkish to the Greek zones.

Three languages are spoken on the island: Greek, Turkish, and English. Greek is the dominant language in the south; Turkish predominates in the north. A majority of the population can also speak English. More than 90 percent of the population is literate.

The religious structure of the island is divided, like its people. Members of Greek Orthodox churches comprise 78 percent of the island's total population and live mainly in the Republic of Cyprus. The Turks in the TRNC are mainly Muslims. Other religious groups like Maronites and Armenian Apostolics together account for less than 5 percent of the total population.

OVERVIEW OF ECONOMY

The division of Cyprus into 2 areas, controlled by Greek and Turkish authorities respectively, shapes the economic affairs and structure of the island. The economy of the Republic of Cyprus experienced rapid growth in the 1970s after the island's division into 2 zones. The government financed investment to replace housing for the Greek Cypriots who moved to the Greek zone after the division. That explains why the **real gross domestic product** (GDP) growth rates were over 6 percent annually in the 1980s. However, the GDP growth rate fell back to an average of 4.3 percent between 1994 and 1999.

Both the Greek and Turkish zones face severe water shortages. The island has no natural reservoir and experiences seasonal inequalities in rainfall. Although there is an aquifer (underground water supply) on the island, it is subject to seawater intrusion, which increases salt content, especially in the Turkish zone. Both administrations have sought ways to overcome the issue; several desalination (salt removal) plants are planned for construction in the near future.

GREEK ZONE: The economy of the Greek zone is prosperous but can easily be affected by external shocks, since it is heavily dependent on the tourism industry. For instance, in the 1990s the region's economy attained inconsistent growth rates due to swings in tourist arrivals, caused by political instability on the island and changes in economic conditions in Western Europe. Being a candidate for membership in the European Union (EU), economic policies in the Greek zone are focused on meeting the criteria for admission. On the other hand, the attractiveness of the island has led to a concentration of investment and labor in the tourism sector, thus reducing the Greek zone's competitiveness in manufacturing and other sectors.

Inflation rates in the Greek zone have been moderate. The average was 4.8 percent between 1982 and 1990, and had dropped to 1.6 percent by 1999 as a result of economic slowdown. The government uses a wage determination system called COLA (cost-of-living-allowance), which automatically adjusts wages and salaries for **inflation**. The country's unemployment rate stood at 3.6 percent in 1999, below the levels of many EU countries. **Immigration** helps the Cypriot economy maintain its economic growth rate even in times of economic slowdown. Unskilled immigrant labor usually takes agricultural and domestic jobs.

TURKISH ZONE: The economy of the Turkish zone (US$820 million) is much smaller compared to that of the Greek zone (US$9 billion). The northern region has about one-fifth the population and only one-third of the per capita GDP of the south. The GDP growth rates in the north averaged around 4.7 percent in the 1980s, slowing down to an average of 2.8 percent in the 1990–98 period. In 1991 real GDP actually fell by 4.3 percent, and then by 4.1 percent in 1994 as a result of the economic crisis in Turkey. The "Turkish Republic of Northern Cyprus" is recognized only by Turkey, which means the rest of the world still considers the southern Greek administration as the sole administrator of the whole island.

This has created problems for the Turkish Republic of Northern Cyprus' government and its economy. Foreign firms and investors cannot do business in the Turkish zone, as they cannot transfer funds or goods from a country that is not recognized as an independent state. As a result, the economy of the Turkish zone remains heavily dependent on agriculture and government service, which together employ about half of the workforce. The economy also has a small tourism sector, with legalized gambling, serving especially tourists from Turkey, where all forms of gambling have recently been banned. The economy of the Turkish zone is more vulnerable to outside shocks not only because of its small size and its legitimacy (diplomatic recognition), but also because it uses Turkish lira as the legal tender, which has **devaluated** (decreased in value) greatly over the past decade. To compensate for the economy's weakness, Turkey provides direct and indirect aid to tourism, education, and industries located in the Turkish part of the island.

POLITICS, GOVERNMENT, AND TAXATION

Cyprus gained its independence from the United Kingdom in August 1960. Three years later, clashes between the Greek and Turkish communities on the island began, and the island started to disintegrate politically. A junta-based (a small military ruling group) coup attempt backed by Greece in July 1974 led to a Turkish intervention that divided the island in two, creating the de facto (existing if not officially recognized) Turkish Republic of Northern Cyprus. The Greek Cypriots took full control of the internationally recognized government of Cyprus while the Turkish Cypriot administration declared independence for its zone in November 1983. "The Turkish Republic of Northern Cyprus" (TRNC), however, has been recognized only by Turkey. The period from 1983 until 2001 has been characterized mainly by international efforts, under the leadership of the United Nations and the United States, to resolve the conflict between the 2 sides and to create a new type of government. The Greek Cypriot position on the issue has been towards a new federal system (with stronger power for the national government) while the Turkish Cypriots prefer a confederate system (with more power-sharing between Greeks and Turks).

The island has different constitutions and sets of governing bodies for each side. The Greek Cypriots are still using the constitution that took effect in 1960 following independence, while the Turkish Cypriots created their own constitution and governing bodies in 1975 following the 1974 break-up. The TNRC adopted a new constitution passed by a referendum (popular vote) in May 1985. Talks to find a peaceful resolution between the 2 Cypriot zones resumed in 1999.

Glafcos Clerides has served as the president of the Republic of Cyprus since February 1993. He serves as both the head of state and the head of government. According to the 1960 constitution, the post of the vice president is reserved for a Turkish Cypriot, but the office has not been filled since the 1974 separation.

The Turkish Republic of Northern Cyprus also elects a president by a popular vote, although he is only recognized as a head of state by Turkey. Rauf R. Denktash has served as president of the TRNC since February 1975. Dervis Eroglu has been the TRNC's de facto prime minister since August 1996, heading the Turkish zone's Council of Ministers (cabinet).

As there are 2 different heads of state and 2 separate sets of governing bodies on the island, political parties for the 2 zones are different. In the Greek Cypriot political system, the following parties have dominated: Democratic Party (DIKO), Democratic Rally (DISY), Ecologists, New Horizons, Restorative Party of the Working People (AKEL or Communist Party), United Democratic Union of Cyprus (EDEK), United Democrats Movement (EDI, formerly Free Democrats Movement or KED). In the Turkish Cypriot area the main parties have been: Communal Liberation Party (TKP), Democratic Party (DP), National Birth Party (UDP), National Unity Party (UBP), Our Party (BP), Patriotic Unity Movement (YBH), Republican Turkish Party (CTP).

Taxes and foreign economic aid provide the main sources of income for both the Greek Cypriot and Turkish Cypriot governments. In both zones, the government plays an important role in the island's economy. The Turkish zone relies heavily on financial aid from Turkey. Until recently, the Republic of Cyprus government has controlled key sectors of the economy by means of semi-governmental organizations such as those that oversee the telecommunications and power industries. The Republic of Cyprus government has been moving toward a more liberal role in the economy. The country's candidacy for EU membership supports efforts to loosen government control over the economy. For instance, the **liberalization** of air transportation in Europe has forced Cyprus Airways, the island's government-owned airline, to become more efficient. The traditional regulations that restricted retailers' hours of operations and limited special sales to certain times of the year have been recently liberalized so that the island's economy can be more competitive and productive.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Cyprus has an efficient power and communications **infrastructure** according to European standards. The state-run enterprises handle most of the island's needs in

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Cyprus	488,162 (1998)	138,000 (1999)	AM 10; FM 71; shortwave 2	366,450	8 (1995)	300,300	6	80,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Turkey	19.5 M (1999)	12.1 M (1999)	AM 16; FM 72; shortwave 6	11.3 M	635 (1995)	20.9 M	22	2 M
Lebanon	700,000 (1999)	580,000 (1999)	AM 20; FM 22; shortwave 4	2.85 M	15 (1995)	1.18 M	22	227,500

Note: Totals are combined for Greek and Turkish Cypriot areas.
[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

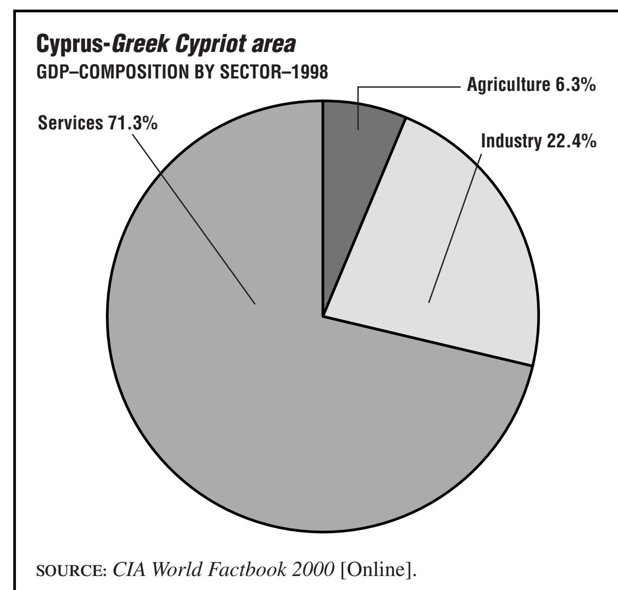
SOURCE: CIA *World Factbook 2001* [Online].

the way of power generation, harbors, airports, and telecommunications. The island does not have a railroad system; instead the country is covered by highways, of which 10,663 kilometers (approximately 6,626 miles) are within the Greek Cypriot zone and 2,350 kilometers (approximately 1,460 miles) within the Turkish zone. Most of these highways are double-lane highways. There is a limited bus system that connects the cities with the inland, and a convenient taxi service. The island also has 12 airports with paved runways (15 total), which benefits the growing tourist industry. Its main harbors are Famagusta, Kyrenia, Larnaca, Limassol, Paphos, and Vasilikos. Despite its small size, Cyprus maintains the sixth largest ship registry in the world with about 2,700 ships and 27 million gross registered tons. Power generation in the Greek Cypriot zone was 2.675 billion kilowatt hours in 1998, all derived from fossil fuels. Power details on the Turkish zone were unavailable.

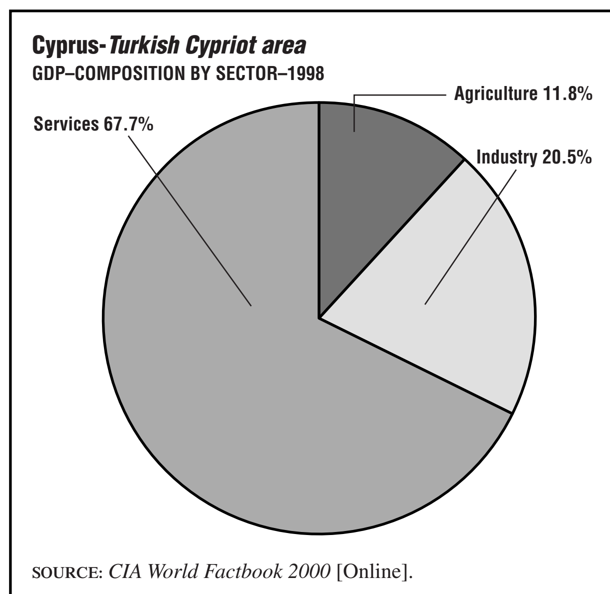
The Cyprus Telecommunications Authority handles the communications services in the Greek Cypriot zone, while another state-run enterprise provides this service in the Turkish zone. The Greek zone has 405,000 main telephone lines and 68,000 mobile lines in use; the Turkish zone has 70,845 and 70,000, respectively. Direct international dialing is also available on the island, and postal and courier services are also efficient. There are 4 main TV broadcasting stations in both the Greek and Turkish zones. As of 1999, the island had 5 Internet service providers.

ECONOMIC SECTORS

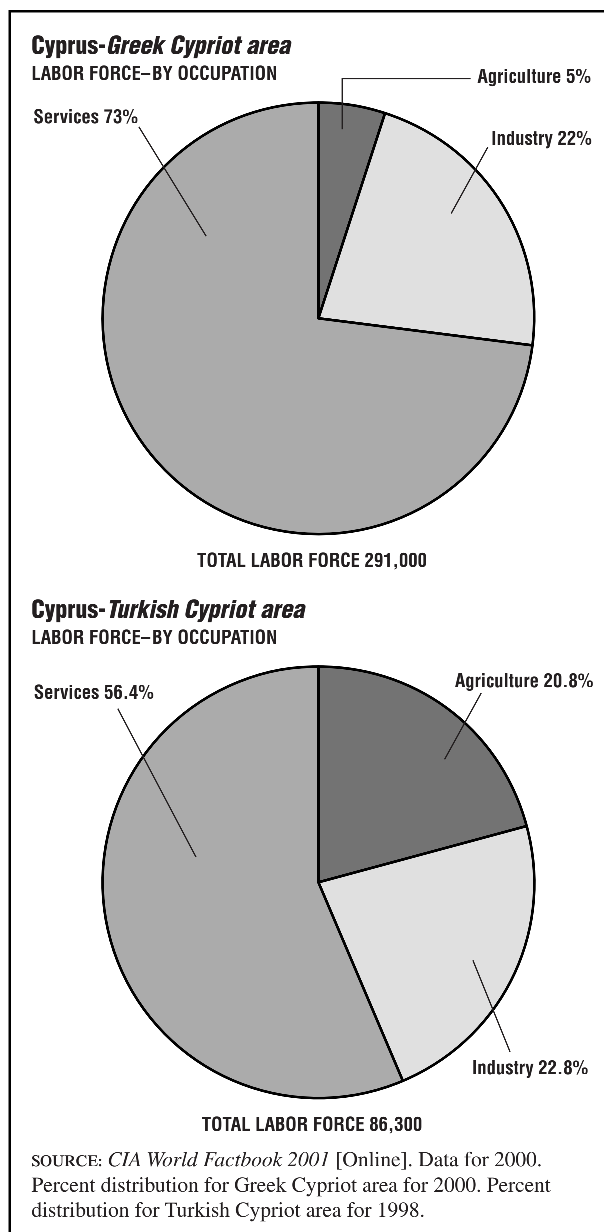
GREEK ZONE: The Greek Cypriots are among the most prosperous people in the Mediterranean region, and the Greek zone has enjoyed a high level of economic development, especially from the tourism industry. The inflation rate was 2.3 percent in 1998 and declined to 1.6 percent in 1999. The unemployment rate remains around 3.6 percent. The Greek zone has an open, free-market, service-based economy with some light manufacturing. Agriculture and natural resources make up only about 6 percent of its economy, according to 1998 figures. The industrial and construction sectors, on the other hand, accounted for nearly 25 percent of economic activity in that year, with most of the production for domestic need. The remainder of the economy is based on tourism and other services. Included in this category are restaurants and hotels, with 21.6 percent of the GDP; and banking, insurance, real estate, and business sectors with 17.5 percent. Transport, communication, government services, and social and personal services make up the remainder.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for Greek Cypriot area for 2000. Percent distribution for Turkish Cypriot area for 1998.

The island receives approximately US$3 billion from service-related exports led by tourism. Compared to only US$1.2 billion from merchandise exports, this is a fairly high proportion in the total economy. The service sector, including tourism, employs about 62 percent of the **labor force**. Consequently, the economy's growth rate is quite vulnerable to swings in tourist arrivals that are in turn affected by economic and political conditions in Cyprus, Western Europe, and the Middle East. According to the U.S. State Department's *Country Background Notes* on Cyprus, the real GDP growth was 9.7 percent in 1992, 1.7 percent in 1993, 6.0 percent in 1994, 6.0 percent in 1995, 1.9 percent in 1996, and 2.3 percent in 1997. Such a volatile pattern shows the effect of tourist arrivals on the overall economy.

Agriculture, on the other hand, employs only 12 percent of the population. Potatoes and citrus are the principal export crops. The island is not self-sufficient in agricultural products and must import other agricultural products for survival. More than 50 percent of Cyprus's trade is with the European Union. Cyprus signed an Association Agreement with the European Union in 1972, which established a Customs Union between the 2 zones. It applied for full EU membership in 1990 and since then the Cyprus pound has been pegged to the euro. The economic agenda in the Republic of Cyprus is geared towards joining the EU.

Trade is vital both to the Greek and Turkish Cypriot economies as the island is not self-sufficient. That explains why both zones have had structural **trade deficits**, which continue to grow. The Republic of Cyprus has a very important ship registry, and currently more than 2,700 ships are registered in Cyprus. As an open registry, it can include foreign ships and vessels. By 2001, more than 43 countries, including the United States, have registered ships with Cyprus. To encourage ship registrations, the Republic of Cyprus has enacted laws that provide incentives to Cypriot ships, including tax exemptions.

TURKISH ZONE: The Turkish Republic of Northern Cyprus does almost all of its trade with Turkey and uses Turkish lira, the currency used in the republic of Turkey, as its legal tender. Assistance from Turkey is the mainstay of this zone's economy, thus making it very vulnerable to shocks coming from Turkey. For instance, the TRNC experiences the same rate of inflation that exists in mainland Turkey. As the value of Turkish lira falls

against other currencies such as the dollar or the euro, so does the purchasing power of Turkish Cypriots against imported goods from the United States or Europe. In 1998, the Turkish zone experienced an inflation rate of 66 percent, which was the same as in Turkey. The unemployment rate in the Turkish zone reached 6.4 percent in 1997, almost double the rate in the Greek zone. According to an economic protocol signed in January 1997, Turkey has undertaken the provision of loans to the TRNC totaling $250 million for public finance, tourism, banking, and **privatization**.

AGRICULTURE

GREEK ZONE: Agriculture accounted for 6 percent of the GDP in 1997, and it employed about 12 percent of the labor force. Agricultural products accounted for 21 percent of total domestic imports in 1997. In 1998 revenue from agricultural products was US$531 million. Citrus fruits and potatoes are the main export commodities, followed by grapes, barley, and vegetables. In 1996 the area under field crops was 93,000 hectares. Vineyards covered 15 percent of this acreage, while permanent orchards accounted for 11 percent, and olive vineyards and nut trees an additional 6.2 percent. Agricultural production is dependent on the island's temperate Mediterranean climate with hot dry summers and cool winters. In terms of value, 56 percent of the 1996 gross harvest was consumed in Cyprus. Although domestic markets are important for agriculture, processing of agricultural products for other uses is becoming more important. Per capita consumption levels of fruits and citrus are exceptionally high in Cyprus, with 55 kg per person for citrus and 146 kg for other fruits.

In Cyprus, farm processing is important, with production of halloumi cheese, raisins, and wine being the most important. Such processed farm products have higher export values than unprocessed food products and are easier to sell abroad, especially since closer integration with the European Union has made more of Cyprus's farm products available to consumers in Europe.

Fishing is an expanding sub-sector of agriculture. Fish farms have been installed on the south coast, and local and tourist fish markets provide a continuous demand. In recent years, the catch from inshore and trawler fisheries has increased, while marine aquaculture (sea fishing) has stagnated. The Cyprus government reported that the Cyprus Fisheries produced more than 3 tons of fish in 1997.

Agriculture in the Greek zone has an uncertain future, because the sector is declining in importance against other sectors like tourism. It is also affected by rainfall fluctuations and by the water-shortage problem on the island as a whole.

TURKISH ZONE: The northern Turkish zone relies more heavily on agriculture than the southern Greek zone. Although only one-third of the island's area is under Turkish control, its agricultural sector accounts for 46 percent of Cyprus's total crop production and 47 percent of its livestock population. Agriculture employs more than 25 percent of the Turkish zone labor force. Its agriculture sector experienced a severe blow in 1995 when the region lost nearly 10 percent of its forests in a major fire. The sector has also been hurt by regulatory difficulties surrounding the export of agricultural products. The European Court of Justice has ruled that agricultural products must have phytosanitary (certifying that plants are disease-free) certificates from the legally recognized authorities of the Republic of Cyprus. As a result, many agricultural products from the Turkish zone must first be exported to Turkey before getting into European markets. Another disadvantage is that the Turkish Cypriots have to accept payments for their exports in Turkish liras instead of **hard currency** such as the dollar or the euro.

INDUSTRY

MINING. Information about mining in the separate zones is not available. Mining has long played an important role in Cyprus's economy. For several thousand years, the island has been an important source of copper ores. It also produces pyrites, asbestos, gypsum, salt, marble, clay, and earth pigment. In the 1950s, minerals accounted for almost 60 percent of all exports and employed more than 6,000 people. After independence in 1960, however, the share of mineral exports had fallen to 34 percent. The 1974 Turkish intervention further disrupted the mining sector. In 1981 its share in total exports fell below 5 percent and by the end of the 1980s to less than 1 percent. The contribution of the sector to the GDP also declined, to 0.5 percent in 1985 and 0.4 percent in 1987 and 1988. Most of the deposits on the southern part of the island are nearly gone today. The asbestos mines were closed in 1988, thus further reducing the share of the mining sector in the economy. By the 1990s, the main mining products were pyrites and copper. The mining of sand and other construction minerals fluctuates with demand. By the late 1990s, 250 quarries were operating in the Republic of Cyprus. Though the mining industry had declined since the Turkish invasion, the Hellenic Copper Mine's 1996 establishment of a mine at Skouriotissa was encouraging.

MANUFACTURING. According to the U.S. State Department's *Background Notes* on Cyprus, manufactured goods accounted for approximately 69 percent of the Greek zone's domestic exports in 1997. Before the partition of the island, most of the manufacturing goods were produced in what is now the Turkish zone by small, owner-operated plants. Most of the production was for

the domestic market. After 1974, the industries were reoriented for export, and large factories were built in the southern Greek-controlled zone. Output grew rapidly there through the 1980s. The manufacturing sector's contribution to the economy of the Greek zone declined from 17.3 percent in 1983 to 10.9 percent in 1999. During the same period, the total employment in the manufacturing sector has also declined, from 21 percent of the overall labor force to around 13 percent. The heavy industries include petroleum refining and cement while the light industries include clothing, footwear, and machinery and transport equipment. High **tariffs** put on imports to protect domestic manufacturing industries were lifted under the membership agreement with the European Union. This fact, plus the rise of tourism and the service economy, has hurt the competitiveness of the manufacturing sector in the Greek zone. In 2000, the Republic of Cyprus was actively trying to attract high-technology businesses to the country.

In the Turkish zone, industry in 1998 accounted for about 11.8 percent of the GDP and 55.4 percent of the total employment in its region, according to the *World Factbook 2000*. Manufacturing is almost entirely based on light industry, with textiles and clothing being the most important products. The only example of heavy industry is a cement factory at Boghaz. In the late 1980s, clothing accounted for over 30 percent of all exports in the Turkish region, exceeded only by citrus exports. In 1989, for the first time, manufacturing surpassed agriculture's contribution to the GDP and has grown since then. However, compared to the situation in the Greek zone, the Turkish-zone manufacturing sector is small.

SERVICES

TOURISM. Tourism is very important to the functioning of the Cypriot economy both in the south and the north. Revenue from tourism contributed approximately US$1.7 billion to the economy of the Greek zone in 1998. The reduced airfares resulting from the liberalization of the airline industry in Europe helped make Cyprus a major tourist destination during the 1970s. The tourist industry on the island was hurt during that decade because of the ongoing disputes between the Turkish and Greek populations, but since the 1980s, it has grown dramatically, especially in the Greek zone. By 2001, Cyprus, especially the southern side, had become a popular holiday spot for many Europeans. Offering natural beaches, warm climate, and unspoiled nature, the island attracts many vacationers from nearby countries. The Greek zone is also more easily accessible via its international airports and cruise-ship ports.

Tourism in the Turkish zone is hampered by legitimacy problems. Since the TRNC is not recognized as an independent and sovereign state by any other nation except Turkey, it does not have consular offices (official offices to represent a country's commercial interests abroad) in other countries where visitors or tourism agencies can easily arrange travel. There are few international flights to the Turkish zone. The TRNC's official airline, Cyprus Turkish Airlines (KHTY), circumvents such problems by making brief stops on the Turkish mainland prior to its final destination in Turkish Cyprus. Tourists from Turkey make up more than 80 percent of all tourists coming to the Turkish zone. Despite these limitations, tourism continues to be the driving force behind the TRNC's economy. In 1999, earnings from tourism were estimated at around US$405 million, equivalent to 43 percent of the region's GDP. Since gambling is permitted, the TRNC serves as an important holiday destination for tourists coming from Turkey, where casinos are banned. The Turkish zone is also a popular shopping destination for mainland Turks who take advantage of the region's lower taxes.

Both the Greek and Turkish zones have a good tourism infrastructure with sufficient, quality lodging and other facilities. As of 1998, the Greek zone had a capacity of 86,151 beds, according to the Cyprus Statistical Service. In 1999, 2.4 million foreign tourists arrived in the southern zone. U.S. State Department surveys forecast even higher revenues from tourism in coming years, though the political dispute between the 2 sides on the island remains a potential barrier.

FINANCIAL SERVICES. According to the U.S. State Department's *Country Commercial Guide* on Cyprus, finance, insurance, real estate, and business services recorded gains recently (from 16.6 percent of GDP in 1992 to 19.8 percent in 1998).

The banking system in Cyprus consists of the Central Bank of Cyprus and 9 local commercial banks, as well as several specialized financial institutions, leasing companies, and co-operatives. There is also an established foreign banking community, which includes 30 international banking units. Commercial banking arrangements and practices follow the British system. In 1996, the Central Bank of Cyprus achieved substantial progress in its campaign to liberalize and reform Cyprus's financial sector. **Monetary policy** is now conducted through the use of market-based instruments. Repurchase transactions between the Central Bank and financial institutions are the main tool of **liquidity** management, and the use of the minimum liquidity requirement has been abandoned. The new procedures are fully in line with EU practices.

In the Greek zone, a law that came into effect on 1 January 2001 abolished the 9 percent ceiling on interest rates that had existed since 1944, enabling depositors to receive higher returns on their savings. In addition, previous restrictions on Cypriots' ability to own foreign

currency and make overseas investments are being loosened as part of a 3-stage plan to harmonize the country's financial industry with EU standards. The Greek zone is now an open country for foreign investment, whereas prior to 1997 there were restrictions on the participation of foreigners in Cypriot firms. In preparation for EU membership, all foreign-investment restrictions for EU investors have been abolished since January 2000. Foreigners can own up to 100 percent of companies in the manufacturing and services sectors and up to 49 percent of businesses in the agriculture, media, press, and travel sectors. Cyprus also has a stock exchange, where foreigners are permitted to own up to 49 percent of publicly traded companies. Foreign investment makes the economy stronger by bringing new capital and technologies to existing industries, helping to modernize them, and creating jobs.

Businesses in the Turkish zone cannot attract foreign investment because of the legitimacy problem mentioned earlier.

INTERNATIONAL TRADE

GREEK ZONE: In 1998 the Greek zone recorded a **balance of payments** deficit of US$342.8 million compared to a deficit of US$229.9 million in 1997. The trade deficit reached a record of US$2.5 billion in 1998, due in part to a decline in tourism revenues in 1996 and 1997. Also, the volume of imports did not decrease as much as the decline in the country's export revenues, helping to make the deficit even higher.

Middle Eastern countries receive 20 percent of exports from Cyprus. Cyprus **re-exports** cigarettes from the United States to 2 major markets for tobacco products: Russia and Bulgaria. The economic crisis in these countries has hurt consumer purchasing power, thus lowering Cyprus's revenues from these exports.

The amount of total imports increased in 1998 to a total of US$3.5 billion. Most of these imports were **intermediate goods** and **capital goods**. While Cyprus faced difficulty in selling its products or re-selling U.S. products abroad, it bought more from abroad, making its trade deficit higher. Cyprus must import fuels, most raw materials, heavy machinery, and transportation equipment. More than 50 percent of the country's trade is with the European Union, especially with England.

Cyprus has recently attempted to liberalize its trade policies by eliminating import quotas and licenses. It has also lowered tariffs on most products as a result of its obligations to the EU for the Customs Union Agreement. The country's entry into the Customs Union with the EU has also made trade conditions more competitive (restrictive) for U.S. exporters doing business in Cyprus.

Trade (expressed in billions of US$): Cyprus

	Exports	Imports
1975	.150	.308
1980	.532	1.202
1985	.476	1.247
1990	.957	2.568
1995	1.229	3.694
1998	1.061	3.685

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

However, according to the U.S. State Department's analysis, the United States has a competitive edge over its European allies in the sales of computer-assisted design systems, medical equipment, environmental products, and new capital equipment for production of textiles, clothing, and footwear. Compared to those of European origin, U.S. software products are in higher demand in Cyprus. U.S. pressure resulted in new copyright (1994) and patent (1998) laws that helped protect U.S. software products, thus increasing the sales of those products.

TURKISH ZONE: The TNRC does most of its trade with Turkey (around 47 percent in 1998), followed by England (slightly more than 25 percent) and other EU countries (15 percent). The Turkish zone's trading account continues to be in deficit, but is offset by earnings from tourism and development programs, which come largely from Turkey, and also from income by United Nations personnel stationed in the zone.

MONEY

GREEK ZONE: The Cyprus pound is printed and circulated through the Central Bank of Cyprus, which aims to keep it stable in relation to the euro. Cyprus does most of its trade with the European Union. As a result, the Cyprus pound has been linked to the European Monetary Union system of currencies (EMU). As of 1 January 1999, the Cyprus pound has been linked to the euro.

TURKISH ZONE: Following the 1974 separation, the Turkish Cypriot zone adopted the Turkish lira as the legal tender, but the Cyprus pound was used until 1983. The Cyprus pound is now considered a foreign currency in this region and is subject to foreign exchange regulations. Still, the Cyprus pound is used by businesses, along with the British pound and the U.S. dollar in the Turkish zone to assess export and import prices or in trading. There is also a central bank in the Turkish zone, but its functions and powers are limited. Since the Turkish lira is the legal tender and is printed in mainland Turkey, the central bank can neither print money nor decide on mon-

Exchange rates: Cyprus

	Cypriot pounds per US$1	Turkish liras per US$
Jan 2001	0.6146	N/A
2000	0.6208	625,219
1999	0.5423	418,783
1998	0.5170	260,724
1997	0.5135	151,865
1996	0.4663	81,405

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Cyprus	3,619	6,334	7,818	10,405	12,857
United States	19,364	21,529	23,200	25,363	29,683
Turkey	1,898	1,959	2,197	2,589	3,167
Lebanon	N/A	N/A	N/A	1,721	2,999

Note: Totals are combined for Greek and Turkish Cypriot areas.

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

etary policy. It receives daily **exchange rates** from Turkey and passes them on to commercial banks operating in the northern zone, but it has no control over the interest rates. Since it has such strong links to Turkey, the economy in the TNRC is affected by the same high inflation as in mainland Turkey, where the consumer-price inflation rate was 99.1 percent in 1997 and 69.7 percent in 1998. The economy of the Turkish zone also suffered in 1994 when Turkey experienced a severe economic crisis and devalued its currency. To compensate for these problems, Turkey has long provided direct and indirect aid to nearly every sector. Today, financial support from mainland Turkey accounts for about one-third of the zone's total GDP.

POVERTY AND WEALTH

The people of the Greek zone are among the most affluent in the world. According to the World Bank's Development Report, Cyprus is ranked 16th in terms of per capita income adjusted for purchasing power. In 1988 per capita income was US$15,500, according to the CIA *World Factbook*.

The Republic of Cyprus reported that 97 percent of the houses in Cyprus are in good or average condition and that 69 percent of those houses have facilities like electricity and plumbing. No information is available regarding the percentage of the population below the poverty line. A May 2000 editorial in the *Sunday Mail*, a Greek Cypriot newspaper, estimated that 70,000 people in the Greek zone (about 10 percent of the population) live below the poverty line and receive welfare from the government. When the Turkish invasion of 1974 displaced about 25,000 people, the Republic of Cyprus responded with policies to provide housing to low and middle-income people. By 1995, the government reported that 14,000 housing units had been constructed, including schools, shopping centers, and playgrounds, and that 12,000 people had taken advantage of **subsidies** available to build their own homes.

In the Turkish zone, the per capita income decreased to around US$5,000. The Republic of Cyprus estimated that nearly one-third of the Turkish Cypriots have **emigrated** since 1974. Turkish nationals began moving to Cyprus in 1974 and by 1995 outnumbered Turkish Cypriots. In addition to the Turkish nationals, the TRNC maintains 35,000 Turkish military personnel who guard the area.

WORKING CONDITIONS

GREEK ZONE: The Republic of Cyprus had a 3.3 percent unemployment rate in 1999 and a workforce of about 314,000 people. Workers are protected by laws regulating their health and safety on the job. In addition to legislation, trade unions also play an important role in workers' lives. The initial attempt to form trade unions in Cyprus took place in 1915, when the country was under British rule, but the first of them, the Nicosia Footwear Union, was not recognized until 1932, a year after it was established. After labor unrest in 1944, Cyprus adopted a cost-of-living allowance (COLA) for its workers. The 8-hour workday was accepted only after independence.

TURKISH ZONE: The Turkish zone labor force was estimated at 80,200 people in 1998, and the unemployment rate was 6.4 percent. Almost one-third of the labor force in the Turkish zone is unionized. Minimum wages are untaxed and are fixed annually by law according to inflation indexing, the so-called "cost of living allowance" (COLA) standard.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1500–1450 B.C. First traces of settlement on Cyprus. Some evidence suggests that the settlers were related to the peoples of Asia Minor (present-day Turkey).

1450–1000 B.C. Beginning of the Egyptian domination of the island.

1200–1000 B.C. Establishment of the city-states of Salamis, Soli, Marion, Paphos, Kurium, and Kyrenna; arrival of Greek colonists.

850–750 B.C. Phoenicians settle in several areas and share political control with the Greeks.

750–612 B.C. Period of Assyrian rule. The Assyrian king Sargon II conquers the 7 independent kingdoms on the island.

568–525 B.C. Period of Egyptian rule.

525–333 B.C. Period of Persian rule.

333–58 B.C. Period of Hellenistic rule by the heirs of the Alexander the Great.

58 B.C.-395 A.D. Period of Roman Empire rule.

395–1191. Period of Byzantine Empire rule.

1191–1192. Briefly ruled by Richard the Lionheart of England.

1192–1489. Period of Lusignan rule. Tensions between the Greek Orthodox Church and the Roman Catholic Church increase. The Cypriots remain loyal to their Orthodox heritage and by the middle of the 14th century the Latin clergy become less determined to convert the islanders.

1489–1570. Island is dominated by the Italian city-state of Venice.

1571–1878. Period of Ottoman Empire rule. The Ottomans grant land to Turkish soldiers and peasants who then become the nucleus of the island's Turkish community.

1878–1914. Cyprus is administered by Great Britain according to an agreement with the Ottoman Empire.

1914. Cyprus is annexed by Great Britain at the start of World War I.

1925. Cyprus becomes a British Crown colony.

1960. Foundation of the Independent Republic of Cyprus.

1963. Inter-communal strife in Cyprus between Greek and Turkish sectors leads to establishment of United Nations peacekeeping mission.

1974. Greek army officers stage coup d'état and overthrow President Makarios with the aim of uniting the island with Greece. Turkey intervenes and lands its forces on the northern part of the island, where they have remained ever since. The island is divided into a Turkish Cypriot northern zone and a Greek Cypriot southern zone.

1983. Turkish Cypriots proclaim the Turkish Republic of Northern Cyprus (TRNC). Rauf Denktash is elected the president.

1987. The Republic of Cyprus signs a new association agreement with the European Union establishing a full customs union by 2002.

1996. Greece lifts its veto on Turkey's customs union with the European Union in exchange for a date for the commencement of negotiations to allow for Cyprus's membership.

1998. EU accession talks begin.

FUTURE TRENDS

Cyprus entered the 21st century as a separated island of 2 nations and 2 religions. The division between the two will be the main focus of debate and discussion in the international arena in the years to come. The division between the 2 economies also affects the level of development of the nation. The Greek zone (Republic of Cyprus) enjoys the benefits of international recognition and has attained high levels of development and per capita income, but the Turkish zone (TRNC) has suffered economically and politically from the international **embargo**.

Cyprus's application for full EU membership is also a critical step that will have further consequences for the island's political economy and development. It is unclear whether the Turkish Cypriots will abandon their claims for a confederation in favor of the Greek Cypriot proposal of a federated state. Although TRNC president Denktash has called for further integration with mainland Turkey, which would mean the annexation of the island's Turkish zone into the homeland, the likelihood of this scenario is still unclear. EU officials project that Cyprus will be a full member of the European Union by 2010.

As the Republic of Cyprus prepares for full EU membership, it will continue to harmonize its economy and institutional framework with EU standards. As indicated by the World Trade Organization (WTO) in its 1997 policy review, financial openness is one of the cornerstones of policy reform for Cyprus. The WTO also notes the growing importance of the nation's services sector. This sector accounts for roughly 70 percent of the country's foreign exchange receipts as well as its GDP. Although the economy of the Greek zone is a prosperous one, the fact that the country suffers from a structural deficit and that it must rely on imports is not likely to change, even after a possible EU membership.

DEPENDENCIES

Cyprus has no territories or colonies.

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—Emre Ozsoz

FIJI

Republic of Fiji

CAPITAL: Suva.

MONETARY UNIT: Fijian dollar (F$). One Fijian dollar equals 100 cents. Coins are in amounts of 1, 2, 5, 10, 20, and 50 cents. Notes come in denominations of F$1, 2, 5, 10, and 20.

CHIEF EXPORTS: Sugar, garments, gold, timber, silver, fish.

CHIEF IMPORTS: Machinery and transport equipment, petroleum products, food, chemicals.

GROSS DOMESTIC PRODUCT: US$5.9 billion (purchasing power parity, 1999 est.).

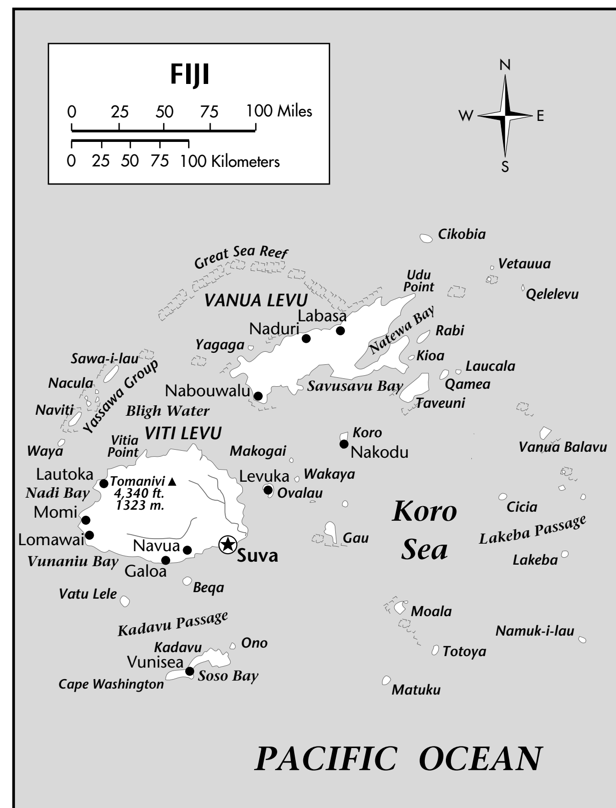
BALANCE OF TRADE: **Exports:** US$537.7 million (f.o.b., 1999). **Imports:** US$653 million (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Fiji is a Melanesian island group located in the South Pacific at 175 degrees east longitude and 18 degrees south latitude. The islands are about 1,770 kilometers (1,100 miles) north of New Zealand. The group comprises 332 volcanic islands scattered in a horseshoe across an area of ocean some 595 kilometers (370 miles) across. Fiji has a total land area of 18,270 square kilometers (7,054 square miles), of which 87 percent is made up by its 2 largest islands, Vanua Levu and Viti Levu. Comparable in size to New Jersey, with a coastline of 1,129 kilometers (702 miles), Fiji has more land mass and people than all the other Melanesian islands put together. The capital of Fiji is Suva (pop. 77,366), on the southeast shore of the island of Viti Levu. The country's highest point, also on Viti Levu, is Mt. Victoria (Tomanivi) at 1,324 meters (4,344 feet).

POPULATION. Fiji's population was estimated in 2000 at 832,494, up from 775,077 in 1996, and 715,375 in 1986. If its annual growth rate of 1.41 percent continues, Fiji's population will have passed the million mark by 2014. Relatively high standards of health care have given Fijians a life expectancy at birth of 67.94 years, with an infant mortality rate of 14.45 per 1,000. The population remains young, with a median age of 21; about 34 percent of the population is clustered between the ages of 5 and 20.

Only a third of Fiji's 332 islands are inhabited, and three-quarters of Fijians live on Viti Levu, the largest of them. In 1996 53.6 percent of the population lived in rural areas and 46.4 percent in cities. Of the latter group, 46.7 percent, or a little less than a quarter of the total population, live in the greater Suva district. The other



main urban center is Lautoka (pop. 36,083), on the northwest shore of the island of Viti Levu.

Fiji's ethnic composition is largely split between indigenous Melanesian Fijians, who constitute a narrow majority (51 percent), and those of Indian descent (44 percent); the remaining 5 percent is comprised of Europeans, Chinese, and other Melanesians. Fiji's religious situation reflects this division: 52 percent are Christian (including 37 percent Methodist and 9 percent Roman Catholic), 38 percent Hindu, and 8 percent Muslim. The proportion of Fijian Indians in the population has been decreasing since 1987, when army forces allied with indigenous Fijians staged a coup against the Fijian Indian-led government. (Fijian Indians are primarily the descendents of Indian indentured laborers brought to Fiji by British colonizers between 1879 and 1916.) As recently as the 1986 census, Fijian Indians made up a slight majority in population, with 48.7 percent as compared to 46 percent for the indigenous Fijians. But a slightly higher indigenous birthrate—27.3 per 1,000, compared to 17.2 for the Fijian Indian population—and heavy rates of Indian out-migration (the large-scale departure of persons from one region to another) have changed the population balance. The out-migration rate for 2000 is estimated at 3.6 per 1,000 per year, with most people moving to the United States, Australia, and New Zealand. Ongoing interethnic disputes threaten to further change population distribution.

OVERVIEW OF ECONOMY

As the largest and most resource-rich nation in the central South Pacific, Fiji also enjoys the region's largest and most developed economy. Still, its reliance on a single resource—sugar—makes it economically vulnerable, exposed both to an unpredictable tropical climate and an unstable world market. Attempts to expand and diversify the economy are being seriously undercut by Fiji's ethnic tensions and ongoing political uncertainty.

Since its introduction by Fiji's British colonizers in the 1870s, sugar production has been the mainstay of the Fijian economy. While the country has had some significant success in developing supplementary industries in mining, fishery, timber, clothing, and especially tourism, sugar continues to account for nearly a quarter of its export earnings. The industry's fragility was painfully demonstrated in late 1998 when an unusually severe drought, followed by widespread cyclonic flooding, saw sugar exports drop by almost 30 percent and earnings by more than US$100 million. Similarly, upsets in the world sugar cane price can be sudden and sharp. If pressure from the World Trade Organization (WTO) erodes the special, fixed prices (well above world market levels) that Fijian sugar enjoys in the European sugar market, the industry will face even further strain.

Recent ethnic strife between indigenous Fijians and the nation's East Indian population continues to threaten the stability of the nation's government. From 1879 to 1916, Britain imported tens of thousands of contract laborers from India to work on the sugar plantations, and their descendants remain an ethnically and culturally distinct community. In 1987 hostility erupted during the first of a series of coups designed to preserve and formalize indigenous Fijian political power. Subsequent efforts at reconciliation have failed to achieve a workable solution. In early 2000 there was a fresh outbreak of violence and rioting against Indian businesses, and Fiji's government buildings were seized by armed indigenous dissidents. Such unrest has had a devastating effect on Fiji's economy, paralyzing its tourist industry, and frightening away much of the foreign investment the country needs to develop its **infrastructure** and expand its economic base. The Reserve Bank of Fiji, its central bank, forecast an economic contraction of 8 percent in 2000 (down from its original estimates of 13–15 percent, however). Growth since 1987 has averaged less than 2 percent—well below half that of the average for developing nations.

Ethnic tensions also have a direct impact on the sugar industry. Indian planters control some 90 percent of Fiji's commercial sugar cane production, but 80 percent of plantations are on land leased from indigenous Fijian property owners. Given the country's volatile ethnic politics, it is expected that many of these 18,000 leases will be ceded to indigenous growers, thus threatening widespread displacement of Fijian Indian farmers. This is a problem for which the government has not yet found an adequate solution.

POLITICS, GOVERNMENT, AND TAXATION

Annexed as a colony of the British Empire on 10 October 1874, Fiji gained its independence exactly 96 years later, on 10 October 1970. For the next 17 years Fiji remained a British-style parliamentary democracy within the British Commonwealth.

In April 1987, the Alliance Party (AP), which had ruled Fiji since independence, was defeated at the polls by a coalition headed by the Fijian Labor Party (FLP) and the National Federation Party (NFP). The defeat represented a momentous shift in Fijian politics by introducing for the first time a substantial Fijian Indian presence in the government (although the coalition's leader and new prime minister was an indigenous Fijian, Dr. Timoci Bavadra). The new coalition moved power away from Fiji's traditional rural oligarchy and towards its long under-represented urban small-business and working

class. Seeing its position threatened, the old order turned to racial politics, and the eruption of ethnic tension that resulted provided the pretext for a coup a month later led by Lieutenant-Colonel Sitiveni Rabuka. Four months later, fearing foreign intervention, Fiji's parliamentary leaders brokered a power-sharing accord between the AP and FLP-NFP coalition. But the newly promoted Brigadier Rabuka, feeling the accord had sacrificed the coup's central aim of securing indigenous domination, staged a second coup that revoked Fiji's 1970 constitution and declared the country a republic.

Two months later civilian government was restored, though it excluded the FLP-NFP, and a new constitution was drafted. In the first election under the new constitution in May 1992, a coalition led by now-Major General Rabuka won office, and he became prime minister. A series of crises over budgetary matters forced an early election in February 1994. Although Rabuka survived, dissatisfaction mounted at his government's failure to address the country's political divisions and its economic crises. Heavy out-migration by Fijian Indians resulted in a crippling flight of capital and expertise.

In June 1997 a new and more equitable constitution was adopted. In the first election under it in May 1999, the Rabuka government was overwhelmingly defeated, and a new FLP-led coalition took office under Fijian Indian prime minister Mahendra Chaudhry. While Chaudhry won the election on a promise of better economic management, his victory also re-kindled fears of a Fijian Indian "takeover." Protests by indigenous groups led to widespread civil violence and rioting against Fijian Indian businesses, culminating on 19 May 2000 with the seizure of the government buildings by armed extremists. After holding the cabinet at gunpoint in a 2-month long hostage drama, the extremists managed to have the president and new government dismissed by the military on July 5. Although the military subsequently restored the civilian government on July 18, and discussed the drafting of a new constitution, Fiji's political stability and international credibility remain grievously damaged. Prime Minister Laisenia Qarase was given a second title—Minister for National Reconciliation—to highlight the job that lay ahead of him in the coming years.

Fiji's revenue base is taxation. In 1998, according to the Fiji Islands Statistics Bureau, 58.4 percent of its revenue (US$251.7 million) came from **income tax**, estate and gift **duties**, and 27.0 percent (US$116.1 million) from customs duties and port dues. Its revenue shortfall for that year was US$917.8 million. Quarterly indicators from 2000 suggest that the imbalance is likely to worsen. Economic reforms by the government in 1992 designed to stimulate business saw the top individual and corporate tax rate drop to 35 percent, and a new 10 percent **value-added tax** (VAT) was introduced on goods and services, replacing previous sales and **excise taxes**. Attempts by the government to re-ignite the economy after the 2000 coup have followed a similar tack: the 10 percent VAT (removed by the previous coalition) was reinstated, and the corporate tax rate was reduced to 34 percent, with similar cuts scheduled for 2002 and 2003. With these measures, government revenues will be reduced and lower-income families will have to shoulder a proportionally larger tax burden.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Fiji has a fairly well-developed infrastructure, with a reasonably comprehensive system of bridges and highways. The islands have 2,137 miles (3,438 kilometers) of roadway, nearly half of which is paved, and 371 miles (597 kilometers) of rail lines. In 1998 Fijians registered 2,265

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Fiji	72,000	5,200	AM 13; FM 40; shortwave 0	500,000	N/A	21,000	2	7,500
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

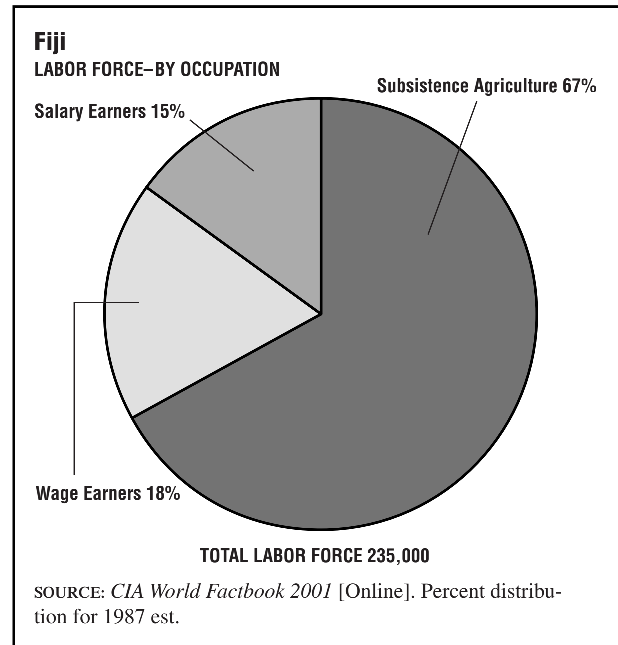
[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

new motor vehicles, 1,424 being private cars. The country also has 5 commercial ports and 25 airports, 3 with paved runways. An international airport, the hub for most trans-Pacific air traffic, is located in Nandi, outside Suva.

Telecommunication systems are also expanding, with full inter-island and international telephone and teleprinter connections, cable links, and satellite access. In 1997 Fiji had 71,403 subscriber telephone lines, or about 1 for every 10 Fijians. A Fijian-British **joint venture** has attracted the investment of US$7.1 million in a cellular telephone network. As of 1998, there were 4,300 cellular phones in the country. The government intends to further its **deregulation** of telecommunications by **privatizing** all or part of Telecom Fiji and opening the market to new Internet service providers (ISP). As of 1999, there were 2 ISPs in Fiji.

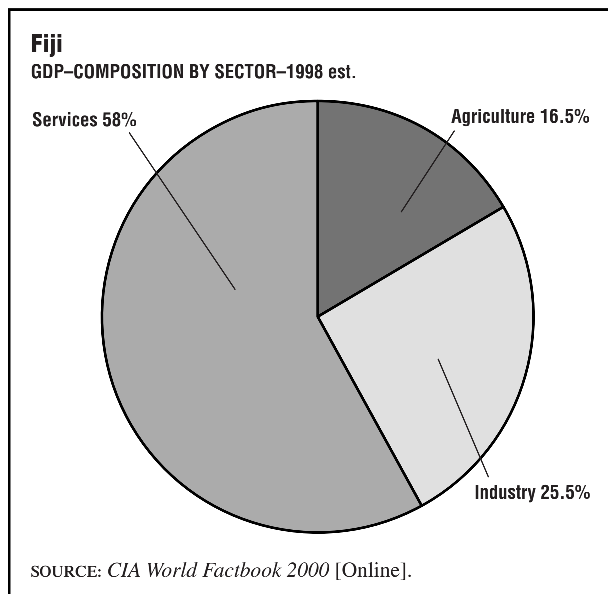
Fiji's mountainous terrain is favorable to the development of hydroelectric generation, which supplies 80 percent of its electricity; the remaining 20 percent is produced from imported fossil fuels.



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1987 est.

ECONOMIC SECTORS

Despite government attempts to diversify the economy, the relative profile of Fiji's different economic sectors has changed little since 1992. Agriculture is still dominant and, along with forestry and fishing, accounted for 16.5 percent of **gross domestic product** (GDP) in 1999. But the manufacturing sector, especially the garment industry, and the **retail** and service sector, especially those businesses related to tourism, are also vitally important. Industry and services contribute 25.5 percent and 58 percent of GDP, respectively. The government has actively encouraged both the manufacturing and tourism sectors in an attempt to broaden the country's economic base, increase foreign exchange receipts, and expand the number of wage and salary earners. Fiji's political strife, however, has seriously undermined the effectiveness of these attempts.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agriculture continues to be the bedrock of the Fijian economy, accounting in 1999 for some 16 percent of its GDP and two-thirds of its 310,000-strong workforce. Sugar, the most important agricultural product, generated almost 30 percent of Fiji's agricultural GDP in 1998, and 15 percent (through sugar processing) of its manufacturing GDP. The 364,000 tons of sugar that Fiji produced that year earned the country some US$122.9 million. The commercial future of this industry depends on the resolution of the property system that has been in place since 1909, when the British colonial government froze landownership titles in an attempt to protect indigenous (Fijian) property owners. As a result, only 8 percent of a total of 607,982 acres (1,519,956 hectares) is freehold (privately-owned); the remainder is either tribal- (83 percent) or government-owned (8 percent) land. As of 1993, only 9.9 percent of that total acreage was arable, with most of it in tribal hands or leased to Fijian Indian farmers, who produce 90 percent of Fiji's sugar-cane. As these leases expire and the land is returned to indigenous growers, major disruptions in sugar-cane production can be expected.

With 64.9 percent of Fiji's land area being forest and woodland, timber is also economically important, especially pine and mahogany. Attempts since the mid-1980s

to bolster the industry, and offset Fiji's dependence on sugar, have encouraged significant strides in timber production. In 1999 timber provided US$27.6 million in export revenue, a 45 percent increase over 1994 levels.

The fishing industry, especially tuna harvesting, also shows significant promise. Fiji controls a 200-nautical mile (370.4-kilometer) economic exclusion zone around its shoreline. In 1998 fishing brought Fiji US$24.9 million in overseas earnings, and tuna is Fiji's fourth largest export earner.

Fiji also exports copra (dried coconut meat), ginger, and coconut oil, as well as bananas, rice (a product for which Fiji is aiming at self-sufficiency), cereals and vegetables, pineapples and other tropical fruit. Copra, in particular, has benefitted from the removal in 1998 of the ban on its export; since the licensing of a second copra-buying company, prices for producers have increased considerably. The discovery of kava's (a shrubby pepper) medicinal qualities and its potential as a pharmaceutical ingredient have also fueled the growth of a small but promising export industry.

INDUSTRY

MINING. Although Fiji lacks a heavy industrial base, it has made significant progress in mining and manufacturing. Mining and quarrying account for around 2.7 percent of Fiji's total GDP (1999). Most of this revenue is generated by gold, which in 1998 made up 6.9 percent (US$35 million) of Fiji's foreign exports. Although production capacity has increased, the low price of gold has depressed earnings. The dip in prices saw growth in production tumble from 30.9 percent in 1996 to 2.9 percent in 1997. In 1998 mining in 2 gold mines was suspended and further exploration discontinued. Fiji's uncertain political climate has also made it difficult to attract the foreign financing it needs to sustain the industry. In September 2000 the government was forced to issue tax concessions worth nearly US$2 million to rescue one its largest mining companies and preserve its 2,000 jobs. Fiji also produces silver and copper. When the copper mining venture launched at Namosi in 1997 hits full production, earnings of as much as US$178 million per annum are possible.

MANUFACTURING. Responsible for 14.5 percent of GDP in 1999, this sector is one of Fiji's diversification success stories. Whereas it once comprised largely the processing of agricultural products, especially sugar and timber, the introduction in 1987 of tax exemptions for factories exporting more than 70 percent of their annual production has seen the rapid emergence of a vibrant garment industry. Since 1986 the volume of garment production has grown twelve-fold, and in 1998 it provided 30 percent of Fijian exports, valued at US$152.4 million. However, the Australian government's refusal in September 2000 to renew its highly favorable **tariff** concessions for Fijian imports (a reaction to the coup) has clouded the future of this industry.

SERVICES

TOURISM. Fiji's beaches, climate, and relative proximity to Australia and New Zealand have helped tourism become one its most important revenue earners; in 1997 hotels, restaurants, and cafés made up 3 percent of GDP, accounting for 40,000 jobs. But tourism has been one of the biggest casualties of Fiji's political upheavals. In 1999, according to the Fiji Islands Statistics Bureau, 409,995 tourists visited Fiji, bringing with them US$274 million in foreign exchange. This represented an increase over the previous year of 38,000 visitors and US$30 million, a growth rate that showed every sign of continuing. But after the 2000 coup, visitor numbers dropped drastically, forcing some of Fiji's biggest resorts to close. Despite an energetic campaign by the industry to restore visitor confidence, and government tax incentives for investors, this sector has not recovered.

FINANCIAL SERVICES. Fiji's commercial banking sector is served by 6 banks, including the Bank of Hawaii and several other merchant banking providers and insurance companies, as well as the Fiji National Provident Fund (NPF, Fiji's national pension scheme), and Fiji Development Bank. The government-owned banking sector, on the other hand, is less stable. Mismanagement of the National Bank of Fiji led to its near-collapse in the mid-1990s and forced the government in 1997 into a US$105 million bailout. The relationship between government and commercial banking sectors has yet to be properly defined. As part of its economic stimulation program, the Fijian government is working to strengthen the financial system by expanding the Fijian Stock Exchange, decentralizing the NPF, and allowing greater investment flexibility for insurance companies.

RETAIL. With more than half of Fiji's population living in rural areas, and a large proportion of these outside the wage and salary economy, Fiji's retail sector is understandably small. Fiji's isolation makes imported goods expensive, further inhibiting its consumer culture, and leaving most retailing at the level of basic foods, clothing, and essential merchandise. The capital, Suva, has a variety of stores, including specialty stores that cater to tourists. The larger retail sector, taking into account wholesale suppliers, hotels, and restaurants, accounted for 15.2 percent of Fijian GDP in 1999.

INTERNATIONAL TRADE

With Fiji's own limited resources and industrial base, the country relies on imports for many of its basic

Trade (expressed in billions of US$): Fiji

	Exports	Imports
1975	.202	.268
1980	.470	.562
1985	.307	.442
1990	.615	.743
1995	.607	.864
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Fiji

Fijian dollars (F$) per US$1	
Jan 2001	2.1814
2000	2.1286
1999	1.9696
1998	1.9868
1997	1.4437
1996	1.4033

SOURCE: CIA *World Factbook 2001* [ONLINE].

goods, making international trade essential. As Fiji's political woes have worsened, however, its **balance of trade** has become less favorable. In 1999 Fiji ran a US$115.6 million trade deficit, or about 7.37 percent of GDP. In 1998 it had exports of $393 million and imports of $612 million. While the post-coup **devaluation** of the Fijian dollar will help Fijian exporters, it will also make Fiji's imports more expensive.

Fiji's main trading partners are its Commonwealth neighbors (Australia, New Zealand, other Pacific islands) and old and new regional powers (United Kingdom, United States). The chief importer of Fijian wares is Australia, which in 1999 bought 33.1 percent of all Fijian exports. Other important partners include the United States (14.8 percent of exports) and the United Kingdom (13.8 percent). Penetration into Asia has been limited and variable, and only significant with Japan and Singapore. Fiji's imports come primarily from Australia, whose dominance in the Fijian market (41.9 percent) continues to rise. Other suppliers include the United States (14.1 percent of imports) and New Zealand (13.3 percent). The main imports are manufactured goods (27.3 percent), machinery and transport equipment (26.3 percent), food (14.4 percent), and mineral fuels (11.1 percent).

MONEY

Since 1995 the Fijian dollar has been in steady decline. During the Asian financial crisis of the late 1990s, the government announced a 20 percent devaluation in 1997, when it was valued at around US$0.69. Further depreciation followed, accelerated by the 2000 coup. In 2001 the dollar stood at around US$0.44. **Fiscal policy** is now focused on controlling the deficit and reducing Fiji's large **national debt**, both of which are long-standing problems made worse by the costs of political crisis. A target deficit of 1.9 percent of GDP in the 1999 budget was found to be unattainable; 2000–01 targets stood at 4 percent, the equivalent of a debt level of around 45 percent of GDP.

POVERTY AND WEALTH

Fiji's traditional tribal structure creates wide status differentials, and there are wide gaps between the income levels of rich and poor. Although much of the land in Fiji is collectively owned, it is controlled by tribal chiefs who derive most of the economic benefit. Traditionally, Fiji's political leaders come from the eastern part of the country, from Vanua Levu and the Lau Group, where the feudal structure is best preserved. Fiji's cities and industry, on the other hand, are concentrated in the west, on Viti Levu in and around Suva, where most of the population lives. The result is a very unequal distribution of wealth and political power, which has survived because it has become connected with racial issues. Despite a very small Fijian Indian entrepreneurial class, many members of which have left the country, most Fijian Indians are no better off than indigenous Fijians since both groups suffer under a political system that concentrates power in the hands of the ruling class. The burden of Fiji's economic difficulties falls heaviest on its poorer citizens, who are obliged to commit a greater proportion of their incomes to basic essentials.

WORKING CONDITIONS

Fiji's workforce numbers around 310,000 people, and the official unemployment rate hovers at a low 6 percent. This figure is misleading since only a third of this workforce is in paid employment; the remaining two-thirds are

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Fiji	2,086	2,319	2,102	2,356	2,416
United States	19,364	21,529	23,200	25,363	29,683
Philippines	974	1,166	967	1,064	1,092
Solomon Islands	419	583	666	784	753

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Fiji	35	5	19	2	13	4	23
United States	13	9	9	4	6	8	51
Philippines	37	3	11	1	14	1	32
Solomon Islands	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

subsistence farmers and fishermen (subsistence workers produce just enough goods to support their own subsistence, with rarely any surplus to sell and generate additional income). There are 4 times as many young people in the workforce as there are available jobs. The unemployment rate also conceals large-scale under-employment such as seasonal workers in agriculture and casual laborers in the construction industry. While the numbers of wage and salary workers have been rising (8.5 percent over the period from 1993 to 1998), Fiji's economic crisis threatens to offset these gains. The loss of tens of thousands of professionals and skilled workers through out-migration has also produced a skills deficit, which poses a further obstacle to future growth. Labor disputes are another symptom of tension, and in 1999, an average of 19.7 worker-days were lost due to strikes, though this figure was atypically high. Part of the government's recovery program is to deregulate the workforce and shrink the **public sector**.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1643. Abel Tasman, the Dutch navigator, sites the Fiji island group.

1774. Captain Cook visits southern Lau.

1835. The first Methodist missionaries arrive.

1854. King Cakobau renounces his traditional gods and accepts Christianity.

1857. First British consul appointed at Levuka.

1862. King Cakobau invites the British to annex Fiji; Britain refuses.

1874. Britain, fearing Fiji will fall to another power, accepts Fiji as a colony.

1879–1916. Indentured laborers are imported from India.

1904. First elected Legislative Council.

1909. System of property leases instituted.

1966. Internal self-government achieved.

1970. Fiji becomes independent.

1973. Sugar industry **nationalized**.

1987. Defeat of Alliance Party by Fijian Indian-backed opposition coalition; the first Fijian coup by Sitiveni Rabuka removes Prime Minister Bavadra from power; Fiji declared a republic.

1994. New constitution enacted; Rabuka becomes prime minister.

1997. Fiji rejoins Commonwealth.

1999. Landslide victory by the Fijian Indian-led opposition coalition.

2000. Armed forces led by George Speight seize Parliament; dismissal of the Mahendra government by the military. Ratu Josepha Iloilovatu Uluivuda becomes president, and Laisenia Qarase prime minister.

FUTURE TRENDS

Before the return of the political problems that gripped Fiji in late 1999 and 2000, Fiji was believed by many observers to have, in the words of the *Wall Street Journal,* "the South Pacific's most promising economy." It was widely believed that Fiji was capable of increasing its production of every major exportable product, and capable of reducing its debt load accordingly. But the recent problems leave the growth of Fiji's economy in doubt. Striking problems remain: rising unemployment; declining investor confidence; a drastic fall in tourist visits, which reverberates throughout the economy; and the lack of any long-term solution to the political conflict between Fijian Indians, who control most of the sugar production companies, and indigenous Fijians, who own most of the land and provide most of the labor. Fiji's problems have left the country both politically and economically isolated, as former allies, potential investors, and tourists have all withdrawn their support from the country. The government's attempts to re-stimulate the

economy will continue to fail unless the root causes of Fiji's ethnic tension can be adequately addressed and substantive cooperation achieved, an unlikely prospect in the near future. However, if the potential mediation of outside entities returns Fiji to political stability, the island nation should be well-equipped for further growth.

DEPENDENCIES

Fiji has no territories or colonies.

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—Alexander Schubert

FRENCH POLYNESIA

Territory of French Polynesia
Territoire de la Polynésie Française

CAPITAL: Papeete.

MONETARY UNIT: Comptoirs Français du Pacifique franc (CFPF), also known as the Pacific Financial Community franc or Pacific French franc. One CFPF has 100 centimes. There are notes of CFPF500, 1,000, 5,000, and 10,000, and coins of CFPF1, 2, 5, 10, 20, 50, and 100.

CHIEF EXPORTS: Cultured pearls, coconut products, mother-of-pearl, vanilla, shark meat.

CHIEF IMPORTS: Coconuts, fuels, foodstuffs, equipment.

GROSS DOMESTIC PRODUCT: US$2.6 billion (1997 est.).

BALANCE OF TRADE: **Exports:** US$212 million (1996 est.). **Imports:** US$860 million (1996 est.).

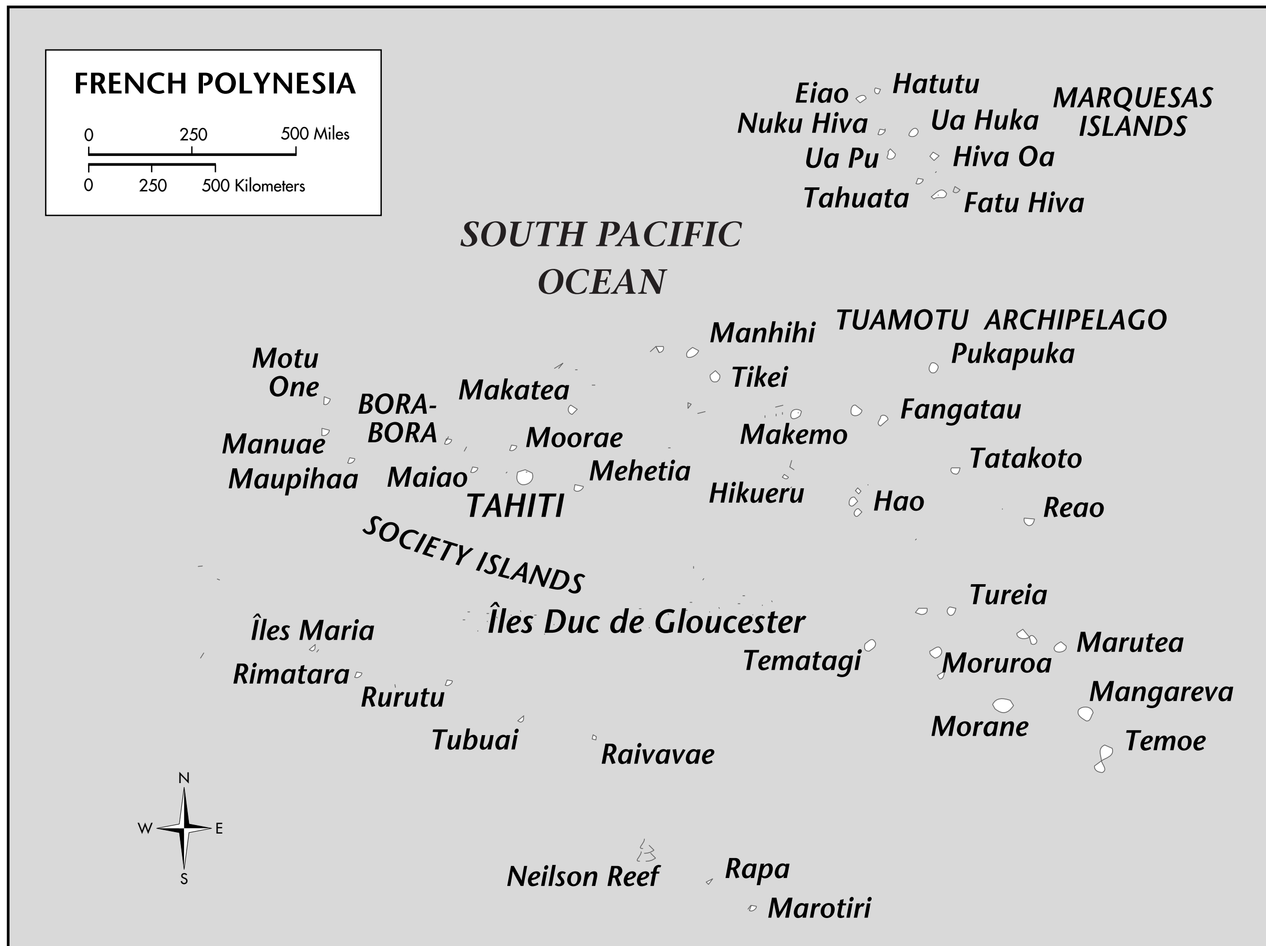
COUNTRY OVERVIEW

LOCATION AND SIZE. An overseas territory of France, French Polynesia's 118 islands and atolls are grouped into 5 archipelagos (group of islands) scattered across some 3,200 kilometers (2,000 miles) in the South Pacific Ocean midway between South America and Australia. The islands have a total land area of 4,167 square kilometers (1,609 square miles), slightly less than one-third the size of Connecticut. The 5 archipelagos include the Society Islands (which include Tahiti and Bora-Bora); the Tuamotu Archipelago; the Gambier Archipelago; the Marquesas Islands; and the Austral Islands. Together they have 2,525 kilometers (1,569 miles) of coastline. Only 65 of the islands are inhabited, and the overwhelming majority of French Polynesians live along the coastlines. The most inhabited island by far, with about 70 percent of the total population, is Tahiti, which also accounts for a quarter of the islands' total land area. Half of Tahiti's population lives in its major urban center, the capital city of Papeete (population, including surroundings, 69,000, 1996 est.). Tahiti is also the largest island, with a land mass equal to 1,041 square kilometers (402 square miles).

The islands represent a wide variety of topographies (land surfaces), from the plunging waterfalls and extinct volcanoes of Tahiti or Moorea to the low-lying, white-sand lagoon coral-reef atolls of the Tuamotu and Gambier groups. One of French Polynesia's most serious long-term problems is the threat presented by global warming and the rising of the world's water level, estimated by the United Nations Environment Program in 1993 to rise by more than 25 inches by 2100. If this proves correct, entire archipelagoes like the Tuamotus may eventually disappear. In the meantime, pressure from the ocean is eroding the available cultivatable land and contaminating the groundwater.

POPULATION. French Polynesia's population was estimated in 2000 at 249,110, with an annual growth rate of 1.78 percent. Comprehensive public health care has secured a long life expectancy—74.79 years at birth—and a low infant mortality rate—9.3 per 1,000 live births. The annual rate of **immigration**—3.14 per 1,000 of population—is accounted for mostly by French government officials and retirees. Those under 15 years of age make up 30 percent of the population, with 65 percent between 15 and 64 years of age. The remaining 5 percent are over 65 years of age.

The majority of the population (78 percent) is of Eastern Polynesian descent. They are closely related to the New Zealand Maoris, but quite distinct from the closer Western Polynesian Samoans and Tongans. Another 12 percent are of Chinese descent, and 10 percent French, of whom 6 percent are local French and 4 percent from France itself. These figures, however, conceal a considerable degree of racial mixture. Europeans, the majority of whom are French, are concentrated in Papeete. The Chinese, descendants of laborers imported in the 1860s to work Tahiti's short-lived cotton plantations, are scattered throughout the islands and run much of the



territory's **retail** trade. French Polynesians are 54 percent Protestant, 30 percent Roman Catholic, with 16 percent belonging to other religions. The official languages are French and Tahitian.

OVERVIEW OF ECONOMY

Until the 1960s, the French Polynesian economy was largely based on subsistence agriculture (raising enough to survive), but in 1962 France began nuclear testing in the islands. This attracted some 30,000 settlers to work in the Centre d'Expérimentations du Pacifique (CEP), a facility that changed the islands' economy forever. By 2000, only 1 in 8 French Polynesians was involved in agriculture. The rest were wage and salary earners in the territory's extensive service sector and various industries. The territory has the highest **GDP per capita** ($10,800, 1997 est.) in the South Pacific region.

Such progress can be credited to 2 factors: the strength of French Polynesia's tourist potential and continuing economic support from France. Both of these assets look secure for the immediate future. Tourism continues to climb, and new developments, such as the expansion of cruise ship facilities and the opening of isolated islands, have enhanced the industry's **infrastructure** and ensured its ongoing growth. French subsidization shows no signs of stopping; the French economy is one of the healthiest and fastest-growing in Europe, and both of its main political parties are committed to continued union.

Nevertheless, French Polynesia's overwhelming dependence on a single overseas patron leaves it highly vulnerable in the long term. France's long-range goal is for a more self-sustaining economy for the territory, and within the islands the independence movement is vocal. In the 1996 elections the Independent Front for the Liberation of Polynesia gained 10 of the Territorial Assembly's 41 seats. If this party should ever win a majority, it is highly likely to push for full independence. How the islands would adapt to such a change is unclear, but for it to achieve complete economic self-sufficiency, radical economic reorganization would be required.

A narrow economic base also makes the islands vulnerable. While tourism receipts continue to climb, and French Polynesia enjoys well-established "brand recog-

nition" as a vacation destination, tropical storms are a recurring threat, and competition from other international beach resorts is increasingly sharp. Other industries are being developed, such as cultured pearls (already an important export earner) and coconut products (especially palm oil), mother-of-pearl, vanilla, handicrafts, and fish. But these too are niche industries, susceptible to shifting world prices, and may not be strong enough to be the basis of real diversification.

POLITICS, GOVERNMENT, AND TAXATION

France began to take over the French Polynesian islands in the late 18th century, and formed them into the group as it exists today in 1903. In 1958, the islands were granted overseas territory status, acquiring further control over their internal government in 1975 and 1984. The territory enjoys considerable latitude over its domestic administration, with its 41-member Territorial Assembly responsible for public works, sports, health, social services, primary education, and the election of the president. However, the military, justice system, and **monetary policy** are directed by France, and the French constitution remains the supreme law. The high commissioner is France's chief representative in the islands and retains considerable control, with the power to dissolve the Territorial Assembly and take personal control of the budget (as was done in 1992). There is consequently a vibrant independence movement, provoked especially by France's resumption of nuclear testing in the territory in 1995. Protests against the testing led to extensive rioting in Papeete, which caused France to tighten its control.

French Polynesia is essential to France's perception of itself as a world power, even though such aspirations cost France around $300 million a year. The transfer of payments from France to the islands reached a high of 27.5 percent of French Polynesian GDP in 1997 and was estimated to be around 20.6 percent in 2000. These **subsidies** constitute the territory's primary source of income and are critical to its economic survival. The focus of the subsidies, beyond the maintenance of French facilities and personnel in the territory, is especially for projects designed to build a more self-sustaining economy. While full self-sufficiency is recognized as unfeasible except as a very long-term goal—and for which no specific timetable has so far been set—the immediate target is to slowly increase the islands' domestic contribution to national production. This has risen on average around 5 percent per year from 1989 to 1999, increasing the domestic share of production to 43.7 percent in 1999. The plan is to raise it to 60 percent by 2003.

In 1993, in return for the 5-year, US$118 million Pacte de Progrès subsidy program, France demanded the institution of an **income tax** in order to make the territory more self-supporting. A 3 percent tax on earnings over $1,600 was introduced. The government, however, continues to rely heavily on **indirect taxes**, which make up around half of the territory's tax revenues. **Levies** and excises on imported goods and licensing fees are thus among the highest in the Pacific islands.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

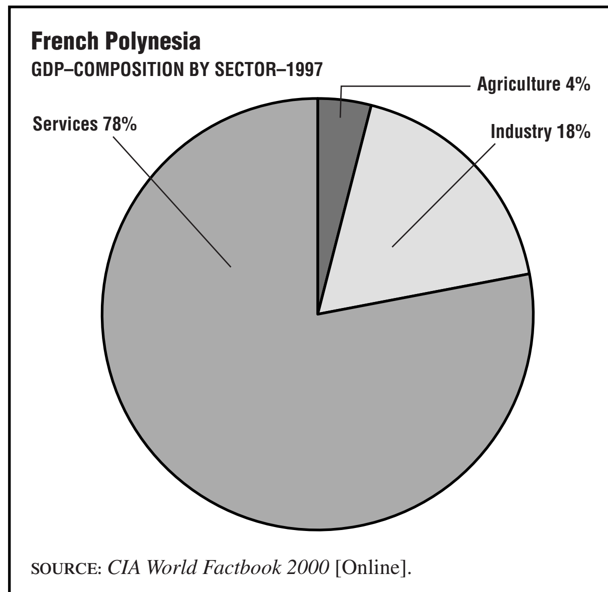
French Polynesia's infrastructure is in good condition. It undergoes ongoing improvement as a result of French development programs, including tax incentives for businesses who invest in infrastructure. The islands have 792 kilometers (492 miles) of roads, all of them paved. There are 30 paved-runway airports, with 15 more unpaved airstrips, and an international airport at Faa'a outside Papeete. The 4 seaports are Mataura, Papeete,

Communications

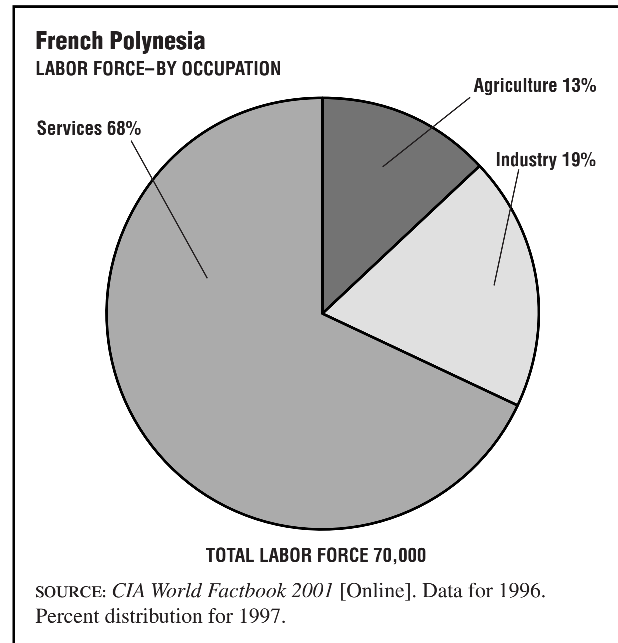
Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
French Polynesia	52,000	5,427	AM 2; FM 14; shortwave 2	128,000	7	40,000	2	5,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1996. Percent distribution for 1997.

Rikitea, and Uturoa. Most of the islands' fuel needs (60 percent in 1998) are supplied by imported fossil fuels. The remaining 40 percent is provided by hydroelectric power stations. A comprehensive and reliable telephone network also exists, with 32,000 main lines and 4,000 cellular lines in use in 1995.

ECONOMIC SECTORS

With its large tourism industry and **public sector**, the economy of French Polynesia is heavily service-oriented, with services accounting for 78 percent of GDP (1997). Industry, especially pearl cultivation, is also important, making up 18 percent of GDP. Workforce figures reflect this division, with around 40 percent working for the government, 40 percent in services, and 10 percent each in industry and in agriculture.

AGRICULTURE

Farming was once the primary means of survival for most French Polynesians. The development of the French nuclear program in the 1960s lured thousands of workers away from farming, however, and the sector nearly collapsed. By 1965, exports of coffee and vanilla had ended, and coconut production had dropped by 40 percent. In 1997, agriculture made up only 4 percent of GDP and employed 11 percent of the population. In that year, 80 percent of the islands' food had to be imported. The islands have fairly good agricultural resources, however, with 6 percent of available land under crops, 1 percent arable, and a further 5 percent used for pasturage. Local production supplies about half of the islands' vegetables and three-quarters of its fruit. Other products include vanilla and coffee, especially on Tahiti; poultry, beef and dairy products, especially in the Marquesas; and coconuts in the outer islands. Aquaculture is also being developed, with cultivation of shrimp, prawns, live bait, and green mussels.

INDUSTRY

After tourism, French Polynesia's primary money-earning industry and export product is cultured pearls. Founded in 1963, the industry has shown buoyant growth. In 1990, pearl exports brought the islands $38 million, a figure that had risen to $184.9 million by 2000. Although production has steadily increased from 599 kilograms (1,318 pounds) in 1990 to 7,116 kilograms (15,655 pounds) in 2000, the price per kilogram has been dropping, from US$27.67 in 1997 to $20.84 in 1999. The fall can be blamed on the large quantities of pearls being harvested, which has depressed the price, and to the weakness of the Japanese market, the largest consumer of Tahitian pearls. Producers have tried to address these trends through brand differentiation, by promoting the uniqueness of Tahitian pearls, and by turning their attention to the U.S. market. But the failure of producers in the territory to form an effective marketing cartel, and pressure from other Pacific producers (such as the Cook Islands), have slowed the impact of these efforts.

Other manufactured goods include beer, sandalwood oil, sandals, and handicrafts. Food processing is also important, especially the refining of dried coconut flesh (or copra) into oil for use in vegetable oil, margarine, candles, soap, and cosmetics. French Polynesia's extensive waters also show signs of rich deposits of nickel, cobalt,

manganese, and copper. Though plans exist for their extraction, mining will prove expensive.

SERVICES

TOURISM. French Polynesia's tourist appeal is legendary. Even before the paintings of French artist Paul Gauguin gave form to the islands' paradise-like mystique, the islands held a special place in the Western imagination. Tourism proper, however, is relatively recent, largely a consequence of the opening of Tahiti's Faa'a Airport in 1961. Tourist numbers are still only a tiny fraction of those of Hawaii, which gets more visitors in 10 days than French Polynesia gets in an entire year. Still, tourist arrivals have continued to increase, bolstered by new hotel construction and renovation in the mid-1990s, which increased the number of hotel beds by 29 percent between 1990 and 2000. From 139,705 arrivals in 1989, numbers have climbed to 210,800 in 1999, an increase of more than 50 percent (with a 16.8 percent rise from 1997 to 1999 alone). Arrivals are estimated at 240,000 for 2000. Growth has been particularly brisk in terms of North American visitors, with an increase of 48.9 percent from 1997 to 1999. Some 85 percent of these are from the United States. There has also been an increase in cruise-ship traffic, whose generally older and more affluent tourists are especially valuable sources of revenue. Other important markets are Europe (40.1 percent of visitors in 2000, with two-thirds of these from France) and Asia (16.8 percent, with about two-fifths of these from Japan and two-fifths from Australia and New Zealand).

In 1997, tourism generated US$340.2 million in foreign exchange, and accounted for 4,000 jobs and 9.5 percent of GDP. In 2000, receipts of $396.2 million were expected, and a total GDP share of 10.1 percent. The tourism industry is dominated by **multinational corporations**, as most facilities are foreign-owned and managed—a situation that has tended to cause unease among the indigenous Polynesians. Some 80 percent of tourist spending, however, is for goods imported to the islands, and so brings little real gain to the territory's economy. In the long term, though, the hope is that tourist revenue will replace **transfer payments** from France.

FINANCIAL SERVICES. French Polynesia is served by 4 main banks: the Banque Socredo, Banque de Tahiti, Banque de Polynésie, and Australia's Westpac Bank. Offices are only on the main islands of Tahiti, Bora Bora, and Moorea.

RETAIL. Retail services vary widely. Papeete, with its long-established French presence, high standards of living, and extensive tourist trade, is a cosmopolitan city of expensive hotels, restaurants, cafés, cinemas, bars, and nightclubs. Papeete features a range of shops and markets selling jewelry, designer clothes, souvenir handicrafts, books, and art. This is also true to a lesser extent for the other major islands, Moorea and Bora-Bora. On remoter and more sparsely populated islands, where agriculture may still be the main form of livelihood, retailing becomes much simpler, with local food markets and general stores predominating.

Trade (expressed in billions of US$): French Polynesia

	Exports	Imports
1975	.025	.286
1980	.030	.547
1985	.040	.549
1990	.111	.928
1995	.193	1.008
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

INTERNATIONAL TRADE

French Polynesia's narrow economic base leaves it dependent on imports for many of its basic goods, and its **trade deficit** has traditionally been a heavy one. In 1996, the country imported $860 million in goods while exporting only $212 million. The consumer culture that French subsidies have tended to encourage has given the islands one of the largest import-export imbalances in the world. In 2000 imports exceeded exports by a factor of around 5 and accounted for 19.3 percent of GDP, but the gap has been slowly closing. In 1991 the territory's imports had been worth nearly 40 times their exports. The largest supplier of goods to the islands is France, which provided 44.7 percent of the islands' imports (1994); a further 13.9 percent comes from the United States. Exports go to the United States (11 percent, 1994) and France (6 percent). Imports include food, fuel, building materials, **consumer goods** and automobiles; exports include copra, cultured pearls, vanilla, and perfume.

MONEY

The currency of French Polynesia is the Pacific Financial Community franc, known in French as the Comptoirs Français du Pacifique franc (CFPF). The CFPF is pegged at a fixed rate to the French franc (18.18 CFPFs = 1 French franc), and, through it, to the euro. Initiated in 1945, the CFPF is also used by France's 2 other Pacific possessions, New Caledonia and Wallis and Futuna. In 1967, responsibility for issuing and circulating this currency was transferred from the Banque d'Indochine to the French government. **Exchange rates** have affected the tourism sector most; prices have generally been high in the islands, and during periods in which currencies

Exchange rates: French Polynesia

Comptoirs Français du Pacifique francs per US$1	
Jan 2001	127.11
2000	129.44
1999	111.93
1998	107.25
1997	106.11
1996	93.00

Note: Pegged at the rate of 119.25 CFPF to the euro.

SOURCE: CIA *World Factbook 2001* [ONLINE].

such as the U.S. dollar have weakened, so has tourism. The reverse is true as well, with tourism increasing as foreign currencies grew stronger against the CFPF.

POVERTY AND WEALTH

In French Polynesia, where unemployment and **underemployment** are growing problems, the inequalities in wealth are sharp. At one end of the scale is the large ring of slums around Papeete, home to 20,000 dispossessed Polynesians; at the other end are the luxury holiday homes of French Polynesia's seasonal migrants, like actor Marlon Brando, owner of the island of Tetiaroa, just north of Tahiti. The 2,200 expatriate French administrators and advisors, who make up around 4 percent of the islands' population, earn 84 percent more than their metropolitan French counterparts, and are the country's economic elite. Such disparities are made worse by the division of haves and have-nots along racial lines, with French at the top, mixed races in business and minor government posts in the middle, and the indigenous Polynesians at the bottom. The result has been serious social tensions, which have also put a strain on the traditionally relaxed and egalitarian tenor of indigenous life. The public education system has not helped, although it has created a 98 percent literacy rate. With the curriculum entirely French, the indigenous failure rate is high, ranging from 40 to 60 percent. This, combined with unemployment, is threatening to produce a Polynesian underclass.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
French Polynesia	N/A	10,800	N/A	N/A	N/A
United States	28,600	30,200	31,500	33,900	36,200
Philippines	2,600	3,200	3,500	3,600	3,800
Solomon Islands	3,000	3,000	2,600	2,650	2,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

WORKING CONDITIONS

The massive influx of French personnel that accompanied the creation of the Centre d'Expérimentations du Pacifique (CEP) in the early 1960s radically altered the basis of the islands' economy. The nature of their labor conditions changed the economy as well, shifting the workforce away from fishing and farming and into services and industry. This set in motion a migratory drift toward Papeete that still continues. Whereas in 1962 46 percent of French Polynesians were employed in agriculture and fishing, in 1996 only 11 percent were so occupied. The trend has been supported by France's development subsidies, an aim of which has been job creation. From 1997 to 2000, the numbers of those in wage and salary employment increased by 4.2 percent per year, against a 1.6 percent annual increase in the general population over the same period. As a result, there were 20 percent more wage and salary earners in 2000 than there had been in 1995. The gains have been in industry and services, which employ 19 percent and 68 percent of the workforce, respectively. The single largest employer is the government, which accounts for around 40 percent of the workforce. The workforce was most recently estimated at 118,744 in 1988, and unemployment was estimated at 15 percent in 1992.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

c. 300. Polynesians reach the Marquesas Islands.

1521. Portuguese explorer Ferdinand Magellan sights Pukapuka in the Tuamotus.

1595. Spanish explorer Mendaña lands on the Marquesas Islands.

1767. British navigator Captain Samuel Wallis discovers Tahiti for Europe.

1768. French navigator Louis-Antoine de Bougainville visits Tahiti and claims it for France.

1797. Protestant missionaries arrive on Tahiti.

1842. French protectorate declared over Tahiti and the Marquesas.

1880. Protectorate becomes a colony.

1903. Islands organized into a single colony.

1945. French Polynesians become French citizens.

1958. French Polynesia becomes a French overseas territory.

1962. The French establish the nuclear test program Centre d'Expérimentations du Pacifique (CEP).

1966. French begin nuclear testing on Mururoa.

1975. Worldwide opposition forces French to move nuclear testing underground on Fangataufa.

1984. Partial local autonomy granted.

1995. French president Jacques Chirac resumes nuclear tests after their suspension by President François Mitterand in 1992.

FUTURE TRENDS

After the end of French nuclear testing in 1996 and the subsequent winding down of the French military presence, the role of French subsidies in the economy has decreased. French Polynesia has been encouraged, with the help of considerable French assistance, to develop alternative sources of income. The territory has had some considerable success in doing so, and economic indicators suggest a positive forecast for French Polynesia. After sluggish growth in the mid-1990s, the economy has climbed from 0.3 percent annual growth in 1996 to 4.0 percent in 2000, while keeping **inflation** at around 1 percent. But French aid is a mixed blessing. If French support falters, or if not enough is done to address the condition of indigenous and economically excluded Polynesians, this progress could be quickly undermined. In the longer term, global warming and rising sea levels are expected to have an adverse effect.

DEPENDENCIES

French Polynesia has no territories or colonies.

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—Alexander Schubert

HONG KONG

Hong Kong Special Administrative Region (SAR) of the People's Republic of China

CAPITAL: Hong Kong.

MONETARY UNIT: Hong Kong dollar (HK$). One Hong Kong dollar is equal to 100 cents. There are coins of 10, 20, and 50 cents, and HK$1, 2, 5, and 10. Paper currency comes in denominations of HK$20, 50, 100, 500, and 1,000.

CHIEF EXPORTS: Clothing, textiles, footwear, electrical appliances, watches and clocks, toys.

CHIEF IMPORTS: Foodstuffs, transport equipment, raw materials, semi-manufactures, petroleum.

GROSS DOMESTIC PRODUCT: US$158.2 billion (1999 est.).

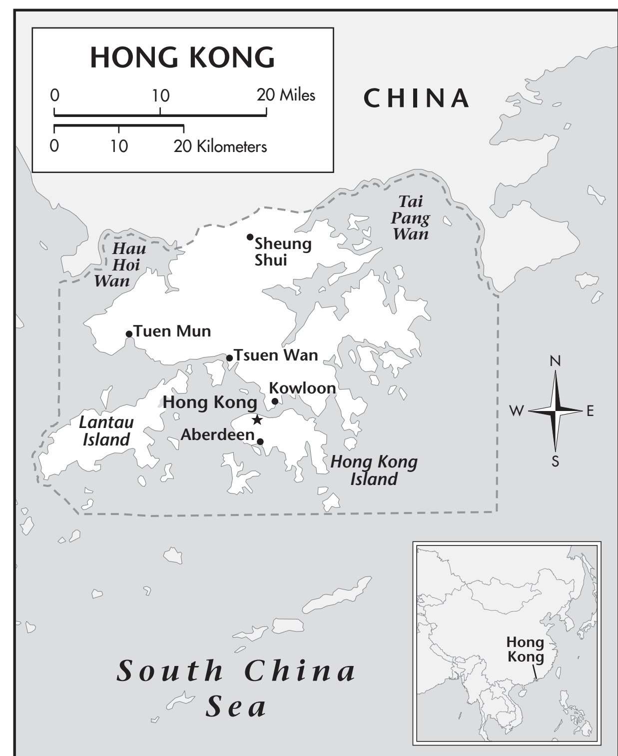
BALANCE OF TRADE: **Exports:** US$169.98 billion (including re-exports, 1999 est.). **Imports:** US$174.4 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Hong Kong is located in eastern Asia. It borders the South China Sea to the south, west, and east, and shares a land border with mainland China to the north. It consists of 4 main areas: Hong Kong Island, Kowloon, the New Territories, and the Outlying Islands. Kowloon and the New Territories are on a peninsula, accounting for the bulk of Hong Kong's land. The New Territories link Hong Kong to mainland China. The Outlying Islands are made up of 234 islands in the proximity of Hong Kong, excluding Hong Kong Island where the capital city (Hong Kong) is located; the island is in the southern part of the territory. Lantau Island and Hong Kong Island are the largest islands. The entire territory, including its islands, has an area of 1,092 square kilometers (421 square miles), which makes it 6 times larger than Washington, D.C. The length of its land border and coastline are 30 kilometers (18 miles) and 733 kilometers (455 miles), respectively.

POPULATION. Hong Kong's population was estimated to be 7,116,302 in July 2000. Its population increased from 4.4 million in 1975 to 6.7 million in 1998, indicating a growth rate of 1.8 percent. With an estimated growth rate of 0.8 percent, the population will increase to 7.7 million by 2015. In the year 2000 the estimated birth rate was 11.29 births per 1,000 people while the estimated death rate was 5.93 deaths per 1,000 people.

The majority of Hong Kong's population is of Chinese ethnicity, but non-Chinese constitute more than 8 percent of the population. Out of 595,000 foreigners residing in Hong Kong in 1999, 274,100 were from Asian countries (Philippines, Indonesia, Thailand, India, Japan, and Nepal) and the rest from Western countries (United



States, Canada, United Kingdom, and Australia). The number of expatriates grew from 320,700 in December 1993 to 485,880 in December 1998.

The population of Hong Kong is old, with 18 percent of the population age 14 or younger and 71 percent between the ages of 15 and 64. This leaves 11 percent of Hong Kong's people 65 years old and up. Given the estimated low growth rate for the 1998–2015 period, the population will be even older by 2015 when 13.7 percent of the population will be over 65 years of age.

Hong Kong is a highly urbanized society. About 95.4 percent of its population lived in urban areas in 1998, an increase of 5.7 percent since 1975. The urban population is estimated to reach 96.7 percent by 2015. The capital city of Hong Kong and the Kowloon peninsula house the majority of the population.

OVERVIEW OF ECONOMY

During the first Opium War (1839–43), the British government colonized Hong Kong in 1841. Over time it established a free-enterprise economy in the colony and turned it into a trading center in Asia. Hong Kong has retained these characteristics since its hand-over to China in 1997, as stipulated in the 1984 Sino-British Joint Declaration on the transfer of Hong Kong's sovereignty to China. Accordingly, the Chinese government guaranteed that it would preserve Hong Kong's capitalist economy and its political and social systems for at least 50 years. This commitment was justified under the Chinese formula of "one country, two systems," which allowed for the co-existence of a capitalist Hong Kong with the **socialist** mainland China as 2 parts of 1 single country. The Chinese government also guaranteed that it would not intervene in the internal affairs of Hong Kong, and would let its government function independently in all its internal affairs, including economic policies. The Chinese central government in Beijing is in charge only of Hong Kong's foreign and defense issues. China's official acceptance of Hong Kong's mini constitution, the Basic Law of the Hong Kong Special Administrative Region, consolidated this arrangement when China's National People's Congress passed it in 1990. The latter guarantees free trade, free enterprise, and low taxes for at least 50 years.

Much of the anxiety of the pre-1997 period has proven to be baseless. China has kept its promise and Hong Kong continues to be a bastion of free enterprise. The territory has retained all its colonial financial and **monetary policies** and laws, including those regarding its currency, the free flow of capital into and out of its territory, and taxation. It uses its own currency, the Hong Kong dollar, and keeps its revenues for its own needs. Its government does not pay any tax to the Chinese central government. The hand-over has not changed Hong Kong's economy, but the post-1997 period has had at least 2 major impacts on it. First, this period has consolidated a change in the economy that began in the early 1980s. This was the transfer of large, sophisticated, and labor-intensive industries from Hong Kong to mainland China where there is no scarcity of land and raw material and where labor is significantly cheaper. As a result, existing manufacturing in Hong Kong mainly focuses on the necessary activities for the **re-export** of goods produced by Hong Kong enterprises in China. Being the largest economic sector even prior to 1997, Hong Kong's service sector has since grown significantly in the fields of trade and transportation. This was done to meet the increasing demand for re-exporting and to absorb the loss of jobs in the manufacturing sector. Second, there has been a growing interest in 2 new industries: high-tech and information technology (IT). This is a positive move towards the broadening of the service-dominated economy of Hong Kong. IT activities have also created new types of employment opportunities, most of which cannot be filled immediately due to a lack of skilled workers. Consequently, there were 18,400 vacant IT positions in 2000. The root cause of this problem is that those who have lost their jobs in other sectors (e.g. manufacturing) are either unskilled or have skills that are not in demand. The Hong Kong government has addressed this issue by increasing its spending on retraining programs by 5.4 percent in 1997–98, 11.8 percent in 1999–2000, and 42.8 percent in 2000–01.

Like many other Asian economies, the Hong Kong economy suffered from the financial crisis of the late 1990s. However, unlike most of them, it was able to cope with the crisis with tolerable losses and begin recovery in 1999. Its large service sector has been given credit for the economy's ability to recover. This sector has been the reason for a constant **balance-of-payment** surplus since 1997. In that year, Hong Kong had a balance-of-payment deficit of US$6.159 billion (equal to 3.6 percent of its GDP). However, it enjoyed 2 consecutive balance-of-payment surplus years of US$2.902 billion (equal to 1.8 percent of its GDP) and US$9.285 billion (equal to 5.8 percent of GDP) in 1998 and 1999, respectively. Figures for 2000 are not yet available, but there are indications of a surplus for that year as well. Unlike other Asian countries fallen victim to the 1997–98 financial crisis, Hong Kong's **external debt** has remained small in comparison to its available finances. For example, its total **foreign debt** was US$48.7 billion in 1998, US$53.5 billion in 1999, and US$56.5 billion in 2000 while its **foreign exchange reserves** were US$89.601 billion, US$92.236 billion, and US$97.218 billion, respectively. The crisis slowed down the economy temporarily, as reflected in a large drop in its GDP growth rate from 5 percent in 1997 to -5.1 percent in 1998. However, it did not lead to widespread closures of industries and companies

or massive unemployment as experienced in Indonesia and Malaysia, for instance. The economy began to recover in 1999 and 2000 when the GDP growth rates jumped to 3 percent and 9.7 percent, respectively. Additionally, its unemployment rate reached the record high of 6.2 percent in 1999, only to drop to about 5 percent in 2000 despite the continued relocation of the manufacturing jobs to mainland China.

Geography and size impose certain limits on the economic activities that Hong Kong can undertake, but they also open opportunities for its economic growth. Maintaining extensive ties with China has been an imperative for the survival of this small territory, which has no mineral and water resources and lacks an adequate agriculture sector to meet its essential private and commercial needs. Being connected to China via land, Hong Kong has depended on its only neighbor for raw materials, food, and water. Its small size and acute scarcity of land also lead Hong Kong to look to China for the establishment of large and labor-intensive manufacturing establishments. This has been a blessing in disguise as China's low wages significantly reduce the cost of production of its exports and make them more competitive in international markets. Reliance on China has also helped Hong Kong penetrate the huge and growing Chinese market, the largest in the world and to which many developed economies are trying so hard to gain access. Not only are Hong Kong businesses interested in China, but the Chinese government also encourages extensive ties with Hong Kong, its reunified territory. Expanding economic ties with China also helps Hong Kong tolerate losses in its economic transactions elsewhere.

The service sector dominates Hong Kong's economy. This is the result of the territory's limited opportunities for agricultural and industrial activities on the one hand, and the interest of the British colonizers to develop it as a trading center on the other. Being the engine of economic growth, the service sector is the largest employer and the largest contributor to Hong Kong's GDP (84.7 percent in 1998). The major services are trade, financial services (e.g., banking and insurance), tourism, **retail**, and real estate. Trade has been the heart of Hong Kong's economy. The service sector has been growing steadily over the last few decades under British and Chinese rule alike.

Agriculture is negligible as a source of employment or revenue and makes only a miniscule contribution to GDP (0.1 percent in 1998). The scarcity of arable land leaves very limited opportunity for agricultural activities. Hong Kong is heavily dependent on agricultural imports.

Industry is a significant sector, but is mainly geared to the re-export of goods produced in China. This sector is small, accounting for 15.2 percent of GDP in 1998. Thanks to a lack of minerals, there is no mining industry of any significance. There is a small utility (water, gas, and electricity) industry, a relatively significant construction industry, and a more important export-oriented manufacturing sector. As a small territory with limited land and a very large population, Hong Kong cannot support heavy industries, which are land-intensive by nature. Nor can it have large labor-intensive industries. Besides low wages and an abundance of resources in China, space has been the main reason for the relocation of Hong Kong's large and labor-intensive industries to that country. The remaining industries of Hong Kong are small-scale establishments, which employ small numbers of workers. Garment production has been the leading component of the manufacturing sector for decades, but Hong Kong has other marketable products—mainly light and **consumer goods** such as footwear, toys, and plastics. Manufacturing lacks a significant high-tech segment, but has a viable electronics branch in need of development.

POLITICS, GOVERNMENT, AND TAXATION

The political parties of Hong Kong are at the initial stage of their development and do not represent a long tradition of political activities. Political parties were illegal until 1990. Being a British colony directly ruled by a British-appointed governor, the territory did not need active political parties. They seemed to be irrelevant to a political system whose executive branch, the Executive Council (Exco), and the legislative branch, the Legislative Council (Legco), were simply advisory bodies. The latter was run by appointed or selected businesspeople and professionals and not by elected politicians.

As part of the preparation for the hand-over of Hong Kong to China, efforts to democratize the Hong Kong political system led to the introduction of an elected Legco and the gradual elimination of legislative seats occupied by the British governor's appointees. These developments justified the creation of political parties. Yet, the Basic Law of Hong Kong provides for an election process, which undermines the status of the Legco as a truly democratic and representative body. Out of its 60 members, only 20 members are directly elected by popular votes. Functional constituencies (created by professional, business, and labor groups) elect 30 members, and an electoral committee (formed mainly by functional constituencies' chosen delegates) elect the remaining 10 members. Consequently, big business dominates Legco, which reflects the pre-eminence of business-oriented groups and the irrelevance of political parties in the running of Hong Kong and overseeing its economy.

In such a situation, the emerging political parties, which suffer from internal weaknesses, are practically out of the decision-making process and are therefore unable

to have a major impact on the economy. Major politicians, including Chief Executive Tung Chee-hwa, do not have party affiliations and are prominent business figures.

The Hong Kong political parties are divided into 3 major groups: pro-democracy, pro-business, and pro-China. None of these groups advocate any economic policy to undermine the free-enterprise nature of the economy or the status of the territory as a center for free trade. The merger of 2 pro-democracy groups (the United Democrats of Hong Kong and the Meeting Point) formed the Democratic Party of Hong Kong in 1994, the largest pro-democracy party. It suffers from infighting on various issues, including economic issues. Pro-business parties include the Association for Democracy and People's Livelihood, the Hong Kong Democratic Foundation, the Frontier Party, the Citizens Party, and the Liberal Party. All these parties tend to advocate close ties with China and cooperate with pro-China groups. The major pro-China groups include the DAB (Democratic Alliance for the Betterment of Hong Kong). Not surprisingly, it also advocates close economic ties with China. The 3 largest parties in Legco are the Democratic Party of Hong Kong, the Liberal Party, and the DAB.

The Hong Kong government has a very limited role in economic affairs. This is in keeping with the proclaimed status of Hong Kong as a haven for unfettered free enterprise and free trade, in which the task of creating a viable economy is granted to the **private sector**. The intervention of the government in the economy is limited only to providing the essential services for its normal functioning and for creating an environment conducive to its growth. Therefore, government must ensure the existence of the required **infrastructure** for the daily life of the population and the economy—for instance, education, health care, communications, and telecommunications—with or without the involvement of the private sector. It must also ensure the absence of barriers to free economic activities. Such barriers include laws and regulations which complicate, impede, or prohibit economic activities such as difficult and lengthy processes for registration of economic establishments, various licenses for their activities, restrictions on the transfer of funds from and to Hong Kong, and the imposition of **tariffs** and restrictive export/import regulations.

To create a suitable environment for economic growth, the Hong Kong government imposes very few laws and regulations on economic activities. It continues the British policy of "positive non-intervention," meaning it **levies** low taxes to encourage economic activities and limits government expenditures as well as its role in providing essential services (e.g. education, health care, and housing). Apart from these functions, the government's role in the economy is limited to the extent justified for the well-being of the economy. In this regard, its first and foremost duty is to ensure the stability of the Hong Kong dollar, which demands the stability of the economy. To that end, in August 1998 it purchased US$15.3 billion worth of stocks to prevent the fall of the Hong Kong stock market and put it back in a healthy position. That move also prevented huge losses which could have seriously damaged the economy and weakened its currency.

Hong Kong's government gives a free hand to the private sector in practically all economic affairs pertaining to the 3 main economic sectors (agriculture, industry, and services), including investment, production, trade, and transfer of capital. For example, there is no need for a business to acquire a license in Hong Kong. Regardless of the nature of their activities, the only requirement for setting up businesses is to register them as companies; the registration process is not complicated. Nor is there any restriction on investments or on financial transactions regardless of size, including the transfer of funds from and to Hong Kong or the **repatriation** of profits and investments. Finally, tariffs do not exist in Hong Kong.

The private sector has been the main engine of growth before and after 1997. This sector also includes foreign businesses, which are treated practically like local ones. The only major restriction on foreign investors checks their involvement in television broadcasting concerns. These investors can buy up to 10 percent of the concerns' shares individually and cannot own more than 49 percent of the voting shares as a group. While there is no systematic restriction on the operation of foreign investors in Hong Kong, there is not any specific program to attract them either. The Hong Kong government believes that its territory's geographical location, its good infrastructure, its low taxes and absence of tariffs, and its very limited and simple business regulations make investment in Hong Kong attractive enough for local and foreign entrepreneurs.

TAXES. The Hong Kong government imposes tax on salaries, employment-generated incomes, pensions, property incomes, and on revenues of economic establishments. The simple tax system is characterized by low tax rates, varying between 15 and 16 percent. All individuals who receive salaries, wages, or pensions are liable for **income taxes**, which are not more than 15 percent of their income. As an **equity** measure provided by law, 61 percent of the workforce does not pay tax on salaries. All corporations or individuals involved in any type of trade, business, or profession are liable for taxes on their profits, excluding those generated from the sale of capital assets. There is a flat rate of 16 percent for the business profit tax.

The Chinese government cannot tax Hong Kong in any manner, as stipulated in the Basic Law and the Sino-British Joint Declaration. The Hong Kong government keeps all revenues, including taxes, for its own use. In February 1998, Hong Kong signed a treaty with China

to eliminate double taxation of their respective businesses operating in each other's territory.

Taxes account for more than 50 percent of government revenues. The amount of direct and **indirect taxes** (personal and corporate) collected in the **fiscal years** 1998 and 1999 was US$9.7 billion and US$4.9 billion, respectively. The total amount accounted for 52.5 percent of the total government revenue of US$27.8 billion. This showed a drop in both the absolute amount of collected taxes and in the percentage of their contribution to the government revenue in 1997–98. In that fiscal year, the government collected US$11.7 billion in **direct taxes** and US$8.39 billion in indirect taxes. The total collected taxes contributed to 55.4 percent of the government revenue of US$36.2 billion. The financial crisis of 1997–98 caused a slowdown in the economy and lowered the amount of collected taxes in the fiscal year of 1998–99. Transportation services, including those related to seaports and airport, and capital revenues (i.e. revenues generated from investments by the Hong Kong government) are 2 other major sources of government revenues. They accounted for 44.6 percent (US$16.11 billion) and 47.5 percent (US$13.2 billion) of such revenues in the fiscal years of 1997–98 and 1998–99, respectively. In the same years, the government's share of capital revenues fell from 29.4 percent (US$10.6 billion) to 22.8 percent (US$6.3 billion), while the share of transportation services rose from 15.2 percent (US$5.3 billion) to 24.7 percent (US$6.7 billion). A growth in the use of port facilities by China-based enterprises was the main factor for the rise.

The judicial system of Hong Kong plays a major role in the economy. It is an independent body in charge of ensuring the continuation of the rule of law in all fields, including in the economy as set prior to the hand-over of Hong Kong to China and as stipulated by the Basic Law. This is essential for the free enterprise economy of Hong Kong, as it guarantees the right of its people to private property and to engage in legitimate economic activities. It also guarantees the unrestricted economic environment of Hong Kong and prevents government intervention in Hong Kong's economic affairs, which would have a negative impact on the status of the territory as a bastion of free enterprise. This status has been the major factor for the phenomenal economic growth of Hong Kong and its continued attractiveness to local and international investors. Finally, the continuation of rule of law is a guarantee against any attempt on the part of the Chinese government to intervene in the internal affairs of Hong Kong and to impose its laws and regulation on that territory.

The Hong Kong courts are in charge of upholding laws, rights, and freedoms, including respect for private property and all rights and laws necessary for the continuation of economic activities. These courts are independent and exercise jurisdiction over all cases except those falling under the jurisdiction of China's central authority, namely defense and foreign affairs.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Hong Kong has a superb infrastructure, which meets its population's needs and contributes to the efficiency and growth of the economy. Hong Kong has an advanced land, sea, and air transport and communications system, including 1,831 kilometers (1,138 miles) of paved roads (1997 est.) and 34 kilometers (21 miles) of electrified railways (1996 est.). The railway system is one of the most efficient systems of the world and is connected to Chinese railways via the Kowloon peninsula. The construction of 3 new lines was begun in 1998. In 2000, the Hong Kong government hinted at a huge project to construct 6 more lines to facilitate (make easier) rail traffic between Hong Kong Island and the rest of the territory and also to improve freight links with mainland China to meet the expected future needs.

Hong Kong's land transportation services are very efficient. To decrease the level of air pollution, its government encourages the use of public transportation

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Hong Kong	792	684	431	61.8	475	54.3	254.2	142.77	2,430
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
South Korea	393	1,033	346	138.3	302	N/A	156.8	55.53	10,860

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

services and discourages the use of private cars in its small territory. It therefore keeps improving public transportation services while increasing the cost of maintaining private cars through various measures such as high car-registration fees, a compulsory inspection for cars over 6 years old, and a point system to disqualify offending drivers. Public transport facilities include the mainly underground Mass Transit Railway, which provided services to 2.2 million passengers every working day in 1999. It also includes very efficient bus services run by 4 private companies, supplemented by public and private light minibus services. A line of streetcars, about 18,000 taxis, 113,770 cargo vehicles, and 321,617 private cars further facilitated passenger movements in 1999.

Sea communications are vital for Hong Kong, both for trade and daily life. There are at least 5 major ferry companies providing daily service between the islands where its population lives and works. Hong Kong is a major port in Asia and one of the busiest container ports in the world. It handled 6.2 million twenty-foot containers in 1999. To meet future increases in cargo handling, an expansion of its container terminal facilities began in the same year.

Hong Kong's eminent status as a major international port could be undermined in 2 ways. First, Taiwan and Singapore rival Hong Kong by improving their port facilities regularly. Second, a major portion of Hong Kong's cargo handling is shipping of re-exports to and from China, which will decrease as China develops its mainland ports. Besides its good port facilities, Hong Kong has a very advanced commercial fleet, which operated 38,000 vessel departures in 1999. In the same year the capacity of its cargo fleet was 215,226 metric tons.

Hong Kong has high-quality private airlines and was home to 3 modern airports with paved runways and 2 heliports as of 1999. A new Hong Kong international airport, Chek Lap Kok Airport, replaced the old international airport (Kai Kak airport) in 1998. Kai Kak Airport handled 30 million passengers and 1.6 million tons of cargo in 1997. Located on Lantau Island, the new airport is one of the world's best airports, and is capable of handling up to 460 flights a day. Its annual passenger and cargo capability is 87 million passengers and 9 million metric tons of cargo, respectively.

Hong Kong's utility services are excellent even though they are highly dependent on imports for their daily operations. The territory has no source of fresh water, which makes it dependent on China for all its water needs to run its efficient water system.

Hong Kong has the highest rate of energy consumption per capita in Asia. For example, in 1998 its electricity consumption per capita was 5,569 kilowatt hours (kWh) compared to mainland China's 922 kWh. Hong Kong imports all its needs in fuel for private and commercial consumption, and power generation amounted to 18 million metric tons of oil in 1998. Hong Kong also imports gas from China and liquified gas through oil companies such as Shell, Mobil, Esso, Caltex, and China Resources, while producing gas from naphtha (a mixture of liquid hydrocarbons made from distilling petroleum, coal tar, and natural gas) at home. The value of its energy imports increased from about US$3 billion in 1998 to US$3.5 billion in 1999.

Two private companies supply electricity to Hong Kong and each has a **monopolized** area. In addition to the generated electricity in its 3 fossil-fuel power stations, Hong Kong imports electricity from China, including from the Daya Bay atomic power station, a Chinese government-Hong Kong **joint venture**. The power generation capacity of the 2 private companies (9,590 megawatts [mw] in 1998) is well above the demand (8,620 mw in 1998). This guarantees a continuous supply of uninterrupted power.

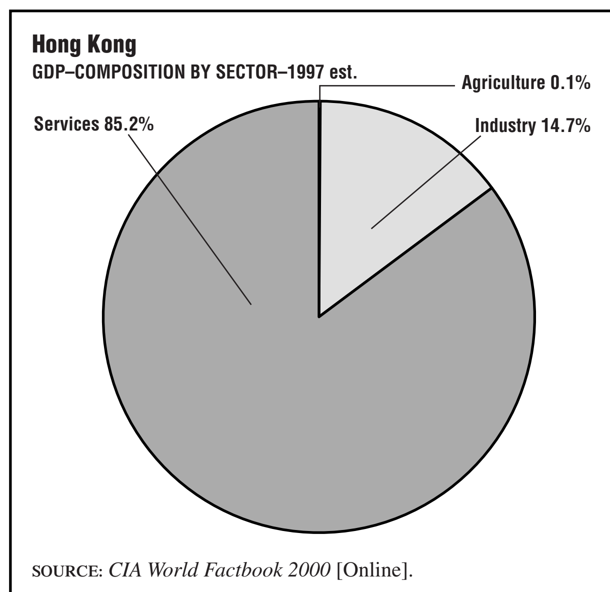
The telecommunications system of Hong Kong is excellent, consisting of fixed-line and cellular services. In 1998, there were 3.7 million fixed-line telephones and 2.4 million cellular phones in use. Hong Kong has one of the highest rates of usage of cellular phones in the world. In 2000, for instance, 55.6 percent of its population (3.9 million people) owned cellular telephones, an increase of 1.5 million from 1998. Personal computers are widely used and their availability is high (254 computers per 1,000 people in the same year). Internet services were provided by 49 Internet service providers in 1999.

Cable & Wireless HKT, a private company, dominates the telecommunications market. It had a 100 percent monopoly until 1997, when the Hong Kong government began to end its monopoly by encouraging competition. Through licensing of 3 new companies, the government reduced the market share of Cable & Wireless HKT to 97 percent in 2000. In that year it announced the licensing of 5 more companies.

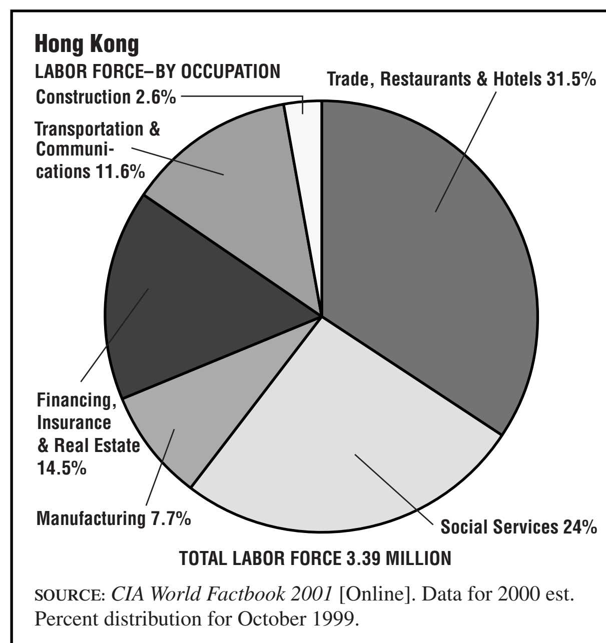
Radio and television services are also advanced. In addition to foreign cable and satellite TV programs, 20 AM and FM radio stations and 4 television networks were operating in 1997. The number of televisions and radios in use in that year were estimated to be 1.84 million and 4.45 million, respectively.

ECONOMIC SECTORS

The economy of Hong Kong survived the financial crisis of 1997–98. This service-dominated economy began its recovery in 1999 and continued it in 2000 thanks to its viable service sector. To a varying extent, the 3 eco-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for October 1999.

nomic sectors suffered from the crisis. The impact of the crisis on agriculture, the smallest sector with a very small contribution to the Hong Kong economy, was negligible. However, the industry and particularly the service sectors suffered considerably and experienced contraction during the crisis period. The CIA *World Factbook* reported the percentages of each sector's contribution to GDP in 1997 to be agriculture, 0.1 percent; industry, 14.7 percent; and services, 85.2 percent. As the largest and dominant economic sector, the service sector has always been the engine of growth and includes international trade, financial services, tourism, retail, and real estate. These service industries are the largest employers and taxpayers.

The industry and service sectors have undergone structural changes over the last decades. The catalyst has been the gradual relocation of large and labor-intensive manufacturing to mainland China, which began in the early 1980s. This trend has been reinforced since the 1997 hand-over of Hong Kong to China. As a result, the industry's manufacturing branch has been shrinking. The service sector has been expanding to re-orient itself towards functions pertaining to China's international trade.

The reunification with China has not changed the business-friendly environment of Hong Kong. As promised, China has respected the autonomy of the territory in its internal affairs, including its economic policies. China's approach has bolstered the confidence of the local and international business community in the stability and predictability of Hong Kong, which became somewhat shaky on the eve of the 1997 hand-over. Hong Kong is as friendly as ever to local and foreign investors, including Western (American, British, French, Swiss, and Dutch) and non-Western (Japanese and South Korean) **multinational corporations** (MNCs).

AGRICULTURE

Hong Kong has a small agricultural sector, including fisheries, with a very limited productivity and insignificant role in the economy. Its contribution to GDP and share of the workforce was about 0.1 percent in 1998. The available arable land is extremely limited in Hong Kong, where land is generally scarce. Less than 7 percent of Hong Kong's land is used for agricultural activities, i.e., farming and fish farming. As the available farming land cannot produce enough food for the Hong Kong population of more than 7 million, the population survives on large imports of agricultural products valued at US$8.32 billion in 1998, which fell to US$7.335 billion in 1999 as a result of the financial crisis. China is the main exporter of these products.

The scarcity of land has determined the nature of agricultural activities. Instead of land-intensive and low-priced rice and grain production, 2 lucrative activities (vegetable farming and flower growing) have become the dominant activities, accounting for 93 percent of the total value of crops grown in 1998. The scarcity of pastoral land sets limits on animal husbandry, and has led to the rearing of only poultry and pigs. Domestic production accounted for 10 percent of live poultry and 16 percent of live pigs in 2000.

Fishing is a very small source of employment, but its products meet a significant portion of demands for seafood. They amounted to 75 percent of the fresh marine consumption and 11 percent of the freshwater fish consumption in 2000. Fish ponds produced 4,900 metric tons of freshwater fish in 1998, and the fresh marine catch

was 188,000 metric tons. In 2000, the fishery fleet consisted of 4,460 vessels of various sizes, of which 3,820 were motorized.

INDUSTRY

Industry has experienced a slow decline over the last 2 decades. Its contribution to GDP was 15.2 percent (equal to US$23 billion) in 1998, a significant decrease from its 1990 contribution of 17.7 percent. Its share of the workforce, which was 28 percent in 1990, dropped to about 15 percent in 1998. The decline of industry has been the outcome of a steady contraction in manufacturing, the result of the continued relocation of manufacturing establishments to mainland China. Manufacturing's share of GDP sharply fell from 24.3 percent in 1984 to 6.2 percent in 1998. The constant expansion of the service sector has also contributed to the process of decline. Other activities, such as construction, energy, and mining, are not significant enough to stop the steady decline of the industrial sector.

The largest sector of industry is manufacturing. It is a major contributor to GDP (6.5 percent in 1998) and the workforce (7.3 percent in 1998, or 245,457 employees). Manufacturing's contribution to the workforce dropped to 7 percent (244,720 employees) in 1999, and the value of manufacturing exports also fell from US$10.31 billion in 1998 to US$9.42 billion in 1999, suggesting that the sector was beginning to contract.

There were 23,553 manufacturing establishments in Hong Kong in 1998. Known as "flatted factories," these establishments are mostly very small and located on 1 or 2 floors of a high-rise building. The average number of employees per establishment is 10. The migration of many large and labor-intensive industries to mainland China resulted in the loss of more than 500,000 industrial jobs in the 1990s.

Certain factors have created "natural" barriers to the growth of the manufacturing sector and have forced a peculiar pattern of development on it. Scarcity of land, the absence of mineral resources, the high cost of labor, and the close proximity to China have ruled out the establishment of heavy industry or other land- and labor-intensive industries in Hong Kong. Prior to the 1980s, Hong Kong produced mainly labor-intensive consumer products, including food, beverages, clothing, textiles, printed products, and fabricated metal products. Being a resource- and land-rich country with a very low-wage **labor force**, China became a "natural" place for Hong Kong's manufacturing in the 1980s. Improved relations between the 2 sides made the relocation of major industries to China feasible. China's growing interest in foreign investment facilitated the process.

The result was a re-structuring of Hong Kong's manufacturing sector. Labor-intensive and sophisticated industries were moved to China, mainly to the neighboring Guangdong Province, while light and capital-intensive industries were kept in Hong Kong. This trend is continuing. Given the removal of all political barriers and the willingness of the Chinese government, it is simply logical for Hong Kong industrialists to continue their establishment of the labor- and land-intensive industries in China where they have access to minerals, low-cost labor, and abundance of land. Their products are exported via the very modern and efficient port of Hong Kong.

The existing Hong Kong industries are small-scale operations. They are involved mainly in certain manufacturing processes pertaining to re-exporting goods produced in China by Hong Kong-owned establishments. These processes can involve the packaging of goods produced on the mainland, for instance. However, there are still export-oriented industries that produce textiles, electronics, plastics, and watches and clocks. The textile industry is the largest industrial employer and accounts for the bulk of annual domestic industrial exports, accounting for 45 percent (US$11.3 billion) and 49 percent (US$10.79 billion) of those exports in 1998 and 1999, respectively.

The electronics industry, including telecommunications, is the second largest export earner, but it is small and underdeveloped. The value of its exports was US$4.24 billion in 1998 and US$3.55 billion in 1999. Its products are generally of lower quality compared to other Asian products such as those of Singapore and Taiwan. Its rapid growth over the last 3 decades is owed to large foreign investments and transfer of technology. This situation makes it highly dependent on foreign sources for investments and parts; local industries can produce only 20 percent of the necessary parts. The electronics industry produces various sophisticated products, including semiconductors, computers, televisions and telecommunications equipment. The Hong Kong government has sought to help expand this industry, especially in the fields of computer products, in order to diversify the economy, now heavily dependent on services.

The plastics industry has been shrinking in Hong Kong, with most of its manufacturing establishments being moved to China. Nevertheless, Hong Kong is one of world's largest toy exporters. The exports of plastic goods generated about US$210 million in 1998 and US$163 million in 1999.

A major component of the industrial sector is the construction industry. It accounted for 6.1 percent of GDP and employed 2.2 percent of the workforce (72,253 employees) in 1998. In the aftermath of the Asian financial crisis, a decline in construction activities lowered its share of the workforce to 2.1 percent (71,789 workers)

in 1999, but government-financed infrastructure projects increased its share to 79,300 employees in June 2000. The constant government investment in infrastructure and private sector investments in related fields (such as housing and commercial establishments, which total more than 50 percent of investments in the sector) make construction a viable industry.

The industry has gone through periods of expansion and contraction for political and economic reasons since the 1980s. Politically, the smooth hand-over of Hong Kong to China encouraged investment in private and commercial construction projects in 1998 and 1999. Recent economic factors include a 1994 government policy on buying and selling unfinished apartments. That policy made those transactions more difficult and therefore lowered property prices, resulting in a reduction in investment in apartment building projects. Thanks to a wide range of road and railway expansion projects, the construction industry is expected to experience a period of growth in the first half of the decade (2000–10).

The utility industry is a vital sector in Hong Kong, which lacks freshwater and fossil energy resources. As discussed earlier, several companies ensure uninterrupted supplies of water and energy (electricity and fossil fuel) for private and commercial purposes through imports of water and both limited local production and large imports of energy. Despite its importance, the utility industry is small and employs an insignificant portion of the workforce, but its contribution to GDP is significant (2.4 percent in 1998).

There is no mining industry of any significance in Hong Kong, as the territory lacks mineral resources. The share of mining and quarrying activities of GDP was about 0.02 percent in 2000. Cement production is the most important activity of this sector.

SERVICES

The service sector dominates the Hong Kong economy. In the absence of a significant agriculture and a large and growing industrial base, it has become the largest economic sector in terms of income-generation, employment, and contribution to GDP. The contraction of the manufacturing sector has contributed to further enlargement of the service sector to absorb the growing number of those laid off from manufacturing jobs, a continuing trend since the 1980s. So far, this strategy has been successful, but there are concerns about the future ability of the service sector to absorb manufacturing job losses, especially because many of the affected workers are middle-aged and/or unskilled or poorly skilled. The contribution of services to GDP was 84.7 percent (equal to US$129 billion) in 1998, when they employed roughly the same proportion of the workforce.

The service sector consists of a wide range of companies of various sizes—local and foreign, including multinational corporations (MNCs)—interested in Hong Kong for its many opportunities for service activities. The major services are financial, trade, tourism, retail, real estate, and transportation.

Finance, insurance, real estate, and investment services are the most viable economic activities, which have made Hong Kong a major global financial center. These services accounted for 26.2 percent of GDP and employed 390,454 people (11.6 percent of the workforce) in 1998. The number of employees rose to 415,326 (11.9 percent of the workforce) in 1999, and to 429,300 (about 12 percent) in June 2000.

Banking is the heart of Hong Kong's financial services. In terms of the volume of external transactions, Hong Kong is the ninth-largest international banking center in the world. It is home to many local and foreign-owned banks. Banking makes a major contribution to the growth of the Hong Kong economy, and the huge revenues generated in this sector help the territory to tolerate fluctuations in its manufacturing exports and pay its foreign debt.

Hong Kong does not have a central bank, but the Hong Kong Monetary Authority (HKMA) assumes some of the functions of a central bank, namely monetary management, supervision of the banking sector, and regulating financial institutions. However, the issuance of banknotes is the task of 3 banks: the Hong Kong and Shanghai Banking Corporation (HSBC), the Standard Chartered Bank, and the Bank of China. In 2000, Hong Kong's banking system consisted of 285 authorized banks and 127 representative offices of other financial institutions. Of Hong Kong's 158 licensed (full-service) banks, 125 were registered outside Hong Kong.

Most major American, Japanese, and European banks operate in Hong Kong. There are also Thai and Taiwanese banks as well as 3 major state-owned banks from mainland China. In general, foreign banks concentrate mainly on large business clients (such as MNCs), unlike local banks, which tend to be more interested in small- and medium-size clients. Apart from its importance as an international trading center, Hong Kong's access to the growing market of China is the major reason for its attractiveness to foreign banks, through which they can enter the Chinese market. Foreign banks have a free hand for banking operations. The only restriction on their activities is a limit on their branch operations, meaning that in 2000 they could have only 3 branches.

The large and efficient insurance industry of Hong Kong is among the best such industries in Asia. This growing segment of the economy consists of 204 authorized insurers, of which 148 are general insurers, 43 long-term

insurers (mostly life insurers), and 19 combined life and non-life insurers. The insurance companies include foreign ones, e.g., American (22) and British (18). In general, the industry has experienced growth over the last decade, excluding the year 1999, when the economy was not performing well. Its average annual growth rate was 10.7 percent during the period 1993 to 1998.

Hong Kong's retail sector is well developed. The total value of retail sales was about US$25 billion in 1998, equal to 15 percent of GDP. The industry includes a wide range of establishments, including small privately-owned stores, foreign department store chains (e.g., British and Japanese), supermarkets, and domestic retail chains. There are also many large shopping malls housing a wide range of stores. The retail industry includes a large network of restaurants, including international franchises.

Hong Kong's transportation industry, including storage and communications, has developed over the last few decades to meet growing demand in international trade and internal movement of goods and people. As mentioned previously, the territory has an advanced land, sea, and air transportation infrastructure. This industry is a major contributor to GDP, accounting for 9.1 percent in 1998 (equal to US$14.88 billion), and a large employer with 175,000 employees in the same year. The number of employees jumped to 180,600 in June 2000, which indicated 3.2 percent growth from 1998.

The vivid night-life of Hong Kong, including its numerous night clubs and restaurants, and its low-priced imported goods (thanks to the absence of tariffs) attracts millions of tourists to this small territory every year. To host and entertain them, Hong Kong's tourist industry has become extensive and highly developed. The industry makes a significant contribution to GDP (4.15 percent in 1998 and 4.09 percent in 1999) and generates employment for a large portion of the workforce. Restaurants and hotels are major employers of this industry. Together with trade, they accounted for 27.2 percent (equal to 913,070 jobs) and 28.8 percent (equal to 1,002,263 jobs) of the workforce in 1998 and 1999, respectively. There are many hotels, including local and foreign five-star hotels, with 35,420 total rooms in 1999, which are fully capable of providing high-quality services to tourists. In the same year, 10,678,000 tourists visited Hong Kong and generated US$6.5 billion in revenues. In comparison to 1998, this showed an increase of 1,103,000 tourists, but a decrease of US$300 million in revenue. The major factors responsible for this phenomenon were an increase in the number of low-income Chinese visitors at the expense of high-income non-Chinese visitors that led to an overall fall in spending per head from US$715 in 1998 to US$615 in 1999.

A decline in the number of non-Chinese tourists and in the average amount of tourists' spending has created a concern about the declining interest in Hong Kong as a tourist destination. Apart from short-term reasons, 2 major factors endanger the industry in the long run. One factor is the existence of less expensive destinations in Asia offering the same quality of services (such as Singapore). Another is the expected easing of travel restrictions between China and Taiwan. This development may diminish the attractiveness of Hong Kong for the Chinese and especially for high-spending Taiwanese who have had to go through points such as Hong Kong to get to each other's countries, because of the current travel restrictions between China and Taiwan. To address this concern and to ensure a significant increase in tourism, the Hong Kong government has sought to attract more tourists through a joint venture with an American company, Walt Disney, to establish a theme park. It is expected to bring 5 million visitors in its first year of operation (2005) and 10 million by 2020.

INTERNATIONAL TRADE

International trade is Hong Kong's most important economic activity. Its government policy towards trade reflects Hong Kong's status as a center of free trade. This policy contains minimum restrictions and allows the market forces to regulate exports and imports. It therefore proscribes protective measures (e.g., tariffs and quotas) and **subsidies** as a means for avoiding **balance-of-trade** deficits.

Hong Kong is a major exporter and importer of goods and services in Asia. It exported US$175.8 billion in goods and US$34 billion in services in 1998. In the same year the value of its imports was US$183.7 billion for goods and US$11.7 billion for services. As a result of the financial crisis of 1997–98, the value of its international trade decreased in 1999 when it exported US$174.7 billion worth of goods and US$35.7 billion worth of services while importing US$177.9 billion in goods and US$13.2 billion in services.

Exports consist of goods produced in Hong Kong (domestic exports) and those produced in Hong Kong-owned industries in China (re-exports). Re-exporting has become the largest component of Hong Kong's trade since the early 1980s, when its large and labor-intensive industries began to move to mainland China. For example, between 1986 and 1996, the volume of re-exports and domestic exports rose by about 700 percent and 17.3 percent, respectively. The small contribution of domestic exports to total exports was evident in 1999, for instance, when the total value of exports of goods was US$174.7 billion, of which the share of domestic exports was only US$21.9 billion. Because of the growing value of re-exports, Hong Kong has experienced a constant balance-of-trade deficit since the 1980s. As recent examples, the deficit was

Trade (expressed in billions of US$): Hong Kong

	Exports	Imports
1975	6.026	6.766
1980	19.752	22.447
1985	30.187	29.703
1990	82.160	82.490
1995	173.750	192.751
1998	173.990	184.503

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Hong Kong

Hong Kong dollars (HK$) per US$1	
Jan 2001	7.7990
2000	7.7912
1999	7.7575
1998	7.7453
1997	7.7421
1996	7.7343

Note: Hong Kong became a special administrative region of China on July 1, 1997; before then, the Hong Kong dollar was linked to the US dollar at the rate of about 7.8 Hong Kong dollars per US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

US$17.298 billion in 1997, US$7.833 billion in 1998, and US$3.158 billion in 1999.

Consumer goods and light manufactures are the major exports of Hong Kong. In order of importance, they include apparel and clothing, electrical machinery and apparatus, textile yarn and fabric, office machinery and data processing equipment, watches and clocks, telecommunications equipment, jewelry, printed matter, plastics, toys, games, and sports goods. The major re-exports consist of consumer goods, raw materials, metals (iron and steel), semi-manufactures, **capital goods**, foodstuffs, and fuels. Hong Kong's major imports include consumer goods, raw materials, semi-manufactures, capital goods, foodstuffs, and fuels.

Hong Kong has lost most of its manufacturing capability since reunification with mainland China. Its most important domestic export industries are garments, textiles, and clothing, which accounted for 49 percent of its 1999 domestic exports. The Hong Kong government has tried to diversify this sector by encouraging the high-tech industry, which has expanded over the last decade, but its share of domestic exports is still small. For example, telecommunications equipment accounted for 2.2 percent of the domestic exports in 1999, valued at US$486 million.

The major trading partners of Hong Kong are China, the United States, Japan, the United Kingdom, and Taiwan. Its main export destinations in 1999 were China (33.4 percent), the United States (23.8 percent), Japan (5.4 percent), and the UK (4.1 percent). In the same year, its main sources of import were China (43.6 percent), Japan (11.7 percent), Taiwan (7.2 percent), and the United States (7.1 percent). Because of re-exports, China has become the largest trading partner of Hong Kong.

MONEY

The government of Hong Kong pegged the Hong Kong dollar to the U.S. dollar in October 1983 at a **fixed exchange rate** of HK$7.8 against US$1, and has continued this relationship as of 2001. Meant to ensure the stability of the Hong Kong dollar, this policy has been implemented under the Linked Exchange Rate System. This system subjects any change in the size and flow of the money in circulation to a corresponding change in the foreign exchange reserves of Hong Kong. This occurs whether as a result of Hong Kong's domestic resources or as a result of an inflow of foreign capital. Accordingly, the 3 banks in charge of issuing bank notes can do so only if they deposit an equivalent amount of U.S. dollars in an exchange fund kept by the Hong Kong Monetary Authority (HKMA) for any amount of HK dollars that they want to issue. The equivalent amount of these foreign currencies is determined at the fixed exchange rate of HK$7.8/US$1. Apart from this official **exchange rate**, there is also a free-**floating exchange rate**. This exchange rate has remained around 7.7 since 1995. While the official exchange rate of the HK dollar against the U.S. dollar is fixed and determined by the HKMA, the exchange rate of the HK dollar against any other major currency follows the U.S. dollar exchange rate against that currency, which makes it a free-floating rate.

The HKMA maintains the stability of the HK dollar-U.S. dollar exchange rate through an automatic interest-rate adjustment mechanism. This requires the control of local **liquidity** and interest rates. Through this mechanism, Hong Kong has managed to have monetary stability and avoid high **inflation rates** and sharp fluctuations in the value of the national currency. This has made a major contribution to the stability and growth of its economy, which has not experienced long and sudden periods of economic declines with their destructive impacts on employment and prices. The Hong Kong monetary policy has also helped its economy cope better with the financial crisis of the late 1990s, which devastated many Asian economies. However, this policy has a negative side since it links the HK dollar to the U.S. dollar and leaves little room for independent monetary

policy of Hong Kong since it has to follow that of the United States.

Consistent with its status as a strong base for free enterprise, there is no official control on foreign currency exchange transactions in Hong Kong. Regardless of their size, there is no restriction on transfers to and from Hong Kong of funds in any currency, including the HK dollar.

The Stock Exchange of Hong Kong (SEHK) was established in 1986 as a result of the merger of 4 stock exchanges. Having a **market capitalization** of US$616.3 billion (June 2000), the SEHK is one of the world's major stock markets, and the second largest stock market in Asia after Japan.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Hong Kong	7,404	11,290	13,690	18,813	21,726
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
South Korea	2,894	3,766	5,190	7,967	11,123

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

Hong Kong is a prosperous territory with a high **GDP per capita** (US$18,813 in 1998). However, the distribution of income is uneven and there is a wide gap between social groups in terms of wealth and income. Large parts of the economy are dominated by a small group of tycoons who are among the richest people in the world and whose wealth is increasing. At the same time, there is a growing number of unemployed with practically no chance for rejoining the workforce. They are the victims of the migration of manufacturing establishments to mainland China who are middle-aged and unskilled or whose skills are not in demand. The service sector has absorbed a large portion of manufacturing unemployed since the 1980s, but the continuation of this trend is unlikely, since the skills of the unemployed often do not match those of the available positions.

The role of the Hong Kong government in the economy is minimal, but it has an extensive role in providing essential services, including health care, education, and housing. The health-care system, which provides high-quality standard services, is accessible by the entire population. Government-run hospitals dominate the medical institutions and provided 85 percent of hospital beds in 1996, but there are also private medical clinics and hospitals. Government-provided health-care services are not free, but their fees are low, as these services are subsidized. Costs of medical services can be waived if patients cannot afford them. Government spending on the health-care system receives a large percentage of its total annual spending, increasing from 11.1 percent in 1989–90 to 14.3 percent in 1996–97. The government has considered reforming the health-care system since the cost has been increasing. If the current situation continues, this cost will absorb 21 to 23 percent of total government spending in 2016. Government spending on health-care services amounted to US$3.4 billion in 1998–99. Hong Kong's high life expectancy (78.6 years in 1998) ranks the territory fifth among the top developed economies after Japan (80 years), Canada (79.1), and Sweden and Switzerland (78.7 years). This rank puts it far ahead of China with its life expectancy of 70.1 years in 1998. In addition to the absence of widespread malnutrition and the availability of safe water and adequate sanitation, Hong Kong's impressive high life expectancy indicates the efficiency of its health-care system.

Hong Kong has a very good system for basic education, thanks to significant government spending. Total public funds spent on education were equal to 4.2 percent of GDP (US$4.6 billion) in 1998–99, an increase of about US$500 million from the previous year. About 92.9 percent of its population was literate in 1998. The government provides free and compulsory education for children between the ages of 6 and 15. Children over the age

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Hong Kong	10	17	4	2	8	6	54
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
South Korea	18	3	7	5	14	6	48

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

of 14 who wish to continue their studies at the high-school level must pay for their education, but there are government subsidies for those who cannot afford it. In 1998, for example, the government subsidized the education of 84 percent of children of school age. Hong Kong's post-secondary educational system includes 7 universities, which offer degree programs to 18 percent of the 17–to–20 age group who wish to enter university programs. There were 65,800 university students in 1998, an increase of 11,800 from 1994.

Despite its merits, the education system has certain problems. Its inability to train people with the skills required for the economy is the main problem. This has resulted in a vacancy of thousands of jobs in the high-tech industry, for instance, while there is a large number of unemployed with skills irrelevant to the changing economy. Another significant problem is discrimination against the physically and mentally disabled in education, despite the existence of anti-discrimination laws. Finally, some primary schools operate 2 sessions a day at the expense of lowering educational standards.

WORKING CONDITIONS

Hong Kong has a large and growing labor force. Its numeric strength has increased steadily from 3,000,700 in 1995 to 3,476,600 in 1999, in spite of the 1997–98 financial crisis. Over the last 3 decades, Hong Kong's unemployment rate has usually been small. The average unemployment rate during from 1985 to 1997 was 3.5 percent, as the growing service sector could easily absorb many of those who had lost their manufacturing jobs. During the 2 years prior to the financial crisis, the unemployment rate declined from 3.2 percent in 1995 to 2.6 percent in 1996, and to 2.2 percent in 1997. The crisis and its aftermath pushed the rate up to 4.7 percent in 1998 and 6.2 percent in 1999 (equal to 217,100 people). The latter was a record high for Hong Kong. The rate fell to about 5 percent in 2000.

The overwhelming majority of Hong Kong's workforce is employed in urban economic establishments, due to the insignificance of agriculture. The workforce is a mixture of skilled and unskilled workers. The old and middle-aged manufacturing workers tend to be unskilled or low-skilled, whereas those employed with the growing service industries are more likely to be better educated and possess more advanced skills, including those related to high-tech and information technology. There was a shortage of skilled workers for the service sector as well as for the growing high-tech manufacturing sector in 2000.

In keeping with its emphasis on free enterprise, Hong Kong gives the market the authority to determine wages. Apart from a small number of professions with a uniform wage structure, wages are determined by supply and demand. Individual agreements between employees and employers set wages. Thus, there is no minimum wage except for foreign domestic workers, which was set at about US$500 per month in 1998. Employers of such workers are required by law to provide a decent standard of living for their employees, including housing and food, but the law is not widely observed. Two-income households are common in Hong Kong, although the average wage is usually adequate for most workers and their households. In addition to wages, some employers provide their employees with various kinds of allowances (e.g. free medical services and daycare centers), but employers are not obliged by law to do so. As part of the social safety net, employees are entitled to benefits such as pensions, disability insurance, and food assistance.

Hong Kong is a member of the International Labor Organization (ILO), and has laws and regulations on working conditions. These include laws on safety and health conditions at the workplace verified by government inspections. Workers' safety has improved over the last 2 decades, partly because of such inspections and partly because of the transfer of many high-risk manufacturing jobs to China. Nevertheless, there are still many serious safety problems.

Labor laws also include workers' rights, in accordance with international agreements. For example, the right of association is recognized, and trade unions are legal. There were 558 employee unions in 1998, but they represented only 22 percent of the 3.1 million salaried employees and wage earners. Unions are not strong and are unable to impose collective bargaining on management. Consequently, collective bargaining is not widely practiced as a means of settling labor disputes. Generally speaking, work stoppages and strikes are permitted, but there are some restrictions on civil servants' involvement in such activities. In practice, these activities could lead to loss of employment since most workers must include an article in their employment contracts that their refusal to work is a breach of their contracts. This gives the right to employers to dismiss workers involved in strikes or stoppages. There have not been major strikes or similar labor activities over the last 2 decades.

Hong Kong's labor laws also include provisions to ensure the rights of certain social groups and prevent their exploitation. In general, forced labor is prohibited. Employment of children under the age of 15 in industrial establishments is also prohibited. Nevertheless, children between 13 and 14 years of age with a minimum of 9 years of education can work in certain non-industrial establishments if their employers can ensure their safety, health, and welfare. These children are not allowed to work overtime and cannot work for more than 8 hours a day and 48 hours a week. With the exception of male

workers of 16 and 17 years of age, children are not allowed to work in dangerous trades. There is also an anti-discrimination law to protect women in the labor market. Women are well-represented in government and in the civil service (46 percent of senior civil servants are women), but they are not nearly as numerous in other prestigious areas. This includes the judiciary, where only 18 percent of senior employees (judicial officers and judges) are women. The physically and mentally disabled are discriminated against in employment and education in spite of the existence of anti-discriminatory laws.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1841. Hong Kong is seized by the British navy at the height of the first opium war (1839–42). The Chinese government is forced to accept Britain's sovereignty over the island by signing the Convention of Chuenpi.

1842. The British Royal Charter formally establishes Hong Kong as "a separate colony." The British government proclaims Hong Kong a free port, which encourages **immigration** from mainland China to Hong Kong. The United States government establishes the first foreign consulate in the colony.

1844. To control the Chinese population, the Hong Kong Legislative Council (Legco) passes a restrictive law which leads to a general strike, the return of many workers to China, and the paralysis of businesses. The Legco amends the law to restore normalcy.

1856. The Second Opium War (1856–58) begins. The Chinese workers of Hong Kong go on a strike and boycott British businesses.

1860. Britain expands its holdings in China by occupying Kowloon and Stonecutters Island. The Treaty of Beijing legalizes the occupation by leasing these lands to Britain in perpetuity.

1860s. Hong Kong's population grows significantly as a result of migration from mainland China. Its economy begins to flourish. Hong Kong's infrastructure emerges, including telegraph systems, street gas lighting, and secular schools.

1898. In the aftermath of the Sino-Japanese war (1894–95), the British government forces the weakened Chinese government to cede to Britain the New Territories and 235 islands in the proximity of Hong Kong on a 99-year lease to expire in June 1997.

1911. The Wuhan Uprising in Canton overthrows the Chinese Empire and makes its leader, Dr. Sun Yat-sen, the first president of China.

1920. Around 9,000 Hong Kong mechanics go on strike and leave for Canton. The subsequent paralysis of commerce leads to a wage increase and the settlement of the labor dispute.

1921. The Hong Kong government has to accept a wage increase for seamen similar to the one given to the mechanics in 1922 to end a general workers' strike.

1926. In October, the long general strike of Hong Kong's workers, in which 30 percent of the workforce participates, ends when the British Foreign Office agrees to change some of its unequal economic treaties with China.

1937. The Sino-Japanese War begins. The Japanese navy lands at Bias Bay in the New Territories.

1939. Japanese military forces occupy Hong Kong's Hainan Island.

1941. On 8 December, Japan invades Hong Kong. Governor Young accepts defeat and surrenders to the Japanese commander on 25 December.

1949. The Chinese Communist Party wins the civil war in China and declares the establishment of the People's Republic of China (PRC) on 1 October.

1950s. Hong Kong's population increases to 2.5 million as a result of the flight of hundreds of thousands of refugees from mainland China.

1961. Hong Kong's population increases to 3.1 million.

1970. Hong Kong's population grows to 4 million.

1979. As part of improving ties between China and Britain, China invites Hong Kong governor MacLehose for an official visit to discuss certain issues, especially the expiration of the New Territories lease in 1997.

1980. Hong Kong's population increases to 5.2 million. Hong Kong governor MacLehose announces the "Touch Base" policy to stop illegal immigration from China, which provides for the return of illegal immigrants to China.

1982. In September, British prime minister Margaret Thatcher visits Beijing to begin negotiations about the future status of Hong Kong.

1983. In July, the first official round of Sino-British talks over the future status of Hong Kong begins. In October, the Hong Kong dollar is pegged to the U.S. dollar at a rate of HK7.8 against US$1.

1984. The British and Chinese governments sign the Sino-British Joint Declaration regarding the peaceful hand-over of Hong Kong to China on 1 July 1997.

1985. In September, the Hong Kong government holds the first elections for Hong Kong's legislative body, the Legco.

1990. China's National People's Congress passes the Basic Law to serve as its mini-constitution based on the principle of "one country, two systems."

1991. In June, the Bill of Rights of Hong Kong is enacted with the power to override all other laws.

1994. Hong Kong holds its first fully democratic elections, and pro-democracy parties win a majority in the Legco. Selecting from among Hong Kong nationals, China appoints a 150-strong Preparatory Committee to lead Hong Kong's transfer to China. Over half of the committee are from Hong Kong's business elite.

1996. In December, China selects a Hong Kong tycoon, Tung Chee-hwa, to be Hong Kong's first chief executive after the 1997 hand-over.

1997. On 1 July, the British government returns Hong Kong to China, which is renamed as the Hong Kong Special Administrative Region (SAR) of the People's Republic of China. Its Basic Law guarantees legal, judicial, and legislative systems independent from those of China and full economic autonomy.

1998. Hong Kong signs a treaty with China to eliminate double taxation of their respective businesses operating in each other's territory. In May, a Legco is formed by elections, which replaces the Provisional Legislative Council (PLC).

2000. In September, a new Legco is formed by elections.

FUTURE TRENDS

Hong Kong has a very strong economic base, which has enabled it to tolerate periods of economic hardship. Its economic strength helped it survive the severe financial crisis of the late 1990s with minor damage, compared to the extensive devastation of many Asian economies. This strong economic base will help Hong Kong to regain its losses and expand its economy to play a more significant role in global markets. Hong Kong's access to China will make a large contribution to the expansion of its economy and will elevate its international status. The migration of the manufacturing industry to mainland China has weakened the local industrial base and created unemployment, but it has also opened a very promising economic opportunity for Hong Kong. China's abundance of land and raw materials and its low cost of labor have addressed the major limitations of the Hong Kong manufacturing sector. These limitations have prevented it from growing in light and consumer industries and from establishing labor- and land-intensive industries, including heavy industry. Mainland China has thus offered to Hong Kong an opportunity for industrial growth and expansion of exports of manufactures. It has also offered its huge 1.3-billion strong market, the world's largest, for investment and exports. This has put the Hong Kong economy well ahead of many other developed economies, which have been trying to gain extensive access to China. Hong Kong's manufacturing will surely expand, and its role in its economy will become more prominent, but the service sector will remain the largest and most dominant sector and the engine of growth. This is partly because of the strength and the phenomenal size of that sector, which have enabled it to grow and will ensure its continuity. It is also partly because of its crucial role in the re-export of goods produced in China, including their packaging, shipping, handling, and marketing, as well as financing their production.

Hong Kong's high-tech and IT industries have a great potential for growth. The territory's private sector has taken steps towards that end while its government has encouraged private initiatives. The high-tech and IT industries should have a stronger presence in international markets over the next few years, even though they face a challenge from the more developed industries of Taiwan, Singapore, and South Korea.

The service industry has absorbed most of the unemployed workers of the manufacturing sectors, but it has been unable to find jobs for a growing number of them. Given the continued migration of manufacturing industries to mainland China, the number of these unskilled or low-skilled middle-aged unemployed workers will continue to grow. Unless the Hong Kong government or the service sector retrains them to find jobs in emergent industries, most of them will become permanently unemployed. Their frustration will likely contribute to social and political disorder in Hong Kong, which has not experienced such phenomena in its contemporary history.

DEPENDENCIES

Hong Kong has no territories or colonies.

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—Dr. Hooman Peimani

INDIA

Republic of India
Bharat Ganarajya

CAPITAL: New Delhi.

MONETARY UNIT: Rupee (Rs). Rs1 equals 100 paise. Coins are in denominations of Rs1, 2, and 5, and 10, 25, and 50 paise. Paper currency is in denominations of Rs5, 10, 20, and 50.

CHIEF EXPORTS: Clothing, engineering goods, chemicals, leather products, gems and jewelry, cotton fiber, yarn, fabrics.

CHIEF IMPORTS: Chief imports of India are crude oil and petroleum products, machinery, gems, fertilizer, chemicals.

GROSS DOMESTIC PRODUCT: US$497 billion (2001 est. of real GDP at market exchange rates). [The CIA *World Factbook* estimated the GDP at PPP to be US$2.2 trillion in 2000.]

BALANCE OF TRADE: **Exports:** US$46.0 billion (2001 est.). **Imports:** US$54.9 billion (2001 est.). [The CIA *World Factbook* estimated exports at US$43.1 billion in 2000 (f.o.b.) and imports at US$60.8 billion (f.o.b.).]

COUNTRY OVERVIEW

LOCATION AND SIZE. India is located in the south of the Asian continent, bordering the Arabian Sea and the Bay of Bengal. The country is slightly more than one-third the size of the United States. The country's territory is measured at nearly 3.3 million square kilometers (1.3 million square miles) extending from the snow-capped Himalayan Mountains in the north to tropical forests in the south. India shares more than 14,000 kilometers (8,800 miles) of borders with 7 neighboring countries. To the northwest are Afghanistan and Pakistan; to the north are China, Bhutan, and Nepal; and to the east are Burma (also known as Myanmar) and Bangladesh. A narrow channel of sea formed by the Palk Strait and the Gulf of Mannar separates another neighbor, Sri Lanka, an island nation with which southeast India shares strong cultural ties. The Indian mainland consists of 4 regions, namely the Himalayan Mountains, the plains of the Ganges and the Indus, and the southern desert. The Himalayas, which contains the highest peaks in the world, consists of 3 almost parallel ranges dotted with large plateaus and valleys, some of which, like Kashmir and Kullu valleys, are vast, fertile, and of great natural beauty. The plains of the Ganges and the Indus, about 2,400 kilometers (1500 miles) long and on average about 280 kilometers (175 miles) wide, are formed by the basins of 3 river systems of the Indus, the Ganges and the Brahmaputra Rivers. These fertile basins are among the most densely populated areas in the world. India is composed of 25 states and 7 union territories. The top 5 most populated states are Uttar Pradesh (140 million people), Bihar (86 million), Maharashtra (79 million), West Bengal (68 million), and Andhra Pradesh (67 million). The top 3 most populated union territories are New Delhi (10 million), Pondichery (800,000), and Chandigarh (650,000).

POPULATION. The population of India is estimated to have passed the 1 billion mark in May 2000 (1,014,000,000; July 2000 estimate). For centuries, India has been a land of startling contrasts. Maharajahs and millionaires, snake charmers and poor farmers, beauty queens and burnt brides, and a population explosion juxtaposed with high child and maternal mortality. The billionth citizen of this ancient land entered a country with 40 political parties and 24 official languages, each spoken by at least a million people. A cultural preference for male children (who are thought to bring prosperity to a household) has resulted in a significant gender disparity with 927 females to every 1,000 males. The 2 relatively prosperous northern states of Haryana and Punjab have the largest gender disparities. Only Kerala—the **socialist**-run state—has a gender balance of 1 to 1. Feticide (the killing of a fetus), infanticide (the killing of an infant) or, later in life, forced suicide are still the lot of some Indian girls and young women. Though India was

among the first countries to adopt population-control policies, those efforts have largely failed. The population continues to grow at the rate of 1.8 percent per year, and by 2025 India will likely overtake China as the world's most populated country, with a projected population of 1.42 billion. A newly established National Population Policy may lead to a reduction in the rate of population growth and to a stabilized population of slightly more than 1.5 billion by 2045. The immediate aims of the policy are to address the unmet needs of the health-care **infrastructure**, including the family-planning services, and to integrate delivery of basic reproductive and child health care. Special emphasis will be put in containing population growth in the states of Bihar, Madhya

Pradesh, Orissa, Rajasthan, and Uttar Pradesh, which currently constitute about 45 percent of the total population of India.

CASTE SYSTEM. The caste system (a centuries-old traditionally rigid social hierarchy which allows little social mobility), though not officially sanctioned today, continues to divide Indian society. The caste system has a historical basis in the economic organization of Indian society, with different peoples or castes allocated to various occupations. Many Hindus believe that people are born into a particular social status based on their experiences in past lives and that good deeds can help a person scale the rungs of caste, allowing movement up to a higher caste upon reincarnation in the next life. The caste system continues to be a strong force, especially in rural India. In many Indian villages, for example, one's caste influences what food one cooks or what sari one wears (the garment worn primarily by women in southern Asia made up of several yards of lightweight cloth). The *dalits* or "untouchables" are people of traditionally poor households who may be peasants, laborers, or servants (and their ancestors as well). Up to this day, many *dalits* are forced into menial and undesired occupations, such as cleaning restrooms, sweeping streets, and disposing of the dead—all considered "unclean" by orthodox Hindus. In the urban areas, the caste system is less obvious, though it is still defended by many as a way to uphold social order. In recent years, the government has taken serious measures to stamp out such age-old discriminatory practices. It has, for example, enacted affirmative action measures that recognize that some groups in society, such as the *dalits,* have been left far behind and have suffered on account of the practice and custom of caste differentiation.

OVERVIEW OF ECONOMY

India's economy encompasses a wide range of activities, anywhere from traditional village farming to the production of modern military hardware such as tanks. A full two-thirds (67 percent) of India's **labor force** of more than 450 million people is employed in agriculture, which accounts for about 23 percent of the country's **gross domestic product** (GDP). Another 26 percent of the GDP is accounted for by industry and 47 percent by services. The CIA *World Factbook* estimated the division of the GDP to be slightly different, indicating agriculture at 25 percent, industry at 24 percent, and services at 51 percent in 2000. Although India's human development indicators are among the worst in the world, the country has also a large number of highly qualified professionals, as well as several internationally established industrial groups. Reforms since 1991 in production, trade, and investment have provided new jobs and opportunities for Indian businesspersons. An estimated 300 million consumers are considered to be middle class. In past decades, India attempted to develop its industry as part of an effort to attain self-sufficiency, and as a result, the economy had remained closed to foreign investors. Recent liberal reforms, however, have opened some sectors to interested foreign investors. Currently, cars, motor scooters, electronic goods, and computers are manufactured by foreign firms and **joint ventures**.

During the 6-year period from 1996 to 2001, services have had the highest growth rate among the various sectors of the economy with an average of 8 percent growth rate per year, while the overall economy during the same period grew by an average rate of 6 percent per year. Despite the impressive economic performance of the past few years, however, several factors have hindered an even more impressive performance. The repercussion of the 1997 Asian financial crisis, the falling of world commodity prices, and the effects of **sanctions** after India conducted its first nuclear weapons tests in the late 1990s have all dampened further increases in the GDP. Other factors negatively affecting the GDP are the still slow process of market **liberalization**, limited access to investment capital, and reduced demand for manufactured goods. Infrastructure weaknesses such as poor transportation networks and erratic and insufficient power supplies have also limited increased growth and investment. Furthermore, for the past 2 decades, India's economy has been facing continuous problems of national **budget deficits**, much of it as a result of **subsidies** to inefficient state-owned industries. The majority of these state sector enterprises are debt-ridden and overstaffed.

There has, nevertheless, been a slow but steady trend in favor of market liberalization. As a result of the government's efforts and its membership obligations in the World Trade Organization (WTO), sectors of the economy such as power, steel, oil refining and exploration, road construction, air transport, telecommunications, ports, mining, pharmaceuticals, and banking have to a variety of degrees been liberalized. Since 1991, the **exchange-rate regime** has also been liberalized. This initially led to a 22 percent **devaluation** of the Indian rupee against the U.S. dollar. Furthermore, the leading political party, the Bharatiya Janata Party (BJP), has promoted the **restructuring** of state industry in favor of foreign and domestic competition. Despite these reforms, however, India's economy is still mostly closed. Foreign firms, due to historically disappointing experiences with India's bureaucracy and high taxes and **tariffs**, have been relatively reluctant to invest in the country. On the whole, there remains strong resistance to further market liberalization and globalization (increasing integration of the national economy and culture with the rest of the world, especially Western Europe and the United States) on the part of much of the population, such as the followers of the Hindu nationalist movement. Yet the fundamentals

of the economy, including the savings rate (household savings is estimated at 19 percent of income), national reserves (about US$24 billion in 1997), **inflation rate**, and **foreign debt** (about US$94 billion in 2001) are considered to be healthy and improving.

POLITICS, GOVERNMENT, AND TAXATION

India is considered by many to be the largest democracy in the world. Inspired by Mahatma Gandhi and his Satyagraha (a unique non-violent campaign), India declared independence from British rule on 15 August 1947. Free India's first prime minister, Pandit Jawaharlal Nehru who founded the Indian National Congress, described the moment as a "tryst with destiny." Since independence, India has developed as a multiparty democracy. The Indian National Congress that led India to independence in 1947 was the largest party, governing in coalition with minor centrist parties. It was later known as the Congress Party and ruled the nation until the 1990s—to some extent through the use of corruption and intimidation. Over the years, a number of parties were formed, and the major opposition to the Congress Party comes from the BJP, which among its followers has some strong Hindu nationalists, who believe that India should not be a multi-ethnic state.

India has a federal system with 25 states and various territories. The constitution separates the powers of the government into 3 branches: legislative, executive, and judicial. The relationship between the legislative and executive branches follows the parliamentary model of Great Britain. The initiative and responsibility for executive leadership rests with the office of the prime minister, not with the president. Neither of these offices is gained by direct popular vote, however. The president is the head of state for a 5-year term and is elected by an electoral college composed of members of parliament and state legislatures. The president's role is so limited by the constitution that he or she has rare opportunities to determine national policy. The president can, however, upon the advice of the prime minister, declare a state of emergency and suspend both national and state governments, an executive tool that has been used far more frequently than the framers of India's constitution envisioned. In general, the president serves as more of a symbolic head of state. The prime minister has the primary responsibility to lead the country and is officially invited by the president to form a government and lead it. In order to remain in power, the prime minister must enjoy the support of a majority of the 545-member Lok Sabha (People's House). The president normally looks first to the leadership of the majority party to nominate its candidate for prime minister. Legislative power is vested in the **bicameral** (2-chamber) parliament, which consists of a 245-member of Rajya Sabha (Council of States) and the Lok Sabha. The majority of the members of the Rajya Sabha are chosen by the state legislatures; the president selects the remainder. The members of the Lok Sabha are directly elected and serve for 5 years. According to the constitution, a new election must be held at least every 5 years. If none is called before that time, parliament is automatically dissolved. India has an independent judiciary, which is headed by a Supreme Court, the highest court in the land. The president appoints its chief justice and justices. The Supreme Court acts as the court of final appeal.

The Union (federal) government of India is responsible for developing and implementing various domestic and foreign policies and sets its economic policies in consultation with representatives of the states and various other representative bodies of businesses, farmers, and labor.

The government generates most of its revenues from taxes. For the **fiscal year** ending 31 March 2000, the total revenue generated through taxes for the central government came to about Rs3.28 trillion (US$73 billion). The main sources of Union tax revenues are customs **duties**, **excise taxes**, corporate taxes, and **income taxes**. Non-tax revenues largely comprise interest receipts, including interest paid by the railways and telecommunications, dividends and profits. The main sources of revenue for state governments are also taxes and duties, in addition to grants received from the central government. Property taxes are the mainstay of local finance. In recent years, tax rates imposed by the government have been cut. The current peak income tax rate of 30 percent and corporate tax rate of 35 percent, for example, are low compared to most industrial countries. Furthermore, the peak customs duty rate has been cut to 35 percent with a promise to move towards the East Asian average rate of 20 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

INFRASTRUCTURE. Infrastructure covers a wide spectrum in India and includes transportation, power generation and distribution, telecommunications, postal facilities, and urban infrastructure. Historically, the responsibility for providing infrastructure services has been vested with the Indian government. This has been due to a number of reasons including high capital requirements, long gestation periods, high financial risks, and low rates of return. Fiscal shortages and technological innovations have challenged the old paradigm of a government **monopoly** in infrastructure development. Some amount of private involvement in the maintenance and formation of infrastructure, therefore, has been taking place.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
India	N/A	121	69	18.8	1	0.2	2.7	0.18	2,800
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Pakistan	23	98	88	0.1	1	1.9	3.9	0.22	80

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Transportation in India includes roads, railways, aviation, and coastal shipping. The road network of India totals 2.7 million kilometers (1.3 million miles), making it one of the largest national networks in the world. Only 40 percent of the road system is paved, however. Nearly 63,000 kilometers (39,000 miles) of railroads are in operation in India, transporting millions of passengers and millions of tons of freight daily. Nearly 13,000 kilometers (8,000 miles) of Indian railroads function by electricity. Coastal shipping is an energy efficient and comparatively cheaper means of transportation, especially for bulk cargo. The country has the largest merchant shipping fleet among the developing countries. India has 14,500 kilometers (9,000 miles) of navigable waterways, which includes rivers, canals, backwaters, and creeks. Only about one-quarter of those waterways are navigable by large vessels, however. There are 11 major ports and 139 minor ports along the Indian coastline. The civil aviation sector is comprised of both private and public lines. Air India, Indian Airlines, Alliance Air (a subsidiary of Indian Airlines), and various private air taxis provide domestic and international air services. There are 343 airports, with two-thirds having paved runways.

POWER. With respect to energy, India is a net importer. Among other fuels, it imports nearly US$8 billion worth of petroleum annually. Though India constitutes nearly 17 percent of the world population, it consumes only about 3 percent of the world's total energy, or 12.2 quadrillion BTUs (British Thermal Units, a common means of expressing energy as the production of heat) per year. On a per capita basis (12 million BTUs), Indians consume more than 5 times less energy per year than the average world citizen (65 million BTUs) and 28 times less than the average American (352 million BTUs). With increasing economic development, however, these figures are likely to rise significantly in the near future. Some 75 percent of India's electricity comes from thermal power plants, which use coal or atomic energy to boil water and in turn produce electricity. India has large domestic coal reserves and is the third largest coal-producing country in the world, behind China and the United States. More than half (55 percent) of all energy consumption in India is produced by coal. Another third (31 percent) of energy needs is met by petroleum, and 7 percent by natural gas (the country consumes about 8 billion cubic feet per year). Some 4 percent of energy needs are met by renewable and traditional fuels (wood, for instance), 3 percent by hydropower, and a mere 1 percent by atomic power (India operates 14 atomic reactors with a combined annual generating capacity of about 2,700 megawatts). The consumption of natural gas is expected to more than triple by 2010, reaching 2.7 trillion cubic feet per year. Despite increased reliance on natural gas, coal will continue to be the dominant fuel for power generation in India. The country's consumption of nearly 350 million tons in 1999 will likely increase by more than 40 percent by 2010, reaching just short of half a billion tons. Proven coal reserves are estimated to be more than 80 billion tons. Much of India's coal reserves, however, are not anthracite (which is clean-burning coal), forcing the government to import some anthracite coal from Australia and New Zealand, much of it for use in the steel industry.

Various government agencies oversee energy policy in India, including the Ministry of Petroleum and Natural Gas, the Ministry of Coal, the Ministry of Non-conventional Energy Sources, and the Ministry of Power. The Directorate General of Hydrocarbons (DGH) was set up in 1993 to oversee petroleum exploration programs, develop plans for the state-owned oil enterprises and private companies, and oversee efficient utilization of gas fields. Continued economic development and population growth are driving energy demand faster than India's capacity for energy supply. Electricity in India reaches about 80 percent of the country. The country faces an electricity shortage conservatively estimated at 11 percent and as high as 18 percent during peak demand. As a result, electricity blackouts are common. Furthermore, industry cites power supply as 1 of the biggest limitations on progress. One estimate projects 8 to 10

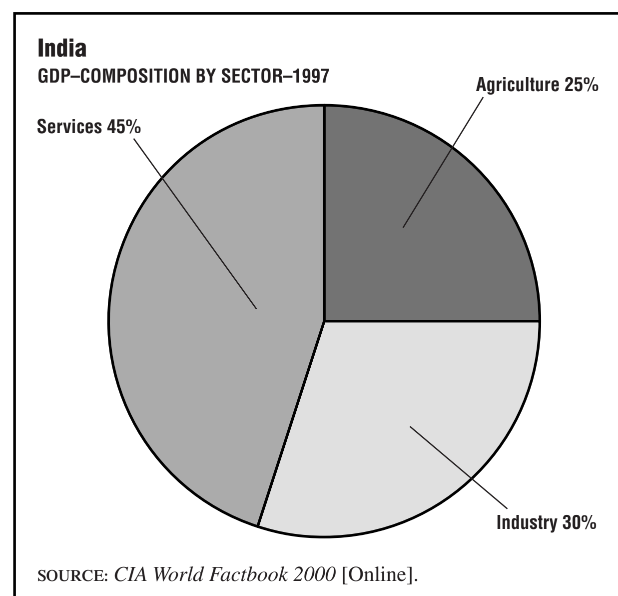
percent annual growth in energy demand over the next 15 years. Most of this energy will probably be imported via ship and pipeline. Oil consumption, for example, may increase by 60 percent by 2010, climbing to approximately 3.1 million barrels per day (b/d). Currently, as little as 750,000 b/d of oil is produced domestically, the majority of which is from the Bombay High, Upper Assam, Cambay, Krishna-Godavari, and Cauvery basins. The Bombay High Field is India's largest producing field, generating an average of about 230,000 b/d. The potential for discoveries of offshore oil reserves, particularly in deep water, is high. So far, exploration has taken place in only one-quarter of India's 26 sedimentary basins. India's offshore basins cover approximately 380,000 square kilometers (147,000 square miles). India's off- and onshore basins are estimated to contain as much as 30 billion tons of hydrocarbon reserves. To satisfy the growth in energy consumption, the country is also increasing its nuclear power capability via the construction of new reactors. Although India is trying to encourage greater foreign participation in its atomic power program, its failure to sign the Comprehensive Test Ban Treaty (CTBT, an international treaty that prohibits signatories from testing nuclear weapons) has inhibited investment and technical support from Western firms. Russia has taken advantage of this scenario and has been awarded permission to construct two 1,000 megawatt (MW) reactors at Kudankulam in southern India scheduled to begin service in 2006 and 2008. India would like to increase its atomic power capability by 2.7 times to 7,300 MW by 2007.

The country also has vast hydroelectric potential. Estimates place India's hydroelectric potential at 86,000 MW, a mere one-quarter of which is being utilized. India plans to build the world's largest hydroelectric plant on the Brahmaputra River. The dam is expected to have a capacity of 21,000 MW and cost US$23 billion and be operational by 2012. Furthermore, special attention is being paid to alternative energy sources such as wind, solar photo-voltaic (PV) technologies, and biomass. India has abundant wind resources, ranking fifth in the world in the number of wind power installations; wind power installed capacity as of June 2000 was 1,175 MW. The Ministry of Non-Conventional Energy Sources has identified 192 potential sites for wind stations with a total estimated potential of 20,000 MW. The ministry also estimates India's energy potential from biomass at nearly 20,000 MW, 3,500 MW being from co-generation plants using bagasse (a fibrous plant residue left over after the extraction of juice from sugarcane) from sugar mills. Plans are also in the works to create a national electricity grid, which would provide for easy power sharing among regions and even neighboring countries. An impediment to the construction of large power plants has been scrutiny by public interest groups, which have rightly cited the potential damage to the environment caused by large hydroelectric dams.

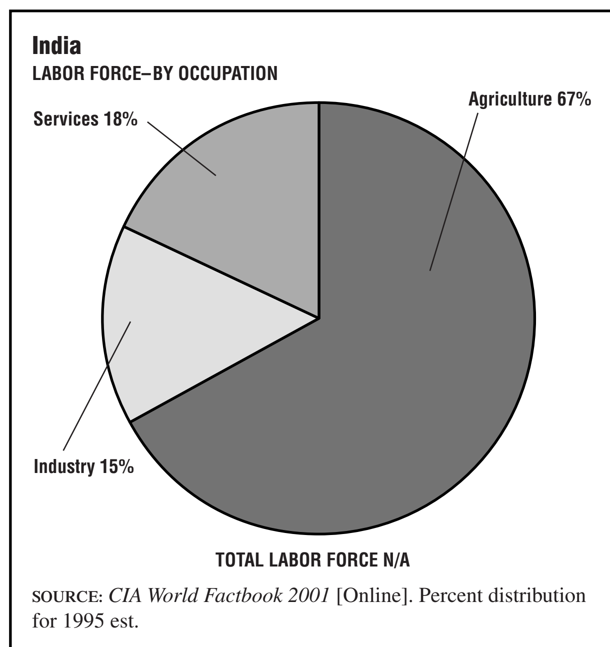
COMMUNICATIONS. India has probably the least adequate telephone system among industrializing countries. In 1996, for instance, it had only 12 million telephones. The equivalent of 3 out of every 4 villages have no telephone service and only 5 percent of Indian villages have long-distance service. Poor telephone service significantly impedes India's commercial and industrial growth and penalizes the country in global markets. Recently, several satellite earth stations (including 8 Intelsat and 1 Inmarsat) and submarine cables to Malaysia and the United Arab Emirates (UAE) were put into service for long-distance communications.

ECONOMIC SECTORS

The Indian economy presents a mixture of the traditional and modern. Prior to 1947, the major sectors were agriculture, forestry, fishing, and textile manufacturing. Currently, village farming, state agriculture, energy, manufacturing, mining, services, and a flourishing information technology are the chief economic sectors of India. Though agriculture employs the most people (186 million), the service sector, with a labor force of 57 million, contributes the most to the country's income, accounting for nearly half of India's GDP. Industry and manufacturing expanded rapidly during the 1990s, and information technology is a sector with very high expectations. The information technology sub-sector of software experienced 70 percent growth in 1999. The CIA *World Factbook* estimated that agriculture accounted for 25 per-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1995 est.

cent, industry for 24 percent, and services for 51 percent of GDP in 2000.

The Indian economy is currently at a difficult stage. Despite the initiatives taken by the government in deepening structural reforms and accelerating the **privatization** process, some problems of growth will likely be faced in the near future. Because of irregular rainfall for the second successive year, for example, agricultural growth was low or absent in 2000. Industrial growth also slowed, and despite some efforts to open the economy to private and foreign businesses, the sentiment for new investment has not improved. The persistence of high international oil prices and the slowdown of the global economy have compounded the problem. Although the major industries of Gujarat have fortunately escaped the worst effects of the recent massive earthquake, the impact of dislocations on the various sectors of the economy cannot be ignored.

AGRICULTURE

India's agriculture is composed of many crops, with the foremost food staples being rice and wheat. Indian farmers also grow pulses, potatoes, sugarcane, oilseeds, and such non-food items as cotton, tea, coffee, rubber, and jute (a glossy fiber used to make burlap and twine). India is a fisheries giant as well. A total catch of about 3 million metric tons annually ranks India among the world's top 10 fishing nations. Despite the overwhelming size of the agricultural sector, however, yields per hectare of crops in India are generally low compared to international standards. Improper water management is another problem affecting India's agriculture. At a time of increasing water shortages and environmental crises, for example, the rice crop in India is allocated disproportionately high amounts of water. One result of the inefficient use of water is that water tables in regions of rice cultivation, such as Punjab, are on the rise, while soil fertility is on the decline. Aggravating the agricultural situation is an ongoing Asian drought and inclement weather. Although during 2000–01 a monsoon with average rainfall had been expected, prospects of agricultural production during that period were not considered bright. This has partially been due to relatively unfavorable distribution of rainfall, leading to floods in certain parts of the country and droughts in some others.

Despite the fact that agriculture accounts for as much as a quarter of the Indian economy and employs an estimated 60 percent of the labor force, it is considered highly inefficient, wasteful, and incapable of solving the hunger and malnutrition problems. Despite progress in this area, these problems have continued to frustrate India for decades. It is estimated that as much as one-fifth of the total agricultural output is lost due to inefficiencies in harvesting, transport, and storage of government-subsidized crops.

INDUSTRY

India's policy of economic self-reliance after independence led to a surge in industrial activity, although much of it was inefficient. Indian industry currently, which includes the sectors of manufacturing, textiles, chemicals, food processing, construction, mining, energy, and IT, contributes about 30 percent of the country's GDP and employs 18 percent of the whole labor force. Among the Indian industry's successes are electronics and software manufacturing. Software engineering has been growing by around 50 percent per year, with as much as 80 percent of software production being exported, earning an estimated US$4 billion in 2000 out of a total export earnings of US$37.5 billion.

MANUFACTURING. According to the Central Statistical Organization of India, the manufacturing sector was expected to grow by 6.4 percent in 2001, slightly down from the 6.8 percent growth a year earlier. A combination of higher oil prices, a weak national currency, and an easing of import restrictions—in compliance with India's membership in the WTO—is thought to be having some initially negative effects on domestic manufacturing.

ENERGY. Indian consumption of natural gas grew from 17 billion cubic meters in 1995 to 34 billion cubic meters in 2000 and is projected to reach nearly 85 billion cubic meters in 2020. This is one of the fastest-ever increases in fuel demand by Indian customers. Most of the increase is due to a projected increase in the demand for

natural gas for power generation. Almost 70 percent of India's limited natural gas reserves are found in the Bombay High basin and the state of Gujarat. The Indian government has been avidly encouraging the construction of gas-fired electric power plants, especially in coastal regions where they can be easily supplied with liquefied natural gas (LNG) by sea. Given that domestic gas supply is not likely to keep pace with demand, India will have to import most of its gas requirements, either via pipeline or LNG tankers, making it potentially one of the world's largest gas importers. The dominant commercial fuel in India, however, continues to be coal. Coal accounts for more than half of India's energy demand, and 70 percent of coal consumption is used for power generation. Coal consumption is projected to increase to 465 million short tons in 2010, a 26 percent increase from 1998. India's coal industry is the world's third largest, and most of the country's coal demand is satisfied by domestic supplies.

MINING. The mining industry has grown substantially since independence, with the value of minerals mined exceeding US$10 billion today. Still, mining accounts for only about 2 percent of India's GDP. India has been extracting a range of minerals. Among others, it produces significant amounts of coal, iron ore, bauxite, copper, gold, diamonds, limestone, and chromite. India has among the world's largest reserves of iron ore (more than 19 billion tons) and is one of the world's lowest-cost sources. Most of India's iron ore—the largest being in the privately owned mines in the state of Goa—is exported to South Korea and Japan. India's bauxite reserve is approximately 2.7 billion tons or 8 percent of the world total. Given this, and bauxite's critical role in the production of aluminum, India has tentative plans to expand its aluminum production. Copper reserves are estimated at more than 410 million tons, yet India has been importing copper as well. Reserves of lead and zinc are estimated at 360 million tons. Foreign investors have shown interest in mining gold in partnership with the government at a mine in Kolar. The main mining industry remains, however, the production of steaming coal for power generation.

SERVICES

Services play a significant role in the economy of India, accounting for nearly 40 percent of the GDP or about US$200 billion per year. Services include the sectors of telecommunications, airlines, banking, construction, and small-scale enterprises. Some components of the services sector are also in the **public sector**.

FINANCIAL SERVICES. Although some form of banking, mainly of the money-lending type, has been in existence in India for thousands of years, it was only a little over a century ago that Western-style banking was introduced to the country. Indian households account for nearly 90 percent of the national savings. Whereas in 1980, as little as 10 percent of all savings of Indian households were held in financial form (as in bank deposits, shares, and insurance policies) rather than physical form (as in money under mattresses). As of 2001, that figure has surpassed 50 percent. In addition, although the percentage of people who own company shares or have invested in mutual funds is still low as compared to more affluent and Western countries, those numbers are also on the rise. Government banks still play an important role and own more than four-fifths of the banking business. However, private (especially foreign) banks are gradually taking up an increasing share of the financial market. There are an estimated US$400 billion worth of private savings in India, some 44 percent of which is in bank deposits, another 5 percent in mutual funds, and less than 25 percent in postal savings and pension funds. Despite considerable openness in the Indian economy, increasing liberalization of the financial sector is hindered by that fact that nearly 30 percent of assets are considered to be non-performing. This is due to an excessive number of loans having been extended to businesses and individuals through political pressure rather than economic merit. As a result, the rate of bankruptcy of financial institutions has been high, which in turn has forced interest rates to be high as well. As a result of these and other factors, Indian industry's access to proper credit has been limited.

Market liberalization in India has led to the sale of shares of private and some public companies to domestic and international bidders. Currently, there are more than 6,000 companies listed on India's largest stock market, the Bombay Stock Exchange, but only about 8 percent of them are actively traded. The stock market has attracted a good amount of international institutional **equity** investment, such as foreign pension schemes and mutual funds. However, the Indian stock market, not unlike others worldwide, has had periods of intense volatility. In 2000, for example, **market capitalization** fell by 62 percent in 6 months, from US$265 billion in February to US$100 billion in August.

TOURISM. Due to its wealth of cultural and recreational facilities, India has had a large tourism industry. Tourism is India's fourth largest foreign currency earner. The top states for tourist attractions are Kerala, Delhi, and Assam. The state of Kashmir used to have a thriving tourism industry; however, the number of tourists has sharply declined due to political unrest and extremist activities over the border dispute with Pakistan. Overall, India's tourism in the past decade has been growing at an average rate of about 7 percent yearly. With about 2.25 million people per year, India's international visitors constitute less than 0.5 percent of world's total number of international

tourists. (Top world tourism countries such as France and Spain receive as many as 50 million visitors and generate tens of billions of dollars from tourism annually.) The income generated from tourism in India is estimated to be a mere 1 percent of total world spending of international tourists or US$3 billion per year. Indeed, more Indians travel abroad (3 million per year) than tourists visit India. India's tourism industry is hampered by an international perception of India as being very poor, politically unstable, and requiring precautions against epidemic diseases, despite the attractions of its beautiful historic sites, rich and varied cultures, and appetizing cuisine. The Taj Mahal, for instance, is regarded as one of the architectural marvels of the world. The country also attracts backpackers and adventurers who come for the local festivals, to ride on India's famous railroads, or to see the holy Ganges River.

INTERNATIONAL TRADE

For decades after independence in 1947, India embarked on a program of autarky (national economic self-sufficiency) which included **import substitution** policies. By 1991, however, a sluggish economy combined with the forces of globalization led to a more open Indian economy. There was simultaneously a gradual rise in exports, imports, **foreign direct investment** (FDI), and overall economic growth. In the 1990s, exports of goods and services rose from 6.2 percent to 8.2 percent of total output. By the end of the decade, however, growth in exports began to level off due to reduced international demand, especially with India's main economic partners, the United States and the European Union (EU). Indian exports were further hit by serious competition from east Asian countries, which had recently experienced depreciated domestic currencies, which led to a decline in global prices for their manufactured goods. As a result, exports of Indian textiles, chemicals, machinery, electronic goods, and automotive parts all began to decline.

As compared to a couple of decades earlier, however, the size of India's foreign trade has noticeably expanded, both in absolute terms and relative to the country's GDP. Exports have again picked up since 1999, when they showed a 13 percent growth. Imports have also ballooned, showing an average of 20 percent growth per year during 1992–2000. Total exports in 2001 are expected to be near US$46 billion and total imports at US$51 billion. Petroleum constitutes the largest import item at more than US$6 billion and accounts for 14 percent of total imports in 1999. Petroleum imports may be as high as US$17 billion in 2001. Gems and jewelry constitute the single largest export item, accounting for 16 percent of exports and earning about US$4.5 billion in 1999. The top 3 export destinations of Indian goods were the United States, Britain, and Germany, which together constituted one-third of total Indian exports in 1999. In turn, the top 3 import sources were the United States, Britain, and Belgium, together constituting 21 percent of total imported items.

Trade (expressed in billions of US$): India

	Exports	Imports
1975	4.355	6.381
1980	8.586	14.864
1985	9.140	15.928
1990	17.975	23.642
1995	30.764	34.522
1998	32.881	42.201

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

In 2001, FDI in India was expected to near US$4 billion. To further seek buyers for Indian products, Indian companies have also major plans for investing abroad. Several Indian information technology companies, for example, have plans to outsource some of their production to China, where labor is as much as 20 percent cheaper. Furthermore, India's largest car manufacturer, Mahindra and Mahindra, may soon be entering the European market via the production of tractors in the Czech Republic. One Indian investment that is already operating abroad is a US$180 million fertilizer plant in the Persian Gulf nation of Dubai.

MONEY

India has pursued a conservative policy in the expansion of its money supply during the past 2 decades. Money was thought to have grown by a relatively high rate of 15 percent during 2000–01, however. The reserve bank of India is the sole authority for issuing the national currency. It formulates and administers **monetary policy** with a view to ensuring stability in prices while promoting increased production of goods and services via the deployment of credit. The reserve bank's monetary policy

Exchange rates: India

Indian rupees (Rs) per US$1	
Jan 2001	46.540
2000	44.942
1999	43.055
1998	41.259
1997	36.313
1996	35.433

SOURCE: CIA *World Factbook 2001* [ONLINE].

also plays an important role in maintaining the stability of the exchange value of the Indian rupee. Furthermore, the reserve bank is in charge of the borrowing program of the government from both domestic and international lenders. High levels of exports have led to a comfortable **balance of payments** situation in recent years, which in turn has put at the disposal of the reserve bank, aside from the nation's gold reserves, as much as US$38 billion of cash reserves in 2001. The total money supply in India (which includes the various deposits in commercial banks, the reserve bank, and the currency in the hands of the public) is estimated to have grown by 60 percent since 1995 and to have been a bit more than Rs3 trillion (US$66 billion) in 2000.

Distribution of Income or Consumption by Percentage Share: India

Lowest 10%	3.5
Lowest 20%	8.1
Second 20%	11.6
Third 20%	15.0
Fourth 20%	19.3
Highest 20%	46.1
Highest 10%	33.5

Survey year: 1997

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

POVERTY AND WEALTH

At the time of India's independence famine and severe malnutrition were periodic occurrences, and life expectancy was only about 30 years. Due to improvements in health care and agriculture, by 1970 life expectancy had reached 50 years, and by 1993 it was 61 years. Infant mortality fell from 137 per 1,000 live births in 1970 to 71 in 1993. In agriculture and food production, India has also made great progress. While it was a nation dependent on food imports to feed its population after independence, it is now largely self-sufficient in food production. It has done so, to an extent, by enacting policies that have favored impoverished working-class citizens and farmers.

Despite improvements, by 1994 it was still estimated that 1 in every 3 Indians lived in what could be categorized as absolute poverty—a total of 310 million people. In essence, more Indians were estimated to be poor than the whole of sub-Saharan Africa. Currently, though starvation is something of a distant memory, a large part of the Indian population remains too poor to afford an adequate diet. According to the Indian Institute of Population Sciences, more than half of all children under the age of 4 suffer from different degrees of malnourishment. Diseases such as diarrhea, diphtheria (caused by bacteria leading to inflammation of the heart and nervous system), pertussis (whooping cough), tetanus (also known as lockjaw), and measles, long done away with in many countries, can still be found among some poor communities in India. Furthermore, due to iron deficiency, as much as 87 percent of all pregnant women are thought to be anemic.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
India	222	231	270	331	444
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Pakistan	274	318	385	448	511

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Inter- and intra-state discrepancies in terms of education and overall well-being also remains large. The poorest quintile (one-fifth or 20 percent) of the population is estimated to have 2.5 times more incidence of infant mortality, double the fertility rate, and a 75 percent higher rate of child malnutrition than the average figures for India. The south and west of India have traditionally been better off relative to the north and east. Furthermore, irrigated plains are richer than primarily rain-fed regions. For a variety of reasons, some states such as Maharashtra, Goa, Delhi, and Gujarat have been able both to provide better infrastructure, such as power supply and telecommunications, to their peoples and likewise attract a significantly higher FDI than other states. Kerala has a high literacy rate and access to health care even though its **GDP per capita** is less than the Indian average. Kerala's fertility rate dropped to 1.8 children per woman in 1991, which is below the replacement level; in the same year, literacy in Kerala was over 90 percent, compared to India's average of 51 percent. Kerala's infant mortality in 1996 was 13 deaths per 1,000 live births; in all of India the number was 72 per 1,000 births. Schools and health clinics are available throughout the state, and newspapers are also available in most villages. There is also a strong commitment to equal rights for women in Kerala, where women occupy significant government positions. Kerala's elected **communist** government, together with an emphasis on local control, participation in government, and investment projects are all thought to be important factors for Kerala's better quality of life. Those especially vulnerable throughout India continue to be rural women, the disabled, and people of lower castes.

Poverty in many developing countries is more predominant in rural areas. Though that has also been true

in India, the gap between rural and urban India was closing during the 1980s due to the continuing effects of state-sponsored expansion of irrigated agriculture and the green revolution. (This was the substantial increase in the production of food grains—such as rice and wheat—begun in the 1960s as a result of the introduction of improved plant varieties, better farming, and the application of newly-developed pesticides and herbicides.) By the early 1990s, however, India began to show signs of "Malthusian overload": Thomas R. Malthus (1766–1834) theorized that population tends to grow faster than its means of subsistence—food and other resources—and unless population growth is checked, it will inevitably lead to widespread poverty. The increases in food production brought about by the green revolution were not able to keep pace with the rate of population growth. This discrepancy was especially evident in the rural areas, where the majority of the people are farmers living off the land. The gap between rural and urban India since the early 1990s, therefore, began to widen again. Poverty, however, is not purely a phenomenon of rural areas. In recent years, for example, as a result of the population increase and the lack of sufficient waste disposal infrastructure, the city of Calcutta has seen an increase in the waterborne and communicable diseases such as tuberculosis, a problem exacerbated during the rainy season.

Illiteracy remains a major problem as well. The number of illiterate Indians actually rose in the 1980s. In the 1990s, successful government programs began once again to reduce illiteracy. Progress has been very slow, though. If India continues to reduce illiteracy by its current rate of approximately 2.8 percent per year, it is estimated that it would still take 16 years for it to reach the literacy rate of 90 percent, a rate which neighboring Sri Lanka currently holds. Even then, there would still remain 120 million illiterate Indians. Likewise, while fertility dropped from 6.0 children per child-bearing woman in the early 1980s to 3.8 in 1992, maternal mortality is a high of 430 per 100,000 live births, 23 percent more than the average of 350 for low and middle income countries.

Overall, though the per capita income in India is higher than in some of its neighbors, it remains very low compared to economically developed countries. India's per capita income of US$2,077 per year is 121 percent that of neighboring Pakistan. Yet, India's per capita income is still 67 percent that of China's, 9 percent that of Canada's, and only 7 percent that of the United States'.

WORKING CONDITIONS

The liberalization policies of the Indian government, begun in 1991, assisted in opening up the economy to domestic and international competition. Autarkic policies of the past decades had limited foreign investment and prioritized the growth of domestic industry through import substitution and public ownership of much of the means of production. Emphasis on self-reliance had eventually led to an economic crisis, which did not help to improve working conditions for the majority of the Indian labor force. During this period, many skilled and unskilled workers among the population had opted for better employment opportunities in other countries.

Despite the benefits of economic liberalization, it has not quickly solved the problem of unemployment and other social and economic ills. Short- and long-term job losses as a result of competition, for example, have been common, especially among the unprofitable firms. One of the main areas of employment for many of the poor has been the cotton textile industry with its traditional concentration of mills in the cities of Bombay, Ahmedabad, and Coimbatore. Along with mills that use the most advanced technology to process raw cotton and form cotton fiber, there also have existed a large number of small-scale workshops and households that use traditional handlooms (the type used by Mahatma Ghandi) and rely on manual labor for the processing of cotton. India's market liberalization led to the foreclosure of much of the traditional handloom cotton industry and resulted in nearly 2.3 million workers losing their jobs. Many of these workers have remained unemployed. Managers of the modern mills attribute this to the older age of handloom workers and their inflexibility or inability to adjust to the mechanized cotton mills.

As opposed to neighboring China, trade unions in India play a very prominent role in the business community. Every industry has a trade union that advocates the rights and employment opportunities of its members. Trade unions strive to obtain the best deal for their members in terms of wages, working conditions, acceptable remuneration, and welfare packages. As much as 92 percent of the labor force in India is unionized. Some of the laborers of the cotton industry have gained employment in the textile industry, which with its labor force of 39 million is among the largest unionized industries.

Women constitute an important segment of the Indian labor force whose working conditions have not made significant progress. Despite some noticeable advances for a small percentage of women, women as a whole have been relegated largely to agricultural and menial pursuits that pay the lowest wages. In some ways, as the overall economy has grown, the situation of working women in India has even deteriorated. In 1911, for example, three-quarters of the working women of India were agricultural workers; in 1991, the proportion was over 80 percent. Nearly 70 percent of the population as a whole derives its livelihood from land resources, and women contribute an estimated 55 to 66 percent of the total farm labor force.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

2500 B.C. Inhabitants of the Indus River Valley develop an urban culture based on commerce and sustained by agricultural trade. This new activity leads to some ecological changes in the region.

1000–600 B.C. The caste system is established.

400–500. Northern India is unified under the Gupta dynasty which leads to new heights for the Hindu culture and politics.

1100s. Indian subcontinent is invaded by the Turks and Persians who establish their empires at Delhi. The descendants of Genghis Khan sweep across the Khyber pass and established the Moghul empire which lasts for 2 centuries.

1619. The first British outpost is established in Surat. Later, the East India Company opens trading stations at Madras, Bombay, and Calcutta.

1850. Great Britain expands its influence and controls most of the provinces of India (present-day India, Pakistan and Bangladesh) through direct rule and treaties established with local rulers.

1920. Indian leader Mohandas K. Gandhi transforms the Indian National Congress Party into a mass movement to campaign against British colonial rule. This change is achieved through parliamentary acts, non-violence, and non-cooperation.

1947. India achieves independence from the UK and is divided into 2 nations: India and Pakistan. The new Commonwealth nation of India is led by Jawaharlal Nehru as prime minister.

1961. India becomes a founding member of the Non-Aligned Movement, which among other tasks, seeks solutions for global economic problems.

1966. Indira Gandhi, daughter of Jawaharlal Nehru, becomes India's first female prime minister.

1975. Citing political and economic turmoil, Prime Minister Gandhi declares a state of emergency and the suspension of civil liberties in India. She loses power in the election of 1977 to Moraji Desai of the Janata Party.

1979. After the downfall of the Desai government, Charan Singh forms the interim government followed by a return of Indira Gandhi to power in 1980.

1984. Indira Gandhi is assassinated on 31 October. Rajiv Gandhi, her son, is chosen by the Indian congress as her successor.

1991. Rajiv Gandhi is assassinated by Tamil extremists which results in a sympathy vote for the Congress Party. P. V. Narashima Rao becomes prime minister. Under his leadership, the government serves a full 5-year term and initiates various economic liberalization reforms opening the Indian economy to global trade and investment.

1998. The president approves of a BJP-led coalition government. India conducts a series of underground nuclear tests in May, leading to United States-led economic sanctions in an attempt to force India to sign and abide by the Nuclear Non-Proliferation Treaty.

1999. The BJP-led coalition government falls apart, leading to fresh elections. The BJP forms a coalition with the National Democratic Alliance Party, with Atal Bihari Vajpayee as prime minister.

2001. On 13 December, Kashmiri separatists attack the Indian parliament building. Thirteen people are killed in the attack, including the five separatists. The separatists' ties to Pakistan lead India to accuse Pakistan of being behind the attack, which brings hostile relations between the two countries to a boiling point.

FUTURE TRENDS

There are many future challenges that India will need to address in order for it to be a more prosperous country. Government corruption, the population explosion, the issue of Kashmir and other potentially vigorous separatist movements, relations with Pakistan, nuclear arms, the growing gap between the rich and poor, and last but not least, ecological devastation are among the issues that the Indian government will need to address seriously.

The government sector in India is known to be among the most bloated and overstaffed in the world. Furthermore, nearly all transactions with government agencies, from acquiring one's passport to obtaining a birth certificate, often require some amount of bribe. Stealing and skimming services, such as electricity, is common. In New Delhi, for example, as much as 51 percent of electricity is "lost" in transmission, much of it stolen by relatively prosperous urban households. Increasing efforts by the government to minimize waste, corruption, and grand and petty theft would be beneficial.

Population growth will likely not subside for several more decades. The high rate of growth of the population has negative effects on the well-being of people. The number of Indians consuming diets with fewer than 1,900 kilocalories (kcal) per day, for example, has quadrupled since the early 1970s. (Many nutritionists assert that a diet of at least 2,600 kcal per day is necessary to maintain body weight.) During the same period, total food grain production in India has doubled. High rates of fer-

tility are thought to be indirectly proportional to economic well-being of households, as well as the level of education of parents—especially mothers. In essence, the more prosperous a household and the more educated the mothers, the fewer children couples have.

The success of government education and public health programs, however, depends not only on more spending but also on improving the quality of services. There is a need to phase out a number of anti-poverty programs and direct some of the savings to ensure quality education, which is more effective in reducing poverty over the long-term. For the poor to take advantage of the new educational opportunities, however, their health status needs to improve. Targeting government spending to primary education, reducing communicable diseases, improving water and sanitation, and reducing household insecurity through public works programs would do much to reduce poverty. The government should invest in health care and education, especially for children in grades 1 though 8. According to the United Nations, current spending on education takes up about 13.4 percent of the central and local government budget as compared to an average of 17.5 percent for all low-income countries. Without substantial increases in spending on education and health care, the gap between the rich and poor is likely to remain and intensify.

Improving relations with neighboring Pakistan is also a determinant of improvement of people's lives in India. Much of the dispute between the 2 countries is over Kashmir. Both India and Pakistan claim ownership to the entire Kashmir region. India is thought to have stationed nearly half a million troops in the state of Jammu-Kashmir along the Pakistani border. According to human rights reports, as many as 60,000 people have died in Jammu-Kashmir due to fighting between Indian troops and Kashmiri nationalists. Relations with Pakistan could also improve if a pipeline agreement that envisions pumping natural gas from Iran to India through Pakistan goes through. The proposed deal would allow India to increase its consumption of natural gas to as much as 85 billion cubic meters (3 trillion cubic feet) by 2020 and for Pakistan to collect up to US$600 million of transit fees. However, the 2001 attack on the Indian parliament by Kashmir separatists based in Pakistan placed the pipeline and future relations with Pakistan in serious jeopardy.

DEPENDENCIES

India has no territories or colonies.

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—Payam Foroughi, Raissa Muhutdinova-Foroughi, and Sujatha Naidu

INDONESIA

Republic of Indonesia
Republik Indonesia

CAPITAL: Jakarta.

MONETARY UNIT: Indonesian rupiah (Rp). One rupiah equals 100 sen. There are coins of 1, 2, 5, 10, 25, 50, and 100 rupiahs, and notes of 100, 500, 1,000, 5,000, and 10,000 rupiahs.

CHIEF EXPORTS: Oil and gas, plywood, textiles, rubber.

CHIEF IMPORTS: Machinery and equipment, chemicals, fuels, foodstuffs.

GROSS DOMESTIC PRODUCT: US$610 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$48 billion (f.o.b., 1999 est.). **Imports:** US$24 billion (c.i.f., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Indonesia is an archipelago (a group of islands) stretching along the equator between the Southeast Asian mainland and Papua New Guinea, with which it shares an island. The country has a total land area of 1,919,440 square kilometers (741,096 square miles), or about 3 times the size of Texas. An additional 3.2 million square kilometers (1,235,520 square miles) of ocean is within Indonesia's borders.

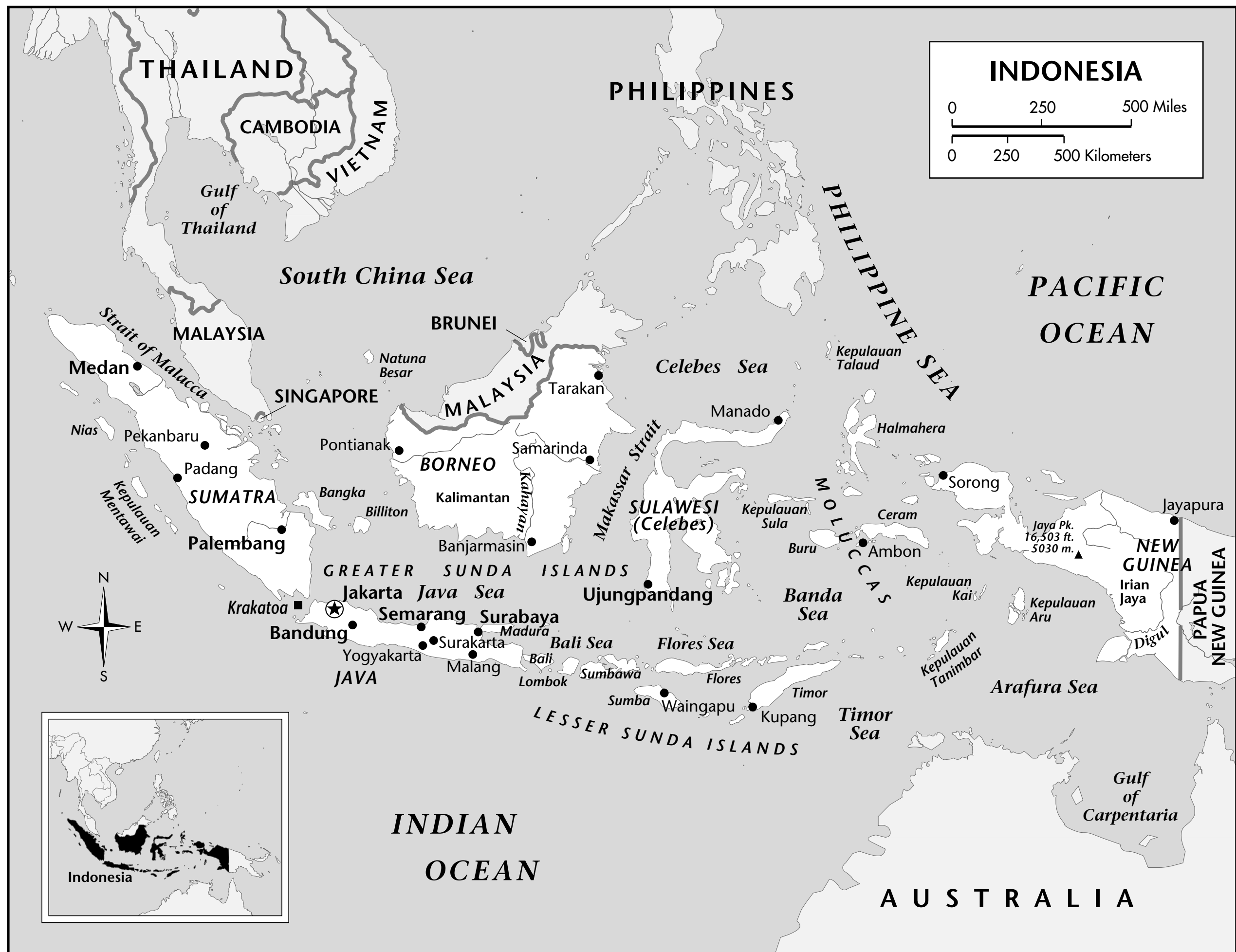
With 17,000 islands (11,000 of them inhabited), Indonesia's coastline stretches 54,716 kilometers (34,000 miles). The country controls important shipping lanes from the Indian Ocean to the Pacific Ocean, in particular the Strait of Malacca lying between the western Indonesian island of Sumatra and Malaysia. Indonesia has territory on some of the world's largest islands, such as New Guinea, Borneo, Sumatra, and Sulawesi.

POPULATION. The 2000 official census found 203,456,005 Indonesians (though most outside sources estimate 210 million), making Indonesia the world's fourth most populous country. An estimated birth rate of 22.6 per 1,000 people and death rate of 6.31 per 1,000 people means that the population is growing at an annual rate of 1.63 percent. The **United Nations Development Program** predicts that the population will reach 250.4 million by 2015. Like many developing countries, Indonesia has a young population, with 30.6 percent of its people under the age of 15. In 1998 almost two-fifths of the population lived in urban areas, double the 1975 level.

Indonesia has hundreds of ethnic groups, with the 2 largest—Javanese (45 percent) and Sundanese (14 percent)—living on the island of Java. One of the most densely populated places in the world, Java is about the size of New York State and is home to more than 110 million people. Other ethnic groups include Madurese and coastal Malays, who each make up 7.5 percent of the population, and numerous other ethnic groups accounting for 26 percent. Indonesian Chinese, whose ancestors mostly came to the Dutch East Indies as workers, are a small but economically important minority with 2 percent of the population but a majority of the wealth.

Java and Bali are often referred to as the Inner Islands, with the other less densely populated ones known as the Outer Islands. Starting in 1969, the government pursued a policy of transmigration (a program to shift inhabitants from more crowded to less crowded areas). Millions of people have joined this official migration program based on the promise of land and support. After years of criticism for damage to the environment, failure to live up to promises to the transmigrants, and conflicts with local inhabitants, the government announced an end to the program in 2000. Many Indonesians also migrate on their own from one part of the country to another in search of farmland or jobs.

Indonesia has 5 officially recognized religions: Muslim (88 percent), Protestant (5 percent), Roman Catholic (3 percent), Hindu (2 percent), and Buddhist (1 percent), as well as numerous traditional religions. More Muslims live in Indonesia than in any other country. The official



language is Bahasa Indonesia, a modified form of Malay adopted as a national language and taught in all schools. Most Indonesians, except some raised in Jakarta or by parents from different ethnic groups, speak Bahasa Indonesia as a second language after their native tongue, one of some 250 local languages and many more dialects.

Indonesia's family planning program was formally established in 1970 after years in which rapid population growth was not seen as a problem and even at times encouraged. The Indonesian family planning program has involved thousands of village-level volunteers, grassroots organizations, and religious leaders and a multifaceted approach that brings together agencies and organizations. The phrase "dua anak cukup" (2 children are enough) appears on T-shirts, statues, and television broadcasts, and family planning and reproductive health program services are made available in over 10,000 clinics, hospitals, and community health centers. The National Family Planning Coordinating Board (BKKBN) coordinates efforts but does not implement activities by itself.

Indonesia has a significant challenge in implementing a population policy, given the size of the population, the geographic distribution, and occasional cultural and religious objections. Despite this, Indonesia has achieved what the World Bank has called "one of the most impressive demographic transitions anywhere in the world." The growth rate has fallen from 2.5–2.7 percent in 1970 to 1.63 percent, and the total fertility rate fell from 5.5 births per women between 1967–70 to 2.6 births per woman in 1995–2000. Indonesia is often held up as a model for developing countries.

As a result of various conflicts, Indonesia has over 1 million internally displaced people (IDPs) who have fled their homes to avoid ethnic, religious, or political violence and military repression, most notably involving populations in Maluku, West Kalimantan, and East Timor.

OVERVIEW OF ECONOMY

Indonesia is made up of the islands of the former Dutch East Indies, a colony established by the Netherlands to control the important spice trade and take advantage of the fertile tropical soil. Indonesia's first 15 years after gaining independence in 1949 were marked

by high **inflation** and very little development beyond the economy inherited from the colonial system, which was heavily dependent on agriculture. The economy grew quickly after that, however, fueled first by oil and gas exports and then by the export of manufactured goods, such as shoes, clothing, and textiles. Agriculture remains important, including both small farmers producing crops for internal consumption and export, and large plantations producing products such as palm oil and rubber.

Indonesia has gone through 6 5-Year Development Plans, known by the Indonesian acronym Repelita. The first 5-Year Development Plan (Repelita I) started in 1969 and emphasized rebuilding the economy by improving agriculture, irrigation, and transportation. Repelita II, starting in **fiscal year** 1973–74, tried to increase the standard of living through better food, clothing, and housing, **infrastructure**, social-welfare benefits, and employment opportunities. Repelita III, beginning in fiscal year 1978–79, introduced the "trilogy of development" of high economic growth, national stability, and equitable distribution. Self-sufficiency in food and the promotion of industries processing basic materials into finished goods were also objectives. Starting in fiscal year 1984–85 Repelita IV continued to emphasize self-sufficiency in rice and industrial machinery. Repelita V, from fiscal year 1989–90, stressed rapid development with emphasis on the industrial and agricultural sectors. The sixth 5-Year Development Plan (Repelita VI) began to encourage foreign investment and abandoned policies of high **tariff** barriers, heavy regulation, and **import substitution** (manufacturing **consumer goods** domestically to reduce imports). The greatest success in attracting investment has been in textiles, tourism, shoes, food processing, and timber products.

Indonesia was hit hard by the Asian financial crisis that swept the region in 1997. Following problems with the currency in Thailand, the rupiah fell, causing investors to panic, debts to soar, and the banking sector to collapse. After growing throughout the 1990s, **real gross domestic product** (GDP) fell by 13 percent in 1998. The GDP was stagnant the next year, and increased slightly in 2000, but investment remained low, and many of the underlying problems still have not been dealt with: banks are weak, large companies are technically bankrupt, the government controls many assets acquired after bailouts, and reform of the corrupt judicial system has been delayed. While other countries in the region, such as Thailand and South Korea, began to rebound, Indonesia's failure to deal decisively with deep-seated problems and continued political uncertainty slowed recovery.

Before the crisis, Indonesia borrowed about US$5 billion annually from foreign countries and international financial institutions such as the World Bank and the International Monetary Fund (IMF) to finance its budget. The government debt slowly increased from US$55.5 billion in 1992 to US$59.9 billion in 1997, but the economy seemed strong and there was little domestic debt. However, in the same period, debt resulting from borrowing by private companies increased from US$28.2 billion to US$78.1 billion, making the economy vulnerable to a fall in the **exchange rate**. After the crisis, government debt soared as the government bailed out bankrupt companies and banks, and borrowed heavily from the IMF. The total cost of the bailout quickly reached US$69.6 billion. Due to the crisis, Indonesia borrowed US$43 billion from an IMF program and other outside financing from 1997 to 2000. Government debt is estimated by the World Bank to be equal to 80 percent of the GDP, and debt repayments eat up 27 percent of government allocations, more than the entire development budget.

Surveys of business travelers in Asia regularly rank Indonesia as one of the most corrupt places to do business. Corruption has interfered with recovery as well, as the IMF and the World Bank stopped payments in 1999 after a private bank was discovered to have funneled payments from the government to the former ruling political party. In September 2000, the Supreme Court convicted the son of former president Suharto for corruption in a real estate deal, but he vanished before he could be jailed. It is believed that Indonesia is becoming increasingly involved in the shipment of heroin from the Golden Triangle in mainland Southeast Asia.

POLITICS, GOVERNMENT, AND TAXATION

The Republic of Indonesia consists of 23 provinces, 2 special regions, and the capital-city district. In August of 1999, a referendum approved independence for East Timor, the area formerly known as Propinsi Timor Timur, but its status remains in transition. The president, who is both chief of state and head of government, is elected by the People's Consultative Assembly for a 5-year term, as is the vice president. Legislative power is vested in a **unicameral** House of Representatives of 500 seats, 462 of whom are elected by popular vote and 38 are appointed from the military. The People's Consultative Assembly, which meets every 5 years to elect the president and vice president and broadly approve national policy, is comprised of the House of Representatives plus 200 members chosen indirectly. Judicial power is vested in a Supreme Court, whose judges are appointed by the president. Major political parties include the Crescent Moon and Star Party (PDB), the Development Union Party (PPP), the Indonesia Democratic Party (PDI), the Indonesia Democracy Party-Struggle (PDI-P), the National Awakening Party (PKB), and the National Mandate Party (PAN).

The former Dutch East Indies proclaimed independence on 17 August 1945, and fought a lengthy war with the Dutch, who were not ready to give up their colony. After 4 years of fighting and negotiations, the territory was formally recognized as the independent nation of Indonesia. Under Indonesia's first president Sukarno (who like many Indonesians used only one name), Indonesia experimented with **socialism**, and the government controlled most markets, foreign trade, and banking. A violent change in government in 1965 brought General Suharto to power. He presided over the extermination of what had been the world's third largest **communist** party, a process that killed at least half a million suspected communists and arrested a million more. Most of those arrested were deprived of their civil rights for decades. Suharto's "New Order" government also appointed a group of U.S.-trained economists (sometimes known as the Berkeley Mafia) to guide economic policy in a more **technocratic** and non-political way. The government directed state investment and protected favored industries from competition, but the system was decidedly capitalist. At the same time, state corporations and private conglomerates, mostly owned by Suharto's family and supporters (many of them ethnic Chinese), were built through government-granted **monopolies** and preferential access to credit, licenses, and products.

The New Order adopted as its slogan a "trilogy of development" consisting of stability, growth, and equitable distribution. Stability was enforced by the harsh repression of dissent from students, journalists, workers, or politicians. Elections were scheduled every 5 years, but no meaningful opposition was allowed. Suharto maintained power through the support of the military and control of the bureaucracy but also in part through the perceived legitimacy that came with significant economic growth.

That legitimacy fell with the onset of the Asian financial crisis in 1997, which also revealed the deep-seated corruption, cronyism (favoritism shown by public officials to their political supporters) and nepotism (favoritism shown by public officials to their relatives) that had left the economy so vulnerable. The economic crisis led to massive student protests that forced Suharto to step down. His vice-president assumed power and announced the first democratic elections in 44 years, which took place in June 1999. After years of restrictions on parties and campaigning, 45 new parties participated in the elections. Despite fears of instability and corruption, the vote was considered a fair representation of the electorate, 93 percent of whom participated. The party winning the most votes (37.4 percent) was the Indonesian Democratic Party (PDI). Led by Megawati Sukarnoputri, the daughter of Indonesia's first president, this nationalist party was unable to form a coalition in the People's Consultative Assembly, where the president is selected. Abdurrahman Wahid, the moderate head of the National Awakening Party (PKB) party, was sworn in for a 5-year term in October 1999, with Megawati as vice-president. Wahid, usually known by the nickname "Gus Dur," is nearly blind and has suffered a stroke, but he is a shrewd politician who led the largest Muslim organization in Indonesia. Wahid's policies have generally supported foreign investment but have also been erratic, sparking fears of instability and economic uncertainty.

The Wahid administration reversed some of the Suharto-era restrictions on free expression: it released political prisoners, eliminated the feared security coordination body BAKORSTANAS, and increased freedom of the press. There is still very weak commitment to investigating and prosecuting human rights violations, which continue to be a problem, particularly in conflict areas such as Aceh, at the northern tip of the island of Sumatra and in East Timor. Moreover, Wahid failed to put a stop to the economic slide that began in 1998. By 2001 the legislature, responding to popular protests, proceeded with impeachment proceedings against Wahid. Ignoring Wahid's threats to dissolve the parliament, the legislature impeached Wahid and replaced him on 26 July 2001, with vice-president Megawati Sukarnoputri.

Although Indonesia has generally pursued a free-market approach to economic development, the government has kept state control over enterprises in sectors such as oil, plantations, and some areas of technology. The role of state-owned enterprises increased during the first decades of the New Order, contributing 30 percent of the GDP by 1990 and remaining dominant players in banking, plantations, transportation, and some areas of manufacturing. The bankruptcy of nearly all the major conglomerates and the subsequent bailout has left the government officially owning major segments of the economy at the dawn of the 21st century. There is pressure from the IMF to sell off assets and **privatize** the state-owned companies, but movement in this direction has been slow.

Wahid's policies aimed to encourage foreign investment and, in accord with IMF agreements, to take steps to strengthen the weak banking and corporate sectors. But President Wahid was distracted in pursuing these goals by such factors as the ongoing violence in certain regions, allegations of government corruption, the difficult problem of reforming the political role of the military, and battles with parliament. It is uncertain how Megawati, as the new president is known, will solve these problems, but it is clear that she will do so with the backing of the military, long the prop for political power in Indonesia. Indonesian voters will have a chance to voice their approval of Megawati's measures in elections in 2003.

Government revenues in fiscal year 1999–2000 were estimated at US$25.4 billion (including US$6 billion from

international financial institutions such as the IMF). Tax revenues have historically been small, with revenues from the personal **income tax** falling from 6.5 percent of total revenues in 1968 to 2.9 percent in 1984. To boost revenue, the government changed the personal and corporate tax system in 1983 and introduced a **value-added tax** (VAT) in 1985. The 2000 budget called for the government to broaden the tax base, end most VAT exemptions, and review **tax holidays**, which guarantee some businesses a period of several years of tax-free operations.

New decentralization laws scheduled to take effect in 2001 will shift most functions from the capital to the provincial and district levels and redistribute a much higher share of profits from oil, gas, forestry, mining, and fishing to local governments. This process has significantly slowed down, however, due to concerns from Indonesian authorities and foreign investors that the local governments were not ready to assume control.

The legal system is based on Roman-Dutch law, modified by indigenous concepts and recent reforms. The court system is extremely corrupt and vulnerable to political influence. Weak courts make it even harder to reform the economic system, as influence and corruption block attempts to resolve the crisis.

Under the New Order, the military was given "dwifungsi," or "dual function," in which it played a social and political role as well as a military one. Active-duty officers occupied important positions in the executive branch, including serving as governors and ministers. The military was also given appointed seats in the national assembly. In their self-described roles as "guardians of development," the military participated in such activities as reforestation and family planning, which led to some charges of coercion or other human-rights abuses. The military also played a pervasive but unofficial role in the economy by placing officers on the boards of private and state-owned enterprises. In exchange for political protection for the businesses, the military was given access to funds for personal and official uses. Military-owned companies also operated in the open market. For example, a **holding company** tied to the important Army Strategic Reserve Command owned a film company, an airline, and an automobile assembly plant. While its political function has been much reduced since the end of the New Order, the military still has 38 out of 500 seats in the National Assembly, although this may be reduced in the future. Military expenditures in fiscal year 1998–99 were estimated at $1 billion, or 1.3 percent of the GDP. The police force was only recently separated from the armed forces and are not yet seen as an effective or accountable agent of law enforcement.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Indonesia has fairly effective telecommunications and infrastructure, especially roads. From 1969 to 1988, the first 3 Repelitas allocated 55 percent of expenditures on transportation infrastructure to road building and maintenance, with the rest for marine transportation, railroads, and air and river transportation. This trend has continued in the 1990s. As a result, Indonesia had 342,700 kilometers (212,954) miles of roads in 1997, although fewer than half of that number were paved. Railway lines totaled 6,458 kilometers (4,013 miles) in 1995. In 1998 there were more than 16 million vehicles on the road, but only 2.6 million were cars, with most of the rest (11.7 million) being motorcycles.

There are 446 airports throughout Indonesia, but only 127 of them have paved runways. As an archipelago, Indonesia relies on a huge fleet of ships for transporting both passengers and goods. Important ports include Cirebon, Jakarta, Kupang, Palembang, Semarang, Surabaya, and Ujungpandang. Once highly restricted and bureaucratic, inter-island shipping was **deregulated** as part of the economic reform packages of the 1980s. Traditional shipping still plays an important role, with an estimated 10,000 two-masted sailing ships shuttling around the islands, though many have been motorized.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Indonesia	24	156	136	N/A	5	0.9	8.2	0.76	900
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Malaysia	158	420	166	5.2	99	6.9	58.6	23.53	1,500

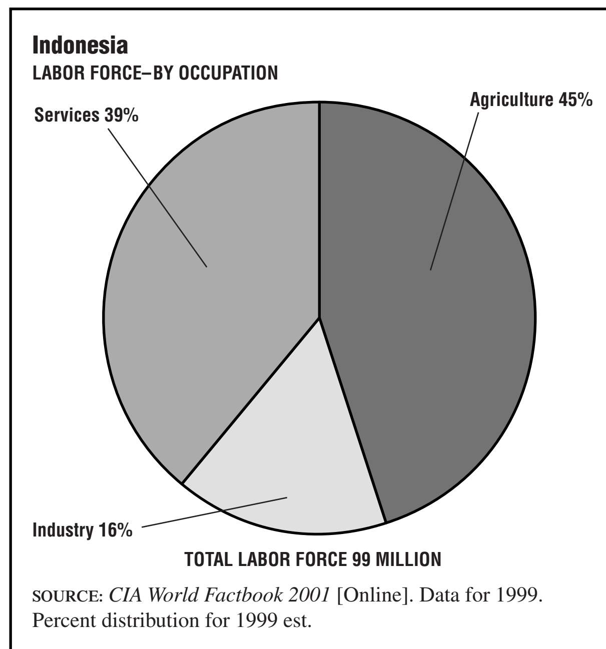
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Electricity production in 1998 was estimated at 73.13 billion kilowatt hours (kWh), mostly from fossil fuels (88 percent), with most of the rest from hydroelectric plants (8 percent). An August 1998 **restructuring** policy for the power sector included plans to restore profitability, improve efficiency, and attract private investment.

There were 4.8 million telephone lines in use in 1997, and an estimated 1.2 million cell phones, as well as 31.5 million radios and 13.75 million television sets. By 1999, Indonesia had 24 Internet service providers for an estimated 1 million users, a figure expected to grow by 50 percent by 2000, despite a shortage of phone lines and limited access to computers.

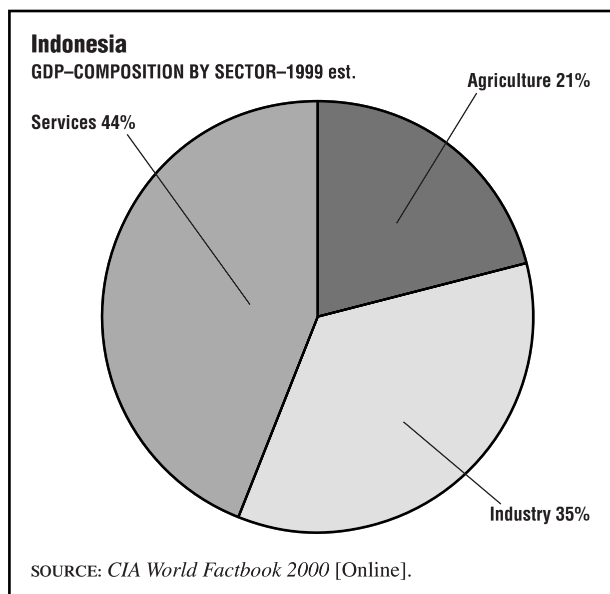
There are 2 state-owned telephone companies. Indosat provides international telecommunications while Telkom provides service domestically. Both are economically healthy, and Indosat is listed on the New York Stock Exchange. Indonesia is under pressure to privatize its telecommunications sector.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1999 est.

ECONOMIC SECTORS

In 1998, agriculture accounted for 19.5 percent of Indonesia's total GDP, industry for 45.3 percent, and services for 35.2 percent, a quite different scenario than in decades past. For the first 20 years after independence in 1945, the agricultural sector contributed more than 50 percent of the nation's GDP from independence. There was little development of industry, and production per capita was no more than it had been when Indonesia was a Dutch colony. From 1965–74 there were few major industrial projects due to the still weak economy and a strategy of import substitution, which created more jobs.



SOURCE: *CIA World Factbook 2000* [Online].

In the early 1970s the Organization of the Petroleum Exporting Countries (OPEC) raised oil prices, greatly increasing Indonesia's export income. Indonesia used this windfall, as well as profits from high prices for tropical agricultural products in the 1970s, to build heavy industries, such as steel, and advanced technologies, such as aeronautics. By the 1980s this industrialization process allowed growing industries such as steel, aluminum, and cement production to reduce the dependence of the economy on agriculture.

These industries, especially the high-tech ones, met with only mixed success, and none of them generated the significant employment required by such a populous country. Agriculture and natural resources were still important to the economy, and Indonesia's economy was vulnerable to frequent changes in the prices of these commodities, as well as of oil and gas. Oil earnings dropped in 1982–83 from US$18.825 billion to US$14.744 billion and kept falling over the next 2 years. Non-oil exports grew but not enough to make up for the fall in earnings. As Indonesia's **balance of payments** became negative, the World Bank pushed Indonesia to open its markets, and beginning in the mid-1980s the government initiated reforms to boost manufactured exports in order to strengthen the economy. These measures included a currency **devaluation** to help make exports competitive, export incentives, the relaxation of rules on foreign investment and trade, and an end to some monopolies, such as plastics.

AGRICULTURE

In 1998 agriculture accounted for 19.5 percent of Indonesia's GDP. The agricultural sector is crucial to the

economy not just for the portion of the GDP it produces, but also because it employs almost half the total workforce. Agriculture was hit hard by drought in 1997–98 but has recovered somewhat since then. Although the drop in the value of the rupiah resulted in much higher prices for fertilizer, pesticides, and other inputs, it did benefit some producers of export commodities, who could now get a higher price for their goods in the international markets. In January 2000, Indonesia told the IMF that the focus of its policy would be "to maintain food security and promote efficient production, processing, and marketing of agricultural products."

FARMING. In much of the nation, the primary crop is rice, sometimes grown in extensive rice terraces with complex irrigation systems. Secondary crops, known as palawija, grown outside of the rice-growing season, include soybeans, corn, peanuts, and mung beans. In mountainous areas highland vegetables are grown, including potatoes, cabbage, carrots, and asparagus. Major fruit crops include bananas, mangos, papaya, oranges, and pineapples. In drier areas root crops such as cassava are an important product.

In the 1970s the set of agricultural innovations known as the Green Revolution introduced new seed varieties that responded well to fertilizers and pesticides, dramatically boosting rice production. Indonesia went from being the world's largest importer of rice in the 1970s to being self-sufficient in 1985. However, the increased dependence on these costly chemicals also carried negative environmental and economic impacts, and the benefits did not reach farmers in dry, mountainous, and other marginal areas.

FORESTRY. Forests and woodlands cover 62 percent of the country, making Indonesia the most heavily forested region in the world after the Amazon. Tropical rainforests make up the vast majority of this acreage, particularly in Kalimantan, Sumatra, and Papua (Irian Jaya). The colonial authorities found the climate and rich volcanic soil perfect for commercial crops such as coffee, rubber, and palm oil. Large private European and American plantations were crucial to the colonial economy in the late 19th century. Many of these estates were **nationalized** and are now operated by state-owned enterprises. Large private plantations remained as well, such as the Goodyear rubber plantation in North Sumatra.

The 1967 Basic Forestry Law gives the government sweeping control over 143 million hectares (357.5 million acres) classified as public forest land. State interest takes precedence over customary ownership of forests, despite the frequent presence of communities who have used the forests for generations. The 1967 law sparked a boom in the timber industry, and in 1978 timber exports reached half the world's total. Exports dropped after the government issued new regulations on the export of unprocessed timber, forcing logging firms to build plywood plants to capture more of the value of the lumber. In 1999 there were some 442 concessions (rights to forest lands given to logging companies) covering 51 million hectares (127.5 million acres), nearly a third of the country. These concessions generally last for 20 years and average 98,000 hectares (245,000 acres) in size. The government promotion of timber processing, the transmigration program, and population pressures on traditional shifting cultivation systems led to annual deforestation of 1 percent in the 1990s, much higher than the world average.

In the last few years, the combination of drought and human activity has led to massive forest fires, on the island of Borneo in particular, covering parts of Southeast Asia in haze. Although the fires were at first blamed on small farmers, a major cause was determined to be illegal clearing of land for large plantations. In 2000 the attorney general's office carried out investigations into the misuse of Rp1.6 trillion (US$216 million) in funds intended for reforestation. The 5 suspects were all linked to Suharto, including 1 daughter and a half-brother. The Ministry of Forestry and Estate Crops recently suspended 46 forest concessions due to documentation errors and improper logging operations.

FISHERIES. Fish is a main source of animal protein in the typical Indonesian diet. The fishing industry continues to rely on traditional methods and equipment, although the government has been promoting the motorization of traditional fishing boats. Foreign fishing boats contribute to growing exports, mostly shrimp and tuna caught for sale in the Japanese market. However, the supply of fish is threatened by illegal fishing from foreign boats and severe environmental degradation.

Prawns are an important export and are increasingly raised on massive coastal farms capable of bringing in large amounts of export earnings. Indonesian prawn exports exceeded US$1 billion in 1998, a significant portion of total agriculture exports. These operations often destroy coastal mangrove forests and have been involved in the exploitation of workers in Sumatra who raise the shrimp on a contract basis and are unable to get out of debt to the shrimp farm companies.

INDUSTRY

MANUFACTURING. Manufactured goods such as textiles, clothing, footwear, cement, and chemical fertilizers are an important part of Indonesia's international trade, with textiles being the largest export, as well as other labor-intensive products such as garments, furniture, and shoes. Indonesia has been unable to move to high-technology exports like computer equipment but has had growing success with basic machinery and electronics. In 2000, electronics increased to 10 percent of total

exports (not including oil and gas), still much less than other developed Southeast Asian economies such as Malaysia, Philippines, and Thailand.

Government policies of the 1970s helped move industry toward heavy industries such as petroleum processing, steel, and cement. The sector shifted again in the mid-1980s towards manufacturing of goods for exports, this time mostly through private rather than government investment. Manufactured exports grew in value from under US$1 billion in 1982 to more than US$9 billion in 1990. As a share of exports, manufactures grew from only 4 percent in 1965 to 35 percent in 1990. After a long period of growth, industrial production fell during the financial crisis that hit the region in 1997.

Following the government bailout of bankrupt companies, the Indonesian Bank Restructuring Agency (IBRA) officially owned most of the manufacturing sector in 2000, although the original owners may retain control of their businesses in the end. Small and medium businesses were less affected by the crisis because they borrowed less. However, they also suffered from the sudden disappearance of credit and were not eligible for bailout programs as the big companies were. The government, recognizing the historical failure to reach Small and Medium Enterprises (SMEs) with government assistance, established a task force to develop an SME strategy with support from the World Bank and the Asian Development Bank. The strategy, under preparation in 2000, aims to make businesses development services more responsive to SMEs, expand access to credit, and simplify regulations.

MINING. Important minerals and metals include tin, nickel, bauxite, copper, coal, gold, and silver. As in the oil and gas industry, foreign companies carry out mining operations, assume all risks, and share revenues with the government. The world's largest copper and gold mine is in Papua (formerly Irian Jaya); it has brought in tremendous revenues, but there have been charges of environmental damage and human rights abuses of local inhabitants.

OIL AND GAS. The role of oil and gas in Indonesia's economy is extremely important, especially following the OPEC oil price hikes in 1974. As a result, the share of government revenues derived from this sector grew from 19.7 percent in 1969 to 48.4 percent in 1975. As a share of export earnings, oil and gas hovered around two-thirds of the total over the next decade and even reached 80 percent in 1981. During the 1970s, these revenues were a major source of the country's development budget. By 1999 the economy was more diverse and had a strong manufacturing sector, with oil and gas accounting for just 20 percent of total exports of US$48 billion.

Indonesia is the world's largest exporter of liquefied natural gas, much of it from the strife-torn area of Aceh, where resentment of the government's failure to share the benefits of the windfall is one factor in the separatist movement. Most oil exploration and drilling is done by foreign contractors under agreements with Pertamina, the state-owned oil and gas company. Pertamina grew in the 1970s to be a colossal conglomerate active in many sectors, but it was later discovered to be deeply indebted and in need of restructuring. During this time it was an important source of unofficial funds for military and political factions.

SERVICES

The service sector, including stores, food vendors, and banks, is an important part of Indonesia's economy, accounting for 35 percent of the GDP in recent years. While more people work in agriculture, the service sector is an important source of wage labor, accounting for 12.4 million jobs in 1996. However, there is low productivity in the service sector, much of which lies within the **informal economy** (small businesses such as street vendors that are outside the formal system of registration and taxes).

FINANCIAL SERVICES. The Indonesian financial sector was long burdened by heavy debt and by numerous **bad loans** made on the basis of corruption and cronyism. In the aftermath of the financial crisis of the 1990s, more than two-thirds of bank loans were thought to be impossible to recover, and the number of banks fell from 238 to 162. Many surviving banks are technically bankrupt or limited by very low amounts of capital. Following the collapse of the banking system, the government formed the Indonesian Bank Restructuring Agency to restructure banks, collect on bad loans taken over from banks, and, unlike similar agencies in other countries, even sell assets pledged to it in return for the bailouts. IBRA reported US$52 billion in assets in 2000. The agency has been slow to carry out its duties, and has also been accused of cronyism.

By 2000 banks had slowly begun lending again, but mostly to consumers rather than companies. Businesses were forced to try to raise money in other ways, such as through their business activities, by borrowing overseas, or by issuing bonds. Deregulation in 1998 opened the banking, securities, and insurance industries to more foreign investment. In 1999, the central bank, Bank Indonesia, was given full autonomy from government interference. Bank Indonesia still works to maintain the value of the rupiah and keep inflation under control.

TOURISM. Given Indonesia's beaches, temples, and rich spectrum of cultural events, tourism remains an important source of foreign exchange. Bali is one of the most visited spots in the world. Fears of political instability and conflict have hurt tourism, though, in recent years, but there is a good potential for recovery and growth, as

facilities and infrastructure are intact, and the exchange rate is favorable to visitors.

In 1983 Indonesia discovered that tourism had fallen by a third in just 1 year and took measures to increase visits, including issuing visas on arrival, creating better airline connections, and appointing a minister of Tourism, Post and Telecommunications. The strategy worked, and tourist arrivals peaked at more than 5 million just before the financial crisis. Tourism has slowed since then, but in 2000 the government recorded a small increase, to 4.15 million foreign tourists. The airport on the small island of Bali accounts for 1.47 million arrivals alone. Continued increases in tourist arrivals are likely, but some tourists may be scared off by violence, ethnic unrest, and labor stoppages.

RETAIL. The **retail** market was badly affected by the financial crisis, as increased unemployment and poverty reduced consumer demand for goods. Retailers selling imported goods were forced to charge much higher prices. There has been some recovery since 1998, partially due to wealthier Indonesians' bringing money back from overseas where they tried to shelter it from the effects of the financial crisis. The retail food sector is dominated by traditional outlets such as small restaurants and the omnipresent street stalls, known as warungs. Modern supermarkets and retail outlets make up only 20 percent of retail food outlets even in Jakarta, which has the most advanced economy in the country.

INTERNATIONAL TRADE

In 1999, Indonesia exported $48 billion worth of goods and services and imported $24 billion. Exports are mainly low-tech goods and natural resource-based products, including sport shoes, textiles, basic electronics, plywood, furniture, paper, palm oil, rubber, and spices. Imports are primarily machinery and equipment, chemicals, fuels, and foodstuffs.

Japan is the main destination for Indonesian goods, with 18 percent of total 1999 exports, followed by the European Union (15 percent), the United States (14 percent), Singapore (13 percent), South Korea (5 percent), Hong Kong (4 percent), China (4 percent), and Taiwan (3 percent). Japan also is the main source of imports (17 percent), followed by the United States (13 percent), Singapore (10 percent), Germany (9 percent), Australia (6 percent), South Korea (5 percent), Taiwan (3 percent), and China (3 percent).

The crisis of the late 1990s ended a period of rising levels of trade, with exports increasing an average of 11 percent annually from 1993 to 1996. After the onset of the crisis, fluctuating exchange rates and the sudden absence of credit made it difficult for Indonesian companies to trade. Inflation and unemployment also reduced consumer demand for the increasingly expensive imports. Initial reports estimated that imports of **capital goods** (goods used to produce other goods), such as manufacturing equipment, fell 70 percent from 1997 to 1999. High levels of debt continue to restrict the ability of firms to borrow to finance trade deals.

The beginning of 2000 saw export growth resume to pre-crisis levels, although some of that was due to the rise in oil prices. Imports also rose, but by early 2000 they were still at only 60 percent of what they had been before the crisis. Further growth in imports is likely, especially in educational and training services, computers, telecommunications equipment, life insurance, and food supplements, as well industrial and agricultural chemicals, pulp and, paperboard, and equipment for forestry, mining, oil and gas exploitation, and food processing. There is still a need for reforms to reduce corruption and cronyism and promote the rule of law. Fears of political instability have also compounded the economic problems, scaring off foreign investors and trading partners.

MONEY

The first decades after independence were marked by rampant inflation, as Sukarno's government printed money as needed. After Suharto's New Order government took power in 1965, the so-called Berkeley Mafia of U.S.-trained economists was able to bring inflation un-

Trade (expressed in billions of US$): Indonesia

	Exports	Imports
1975	7.102	4.770
1980	21.909	10.834
1985	18.587	10.259
1990	25.675	21.837
1995	45.417	40.630
1998	48.847	27.337

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Indonesia

Indonesian rupiahs (Rp) per US$1	
Jan 2001	10,000
2000	8,421.8
1999	7,855.2
1998	10,013.6
1997	2,909.4
1996	2,342.3

SOURCE: CIA *World Factbook 2001* [ONLINE].

der control through tight control of fiscal and **monetary policy**. An exception was the sudden surge of oil wealth that sent inflation soaring to 40 percent. Inflation was brought back under 10 percent by 1978, but in the meantime exports fell due to the combination of inflation and a **fixed exchange rate**.

To facilitate the exporting of goods at competitive prices, the government lowered the value of the rupiah 50 percent in 1978, and again in 1983 and 1986. After that devaluations of about 5 percent a year were allowed. Until the crisis of 1997, the government tried to limit exchange rate fluctuations to within this range (a policy called a "managed float"). Between 1990 and 1996 the rupiah depreciated by an average of 3.9 percent. This stability encouraged investment, as investors knew that their profits would not be eaten up by inflation. It also encouraged domestic businesses to borrow money in foreign currencies such as the dollar (reaching almost US$80 billion), which would prove disastrous for them once the rupiah crashed. In August 1997, after seeing neighboring countries try and fail to keep their currencies stable, the government announced it could no longer pursue the managed float policy. Exchange rates fell from Rp2,500=US$1 in July 1997 to Rp17,000=US$1 in June 1998, before improving to Rp8,000=US$1 later that year. Indonesia does not maintain capital controls, and foreign exchange may be freely converted and can flow in and out of the country unrestricted. As part of the recovery strategy, the International Monetary Fund required Indonesia to raise interest rates to bring back foreign investment.

The first stock exchange was set up in Jakarta (then known as Batavia) in 1912, though it was closed during World War II. After independence an exchange was established in 1952, only to be shut down by a program of nationalization in which the government took over private companies. In 1977 the modern Jakarta Stock Exchange was opened, first under government control and later privatized. Growth was slow at first, with only 24 traded companies by 1987. By 2000, only 278 companies have been listed, most of them owned by the company founders with small amounts of public ownership.

POVERTY AND WEALTH

At independence, Indonesia was an extremely poor country, and it was not until after the change in governments in 1965 that any progress was made in lowering the rate of poverty. In the 2 decades prior to 1996, Indonesia saw consistent growth, with the official poverty rate falling from 60 percent to 15 percent. However, not all groups and regions have benefitted equally, and Indonesia has a highly uneven distribution of income. The poorest fifth account for just 8 percent of consumption, while the richest fifth account for 45 percent. Average income today is about US$650 a year.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Indonesia	385	504	603	778	972
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Malaysia	1,750	2,348	2,644	3,164	4,251

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Poverty rates have always been higher in the outer islands. The rise of manufacturing disproportionately benefitted Java, Bali, and Sumatra due to the better infrastructure of the inner islands. Economic disparity and the flow of natural resource profits to Jakarta has led to dissatisfaction and even contributed to separatist movements in areas such as Aceh and Papua (Irian Jaya). While the new laws on decentralization (moving more economic and political decision-making to the outer islands) may partially address the problem of unequal growth and satisfaction, there are many obstacles to putting this new policy into practice.

The financial crisis of 1997 had social ramifications by reversing many of the income-distribution gains made over the previous decades. Though the enormous informal economy and family-support networks helped soften the impact of higher unemployment rates, social effects were nonetheless profound. In a few parts of the outer islands, the devaluation meant higher prices abroad for export crops such as cloves, nutmeg, cocoa, and vanilla, but overall, Indonesians suffered from rising poverty, surging unemployment, reduced schooling and public services, worsening health and nutrition, more crime and violence, and increased social stress and fragmentation. While some 15 percent of the population was below the poverty line before the crisis, an additional 40 million

Distribution of Income or Consumption by Percentage Share: Indonesia

Lowest 10%	3.6
Lowest 20%	8.0
Second 20%	11.3
Third 20%	15.1
Fourth 20%	20.8
Highest 20%	44.9
Highest 10%	30.3

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Indonesia	47	3	6	5	14	3	22
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Malaysia	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

people (20 percent of the population) may have since fallen into poverty.

Inflation has been a particular burden to Indonesia's poorest citizens. During the late 1990s, the price of rice, the staple food for most people, leapt from Rp1,000 per kilogram to Rp5,000. In 1998 the Ministry for Food and Horticulture estimated that about 80 million individuals were facing food shortages. In Central and East Java alone over 30 million people were able to afford only 1 meal per day. Eastern Indonesia, hard hit by drought as well as economic problems, experienced widespread famine. Due to the rising costs of imports, medicine ran short and prices doubled or tripled. The International Labor Organization estimated that the number of Indonesians using public health services would double in 1998, to 68 percent of the population, even as the government was under pressure to spend less money on such health-related public services. It was reported in the press that the number of women dying in childbirth shot up from 22,000 per million to 35,000 per million in the space of 1 year, due to the lack of money to transport women to health facilities and to increased anemia levels in pregnant women.

In 1998 education accounted for 14 percent of household expenditures. Rising school costs and falling family incomes forced many poor students to drop out of school. Roughly 5 percent of students did so in 1999 alone, according to official estimates. Enrollments in junior high schools in Jakarta declined disproportionately in the case of girls (19 percent), as did enrollment in poorer rural areas. In July 1998 the government launched a scholarship program for the poorest students. However, to help pay for this program it had to cut funding for high schools and colleges.

WORKING CONDITIONS

The Indonesian **labor force** is estimated at about 95 million, two-thirds of which is between the ages of 15 and 34, and two-fifths of which is made up of women. Even during the period of significant GDP growth from 1985 to 1995, the rise in employment failed to keep up with the rise in population. More than 4 million people (nearly 5 percent of the labor force) were looking for jobs even before the crisis of 1997. The government's August 1999 Labor Force Survey found 6 million people over age 15 unemployed, and a much higher number **underemployed** (34 million workers, or 39 percent), working less than 35 hours a week in 1998. Some economists question the reliability of these figures, and suggest that more than half the population is underemployed.

In 1998, the labor force was distributed approximately as follows: agriculture (45 percent); trade, restaurant, and hotel (19 percent); manufacturing (11 percent); transport and communications (5 percent); and construction (4 percent). The manufacturing workforce is skilled in the basics but undereducated. While many light manufacturing companies, such as sneakers and clothing plants, opened factories in Indonesia to take advantage of a mostly young, female labor pool of migrants to the cities, high-tech manufacturers have been slow to move in. As competition increases from China, Vietnam, and India, these unskilled workers are starting to lose out. There have been well-documented charges of sweatshop conditions (forced overtime, unsafe workplaces, and inadequate pay) in many of these export-oriented factories.

The government sets minimum wages in each region; in Jakarta it was set at Rp286,000 (US$33) per month in April 2000. While workers were allowed to join a single union established by the government under the Suharto regime, new regulations put forth in 1998 have allowed the formation of more than 2 dozen new labor unions. Strikes have increased in recent years, with the return of economic activity. According to the International Labor Organization, "women are likely to be more adversely affected by the [economic] crisis than men. They are concentrated in the most precarious forms of wage employment and are thus more vulnerable to lay-offs."

Indonesia has also traditionally sent large numbers of workers overseas, both legally and illegally. As countries

such as Malaysia and Thailand suffered the effects of the crisis, nearly all of these Indonesian workers were sent home, worsening the problems of unemployment and poverty.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1300s. Islam begins to take hold in Indonesia.

1500. Fall of Majapahit marks the last Hindu-Buddhist empire.

1511. Portuguese explorers arrive in the islands seeking trade in spices.

1596. The first Dutch ships arrive.

1602. The Dutch East India Company is formed as a private stock company to trade, make treaties, and maintain troops in the Indies.

1799. The Dutch East India Company declares bankruptcy and is replaced by Dutch government bureaucracy.

1830. The Dutch institute the Culture System, a forced cultivation system to produce coffee, sugar, indigo, pepper, tea and cotton, resulting in rice shortages and famines.

1927. Sukarno, a university student who later becomes president, founds the Indonesian National Party.

1942. The Japanese invade Indonesia during World War II, driving out the Dutch.

1945. The Dutch return, only to find Indonesians declaring independence on 17 August.

1949. Indonesia's independence is recognized, and Sukarno is elected as the first president.

1965. Suharto takes power in a military coup.

1974. Oil revenues rise due to price hikes by OPEC.

1975. Indonesia invades East Timor.

1978. First major devaluation (50 percent) of the rupiah occurs following inflation.

1980s. Oil prices fall, leading to shocks in the economy.

1988. Economic reform packages begin to open up trade, investment, and banking and reduce monopolies.

1997. The Asian financial crisis hits Indonesia, leading to the crash of the rupiah, bank and business failures, and unemployment.

1998. Suharto steps down in the face of massive protests.

1999. President Abdurrahman Wahid is sworn in.

2001. Wahid is impeached in July, and vice president Megawati Sukarnoputri is installed as president.

FUTURE TRENDS

In 2001, Indonesia stood at a crossroads. Just 3 years after the removal of the autocratic Suharto, only the country's second leader since independence, the country had gone through 3 presidents, with the second, Abdurrahman Wahid, removed by impeachment. The biggest question on the political horizon is whether the newly-installed President Megawati Sukarnoputri can secure the stability of the presidency and lead the way to peaceful elections in 2003. Her critics worry that she will lead the country back to the days of military control. Foreign investment and economic stability in the coming years may well depend on her success.

If all goes well politically, Indonesia should be able to build on its strengths to restore the confidence of foreign investors. It has a large domestic market and labor force, a well-functioning telecommunications and infrastructure, extensive natural resources, a strategic location, and experience with market economics. Many obstacles remain to economic recovery, however: Indonesia's huge public and private debt, private assets under government control that must be restructured or sold, its ineffectual legal system, and cronyism. Despite the need for social programs, the much higher debt that followed the crisis will pressure the government to keep expenditures down. While more investment is needed, a forecast by the National Development Planning Agency in May 2000 found that even with optimistic assumptions about successful reforms, foreign investment would not return until 2002.

Reform is progressing slowly. At the end of 2000, the IMF was threatening to delay new loans unless Indonesia fulfilled previous promises to take action to reduce risks in its decentralization plan, use higher oil revenues to pay down debt, and set a timetable for selling assets obtained through the bailout.

The economy will also be affected by whether the decentralization process is able to increase the fair development of the regions while still reassuring investors of stability. It is hoped that better sharing of revenues with the provinces will reduce some tensions, but unrest is likely to continue in some of the most conflict-torn areas, such as Maluku, Aceh, and Papua (Irian Jaya).

DEPENDENCIES

Indonesia has no territories or colonies.

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—Matthew Easton

IRAN

Islamic Republic of Iran
Jomhuri-ye Eslami-ye Iran

CAPITAL: Tehran.

MONETARY UNIT: Iranian rial (IR). One Iranian rial equals 100 dinars. There are coins of 1, 5, 10, 20, and 50 rials and notes of 100, 200, 500, 1,000, 2,000, 5,000, and 10,000 rials.

CHIEF EXPORTS: Petroleum (80 percent), carpets, fruits, nuts, hides, steel.

CHIEF IMPORTS: Machinery, military supplies, metal works, foodstuffs, pharmaceuticals, technical services, refined oil products.

GROSS DOMESTIC PRODUCT: US$347.6 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$12.2 billion (f.o.b., 1998). **Imports:** US$13.8 billion (f.o.b., 1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. Iran, a country slightly larger than Alaska, is located in the Middle East, bordering the Gulf of Oman and the Persian Gulf in the south and the Caspian Sea in the north. It covers an area of 1.648 million square kilometers (636,296 square miles) and is edged between Iraq, with which it shares a border of 1,458 kilometers (906 miles), and Pakistan and Afghanistan in the east, with which Iran has 909 kilometers (565 miles) and 936 kilometers (582 miles), respectively, of common borderline. Iran also shares 499 kilometers (310 miles) of borderline with Turkey, 992 kilometers (616 miles) with Turkmenistan, 432 kilometers (268 miles) with Azerbaijan, and some 35 kilometers (22 miles) with Armenia, the latter 3 states formerly being part of the USSR.

Most of the 2,440 kilometers (1516 miles) of coastline are on the Persian Gulf and the Gulf of Oman. The 2 gulfs are connected by the strategic strait of Hormuz. Iran has dozens of islands in the Persian Gulf, many of which are uninhabited but used as bases for oil exploration. Those that are inhabited—notably Qeshm and Kish—are being developed, attracting investors and tourists. The Iranian coast of the Caspian Sea is some 740 kilometers (460 miles) long. Apart from being home to the sturgeon that provides for the world's best caviar, the Caspian Sea is the world's largest lake, with an area of some 370,000 square kilometers, and is co-owned by Azerbaijan, Russia, Kazakhstan, and Turkmenistan.

In general, Iran consists of an interior plateau, 1,000 meters to 1,500 meters (3,000 feet to 3,500 feet) above sea level, ringed on almost all sides by mountain zones. The Elburz range with the Iranian capital, Tehran, at its feet, features the country's highest peak, the snowcapped volcanic cone of Mt. Damavand, at 5,604 meters (18,386 feet). To the north of the range there is a sudden drop to a flat plain occupied by the Caspian Sea, which lies about 27 meters (89 feet) below sea-level and is shrinking alarmingly in size. The larger Zagros mountain range runs from north-west Iran down to the eastern shores of the Persian Gulf, and then eastward, fronting the Arabian Sea, and continuing into Pakistan.

The interior plateau of Iran is mostly desert, and the settled areas are generally confined to the foothills of mountains, though oasis towns, such as Kerman, are growing in size. Major towns and historical centers are spread all over the country, such as the country's largest cities of Tabriz (1.2 million) in the far northwestern corner; Mashhad (1.9 million) in the far northeastern corner; Esfahan (1.3 million) to the south; and Shiraz (1.1 million) to the distant south of the capital, Tehran (6.8 million).

POPULATION. Iran's population was estimated to total 65.6 million in July 2000 according to CIA figures. Almost two-thirds of Iran's people are of Aryan origin—their ancestors migrated from Central Asia. The major groups in this category include Persians, Kurds, Lurs, and Baluchi. The remainder are primarily Turkic but also include Arabs, Armenians, Jews, and Assyrians. Iran's

ethnic diversity is reflected in the variety of languages Iranians speak, with 58 percent speaking Persian and Persian dialects, 26 percent speaking Turkic dialects, 9 percent Kurdish, and 7 percent other languages. Persian—an Indo-European language almost unchanged since ancient times with a share of Arabic, Turkic, and European words—is now spoken by the majority of Iranians as their first language and operates as a lingua franca for minority groups. Although granted equal rights by the constitution, ethnic minorities are second-class citizens.

Iran's population is approximately 99 percent Muslim, of which 89 percent are followers of the state religion, Shi'a Islam. Some 10 percent are followers of the Sunni branch of Islam (mostly Turkomen, Arabs, Baluchs, and Kurds living in the southwest, southeast, and northwest). Sufi Brotherhoods (mystical religious orders) are popular, but there are no reliable figures available to judge their true size. Baha'is, Christians, Zoroastrians, and Jews constitute less than 1 percent of the population. The largest non-Muslim minority is the Baha'i faith, estimated at about 300,000 to 350,000 adherents throughout the country. Estimates on the size of the Jewish community vary from 25,000 to 30,000. These figures represent a substantial reduction from the estimated 75,000 to 80,000 Jews who resided in the country prior to the 1979 Revolution. The Christian community is estimated at approximately 117,000 persons. According to government figures the size of the Zoroastrian community was estimated at approximately 35,000 adherents. Zoroastrian groups cite a larger figure of approximately 60,000. Zoroastrianism was the official religion of the pre-Islamic Sassanid Empire and thus has played a central role in Iranian history. Zoroastrians are mainly ethnic Persians concentrated in the cities of Tehran, Kerman, and Yazd. In general, society is accustomed to the presence of Iran's pre-Islamic, non-Muslim communities. However, the government re-

stricts freedom of religion, creating a threatening atmosphere for some religious minorities, especially Baha'is, Jews, and evangelical Christians.

Iran has a relatively young population, with 34 percent of the population under the age of 14 and 61 percent between 15 and 64 years of age. Thanks to a family planning program, population growth decreased from 3.2 percent in 1984 to 1.7 percent in 1998 and further to 0.83 percent in 2000. Of the population, an estimated 38 million Iranians (or 60 percent) live in urban areas, while approximately 27 million live in rural areas. The population density was 37.6 inhabitants per square kilometer (97 per square mile) in 1998, though many people are concentrated in the Tehran region, and other parts of the country (especially deserts) are basically uninhabited. Basic literacy rates are above the regional average, although uncertain reporting standards give a wide margin for error. In 1997–98 the central bank estimated literacy at 80.5 percent in those over 6 years old, with 75.6 percent of women and 85.3 percent of men judged to be functionally literate, i.e. they were taught to read and write at some point.

Between 1920 and 1960 Iran's population doubled to 23 million, and by 1979 the equivalent to the entire population of the country in 1920 had been added. Most of the increase in population migrated to urban centers and found jobs in industry and services, as opposed to agriculture. In 1960, about one-third of the population lived in towns; by 1979 nearly half the population was urban. Tehran became the center of government, higher education, and industry; in 1976, it contained two-thirds of all university students, and nearly one-third of high school students; about half of all factories were in or around Tehran. After the Islamic revolution of 1979, this trend continued. Currently, around 60 percent of the Iranian population lives in towns. Tehran remains the principal political, economic, and industrial center, with a population of 6.8 million, according to a 1996 census, although it is very likely that the metropolitan area accommodates some 11–12 million people, or 20 percent, of the country's overall population.

The civil war in Afghanistan, the Iran-Iraq war of the 1980s, and Iraqi policies in the aftermath of the Gulf War in 1990–91 have caused a constant influx of refugees to Iran. The country hosts the largest refugee population in the world. According to the government, the total refugee population counts 2 million—1.4 million Afghans and 580,000 Iraqis—while a smaller number have been driven into Iran by the conflict in the Nagorny Karabakh region in Azerbaijan. The Iraqis include Kurds from the north and Arab Shiites from the south. Only 5 percent of refugees live in 30 designated camps, while others are scattered among cities and villages throughout the country. The increase in unemployment and deteriorating economic conditions have somewhat eroded the Iranians' so far rather tolerant and welcoming attitude toward refugees, and more pressure is being exerted for refugees to return to their countries of origin. The Iranian government feels it bears a heavy social and economic burden and believes the international community should share more of this burden.

OVERVIEW OF ECONOMY

Iran has a mixed economy that is heavily dependent on export earnings from the country's extensive petroleum reserves. Oil exports account for nearly 80 percent of foreign exchange earnings. The constitution mandates that all large-scale industries, including petroleum, minerals, banking, foreign exchange, insurance, power generation, communications, aviation, and road and rail transport, be owned publicly and administered by the state. Basic foodstuffs and energy costs are heavily subsidized by the government. Although economic performance improved somewhat during 1999 and 2000 due to the worldwide increase in oil prices, performance is affected adversely by government mismanagement and corruption. Unemployment was estimated to be as high as 25 percent, and **inflation** was an estimated 22 percent. Iran's **gross national product** (GNP) is the highest in the Middle East, although its GNP per capita is comparatively low because of Iran's large and growing population.

From medieval times until the 20th century, the socioeconomic structure of Iran remained almost unaltered. Only half of the population was settled; the remainder were tribal nomads, mainly engaged in the herding of grazing animals. A system of land assignment was in place, similar to the medieval European system of feudalism, under which the ruler, the shah, granted land to loyal subjects who became absentee landowners, collecting taxes from the peasants on their land. Economic activity further suffered from the handicaps of topography and climate, as well as prolonged political and social insecurity (with constant pressure by foreign powers). Things began to change when Reza Shah Pahlavi, a colonel in the Persian army and founder of the Pahlavi dynasty, seized the throne in 1925 and initiated a modernization of Iran's political and economic system, while also changing the country's name from Persia to Iran.

Following World War II the new shah, Mohammed Reza, guided the economy through public planning, urbanization, industrialization, and investment in the **infrastructure**, and achieved sustained growth, all supported by substantial oil revenues. Compared with other third world countries during the period from 1960–77, Iran's annual real growth rate of nearly 9.6 percent was about double the average. Therefore, one explanation for the Islamic revolution of 1979 is that the modernization

program imposed by the shah was too rapid for the Iranian people, who wished to hold on to their traditional values and ways. Another view suggests that in fact, the shah failed to modernize rapidly enough. The Iranian economic and social infrastructure was found increasingly inadequate to meet expectations, despite rising oil revenues that produced a superficial modernism. The standard of living did increase in Iran during the early 1970s, when per capita income rose from US$180 per year just before the massive oil price increase to US$810 in 1973–74, and up to an estimated US$1,521 just one year later. During the last years of the shah's reign, per capita income rose less rapidly and living costs soared. By 1978, the typical rent for a house in Esfahan had risen from about US$70 per month in 1973 to over US$500 a month, while a typical salary was still below US$2 per hour. In addition, corruption had become widespread.

In 1979 an Islamic revolution ousted Shah Mohammed Reza Pahlavi from power and placed the Shiite clergy in control of the government of the country. The revolution was followed by trade **sanctions** and the freezing of Iranian assets in the United States after radical Iranian students stormed the American embassy in Tehran and held embassy staff as hostages. These measures and the war which broke out between Iran and Iraq in September 1980 and lasted for 8 years harmed the development of the Iranian economy considerably. Since that conflict, efforts to resume broad economic development and diversification have been hindered by volatile world oil prices, by internal structural weaknesses and rampant inflation, and by persistent political tensions with the West, especially with the United States, which still considers Iran to be the most active state sponsor of terrorism, supporting extremist groups such as Lebanon-based Hezbullah and the Palestinian Hamas.

The most remarkable features of the post-revolutionary Iranian political and economic scene are the influence of the so-called *bazaar* and the *bonyad*. The bazaar refers to Iran's traditional import-export markets, the leaders of which wield considerable influence over economic policy. These leaders, known as bazaaris, showed their power in 1978 by calling a series of strikes, paralyzing Iran's economy and speeding up the departure of the shah. Since the revolution the bazaaris have enjoyed a close relationship with the Islamic regime, benefiting from lucrative business contracts in exchange for funding individual mosques and conservative parliamentary and presidential candidates. The bazaar also provides an informal banking service to the **private sector** and is responsible for much of the **black-market** trade in currency; as a result, bazaaris tend to oppose **exchange-rate** reunification. In broad terms, they also oppose wider economic reform, the reduction of **tariff** barriers, and the greater participation of foreign investors in the economy.

The bonyad (religious foundations) were created after the revolution to safeguard the Islamic Republic's revolutionary principles and to attend to the plight of the poor. While providing much-needed welfare support for the families of those killed or wounded in the Iran-Iraq war, the bonyad have exploited their position to become multi-billion dollar conglomerates controlling large portions of the Iranian economy, especially properties and businesses taken from the Pahlavi family and individuals associated with the monarchy. The larger bonyad, such as the Bonyad-e Mostazafan (Foundation of the Oppressed) and Bonyad-e Shahid (Foundation of the Martyrs), oppose better relations with the West and the **liberalization** of the economy, fearing that foreign investment in Iran could threaten their economic empires.

In the early 1990s, Iran faced a huge **foreign debt** and other serious economic dislocations stemming from the nearly decade-long Iran-Iraq war (1980–88), while its population continued to grow at a rapid pace. Most of the economic resources were allocated through the vast **public sector**, widespread **price controls**, extensive trade and exchange restrictions, heavily subsidized energy and petroleum products, and protective labor and business practices. With oil prices changing considerably during the 1980s, planning became difficult and resulted in inflation, since the government did not want to borrow on international markets, but financed war-related and other expenses through the central bank. Between 1981–82 and 1984–85, the **real GDP** had grown by about 8 percent annually, which reflected oil production and export recovery after the low-point during and in the immediate aftermath of the revolution. But when oil prices fell to a historic low in 1987–88, this drop was also reflected in the economy at large, and Iran witnessed a negative growth rate of 10 percent.

After the war, efforts were made to revive oil exports and to shift the economy onto a peacetime basis. Through the 1990s, attempts at **privatizing** public enterprises, liberalizing prices and the exchange system, removing tariff barriers, and lowering **income taxes** to encourage investment were made. During the First 5 Year Development Plan (1989–94), these measures worked well and the economy grew in real GDP terms at an average annual rate of 7 percent. While the First 5 Year Development Plan focused on infrastructure development and reconstruction programs, the Second 5 Year Development Plan (1994–99) concentrated on Iran's financial problems. The sharp drop of oil prices in 1998–99 forced the government to abandon structural reforms and brought about a **budget deficit** of US$2.1 billion, which was financed by monetary expansion, thus accelerating inflation from 17 percent in 1997–98 to 25 percent in 1998–99.

The reformist president Khatami, elected in 1997, has continued to follow the market reform plans of his

predecessor, President Rafsanjani, and has indicated that he will pursue diversification of Iran's oil-reliant economy, although he has made little progress toward that goal so far, mainly because of Iran's dependence on oil and the decline in oil prices in the first 2 years of his government. A broad program of economic adjustment and reform was issued in August 1998 to form the Third 5 Year Development Plan (2000–05). It involves restoring market-based prices, reducing the size of the public sector and encouraging private sector investment. As a result, domestic petroleum prices were raised by 70 percent in 1999, and a more market-based official exchange rate was introduced on the Tehran Stock Exchange (TSE).

The recovery of oil prices during 1999–2000 significantly strengthened Iran's external and financial position. Although annual GDP growth remained weak at 2.4 percent and the **inflation rate** remained almost unchanged at 20 percent, the government incurred a large **budget surplus** of about US$4.7 billion and hurried to pay **external debt**, reducing outstanding debt to about 10 percent of the GDP. The Third 5 Year Development Plan aims at accelerating growth to an average annual rate of 6 percent in order to create sufficient employment opportunities for the rapidly growing **labor force**, which currently increases by an estimated 5 percent every year.

POLITICS, GOVERNMENT, AND TAXATION

The Islamic revolution of 1979, during which the monarch, Shah Mohammed Reza Pahlavi, was driven out of the country, brought the Shiite clergy to power with Ayatollah Ruhollah Khomeini as its charismatic leader. Following the revolution, Iran adopted a constitution based on Ayatollah Khomeini's theory of Islamic government. The constitution ratified by popular referendum established a theocratic (from ancient Greek, literally meaning "the rule of God") republic and declared as its purpose the establishment of institutions and a society based on Islamic principles and norms, adopting the shari'a (Islamic law) as the basis for the country's legal system. The Constitution of the Islamic Republic provided for a *Vali-ye Faqih*, a Supreme Leader of the Islamic Revolution. Since the death of Ayatollah Khomeini, in 1989, this office has been held by Ayatollah Ali Khamenei. The Supreme Leader still enjoys primary control of many organs of the state and has the right to appoint key officials such as heads of the judiciary, the broadcast media, the armed forces, and various revolutionary bodies, as well as the power to supervise the overall policies of the regime.

The 1979 constitution created an Islamic Consultative Assembly called the Majlis, Iran's most democratic legislature in its history. Its 290 members are elected by universal adult suffrage—men and women from the age of 16 are eligible to vote—and serve for 4-year terms. The Majlis develops and passes legislation that is reviewed for adherence to Islamic and constitutional principles by a Council of Guardians, which consists of 6 clerical members. These are appointed by the Supreme Leader and 6 jurists, who in turn are appointed by the head of the judiciary and approved by the Majlis. The constitution provides the Council of Guardians with the power to disqualify candidates for elective offices based on a set of requirements, including the candidates' ideological beliefs.

The country's president is elected by popular vote to a 4-year term and has the power to appoint a cabinet known as the Council of Ministers, with the approval of the legislature. Mohammad Khatami was elected in elections held on 3 August 1997.

Political parties, legalized in 1998 after a 13-year ban, are still at an early stage of development. Nevertheless, factions within the ruling hierarchy, particularly in the Majlis, are increasingly visible. While these are most often defined broadly as "reformist" or "conservative," political allegiances do exist based on patronage, loyalties, specific interests, and the exchange of favors.

Several agencies share responsibility for internal security, including the Ministry of Intelligence and Security, the Ministry of Interior, and the Revolutionary Guards, a military force that was established after the revolution. Paramilitary volunteer forces known as Basijis, and groupings, known as the Ansar-e Hezbollah (Helpers of the Party of God), who often are aligned with specific members of the leadership, act as watchdogs, intimidating and physically threatening demonstrators, journalists, and individuals suspected of counterrevolutionary activities. According to Amnesty International and Human Rights Watch, both regular and paramilitary security forces committed numerous serious human rights abuses. Iranians also suffer from violations of freedom of expression. Iran's conservative-dominated judiciary waged an extensive campaign against the local reformist press, closing newspapers and prosecuting critical journalists throughout 2000.

HISTORICAL BACKGROUND. Although briefly occupied during World War II by Soviet and British troops, Iran is 1 of only 2 countries in the Middle East that were never colonized (the other being Saudi Arabia). However, the country's geopolitical significance—Iran has the longest Gulf shoreline and is a vital link between Asia, the Middle East and Europe—has made it of central concern to the world's most powerful empires and a target for frequent political manipulation. Following the occupation of Iran by allied forces during World War II, Iran's Pahlavi ruler, Reza Shah, was forced to abdicate in favor of his son, Mohammed Reza.

Mohammed Reza Pahlavi sought to ally Iran closely with Western powers and particularly with the United States. However, growing nationalist sentiment in Iran forced him to appoint the nationalist Mohammed Mossadeq as prime minister in 1951. Prime Minister Mossadeq **nationalized** the Anglo-Iranian Oil Company (AIOC) the same year, sidelining the shah politically. Alarmed at the threat the nationalist leader posed to their position in the Gulf and the broader Middle East, the Western powers imposed an oil **embargo** on Iranian exports, crippling the government. This was followed in 1953 by support from the U.S. Central Intelligence Agency (CIA) and the British counter-intelligence agency, MI6, for a successful coup, which overthrew Mossadeq and returned authority to the shah. Mohammed Reza subsequently initiated a massive modernization program, known as the "white revolution," accompanied by a greater centralization of power and increased use of repression to subdue political dissent. In 1964 the government exiled the cleric Ayatollah Khomeini after a series of his speeches led to widespread rioting.

The oil price explosion of 1973–74 fueled rapid economic growth, but at the cost of increased volatility in the Iranian economy and high levels of inflation. Economic hardship, the growing dominance of Western culture—which traditional Iranians found offensive—and the government's repressive security methods brought about an increasingly determined collection of opposition groups. Unifying into an anti-monarchist coalition with Ayatollah Khomeini as their figurehead, these activists organized nation-wide demonstrations and strikes, culminating in the overthrow of the Pahlavi dynasty in February 1979 and the return of Khomeini from exile. Following a popular vote, Iran became a self-styled "Islamic Republic" in March 1979.

International opinion turned strongly against the new government in November 1979, when militant students seized the U.S. embassy in Tehran and held 52 people hostage for more than a year. In September 1980, Iraqi forces invaded Iran, hoping for an easy victory that would allow the annexation of Iranian territory around the strategically important Shatt al-Arab waterway. While remaining neutral, the Western powers, together with many Arab states, assisted Iraq in order to suppress Khomeini's Islamic state. Until August 1988, when Iran finally accepted a U.N. cease-fire resolution, the 2 countries engaged in one of the bloodiest wars of the century, suffering widespread human and economic losses. Ayatollah Khomeini died in June 1989, and the Council of Experts, a clerical body empowered to choose the next Supreme Leader, selected Hojatoleslam Seyyed Ali Khamenei as Khomeini's successor, rapidly promoting him to the clerical rank of Ayatollah (literally: Sign of God). Hojatoleslam Ali Rafsanjani won the presidential election in August of the same year.

Since the amendment of the constitution in 1989 the president has appointed the government, though all ministers must be approved by the parliament before taking office. Iran's domestic politics have since evolved into an increasingly bitter power struggle between conservatives and reformers within the regime. From 1989 to 1997, President Rafsanjani sought to implement a program of gradual economic and political reform, but his more conservative rivals frequently blocked his policies. In 1997, the reform-orientated cleric, Mohammad Khatami, was elected to a 4-year term as president in a landslide victory and is set to stand a second term in June 2001 after winning the election with a great majority, almost 77 percent of the votes cast. Though with a turnout at the polls of only 65 percent of eligible voters, after 90 percent in the 1997 election, people seem to be disillusioned by politics and the pace of reform. Mohammed Khatami's reform-orientated supporters also defeated the conservatives in the parliamentary election held in February 2000, gaining majority control. Nevertheless, the power struggle with the conservatives continues. Through their control of various oversight institutions, the judiciary and state-run broadcasting, they manage to contain power.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Iran's infrastructure is relatively poor and inadequate. Part of this stems from the fact that the vast country was never fully developed, but it also experienced considerable setbacks during the Iran-Iraq war of the 1980s, and restoration since then has been slow.

TRANSPORTATION. Iran has a network of 140,200 kilometers (87,120 miles) of roads, of which 49,440 kilometers (30,722 miles) are paved. The 2,500-kilometer (1,553-mile) A1 highway runs from Bazargan on the Turkish border across Iran to the Afghan border in the east. The A2 runs from the Iraqi border to Mirjaveh on the Pakistani frontier. Tehran is linked to major cities in the vicinity by 470 kilometers (292 miles) of expressways. A heavy expansion of car use has led to increased demand for fuel, severe overcrowding of roads in metropolitan areas, and mounting pollution problems. Government estimates put the average annual increase in domestic fuel consumption at 5.5 percent, well above the real economic growth rate. The government has sought to limit motor use by raising domestic fuel prices, but petroleum products in Iran remain heavily subsidized and among the cheapest in the world.

An important transportation link is the railway constructed with great effort before World War II between the Caspian Sea, Tehran, and the Persian Gulf. Other rail links with neighboring countries already exist or are un-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Iran	28	265	157	0.0	6	N/A	31.9	0.05	100
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Saudi Arabia	57	321	262	N/A	31	N/A	49.6	1.17	300
Iraq	19	229	83	N/A	0	N/A	N/A	0.00	N/A

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

der construction. Recently the long-closed link to Van in Eastern Turkey reopened, enabling passengers and goods to travel from Tehran to Istanbul and on to Europe. Overall, the Iranian railway network covers 5,600 kilometers (3,480 miles).

The Shatt al-Arab, the main waterway shared by Iran and Iraq on the Persian Gulf, is navigable by maritime traffic for about 130 kilometers (81 miles). Ports include Abadan/Khorramshahr, which was largely destroyed in fighting during the Iran-Iraq war, and has been overtaken by Bandar Abbas as the country's major port. About 12 million tons of cargo pass through Iran's Gulf ports each year. Smaller ports at Bushehr, Bandar Lengeh, and Chah Bahar have also assumed new importance. The 1998 Lloyd's Register of Shipping lists 382 Iranian merchant vessels.

The 3 major international airports of Tehran, Bandar Abbas, and Abadan, have recently been joined by the international airports on the free-trade islands of Qeshm and Kish. Most domestic and international flights go through Mehrabad international airport in Tehran. The huge Imam Khomeini international airport to the south of Tehran, currently under construction, is going to take over operations in a few years with a projected capacity of 30 million passengers a year. The state-owned national carrier, Iran Air, serves 15 Iranian cities and runs scheduled routes in the Gulf, Asia, and Europe. In 1997 it carried 907,000 international and 6,240,000 domestic passengers.

POWER. Electricity generation was severely restricted by Iraqi attacks on power stations during the Iran-Iraq War, reducing available capacity from 8,000 MW to 5,000 MW, according to estimates. In December 1988, the Ministry of Energy stated that the general capacity of the national grid was deficient by at least 2,500 MW, owing to war damage, lack of fuel, and inadequate rainfall. At the beginning of the 1990s, residential consumption accounted for about 40 percent of total consumption, and industry for about one-quarter. However, industrial demand rose dramatically and accounted for almost half of total consumption in 1998. Overall consumption reached 90 billion kilowatt hours (kWh) in 1998, up from 73.4 billion kWh in 1994. Installed power production capacity had reached about 24,000 MW, with another 4,600 MW coming from private generators.

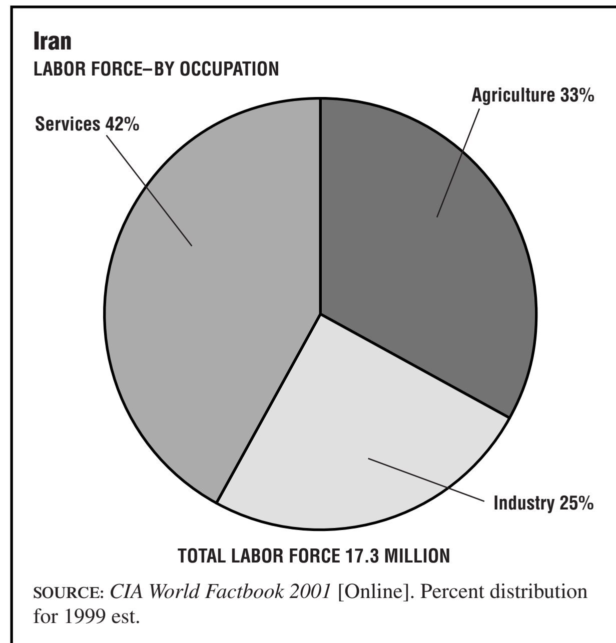
Iran plans to increase this capacity to 96,000 MW by 2022. Power plants currently under construction, and due for completion by 2002, will add about 13,000 MW to the national grid. Some 8,000 MW of this will come from hydroelectric (turbines powered by water that generate electricity) dams, although the proportion of hydroelectricity will fall in subsequent years. The balance of 5,000 MW under construction comes from gas-fuelled plants and other facilities. Currently, some 89.5 percent of electricity is produced by thermal power plants (using fossil fuels like coal, oil, or gas) and the rest by hydroelectric stations. Recent years have seen Iran advancing on a nuclear power program of 3,000–5,000 MW. The United States stated that nuclear cooperation and the transfer of technology to Iran was dangerous, as it would accelerate a secret program to develop nuclear weapons. Nevertheless, Chinese and Russian officials have expressed their determination to proceed with deals aimed at selling nuclear reactors to Iran.

TELECOMMUNICATIONS. As a result of heavy investment in the telephone services since 1994, the number of long-distance channels has grown substantially; many villages have been brought into the net. The number of main lines in the urban systems has approximately doubled since 1994, and the technical level of the system has been raised by the installation of thousands of digital switches. Countrywide, there were some 7 million lines in 1998. There is now also a mobile cellular system in place that was serving 265,000 subscribers in August 1998. This figure is up from under 60,000 in 1996 and has grown rapidly since.

Iran has radio relays to Turkey, Azerbaijan, Pakistan, Afghanistan, Turkmenistan, Syria, Kuwait, Tajikistan, and Uzbekistan. The fiber-optic Trans Asia Europe line

runs through northern Iran, and the country is also connected to the Fiber-optic Link Around the Globe (FLAG) through a submarine fiber-optic cable link to the United Arab Emirates.

Internet access is increasing. However, price rather than official censorship remains the greatest hindrance to wider use. The state remains in control of terrestrial radio and television broadcasts, but the illegal use of satellite television receivers in urban areas continues to be widespread. There were 82 radio stations in 1998, and Iranians had 17 million radios. Television receivers numbered 4.9 million.

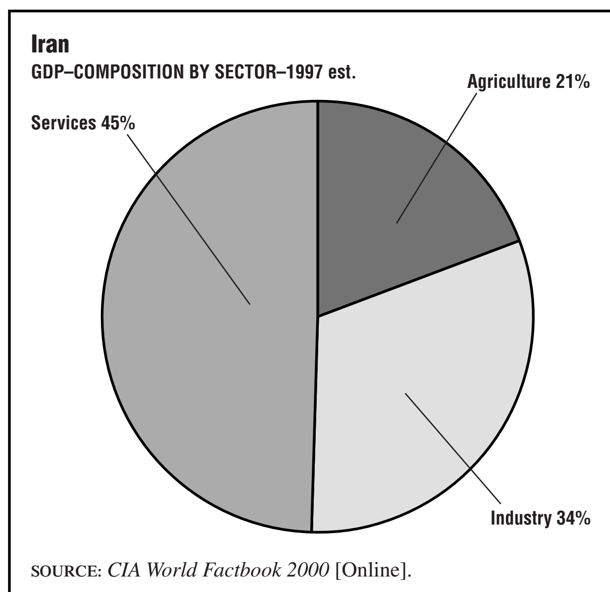


SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1999 est.

ECONOMIC SECTORS

Iran's economy clearly relies on its natural resources, and most importantly, oil. Agriculture still contributed 21 percent to the GDP in 1999, while industry accounted for 34 percent, and services for 45 percent. About one-third of the labor force is engaged in agriculture (33 percent); industry employs 25 percent of the workforce and 42 percent are occupied in services. Except for petroleum and petrochemical industries, Iran also has industrial production in steel, textiles, cement and other construction materials, food processing (especially sugar refining and vegetable oil production), metal fabricating, and armaments.

After the Islamic revolution in 1979, Iran nationalized all major industries, banks, and insurance companies. It committed itself to heavy investment in both the agricultural sector and selected industries, with the ultimate goal of economic independence, but unstable internal conditions and the war with Iraq made economic growth almost unattainable until the mid-1990s. The revival of oil production helped stabilize national finances, and free-market initiatives and reforms sparked a rise in domestic agricultural and industrial production.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Iran is a mostly arid or semi-arid country, with a subtropical climate along the Caspian coast. Deforestation, **desertification**, overgrazing, and pollution from vehicle emissions and industrial operations have harmed the land over the last few decades and hampered production. Other significant problems include poor cultivation methods, lack of water, and limited access to markets. Iran's agricultural sector is especially dependent on changes in rainfall, and although the government has attempted to reduce this dependence through the construction of dams, irrigation and drainage networks, agriculture remains highly sensitive to climate developments. Still, the agricultural sector accounts for about one-fifth of the GDP and employs one-third of the workforce. The country's most important crops are wheat, rice, other grains, sugar beets, fruits, nuts, cotton, and tobacco. Iran also produces dairy products, wool, and a large amount of timber. Irrigated areas are fed from modern water-storage systems or from the ancient system of qanat. Qanat are underground water channels stretching up to 40 kilometers (26 mi) and first used at least 2000 years ago. Unfortunately, many of them have fallen into disrepair in recent years.

The centerpiece of the "white revolution," during which the shah pressed the modernization of Iran during the 1960s, was land reform. Until the 1950s, only about 5 percent of peasants owned sufficient land to maintain themselves. The dominant figures in rural areas were the

landowners; it is estimated that about half of Iran's cultivated land was held by big landowners, those who controlled one or more villages, a typical holding being between 20 and 40 villages (there were some 70,000 villages altogether). These landowners were absentees and included members of the royal family, military officers, tribal shaykhs, religious dignitaries, and big merchants. The land reform, which began in 1961 and was not completed until 1971, had dramatic effects. The power and influence of large landowners was extinguished; smaller absentee landowners survived and in 1971 still owned half of all cultivated land. Seemingly, the benefits went to those 50 percent of peasants who had cultivation rights. By 1971, 90 percent of them were owners of land, though it turned out that for most of them acquired holdings were too small to support a family. Farm laborers remained without rights and holdings.

The traditional dominance of agriculture was eroded by oil and gas exploitation, which became the country's major source of export revenues as population growth made Iran a net importer of foodstuffs. The agricultural sector has nevertheless usually been the largest contributor to the GDP, its share falling only slightly in the 1990s, from 23.9 percent in 1992–93 to 19.7 percent in 1997–98, when it was overtaken by the industrial sector. In 1999–2000, real growth in the sector declined by 0.3 percent, production of cotton fell by 9 percent, and wheat and barley outputs declined by 27 percent and 39 percent, respectively. This came after the successful year of 1998–99, when a rise in rainfall led to sharp overall growth in the sector, achieving 9.5 percent growth. The government continues to gear efforts toward reducing its role in agriculture and encouraging private sector activities and the growth of cooperatives, while restricting itself to the provision of infrastructure. **Subsidies** have been reduced over the last few years, but agriculture remains favored with price guarantees and persisting subsidies, in particular for wheat.

The offshore fishing industry is important in Iran both for domestic consumption and for export, mainly of caviar. The total Iranian fish catch rose from 327,727 metric tons in the year 1991–92 to 385,200 tons in 1997–98, of which 244,000 tons came from the Persian Gulf and the Gulf of Oman, 76,200 tons from the Caspian Sea, and 65,000 tons from inland waters. The government remains committed to increasing the annual catch to at least 700,000 tons, principally by the development of fisheries in southern waters. The caviar industry, which enjoys a worldwide market, is by far the most developed field within Iran's fisheries sector. Iran, Russia, Azerbaijan, Kazakhstan, and Turkmenistan form a cartel to protect caviar prices and sturgeon stocks in the Caspian Sea, but over-fishing has begun to threaten the industry. Caviar exports averaged around US$30 million per year in the 1990s.

INDUSTRY

Petroleum and natural gas clearly dominate Iranian industry, which is mostly controlled by the state or run by one of the religious foundations, the bonyad. With the revolution came nationalization, and by the end of 1982, 130 nationalized industries were under the direct control of the 3 ministries that were authorized to conduct industrial policies, and 450 industrial units were placed under the control of the National Iranian Industrial Organization.

MINING/HYDROCARBONS. Iranians became involved with oil before most of the rest of the world, granting their first exploration concession to British prospectors in 1901. After the discovery of commercially viable deposits at Masjid-e Suleiman in 1908, the reserves were worked by the newly formed Anglo-Persian Oil Company, which changed its name to the Anglo-Iranian Oil Company (AIOC) in 1935 and is now known as BP Amoco. The oil industry's pivotal position in modern Iranian society was demonstrated during the 1979 revolution, when a series of strikes at oil installations culminated in the strikers' refusal to resume exports until the shah left the country. Iran's petroleum industry suffered extensive damage to wells, refineries, and export terminals with the outbreak of the Iran-Iraq war in 1980. Crude oil production recovered to 3.2 million barrels per day (bpd) in 1990 and since 1994 has averaged around 3.6–3.7 million bpd. Proven oil reserves at the end of 1998 totaled 90 billion barrels, representing 8.7 percent of world reserves, and were expected to last about 70 years at current production rates. As of January 2000, Iran possessed 9 operational refineries with an aggregate capacity of 1.5 million bpd, the government's aim being to boost refining capacity to 2 million bpd during its Third 5 Year Development Plan (until 2005).

The dramatic decrease in world oil prices from late 1997, to below early 1973 levels in real terms, prompted the Organization of Petroleum Exporting Countries (OPEC, a cartel grouping together most significant oil producing countries to fix production quotas and attempt to stabilize prices) to decree that its members should reduce production from April 1998 in an effort to boost prices. In March 1999 Iran agreed to cut its output from the benchmark of an average production of 3.6 million bpd by 7.3 percent, to 3.36 million bpd. In their September meeting OPEC countries decided to retain reduced quotas despite the sharp rise in world oil prices. When in March 2000 OPEC responded to what was seen as a dangerously high world oil price of US$30 per barrel by increasing aggregate production quotas by 1.7 million bpd, only Iran declined to accept the plan proposed by Saudi Arabia, on the grounds that OPEC was buckling to U.S. pressure for lower oil prices. However, resistance was short, and the new Iranian production quota

had increased to 3.84 million bpd by September 2000. As a result of the production cuts in 1999, exports fell by 10 percent from 1998–99 to 1999–2000, to 2.1 million bpd. Thanks to higher prices, however, oil export revenues increased by 63 percent to US$16.3 billion and are expected to hit the US$20 billion in 2000–01.

Iran's petroleum industry basically works as an extension of the government. The Minister of Petroleum serves as chairman of the 3 main companies, the National Iranian Oil Co. (NIOC), the National Iranian Gas Co. (NIGC), and the National Petrochemical Co. (NPC). The NIOC handles oil and gas exploration, production, refining, and oil transportation; NIGC manages gathering, processing, transmission, distribution, and exports of gas and gas liquids; and NPC handles petrochemical production, distribution, and exports. The majority of Iran's oilfields are concentrated in the southwest of the country, where 90 percent of Iran's total production of crude oil is produced. The state-owned gathering and distributing system for natural gas from Iran's enormous reserves—second in the world only to Russia's—is one of the largest in the Middle East. Other mineral resources are largely underdeveloped.

With proven natural gas reserves of 23 trillion cubic meters (at the end of 1999), Iran is the world's second richest country in gas resources after Russia, with some 15.7 percent of the global total and 46.4 percent of the Middle East regional total. Production increased from 12.2 billion cubic meters in 1989 to 29.5 billion cubic meters in 1993 and to 54 billion cubic meters in 1998, the bulk of which was consumed domestically in line with the government's policy of substituting gas for petroleum. Currently, natural gas accounts for about 40 percent of total domestic energy consumption. Iran plans to construct a 1000-kilometer (621-mile) onshore and 1200-kilometer (746-mile) offshore gas pipeline to India. In 1996, Iran signed an agreement worth US$20 billion to supply gas to Turkey over a 22-year period. With pipeline construction in its final stage, deliveries should begin in mid-2001. In April 2000, the discovery of the country's biggest onshore gas field to date, north of the city of Bushehr, was announced. It is estimated to contain 445,000 million cubic meters of gas not needing to be refined, as well as 240 million barrels of liquid gas. The field is to be brought to production by 2002 and is expected to yield revenue of US$16.5 billion over 20 years.

In addition to the enormous hydrocarbon reserves, Iran has considerable mineral resources. Around 80 million tons of minerals are quarried each year from some 1,500 non-metallic and 50 metallic mines in Iran, with the bulk coming from mines owned by the Bonyad-e Mostazafan (Foundation of the Oppressed). Minerals currently being worked include copper, lead-zinc, iron ore, bauxite, coal, strontium, gold, chromium, uranium, red oxide, turquoise, sulphur, and salt. Foreign investors have concentrated most on Iran's copper-extraction industry, which has taken the lead in moves towards privatization.

MANUFACTURING. Iran's industrial sector is dominated by relatively few but large public enterprises accounting for approximately 70 percent of **value added** in manufacturing. Steel, petrochemicals, and copper remain the country's 3 basic industries. Other important branches are automobile manufacturing (mainly assembled under license from Western or Japanese manufacturers), construction material, textiles (mainly woven carpets, for which Iran has traditionally been famous), food processing, and pharmaceuticals. Despite large investments in the 1970s, problems persist to this day, including a shortage of skilled labor, insufficient raw materials and spare parts, and an inadequate infrastructure.

After the revolution in 1979, no clear policy was formulated for the industrial sector. Subsequently, then-president Bani-Sadr estimated a drop of at least 34 percent in industrial output in the first post-revolutionary year alone. The manufacturing industries' poor performance continued throughout the 1980s with many factories still operating at only 30 percent of their capacity at the end of the decade. Much of this downturn had to do with the **emigration** of industrial owners and a resulting shortage of managerial skills. The high degree of Iran's dependency on imports for raw materials, along with the economic sanctions imposed against the Islamic Republic, further increased the vulnerability of the manufacturing sector. Taken together, these factors resulted in inefficiency and low productivity.

The steel industry is one of the few exceptions to Iran's disappointing manufacturing scene. Development began late—Iran's first steel mill was a **joint venture** with the Soviet Union in the 1960s—and proceeded slowly, with output standing at just 1 million tons per year in 1979. Since the end of the Iran-Iraq war, however, a huge expansion has taken place. New plants have been commissioned in Khuzestan, Khorasan, and Azerbaijan provinces, and Iran has become the world's third largest steel producer, with an output of 6.7 million tons in 1997–98.

In recent years the government has placed great emphasis on expanding the petrochemical industry to generate products of higher value added and higher export earnings. In the medium term the petrochemical industry represents Iran's only chance of diversifying away from crude oil exports. Iranian petrochemical production has more than doubled in the last 5 years, making it the second largest producer in the region, after Saudi Arabia. Total petrochemical output was estimated at about 12 million tons in 1998, compared to 2.4 million tons in 1989. The government plans to triple the annual output to 30 million tons within 20 years, which requires in-

vestments of US$20 billion. Government predictions were that Iran's share of the world's petrochemical production would reach 2 percent by 2005 and that the value of exports would rise from US$500 million in 1999 to US$2 billion in 2005. Main petrochemical products are fertilizers, methanol, aromatics, and olefins.

The automotive sector is underdeveloped. The most common vehicle on Iran's roads is the Paykan, the locally produced version of a 1960s British model. The car's old-fashioned engineering makes it inefficient and one of the worst polluters in the country. Since 1989, the industry has enjoyed a modest recovery, as local plants have contracted to assemble Nissan, Peugeot, and Kia models under license. Some manufacturers, such as Iran Khodro, which held the rights to assemble General Motors vehicles until 1985, have begun to modernize and **restructure**. Local production of cars reached 245,556 units in 2000–01, compared to some 80,000 units in 1995–96, and up 23 percent from the previous year. However, poor access to finance and a shallow inventory suggest that there is further need for improvement.

In 1995, the Chamber of Commerce and Industry reported that Iran's textile mills were operating at an average of 56 percent of their capacity, owing to shortage of foreign exchange and raw material. The textiles industry is partly based on domestic supply of cotton. During the 1970s, European manufacturers purchased Iranian cotton, but as profits fell in the 1980s, most cotton was absorbed domestically. The government hopes to promote textile exports, and some public investment has been devoted to improving production quality. However, the results have been visible only in niche areas, and export earnings in 1997–98 remained below US$100 million per year. Revenues from exporting carpets dropped severely in the 1990s from US$2 billion in 1990 to US$570 million in 1998, rendering it a shaky business.

SERVICES

The services sector is the largest in the Iranian economy and contributed approximately 40 percent to the GDP during 1999–2000. The sector has seen the greatest long-term growth in terms of its share of the GDP, but currency-exchange restrictions, excessive bureaucracy, and the uncertainty of long-term planning have hindered further development.

FINANCIAL SERVICES. The Iranian banking sector is dominated by 10 state-owned banks, including the 6 full-service commercial banks, and 4 sectorally specialized ones. In addition, 4 small private non-bank credit institutions have recently been licensed. The total number of state-owned bank branches was 14,518 in 1999, compared with 11,634 in 1995. Commercial banks engage mainly in short-term lending, primarily to the private sector and public non-bank financial enterprises, and act as agents of depositors in the investment of funds. The profits and losses from these investments are then distributed to depositors based on the duration and amount of their investment. Specialized banks lend mainly on a long-term basis (5 years or more) and have investments in various sectors of the economy.

After the revolution, 2 major changes were made in the banking system: one was nationalization and restructuring in the year immediately after the revolution, the other was the introduction of Islamic banking in 1983–84. Islamic banking is characterized by the prohibition of interest on loans, according to Islamic law. Interest on loans, or *riba*, was replaced by a commission of 4 percent a year compared with the traditional 14 percent, whereas interest on deposits was replaced with profits, estimated at a minimum of 7–8 percent a year. The banks would become temporary shareholders in major industrial enterprises to which they lent money. Unfortunately, the changes to the banking sector were made just when the public sector was relying heavily on the banking system to finance the large deficit, due to low oil revenues. Consequently, the inflation rate accelerated rapidly. While it amounted to only 4 percent in 1985–86, it surged to 21 percent the following year, and increased to 28 percent and 29 percent, respectively, during 1987–88 and 1988–89 and has since remained at a high level.

The Tehran Stock Exchange (TSE) benefitted from a wave of privatization during the early 1990s. Stock **market capitalization** of IR38 trillion at the end of 1999 corresponded to about 9 percent of the GDP, although relatively few of the shares are routinely available for purchase by the general public. The ownership of stocks is highly concentrated. The largest 5 shareholders account, together, for more than 82 percent of company shareholdings. A small handful of institutional investors dominate the market as a whole. These are all either government institutions or state-owned banks or their subsidiaries, but nevertheless operating on a market-oriented basis.

COMMERCE. Iran has traditionally been an agricultural nation populated by traders. With the exception of the carpet industry and a tiny jewelry industry, the Iranian economy was essentially agrarian until the time of Reza Shah Pahlavi. Despite the crash industrialization program launched by the Pahlavi regime in the 1960s and 1970s and the necessity for self-sufficiency during Iran's 8-year war with Iraq, the country retains its preference for trade over production.

The merchant, or bazaar, classes had profited from the economic boom Iran experienced under the shah in the 1970s. Many had amassed fortunes in these years. Yet, the bazaar provided valuable support to the revolutionary movement, contributing generously to the clerical cause

in the lead-up to the revolution. The bazaar merchants had several grievances against the shah, whose policies favored a new industrial and entrepreneurial elite, and import licenses made life difficult for the smaller merchants. The bazaar was relegated to secondary status, especially after some of the major industrial families started combining interests in industry with interests in banking, insurance, and trade by the mid-1970s; several of the largest trading companies developed alongside major industrial enterprises. These new trading companies threatened to drive the bazaar merchants out of wholesale trade, and then, by establishing new **retail** networks and outlets, out of retail trade as well.

After the revolution, the trading sector achieved positive growth, and this sector absorbed most of the new entrants into the job market. In the absence of a properly functioning banking system, demand for capital has been frequently met from moneylenders in the bazaar. Indeed, currency exchange and money lending has become a major source of business for the bazaar's traders in Iran's distorted economy. This further intensified a tendency among Iranians to invest in businesses with a cash-based return, such as constructing homes for the rental market or the import of **consumer goods**.

TOURISM. Before the revolution Iran had begun to build a reputation as an exotic holiday destination; its ski resorts at Shemshak and Dizin, north of Tehran, attracted international celebrities. After 1979, the Islamic government discouraged tourism, leaving many renowned archaeological and historical sites, including Persepolis, Pasargard, and Esfahan, barely visited by foreigners. Although hardly a booming sector, visitor rates are beginning to rise. The government has begun to issue visas more freely to non-Muslim individuals and groups, and the country is appearing with greater frequency in tourism brochures, but still only around 320,000 foreign tourists actually visit, bringing in revenue of US$170 million. The bulk of tourism remains to be founded on Shia pilgrimage centers such as Mashhad and Qom. The Bonyad-e Mostazafan (Foundation of the Oppressed), which owns most of Iran's large hotels, plans to increase the number of hotel beds from the current 34,500 to 59,500 by 2002.

INTERNATIONAL TRADE

Following a strong **balance of payments** performance in 1996–97, mainly due to high oil prices, the period 1997–99 witnessed the deterioration of Iran's external accounts, triggered by tumbling oil prices and stagnant non-oil exports. Imports went down due to the resulting scarcity of foreign exchange, and Iran negotiated re-phasing part of its external debt in 1998 in order to alleviate financial pressure. When oil prices recovered during 1999–2000, and non-oil exports also grew by 9 percent, the Islamic Republic's external position was enhanced considerably. Iran's trade balance had dropped from a surplus of US$2.8 billion in 1996–97 to a deficit of US$4 billion in 1997–98, although this was reversed again into a US$2 billion surplus in 1999–2000. The International Monetary Fund (IMF) in its 2000 country report on Iran estimated that exports during 1999–2000 totaled US$19.726 billion, while total imports that year amounted to US$13.511 billion. Changes in Iran's external balance are mainly dependent on oil prices. Thus, in 1999–2000, proceeds from crude oil exports rose by 60 percent, despite a decline in the export volume, reflecting the 77 percent increase in the average export price of Iranian crude oil.

Trade (expressed in billions of US$): Iran

	Exports	Imports
1975	7.963	10.343
1980	7.109	12.246
1985	13.328	11.635
1990	19.305	20.322
1995	18.360	13.882
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Non-oil exports consist mainly of consumer goods (55 percent on average during 1997–2000), followed by raw materials and **intermediate goods** (about 38 percent). Carpets remain the single most exported Iranian non-oil product. Such exports have declined significantly over the second half of the 1990s, from US$2 billion in 1994 to US$570 million in 1998, which is attributed to competition from low-priced carpet-producing countries. Exports of fresh and dried fruits, at about US$600 million in 1998–99 (of which $416 million came from pistachios alone), have captured a larger share of the total. Chemicals are the most prominent export of raw materials and intermediate goods, hovering at about US$500 million during 1997–2000.

The direction of exports has also remained unchanged since the mid-1990s. While Japan and the United Kingdom are the largest importers of Iranian goods (absorbing about 16 percent and 17 percent of total exports, respectively), Germany and the United Arab Emirates (UAE) are the main destinations for non-oil exports, capturing 13 percent and 16 percent of these exports, respectively. Other important destinations for Iranian exports are Italy (6 percent of non-oil exports and 9 percent of total exports), Greece and South Korea (5 percent of total exports), and Turkey (5 percent of non-oil exports).

Iran imports mainly raw materials and intermediate and **capital goods**. Imports of consumer goods, at about US$2 billion per year, represent only 14 percent of total imports. Imports of machinery and tools average about US$4–5 billion, which cover the bulk of capital goods imports. Iran's imports of grains and derivatives fell drastically in 1998–99 from about US$1.8 billion the previous years to below US$900 million. Iran also imports a large quantity of chemical products, totaling about US$1.8–2 billion per annum. The most important sources of Iranian imports are Germany (12 percent), Japan (7 percent), and Italy (6 percent).

Since Iran's first application to join the World Trade Organization (WTO) in 1996, it has been constantly blocked by the United States. The application was blocked again in May of 2001, but the administration of U.S. President George W. Bush is thought to be considering dropping its objection now that Egypt has sponsored Iran's application. Iran is a founding member of the Asian Clearing Union (ACU), established in 1974 to provide a mechanism for the settlement of transactions among countries in the Asia-Pacific region. Members are Bangladesh, Burma, India, Nepal, Pakistan, Sri Lanka, and Bhutan. Iran undertakes only about 3 percent of its total trade within the ACU, with Bangladesh, India, Pakistan, and Sri Lanka importing oil and oil products, handicrafts, and machinery equipment. Iran's imports from these countries include machinery, spare parts, and spices from India, jute from Bangladesh, and rice and cotton from Pakistan.

MONEY

The Bank-e Merkazi-ye Jomhuri-ye Eslami-ye Iran, or Central Bank of the Islamic Republic of Iran, is the highest monetary authority in the country. Each year after the approval of the government's annual budget, the Central Bank presents a detailed monetary and credit policy. Short-term credit policies need to be approved by the government and long-term credit policies have to be incorporated into the 5 Year Development Plan with Parliament's consent.

After the introduction of the Tehran Stock Exchange (TSE) rate in July 1997 and until March 2000, 2 officially recognized exchange rates coexisted in Iran. The official rate of the Iranian rial—1,750 per U.S. dollar—applies to oil and gas export receipts, imports of essential goods and services, and repayment of external debt. The "export" rate, fixed at 3,000 rials per dollar since May 1995, applied to all other trade transactions, but mainly to capital goods imports of public enterprises. In order to ease pressure on exporters, the bank introduced a currency certificate system allowing exporters to trade certificates for **hard currency** on the Tehran Stock Exchange (TSE). This method finally replaced the fixed export rate in March 2000, and has since held steady at some IR8,500:US$1. There is an active black market in foreign exchange, but the development of the TSE rate and the ready availability of foreign exchange over 2000 narrowed the differential to as little as IR100 in mid-2000. The reunification of Iran's multi-tiered exchange-rate system, which has plagued Iran's non-oil exports and frustrated potential investors since the revolution, had been under discussion since a failed attempt in 1993 to operate a single, **floating exchange rate**. At the same time, as a step toward further liberalization and integration of foreign exchange markets, banks were allowed to deal relatively freely with foreign exchange. Despite this, foreign currency is still hard to get and even harder to keep for ordinary Iranians.

Given recent government decisions to allow banks to sell currency at free-market rates, together with the positive outlook for oil earnings, and the apparent willingness of new lenders, particularly European banks, to extend new credit lines to Iran, an attempt at reunification is likely to be made in 2001–02, at a rate of around IR9,000=US$1.

POVERTY AND WEALTH

Before the Islamic revolution, Iran had gradually been transformed from a largely farm-based economy to a modern society by ways of major changes in the traditional

Exchange rates: Iran

Iranian rials (IR) per US$1	
Jan 2001	1,754.71
2000	1,764.43
1999	1,725.93
1998	1,751.86
1997	1,752.92
1996	1,750.76

Note: Iran has three officially recognized exchange rates; the averages for 1999 are as follows: the official floating rate of 1,750 rials per US dollar, the "export" rate of 3,000 rials per US dollar, and the variable Tehran Stock Exchange rate, which averages 7,863 rials per US dollar; the market rate averages 8,615 rials per US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Iran	1,611	1,129	1,208	1,056	1,275
United States	19,364	21,529	23,200	25,363	29,683
Saudi Arabia	9,658	11,553	7,437	7,100	6,516
Qatar	N/A	N/A	N/A	N/A	N/A

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

socioeconomic order between 1946 and 1979. Under the shah, thanks to considerable outlays allocated to education and health, great strides were made in improving social welfare. Infant mortality, malnutrition, endemic diseases, and illiteracy were greatly reduced. Caloric intake, life expectancy, and school enrollment were all markedly increased. While rural-income gaps and income inequalities within the respective areas did not narrow, indicators showed that absolute poverty was reduced. Although elementary school enrollment during the 1970s quadrupled to more than 9 million, this was achieved in many cases only by running students through in 3 shifts and having teachers in the classroom 60 to 80 hours a week. About 90 percent of high school graduates were denied admission to college because of inadequate facilities. About 20 percent of Iran's institutions of higher education had no library facilities, nor were they likely to obtain them because, while the state budget set aside 5 percent for sports, it did not have any reserves for books and libraries.

It was thought and hoped that the new regime would remedy these faults. The Islamic government declared a policy of improving the lot of the poor for whom, after all, the revolution itself had been launched, but there has been little evidence of success. Nominal wages and salaries lagged behind inflation throughout the 1980s, which according to one Majlis deputy left more than 90 percent of public servants below the poverty line. According to the official line, the poor were better off after, rather than before, the revolution. This was undoubtedly true for certain groups of people who have been especially well positioned within the regime, such as members of the Revolutionary Guards, many families of the war dead, some among the subsidized urban proletariat, and others from extremely low-income households. It does not hold true, however, for the majority of the population. In 1972, some 44 percent of the population were living below the subsistence poverty line. During the 1979–85 period, absolute poverty increased by 40 percent; some reports indicated that absolute poverty had spread among as many as 65–75 percent of the population in 1988. According to the IMF, 53 percent of Iranians still live below the poverty line.

Health conditions outside major cities are poor. Many small towns and rural areas suffer from unsanitary conditions and a shortage of medical personnel and facilities. The infant mortality rate remains a serious problem; it is very high by world and Middle Eastern standards, although it has been reduced significantly (26 deaths per 1,000 live births in 1998, down from 91.6 during 1980–85 and 50 during 1991–95). Although primary education is compulsory for 5 years, many rural children never attend school because of either parental objection or a lack of facilities. The secondary-school system in Iran is relatively underdeveloped, and it serves for the most part to prepare small numbers of students for university-level education. In order to improve the situation for the poorest segments of Iranian society, the government is considering an anti-poverty program comprising expanded provision of food, clothing, health care, education, social security, and bank credits to these people.

WORKING CONDITIONS

The highly fluid nature of Iran's labor market and the large size of the informal services sector make accurate estimates of employment levels difficult. A census, conducted in 1991, recorded 25.2 percent of the 57.8 million population as economically active, and 22.3 percent as in employment, suggesting that around 11 percent of the workforce was unemployed. However, the census ignored the fact that most Iranian adults must hold 2 or even 3 jobs in order to provide for the rest of their family. The government put unemployment at 2 million in 1997–98, equivalent to 12.1 percent of the workforce and up sharply from the previous year's estimate of 9.1 percent. Given the rapid population growth experienced over the past 20 years, together with a real reduction of government resources aimed at job creation, it is likely that even this estimate is too conservative. According to the Economist Intelligence Unit (EIU), an accurate estimate for unemployment figures lies between 14 percent and 18 percent, while the IMF suggests it may be as high as 25 percent.

High inflation has been another characteristic of the Iranian economy since the early 1970s and played a crucial role in the industrial action that presaged the 1979 revolution. In recent years changes in the exchange rate, the gradual removal of subsidies, and the suppression of imports have all contributed to rising prices and eroded **real wages**. Some evidence indicates that inflation has dropped steadily since 1995, settling in a range of 22–30 percent, according to sources from the International Monetary Fund (IMF).

The Labor Code empowers the Supreme Labor Council to establish annual minimum wage levels for each sector and region. The minimum wage has been inadequate for some years by the government's own admission. Officially the minimum wage should be sufficient to meet the living expenses of a family and should take inflation into account. The daily minimum wage was raised in March 1997 to US$2.80 (8,500 rials). This wage apparently is not sufficient to provide a decent standard of living for a worker and family. Information on the percentage of the working population covered by minimum wage legislation is not available. Private-sector personnel in contrast are better off.

Formally, workers are granted the right to establish unions; however, the government does not allow inde-

pendent unions to exist. A national organization known as the Worker's House, founded in 1982, is the sole authorized national labor organization. The leadership of the Worker's House coordinates activities with Islamic labor councils, which are made up of representatives of the workers and 1 representative of management in industrial, agricultural, and service organizations of more than 35 employees. These councils also function as instruments of government control, although they frequently have been able to block layoffs and dismissals. In 1993, the parliament passed a law that prohibits strikes by government workers. Nevertheless, strikes occur, apparently in increasing numbers. Reports over the last 2 years included strikes and protests by oil, textile, electrical manufacturing, and metal workers, and by the unemployed.

One unforeseen result of the revolutionary government's drive for gender segregation has been the improvement in women's education. As men and woman are expected to work separately, the demand for female professionals has risen markedly, boosting the number of female graduates. The war effort contributed to this process, as women took the places of men required for military service. In 2000, there were more women enrolled in universities than men. In tertiary education, vocational subjects such as computer studies and engineering are becoming increasingly popular, while the quality of language tuition is improving. These trends will undoubtedly improve the qualifications of the local population from the point of view of foreign investors, but they also present the government with higher demands for skilled job-creation and increase the pressure to cut bureaucratic and ideological obstacles to a free labor market.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

4000 B.C. Ancient settlements develop in the Caspian region and on the Iranian plateau.

2000 B.C. Aryans arrive and split into the Medes and the Persians.

550 B.C. Cyrus the Great founds the Persian Empire.

200 A.D. After periods of Greek and Parthian rule, the Sassanids take power and rule until the Arab final victory in 641.

1502. The Safavid dynasty is established and continues to rule until 1736.

1904. The Qajar dynasty, founded by Fath Ali Shah, comes to an end.

1906–08. Iran's modern history begins when the Constitutional Movement achieves the declaration of a constitution and the establishment of a parliament in 1906 and when oil is discovered in 1908.

1919. The country is occupied by Russia and Great Britain during World War I; it signs a trade agreement with Great Britain in 1919, in which Britain formally re-affirms Iran's independence.

1921. After Iranian recognition of the USSR, the Soviet Union withdraws occupation forces from Iranian territory; Reza Khan, an army officer, establishes military rule and subsequently becomes shah in 1925 and founder of the new Pahlevi dynasty.

1941. Iran is occupied by British and Soviet forces at the start of World War II, prompting the shah to abdicate in favor of his son, Muhammad Reza Shah Pahlevi.

1943–46. Iran is formally guaranteed independence by the United States, Great Britain, and the Soviet Union in 1943; however, political instability delays the withdrawal of troops until 1946.

1951–53. The National Front Movement under Prime Minister Mossadeq nationalizes the oil business and forms the National Iranian Oil Company (NIOC); Mossadeq is subsequently ousted from power with the help of U.S. covert activity, and an international consortium operates Iran's oil facilities, with profits shared equally between Iran and the consortium.

1960–73. The shah's modernization program—named the "white revolution"—transforms the country and its economy, with a dramatic land reform, huge investments in infrastructure, and continued economic growth.

1973. The shah gives the NIOC full control over Iran's oil industry, placing the international consortium in an advisory capacity. Iran does not participate in the Arab oil embargo in September.

1979. After years of political repression and with a growing divide between rich and poor, popular protests oust the shah in the Islamic Revolution of 1979. Ayatollah Khomeini becomes the figurehead of the revolution and subsequently the Supreme Leader of the country until his death in 1989.

1980. On 22 September, Iraqi troops invade Iran, triggering a prolonged and devastating war that lasts until Khomeini accepts a UN-brokered cease-fire in July 1988.

1989. The Ayatollah Khomeini is succeeded by Iran's president, Ali Khamenei. Ali Akbar Rafsanjani becomes president and is re-elected in 1993. Iran begins to re-build its economy.

1997. Mohammed Khatami, a moderately liberal Muslim cleric, is elected president and becomes the figurehead for the country's reformist movement; economic reforms begun under Rafsanjani continue.

FUTURE TRENDS

The Iranian government has set itself the priority of achieving political reform, believing that its victory over conservative forces in the February 2000 parliamentary elections gives it the authority to deal with what President Khatami has described as Iran's "sick economy." Despite good intentions, President Mohammed Khatami has done little to change the overall pattern of Iran's **macroeconomic** policy. While many observers hoped that the new president would speed up the reform process, he has been bothered by entrenched political opposition in the Majlis (parliament) and pressure from the powerful bonyad (religious foundations) and by external debt repayments. Pending the outcome of the political battle, the government has to deal in the short term with a chronically weak currency, high unemployment, and the arrival of 800,000 young people on the job market every year. The lack of economic opportunities and social freedom has led to growing discontent, especially among young Iranians, and may result in extended civil unrest and an increase in emigration. Returns in the June 2001 presidential election gave President Khatami the thumping victory which is needed to revive the economic, political, and social reform process.

A key factor in Iran's economic prospects is whether the country will be able to break its international isolation which will have to be overcome in order to integrate the country into the world economy and to bring much-needed foreign investment into the Islamic Republic. This depends in particular on the lifting of U.S. sanctions. Signals show that Iran's rehabilitation is a desired U.S. objective if the reformists carry out their agenda. Iran's further international and domestic economic progress, therefore, depends in large part on the outcome of the political contest between reformers and conservatives in Tehran. Economic development will also depend on the success of privatizing enterprises in the inefficient state sector, to which about 60 percent of the current budget expenditure is allocated in subsidies and other support. Finally, to have the financial means to cope with needed reforms Iran will try to keep oil prices stable on a high level.

DEPENDENCIES

Iran has no territories or colonies.

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—Markus R. Bouillon and Ralph Stobwasser

IRAQ

Republic of Iraq
Al-Jumhuriyah al-'Iraqiyah

CAPITAL: Baghdad.

MONETARY UNIT: Iraqi dinar (ID). One Iraqi dinar equals 20 dirhams, or 1,000 fils. Coins of ID1, and 1, 5, 10, 25, 50, and 100 fils. Notes are in denominations of 5, 10, 50, and 100 dinars.

CHIEF EXPORTS: Crude oil.

CHIEF IMPORTS: Food, medicine, manufactures.

GROSS DOMESTIC PRODUCT: US$59.9 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$12.7 billion (1999 est.). **Imports:** US$8.9 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Iraq is located in the Middle East, between Iran and Saudi Arabia. Iraq is also bordered by Jordan and Syria to the west, Kuwait to the south, and Turkey to the north. A very small sliver of the Persian Gulf (58 kilometers, or 36.04 miles) abuts Iraq on its southeast border. With an area of 437,072 square kilometers (168,753 square miles), Iraq is slightly more than twice the size of Idaho. Iraq's capital city, Baghdad, is located in the center of the country. Other major cities include al-Basra in the south and Mosul in the north.

POPULATION. The population of Iraq is the fifth largest in the Middle East and North Africa. The population was estimated at 22,675,617 in July of 2000, an increase of 4.675 million from the 1980 population of 18 million. In 2000, Iraq's birth rate stood at 35.04 per 1,000, while the death rate was reported at 6.4 per 1,000. With a projected growth rate of 2 percent between 2000 and 2015, the population is expected to reach 38 million by the year 2030.

Some 97 percent of the population are Muslims. Shi'ite Muslims make up the majority (60–65 percent), while Sunnis comprise 32–37 percent of Muslims in the country. The remaining 3 percent is made up of Christians and other religious groups. The Kurds, descendants of Indo-European tribes who settled in Iraq in the 2nd century B.C., make up 15–20 percent of the population. Arabic is the official language, but Kurdish, Assyrian, and Armenian are also spoken.

Iraq's population growth has increased since 1993, despite the exodus of the middle class as a result of the Gulf War and the adverse effects of the United Nations (UN) economic **sanctions** imposed since 1991. Population growth before the 1991 Gulf War was as high as 3.6 percent annually. The government has strongly encouraged population growth. With a high fertility rate and a relatively young population, 45 percent of which is under 15 years of age, population growth is expected to remain high. Population growth dropped significantly to 1.9 percent in 1993 but resumed in recent years, with the growth rate reaching 2.98 percent in 1998. This rate suggests that the **emigration** of the middle class has slowed. The International Monetary Fund (IMF) also estimates that the effects of the UN sanctions have begun to fade. An estimated 1 to 2 million Iraqis live abroad, many as political exiles. The large majority of these are concentrated in Iran, after having been forced to leave in the wake of the 1990–91 Gulf War.

As in many developing countries, a majority of Iraqis live in urban areas. The population of urban areas has grown significantly since the 1960s at a rate of 5.2 percent annually. Baghdad and its suburbs are home to some 31 percent of the population. Rural-urban migration has eroded some of the ethno-religious and linguistic differences between regions, with the exception of the Kurdish minority, which is concentrated in the north. Iraqi society is dominated by tribal and familial affiliations.

OVERVIEW OF ECONOMY

Iraq's economy has suffered greatly as a result of the United Nations sanctions, imposed following Iraq's military defeat at the hands of a U.S.-led coalition that freed

Kuwait after it was invaded by Iraq in 1990. The sanctions were imposed to contain militarily the regime of Saddam Hussein by ensuring that all weapons of mass destruction (such as nuclear, chemical, and biological weapons capable of killing large numbers of people indiscriminately) at its disposal are destroyed by a UN-appointed inspections committee. However, Iraq's incomplete compliance with UN resolutions pertaining to the destruction of its weapons has precluded the removal of the trade sanctions more than a decade after the war.

Iraq entered the 20th century as part of an enfeebled Ottoman Empire (a 700-year empire that spanned much of the Middle East and centered in what is now Turkey). By 1915, Iraq became a British mandate area administered by a civil government headed by a British high commissioner. In 1921, the British replaced their direct rule with a monarchy headed by King Faisal. Iraq became a sovereign independent state in 1932 after the British finally acceded to local demands for full independence. Iraq was proclaimed a republic in 1958, after the monar-

chy was overthrown by a military coup executed by officers under the leadership of General Abdul Karim Qasim, who became Iraq's first president. In fact, Iraq has been controlled by a series of strongmen, the latest of which is Saddam Hussein, who took power in 1979.

Oil, discovered in Iraq in the early 1950s, has made Iraq one of the world's largest oil producers. Its economy is largely dependent on the oil sector, which has traditionally accounted for about 95 percent of foreign exchange. Iraq's economy has, however, been on a downward trend since the early 1980s. Gains achieved during the initial years of the Ba'ath party (Iraq's only political party and the center of power in the country) rule were reversed as the Hussein regime sought to finance the 10-year war with Iran that broke out in 1980. As a result of the war, Iraq's oil production capabilities were curtailed, and the government's debts to Western nations for the purchase of military materiél grew considerably throughout the 1980s. Iraq sustained heavy debts as a result of its war with Iran. Accurate figures regarding Iraq's total external liabilities are hard to establish because the Iraqi government did not publish official information on its debt. In 1986, Iraq's total debt was estimated to be between US$50 billion and US$80 billion. Of this total, Iraq owed about US$30 billion to Saudi Arabia, Kuwait, and the other Gulf states. Most of this debt resulted from the sale of crude oil on Iraq's behalf. Iraq's total **foreign debt** today is estimated to be in the range of US$130 billion. Iraq has not made any debt payments since the United Nations' sale of its overseas assets to compensate the Kuwaiti victims of the invasion and to pay creditors.

Since 1996, Iraq has been allowed to export only a limited quantity of oil, worth US$2.14 billion every 6 months, in return for food and medical supplies to address the country's deteriorating humanitarian conditions after the war, which include a lack of clean water supplies and basic services. Of revenues accruing from the sale of oil, some 53 percent is used to finance the import of food and medicine for the Iraqi people, while 13 percent is being diverted by UN agencies to the Kurdish provinces in the north. The effects of the sanctions have led to a sharp increase in poverty and infant mortality, especially in the south, and much of the country's **infrastructure** is not functioning.

POLITICS, GOVERNMENT, AND TAXATION

A complex web of social, economic, ethnic, religious, and ideological conflicts has hindered the process of state formation in Iraq since it gained independence from Britain in 1932. Festering socioeconomic problems—such as widespread poverty and deep divisions between the Sunnis and the Shi'ites in the post-World War II period—were compounded by an enduring leadership crisis that continued to afflict Iraqi politics and society for more than 5 decades after independence. The political process has been characterized by deep social and political divisions that have meant that no single political group was able to gain enough support to rule the country without resorting to violence. As a result, Iraq's deep-rooted fragmentation has allowed the armed forces to exercise great control over politics since the 1930s. A total of 11 coups took place between 1936 and 1968. The Ba'ath party, which came to power in 1968, also through a military coup, has greatly shaped the country's modern history and its economic system. The party espouses the goals of **socialism**, freedom, and unity, and has attempted to redress widespread social inequality through the redistribution of wealth.

According to the constitution, Iraq is a republic with an elected legislature and an independent judiciary. Executive power is concentrated in the hands of the president and Council of Ministers. In reality, and owing to the revolutionary nature of Iraqi politics, all executive and legislative powers rest with the Revolutionary Command Council president (RCC). The RCC elects the president, who, in addition to being the chairman of the RCC, also serves as prime minister and commander of the armed forces. The president and the Council of Ministers are accountable to the RCC.

Since the late 1960s, the ruling Ba'ath Party has used vast oil revenues to build a modern state, although it is also one of the most highly militarized countries in the world. The Ba'ath party adopted a centralized socialist welfare system, which regulated every aspect of the economy, with the exception of the agriculture and personal services sectors. Much of Ba'ath party's ambitious plans to develop Iraq and exploit its vast oil resources were done with Soviet technical assistance. Since taking office in 1979, President Saddam Hussein pursued a state-sponsored industrial modernization program that led to a more equitable distribution of wealth, greater social mobility, improved education and health-care standards, as well as the redistribution of land. The government experimented with economic **liberalization** in the 1980s, which sought to ease state control of the economy and to increase commercialization in the state sector. These efforts, however, were largely unsuccessful, mainly due to a long legacy of state control and a bloated state bureaucracy that was unable to meet the challenges of reform.

Iraq's spending on defense has traditionally accounted for 25–33 percent of the state budget, even when the country was not at war with any of its neighbors. Since the early 1970s, the government has dedicated huge resources to thwart efforts by the Kurdish people to estab-

lish their own state in the northern Kurdistan region. After efforts to reach an agreement to establish a politically and culturally autonomous area in the north failed in 1975, the government waged in 1976 a costly campaign to forcibly evacuate 800 Kurdish villages along the border with Iran. This campaign to replace the Kurdish population with Arabs resumed after an 8-year hiatus during the Iraq-Iran war. At least 300,000 Kurds were deported from their villages in the north, and chemical weapons were used against Kurdish civilians at Halabjah in 1988 in which more than 5,000 Kurds were killed. Following Iraq's military defeat in 1991, U.S.-led allied forces carved out an autonomous region for the Kurds in the north, effectively separating the region from the rest of the country. Since 1991, the Iraqi Kurds have enjoyed a large degree of autonomy from the central government in Baghdad under the protection of allied forces. Nevertheless, the Kurds live in primitive conditions, often in large "tent cities," with only the barest necessities (such as food, medicine and clean water) supplied by aid agencies.

In the wake of the Gulf War and its aftermath, the Iraqi government's role in the economy is bigger than ever, as it continues to control the vast majority of imports and foreign exchange flowing into the country from the limited sale of oil allowed under the sanctions. The government, however, lacks a clear economic objective, given its primary goal since the 1990 Gulf War has been to ensure the survival of the regime in the face of international political and economic isolation. Instead of using its limited resources from oil sales to benefit the economy and expand its base, the state has redirected its efforts toward guaranteeing the continued support of the regime's chief domestic allies, mainly the merchant class and the military. This class has been both paid off and allowed to accumulate wealth illegally to ensure its continued allegiance to the state.

Taxation is not and has never been a major source of government income. Iraq's relative prosperity in the years preceding the Iran-Iraq war enabled the government to adopt a welfare system that exempted the population from paying taxes. After the 1990 Gulf War, however, the government has attempted to impose taxes to increase its revenue, but collection enforcement has been rather poor. **Private sector** employees are required to pay **income tax**, although the tax is rarely collected. State employees continue to be exempt from taxation.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Prior to the Gulf War, Iraq's infrastructure was one of the most highly developed and extensive in the region. The government has been largely successful in its efforts to repair the severe damage the infrastructure sustained as a result of the 1990 Gulf War. The lack of resources available to the government, however, has meant that most of the repair work is substandard. In 1996, the country was serviced by a network of over 45,550 kilometers (28,304 miles) of primary and secondary roads, 38,400 kilometers (23,862 miles) of which were paved. The nation's 2,032-kilometer (1,263-mile) railway system is in good condition and connects Iraq to its neighbors to the north, Syria and Turkey.

Iraq has 2 major airports, located in Baghdad and Basra. Both airports are in fairly good condition. There are 3 smaller civil airfields at Haditha, Kirkuk and Mosul. All commercial airlines stopped service to Iraq in 1991 under the United Nations sanctions. A number of countries, mainly France, Russia, and Jordan, began sending humanitarian flights carrying food and medicine to Baghdad in mid-2000, in violation of the sanctions. These flights were sent as an expression of opposition to the continuation of the UN sanctions against Iraq. The country has 3 ports at Umm Qasr, Khawr az-Zubayr, and al-Basra, which currently have limited functionality because of the damage sustained during the Gulf War and the subsequent trade sanctions. Since 1997, most of Iraq's needs are serviced at Umm Qasr, the main point of entry for most food imports.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Iraq	19	229	83	N/A	0	N/A	N/A	0.00	N/A
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Saudi Arabia	57	321	262	N/A	31	N/A	49.6	1.17	300
Iran	28	265	157	0.0	6	N/A	31.9	0.05	100

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

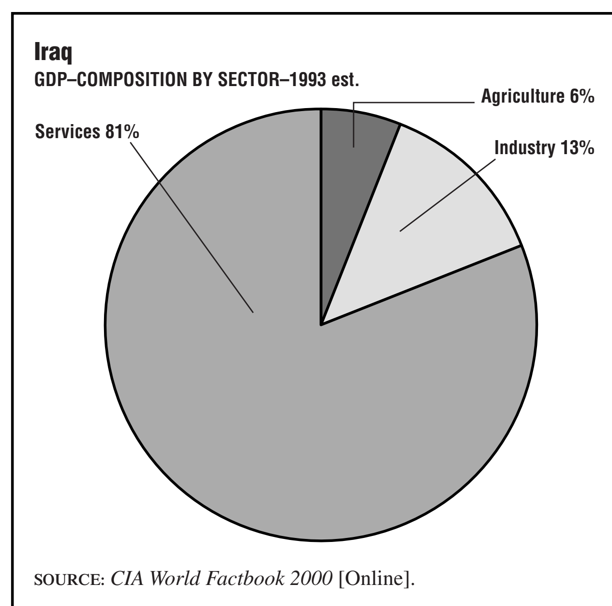
SOURCE: World Bank. *World Development Indicators 2000.*

Electric power is supplied to Iraqis by state-owned power stations throughout the country, which have a total capacity of 17,000 megawatts of power. As a result of repeated bombings during the Iran-Iraq war and the Gulf War, power stations today can barely meet local demand, and it is estimated that in 2000, capacity in the central and southern regions supplied only 50 percent of demand. Despite the construction of 4 new power stations after the Gulf War, blackouts are common, and at least 14 central and southern provinces experience an average of 12 hours of power cuts daily. In Baghdad, 4-hour power outages are routine.

Telecommunications services in Iraq are in poor condition and are quite unreliable, mainly as a result of repeated air strikes by allied forces during and after the war. The country had 675,000 working lines in 1995. Mobile cellular service is unavailable. Internet service is available but is both costly and unreliable.

ECONOMIC SECTORS

Iraq's economic sectors reflect the state of devastation that the country has endured as a result of war. The economy has traditionally been heavily dependent on the oil sector, which accounted for more than 60 percent of the GDP before the Gulf War. The oil sector's contribution to the GDP, however, greatly diminished in the immediate years after the war, but its contribution to GDP has increased since the 1996 introduction of the United Nations oil-for-food program, which allows limited oil exports in return for food and medicine. Iraq in 1991 exported less than 10 percent of its pre-war oil export levels. By 2001, Iraq had regained three-quarters of the pre-war oil export levels. However, the UN's control of oil exports removed these revenues as a source of the GDP.



SOURCE: *CIA World Factbook 2000* [Online].

In the post-Gulf War era, services was the largest contributor to the GDP at 81 percent in 1993. Industry contributed 13 percent in the GDP, while agriculture accounted for 6 percent of the GDP. **Real GDP** was cut by around 63 percent in 1991, a direct result of the war and subsequent sanctions. The GDP was estimated in 1999 to be equivalent to US$59.9 billion. The country's major economic sectors witnessed a serious decline in 1990–91 because of the Gulf War, and continued allied bombardment of key Iraqi infrastructure facilities, including power generators and communications equipment. The manufacturing sector was hit by the shortage of imported raw materials and spare parts, while the collapse of the country's irrigation system in the aftermath of the war has left the agricultural sector in dire straits.

AGRICULTURE

Despite intermittent government efforts to develop the sector, agricultural production has always been a modest contributor to Iraq's economy, accounting for 7 percent of GDP prior to the 1980 Iran-Iraq war and 6 percent in 1993. Despite declining performance, however, the sector continues to employ almost one-third of the country's **labor force**. The agricultural sector employed 30 percent of the labor force in 1989, and although the number is believed to have declined as a result of the sector's declining performance, no hard figures are available to support this contention.

Iraq's arable land is estimated at 8 million hectares, comprising less than 15 percent of the country's total area. However, only 4 to 5 million hectares of this land is being cultivated. Arable land is mostly concentrated in the north and northeast, where winter crops—mainly wheat and barley—are grown, and in the valleys of the Tigris and Euphrates rivers.

The sector's contribution to the GDP has steadily declined since the early 1980s, despite repeated government efforts to boost agricultural production. Until the late 1980s, cultivable land was under the control of the state, the direct result of the land reforms begun in 1958. In 1988–89, in an effort to boost agricultural production, the state **privatized** agriculture, but the sector's weakness persisted. Further, the government continued to control the price of agricultural products, mainly to protect the urban consumer. Despite government efforts to encourage agricultural production after the Gulf War by raising the price of staple foods—especially of wheat, barley and rice—the labor-intensive sector remains in 2001 underdeveloped and inefficient, as a result of the high costs of energy, credit, and land and lack of investment. The problem is further aggravated by the lack of pesticides,

fertilizers, and machinery. Further, competition from produce and agriculture products imported under the UN food-for-oil program, which allows the sale of a given amount of oil in return for basic foodstuffs and medicine, has also hurt the sector. In 2000, Iraq's farmers were also hit hard by the worst drought in a century. This drought devastated output and forced many farmers to ask the government to loan them the money to pay local banks back for funds they had borrowed to plant their crops, which in the summer of 2000 were failing.

Major agricultural products are cereals, including wheat and barley. Iraq is also a producer of dates, sheep and goat meat, chicken meat, and milk. Most agricultural activity is concentrated in the fertile lowlands in the Mesopotamian plains irrigated from the Tigris and the Euphrates. The Kurdish areas in the north, which have received minimal attention due to the conflict between the central government and the Kurds, remain underdeveloped and mostly dependent on rainwater. Agricultural production in Kurdish areas has improved under the UN sanctions regime, due to the distribution of fertilizers and spare parts by international agencies in those areas.

INDUSTRY

MINING. Oil dominates the country's mining activity, and accounted for more than 60 percent of the GDP before the 1990 Gulf War. Iraq has 112,500 billion barrels in proven reserves—the second largest known reserves in the world. Prior to its war with Iran, which began in 1980, Iraq was also the second-largest exporter of oil in the world.

Oil production is concentrated in the north in Kirkuk, Jambur, Bai Hassam, Ain Zalah, Butman, and Baiji. Oil fields in the south include Rumaila and Zubeir, and until the Gulf War, oil was exported via the Gulf port at Khor al-Amaya. In addition, smaller fields can be found at Luhais, Nahr Umr, Buzurgan, Abu Ghuraib, and Jabal Fauqi. Iraqi oil exports consist of 2 types of crude. The "Kirkuk Crude," which forms the majority of exported oil, is extracted from the northern oil fields and exported via Turkey. The "Basra Light" comes from the fields in the south and is exported via the Mina al-Bakr terminal on the Persian Gulf.

Oil production and output has more than once been interrupted as a result of armed conflict, first with Iran and then with the allied forces during the Gulf War. Production before the Iran-Iraq war reached as high 3.5 million barrels a day (b/d) in 1979 but declined to 700,000–870,000 b/d with the start of the war in 1980. Although most damage to Iraq's facilities was repaired, and production was restored to 3.07 million b/d by the end of the 1980s, the Gulf War and subsequent UN sanctions imposed once more severely depressed both production and output capacity. Until 1996, Iraqi exports were forbidden under the terms of the UN sanctions, with the exception of 65,000 b/d exported to Jordan as part as a special deal worked out with the United Nations. As a result, oil production averaged only 500,000–600,000 b/d between 1990 and 1996, with the majority used for domestic consumption.

Iraq was allowed to resume partial exports in 1996, as part of the food-for-oil program designed to provide for the humanitarian needs of the Iraqi people. Oil production was estimated at 2.52 million b/d in 1999, 1.76 million of which are exported under the food-for-oil program. Local consumption accounts for 500,000 million b/d, while an estimated 166,000 million b/d are believed to be smuggled through Turkey and Iran. In June 1998, Iraq was permitted to import spare parts in the amount of $300 million every 6 months to repair its oil facilities. In December 1999, the value of imports was doubled to $600 million per 6 months, but Iraq was allowed to purchase parts only from a list of parts drawn up by the United Nations. Despite an increase in production, which reached 2.49 million b/d in July 2000, the oil sector continues to suffer from the lack of adequate investment and of the kind of Western expertise that was once available to Iraq before the war.

Before 1972, a consortium of British, U.S., French and Dutch companies virtually dominated the oil industry through the Iraqi Petroleum Company and its associates. This company was **nationalized** by the Iraqi government in 1972, and the U.S. and Dutch interests in the last remaining foreign oil firm—the Basra Petroleum Company—were confiscated because of their governments' pro-Israel stance during the 1973 Arab-Israeli war. The entire oil sector was nationalized in December 1975 and placed under the control of the state-owned Iraqi National Oil Company. In the late 1990s, however, and as a direct result of the sanctions, the Iraqi government has once again allowed production-sharing agreements with foreign companies, mainly Russian and Chinese, to develop the oil sector and increase production to 3.4 million b/d in the short-term and 6 million b/d in the medium-term. These agreements, however, are contingent upon the lifting of the UN sanctions, and it remains to be seen whether the United States will allow the Russian and Chinese firms to benefit from the development of the Iraqi oil sector.

In addition to oil, Iraq ranks tenth in the world in terms of proven reserves of natural gas, which are estimated at 3.1 trillion cubic meters. In 1998, Iraq's production of natural gas reached 2.9 billion cubic meters, most of which was used for domestic consumption. Natural gas is currently not being exported, although the government has recently signed agreements with Turkish

companies to export 10 billion cubic meters worth of gas annually from its northern field.

Iraq also has phosphate deposits located at Akashat near its border with Syria, which are used to produce fertilizers. Sulphur deposits can also be found in Mishraq. European companies were involved in the mining of sulphur before the Iran-Iraq war, but these efforts came to a standstill during the war and have not resumed. The mining of both phosphates and sulphur has largely remained limited in scope due to the dominance of the oil sector.

MANUFACTURING. The manufacturing sector is the second largest non-oil sector, accounting in 1993 for 13 percent of the GDP. The sector's contribution to the GDP in 2001 is hard to assess in the absence of government data about manufacturing activity in the country. Total employment in manufacturing in 1989 stood at 968,000 or 22 percent of the labor force.

Historically, the sector has been dominated by oil refining and natural gas processing industries. Refineries are situated in Baghdad, Basra, al-Hadithah, Khanaqin, Kirkuk, and Qayyarah, and by the late 1980s were producing a total of 743.3 million barrels of petroleum and 3.7 billion cubic meters (131 billion cubic feet) of natural gas per year. Since the 1970s, Iraqi companies have processed iron and steel at plants located at Khawr az-Zubayr. Other manufacturing activities include the production of advanced military hardware, tractors, electrical goods, car assembly, truck manufacture, aluminum smelting, detergents, and fertilizers.

Since the mid-1970s, Iraqi industries have been under the control of the state. The government experimented with privatization in late 1988, right after the end of its war with Iran, in an effort to boost manufacturing production. The state, however, continues to control all heavy industry, the oil sector, power production, and the infrastructure, while private investment is restricted to light industry. An important reason for the failure of the privatization program was the **price controls** that the government was forced to introduce following the outbreak of popular unrest over rising prices in 1989.

Overall, the sector has been characterized by mismanagement and constant policy shifts, which severely hindered its development. In the 1970s, the government encouraged the development of local food processing and building supplies industries to substitute for imports, but by the late 1970s, the government shifted its focus toward the development of heavy industries, such as iron and steel. The initiative, however, never took off. Efforts to expand the manufacturing sector came to a standstill during the Iran-Iraq war, as resources had to be reallocated to finance the war, and greater emphasis was placed on increasing the output of existing industries.

In the 1990s, the manufacturing sector has also been severely hurt by the UN sanctions and has shrunk considerably as a result. The UN closely monitors the import of industrial raw materials to ensure that implements necessary for the production of weapons of mass destruction do not enter the country. The sector has also been hurt by the lack of the foreign currency needed to purchase imported parts.

CONSTRUCTION. The construction sector has been a major contributor to the economy for most of the last 3 decades. The sector's growth can be attributed to the government's continuous involvement since the 1970s in reconstructing war-damaged facilities or in expanding the military infrastructure. Spending on construction dropped significantly in 1991, reaching ID578 million, down from ID1.7 billion in 1990. Spending on construction, however, has been on an upward trend since 1991, reaching some ID20 billion in 1994.

SERVICES

FINANCIAL SERVICES. Financial services in Iraq are fairly outdated. As a result of the nationalization of banks and insurance companies in 1964, all financial transactions are controlled by the government through the Central Bank of Iraq, which is responsible for issuing and monitoring all aspects of the Iraqi dinar. **Black market** currency dealings are prohibited but continue to take place. International banking transactions are undertaken by the Rafidain Bank, which represents the government in all transactions not undertaken by the Central Bank. The Rasheed Bank, established in 1989, deals with domestic transactions. The banking sector was liberalized in 1991, paving the way for the establishment of 6 new banks.

RETAIL. Iraq has a poor **retail** sector. Baghdad's once well-developed commercial centers have been severely hurt by the UN sanctions, and the lack of imported goods has forced many of them to close in the last 10 years. The majority of shops in major cities, including Baghdad, consist of small family-owned and -run businesses. Small shops and temporary road stands also characterize the majority of towns in the interior of the country.

INTERNATIONAL TRADE

Iraq's imports have declined dramatically in the last decade, as a direct result of the UN sanctions. In 2001, Iraq's total imports were estimated at US$8.9 billion, almost 40 percent lower than their 1989 levels of US$22 billion. Iraq was not allowed to import any goods until 1997. After the conclusion of the food-for-oil agreement, Iraq's imports have been regulated by the UN, which approves all goods entering the country.

Exchange rates: Iraq

Iraqi dinars (ID) per US$1	
2000	N/A
Dec 1999	1,910
Dec 1998	1,815
Dec 1997	1,530
Dec 1996	910
Dec 1995	3,000

Note: Rates are black market rates and are subject to wide fluctuations; Iraqi dinars have been officially fixed at 0.3109 since 1982.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Iraq	2,000	2,000	2,400	2,700	2,500
United States	28,600	30,200	31,500	33,900	36,200
Saudi Arabia	10,600	10,300	9,000	9,000	10,500
Iran	5,200	5,500	5,000	5,300	6,300

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

Iraq imports a variety of goods, but food imports (wheat, rice, barley, sugar and meat) and medicine are by far the largest component of the import bill. However, the Iraqi government and its agencies control the purchase and marketing of imported goods. Before the Gulf War, Iraq imported the majority of its goods from the United States, Japan, the United Kingdom, Germany, France, Italy, Brazil and Turkey. By the late 1990s, France (19.2 percent of total imports), Australia (18 percent), China (12.5 percent), Russia (8.2 percent), and the United States (2.1 percent) are the largest exporters of goods to Iraq.

The majority of exports are dominated by oil, which accounted for about 95 percent of total sales abroad before the Gulf War. Iraq in 2000 had restored three-quarters of its pre-war oil export levels, which means that oil sales in 2001 account for around 70 percent of total exports. Other non-oil exports included fertilizers and dates. Sales of liquefied natural gas are expected to surge, but the prospects for that eventuality are far from certain. In 1999, Iraq exported the majority of its oil to the United States (US$3,879 million), the Netherlands (US$848 million), Japan (US$644 million), France (US$521 million), and Spain (US$402 million). Given its weak industrial base and the unlikely removal of the UN sanctions, oil is expected to continue to be the country's major export. Total exports in 1999 reached US$12.7 billion, with the vast majority of export earnings coming from the sale of oil.

MONEY

The value of the Iraqi dinar has declined steadily on the world market over a period of 20 years, making it increasingly harder for the average Iraqi to afford imported goods. The value of the dinar held steady until the beginning of the Iran-Iraq war, but that trend was reversed with the collapse of oil prices in mid-1980s. The dinar, which sold at ID0.3109=US$1 in 1982 (which is still the official rate set by the Iraqi government), was further weakened in the aftermath of the Gulf War, reaching a low of ID2,660:US$1 in December 1995. Despite occasional peaks, the value of the dinar against the U.S. dollar has held steady in the last 2 years at ID2,000:US$1 on the black market, the same rate sold by state banks since June 1999. However, the dinar's instability is likely to persist as a result of the uncertain political and the continuation of the UN sanctions.

Iraq has a single stock market, established in Baghdad in March 1992 in the wake of the privatization of state enterprises. Trading, however, remains thin due to the uncertain political conditions prevailing in the country.

POVERTY AND WEALTH

The UN sanctions imposed on Iraq since 1990 have severely affected the social fabric and living conditions in the country. As a result of the severe deterioration of services—including water and sanitation, health care, and education—the living standards of all Iraqis have declined. Rising unemployment and **inflation**, which was estimated at around 250 percent in 1995 and 135 percent in 1999, coupled with the falling purchasing power of salaries and rising prices, have deepened social divisions and inequalities, with all sectors of the society growing more impoverished. Wealth as of 2001 is concentrated in the hands of a small privileged group of regime supporters, mainly from among the military and the business community who have been allowed to benefit from the sanctions. This group is heavily involved in black market currency dealing and the smuggling of food and merchandise on a regional scale.

The economic **embargo** has also had an uneven impact on different Iraqi regions. Ethnic, religious, and tribal rivalries have always been the dominant feature of Iraqi society. The Sunni-dominated central government in Baghdad has historically discriminated against the Shi'ites in the south and the Kurds in the north. Systematic efforts to "Arabize" the predominantly Kurdish region in the north resulted in a rebellion in the 1970s that brought the Kurds further retribution. Under the

sanctions regime, living conditions in the northern provinces that are under Kurdish control have improved, partly because the UN, rather than the government of Iraq, is administering the oil-for-food program there, and partly as a result of the infusion of higher per capita international humanitarian assistance to this region between 1991–96. The future social and economic prospects of this region, however, remain uncertain, given that the status of the region is yet to be determined.

The predominantly Shi'ite south, which witnessed an uprising against the Sunni-controlled Baghdad government in the wake of the 1991 war, has been less fortunate. The military continued its water-diversion and other projects in the south designed to displace the Shi'ite community there, known as the "marsh Arabs." Since the 1980s, the government has drained most of the southern areas by either drying up or diverting the streams and rivers, effectively cutting off water supplies to the Shi'ite community inhabiting those areas for thousands of years.

The government also limited the delivery of food, medical supplies, drinking water, and transportation to the region. The regime has used food rations allowed under the oil-for-food program to reward regime supporters and silence opponents. As a result of this policy, the humanitarian conditions of Shi'ites in the south continued to deteriorate, despite a significant expansion of the oil-for-food program after 1997.

WORKING CONDITIONS

Iraq's labor force has increased steadily since the 1970s, reaching over 6 million workers in 1998. No official statistics are available for the unemployment rate in the country, but it is widely believed that the unemployment rate has increased dramatically as a result of the war and the subsequent sanctions. Iraq suffered labor shortages in the 1980s as result of the conscription of thousands of Iraqi men in the military. Declining economic conditions forced thousands of foreign workers who migrated to Iraq for work opportunities during the war to leave after the war ended. This problem was further aggravated by the exodus of thousands of Iraqi professionals at the outset of the Gulf War. The majority of the labor force (67 percent) is concentrated in the services sector, which is dominated by the military, in comparison to only 14 percent in the agricultural sector and 19 percent in the industrial sector.

Iraq's trade unions were legalized in 1936, and although more than a dozen are in existence today, the labor movement has been largely ineffective due to the domination of the government and Ba'ath Party. In 1987, the government established the Iraqi General Federation of Trade Unions (IGFTU) as the sole legal trade federation, which is used to promote the principles and policies of the Ba'ath party among union members. Iraqi employees work a 6-day, 48-hour week, but working hours in the **public sector** are set by the head of each ministry. Child labor is prohibited, although children under the age of 14 can work in the agricultural sector and are encouraged to help support their families.

Although labor laws protecting the right of workers have been in place since 1958 and subsequently amended in 1964, working conditions in Iraq are not ideal. Workers do not enjoy the right to strike, as mandated by the 1987 Labor Law; do not have the right to bargain collectively; and are often arbitrarily moved from their positions for political considerations. Salaries in the public sector are set by the government, but no information is available on minimum wages. Declining economic conditions in the 1990s have forced many government employees to take second and third jobs to support themselves.

Since the 1970s, the ruling Ba'ath party has encouraged the participation of women in the labor force and much effort was exerted to improve their level of education. The percentage of women in the labor force has, however, remained rather steady in the 2 decades between 1970 and 1990, hovering at around 16.8 percent. According to World Bank figures, Iraqi women's participation in the labor force has risen consistently since the 1990/91 Gulf War, jumping from 16.6 percent in 1991 to a high of 19 percent in 1998. This increase can be best explained in terms of the harsh economic conditions that Iraqis have had to endure as a result of the war, which have forced many women to seek employment opportunities outside their homes to earn a living.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1917. As the Ottoman Empire collapses, Iraq comes under the control of the British.

1921. The British declare Faisal king of Iraq.

1932. Modern Iraq gains independence. A new government headed by General Nouri al-Said is formed.

1933. Ghazi, the son of King Faisal, becomes king.

1941. The Ba'ath Party is founded by 2 Syrian students, espousing the goals of socialism, freedom, and unity.

1939. King Ghazi is killed in a car accident and is succeeded by his son Faisal II.

1958. Hashemite monarchy is overthrown by officers of the Nineteenth Brigade under the leadership of

Brigadier Abdul-Karim Qassem and Colonel Abdul Salam Arif. Iraq is declared a republic.

1963. President Abdul-Karim Qassem is overthrown by Abdul Salam Arif and a coterie of military officers in a bloodless coup.

1970. The government signs a 15-article peace plan with the Kurds after years of rebellion and conflict.

1972. Iraq and the Soviet Union sign a treaty of friendship for political and economic cooperation. Iraqi Petroleum Company is nationalized and Iraq National Oil Company is established to exploit new oil concessions.

1979. President Bakr resigns, and Saddam Hussein officially replaces him as president of the republic, secretary general of the Ba'ath Party Regional Command, chairman of the RCC, and commander in chief of the armed forces.

1979. Shah of Iran is overthrown.

1980. Iran-Iraq War begins.

1988. Iran-Iraq War ends.

1988. Government launches privatization program to spur economy.

1990. Iraq invades Kuwait.

1991. Iraq is defeated by allied forces. United Nations sanctions are imposed.

1997. Iraq is permitted to export limited amounts of oil in return for food and medicine.

FUTURE TRENDS

Iraq entered the 21st century under a cloud of great uncertainty. Despite the large sums of money that have entered the government's coffers from the sale of oil in the last 50 years, Saddam Hussein's legacy of war, first with Iran and then as a result of the invasion of Kuwait, has left the economy in ruins. The country's economic and social achievements during the 1970s and 1980s have been completely lost. Despite the food-for-oil program approved by the United Nations in 1997, the Iraqi economy will continue to suffer as a result of the sanctions.

Further, the prospects for the lifting of the United Nations sanctions remain uncertain, given that their termination has been made conditional upon the removal of President Saddam Hussein from power. Even after the sanctions are lifted, it is estimated that Iraq will have to pay US$12 billion in **debt-servicing** annually and to pay for food imports, medicine, and reconstruction. The problem will be further aggravated by the massive reparations payments that Iraq will be forced to pay. Unless forgiven, Iraq's debts will continue to greatly hinder its ability to undertake large-scale reconstruction and repair needed to restore the civilian infrastructure.

Internally, the social and ethnic divisions that have long characterized Iraq are stronger than ever. Despite being greatly weakened by the Gulf War and the sanctions, the repressive Saddam Hussein regime continues to rule the country unchallenged. The country itself has been divided into 3 zones, with the center and the south remaining under the control of the Iraqi government. Meanwhile, the north, where the Kurdish minority is concentrated, has been granted, at least temporarily, the right to administer its own affairs. For the last 10 years, the Kurds have enjoyed the protection of U.S. and British forces against potential military attacks by the Iraqi government. However, it remains uncertain whether such an arrangement can be sustained after the U.N. sanctions are lifted.

DEPENDENCIES

Iraq has no territories or colonies.

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—Reem Nuseibeh

ISRAEL

State of Israel
Medinat Yisrael
Dawlat Israel

CAPITAL: Tel Aviv/Jerusalem. Israel proclaimed Jerusalem as its capital in 1950, but most countries, including the United States, have not recognized this internationally disputed move and maintain their embassies in Tel Aviv.

MONETARY UNIT: New Israeli Shekel (NIS, named after the currency in use in biblical Israel, was introduced in the late 1980s). Bills include 10, 20, 50, 100, and 200 shekels, and there are coins worth ½, 1, 5, and 10 shekels. The New Israeli shekel is divided into 100 agorots, of which there are 5, 10, and 20 agorot coins.

CHIEF EXPORTS: Machinery and equipment, software, cut and polished diamonds, chemicals, textiles and apparel, agricultural products.

CHIEF IMPORTS: Raw materials, military equipment, investment goods, rough diamonds, fuels, consumer goods.

GROSS DOMESTIC PRODUCT: US$110.2 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$35.1 billion (f.o.b., 2000). **Imports:** US$31.5 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Israel, a country slightly smaller than the U.S. state of New Jersey, is located in the Middle East, bordering the Mediterranean Sea for a length of 273 kilometers (168 miles). In the south and southwest, it borders the Gulf of Aqaba and the Sinai Peninsula, occupied in the war of June 1967 and returned to Egypt in April 1982. To the east, it shares a 238-kilometer (147-mile) borderline with the Hashemite Kingdom of Jordan and 307 kilometers (189 miles) with the Palestinian Autonomous Area on the western shore of the Jordan river. In the north, Israel shares 79 kilometers (49 miles) of borders with Lebanon, and with Syria for 76 kilometers (47 miles) on the disputed Golan Heights.

The “Gaza Strip,” a small piece of territory running some 40 kilometers (25 miles) along the Mediterranean coast, has been under limited jurisdiction of the Palestinian National Authority (PNA) since 1994 and may eventually form a part of a single Palestinian entity, together with the Palestinian Autonomous Area in the West Bank. The territories which were occupied after the war of June 1967 are not recognized as forming part of the State of Israel, although it seems unlikely that Israel will reverse its annexation of East Jerusalem. Control over the Old City, which is the Jews’ principle holy site, the Wailing Wall, and the Muslims’ holy mount, the Haram al-Sharif with the al-Aqsa mosque, is heavily disputed.

POPULATION. Israel’s population was estimated to total 5.85 million in July 2000. This number includes about 171,000 Jewish settlers in the West Bank; about 20,000 in the Israeli-occupied Golan Heights; about 6,500 in the Gaza Strip; and about 172,000 in East Jerusalem. The country’s population is heavily concentrated along the coastal strip, with about 75 percent of the Jewish inhabitants and around 60 percent of the non-Jewish population located between Ashkelon and Nahariya. In 1997, the Tel Aviv district had almost 1.2 million inhabitants, accounting for some 20 percent of total population. Jerusalem (Yerushalayim in Hebrew and al-Quds in Arabic) counted 633,700 inhabitants, in 1998. Haifa (Hefa) is the largest city in the north with some 265,000 inhabitants. Of the total population, 91 percent are defined as urban, that is resident in localities with more than 2,000 inhabitants. Around 80 percent of Israel’s population is Jewish of which 40 percent were born abroad, mostly European or American-born (1.2 million citizens), and 60 percent (2.8 million citizens) were Israeli-born Jews. The 20 percent of non-Jewish Israeli citizens are mostly of Arab origin.

There are 2 main Jewish communities, the Ashkenazim and the Sephardim. The former are the Jews from Eastern, Central, and Northern Europe, while the latter originate from the Balkan countries, North Africa, and the Middle East. There are around 15 percent Muslims and some 2 percent Christians and 2 percent Druze. Israel is also home to the Bahai community's principal sanctuary in Haifa.

Hebrew is the official language and Arabic is officially used for the Arab minority. English is the most commonly used foreign language. Ultra-orthodox Jews, who refuse to converse in the holy language of Hebrew, and elder Eastern European immigrants speak Yiddish. Due to the diversity of the immigrant population, most Israelis are multilingual.

After the Diaspora (the dispersion of Jews from their homeland) for nearly 2000 years, *aliyas* or waves of **immigration** started bringing Jews to what had once been Israel in the last decades of the 19th century, driven by the idea of establishing a Jewish national homestead in their biblical land. From the early 1920s, the Jewish population in Palestine increased more than sevenfold, from only 80,000 to 600,000 in 1948, when the State of Israel was declared. In the first 20 years of the state's existence, between 1948 and 1972, the country's population quadrupled.

OVERVIEW OF ECONOMY

Once a traditional economy based mainly on agriculture, light industry and labor intensive production, Israel was until the 1990s described as the "most **socialist** economy of any nation outside of the Eastern bloc". High growth, second only to Japan in the period 1922–73, was achieved through a highly centralized, state-driven economic policy, making Israel a world record-holder in high taxes, **foreign debt**, and finally **inflation**, which reached triple digit levels from 1977 to 1984.

Since a national unity government first began implementing measures of stabilization and reform in 1985, Israel's economy has been transformed from a highly state-centered one to a mixed economy focused on high-tech and exports. The influx of Jewish immigrants from the former Soviet Union topped 750,000 between 1989 and 1999, bringing the population of Israel from the former Soviet Union to 1 million, one-sixth of the total population, and adding scientific and professional expertise of substantial value for the economy's future. The influx, coupled with the opening of new markets at the end of the Cold War, and the onset of the Middle East peace process, energized Israel's economy, which grew rapidly in the 1990s, despite a slight setback during 1997 to 1999. Capitalizing on the country's human resource potential, the government instituted economic reforms and new policies that have created a global high technology powerhouse in such industries as semiconductors, computer software, telecommunications, and biomedical equipment. The dramatic growth of Israel's high tech sector in recent

years has led to a shortage of qualified workers and a significant rise in salaries for these positions.

In the 1990s, Israel enjoyed a remarkable economic expansion that brought new levels of prosperity and a significant increase in purchasing power. With economic growth averaging nearly 6 percent between 1990 and 1996, Israel's economy expanded by some 40 percent in real terms, and per capita income jumped from US$11,000 to almost US$17,000. The slowdown in economic growth between 1997 and 1999 was generally attributed to the waning of the stimulative effects of the immigration waves, such as for residential construction and new business investment, high interest rates, and much tighter **fiscal policy** in this period. A further reason was increased political and security uncertainty due to a lack of progress in the peace process. In 2000, Israel's **GDP per capita** was US$17,500—higher than in Spain or New Zealand.

Both major parties, the currently ruling Likud under Ariel Sharon and the Labor party, are committed to further **liberalizing** the economy, strengthening exports and attracting further foreign investments, mainly in the high-tech sectors, and to keeping the **macroeconomic** environment stable. Despite moving gradually toward a more open, competitive, and market-orientated economy over the past decade, the level of government involvement in the economy remains high, as do the public's expectations for government assistance. The country's **infrastructure** network remains publicly owned, as does much of the banking system. However, the pace of **privatization** has quickened in recent years.

POLITICS, GOVERNMENT, AND TAXATION

Israel is a parliamentary democracy. The president, who has ceremonial function, is elected by the Knesset, a **unicameral** parliament, for a 5-year term. Moshe Katzav, member of the Likud party and of Persian origin, was elected president in 2000. Since the May 1996 election, the prime minister is elected directly by a separate universal vote. The minimum voting age is 18. The prime minister since 2001 is Ariel Sharon, who took over from Ehud Barak. The latter had failed to achieve an agreement with the Palestinian National Authority at Camp David and could not meet the Israeli public security expectations in the early phase of the second intifada or uprising. Apart from Ehud Barak, the 1990s saw a number of prime ministers come and go. Benyamin Netanyahu, Shimon Peres, Yitzhak Shamir, and the much-loved Yitzhak Rabin, who was assassinated in 1995 by an ultra-orthodox Jew frustrated by rapprochements with the Palestinians, have held the office in the last decade.

The State of Israel was declared on 14 May 1948, its political leadership emerging from the Jewish Agency. Its chairman, David Ben Gurion, became the first prime minister and is considered the father figure of the state. For decades the country was dominated by the Labor Party (though under changing names) first under Ben Gurion, then under other leaders, and the Histadrut, Israel's General Federation of Labor. The 2 institutions formed a quasi-socialist system with large state welfare provisions. The first change of the ruling party came as a surprise in 1977, when the Likud Party, under Menachem Begin, won the largest share of seats.

With 5 wars fought since the inception of Israel with its Arab neighbors the Israeli Defence Forces (IDF) have at any stage played an important role. Virtually all leading statesmen in Israel had senior positions in the IDF before coming to office. A permanent peace settlement seemed possible for the first time when President Sadat of Egypt visited Jerusalem in 1977 and addressed the Israeli parliament. A year later at Camp David under the guidance of President Carter, Begin and Sadat agreed on a peace treaty that was finally signed in March 1979. Until today, though, a comprehensive peace agreement with all Arab neighbors has not been struck and the problem of a Palestinian entity has not been resolved.

The Israeli Parliament, known as the Knesset, consists of 120 members elected to 4-year terms, although the prime minister has the option to call for new elections before the end of the term, or the prime minister's government can fall on a vote of no-confidence in the Knesset. A total of 11 political parties are currently represented in the 16th Knesset. The political spectrum includes the Hadash Party, a left-wing umbrella group, including the Communist Party and other **Marxist** factions that is made up of both Arab and Jewish citizens; the left-wing Meretz Party; the center-left and chief opposition Labor Party; the new centrist Third Way Party; the ruling right-center Likud Party; the religious parties (National Religious Party, Shas, and United Torah Judaism); and the rightist Moledet. Yisrael B'Aliya is a centrist party focused on the rights of Russian immigrants. The United Arab List, a combination of the Democratic Arab Party and representatives of Israel's Islamic Movement, is a defender of the rights of Arab citizens.

After the failed talks between Palestinians and Israelis at Camp David the ongoing second intifada began in September 2000. The Israeli-Palestinian conflict over land and the status of Jerusalem remains a crucial issue. Israel had benefitted considerably from the onset of the Middle East peace process, and its economic success depends at least to some degree on political stability. Since the 1993 signing of the Declaration of Principles on Palestinian self-rule, the future status of Jerusalem and the continuing expansion of Jewish settlements in East Jerusalem and the West Bank have emerged as 2 of the most critical issues affecting the peace process. The

ongoing intifada was triggered when Ariel Sharon, as prime minister, paid a highly disputed visit to the Muslim holy site in the Old City of Jerusalem. The Old City, within the walls of which are found the ancient quarters of Jews, Christians, Muslims, and Armenians, has a population of some 25,500 Arabs and 2,600 Jews. In addition there are some 600 recent Jewish settlers in the Arab quarter. It is highly unlikely, though, that any Israeli government will give up control, gained in 1967, over East Jerusalem and the Old City, in particular.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Israel's infrastructure is modern and well developed. To cope with its growing population and to improve the functioning of the economy, Israel is making large investments to upgrade its infrastructure. Major projects include the construction of a new terminal at Ben Gurion International Airport; a tunnel through Mt. Carmel to provide a bypass route around Haifa; the Cross-Israel Highway, a major north-south artery; and mass transit systems planned for Jerusalem, Beer Sheva, and the Tel Aviv region.

TRANSPORTATION. Israel has a total of almost 16,000 kilometers (9,942 miles) of paved roads, including 56 kilometers (35 miles) of expressways. The main highway runs along the Mediterranean coast, linking the north (Haifa) and the center (Tel Aviv). The second major link between Tel Aviv-Jerusalem causes major problems. Due to little space for the construction of new roads, the 45-minute-drive from Tel Aviv to Jerusalem takes about 3 hours during rush hours. Part of the old Beirut-Jerusalem railway connection runs from Nahariya via Haifa to Tel Aviv. The route from Tel Aviv to Jerusalem is not in use anymore. The importance of trains especially in passenger transportation is overshadowed by the government-owned Egged bus company, which operates the second largest bus system in the world after Greyhound. Freight traffic consists of grain, phosphates, potash, containers, petroleum, and building materials. Rail service serves Haifa and Ashdod ports and extends to Eilat port. Haifa and Ashdod on the Mediterranean Sea coast are the main ports in Israel. The port of Eilat is Israel's gateway to the Red Sea. In 1997, Israel's merchant fleet consisted of 55 vessels. There are 2 international airports in Israel, Tel Aviv's Ben-Gurion airport and Eilat airport. Plans to merge the airports of Eilat and of the neighboring Jordanian city of Aqaba did not materialize. An international airport in the Gaza strip in operation since 2000 but currently largely dysfunctional due to security problems.

POWER. The Israel Electric Corporation (IEC) has completed a US$10 billion investment program in 2000, which has boosted the country's generating capacity from 8,000 megawatts to about 12,000 megawatts. The country's plants almost entirely run on fossil fuels; no nuclear power plants are in operation. Israel is preparing for the availability of natural gas by planning a natural gas distribution network. Local authorities are searching for solutions to environmental problems related to municipal solid waste and wastewater treatment. The first international tender for a waste-to-energy plant was issued in January 1998. Development of regional sanitary landfills, a national air pollution monitoring system, and municipal wastewater treatment plants, even in outlying regions of the country, are indicative of a growing awareness of environmental issues.

TELECOMMUNICATIONS. Israel is one of the world leaders in mobile communications. There are currently 3 major Israeli cellular mobile network providers, as well as a Palestinian company and almost as many cell phones in use as main lines. In 1999, there were 2.8 million landlines and 2.5 million mobile users. The Israeli telephone

Communications

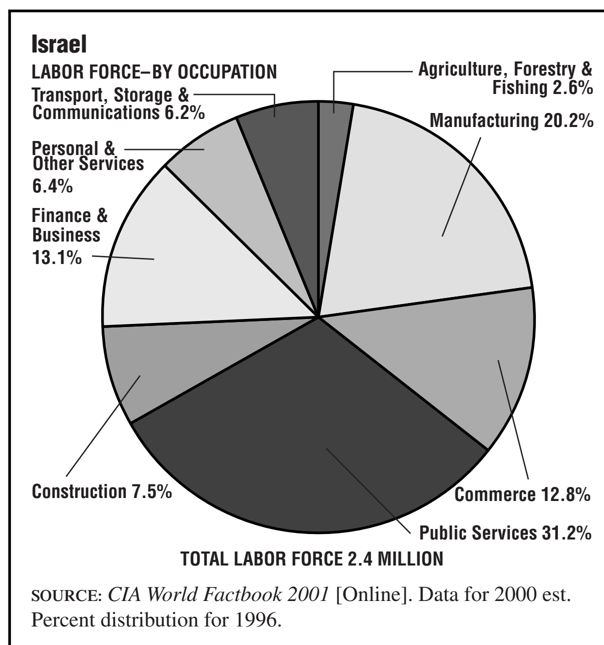
Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Israel	2.8 M (1999)	2.5 M (1999)	AM 23; FM 15; shortwave 2	3.07 M	17 (1995)	1.69 M	21	1 M
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Saudi Arabia	3.1 M (1998)	1 M (1998)	AM 43; FM 31; shortwave 2	6.25 M	117	5.1 M	42 (2001)	400,000 (2001)
Jordan	403,000	11,500 (1995)	AM 6; FM 5; shortwave 1 (1999)	1.66 M	20 (1995)	500,000	5	87,500

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

system, no longer **monopolized** by the government-owned Bezek company but open to competition, is the most highly developed system in the Middle East, with a good system of coaxial cable and microwave radio delay. All systems are digital. In addition to telephony providers, Israel has now at least 21 ISPs, a figure constantly increasing.

Israelis are radio listeners: There were 3.07 million radios in the country in 1997, compared to 1.69 million televisions. Given the importance of news and information, people commonly listen to the news at work; bus drivers usually turn up the volume to allow passengers to listen to the news. Since 1999, there has been a digital TV station in operation, which has also drawn a large number of subscribers.



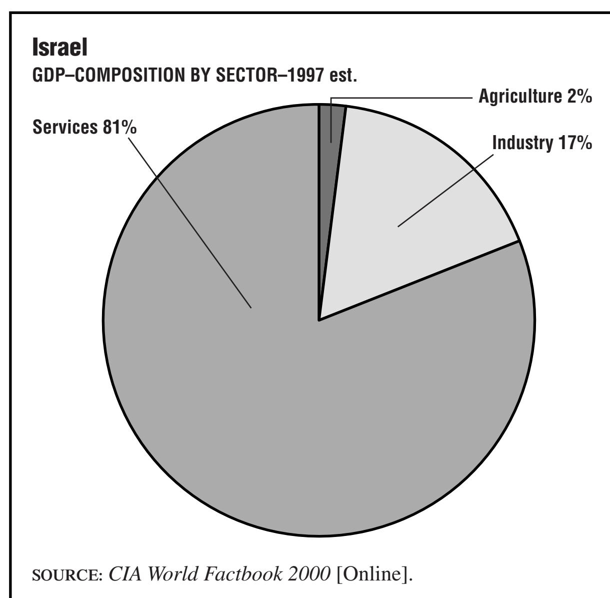
SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1996.

ECONOMIC SECTORS

Once strongly based on agriculture and low-cost industrial production for the domestic market, the country has undergone major structural changes, shifting to a modern export-oriented economy. In recent years, it has been the high-tech sector that has grown most substantially. Agriculture contributed 4 percent to the GDP in 1999, while industry accounted for 37 percent, and services for 59 percent.

AGRICULTURE

The agricultural sector is fairly small, accounting for 3.5 percent of the GDP in 2000 and employing 2.6 percent of the **labor force**. Nonetheless, Israel is largely self-sufficient in foodstuffs lacking only in grains, oils, and fats. Since the establishment of the State of Israel, the area under cultivation has increased. Currently, the cultivated area totals 4.2 million dunams (4 dunams equal 1 acre) about 50 percent of which are irrigated crops. The main factor limiting agricultural development is not land but the availability of water. With several years of water shortages in summer the further development of Israel's agriculture will involve raising the yield of existing land and recycling wastewater. Revenues in the agricultural sector amounted to around US$4 billion in recent years. The main categories are livestock and poultry, vegetables, fruits, flowers and field products.



SOURCE: *CIA World Factbook 2000* [Online].

A special feature of Israel's agriculture that has gained a great deal of international attention is its cooperative settlements. For centuries, Jews in the Diaspora were barred from owning land; therefore, the Zionist movement saw land settlement as one of the chief objectives of Jewish colonization. There are 2 basic forms of settlements, the *moshav* and the *kibbutz,* both developed to meet the needs and challenges encountered by a farming community new to its professions and its sometimes hostile surroundings. The *moshav* works on the principal of a co-operative with individual farms of equal size with every farmer working his own land to the best of his ability. The farmer's economic and social security is ensured by the cooperative structure of the village which handles marketing his products, purchasing farm equipment, and providing credit and other services. In 1998, a total of 455 *moshavim* existed, inhabited by 180,000 people. The *kibbutz* is a collective settlement of a unique form, based on common ownership of resources and the pooling of labor, income, and expenditure. Every member is to work to the best of his ability. He is not paid any wage but is supplied with all the goods and

services he needs. The *kibbutz* is, therefore, based on voluntary action and mutual liability, equal rights for all members, and it assumes for them full material responsibility. In 1998, the 268 *kibbutzim* were inhabited by around 120,000 people.

INDUSTRY

Israel's industry was originally designed to cater to a domestic market. It was to supply such basic commodities as soap, vegetable oil and margarine, bread, ice, printing, and electricity. It used raw materials available locally to produce goods as canned vegetables and fruit, cement, glass, and bricks. In order to save foreign exchange, imports of processed goods were curtailed, giving the local industry the opportunity of adding local value to the manufacturing process of products imported from abroad. Although most of Israel's industrial production is still for domestic consumption, the country's economy is far more export-oriented. Higher valued processed goods (excluding diamonds), especially electronics and high-tech related, currently constitute 90 percent of total exports. There has been a heavy expansion in export-oriented industries as a result of government tax and investment incentive schemes.

MINING/HYDROCARBONS. The Dead Sea area, a land depression bordering Jordan, which contains potash, bromides, magnesium, and other salts in high concentration, is the country's chief source of mineral wealth. The large potash works on the southern shore of the Dead Sea are linked by road to Beer Sheva from which a railway runs northward.

Lacking large-scale resources of fuel and power, Israel is forced to import more than 90 percent of its energy requirements. Petroleum constitutes around 8 percent of all goods imports. The main sources of the annual crude oil requirements of around 50 million barrels are Egypt, Mexico, and Norway. Around 30 percent of requirements are purchased on the spot market. Most imported crude oil is refined at the Haifa oil refinery, which has a capacity of more than 6 million tons a year. Output of natural gas from the Dead Sea area is transported through a pipeline to the Dead Sea potash works and to towns in the Negev desert and a large phosphate plant. Production totaled 21.5 million cubic meters in 1994.

MANUFACTURING. The total value of Israeli exports has risen: US$18 million in 1950, US$780 million in 1971, and almost US$21 billion by 2000. The greatest expansion has taken place in the electronics industry with Israel specializing in defense-related and communication equipment, software, and network equipment. The value of exports of this sector and of metals and machinery has grown from US$12.8 million in 1970 to US$9.5 billion in 1999 and by an incredible 40 percent to US$13.3 billion in the strong export year of 2000.

Israel's single most important industrial export product is cut and polished diamonds. The diamond trading and processing industry has traditionally been a Jewish stronghold. Expertise and trading contacts were brought to Israel by immigrants from the Netherlands and Belgium, home to the world's largest diamond trading center, Antwerp. Israel's specialty is medium-sized diamonds which controls approximately 75 percent of the world market in this segment. Annual exports grew from US$4.6 billion in 1995 to US$5.7 billion in 1999 and jumped to US$6.8 billion in 2000.

SERVICES

TOURISM. Israel and the surrounding countries, also known as the Holy Land, are the sites of biblical history. David's mountaintop capital, Jerusalem, is holy to the world's 3 monotheistic religions. Nearby in the West Bank lies Bethlehem, birthplace of Jesus. But Israel is also an attractive destination for hiking, desert trips, diving, or relaxing in one of the Dead Sea spas.

Tourism is the industry most severely affected by the security downslide caused by the ongoing Palestinian uprising. Since October 2000 tourism has declined by 45 percent in comparison to the peak in the quarter immediately preceding the intifada. Experience has shown that tourists take many months to return after the end of unrest. With no improvement of the security situation in sight the sector is unlikely to recover in 2002. Since the end of the Gulf War visitor numbers had been on the rise. While in 1990 only 1.1 million tourist visas were issued, this number continuously increased to 2.3 million in 1999, according to Israel's Ministry of Tourism. Tourist receipts totaled US$2.77 billion in 1996 and reached US$3 billion in 1999.

FINANCIAL SERVICES. Israel possesses a highly developed banking system, consisting of a central bank, the Bank of Israel, 14 commercial banks, 5 mortgage banks, and other financial institutions. Bank groups, namely Bank Leumi group, Bank Hapoalim, and Israel Discount Bank, are at the core of the industrial complex and hold 92 percent of the total assets of the banking system. Once owned by the Histadrut, the all-powerful General Federation of Labor, they had to be bailed out by the government during an economic crisis in the early 1980s. Since then, they have been quasi-government owned, but there are plans for privatization. A law inhibiting banks to own more than 10 percent of industrial **holding companies**, introduced to prevent another structural crisis, has not been enforced strictly.

In 1997, the Tel-Aviv Stock Exchange (TASE) adopted an automated trading system leading to lower transaction costs. The then ongoing peace process and flourishing high-tech industries have since strongly at-

tracted foreign investors. The real value of stocks traded in TASE increased by 59 percent during 1999. In 2000, 681 companies were listed on the TASE. The **turnover** was US$58.7 billion in 2000. In October 2000, Israel's Securities Authority adopted a dual listing regulation, allowing for Israeli companies that are traded on the New York Stock Exchange (NYSE) and Nasdaq to trade on the TASE without additional regulatory requirements. This measure enables Israeli and foreign investors to trade in these shares at convenient hours, and at low costs. Nevertheless, the general slump, especially in the high-tech shares, has affected the TASE, too. The combined effects of the economic downturn and security uncertainties will have to be monitored. Investment in the Tel Aviv Stock Exchange, acquisitions of Israeli companies, and **equity** flotation by Israeli companies on foreign stock markets, principally New York, have brought billions of dollars in new capital to Israel in recent years, primarily though not exclusively to its high technology industries.

INTERNATIONAL TRADE

Until the 1990s, high **tariffs** and strong non-tariff barriers characterized Israel's trade policy, and several barriers are still in place in particular with regard to processed food and agricultural products. Israel has free trade agreements with the European Union (since 1975), the United States (signed in 1985, fully effective since 1995), the European Free Trade Association (EFTA, effective since 1993), Canada (1997), and Turkey and has concluded bilateral agreements with a number of other states. Israel is the sole country in the world to have both European Union and U.S. free trade agreements. In June 2000 an association agreement between the EU and Israel came into force. In line with WTO regulations, Israel gradually began exposing the domestic market to foreign imports since September 1991. This process allowed administrative limitations on imports from third countries to be canceled, imposed higher rates of customs tariffs that since have been reduced, according to their degree of influence on local production, and allowed Israeli industry time to adjust to competition. The final stage of this process came to an end in September 2000, when tariff rates reached a maximum range of 8 percent to 12 percent.

Trade (expressed in billions of US$): Israel

	Exports	Imports
1975	1.941	5.997
1980	5.540	9.784
1985	6.267	9.875
1990	11.576	16.791
1995	19.046	29.579
1998	23.286	29.342

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Israel's main exports are manufactured goods and software, which accounted for 97 percent of total exports (excluding diamonds, ships and aircraft) in 2000. Agricultural exports accounted for 3 percent in 2000, compared to 16.5 percent in 1970, illustrating the depth of Israel's structural changes. The share of Israel's information communication technology exports as a percentage of exports of services is substantially high. In 1997, this share (20.1 percent) was second only to Japan (24 percent), and much higher than the OECD average, which was 12.5 percent. The United States alone absorbs more than a third (41.2 percent) of Israel's exports. Other important destinations include the European Union (27.3 percent), of which Belgium (6 percent), Germany (4.8 percent), and United Kingdom (4.3 percent) dominate; and Asia (18.5 percent), of which Japan (2.7 percent) dominates, according to Central Bureau of Statistics 2000 figures. The change in Israel's exports between 1999 and 2000 indicate that the growth rate of traditional manufacturing exports increased slightly, whereas it increased dramatically in the high-tech industries.

The geopolitical situation that has prevailed in the Middle East, since the inception of Israel, has prevented trade between Israel and its neighbors. Furthermore, the difference in the level of development and production structure between Israel and its neighbors made Europe and the United States her main trading partner. In 2000, the United States and the EU accounted for 32 percent and 30 percent, respectively, of Israel's exports and for 22 percent and 41 percent of its imports. In 2000, exports for the United States (excluding diamonds) totaled US$21.7 billion, constituting an increase of 23.3 percent in Israel's exports. Within the EU, Israel's largest export markets were Germany (21 percent), the United Kingdom (18 percent), The Netherlands and Italy (both 11 percent), and France (10 percent). Exports to Asia (excluding diamonds) increased from 12 percent in 1998 to 16 percent in 1999.

Israel has traditionally run a large external **trade deficit**, meaning that imports exceeded exports. Israel's imports have always exceeded its exports because of the Jewish state's dependence on raw materials. In addition, Israel imports military equipment, investment goods, rough diamonds, fuels, and **consumer goods**, mainly from the United States (18.6 percent), Belgium (9.9 percent), Germany (7.5 percent), the United Kingdom (7.6 percent), Italy (4.8 percent), and Japan (3.3 percent), according to 2000 figures. The cost of Israel's imports has largely been offset by cash grants from the U.S. government and charitable organizations and individuals abroad. The EU accounted for 67 percent of Israel's 2000 trade

deficit, and Asia accounted for 15 percent. The trade balance with the United States was positive.

MONEY

Israel's fiscal policy has focused on reducing the state's intervention in the economy and improving Israel's fiscal stance, namely, reducing the budgetary deficit as a percentage of the GDP and the government's debt relative to the GDP. The reduction of the deficit law was drafted in 1991 for the **fiscal year** 1992 and for the years to come. The law sets a maximum level for the **budget deficit**. Indeed, the budget deficit as a percentage of the GDP decreased from 4.9 percent in 1990 to 0.6 percent in 2000. However, Israel's ratio of government debt to the GDP still remains high compared to European countries. The internal debt, as a percentage of the GDP was reduced from 104 percent in 1989 to 70 percent in 2000; the **external debt** decreased from 39 percent in 1990 to 24 percent in 2000. Both the political right and the political left are committed to a sound fiscal policy. Since 1985 the Israeli government has not been allowed to borrow from the Bank of Israel and has had to finance its debt by issuing bonds. The Israeli government issues bonds in Israel, as well as in the United States, Europe, and the Far East.

The end of the disinflation process in Israel, which began with the 1985 Economic Stabilization Program, is aimed for 2003. Israel's **inflation rate** was cut from a worrying 444.9 percent annual inflation in 1984 to 18 percent in the late 1980s. Currently, the country has virtually reached price stability with inflation down to 1 percent in 2000. The inflation rate in the past 2 years has been consistently under the inflation target and is one of the lowest in the developed world.

POVERTY AND WEALTH

Though Israel has a strong social record, as in most societies, inequality exists in different guises. In 1988, families in the upper 10 percent of household income received 8.4 times the share of the bottom 10 percent; in 1997, the share of the uppermost 10 percent increased to 10.6 times that of the lowest 10 percent. The 20 percent of households with the highest income increased their share of the national wealth while the share of the lower income households decreased. Nevertheless, the economic boom in the early 1990s has left the average Israeli better off. The GDP per capita has increased from US$5,600 in 1980 to US$17,500 in 2000, an increase only exceeded by Singapore and Hong Kong.

However, inequality between Israelis of different ethnic origins is deeply entrenched. The average incomes of Arab citizens of Israel are the lowest and have hardly changed over the last decade. The average income of Israel-born Mizrahi Jews (originating from Africa or Asia) are somewhat higher, increasing over the last decade, but the gaps between their incomes and those of Ashkenazi Jews (originating from Europe or America) did not change. The average incomes of Israel-born Ashkenazis are the highest and increase steadily. In 1997, Israel-born Ashkenazi salaried employees earned 1.6 times more than Israel-born Mizrahi employees and 1.9 times more than Arab employees, according the Central Bureau of Statistics. Israeli society also faces gender inequality, which are stronger among Oriental Jews and Arab Israelis. In 1997, women's monthly wages were, on average, 63 percent those of men. Women's hourly wages were, on average, 83 percent those of men. These figures show an

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Israel	10,620	11,412	12,093	13,566	15,978
United States	19,364	21,529	23,200	25,363	29,683
Saudi Arabia	9,658	11,553	7,437	7,100	6,516
Jordan	993	1,715	1,824	1,436	1,491

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Exchange rates: Israel

new Israeli shekels (NIS) per US$1	
Dec 2000	4.0810
2000	4.0773
1999	4.1397
1998	3.8001
1997	3.4494
1996	3.1917

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Israel

Lowest 10%	2.8
Lowest 20%	6.9
Second 20%	11.4
Third 20%	16.3
Fourth 20%	22.9
Highest 20%	42.5
Highest 10%	26.9

Survey year: 1992

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Israel	23	6	11	2	6	8	44
United States	13	9	9	4	6	8	51
Saudi Arabia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Jordan	32	6	17	5	8	8	23

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

improvement over 1993 when women's earnings as a percent of men's was still 58 percent. The fact that many women only work part-time explains some of the gap in monthly earnings. Most salaried Israelis make less than the average wage; in 1996, 62 percent made less than 75 percent of average income. For about one-third of Israelis the labor market does not provide a decent living. Between 1979 and 1990, the proportion of Israeli families with poverty-level wages increased from 27.9 percent to 34.3 percent, according to the National Insurance Institute. This figure remained stable throughout the 1990s.

WORKING CONDITIONS

The Israeli civilian labor force were 2.435 million, or 54 percent of the 4.487 million population aged 15 years and over, in 2000. In Israel the rate of participation in the labor force is low compared to other developed economies. Women's rate of participation in the civilian labor force was 48.2 percent in 2000, as opposed to 60.8 percent for men. In 2 segments of the Israeli society, among Arab Israelis and ultra-orthodox Jews, the rate of participation in the labor force is rather low, especially for women. About 11.5 percent of the labor force in the business sector are foreign workers, of which 46 percent are Palestinians, and the rest are from other countries. Except for the Dead Sea minerals, Israel has almost no natural resources, making human capital the country's catalyst for economic growth and competitiveness. In 1999, about 13 percent of those employed were academic professionals, and 14.6 percent were professionals and technicians. In 1999 about 15 percent of the civilian labor force had 16 years of schooling or more, compared to 1 percent in 1979, indicating a sharp rise in qualified Israeli professionals.

The General Federation of Labor in Israel, usually known as the Histadrut, is the largest voluntary organization in Israel and an important economic body. It is open to all workers, including the self-employed, members of co-operatives and of the liberal professions, as well as housewives, students, **pensioners**, and the unemployed. The reach of the Histadrut extends to approximately 85 percent of all workers. Dues are between 3.6 and 5.8 percent of wages and cover all its trade union, health insurance, and social service activities. The federation engages in 4 main fields of activity: trade union organization, social services, educational and cultural activities, and economic development.

Israel's labor standards are in line with international regulations and norms. There is a minimum monthly wage, and employees are entitled to social benefits under the comprehensive national insurance, Bituah Le'umi. There is also a state-provided health-care system in place, the so called Kupat Holim. Every male conscript has to serve up to 30 days of army reserve duty every year; employers continue paying their employees' salaries during this time. Israel has a minimum wage law, which is 47.5 percent of the average wage. Sometimes questionable is the enforcement of labor standards with regard to foreign workers, mainly from Eastern Europe and South Asia, as well as Palestinian workers employed in Israel.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

70 A.D. After a Jewish uprising against Roman occupation, the Diaspora begins, and Jews **emigrate** to Europe, the Balkans, the Middle East, and North Africa.

1882–1903. First Aliya (large-scale immigration) occurs, mainly from Russia.

1897. First Zionist Congress is convened by Theodor Herzl in Basel, Switzerland; Zionist Organization is founded.

1904–14. Second Aliya occurs, mainly from Russia and Poland.

1909. First kibbutz, Degania, and first modern all-Jewish city, Tel Aviv, are founded.

1917. The Ottoman rule, which has lasted for 400 years, is ended by British conquest; British Foreign Minister Balfour pledges support for establishment of a "Jewish national home in Palestine." (This statement is called the Balfour declaration).

1919–23. Third Aliya occurs, mainly from Russia.

1924–32. Fourth Aliya occurs, mainly from Poland.

1933–39. Fifth Aliya occurs, mainly from Germany.

1936–39. Arab revolt against Jewish immigration.

1947. After World War II and the Holocaust, the UN proposes the establishment of an Arab and a Jewish state in Palestine. The British pledge to end their mandate in 1948.

1948. On 14 May, David Ben Gurion, chairman of the Jewish Agency in the mandate of Palestine, declares the State of Israel. The following day, the armies of Lebanon, Syria, Iraq, Jordan, and Egypt attack the newborn Jewish State. The War of Independence (Israel) or the "Nakba" (catastrophe) begins and continues in 3 phases until 1949. Israel not only defends itself but increases its territory far beyond the original division plan. To Israelis, this is the miracle of David defeating Goliath; for the Arabs, it means escape and expulsion and the beginning of the refugee Odyssey of the Palestinians, the "Nakba." Peace talks in Cyprus fail.

1956. England, France, and Israel collaborate in a plot to remove Egyptian president Nasser, the hero of the Arab world and one of the leaders of the Non-Alignment movement, and attack Egypt. Under U.S. and Soviet pressure, Israeli troops withdraw, and Nasser claims victory

1967. On 6 June, following misinformation from Soviet observers, tensions suddenly build up and lead to an Israeli "pre-emptive" strike against its Arab neighbors. Within 6 days, Israel defeats all its enemies, among them the entire Egyptian air force before it can even take off, and occupies large amounts of land: in the South, Israel "frees" the Negev and occupies the Sinai peninsula; in the North, the Jewish state captures the strategic Golan Heights; and to the East, Israel occupies the Jordanian West Bank, including Jerusalem. The historic town is immediately declared the "eternal and undivided capital" of the Jewish state. At the same time, Israel becomes an occupation force controlling a large population of Palestinian Arabs in the West Bank and Gaza Strip.

1973. A surprise attack by Egypt and Syria gives the Arab states a face-saving "victory" that, in fact, is another defeat in the Yom-Kippur or October War.

1977. The Likud wins the general elections in 1977, introducing a new era in Israeli politics. Egyptian president Anwar Sadat visits Jerusalem and speaks to the Knesset, paving the way for ensuing peace negotiations at Camp David. A peace agreement between Egypt and Israel is signed in 1979.

1982. Israel invades Lebanon and manages to drive the PLO leadership from Beirut to Tunis. Ariel Sharon, the minister of defense and former war hero, single-handedly and somewhat illegally masterminds the invasion as far as Beirut. He has to resign after the invasion and later faces a court charge over a massacre of Palestinian refugees in the camps of Sabra and Shatilla by Israeli-allied Christian militias. In the midst of a deepening economic crisis, a national unity government and reform measures are implemented. Economic deprivation and general dissatisfaction with the Israeli military occupation trigger a Palestinian uprising, the Intifada.

1990. The downfall of the Soviet Union brings almost 1 million new immigrants to Israel. During the Gulf War and the liberation of Kuwait from Iraqi occupation, Iraq fires missiles on Tel Aviv and Haifa.

1992–93. The elections are won by war hero and ex-prime minister, Yitzak Rabin, in 1992. A secret channel leads to direct negotiations between PLO and Israel, resulting in mutual recognition and a Declaration of Principles for the assumption of peace talks, known as the Oslo Accord, presented to the public in Washington, D.C., on 23 September 1993.

1994–95. Israel concludes a peace treaty with Jordan and the Gaza-Jericho (Oslo II) agreement with the Palestinians. After a series of suicide bomb attacks within Israel, Rabin is assassinated on 4 November 1995. Shimon Peres becomes prime minister but loses the elections to Benyamin Netanyahu ("Bibi") who becomes prime minister in May 1996 and opens his reign with the tunnel under Al-Aqsa, leading to violent riots.

2000. Having won the elections against Bibi Netanyahu in June 1999 on a pro-peace platform, Israel's highest-decorated soldier, Ehud Barak, realizes his promise to pull Israeli troops out of South Lebanon within a year. Peace talks with the Palestinians at Camp David fail and the so-called Al-Aqsa Intifada breaks out in September, after a highly controversial visit of the new Likud leader, Ariel Sharon, to the holy sites in the Old City of Jerusalem.

2001. Ariel Sharon becomes prime minister.

FUTURE TRENDS

The real key to Israel's economic take-off will be its ability to come to some peaceful accommodation with its immediate Palestinian neighbors and the other countries of the region. As the Peace Process has stalled, so have the bright prospects for economic integration which were

supposed to boost the regional demand for Israeli products and services. With a genuine peace in this region, Israel is easily poised to be a significant "engine of growth" for the whole Middle East.

Israel remains well positioned to compete in the knowledge-intensive industries of the 21st century, and its economy has the potential to grow at some 4 to 5 percent per year. Israel's proportion of scientists, engineers, and other skilled personnel in the labor force is high by international standards, and Israeli companies are rapidly developing experience in the business aspects of transforming technology into marketable products and services. Further, the ongoing structural transformation of the economy, especially its shift from traditional to higher-value goods and services, should add to Israel's growth potential in the near future. Finally, structural reforms that will increase the level of competition and reduce the role of the state should add to overall efficiency and productivity.

DEPENDENCIES

THE WEST BANK AND GAZA STRIP. Since the Oslo Accords in 1993 between the Palestine Liberation Organization (PLO) and the State of Israel, a Palestinian National Authority has been established and autonomously rules over parts of the West Bank and Gaza Strip. Those territories are Israel's largest market and most important trade partner, with a total population of 2.9 million, of which 1.9 million lived in the West Bank and 1 million in the Gaza Strip in 1997.

With the occupation of the West Bank and Gaza Strip by Israel in the 1967 war, both territories became economically dependent on Israel. By 1987, almost 50 percent of the Gaza Strip's total labor force was employed in Israel. About 90 percent of imports came from Israel, in an involuntary and one-sided customs union. Local trade was concentrated in the hands of a few large-scale wholesalers. As a result, indigenous development did not occur. The Palestinians became increasingly dependent on Israeli wages, imports, and technologies. Industry remained weak, contributing only a small percentage of GDP, employing only a small fraction of the total labor force and remaining limited to small firms that were mainly engaged in subcontracting for Israeli firms of the textiles and clothing industry.

Until 1989, the combined level of the GNP in the Palestinian territories was only 6 percent of Israel's; the combined GDP of the territories was only 5 percent of Israel's, thus indicating the massive inequalities implied in the relationship. The outbreak of the first intifada, or uprising, in 1987, itself the result of the oppressive conditions of life under occupation, worsened the economic situation. The 1991 Gulf War effectively stopped vital **remittances**, direct aid, and income from wages in Israel, with frequent closures and curfews imposed on the territories. The repeated closures in the context of a deteriorating security situation in 1992 and 1993 led to mass unemployment and impoverishment.

The 1993 beginning of the peace process was hoped to bring remedy. But despite the peace process, employment of Palestinian workers in Israel steadily decreased, and as a result, unemployment soared to 20 percent to 30 percent on average and up to about 50 percent in Gaza. Closures have also contributed to a decline in the GDP, which fell by about 14 percent during 1992–96, while private investment declined by about 60 percent. Poverty has risen substantially. Trade relations have barely changed. Israel has remained Palestine's most important partner, still accounting for about 90 percent of trade. The current second intifada, an expression of the population's dissatisfaction with the peace process, has had devastating effects so far. Unemployment has soared to more than 50 percent, in the case of the Gaza Strip estimates reach figures as high as 80 percent. Billions of dollars of investments have been destroyed, and the little business infrastructure that has existed has been disrupted or destroyed.

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—Ralph Stobwasser and Markus R. Bouillon

JAPAN

Nippon

CAPITAL: Tokyo.

MONETARY UNIT: Yen (¥). One yen equals 100 sen. There are coins of 1, 5, 10, 50, 100, and 500 yen. There are notes of 500, 1,000, 5,000, and 10,000 yen.

CHIEF EXPORTS: Motor vehicles, semiconductors, office machinery, chemicals.

CHIEF IMPORTS: Fuels, foodstuffs, chemicals, textiles, office machinery.

GROSS DOMESTIC PRODUCT: US$3.15 trillion (2000 est.).

BALANCE OF TRADE: **Exports:** US$450 billion (2000 est.). **Imports:** US$355 billion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Japan, an island nation in east Asia, is an archipelago (large group of islands) located east of the Korean peninsula. It has an area of 377,835 square kilometers (145,882 square miles), which makes it slightly smaller than the state of California. Japan is bordered by the Pacific Ocean on the north and east, by the Philippine Sea and the East China Sea to the south, and by the Sea of Japan on the west. It has a coastline of 29,751 kilometers (18,487 miles). Japan's major cities, including Tokyo, its capital, and Yokohama, its major port, are located in the southeastern part of the country, on the main island of Honshu. Kyoto, Nagoya, and Osaka are in the southern part of Honshu. Sapporo is located on the northern island of Hokkaido. The other 2 main islands in the Japanese archipelago are Kyushu and Shikoku, to the southwest.

POPULATION. Japan's population was estimated at 126,549,976 in July 2000. The population grew from 115,000,000 in 1975 to 126,300,000 in 1998, indicating a growth rate of 0.5 percent. With Japan in a state of near zero population growth, this total is expected to decline to 126,000,000 by 2015. In 2000, the estimated birth rate was 9.96 per 1,000 population, and the estimated death rate was 8.15 per 1,000. In the same year, the net migration rate was 0 percent.

The Japanese population is very old. According to the 2000 estimation, 17 percent of the population is 65 years old and over, a proportion that is expected to rise to 24.6 percent by 2015. In 2000, 15 percent of the population was under 14, and 68 percent was between 15 and 64.

Japan's population is very homogenous, with ethnic Japanese constituting 99.4 percent of the total. Ethnic minorities, which account for 0.6 percent of the total population, include about 24,000 indigenous Ainu people in Hokkaido and about 690,000 Koreans, mostly citizens of North or South Korea. There are much smaller groups of Chinese and Caucasians.

The population is highly urbanized, with about 78.5 percent of the population living in urban areas in 1998, a very small increase from 1975, when they accounted for 75.7 percent. The urban population is expected to increase to 82 percent by 2015. Based on 1999 statistics, Tokyo, the capital, is the largest urban center, with a population of 8,049,000. Other major urban areas are Yokohama (3,393,000), Osaka (2,594,000), Nagoya (2,167,000), Sapporo (1,811,000), and Kyoto (1,460,000).

OVERVIEW OF ECONOMY

Once a predominantly agrarian society, Japan began its industrialization in the second half of the 19th century by adopting Western technology, and developed itself into a major industrial power by the first decade of the 20th century. Its economic and military power continued to grow in the following decades, enabling it to emerge as an expanding global power in the 1930s. The Japanese entry into World War II (1939–45) led to a devastating defeat marked by the U.S. atomic bombing of the cities of Hiroshima and Nagasaki. Apart from the destruction caused by the atomic bombs, the war devastated

the Japanese economy and destroyed most of its industrial base and **infrastructure**.

Thanks in part to U.S. support during the postwar occupation, Japan began restoring its free-enterprise economy and industries in the 1940s. The Japanese economy began to expand in the 1950s and continued its impressive growth as a highly modern mature industrial economy until the early 1990s, when it slowed considerably. By the 1980s, it ranked as the world's second largest economic power after the United States. In 1999, Japan's GDP was 45 percent of that of the United States, but larger than the combined GDP of France and Germany. By the first decade of the 21st century, Japan had established itself as a major exporter of industrial products.

On average, Japan's annual GDP growth was about 10 percent from the 1950s until the 1970s. The growth rate began to fall in the 1970s for external and internal reasons. The first "oil shock" in the early 1970s pushed up oil prices and significantly increased imported fuel costs. Since Japan's economy depends heavily on imported fuel, this development slowed economic growth.

In 1974, the economy contracted by about 1.2 percent of total GDP. The second oil crisis of the late 1970s and the early 1980s slowed the economy to a smaller extent, causing a 0.4 percent annual shrinkage of GDP from 1980 to 1985. The situation worsened in the mid-1980s when an increase in the value of the yen increased the price of Japanese exports, leading to a decrease in global market demand. As a result, GDP growth dropped from 4.4 percent in 1985 to 2.9 percent in 1986. The damaged export industries sought to regain their competitiveness in international markets through massive relocation of their production to facilities abroad, notably in southeast Asian countries, where the cost of production was much lower than in Japan.

To offset the negative impact of the stronger yen on the economy and to stimulate growth in the domestic market, the Japanese government adopted a financial policy in the late 1980s to bolster the real estate and financial sectors. During this period, which came to be known as the "bubble economy," the Bank of Japan reduced its lending interest rate and the government increased its spending dramatically, which raised the value of stocks and inflated the price of land. This in turn stimulated spending and investment by both businesses and consumers. By 1991, stock speculation and large investments in real estate pushed prices up so much that the Bank of Japan was forced to intervene. This burst the bubble economy, and contributed to a decline in the Japanese economy during the 1990s. During that decade, Japanese products became less competitive in domestic and international markets because of higher prices.

The end of the bubble era initiated a period of sluggish growth and a loss of public confidence in the economy, both of which have continued into 2001. Although the government's **deflationary** measures (policies to reduce prices) triggered a decline in the Japanese economy in the 1990s, they did succeed in keeping **inflation** very low throughout the decade; annual rates were 1.8 percent in 1997, -0.3 percent in 1999, and -0.6 percent in 2000. The declines in the financial sector have resulted in higher unemployment through layoffs, once considered unthinkable in Japan. From its near-zero levels before 1991, the unemployment rate jumped to 2.2 percent in 1992, 3.2 percent in 1995, and 4.7 percent in 1999. The rate reached a record high of 4.9 percent in March 2000. Compared with many other developed economies such as Canada's, with an average unemployment rate of about 10 percent in the 1990s, Japan's unemployment rates since 1991 have not been very high. Yet they have been very high for a country which long prided itself on its traditions of "lifetime employment" for selected workers and strong employee loyalty. To avoid massive layoffs, many companies initiated a policy of reducing salaries, wages, and bonuses, thus lowering the living standards of many employees and decreasing spending, which, in turn, has prolonged the economic decline. Aimed at boosting the declining economy, Japan tried to **restructure** the financial sector in 1996 by introducing the so-called "Big Bang" reform measures. Its near zero-percent interest rate contributed to a short-lived increase in GDP (5.1 percent), but it failed to make growth sustainable.

The 1997 Asian financial crisis (which affected South Korea, Hong Kong, Thailand, Indonesia, Malaysia, and Singapore) was the major external factor responsible for Japan's economic downturn. It affected many markets of importance to Japan and worsened the Japanese economy by reducing export demand. The collapse of 3 major Japanese banks and a decrease in consumption further damaged the Japanese economy, which registered a 2.5 percent GDP decline in 1998, though it increased slightly, by 0.2 percent, in 1999 and about 1 percent in 2000.

Japan has benefited from continuous **trade surpluses** since the 1980s, amounting to $107 billion in 1999 and $95 billion in 2000. As a result, it has the world's largest foreign reserves, equal to $288 billion that same year. Four factors are responsible for these trade surpluses. First, Japan has a highly diversified advanced manufacturing sector capable of producing high-quality exportable products, and total exports were valued at $450 billion in 2000. Second, Japan's protected economy puts restrictions on foreign competition, including barriers to large-scale imports of foreign products. This situation has been gradually changing since the early 1990s, and the main barriers to foreign **consumer goods**, for instance, have been removed. Nevertheless, many restrictions have limited the flow of imports, which totaled $355 billion in 2000. Third, Japan's poor economic performance since the early 1990s has decreased demands for the import of various products, including fuel and raw material for commercial purposes, while also decreasing demand for many consumer products by a public concerned about unemployment and wage/salary cuts. Finally, Japan's aging population has, since the 1980s, gradually been spending less money on consumer products. If the population decreases as predicted, the shrinkage of the domestic market will have a severe economic impact on the Japanese economy.

Still, Japan is the world's second largest economic power and the second most technologically advanced economy after the United States. The most important sector of the Japanese economy is industry, which includes manufacturing, construction, and mining. Manufacturing is highly diversified and includes light industry, heavy industry, and high-tech. Manufacturing is the largest contributor to exports, but it is heavily dependent on imported raw materials and fuels. Industry is the second largest sector in terms of contribution to GDP (35 percent in 1999) and to the workforce (30 percent in 1999). Like other mature industrial economies, services form the

largest economic sector, accounting for the largest contribution to GDP (63 percent in 1999) and to the workforce (65 percent in 1999). The growing service sector consists of many services such as financial, **retail**, and tourism. At the beginning of the 21st century, agriculture, including fishing and forestry, is its smallest sector, accounting for the smallest share of GDP (2 percent in 1999) and of the workforce (5 percent in 1999). However, this sector is highly developed and produces all of Japan's rice, but it does not supply all its agricultural needs, which makes Japan dependent on large imports of agricultural products, including foodstuffs. Being a major industry, fishing has expanded into the world's most highly modernized and efficient fishing industry, accounting for 15 percent of the globe's annual catch. Nevertheless, its products meet only a portion of domestic needs, making large imports of fishery products a necessity. Japan is also dependent on large forestry product imports, because its forestry industry can only satisfy a fraction of needs.

The Japanese economy consists of a large **private sector** and a small **public sector**. The economy benefits from a very dedicated and disciplined workforce whose members are known for their strong work ethic and loyalty to their corporations. It also enjoys advanced technology, which makes it capable of producing state-of-the-art products. Close cooperation among suppliers, manufacturers, and distributors in close-knit groups called *keiretsu* also helps the economy grow fast. Such cooperation has received credit for the rapid rebuilding of the devastated Japanese economy in the post-World War II period. However, the economy lacks adequate domestic production of raw materials, fuel, and agricultural products; consequently, it is extremely sensitive to fluctuations in world prices for these items.

The Japanese economy is highly regulated. In the postwar period, this turned it into a well-protected economy practically closed to foreign competition by **tariffs**, restrictions, and quotas. Pressures by its trading partners and competitors (mainly the United States and the European Union) forced it to begin opening its market to foreign competition (goods and investments) in the 1980s. The economic decline of the 1990s inclined the Japanese government to encourage foreign investment by further **liberalizing** the economy. Since the early 1990s, the government has sought to reduce its role in the economy by initiating **deregulation** reforms that removed an enormous number of restrictive government regulations.

The Japanese government has not implemented the deregulation reforms evenly. The consumer-goods market is now open to foreign imports, while many restrictions on the financial sector have been removed. Deregulation in the air transport industry has increased foreign flights to Japan, especially from the United States, which now has an "open skies" pact with Japan. However, the reforms have been quite limited in the manufacturing sector due to a fear of massive unemployment caused by an extensive foreign presence in this sector. The increased competition will likely force domestic manufacturers to downsize their operations while bankrupting others, resulting in layoffs and unemployment. In short, the ongoing deregulation reforms have gradually contributed to a more open Japanese economy, although there are still many restrictions on economic activities.

History and geography have made an impact on the shaping of the Japanese economy. Japan's close proximity to the Asian Pacific countries (South Korea, Taiwan, Hong Kong, China, Singapore, Thailand, and Malaysia), all among the world's fastest-developing economies, has helped it expand its trade with them. These countries have been emerging as Japan's largest group of trading partners, accounting for 37.2 percent of its exports and 39.6 percent of its imports in 1999. These economies address some of Japan's major needs for fuel, minerals, and agricultural products, for example, while being large markets for its industrial products. Japan recognizes South Korea as the only legitimate Korean government, and its growing economic ties with South Korea have worsened Japan's relations with North Korea. North Korea's strong military force remains a security threat to Japan, a justification for spending $42.9 billion on defense (0.9 percent of its GDP) in the **fiscal year** of 1998–99. This is a small amount, with no major negative impact on Japan, but symbolically reflects concern about North Korea's military power. Russia's continued occupation of the Kurile Islands, captured by the Soviet Union in 1945, has prevented the conclusion of an official peace treaty between the 2 countries, and has limited their economic relations.

POLITICS, GOVERNMENT, AND TAXATION

Defeated in World War II, Japan began its postwar political life as an occupied country. The Allied military occupation, which aimed to democratize the nation, continued until 1952 when Japan regained its full sovereignty. Japan began political, economic, and social reforms in the second half of the 1940s, which paved the way for its future economic growth. In 1947, its new constitution provided for a democratic multi-party political system based on a free-enterprise economy. The emperor remains as a ceremonial head of state, but political power rests with the prime minister as head of government. The parliament consists of a 480-seat House of Representatives (Shugi-in) and a 252-seat House of Councilors (Sangi-in). Members of parliament are elected through regular free and fair parliamentary elections held every 4 years. In practice, the leader of a party, or coalition of parties, with the majority of seats in the House of Rep-

resentatives becomes the prime minister. The central government in Tokyo makes all major policies and decisions, which are implemented by the regional and municipal governments.

The Liberal Democratic Party (LDP) has dominated the Japanese political system for most of the postwar era, either as the ruling party or as the leading member of a coalition government. In the June 2000 parliamentary elections, the ruling coalition of the LDP, the New Komeito, and the Conservative Party maintained its parliamentary majority and remained in power. These 3 parties favor a free-enterprise economy with a strong private sector in which the state also plays a role.

The Japanese government has a great influence in the economy. It is extensively involved in the development and operation of the nation's infrastructure (roads, airports, power generation, and telecommunications services). The government's regulatory power enables it to exert control over economic sectors and activities. It uses its resources and power to develop domestic industries through direct financial assistance to emerging or ailing industries and by setting various regulations to protect industries from foreign competition. The worsening of the economic situation in 1991 resulted in a demand by business for the deregulation of the Japanese economy to enable it to cope with the economic downturn. Deregulation reforms have resulted in a smaller state role in the economy, although it still exercises great influence.

With the exception of the Japan Communist Party, the opposition political parties of Japan support a free-enterprise economy led by a strong private sector with a varying degree of state involvement. Among them, the most important ones are the Democratic Party of Japan, the Liberal Party, the Reform Club, and the Social Democratic Party.

TAXATION. Japan has a relatively complicated tax system. There are a variety of tax rates for corporations depending on their size, revenue, and location, and for individuals based on their income, location, and personal status. In 1999, tax rates ranged between 5 percent and 30 percent. Tax rates for Japanese and foreign corporations are the same. Foreign corporations operating in Japan are only liable for their income generated in that country. There are various tax breaks for businesses to stimulate economic activities. Corporate taxes accounted for 40.87 percent of total collected taxes in 1999, while other taxes, including personal **income taxes** and **indirect taxes**, accounted for the rest.

Taxes and stamp revenues form the bulk of government revenues (92.6 percent in 1999). Non-tax revenues (e.g., tariffs and various government fees) account for the remainder of government revenues (7.4 percent in 1999). **Budget deficits** are common, since government expenditures are always much larger than government revenues. There are 3 major reasons for this: tax rates are generally low; the aging Japanese population provides limited tax revenues, especially from the growing retired population, and consequently requires more government spending on health-care services; and the government spends large sums to stimulate economic growth. In the 1999–2000 fiscal year, total government revenues from tax and non-tax sources were about $446 billion while expenditures were $718 billion. The government finances budget deficits by issuing bonds, equal to $272 billion in 1999–2000. This reflects a substantial increase in budget deficit from the fiscal year of 1996–97. The Japanese government has tried to avoid raising taxes because of the reductions in consumer purchasing power caused by the economic decline of the 1990s.

The Japanese government's annual issuance of bonds to finance its deficits has created a huge debt. In 2000, the outstanding government bonds were estimated at about $3.5 trillion. The government also engages in off-budget spending (equal to 70 percent of its annual spending) under its Fiscal Investment and Loan Program (FILP), which funds large projects such as housing and road building. The source of this spending is the savings of individuals deposited in the state-run postal savings system. In 1999, the government paid $174 billion in service charges on its debt. This is a huge financial burden on the economy, though it has not yet created a crisis. Still, if the economy does not grow significantly in the next few years and the debt continues to increase, the debt burden will have a major negative impact on the Japanese economy between 2005 and 2010.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Japan has a very advanced and well-maintained infrastructure, which undergoes regular upgrading and expansion. Both the private and public sectors undertake various infrastructural projects and operate their respective services.

Japan has a very extensive and modern road network. It consists of 1,152,207 kilometers (715,981 miles) of highways, of which 863,003 kilometers (536,270 miles) are paved. They include 6,114 kilometers (3,799 miles) of expressways. The number of motor vehicles increased from 70,106,536 in 1995 to 73,688,389 in 1999. Major development projects to expand the Japanese highway network include a $32-billion project for the construction of a second Tomei-Meishin Expressway, connecting Tokyo and Kobe via Nagoya. The length of Japan's railways is 23,670 kilometers (14,708 miles), more than half of which is electrified. Japan is famous for its high-speed trains.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Japan	578	955	707	114.8	374	126.8	237.2	163.75	27,060
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
South Korea	393	1,033	346	138.3	302	N/A	156.8	55.53	10,860

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

As a country surrounded by water, Japan has developed a very extensive and modern sea transportation system. It includes many ports and harbors such as Akita, Amagasaki, Chiba, Hachinohe, Hakodate, Higashi-Harima, Himeji, Hiroshima, Kawasaki, Kinuura, Kobe, Kushiro, Mizushima, Moji, Nagoya, Osaka, Saki, Sakaide, Shimizu, Tokyo, Tomakomai, and Yokohama. Japan has a very large merchant-marine fleet, which is a necessity for its international trade and for ensuring an uninterrupted arrival of raw material, fuel, foodstuffs, and other necessary products. The fleet comprises 662 ships with a total capacity of 13,039,488 tons.

Japan benefits from a modern and extensive air transportation system. In 1999, there were 171 airports, of which 140 have paved runways, and 14 heliports. Airports in Tokyo, Kagoshima, Osaka, and Kansai provide international services. The major international airports are Narita, which serves Tokyo; Kansai, which serves Kobe, Kyoto, and Osaka; and Chitose (Sapporo) and Sendai in Northern Japan, which serve many northern cities. Major airport construction projects include a second runway for Kansai International Airport, a $7.2 billion-project for Central Japan International Airport in Ise Bay, and the New Kitakyushu Airport in the Kyushu region located in the western part of Japan. Japan has a large air passenger fleet consisting of private and public airlines.

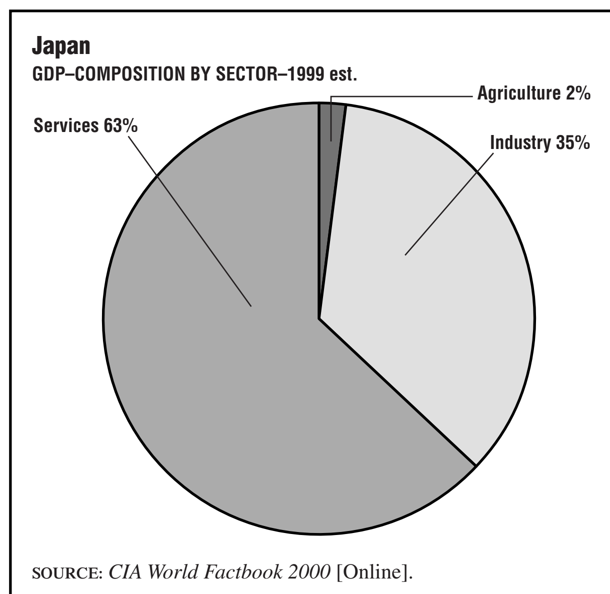
Japan's telecommunication system is very advanced. It consists of private and public service providers, but a public company, Nippon Telephone and Telegraph (NTT), is the largest provider, controlling about 95 percent of fixed telephone lines. In 1997 there were 60.3 million fixed telephone lines in use. By 1999, there were 30.6 million cellular phones in operation, a 260 percent increase in 2 years, and 6.3 million personal handphone systems (PHS), cheaper versions of cellular phones with limited signal coverage. Personal computer ownership is high: 237 PCs per 1,000 population, in 1998, compared to 459 per 1,000 population in the United States, which has the world's highest rate of PC use. In 1999, there were 357 Internet service providers in Japan. The rate of Internet use is low: 13.34 per 1,000 population in 1999, as compared with 112.77 in the United States. Japan has a very large television and radio industry operated by private and public sectors. In 1997, there were 86.5 million television sets and 120.5 million radios in use.

The Japanese power-generation industry includes both private and public companies, though in 1999, only 5 percent of the nation's power was created by the private sector, a proportion that is expected to increase with industry deregulation (a lessening of government controls). Japan's electricity is derived from 4 major methods: thermal (using oil, liquefied natural gas, and coal), nuclear, hydro (water power), and non-conventional (geothermal, solar, and wind). In 1998, the proportion of electricity generated from these sources was 57 percent, 32 percent, 9 percent, and 2 percent, respectively. In that year, total electricity produced amounted to 995.982 billion kWh, well above the consumption of 926.263 billion kWh. In anticipation of large increases in consumption in the 21st century, Japan is planning to increase its output to 1,280 billion kWh by 2020.

Since its thermal generators depend heavily on large imports of fuel, Japan is planning to decrease its dependency on this method and increase its dependence on nuclear power, although that method is more costly. Accordingly, 9 new nuclear reactors are planned to become operational by 2008, providing an additional 11.3 gigawatts (GW) of electricity. Japan is also encouraging the expansion of generators using renewable energy, such as hydropower and geothermal energy.

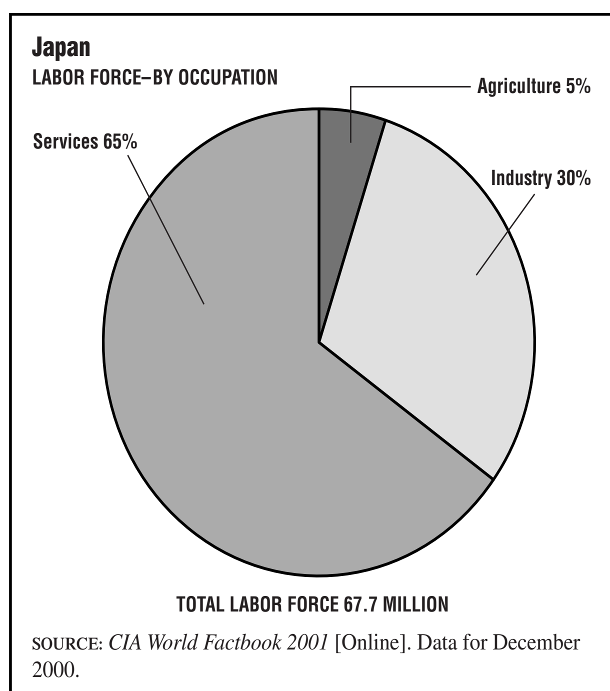
ECONOMIC SECTORS

Japan rebuilt its economy in the late 1940s and the 1950s to establish itself as the world's second largest economy in the 1980s, a position it still holds as it enters the 21st century. As a result, its 3 main economic



SOURCE: *CIA World Factbook 2000* [Online].

sectors are technologically advanced. Agriculture, the smallest sector, is capable of meeting some domestic needs, though most foodstuffs must be imported. Industry, the second largest sector, has a highly advanced and efficient manufacturing branch that has been the engine of growth for Japan since the 1960s. Its state-of-the art products have captured many markets to ensure healthy annual trade surpluses for Japan. As in all matured industrial economies, services constitute Japan's largest economic sector, and this sector has been growing since the 1980s.



SOURCE: *CIA World Factbook 2001* [Online]. Data for December 2000.

AGRICULTURE

Agriculture, including fishery and forestry, is Japan's smallest economic sector. Its contribution to GDP has decreased substantially since 1945. It represented 6.1 percent of GDP in the 1970s, but fell to about 2 percent in 1999. Its share of the workforce has remained stable since the 1980s; totaling 5 percent (about 3.38 million workers) in 1999.

FARMING. Production of agricultural products, including rice for domestic consumption, is declining due to the scarcity of farming land, which makes large-scale and efficient cultivation rather difficult. High input costs push up the prices of domestic products, as do restrictions on production, pricing, and marketing imposed by the government and agricultural cooperatives. As a result, expensive domestic products are less attractive to consumers than cheaper imported goods.

As an indicator of its declining economic importance, the growth rate of agriculture has been mainly negative over the last 2 decades, even with direct government support, such as heavy tariffs on imported rice (300 percent in 2000). In 1999, the growth rate was 1 percent, a slight improvement from 1996 and 1998 when the growth rates were -6.8 percent and -4.5 percent, respectively.

The agriculture sector is technologically advanced and completely mechanized, but it does not satisfy the essential agricultural needs of the country. Major agricultural products include foodstuffs (wheat, barley, maize, potatoes, rice, soybeans, sugar beets, and sugar cane), fruits, meat products (beef, veal, chicken, horse, lamb, pork, and turkey), fishery products, and forestry products (timber). Export items include fish, prepared foods, cigarettes, crude organic materials, and husked rice. Major imports are fish products, grains, and fruits. In 1998, for example, the values of agricultural exports and imports were about $2.2678 billion and $51.7805 billion, respectively, revealing Japan's dependency on agricultural imports.

In 1999, total agricultural production was 21,177,737 tons, down from 23,016,800 tons in 1995. Rice production met domestic needs, but total output fell from 13,435,000 tons in 1995 to 11,468,800 tons in 1999. Production of potatoes and wheat showed slight increases during this period.

FORESTRY. Forests cover about 70 percent of Japan, of which 40 percent are human-made. Reforestation is a necessity in a land that is endangered by systematic soil erosion caused by heavy rainfalls. Forestry products meet only a small portion of domestic needs (about 20 percent in 2000), while the rest has to be imported, mainly from such sources as the United States and Indonesia. The value of forestry imports was $5.7 billion in 1999, a sharp

decrease from 1995 when it was $10 billion. Japan's economic downturn was responsible for this decline.

FISHERIES. Japan has a large fishing industry. Despite the fact that its large annual catch accounted for 15 percent of the world's total for 1999, the industry is unable to meet Japan's domestic needs. Japan is therefore the world's largest importer of fishery products, consuming 30 percent of such imports in 1996. In 1999, 2,924,000 tons of fishery products were imported, a relatively large increase from the 1995 levels of 2,803,000 tons. The annual catch in the post-World War II era, which had always been above 10 million tons before 1990, dropped to 7.4 million in 1997. This decline is attributed to several factors, notably coastal-water pollution and disputes over fishing in international waters.

INDUSTRY

Industry, including manufacturing, construction, and mining, has been the engine of growth for Japan since the end of World War II. As happens in all mature industrial economies, the expansion of the service sector has surpassed that of industry, which has been reduced to the second largest sector. In 1999, industry's contribution to GDP was about 35 percent, a decrease from the 1970s when it was more than 40 percent. In 1999, industry employed about 30 percent of the **labor force** (20.34 million workers), a decrease from 1995 when it accounted for 31.7 percent (21.2 million).

MANUFACTURING. Japan has a highly advanced and diversified manufacturing branch that has been the heart of the Japanese economy in the postwar era. It helped the Japanese rebuild their shattered industrial sector after the end of World War II while enabling them to emerge as a global exporter of a variety of products. It is the reason for the high-value of exports from Japan ($450 billion in 2000). Manufacturing is the most important reason for its constant trade surpluses ($95 billion in 2000), despite the poor performance of the Japanese economy since the early 1990s. Its share of GDP increased from 24.5 percent in 1995 to 25 percent in 1999, registering a limited growth. Its share of workforce dropped from 14.6 percent to 13.4 percent in the same period.

The high cost of labor and the high value of the yen encouraged the relocation of manufacturing to other countries, especially in Southeast Asia and the Pacific region, since the 1980s. This trend has continued through 2001. Japan's direct investment abroad increased from $40.8 billion in 1998 to $66.7 billion in 1999.

Manufacturing consists of light industry (textiles and processed foods), heavy industry (chemicals, automobiles, shipbuilding, machine tools, steel, and non-ferrous metals) and high-tech industry (electronics, telecommunications, and computers). Japan is one of the world's largest and most technologically advanced producers of a wide range of light and consumer products such as semiconductors and electronic devices, as well as cars, ships, and steel. Manufacturing includes small, medium, and large enterprises, of which the first 2 groups account for the overwhelming majority, 99 percent in 1997.

The 3 largest contributors to exports are industries involved in high-tech transport equipment and non-electrical machinery. In 1999, the value of high-tech exports, including computer devices and semiconductors, was $101.5 billion, a decline from the 1995 figure of $113.5 billion but a significant increase from 1998, when it was $89.7 billion. The transport-equipment industry had 1999 exports valued at $94.8 billion, a substantial increase from the 1995 figure of $89.7 billion. Exports of motor vehicles were the largest segment of this industry, totaling $54.7 billion in 1999, an increase from 1995 and 1998 levels, when they totaled $53.1 billion and $50 billion, respectively. In 1999, the non-electrical machinery industry exported $89.1 billion in various products, such as office machinery, a decline from its 1995 exports of $106.5 billion.

A major weakness of the Japanese manufacturing sector is its heavy dependency on imported raw materials and fuel. For example, its iron and steel industry needs to import almost all of its iron ore requirements, which totaled 119.2 million tons in 1996.

CONSTRUCTION. The construction industry accounted for about 9 percent of Japan's GDP in 1999, against a 10.8 percent share in 1995. It employed 9.7 percent of the Japanese workforce (6.57 million workers) in 1999, a small decrease from 1995, when its share was 9.8 percent (6.6 million).

The deflationary policies of the Japanese government since the 1990s had a negative impact on the construction industry, as demonstrated in a 1.8 percent loss in GDP between 1995 and 1999. Construction projects declined along with the economy. These economic policies accelerated the process of relocation of many manufacturing units abroad, resulting in a decline in large construction projects at home. The Japanese government has tried to assist this industry by implementing large infrastructural projects. In 1999, the total value of construction projects was $136.3 billion, a sharp decline from its 1995 level of $206.8 billion.

Many new, major projects after 2000 will help the industry survive until the economy begins to grow again. There is a $400-billion project by the Kansai local government to build complexes for commercial, industrial, and research facilities. There are also 2 multibillion dollar airport projects: one to construct a second runway at

Kansai International Airport, and another to build a new airport in Ise Bay; as well as road projects such as the $32-billion Tomei-Meishin Expressway, connecting Tokyo and Kobe via Nagoya.

MINING. Japan's lack of adequate minerals and fossil energy (oil, gas, and coal) forces it to rely extensively on imports. For example, domestic production of copper ore, lead ore, zinc ore, and iron ore met only 0.1 percent, 4.8 percent, 2.2 percent, and almost 0 percent of annual needs in 1999, respectively. This greatly handicaps the Japanese economy, since this situation makes it highly sensitive to any interruption of imported supplies. The mining industry makes a very insignificant contribution to Japan's GDP, 0.2 percent in the period 1995 to 1999, with about the same contribution to the workforce.

Japan's small mining industry is in decline because of the depletion of the country's small mineral and fossil energy resources. The production of copper ore dropped from 6,043,000 tons in 1994 to 1,070,000 tons in 1998. Likewise, lead-ore production fell from 9,946,000 tons in 1994 to 6,198,000 tons in 1998, and coal production declined from 6,932,000 tons in 1994 to 3,663,000 tons in 1998. Iron-ore output dropped from 3,000 tons in 1994 to 2,000 tons in 1998, and zinc from 101,000 to 68,000 tons during the same period.

Japan has no significant energy reserves other than a small deposit of coal equal to 865 million tons. Most of its major deposits were consumed in the 1960s during the period of rapid economic growth, at which time the annual production was about 61 million tons. The existing deposits are not economically viable because of high labor costs and strict environmental regulations. In 2000, there were only 2 operating mines with a total annual production of 3 million tons. These mines operated with government **subsidies**, and the Japanese government will end these subsidies in 2003. This will make their continued operation unprofitable, since domestic coal is priced 3 times higher than imported coal. Domestic production accounted for only 2.8 percent of supplies in 1998 and 1999, a drastic decrease from 1960, when it accounted for 86 percent. In 1999, coal imports totaled 109,263,000 tons, while domestic production totaled 3,286,999 tons. This marked a decline from 1995 levels of 128,978,000 tons and 6,263,000 tons, respectively.

Consuming 5.5 million barrels of oil per day in 1999, Japan is the world's second largest oil consumer after the United States, but has practically no oil reserves, as its proven stock is equal to only 59 million barrels. This consumption will likely increase significantly when the Japanese economy begins to grow again. Japan's oil consumption has declined since 1996 because of poor economic performance. In 1999, Japan imported over 228,927,000 tons of crude oil, while producing only 604,000 tons, a decline from 1996 when their respective shares were 266,921,000 tons and 861,000 tons.

Japan's natural gas reserves are about 1.4 trillion cubic feet. Its domestic production is limited, which makes it rely on large imports of liquefied natural gas (LNG), mostly from Indonesia and Malaysia. In 1999, such imports equaled about 97 percent of its needs and reflected a 200-percent increase from 1991 levels, while domestic production remained almost the same.

SERVICES

The service sector (financial, retail, tourism, and transportation) has been growing since the 1970s and now forms Japan's largest economic sector. In 1999, services accounted for 63 percent of GDP and 65 percent of the workforce (44.07 million workers). Both figures indicate a significant growth from 1995, when they accounted for 54 percent and 63.2 percent, respectively.

FINANCIAL SERVICES: BANKS. Japan has one of the world's largest financial sectors, a necessity for its large economy. Among the most important are banks, securities companies, the postal savings system, and insurance companies. Financial services contributed 18.9 percent of GDP in 1999, an increase from its share of 17.9 percent in 1995. The entire financial system is highly regulated, making financial activities more difficult in Japan than in other mature industrial economies. The system is controlled and regulated by the Ministry of Treasury (formerly known as the Ministry of Finance), the Bank of Japan, which is the central bank, the Financial Supervisory Agency (FSA), and the Financial Reconstruction Commission (FRC). The Japanese financial system includes other institutions such as venture-capital firms, financial leasing, and asset-management firms.

Despite the deregulating reforms of the Japanese government since the 1990s, the financial system is still extensively regulated. Of these, the "Big Bang" reform has been the most comprehensive one. Launched in 1996, it was aimed at liberalizing the financial system to address the demand of domestic institutions for the removal of various government restrictions and also to open the financial sector to foreign competition. A new governmental entity, the Financial Supervisory Agency, was created to oversee the reforms. A major beneficiary has been foreign financial institutions, which are now faced with less restrictive regulations, and can extend their operations in areas previously closed to them, such as the mutual-fund business. They can also engage in alliances with Japanese firms or take them over. In 2000, for instance, Ripplewood Holdings, an American firm, took over the Long-Term Credit Bank of Japan.

Based on 1999 statistics, the Japanese banking system consists of 9 city banks, 1 long-term credit bank, 7 trust banks, 121 regional banks, 396 credit associations, and 322 credit cooperatives, with total assets valued at $6.74 trillion. City banks are large financial institutions that provide nationwide services while having extensive operations abroad. The largest of these have their headquarters in major cities such as Tokyo, Osaka, and Nagoya, where their principal activity is in serving large corporations, though they are gradually undertaking other types of activities including serving small corporations. Smaller regional banks, with total assets of $1.7 trillion in 2001, operate mainly in a particular region and provide services to small and medium-size companies. Credit banks, with 2000 assets valued at $570 billion, supply long-term industrial capital to large and small firms. Except for the Industrial Bank of Japan, all credit banks collapsed in the late 1990s. Credit associations, with estimated assets of $900 billion in 2000, function like credit unions in that they receive deposits from the general public and lend only to their members. Credit cooperatives, which provide financing to small- and medium-size businesses in urban areas, had assets of $172 billion in 2000. Like the credit associations, they receive deposits from, and lend to, their members only.

The Japanese banking system also includes public banks, such as the Development Bank of Japan (DBJ), the Japan Bank for International Cooperation (JBIC), and the National Life Finance Corporation (NLFC). Their mandate is to supplement the activities of commercial banks. The JBIC is mainly involved in international financial operations such as export/import and overseas investment loans. The DBJ provides Japanese and foreign companies operating in Japan with services such as long-term financing. The NLFC provides financial assistance to small businesses such as retailers, restaurants, and small construction companies.

There are also 89 foreign banks in Japan, of which 14 are American, 30 Asian, and 35 European. Owing to the financial reforms of the late 1990s, these banks can be involved in all types of banking operations, such as retail and investment banking and international business. They are also permitted to have branches and provide services to large corporations. As a matter of practice, they provide services mostly to foreign firms and **joint ventures**, while offering banking services to individuals.

OTHER FINANCIAL SERVICES. Securities companies, which are active in investment services, have the combined role of underwriters, dealers, and brokers. In 2000, there were 291 securities companies, of which the 3 largest—Nomura Securities, Daiwa Securities, and Nikko Securities—controlled most of the industry. Some 59 are foreign companies, such as 2 American giants, Merrill Lynch and Salomon Smith Barney.

With assets valued at $2.27 trillion in 1999, the Japanese postal savings system is the world's largest. It consists of about 24,000 post office branches that accept savings deposits and offer insurance activities and annuities. The system provides an inexpensive source of funds for government projects.

As part of Japan's financial system, the insurance industry has reformed many of its restricted activities since the late 1990s, such as non-life premiums. The industry consists of 46 life and 34 non-life insurance companies with total assets of $1.9 trillion, making it the world's largest insurance industry. Foreign insurance companies are small (44 life and non-life companies), but they are growing. Joint ventures between foreign and domestic firms are also increasing.

RETAIL. The Japanese retail industry is very large, consisting of a wide range of retailers capable of distributing goods and services throughout the country. In 1999, its share of GDP was 14.4 percent, an increase from its 12.7 percent share in 1995. The industry includes restaurants of various sizes, which also includes franchised restaurants of Japanese and foreign origin. Most retail stores are small (less than 500 square meters), although there are large supermarkets and department stores. High land prices and various regulations restrict the number of large stores, while regulatory laws seeking to protect small businesses from competition create a major barrier to the expansion of large stores. Regulations such as those limiting store space and business hours have contributed to high retail prices, though these have recently been relaxed to some extent. Laws also discourage the establishment of discount retailers and shopping malls.

The distribution system in Japan is complex, tightly controlled, and labor-intensive, making the sector difficult for foreign retailers to enter. As a rule, imported products are usually sold at large stores, department stores, and discount stores, while about half of all consumer purchases are made at small neighborhood stores with fewer than 5 employees.

TOURISM. Japan has a very large and well-developed tourist industry, which generated $4.3 billion in 1997. It provides an insignificant contribution to GDP, equal to 0.1 percent in 1997, no change from its share in 1993. The country's mild temperatures and long coastlines, together with its numerous historical sites, make the country an attractive destination. Foreign tourists mostly visit Tokyo and Kyoto on the main island of Honshu, while domestic tourists are also attracted to the northern island of Hokkaido and the southern islands of Okinawa, Miyako, and Ishigaki. Still, only 4.2 million tourists visited Japan in 1997, a significant increase of 24 percent from 1993, but still far below other Asia-Pacific tourist destinations, such as the 9 million who visited Hong

Kong in 1997, bringing $9 billion in revenues. This is mainly due to the high cost of living in Japan, one of the highest among the industrialized economies, and to its remote location. Events such as the 2002 soccer World Cup, which will be co-hosted by Japan and South Korea, will uplift the Japanese tourist industry. If successful, Japan's efforts to host the 2008 Olympics in Osaka will be a major boost for its tourist industry. In anticipation of an increase in tourism, many hotel projects are underway all over the country, including a 780-room Marriott hotel in Nagoya.

INTERNATIONAL TRADE

Japan has amassed large trade surpluses since the early 1980s because of 2 factors. Its diversified manufacturing sector has produced high-quality products such as electronics and cars, which are much in demand in many international markets. Also, the post-war Japanese economy was largely closed to foreign competition through restrictive regulations and high tariffs aimed at protecting domestic industries. Under heavy pressure of its trading partners and competitors such as the United States, Japan began to open its economy to foreign competition late in the 1980s. That resulted in a higher rate of imports, which lowered trade surpluses until early in the 1990s. The economic decline following the bubble economy era significantly reduced demands for imports, resulting in the return of large trade surpluses in the 1990s, which reached $144.2 billion in 1994 before falling to $131.8 billion in 1995 and $83.6 billion in 1996. By 1998, with the economic slowdown, the trade surplus had risen to $122.4 billion, but it declined again to $95 billion in 2000.

The return of large trade surpluses in the 1990s has restarted trade disputes between Japan and its main trading partners, including the United States and the European Union (EU). Two major trading partners of Japan—the United States and the EU—have negotiated with Japan since the 1980s to remove barriers preventing their extensive access to the Japanese market. These negotiations have resulted in relaxed regulations on the imports of foreign consumer goods, like foodstuffs, by Japan, but they have failed to remove barriers in many other areas. Nevertheless, the Japanese government's economic deregulation policy has made the Japanese market more open to foreign imports, especially in the field of consumer goods.

Trade (expressed in billions of US$): Japan

	Exports	Imports
1975	55.819	57.860
1980	130.441	141.296
1985	177.164	130.488
1990	287.581	235.368
1995	443.116	335.882
1998	387.927	280.484

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

In 2000, the values of Japan's exports and imports were $450 billion and $355 billion, respectively. This registered a significant increase in both exports and imports from 1998, when their respective values were $374 billion and $251 billion.

Major exports of Japan include electrical equipment and machinery, electronics, telecommunication and computer devices and parts, transport equipment and motor vehicles, non-electrical machinery, chemicals, and metals. Its imports are mainly machinery and equipment, raw materials, including minerals and fuel (oil, liquefied natural gas, and coal), agricultural products, and fishery products.

Japan's major trading partners are the Asian Pacific countries, the United States, the EU, and the Persian Gulf countries. The United States is Japan's largest single trading partner. In 1999, it accounted for 30.7 percent of Japan's exports, an increase from its share of 27.3 percent in 1995, and 21.7 percent of its imports, a decrease from its 1995 share of 22.4 percent. As a group of countries, the Asian Pacific countries (South Korea, Taiwan, Hong Kong, China, Singapore, Thailand, and Malaysia) form the largest collective trading partner of Japan. In 1999, they accounted for 37.2 percent of its exports, a decrease from their 1995 share of 43.2 percent, and 39.6 percent of its imports, an increase from their 1995 share of 36 percent. The Asian financial crisis of the 1990s resulted in a decline in Japan's exports to these countries. The slowdown in the Japanese economy was the main factor in lowering the share of imports from the United States and the EU. The EU (especially Germany and the United Kingdom) is Japan's third largest trading partner, accounting for a 17.8 percent share of Japan's exports and 13.8 percent of its imports in 1999, compared to its 1995 shares of 15.9 percent and 14.5 percent, respectively. As the main oil suppliers to Japan, the United Arab Emirates and Saudi Arabia accounted for 5.5 percent of Japan's imports in 1999, a small decrease from their share of 5.9 percent in 1995. Japan's economic slowdown of the 1990s reduced its fuel requirements and therefore lowered its imports.

MONEY

Japan has a free-**floating exchange rate** system against foreign currencies (one in which the exchange market determines **exchange rates**). The rates fluctuate with the Japanese economy and those of its major trading partners, though the Bank of Japan intervenes in the

Exchange rates: Japan

yen per US$1	
Jan 2001	117.10
2000	107.77
1999	113.91
1998	130.91
1997	120.99
1996	108.78

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Japan	23,296	27,672	31,588	38,713	42,081
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
South Korea	2,894	3,766	5,190	7,967	11,123

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

market to ensure that fluctuations do not damage the Japanese economy. Tokyo is the Japanese main foreign-exchange market where about 99 percent of all foreign-exchange transactions are conducted.

Japan has not experienced sharp and sudden fluctuations in its exchange rates since the late 1970s, even with the economic decline of the early 1990s. The rate of exchange of the yen against the U.S. dollar was ¥94.06:$1 in 1995; it rose to ¥130.91 in 1998, and then began to decrease, to ¥113.91 in 1999 and to ¥108 in 2000. As a result of the foreign-exchange liberalization program, which began in the 1980s, and the deregulatory reforms in the 1990s, various restrictions on foreign-exchange transactions have been removed. The 1998 Foreign Exchange and Foreign Trade Law eliminated almost all remaining government restrictions and controls over foreign-exchange transactions. Consequently, companies are now allowed to trade foreign currencies and individuals can open bank accounts in foreign countries without requiring government authorization.

Japan has a stock market of global significance. The **market capitalization** of the Tokyo Stock Exchange, the largest in Asia, was $4 trillion in 1999, an increase from the 1995 level of $3.2 trillion.

POVERTY AND WEALTH

Since the end of World War II, Japan has developed a highly efficient infrastructure capable of meeting the essential needs of its population in various services. This capability ensures the availability of safe water, sanitation, and health services to all citizens in urban and rural areas alike.

Japan spends a significant amount of its GDP on a modern and efficient health-care service. Spending equaled 7.3 percent of GDP in 1997, about half the level in the United States. The health insurance system introduced in 1961 ensures the availability of health-care services to everyone. Coverage is provided by 2 major insurers: the national health insurance scheme (NHIS) and the employee health insurance scheme (EHIS). Since all Japanese must take part in a public or a semi-public heath insurance plan, there are few private insurance plans. Depending on the case, the insurance programs cover 70 to 80 percent of the cost services, while the insured covers the rest. The health-care system has contributed to Japan's achievement of the world's highest life expectancy, which was 80 years in 1998.

Japan also has one of the world's highest literacy rates, 99 percent. The Japanese government provides free public schooling for 6 years of primary school and 3 years of junior-high school. In 2000, about 95.9 percent of eligible students attended 3-year senior-high schools, a huge increase from 1960 when only 57.7 percent of the students did so. In 1999, almost 90 percent of the Japanese population completed high school. The quality of the schooling up to grade 12 is very high. The schooling system has been given credit for training an educated and highly disciplined workforce. In 1998, about 45 percent of the population between the ages of 18 and 22 participated in post-secondary education.

Japan is an affluent society where extreme poverty does not exist, although extreme wealth does. High wages and salaries guarantee high living standards, reflected in the high percentage of ownership of electronic devices and home appliances, for instance. In 1999, a color TV, washing machine, vacuum cleaner, and re-

Distribution of Income or Consumption by Percentage Share: Japan

Lowest 10%	4.8
Lowest 20%	10.6
Second 20%	14.2
Third 20%	17.6
Fourth 20%	22.0
Highest 20%	35.7
Highest 10%	21.7

Survey year: 1993

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Japan	12	7	7	2	22	13	37
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
South Korea	18	3	7	5	14	6	48

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

frigerator were found in 98 percent of Japan's households. The standard of living has fallen somewhat due to rising unemployment and reductions in wages, salaries, and bonuses in the 1990s. Heavy government spending on Japan's social safety net, including its unemployment and welfare benefits, prevents extreme poverty. Such spending accounted for $141 billion in 1999, equal to 8.4 percent of GDP.

WORKING CONDITIONS

The Japanese workforce is well-educated and mostly skilled, thanks to the Japanese educational system. It grew from 66.7 million workers in 1995 to 67.8 million in 1999, of whom about 95 percent worked in urban enterprises. The rural workforce involved in farming, fishing, and forestry forms only 5 percent of the total workforce, or about 3.39 million workers. In 1999, 4.7 percent of the workforce (3.18 million workers) was unemployed, a significant increase from its 1995 rate of 3.2 percent (2.13 million).

Japan is a signatory to the International Labor Organization's conventions on workers' rights and freedoms. The Japanese Constitution also guarantees the right to form and join trade unions. Its labor laws recognize the right to organize and bargain collectively. With the exception of the military, police officers, and firefighters, all employees have the right to join unions, to bargain collectively, and to strike. Public employees may join unions, but do not have the right to strike, and their collective bargaining rights are also limited. The government determines their pay according to the recommendations of an independent body called the National Personnel Authority.

There are many unions in Japan, which operate freely. The largest is the Japanese Trade Union Confederation (JTUC), formed when several trade unions merged in 1989. In 2000, it had a membership of about 7.6 million. In 2000, about 22 percent of the workforce (12 million workers) were union members.

Japanese labor law provides for a 40-hour workweek, but the law is not usually enforced in small enterprises. It also prohibits forced or compulsory labor as well as child labor. Children under the age of 15 may not work; children over the age of 15 may be employed for non-hazardous jobs only.

Based on the recommendation of tripartite advisory councils (formed by workers, employers, and public authorities), minimum wages are set that vary from region to region and from industry to industry. On average, minimum wages range between $46 and $53 per day, which are adequate for a decent living standard for a worker and family. Generally speaking, employers usually consult with their respective unions on wage-related issues.

The labor law forbids discrimination in the workforce, though it exists in practice. The Burakumin, who are ethnically Japanese but are the offspring of the so-called outcasts of the feudal era, experience both social and employment discrimination. The labor law provides for equal pay for equal work and the right of women to work. Still, women receive less compensation than men in the same age and work groups. They are also poorly represented in managerial positions, accounting for about 9.2 percent of such jobs in 2000. Also, they form a very small portion of local government positions. Unemployment is disproportionately higher among women and foreign workers, especially undocumented ones coming from the Asian Pacific countries like China, South Korea, and Thailand, who are usually denied their labor rights and are subject to abuses. Work-related safety and health regulations are enforced by government inspectors.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

300 B.C. Jomon, an ancient hunting and fishing culture, begins to be displaced by Yayoi migration. Rice cultivation begins.

300 A.D. The Yamato state consolidates its power.

592. Prince Shotoku encourages the adoption of Chinese political and religious practices.

1543. First Europeans visit Japan in the form of Portuguese traders and Jesuit missionaries.

1573–1603. The Momoyama period begins as Oda Nobunaga assumes power.

1603–1867. The Edo period begins as Ieyasu establishes the Tokugawa shogunate, which closes Japan to foreign contact and expels European traders and missionaries. Rise of the merchant class in Osaka and Edo (Tokyo).

1853. Arrival of U.S. Commodore Matthew Perry in Japan leads to "opening" of Japan to the West after 2 centuries of relative isolation.

1868–1912. The Meiji period begins, initiating a period of Westernization. The power of the shoguns is curbed and the emperor is restored as a constitutional monarch.

1894–1895. Japan and China engage in Sino-Japanese War; Japan wins many decisive military victories.

1904–1905. Japan and Russia engage in Russo-Japanese War; Japan wins many decisive military victories.

1910. Japan annexes Korea and retains it as a colony until the end of World War II in 1945.

1912–1926. The Taisho period begins with accession of Emperor Yoshihito.

1923. The Great Kanto Earthquake levels much of Tokyo.

1926–1989. The Showa period begins with accession of Emperor Hirohito.

1931–1932. Japan invades Manchuria and annexes it to its empire as Manchukuo.

1937. Japan and China go to war.

1938. Military leaders in Japan call for "new order" in Asia, which leads to the Pacific War.

1941–1945. During World War II, Japan engages U.S., British, and other Allied troops in the Pacific, Philippines, and throughout Southeast Asia. The war ends with the American atomic bombings of Hiroshima and Nagasaki, forcing Japan's surrender. U.S. occupation continues through 1951.

1947. Japan adopts a postwar Constitution largely drafted by U.S. legal experts during the occupation period.

LATE 1940s. Japan begins the reconstruction of its industry and infrastructure, which were devastated during World War II.

1952. Japan regains full sovereignty upon signing a peace treaty with the United States and 45 other Allied nations.

1955. The Liberal Democratic Party (LDP) is formed by the merger of Japan's 2 main conservative parties, the Democratic Party and the Liberal Party.

1960s. Japan becomes a major global producer of electronics.

1973. The first oil crisis damages the Japanese economy and reduces GDP growth.

1979. The second oil crisis has a less drastic impact on Japan's economy than the first, in 1973.

1985. The yen appreciates against foreign currencies, increasing the cost of Japanese exports, and leading to the relocations of some manufacturing activities abroad.

1980s. Japan emerges as the world's second largest economy, and this era sees the beginning of the "bubble economy." Under foreign pressure, the Japanese government begins its economic liberalization program.

1989. Death of Showa Emperor (Hirohito). The Heisei period begins with the accession of Emperor Akihito.

1990s. The bubble economy ends with the intervention of the Japanese government, whose deflationary policy contributes to a period of economic decline and rising unemployment which lasts throughout the decade.

1995. In January, an earthquake kills more than 5,000 people in the Kobe area; in March, the Aum Shinrikyo cult attacks Tokyo's subway system with nerve gas.

1996. Prime Minister Murayama resigns and is succeeded by Ryutaro Hashimoto. Japan's economy experiences a significant growth rate (5.1 percent) after years of sluggish growth.

1998. Prime Minister Hashimoto resigns and is succeeded by Keizo Obuchi. The Financial Supervisory Agency is established.

2000. Prime Minister Obuchi suffers a fatal stroke and is succeeded by Yoshiro Mori.

2001. Prime Minister Mori resigns and is succeeded by Junichiro Koizumi.

FUTURE TRENDS

At the beginning of the 21st century, Japan has a very technologically advanced and mature industrialized economy. Even after a long period of sluggish and neg-

ative growth in the 1990s, its economy is still the world's second largest and most technologically advanced one. While the prospect for long-term growth is assured, certain internal and external factors will impede or slow down its growth in the short run.

The external factors include the poor economic performance of the major trading partners of Japan. After about a decade of healthy growth, the American economy is entering a period of low growth and quite possibly decline and **recession**. With the exception of Taiwan, all other Asian Pacific countries are still suffering from the devastating blow of the 1997 financial crisis. Some of them, such as South Korea, are showing recovery, but their heavy **foreign debt** could easily prevent their full recovery and growth. As the major trading partners of Japan, the poor economic performance of these countries will damage the Japanese recovery and prolong its economic stagnation. External barriers also include the toughening competition among and between Japan, the United States, and the Asian Pacific countries over world markets, especially for motor vehicles and high-tech products like personal computers and semiconductors. More intensive competition will reduce Japan's share of these markets and negatively affect its economic recovery.

Internally, Japan will be faced with continued pressure to liberalize its economy and make it open to foreign competition. Economic liberalization carried out under the deregulation reforms has encouraged foreign investment in Japan, which is a positive stimulus to the economy in the short run. However, in the long run, extensive foreign competition will likely lead to downsizing, bankruptcies, and takeovers. The Japanese government has restricted much deregulation in the manufacturing sector, but it is not clear how long it can resist foreign pressure to do so, mainly from the United States and the European Union. Japan faces a dilemma here: its refusal to comply with their demands could lead to restrictions on Japanese exports to other markets, while its full compliance could damage its manufacturing industry.

Japan's aging population is another major long-term factor. Any future economic recovery will encourage spending by the Japanese, which will further contribute to the recovery, but an aging population has a lower demand for goods and services than a young one and tends to spend less and more cautiously even when the economy is booming. The gradual shrinkage of the domestic market will hamper Japan's economic growth in the short run, and could create major problems in the long run as Japanese enterprises face tough competition in foreign markets while suffering a decline in domestic demand. With an aging population, Japan will face a reduction in tax revenues and an increase in spending for health care and other components of the social safety net.

If the post-war history of Japan is of any indication, the Liberal Democratic Party will remain a leading political party in the foreseeable future. Though a reduction in its popularity has denied it a majority of parliamentary seats necessary for its forming governments on its own, it has proven quite capable of forging coalition governments and will likely remain a determining factor in future elections.

DEPENDENCIES

Japan has no territories or colonies.

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—Hooman Peimani

JORDAN

The Hashemite Kingdom of Jordan
Al-Mamlaka al-Urdunniyya al-Hashimiyya

CAPITAL: Amman.

MONETARY UNIT: Jordanian Dinar (JD). One dinar equals 1000 fils. There are coins of 1, 5, 10, 20, 25, 50, 100, and 250 fils. There are notes of 1, 5, 10, and 20 dinars.

CHIEF EXPORTS: Phosphates, fertilizers, potash, agricultural products, manufactures.

CHIEF IMPORTS: Crude oil, machinery, transport equipment, food, live animals, manufactured goods.

GROSS DOMESTIC PRODUCT: US$17.3 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$2 billion (f.o.b., 2000 est.). **Imports:** US$4 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

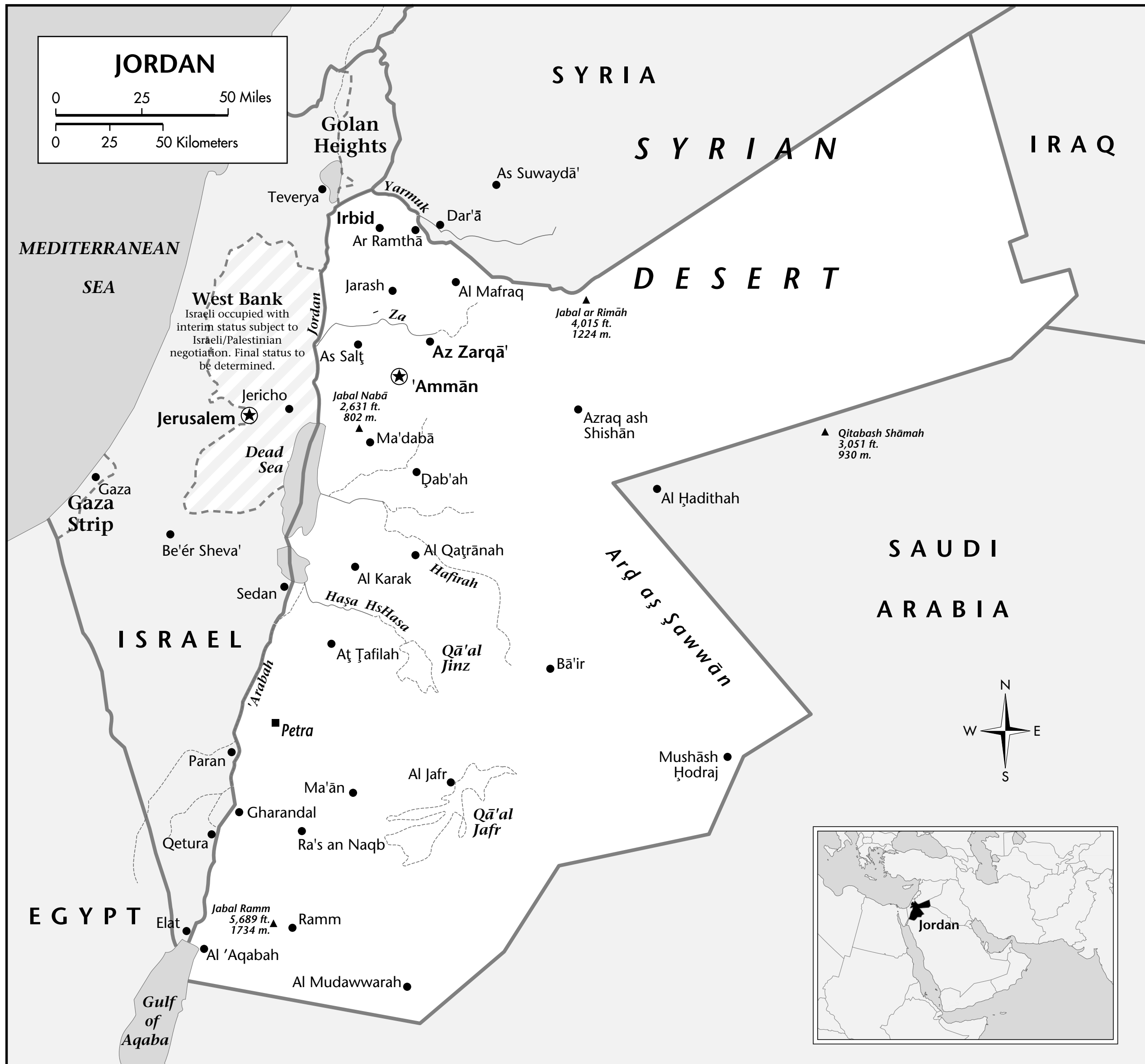
LOCATION AND SIZE. Jordan, a Middle Eastern kingdom, is sandwiched between Saudi Arabia in the south and east, Syria and Iraq in the north, and Israel (including the West Bank of the Jordan River) in the west. The country has an area of 89,213 square kilometers (34,445 square miles) and a coastline of only 26 kilometers (16 miles) along the Gulf of Aqaba in the south. Jordan shares its longest border with Saudi Arabia, some 728 kilometers (452 miles). Amman, Jordan's capital, is located in the northwest of the country. Jordan occupies an area slightly smaller than Indiana.

POPULATION. In July 2000 the population of Jordan was estimated to be 4,998,564, increasing on average by 3.1 percent a year. The country has a very young population, of which 41 percent are under the age of 20. Only 3 percent of Jordanians are over the age of 65. In 2000 the birth rate stood at 26.24 births per 1,000 while the death rate stood at 2.63 per 1,000. With a projected annual population growth rate of 3 percent, the population is expected to reach approximately 7.5 million by the year 2015.

The Jordanian population is almost entirely Arab except for pockets of people from Armenia, Chechnya, and a very small community of Circassians (the oldest indigenous people of North Caucasus). Although there are no accurate figures to date, it is estimated that up to 75 percent of the Jordanian population is Palestinian. The Palestinian people have been flooding into Jordan since the creation of the state of Israel in 1948, when they were either forced to leave their homes or subjected to such economic, cultural, and political hardship that they felt compelled to leave. There are existing tensions between the Jordanians who inhabited the country before 1948 and the refugees and immigrants who have since settled. The former group are known as the "East Bankers" and the latter group known as "West Bankers." Despite these tensions, the 2 communities are deeply inter-linked socially and economically. Many Palestinians living in Jordan refer to themselves as Jordanians, and it is hard to generalize about the loyalty and identity of the Palestinian population. In addition, there are 1 million foreign workers in the kingdom mainly from Egypt, Syria, and Iraq who perform menial, physical, and in some cases managerial jobs.

OVERVIEW OF ECONOMY

Jordan is a small Arab country with inadequate supplies of water and other natural resources such as oil and coal. Until the 1950s the economy was underwritten mostly by Britain, and in 1967 foreign aid still represented 60 percent of government revenues. The most important event for the Jordanian economy since the end of the World War II was the quadrupling of world oil prices in October 1973. Although Jordan possessed virtually no oil itself, it became inextricably linked to the other economies in the region. Between 1973 and 1981 the Arab budget (the sum of all Arab governments' budgets) rose more than 16-fold, from US$71.8 million to US$1.179 billion, and during the same period Jordanian exports rose almost 13-fold from US$57.6 million to US$734.9 million. In addition, Jordan



sent hoards of doctors, scientists, engineers, construction workers, and teachers to the Persian Gulf who sent home **remittances** of more than $US1 billion between 1973 and 1981. Even after deducting the dinars flowing out of the country from the 125,000 foreigners working in unskilled jobs, the net remittances rose from US$15 million in 1970 to US$900 million in 1981. During this oil boom, Jordan's annual **real GDP** growth averaged 10 percent.

This rapid economic growth combined with the increase in oil prices also caused prices and import bills to rise. Then when world oil prices crashed in the early 1980s, reductions in both Arab aid and worker remittances slowed real economic growth to an average of roughly 2 percent per year. Imports—mainly oil, **capital goods**, consumer durables, and food—outstripped exports with the difference mostly covered by aid and borrowing. The Jordanian government was immediately forced to downsize the **public sector**, stop construction projects, and cut **subsidies**.

In mid-1989 the Jordanian government embarked upon debt rescheduling negotiations and agreed to accept an International Monetary Fund (IMF) **structural adjustment program**, a lending program designed to correct an economies problems. Such programs usually involve devaluing the currency, reducing government spending, lowering the **budget deficit**, and implementing broad structural reforms. The Gulf War crisis, begun in August 1990, however, aggravated Jordan's already serious economic problems, forcing the government to shelve the IMF program, stop most debt payments, and suspend rescheduling negotiations. Aid from Gulf Arab states, worker remittances, and trade all contracted while refugees flooded into the country, producing serious **balance of payments** prob-

lems. (Jordan had to increase its imports, which pushed the trade imbalance further into deficit.) This action stunted GDP growth and strained government resources. The economy rebounded in 1992, largely due to the influx of capital **repatriated** by workers returning from the Gulf, but the recovery was uneven throughout 1994 and 1995. The government is currently implementing the reform program adopted in 1992 and continues to secure rescheduling and write-offs of its heavy **foreign debt**, which amounted to US$8.4 billion in 2000. A new IMF package was approved in April 1999 that entitles Jordan to funds worth US$174 million over 3 years. The U.S. Agency for International Development (USAID) agreed to an economic assistance program for Jordan in 1999 that amounted to $150 million. However, debt, poverty, and unemployment (which stood officially at 15.5 percent in 1999) remain Jordan's biggest on-going problems.

POLITICS, GOVERNMENT, AND TAXATION

Transjordan was created in 1921 by the British, who brought over Hashemite Prince Adbullah from Saudi Arabia to be head of state. The Hashemite clan claims to descend from the Muslim prophet Mohammed and have enjoyed very close ties to the West since the creation of the country. Transjordan achieved independence from Britain in 1946 and was renamed The Hashemite Kingdom of Jordan. Jordan is a constitutional monarchy based on the constitution promulgated in 1952. The king and his cabinet ministers hold the executive authority, and the king signs and executes all laws, however, his veto power may be overridden by a two-thirds vote of both houses of the National Assembly. He appoints and may dismiss all judges by royal decree, approves amendments to the constitution, can declare war, and holds the title of commander-in-chief of the armed forces. Cabinet decisions, court judgments, and the national currency are also all issued in his name. The cabinet is led by a prime minister who is appointed by the king. Legislative power rests in the **bicameral** (2-chamber) Majlis al-Umma (National Assembly). The 80-member Majlis al-Nuwaab (Assembly of Deputies or House of Representatives) is subject to dissolution by the king and of the 80 seats, 71 must go to Muslims and 9 to Christians. The 40 members of the Senate are appointed by the monarch for 4-year terms.

From 1953 until 1999 all this authority resided in Jordan's beloved King Hussein, who was one of the most famous and internationally respected Middle Eastern heads of state. King Hussein was instrumental in designing the framework for the "Peace Process" (the aim of which was to settle the historical conflict between the Palestinians and the Israeli government). His indefatigable commitment to a just and lasting peace accorded him the honor of being a guest speaker at the funeral of assassinated Israeli Prime Minister Yitzhak Rabin (prime minister of Israel [1974–77, 1992–95]). A strong proponent of democratization, King Hussein brought an end to martial law in 1991 and legalized political parties in 1992. He survived many assassination attempts, relying on the loyalty of his military. After King Hussein died of cancer, his son Abdullah II was crowned king on 9 June 1999. King Abdullah, along with Bashar Assad of Syria, belongs to a new generation of Arab leaders who have been educated in the West and whose priorities lie in the realm of economic **liberalization**, political accountability, societal justice, greater equality, and international status. Jordan's new politically accountable setting combined with its economic liberalization and its fast-growing population have led to the appearance of several political parties including the **Communist** Party and the Muslim Brotherhood. (The latter is a Sunni Islamic movement founded in Egypt in 1928 and active throughout the Arab world, although banned in most countries. It aims at the establishment of a Muslim state governed by Islamic law.) Several Arab nationalist parties are also active.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Prior to 1950, Jordan had a very undeveloped **infrastructure** and the remarkable improvements that have

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Jordan	58	287	52	0.1	12	8.6	8.7	1.17	120
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Egypt	40	324	122	N/A	1	0.5	9.1	0.28	200
Israel	290	520	318	184.0	359	24.9	217.2	187.41	800

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

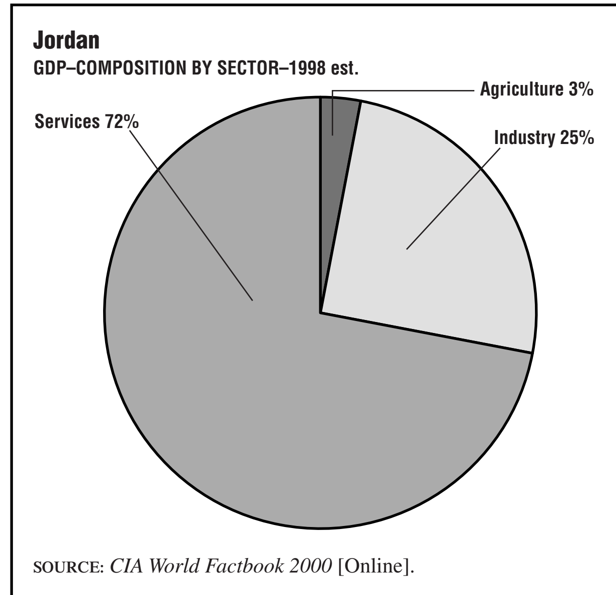
been made over the last 50 years have largely been shaped by the ever-changing politics and geography of the Middle East. Before 1948, Jordan's trade was almost entirely dependent on the port of Haifa, which was in Palestine at the time. However, Haifa was captured by the Israelis in 1948, and Jordan was forced to develop its own port at Aqaba. The peace treaty signed between Jordan and Israel in 1994 made Jordan a main route linking the Middle East to the Mediterranean and, therefore, a major trading hub. There are 2 major roads in Jordan, the north-south Desert Highway from Amman to Al Aqabah and the east-west highway from Al Mafraq to the Iraqi border. Jordan is a very small country that can be driven across in 5 hours, but in spite of its size, the country has a 6,200 kilometer (3,852 mile) road network. In addition, Jordan has a very small rail system that is used only for transporting raw materials to the southern port of Aqaba. There are 3 main airports, Queen Alia International Airport, 30 kilometers (18.6 miles) south of Amman; the old international airport at Marka; and King Abdullah Airport in Amman, used primarily by the Royal Jordanian Air Force.

The telecommunications sector was partially **privatized** in 1995 and currently Jordan enjoys a thoroughly modern communications system. Many people use cellular phones and pagers, and Internet access is widespread. In 1999, roughly 60,000 Jordanians owned mobile phones. In 2000 this number increased to 100,000. Forecasters have predicted that by the end of 2002 there will be 800,000 users. There were 403,000 main telephone lines in use in 1997.

Over 98 percent of the Jordanian population has access to electricity, and the demand for it has been growing at a rate of 10 percent in recent years. In 1999 total electrical energy production was 6.9 million kilowatt hours (kWh), and over 90 percent of this energy is supplied by the state-owned National Electric Power Company. Industry is the largest consumer at 34 percent of total production, and domestic consumption is the second largest consumer at 31 percent. Jordan has entered into a multilateral agreement with Egypt, Syria, Turkey, and Lebanon whereby electricity supplies will be taken from neighboring countries when domestic demand rises above domestic supply.

ECONOMIC SECTORS

The small size of Jordan is mirrored in the relatively small size of its economic sectors. Given that there are few natural resources in the country, the Jordanian economy is heavily dependent on imports from other countries, notably from the European Union. The largest economic sector is manufacturing and the smallest is agriculture. Unfortunately the agricultural sector is vulnerable to changes in climatic conditions, and droughts

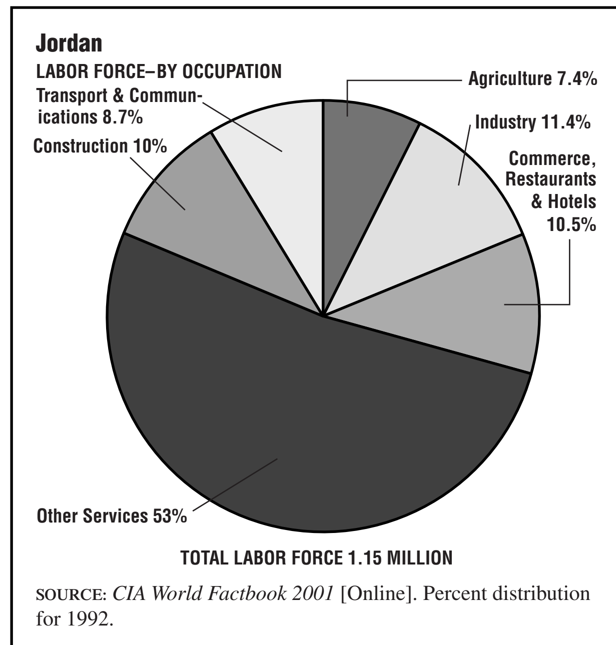


SOURCE: *CIA World Factbook 2000* [Online].

that plagued the country since 1998 seriously undermined the sector's productivity.

AGRICULTURE

In 2000, Jordanian farms accounted for just 500,000 of the country's 8.9 million hectares of land. The agricultural sector employed 7.4 percent of the Jordanian **labor force** in 1998 and contributed 3 percent to the GDP. Jordan experienced 2 serious consecutive droughts in 1998–99 and 1999–2000, which highlighted the agricultural sector's troublesome dependence on rainfall. Three-



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1992.

quarters of the country's cultivable land is rain-fed territory to the north producing wheat, barley, lentils, and chickpeas. The remaining quarter of agricultural land in the Jordan Valley and the highlands is irrigated and produces eggplants, bananas, potatoes, cucumbers, citrus fruits, tomatoes, and onions. In 1999 tomatoes were the main crop with production reaching 293,000 tons, followed by 142,000 tons of melons. Agricultural products are mostly exported to the Gulf countries such as Bahrain, Kuwait, the United Arab Emirates, Saudi Arabia, and Lebanon. Some farmers, however, have tried to sell their produce to European markets. They have been largely unsuccessful because of their poor packaging, inadequate quality control, and the high transportation costs involved.

MEAT AND LIVESTOCK. There is very little land for grazing because 90 percent of the country is classified as desert, but Jordan is usually able to supply its people with 30 percent of domestic demand for red meat and milk, with the remaining 70 percent needing to be imported. However, regular outbreaks of foot and mouth disease (a destructive disease that infects cattle and sheep) associated with very dry climatic conditions have pushed the production of red meat and milk 40 percent below the normal levels. In 1999 only 21,000 tons of red meat was produced, along with 171 tons of milk. In addition to this problem, the structural adjustment program adopted by the government has cut subsidies on water and fodder, which has forced 30 percent of breeders to close.

The drought was so severe in 1998–99 that the cereal harvest met only 1.2 percent of domestic needs instead of the usual 10 percent. The reduction in cereal supply was coupled with soaring demand for wheat, which reached 650,000 tons in 1999–2000 when the country was producing only between 40,000–50,000 tons a year. The agricultural sector's problems have caused the food gap (the difference between the amount of food a country produces and the amount of food it has to import) to widen and the import bill to appreciate. In 1995 Jordan imported US$61 million worth of fruits and nuts, and in 1999 this figure amounted to US$82 million, an increase of US$19 million. This trend has shaken the Ministry of Agriculture into reviving talks with the Sudanese government over the use of their spare land and water. Jordan currently has use of 24,200 hectares of land to the north of Khartoum given by the Sudanese government in thanks for the medical aid provided by Jordan in the 1980s.

INDUSTRY

Jordan's industry can be divided into 2 sub-sectors: mining/quarrying and manufacturing. In 1998 the industrial sector employed approximately 14 percent of the country's labor force and contributed 25 percent to Jordan's GDP. This sector is the much-needed provider of foreign exchange because it accounts for 68 percent of domestic exports.

MINING AND QUARRYING. Phosphates and potash are Jordan's main natural resources, and both of these minerals are used in the production of fertilizers. In 2000 Jordan was the second largest supplier of phosphates in the world after Morocco, producing 7 million tons and announcing proven reserves of 1.5 billion tons. The bulk of the phosphate industry is located in the south of the country near the Saudi Arabian border and is dominated by the Jordan Phosphate Mines Company, which is mostly owned by the government. Mining is certainly one of the strongest **emerging markets** in Jordan, and the government has made significant investments in the sector. The sector's output has been growing steadily with profits increasing from US$27 million in 1997 to US$35 million in 1998. The Jordan Phosphate Mines Company has been very successful in attracting international capital especially through contracts with Indian and Japanese firms.

Jordan has impressive proven shale oil reserves that have been estimated to amount to the equivalent of 29.5 billion barrels of oil. This oil has not been exploited yet because shale oil is difficult and costly to extract. However, in 1999 a Canadian firm, Suncor, entered into talks with the Jordanian government and hopes to produce 17,000 barrels per day (b/d), 67,000 b/d after 2004, and 210,000 b/d after the year 2008. This project would be a great boost for the Jordanian economy because it would make Jordan self-sufficient in energy production. Currently, Jordan imports 100,000 b/d of oil from Iraq.

MANUFACTURING. Jordan has never had a large heavy industry base because it does not have the purchasing power to import the necessary and costly machinery. Second, the regional instability makes it an unattractive place for potential investors. The principal heavy industries, such as cement and fertilizer production, have developed only through heavy government intervention. Most private investment is concentrated in light industry such as **consumer goods**, textiles, food processing, and construction materials. In order to spur growth in the industrial sector, the Jordanian government has set up a series of **free trade zones**. Light industry has largely been driven by the growth of Jordan's pharmaceutical industry, which has been very rapid since 1998. In 2000, Jordan was exporting pharmaceutical products to over 30 countries. In 1995, US$125 million worth of pharmaceutical products were exported, and in 1999 this figure had increased to US$143 million.

CONSTRUCTION. The construction industry has been growing steadily since the oil boom in the 1970s, helped by the economy through the remittances flowing into the country from Jordanian workers in the Gulf. The fast-growing Jordanian population has led to growing urban communities, and the capital Amman has almost doubled

in size over the last 30 years. Major construction contracts are usually held by foreign companies because they hold the large amounts of required capital. However, these companies have been sensitive to the needs of Jordan and have often used Jordanian architects and engineers in major projects. Local companies have nevertheless been instrumental in building more schools, roads, and waterways.

SERVICES

Jordan tends to attract more tourists on average than other Arab countries because of its central geographic position in the region. Jerusalem is merely 1 hour away from the capital Amman, as are Jericho, Nazareth, and Bethlehem. Syria is a 2-hour drive to the north, as is Lebanon, and Egypt is only a ferry ride from the Gulf of Aqaba. Jordan itself has much to offer the adventurous traveler, including the magnificent "rose-red" city of Petra where the movie *Indiana Jones and the Temple of Doom* was filmed, the Roman city of Jerash, and the Dead Sea, where one can float on top of the water because of its heavy salt content. Jordan is also home to the Jordan river, beautiful deserts, and the Gulf of Aqaba, which boasts some of the best diving in the world.

The Jordanian tourism sector has certainly not been developed to its full potential because of the continuous problems with regional security. When the peace treaty was signed between Jordan and Israel in 1994, tourism grew as more and more Israelis visited the country. However, the sector did not achieve the growth targets that were hoped for. Following the Gulf War in 1991, there was a slowdown in the number of tourists from Saudi Arabia and the other Gulf countries, but recently the deepening of ties between all the countries in the region has led to an increase in the number of Arab visitors to Jordan. In 1999 over 50 percent of tourists were Arab. The number of tourists from Europe and the United States fluctuates in response to the regional political situation. In 1995 roughly 84,000 U.S. tourists visited Jordan, and in 1999 this number increased to 100,000. Since the beginning of 2001 many tourists have canceled their holidays to the country due to the violence that erupted in Israel and the West Bank and Gaza Strip in September 2000 between the Palestinians and the Israeli authorities.

Despite the daily uncertainties faced by the tourism sector, the government has continued to encourage hotel development in all parts of the country. Since 1995 many 5-star hotels have been built including the Holiday Inn, the Grand Hyatt, the Four Seasons, and the exclusive Movenpick Hotel on the Dead Sea coast, which boasts a luxurious health resort.

FINANCIAL SERVICES. Jordan has a modern and well-functioning financial services sector. The banking sector is regulated entirely by the Central Bank and includes 21 banks of which 5 are foreign, 5 are Islamic, and 9 are commercial. The Central Bank of Jordan has encouraged smaller banks to merge by offering incentives and raising minimum capital requirements to 20 million dinars (US$28.2 million). This is being done in part to offset the overwhelming national presence of the Arab Bank, which holds 60 percent of the country's financial assets. The Jordanian government has also historically encouraged the setting up of **microcredit** institutions and, unlike many other Arab countries, Jordan is well-served by 5 highly accessible organizations that provide substantial funds to people in the agricultural, industrial, and housing sectors. In 1996 the first mortgage company was set up allowing Jordanians to reorganize the loans they had taken from the Housing Bank and reschedule their payments in a manageable way.

Jordan has long been dependent on outside capital to sustain its development programs. In the 1980s, the kingdom sought to develop its internal financial base by establishing a stock exchange, the Amman Financial Market (AFM). The establishment of the stock market was an important step in enabling the country to use its financial resources in a more efficient way by allowing both Jordanians and foreigners to invest in the **private sector**, thus helping the economy to grow.

INTERNATIONAL TRADE

Given that Jordan does not posses a wealth of natural resources like the oil-rich countries in the Gulf and does not have a very wide industrial base, it has been plagued with **trade deficits** since its creation. The situation has worsened as the food gap in the country widens, and more and more food has to be imported. The past 4 governments have attempted to address this issue by promoting exports and tightening imports. The dinar was devalued in 1991, which made Jordanian products cheaper on the international markets and foreign imports more expensive. The Gulf War also helped to boost exports as regional demand exploded in the aftermath of the war,

Trade (expressed in billions of US$): Jordan

	Exports	Imports
1975	.153	.732
1980	.574	2.402
1985	.789	2.733
1990	1.064	2.600
1995	1.769	3.698
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

notably in the pharmaceutical industry. Jordan's principal export markets are Saudi Arabia and Iraq, the former an important market for pharmaceuticals and consumer goods and the latter an important market for out-of-season vegetables and fruit. Jordan's phosphates, potash, and fertilizers are bought by the Indians, the Chinese, and the Indonesians. As the Asian economies recover from their devastating 1997 financial crisis, demand is growing rapidly again. In spite of this positive growth, however, average annual imports cost twice as much as the revenues from exports. In 2000 Jordan exported US$2 billion worth of goods, but imported US$4 billion worth of goods, producing a trade deficit of US$2 billion.

In 1999, about 21.6 percent of Jordanian imports originated from Iraq (mostly oil), 9.9 percent from the United States, 9.7 percent from Germany, and 4.7 from the United Kingdom. The country imports most of its consumer goods from South Korea, Turkey, and China, and Saudi Arabia provides it with the bulk of its processed food.

FREE TRADE AGREEMENTS. An important free trade agreement was signed between Jordan and the European Union, which took effect in January 1999. It aims to eliminate **tariffs** on nearly 500 industrial goods over 5 years and to spur local industrial activity. Essentially, Jordan's products will be eased onto the European market as **duties** and taxes on European products are removed. Another significant part of the agreement will lift the ban on majority foreign ownership of Jordanian firms. Jordan also became a member of the World Trade Organization (WTO) in December 1999 and is currently in talks with the European Union regarding a free-trade agreement with the European Free Trade Association (EFTA). Jordan has been actively involved in promoting inter-regional free-trade zones, signing an agreement with Saudi Arabia that provides for a free-trade zone before 2005, and it is involved in similar talks with the Egyptians. In October 2000 Jordan also signed a free trade agreement with the United States, and as a result exports to the United States have risen rapidly. In 1999, Jordan provided US$13.1 million worth of exports to the United States, and in 2000 this figure had jumped to US$27 million.

MONEY

The aim of the Central Bank is to maintain a stable dinar so as to enable the economy to function competitively abroad. The Jordanian Central Bank controls foreign exchange transactions as well as the **exchange rate**. The dinar was devalued in 1991 against the French franc, the U.S. dollar, the British pound, and the German mark in order boost exports. In an effort to maintain exchange rate stability in 1995, the dinar was pegged to a **fixed exchange rate** to the dollar. In mid-2001, US$1 is equal to 0.7090 JD, which means that 1 JD is equal to US$1.41.

Exchange rates: Jordan

Jordanian dinars (JD) per US$1	
2001	0.7090
2000	0.7090
1999	0.7090
1998	0.7090
1997	0.7090
1996	0.7090

Note: Rate has been set since 1996; since May 1989, the Jordanian dinar has been pegged to a group of currencies.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Amman is a capital in which the foreigner neither marvels at the numbers of homeless on the sidewalks nor remarks on the number of flashy Mercedes Benzes on the roads. Jordan is simply not a rich country like Saudi Arabia, and those families that do possess fortunes tend to be discreet about it. Of course, there are exclusive neighborhoods in Amman but, on the whole, wealth is not flashed around. Poverty, on the other hand, does exist in Jordan, especially in cities.

Approximately 15 percent of the Jordanian population of 4,998,564 live below the poverty line and up to two-thirds of these poor people are concentrated in urban areas. According to the World Bank, 17 percent of Jordanian children are malnourished, the infant mortality rate per 1,000 live births is high at 31, and 11 percent of the population does not have access to safe drinking water. In addressing these issues, the Jordanian government in 1997 set up a poverty reduction initiative called the Social Productivity Program. Not only did this ambitious scheme aim to reduce poverty and educate the poor but it also targets members of underprivileged groups who are typically more vulnerable to poverty such

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Jordan	993	1,715	1,824	1,436	1,491
United States	19,364	21,529	23,200	25,363	29,683
Israel	10,620	11,412	12,093	13,566	15,978
Egypt	516	731	890	971	1,146

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Jordan

Lowest 10%	3.3
Lowest 20%	7.6
Second 20%	11.4
Third 20%	15.5
Fourth 20%	21.1
Highest 20%	44.4
Highest 10%	29.8

Survey year: 1997

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

as female-headed households, widows, divorced women, and mothers of disabled children. The fund has received money from the World Bank and the **United Nations Development Program** and has been very successful in reducing the percentage of those below the poverty line from 30 percent in 1998 to 15 percent in 2001.

WORKING CONDITIONS

Jordan has a mushrooming labor force. In 1997 the labor force stood at 1.2 million, a substantial increase from the 1991 figure of 525,000. The official unemployment rate stood at 15.5 percent in 1999. Half of the unemployed are under the age of 25, and many of these young people are unskilled. The country has a national literacy rate of 86.6 percent, and about 95 percent of the workforce under the age of 35 is literate. Many young graduates sadly find themselves without jobs, and those who do find employment are often very badly paid. It is likely that the real rate of unemployment is significantly higher than the official rate, and some estimates put it as high as 20 or 25 percent. According to the *EIU Country Profile 2000,* the largest percentage of the labor force, at 18 percent, work in crafts, only 14 percent of the labor force are professionals, and 14 percent of the labor force are plant and machine operators. In 1997, 158,097 people were employed by the public sector and their average monthly wage was US$310. There is also a substantial **underground economy** whose production is estimated at 3 percent of the GDP.

The Jordanian workforce is protected under labor laws enforced by Ministry of Labor inspectors. There is no minimum wage in Jordan, however, the government often assigns a minimum wage to certain trades based on recommendations made by unions. The maximum work week is 48 hours except in hotels, bars, and restaurants where employees can work up to 54 hours. Employment of foreign workers in Jordan is not permitted unless the employer is in need of the expertise and qualifications of a foreign employee. Arab technicians and experts are given priority over their foreign counterparts.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1920. The League of Nations places Palestine and Transjordan under a British mandate following the collapse of the Ottoman Empire at the end of World War I.

1946. Britain's mandate over Transjordan comes to an end, and Emir Abdullah is declared king.

1948. The state of Israel is created under the British mandate in Palestine. Thousands of Palestinians flee Arab-Israeli fighting to the West Bank and Jordan.

1950. Jordan annexes the West Bank of the Jordan River.

1951. King Abdullah is assassinated by a Palestinian gunman in Jerusalem.

1952. Hussein is proclaimed king after his father, Talal, is declared mentally unfit to rule.

1957. British troops complete their withdrawal from Jordan.

1963. Political parties are banned.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Jordan	32	6	17	5	8	8	23
United States	13	9	9	4	6	8	51
Egypt	44	9	7	3	17	3	17
Israel	23	6	11	2	6	8	44

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

1967. Israel takes control of Jerusalem and the West Bank during the Six-Day War, and there is a large influx of refugees into Jordan.

1970. Major clashes break out between government forces and Palestinian guerrillas resulting in thousands of casualties in a civil war remembered as Black September.

1976. The Amman Financial Market opens for business. Non-Jordanian Arabs are permitted to buy shares in Jordanian firms without limit.

1989. First general election since 1967 is contested only by independent candidates because of the ban on political parties in 1963.

1991. The Gulf War begins. Jordan comes under severe economic and diplomatic strain as a result of the Gulf crisis following Iraq's invasion of Kuwait.

1992. Political parties are legalized.

1993. The World Bank agrees to restructure Jordan's debt.

1994. Jordan signs a peace treaty with Israel ending the 46-year official state of war.

1996. Food price riots occur after subsidies are removed under the economic plan supervised by the International Monetary Fund.

1997. Jordan signs an association agreement with the European Union that aims to establish a free trade zone over the next 12 years. Iraq agrees to supply Jordan with 4.8 million tons of crude oil at a considerable discount from market price.

1998. King Hussein is treated for lymphatic cancer in the United States.

1999. King Hussein returns home and is put on a life support machine. He is pronounced dead on 7 February. More than 50 heads of state attend his funeral. Hussein's son, Crown Prince Abdullah ibn al-Hussein, is sworn in as king.

1999. Jordan joins the World Trade Organization.

2000. The government bans public protests following clashes between demonstrators and police during anti-Israeli protests.

FUTURE TRENDS

The change in leadership following the death of King Hussein concerned the international community because many countries were unsure as to whether the young king would be capable of successfully taking a fragile economy into the 21st century. However, King Abdullah has shown the international community that he is committed to continuing the economic liberalization of Jordan. If **macroeconomic** policy continues to be well managed, the Jordanian people will enjoy increased foreign investment, increased privatization, and steady growth over the next few years. Forecasters put the future annual GDP growth as high as 4 or 5 percent.

Following the adoption of the IMF structural adjustment program, the government also hopes to expand the tourism industry, increase exports, and reduce interest rates in order to boost the economy. Nevertheless, the extent to which the Jordanian economy can grow is somewhat dependent on the events that will take place in neighboring Israel and the Occupied Territories during the course of 2001. If the violence continues in the West Bank and Gaza Strip and indeed if a war were to break out between the Palestinians and Israelis, Jordan's tourism industry would come to a halt. In addition, potential investors would be very unwilling to risk putting their money into a region that might possibly be on the brink of war.

DEPENDENCIES

Jordan has no territories or colonies.

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—Salamander Davoudi

KAZAKHSTAN

Republic of Kazakhstan
Kazakstan Respublikasy

CAPITAL: Astana.

MONETARY UNIT: Tenge (T). One tenge equals 100 tiyin. No coins exist. Paper currency comes in denominations of 1, 2, 5, 10, 20, 50, 100, 200, 500, and 1000 tenge as well as 1, 3, 5, 10 and 20 tiyin.

CHIEF EXPORTS: Oil, ferrous and nonferrous metals, machinery, chemicals, grain, wool, meat, coal.

CHIEF IMPORTS: Machinery and parts, industrial materials, oil and gas, vehicles.

GROSS DOMESTIC PRODUCT: US$54.5 billion (in purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$5.2 billion (1999 est.). **Imports:** US$4.8 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Kazakhstan is located in the center of the Eurasian landmass in what is known as Central Asia. Kazakhstan is bordered on the east by China, on the south by Kyrgyzstan and Uzbekistan, on the west by the Caspian Sea, and on the north by Russia. The capital city of Astana is located 1,300 kilometers (808 miles) north of Almaty (the former capital), roughly in the center of the country. With a total surface area of 2,717,300 square kilometers (1,049,150 square miles), Kazakhstan is the ninth-largest country in the world, slightly less than 4 times the size of the U.S. state of Texas. The northern border with Russia, which spans 6,846 kilometers (4,030 miles), is the longest continuous bi-national border in the world.

In physical respects, Kazakhstan is a country of superlatives. It sweeps from the high mountain border regions near China across the mineral rich regions of Eastern Kazakhstan, then further west across broad expanses of plains to the oil-rich regions of Western Kazakhstan near the shore of the Caspian Sea. To the north, Kazakhstan is bordered by the taigas of southern Siberia (taigas are subarctic forests that border on the harsher arctic tundra); to the south, Kazakhstan is bordered by the Aral Sea and the deserts of Central Asia. Kazakhstan is rich in oil, gas, and other mineral resources including gold, iron ore, coal, copper, chrome, and zinc. Large oil deposits are located in the western regions of Kazakhstan and in the Caspian coastal region. Massive Soviet Union-era mining and mineral processing complexes are located at various points around the country. Kazakhstan is home to the Baikonur Soviet Cosmodrome, still used as the launching pad for Russian space flights. Kazakhstan is also home to the main Soviet nuclear weapons testing range, not used since 1992, located near the city of Semipalatinsk in the northeastern part of the country.

POPULATION. The population of Kazakhstan was estimated at 16,733,227 in July 2000, a slight decrease from the 1990 population. In 2000 the birth rate stood at 16.78 births per 1,000 while the death rate was 10.56 deaths per 1,000 persons. Migration out of the country, estimated at 6.7 persons per 1,000, has been a major source of the country's population decline. The population was estimated to be shrinking at a rate of .05 percent a year in 2000.

Kazakhstan is the second largest state in terms of territory to emerge from the former Union of Soviet Socialist Republics (USSR). In December 1991, when Kazakhstan declared national independence from the USSR, the government and economy were still closely tied to the Soviet centralized economic and managerial systems. Kazakhstan's politically moderate, multi-national population was divided roughly in half between indigenous ethnic Kazakhs and other peoples—Russians, Germans, Ukrainians, Chinese, Uygurs, Koreans—as well as dozens of other smaller national and ethnic groups. In 2000 the population was roughly 46 percent Kazakh, 35 percent Russian, 5 percent Ukrainian, 3 percent German, 3 percent Uzbek, 2 percent Tatar. In terms of religious identification, roughly 47 percent of the

population professed Islam, while 46 percent was Russian Orthodox or Protestant.

The Kazakh language belongs to the family of Turkic languages. Turkic languages are far removed in structure and derivation from Indo-European languages. Russian shares many structural features and linguistic roots with other European languages. The Turkic languages, in contrast, have few links with major European languages. Soon after national independence, the Kazakh language was adopted as the official state language of Kazakhstan. Roughly 40 percent of the population of the country lists Kazakh at their principal language, about while 40 percent of the population lists Russian as their principal language. In practice, most government and commerce is conducted in Russian.

Kazakhstan's multicultural composition is a source of both tension and cooperation. Given the roughly equal balance of numbers among the largest ethnic groups, there is a widespread recognition of the need for equal treatment under the law.

OVERVIEW OF ECONOMY

Kazakhstan is a new state, established as an independent country in 1991 as a result of the breakup of the USSR. In the first decade of national independence, the Kazakh government demonstrated a commitment to establishing the foundation for an open, market-based economy. As a legacy of decades of Soviet-style centralized economic planning, Kazakhstan inherited a physical **infrastructure** designed to serve the Soviet economy by providing **primary commodities**, particularly energy and minerals, to industrial markets in the north, particularly in the Ural and central Siberian industrial regions of Russia. Kazakhstan's population of roughly 16.5 million makes it a relatively small country compared to international standards, but it is the world's ninth largest coun-

try. Kazakhstan is rightly considered to be the world's "largest small country."

The transition from a **communist** system of government and economy to a market-based system has been difficult for Kazakhstan. The transition began in 1991, but the economy contracted sharply in the first years, with 1994 a particularly difficult year. Kazakhstan was shaken by the economic instability that hit Asian financial markets in 1997 and swept across Russia in 1998. After recovering from the setbacks caused by the 1998 financial market crash, Kazakhstan began to make significant progress in 1999. Economic growth surged ahead in 2000, reaching a level of 8 percent. The government pursued prudent **fiscal policies**, avoiding overspending despite the fact that government revenues—taxes and other forms of income—exceeded original expectations. The economic recovery was led by strong growth in exports, particularly gas and oil, and was helped by high prices for fuel products in international markets.

Many areas of macro-economic reform have been highly successful, even providing a model for other post-communist countries to follow. The government established a legal foundation and regulatory system for a private economy. It moved quickly to establish sound and fiscal **monetary policies** and actively encouraged international trade and foreign investment. The government adopted sound taxation and spending policies. The government introduced a national currency, the tenge, which has been quite stable. The government established a regulatory structure for the private banking and financial sector and **privatized** major enterprises, including the majority of power generation facilities and coal mines. The government passed environmentally sound oil and gas legislation that meets international standards.

Yet Kazakhstan's reform has made less headway in other areas. Kazakhstan's agriculture remains without adequate investment in infrastructure such as roads, processing equipment, and farm inputs. Moreover, the banking system has virtually ignored agriculture, failing to provide much needed credit for farm expansion. Kazakhstan adopted a private pension system, moving ahead of other former communist countries, but the social safety net has worn thin in many areas. With a per capita income of US$1,300, most citizens of Kazakhstan have yet to see the benefits of macro-economic reform and the resurgence of world prices for the country's significant oil, gas, and gold deposits. The social safety net has been weakened with declines in health status, benefits for senior citizens, and education opportunities. Dramatic increases in infectious diseases, such as drug-resistant tuberculosis, pose serious social threats.

POLITICS, GOVERNMENT, AND TAXATION

The dominant feature of Kazakhstan's government is the transition from communism. As a part of the Soviet Union until 1991, Kazakhstan was a testing ground for many important communist policies of the USSR. The communist system was distinguished by a powerful central government, an official state ideology of **Marxism**, and a centralized, planned economy. The communist government took control of the means of production (farms, factories, and natural resources) in the early 1920s through a process of **nationalization**. The changes in the Soviet Union began in 1988 with the introduction of open and relatively free elections. Kazakhstan's first open election was held in February 1990. Nursultan Nazarbaev—then the first secretary of the Kazakhstan Communist Party—was elected chairman of the Kazakhstan parliament. A short time later the parliament passed the Kazakhstan Declaration of Sovereignty. The true meaning of the declaration was somewhat obscure. Kazakhstan became a sovereign government but remained within the larger government of the Union of Soviet Socialist Republics, the Soviet Union. As the Soviet Union began to unravel in the autumn 1991, President Nazarbaev scheduled popular elections. Running without opposition, he won the election and became Kazakhstan's first popularly-elected president. Just 2 weeks later the Kazakhstan parliament adopted the Kazakhstan Declaration of Independence, and Kazakhstan became truly independent.

In the first 2 years following the disintegration of the USSR, Kazakhstan began to define its strategy for the transition from communism to a market-based economy. One of the most important elements in this transition is the transfer of property rights from the government to the **private sector**. If property belongs to everyone—as is the case under communism—it is often treated as if it belongs to no one. Establishing private property rights is, therefore, a first step in the transition to the economically rational use of resources. In 1993 the Kazakhstan government adopted a privatization program to return control of economic assets to the people themselves.

The most important stage of privatization in Kazakhstan took place between 1994 and 1997. Sales and public auctions were held to distribute the country's 4 categories of properties: the country's major industries, mines, and oil fields; large factories; small shops, stores, and apartments; and agricultural enterprises. The "case-by-case privatization program" sold most of the country's major industries, mines, and oil fields. The "mass privatization program" held auctions for most of the country's large factories. Most small shops and stores were sold in the country's "small scale privatization program." Agricultural enterprises were privatized, although agricultural land itself was not. Residents were also

allowed to privatize the apartments and houses in which they were living at the time. Residents were required to pay a nominal sum for their property, but there were few cases of people who were left without hearth and home by the privatization program.

In December of 1991, Communist Party chiefs of 11 of the former 15 Communist Party organizations of the USSR gathered in the Kazakh capital (then called Alma-Ata) in a dramatic meeting to decide what to do about the collapsing Soviet Union. The outcome of this meeting was the Alma-Ata Declaration, announcing that the Union of Soviet Socialist Republics would "henceforth cease to exist." The Alma-Ata Declaration also established a loose coordinating structure called the **Commonwealth of Independent States** (CIS) and **sanctioned** the emergence of 15 new and independent states from the former Soviet Union. Kazakhstan was one of these states.

In its first decade of independence Kazakhstan made great progress in the transition to a modern, democratically governed state with a market-based economy. The steps the Kazakh government has taken over these years of independence follow a textbook description for the establishment of a civil society—a constitutionally organized, secular society based on the rule of law, the protection of human and civil rights, and the limited role of popularly elected, accountable government. The Kazakh government established the fundamental institutions of civil development, such as a constitutional form of limited government based on a separation of powers, open electoral process, a professional judiciary, a deliberative parliament, free press, and the rights of speech, assembly, and religion. The government also initiated and carried through the process of selling the state's assets to the public through privatization.

The Kazakh government carried out **macroeconomic** reforms including true price **liberalization**, freeing the markets from government controls. It also established the legal and regulatory structure of a private economy, including a modern civil code and tax, banking, and investment laws that accord with international standards. The Kazakhstan government relinquished control of the nuclear weapons on its territory in accordance with international treaty agreements. And, although it is not entirely unblemished, Kazakhstan's record of protection of human and civil rights compares favorably with that of its former Soviet neighbors.

Kazakhstan enacted its first post-communist tax code in April 1995. The Kazakhstan tax code is based on international standards and stresses **equity**, economic neutrality, and simplicity. Taxation takes place at the 3 levels of government: central, provincial (called an "oblast" in the Russian language), and local. The 3 most important taxes are the enterprise profits tax, the individual **income tax**, and the **value-added tax** (VAT). Profits for most private firms are taxed at a rate of 30 percent. Most business expenses are deductible, including wages. The individual income tax ranges from 5 to 30 percent. The VAT is applicable to all goods, work, and services, including imports into Kazakhstan. The VAT on imports is usually 20 percent of the **value added**, or the difference between the purchase and resale price. In addition to these basic taxes, there are a number of other, less common taxes such as the natural resource tax paid for the right to explore for oil and other mineral resources. Land is taxed annually. Business assets are taxed at .50 percent yearly. And individually owned land is taxed at .10 percent of the assessed value. Automobiles and trucks are taxed on their value.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

With a highway system that includes some 103,272 kilometers (64,123 miles) of paved highways, Kazakhstan ranks favorably in terms of miles of road per inhabitant. Many quite developed countries in the world have much less roadway per inhabitant. Kazakhstan's main form of transport infrastructure for haulage and

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Kazakhstan	N/A	384	231	N/A	2	0.1	N/A	1.42	70
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Uzbekistan	3	465	275	N/A	1	N/A	N/A	0.05	8

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

freight is rail. Kazakhstan's main railway system includes 14,400 kilometers (8,948 miles) of track. Kazakhstan's transport infrastructure also includes oil and gas pipelines. Kazakhstan has 2,850 kilometers (1,770 miles) of crude oil pipelines, 1,500 kilometers (932 miles) for refined oil products, and 3,480 kilometers (2,162 miles) of natural gas pipelines. In early 2001 a new pipeline was opened to carry crude oil from Kazakhstan's northwestern oil fields through Russia to western markets. Kazakhstan has major port facilities at the Caspian harbors of Aqtau and Atyrau, as well as ports on the navigable Irtysh River at Oskemen, Pavlodar, and Semey. There are 10 major airports in the country, with international airports at Astana and Almaty.

Kazakhstan's railway system was integrated into the Soviet system. Connections allowed for shipment of freight throughout the Eurasian landmass. However, the access to markets in Europe, the Middle East, and the Far East is through rail connections that now pass through the territory of Russia. Kazakhstan's highway system is in a poor state of maintenance but otherwise is adequately developed. The highway system allows for truck freight traffic through all bordering countries.

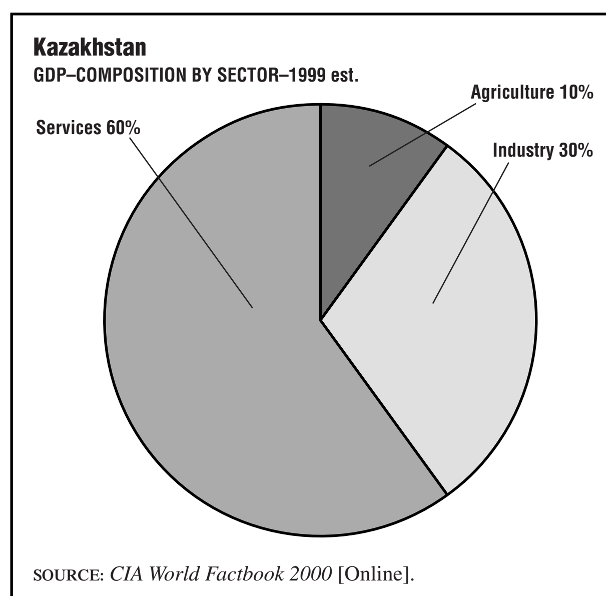
Kazakhstan is the largest of the 5 post-Soviet Central Asian countries (in addition to Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan). All the Central Asian countries are highly interdependent with respect to energy resources, transportation infrastructure, and markets. The greatest source of wealth in the region is natural resources, particularly gas and oil. The Caspian region's major oil and gas reserves are located in Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan. Much of the oil wealth is located in the shallow coastal regions of the Caspian Sea or in the remote regions of western Kazakhstan. The potential for increasing oil and gas production in the region is great. Oil industry analysts expect that the region could be exporting as much as 2 million barrels a day by 2010. But because all the region's oil-producing countries are landlocked, routes to the market invariably involve shipment through third party countries. As a consequence, the complexities of the region's geography and the differing national interests of the countries make access to market a matter of mutual agreement.

Kazakhstan inherited from the Soviet period a telecommunications system that was exceptionally poor. In 1995 Kazakhstan had slightly fewer than 2 million phone lines in use. The number of mobile cellular lines in the country was quite small (4,600 according to U.S. government official estimates). Most cities and small towns rely on deteriorating fixed copper wire phone systems that are comparable to what was used in the United States in the 1940s. Inter-city communications take place through landline and microwave radio relay. However, the system is being modernized. The cities of Almaty and Astana have had recent telecommunications upgrades.

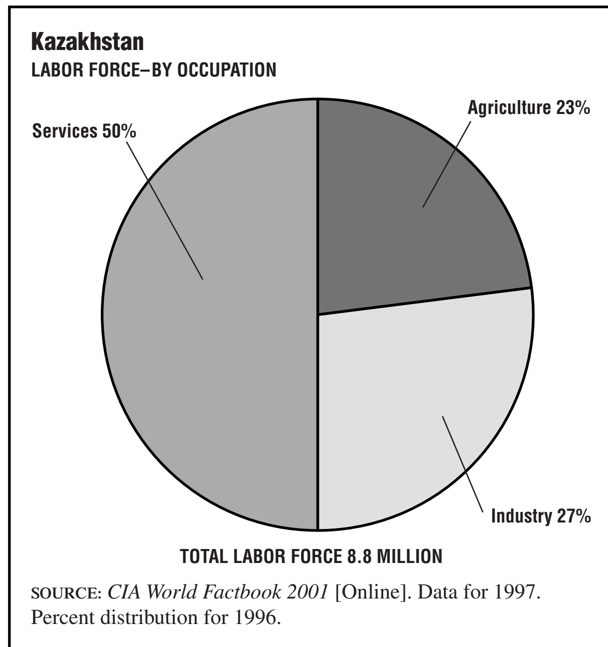
In 1999 the cellular and digital phone revolution arrived in Kazakhstan. Like many developing countries with aging fixed copper wire systems, a steep drop in the cost of cellular services made it possible to bypass over the existing copper service. Statistics are not available concerning the extent to which cellular phones are in common use, but observations on the street would suggest that soon the copper wire fixed system may be replaced by reliance upon new mobile phones. International phone connections are possible with other countries by satellite and by the Trans-Asia-Europe (TAE) fiber-optic cable, as well as by earth-to-satellite-to-earth stations.

ECONOMIC SECTORS

Kazakhstan's economy is export-oriented. Gas, oil, and metals make up 72 percent of Kazakhstan's exports. Since a rise in world market prices for oil in 1999, Kazakhstan's oil and gas sector has benefitted from strong foreign demand, comparatively strong domestic demand, a crossroads geographic location, a favorable foreign investment climate, and multiple **joint ventures** with Western and Eastern oil companies. Agriculture, while accounting for 23 percent of employment in Kazakhstan, accounted in 1999 for just slightly over 10 percent of the GDP. Industry, with 27 percent of the country's employment, accounted for 30 percent of Kazakhstan's GDP. Kazakhstan's industrial sector rests on the extraction and processing of natural resources and also on a relatively small machine building sector. This sector specializes in construction equipment, tractors, agricultural machinery, and transportation equipment such as small



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997. Percent distribution for 1996.

buses and railroad cars. The country has considerable agricultural potential with its vast lands accommodating both livestock and grain production.

The breakup of the USSR and the collapse of demand for Kazakhstan's traditional heavy industry products have resulted in a sharp contraction of the economy since 1991, with the steepest annual decline occurring in 1994. In the period 1995–97 the pace of the government program of economic reform and privatization quickened, resulting in a substantial shifting of assets into the private sector.

The December 1996 signing of the Caspian Pipeline Consortium agreement to build a new pipeline from western Kazakhstan's Tengiz oil field to the Black Sea increased prospects for substantially larger oil exports in the years ahead. Kazakhstan's economy turned downward, however, in 1998 with a 2.5 percent decline in the GDP growth due to slumping oil prices and the August financial crisis in Russia. A bright spot in 1999 was the recovery of international oil prices, which, combined with a well-timed tenge **devaluation** and a bumper grain harvest, pulled the economy out of **recession**. If initial reports of the production capacity of the new Kashagan field on Kazakhstan's Caspian shelf turn out to be accurate, Kazakhstan's ability to produce oil will far outstrip its ability to get it to market.

AGRICULTURE

Kazakhstan has substantial untapped agricultural potential, yet its agricultural sector is underdeveloped and under-financed. The country's capital, Astana (previously known as Tselinograd), was the epicenter of a major Soviet agricultural expansion program—the "Virgin Lands" program—of the 1950s and 1960s. During this period, tens of thousands of households moved to central Kazakhstan to assist in the expansion of agriculture. Currently agriculture is the country's major employer. Yet it comes in a distant second to the industrial sector in attracting government attention for investment and support.

Kazakhstan produced about 8 million tons of wheat in the 2000–01 growing season, down from 11.2 million tons produced the previous year. Total grain production was about 10.5 million tons, down from over 14 million the year before. Area under cultivation increased approximately 4 percent in 2000 from the previous year, to 9.0 million hectares of wheat and 11.4 million total hectares of grain. Conditions were generally favorable for wheat in Kazakhstan's key north-central oblasts since the beginning of the growing season, with adequate precipitation in the form of frequent light-to-moderate showers. Vegetation indices from late July indicate that crop conditions in Kazakhstan in 2000 were not as good as in 1999, when near-ideal conditions prevailed, but they were better than during the drought of 1998 when wheat output dropped to 4.7 million tons.

One constraint that some economists see on Kazakhstan's agricultural development is the failure of the country to develop firm private property rights for agriculture. Economists maintain that private property rights play a critical role in providing the incentives necessary for investment and careful use of resources. During the Soviet period, large-scale agriculture was carried out on state farms (Sovkhozes) and collective farms (kolkhozes). With the end of the Soviet period, these farms were reorganized into large agricultural cooperatives with the understanding that they would eventually become private farms. However, the Kazakhstan government has postponed the adoption of true private property in agricultural land for cultural and political reasons. The lower chamber of Kazakhstan's parliament decided in June 2000 to postpone debate on a proposed law on land ownership. The Kazakhstan government originally submitted the draft bill to the parliament for passage in 1999, but the law was withdrawn after widespread public protests against land privatization. An amended version was resubmitted for debate in 2000. The year 2000 version stipulated that only land adjacent to rural dwellings, but not all the country's agricultural land, could be privately-owned. The amended draft also triggered public protests, including a hunger strike by opposition members of the Alash party organization. Members of the Alash fear that if agricultural land is privatized there will be little public support for defending the interests of small farmers against the interests of large farm owners. Kazakhstan, they fear, will witness the develop-

ment of large plantation-style farms that derive profits for multinational companies while small farmers are increasingly pushed into subsistence-level farming.

INDUSTRY

The country is rich in mineral resources, including chrome, coal, copper, gold, iron ore, wolfram, and zinc. The economy is still closely linked with the other economies of the former Soviet Union and especially with the Russian Federation. However, since independence in 1991, foreign trade has been redirected toward markets outside the former Soviet Union.

Prior to the breakup of the USSR, Kazakhstan's electrical grid was a single component within the unified Soviet electrical system. When independence came, Kazakhstan underwent a wrenching withdrawal from the physical infrastructure of the Soviet system. Dozens of independent power grids appeared, fragmenting energy markets. The reliability of energy supplies fell sharply. Cases of forced restrictions of power supplies and disconnections rose. Many small towns in northern Kazakhstan were forced to suffer the severe Siberian winters without gas and electricity supplies in the early years of the transition. During this period the Kazakh government sought to develop independent electrical and natural gas supply systems for the purposes of self-sufficiency. Ultimately, the country came to see the wisdom of reintegrating regional Eurasian energy markets. In summer 2000 Kazakhstan began the steps to create a single power system stretching across the states of Russia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan.

In 1991 the Kazakh government began negotiating with international oil firms to develop Kazakhstan's Tengiz oil fields. The Kazakhstan government joined the large multinational oil firm Chevron to form a joint venture called Tengizchevroil. The agreement committed Chevron to spend about US$20 billion over 20 years to develop the Tengiz field's 6 billion barrels of proven reserves. The agreement anticipated that eventually Kazakhstan would be exporting as much as 700,000 barrels a day from the field. Other major international petroleum firms, including Birlesmis Muhendisler Burosu, British Gas, and Agip also committed investment in the country's oil fields.

Beginning in 1992, Kazakhstan's northern neighbor Russia **restructured** the management of its state-owned oil and gas companies. Large, powerful, and politically well-connected private oil companies emerged from the reorganization in Russia. These new firms and the Russian government cooperated to restrict the access of the Caspian states to the Russian pipeline system and its connections to western markets. Russia first imposed high taxes and surcharges on the movement of gas and oil and then, in order to block economic development that might run contrary to the interests of Russian energy firms, sought to blockade its southern neighbors by cutting off access to foreign markets entirely.

In response to the Russian measures, the Caspian oil and gas producing countries (principally Kazakhstan, Azerbaijan, and Turkmenistan) began seeking ways to bring energy supplies to market without having to pass through Russian territory. Russia lobbied for a continued reliance on the Soviet-era pipeline system, the so-called northern option. European and North American countries favored the idea of shipment across the Caucasus and on to world markets through the Bosporos, the narrow strait that leads from the Black Sea to the Mediterranean Sea. The Economic Cooperation Organization (ECO), based in the countries of the Middle East, urged pursuit of a southern option. Thus, 4 routes for the Caspian oil eventually gained attention. First was a pipeline from Baku (Azerbaijan) to Ceyhan (Turkey), the Baku-Ceyhan line. Another was a pipeline that originated in Kazakhstan, went through Turkmenistan and Afghanistan before going to Pakistan and the Indian Ocean. Yet another pipeline discussed would go from Turkmenistan through Iran, Turkey, and then onward toward Europe. Finally there was discussion of a pipeline that would supply Uzbek and Turkmen gas to Pakistan through Afghanistan.

In 1995 negotiations among the oil and gas producing countries resulted in the Caspian Littoral Agreement. The agreement, which included Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan, was designed to coordinate trade routes, regulate the access to natural and mineral resources, and unite efforts at environmental protection. The agreement also established a Caspian Council, consisting of a secretariat and 4 specialists' committees. The council was to be politically controlled by an intergovernmental council representing the Caspian states. The Caspian Pipeline Consortium (CPC) was founded by Russia, Kazakhstan, and Oman in 1995. The goal of the consortium was originally to deliver oil from the Tengiz field in Kazakhstan to a Russian port on the Black Sea for shipment to western markets. In the summer of 1997, Kazakhstan and China concluded an over US$10 billion agreement for the extraction and transportation of Kazakh oil. In 1998 the 2 countries began to develop and operate the Uzen oil field and the Aktyubinsk oil and gas field in northwestern Kazakhstan. The Chinese National Petroleum Corporation (CNPC) bought a 60 percent stake in Kazakhstan's large Aktobemunaigaz oil field for US$325 million and pledged to invest another US$4 billion in it over the next 20 years. Kazakhstan and China began exploring the possibility of jointly laying an oil pipeline from Western Kazakhstan to China. The project would cost an estimated at US$3 to US$3.5 billion and be the largest pipeline construction project in history. The pipeline, if constructed, would be

about 3,000 kilometers long and its annual handling capacity would be at least 20 million tons.

In some categories of mining Kazakhstan is among world leaders. The country has about one-third of the world's chromium and manganese deposits. It has substantial tungsten, lead, zinc, copper, bauxite, silver, and phosphorus. Kazakhstan is also a major producer of beryllium, tantalum, barite, uranium, cadmium, and arsenic. Major iron mines are located in the north of the country. There are reserves of goethite and limonite, but these are generally considered to be low grade. The capacity of these mines has been listed as 25 million tons/year. Large reserves of coal are generally found in the central and northern parts of the country. Kazakhstan has large reserves of phosphorus ores in the Zhambyl region in the south. The government privatized state mining companies in 1994.

Kazakhstan has major aluminum, copper, steel, uranium, and zinc factories. The country's major steel producer, Karaganda Metals (or Karmet), was privatized in 1994 and sold to the international firm Ispat-Karmet. Production dropped for several years but in 2000 began to increase, reaching 300,000 tons. The major aluminum producer, Aluminum of Kazakhstan, is engaged in a major expansion of output. The country's chief zinc complex, Kazzinc, announced in 2000 that it would expand production to 250,000 tons. Kazakhstan also has a growing precious metals sector, with production increases in recent years in gold and silver in particular. The majority of gold and silver output comes as a by-product from base metal production, but there are also separate deposits. There are 23 gold-bearing regions in Kazakhstan. The Vasilkovskoye mine in north Kazakhstan is considered to be the fourth largest gold mine in the world.

SERVICES

Kazakhstan's consumer markets are small by comparison with the markets of Europe and Asia. Consequently, most manufacturing focuses on primary commodities for export rather than on the production of **consumer goods** to meet domestic demand. The service sector in Kazakhstan is large and growing in the major municipal areas. However, the service sector is limited by the relatively small size of the markets and the fact that Kazakhstan's urban population is concentrated in only 10 major towns that are located at great distances from one another.

Kazakhstan's **retail** sales and service markets have been underdeveloped for many years. As a result of the heavy emphasis on primary commodities, little attention was paid during the Soviet period to consumer goods and services. After Kazakhstan became independent, new laws and regulations made it possible to open private businesses offering consumer goods and services. The small service sector surged ahead as business people began offering services, such as car repair, housing construction and improvement, real estate services, legal services, beauty shop services, and other small businesses that did not require substantial investment.

Because few consumer goods, such as processed foods, small appliances, clothing, and beauty products were produced in Kazakhstan, people had to import them. For a brief period of 2 or 3 years after independence there was a remarkable amount of growth in the import of clothing and household consumer goods that was conducted by shopping tours. These were trips made by individuals either by car, plane, or train to foreign countries such as the United Arab Emirates, China, or Turkey in order to purchase and bring back to Kazakhstan for resale large quantities of goods which are imported as luggage. In 1997 government customs agents began to apply import taxes to these goods, thereby discouraging much of this activity. In addition, because the transaction costs of such economic activity is very high, the market for these goods was eventually taken over by shipping and hauling companies that could import large volumes of foreign-made consumer goods.

While Kazakhstan is a country possessing many areas of great natural beauty and potential, the tourist industry is still underdeveloped but growing rapidly. Kazakhstan's new capital, the city of Astana, has several recently constructed world-class hotels. Kazakhstan's other major city, Almaty, has numerous major hotels that cater to international travelers. But the majority of cities in Kazakhstan have few hotels that can offer tourists accommodations and travel services that are in accordance with international standards.

Kazakhstan's banking sector has undergone substantial restructuring during the decade of independence. During the period between 1997 and 2001 the number of banks in Kazakhstan went from 129 to 48 as many small and non-competitive banks went out of business, merged, or were acquired by larger banks. During this period of restructuring, Kazakhstan's banking sector won high marks from international institutions for its rapid adoption of international standards of policy and practice. But these standards have not yet succeeded in convincing international investors and Kazakhstan's citizens that the financial services that are offered by Kazakhstan's major banks are critical to business success and personal finance. The major banks have still not managed to attract major foreign investment. According to banking industry estimates, fewer than 3 percent of Kazakhstan citizens regularly use personal banking services such as checking and consumer credit cards. As a result, most small business transactions in Kazakhstan continue to be cash transactions.

Financial markets are those in which stocks, bonds, and other forms of investment and savings can be bought and sold. In the transition from a **centrally-planned economy** to a **liberal economy**, the growth of the financial markets is critical to success. Financial markets facilitate capital formation for businesses and governments and provide a means of profitable utilization of assets for investors. Efficient financial markets also encourage a lot of otherwise idle financial resources to circulate more freely in the economy, what economists refer to as high **liquidity**. A well functioning financial market is an engine of savings and investment for any free-market economy.

There was great expectation that Kazakhstan would be able to rapidly develop active and vital financial markets immediately after independence. A decade after independence, however, those expectations have not proved well-founded. Kazakhstan's capital markets and stock markets have not proved attractive to foreign investors. **Foreign direct investment** has been concentrated in a few sectors, particularly oil, gas, and minerals development. Kazakhstan's offering of government bonds has met with interest from investors primarily because investors have confidence that the Kazakhstan government, with its long-term expected revenues from the oil, gas, and mineral sectors, will continue to make good on its promise to pay off its state debt.

INTERNATIONAL TRADE

Kazakhstan has become a relatively open economy. In 1999 the shares of export and imports in terms of GDP stood at 38 percent and 35 percent, respectively, reflecting a favorable trade balance. In that same year exports stood at US$5.2 billion while imports were US$4.8 billion. The country has the trade structure of a primary commodity supplier. In 1999 oil, gas, and minerals accounted for 78 percent of exports. In contrast, in this same year consumer products dominated imports.

Kazakhstan's largest trading partner is Russia. In 1999 Kazakh exports to Russia accounted for 20 percent of all exports, followed by China accounting for 8 percent, Italy for 7 percent, Germany for 6 percent, and Switzerland for 6 percent. The United States accounted for less than 2 percent of Kazakhstan's exports. Russia was also the largest importer to Kazakhstan, accounting for 37 percent of total imports. Russia was followed by the United States, which accounted for 9 percent of imports, the United Kingdom for over 6 percent, and Italy for about 3 percent. Other trading partners accounted for less than 2 percent each.

Before independence 90 percent of Kazakhstan's trade was with Russia. After independence, the government committed itself to establishing the conditions for integration into the international market. These steps included price liberalization, through the reduction of **subsidies** and the **deregulation** of prices, as well as a balanced government budget through increases in taxes and cuts in government spending. The government also instituted a tight monetary policy through an increase in the Central Bank interest rate and encouraged foreign trade liberalization by lifting export and import licenses, granting permission to all firms to engage in foreign trade, and lifting **tariffs**. Kazakhstan also devalued the domestic currency to bring it down to the domestic market rate, and privatized and restructured state **monopolies**. The government sought to create a market environment through the legislative and regulatory reform of banking, capital markets, civil and contract law, and dispute adjudication. In order to cushion the social impact of these sweeping economic structural transformations, the government developed a social safety net. The Kazakh government has also pushed ahead with plans to join the World Trade Organization (WTO) in 2002.

MONEY

For a period after national independence, Kazakhstan chose to rely upon the Russian ruble as its currency. None of the successor states of the USSR was in a position at independence to rapidly introduce its own currency, yet none of the countries wanted to be dependent upon monetary decisions taken by Russian financial authorities. Each of the states considered the idea of introducing

Trade (expressed in millions of US$): Kazakhstan

	Exports	Imports
1994	3230	3561
1995	5250	3806
1996	5910	4241
1997	6496	4300
1998	5403	4256
1999	5592	3682

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

Exchange rates: Kazakhstan

tenges per US$1	
Jan 2001	145.09
2000	142.13
1999	119.52
1998	78.30
1997	75.44
1996	67.30

SOURCE: CIA *World Factbook 2001* [ONLINE].

separate currencies during the first months of independence. Estonia introduced the first post-Soviet currency, the Kroon, in June 1992. Throughout 1992 most of the states, however, stayed in the ruble zone—those countries that used Russia's currency. Russia announced that it would make the ruble a **fully convertible currency** in the summer of 1992. After the ruble floated on the international market as a tradable currency, it immediately plunged in value, falling from 130 to over 450 rubles to the U.S. dollar. The fall of the ruble motivated the movement of huge amounts of old rubles to post-Soviet countries, particularly Kazakhstan where the ruble was still the only legal currency. As a result, the Kazakh money supply quadrupled in just a few months. To insulate itself from such disruptions, Kazakhstan introduced a new national currency, the tenge, in November 1993.

The purpose of a national currency is to allow the central economic planners and bank managers a measure of control over the economic activity of the country and to provide a medium of exchange to promote domestic commerce and foreign trade. To be an effective medium for commerce, the currency must be tradable so that buyers and sellers can exchange their goods and services with knowledge that the currency is a reliable medium for exchanging things of value. The marketability of the currency depends upon a system that allows purchasers of the currency to buy it and sell it in accordance with their currency needs. This, in turn, requires that the banking system is arranged in such a way that banks may settle their accounts among themselves and foreign banks on a regular basis, moving the currency of the country and of other countries in response to the demands of the currency users. The Kazakhstan government has taken key steps to assure that the tenge is a tradable currency with adequate provisions for clearing and settlements among banking institutions.

The Kazakhstan National Bank, the government agency responsible for maintaining the stability of the currency, has sought over the past years to maintain a stable but flexible **exchange rate** for the tenge. The value of the tenge fluctuated in a narrow band at about T138–143 per U.S. dollar in late 1999 and early 2000, settling at about T142.5 per U.S. dollar in late 2000. Given the strong growth in deposits and the confidence of market participants in a stable exchange rate, interest rates declined. Rates on 3-month **treasury bills** declined by about one-half in late 2000, reaching about 8 percent per annum.

Kazakhstan's central bank has sought to avoid many of the problems associated with the "boom and bust" syndrome of economies that are dependent upon the sale of natural resources, minerals, and other primary commodities. During 2000 the government recorded a substantial surplus. Exports grew strongly, resulting in a current account surplus as a percentage of the GDP. During 2000 the Kazakh government borrowed money on the international market by issuing Eurobonds of US$350 million. These bonds are basically treasury bills that the government issues with a promise to pay at a later date. They are called "Eurobonds" simply because they can also be purchased by investors in European markets. In May 2000 the Central Bank (the National Bank of Kazakhstan, or NBK) repaid outstanding obligations of roughly US$385 million to the International Monetary Fund, substantially reducing the public **external debt** .

POVERTY AND WEALTH

Poverty is a major concern in Kazakhstan. More than a third of the population of the country was estimated by the World Bank to live below the subsistence minimum in 1996. Some 6 percent of the population was estimated to live on less than US$2.15 per day. Almost two-thirds of the poor live in the southern and eastern regions of the country, the areas that are largely agrarian and rural. Certain groups are most affected by poverty: the young, households with many children, households with one parent, and the retired.

Under the Soviet system, industrial facilities based in cities and regions were largely responsible for the welfare of the local citizens. The farms, factories, offices, and enterprises in which virtually every Soviet citizen worked were responsible for providing everything from road maintenance to health care to childcare. When Kazakhstan ended state ownership of industry and agriculture, these large enterprises ceased to provide social services. However, few programs came into being to rapidly assume the responsibility for providing these public services. Many Kazakh citizens who were unable to find employment in the new, rapidly changing circumstances of a market economy found their incomes lost or dramatically diminished and social services almost non-existent.

In the Soviet Union, most people lived at a roughly equal socio-economic level. The Soviet personnel system and the system of distribution of state resources such as

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Kazakhstan	N/A	N/A	N/A	2,073	1,281
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Uzbekistan	N/A	N/A	N/A	1,338	1,007

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Kazakhstan

Lowest 10%	2.7
Lowest 20%	6.7
Second 20%	11.5
Third 20%	16.4
Fourth 20%	23.1
Highest 20%	42.3
Highest 10%	26.3

Survey year: 1996

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

housing and access to education was highly standardized. Such systems are inherently wasteful because the scarcity of goods and services is not efficiently or accurately represented. The end of communism and the advent of market economics introduced new efficiencies. At the same time, the transition period introduced the possibility of using government positions or control over resources to amass great personal wealth. New extremes of rich and poor arose quickly. Some townspeople with access to wealth benefitted greatly from the first stages of the post-communist transition. Many rural dwellers, such as herdsmen and farmers, suffered terribly as government subsidies came to an end and health, education, and other social services ended abruptly. Many small towns that had been organized during the Soviet period were essentially "company towns," that is, towns in which virtually all the population worked in one large factory. After the Soviet era, many of these communities turned into ghost towns as unprofitable factories teetered on the edge of bankruptcy, released workers, and were unwilling to support the social services for the towns and villages.

Some analysts estimate that as much as 30 percent of the economic activity in the Kazakh service sector takes place in the **informal economy** and is thus not visible to tax collectors. In transition economies people often seek to conceal their earnings out of fear that conspicuous wealth may attract outlaws or the tax collectors. Payments for services are often made in cash; many kinds of government control over the economy allow bureaucrats to pad their modest incomes through bribes, that is secure payments for government licenses, approvals, or support. As a consequence, many business people find that they often have to make bribes or other payments to advance their business deals or assure that they will not be harassed by officials.

A step the Kazakhstan government has taken to address this situation is the strengthening of the funded pension system that was introduced 1 January 1998. This fully-funded pension system was designed to help the government improve the marketability of financial assets held by the pension funds. Pension funds are now compelled to use internationally-accepted accounting and valuation standards, and they have greater freedom to invest in high-quality foreign assets. In the long run, workers in Kazakhstan can be assured that their earnings over their productive years will grow and pay them dividends in retirement. However, the new system amasses money as new entrants into the **workforce** begin regularly paying a portion of their incomes into the pension funds. Those workers already on pension or close to pension will receive little benefit from the funds. A great social injustice of the transition period is the large number of **pensioners** who worked their entire productive lives and only to receive monthly pensions amounting to no more than US$15 per month.

The government has taken steps to focus public assistance programs on providing critical services to the truly needy. In 1998 the Kazakhstan government adopted a system of needs tests to ensure that social assistance is provided to those who need it and not provided to those who are not entitled to it. In addition, the government discontinued reliance on unemployment registration as a means of identifying eligibility for social assistance. Overall, public assistance in such areas as medical care,

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Kazakhstan	37	10	20	9	6	6	12
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Uzbekistan	34	3	13	4	7	9	30

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

assistance to children and the elderly, however, has fallen far below the level needed.

WORKING CONDITIONS

Kazakhstan has a workforce of roughly 8.8 million people. Some 27 percent of the labor force is occupied in industry, 23 percent in agriculture and forestry, 20 percent in education, and the remaining 30 percent in the service sector and other sectors such as government and military. The unemployment rate was estimated to be 14 percent in 1998. Unemployment is much higher in rural areas than in urban areas, where the service sector has enjoyed robust growth in recent years. Employment by women in urban areas lags behind that of men by a considerable margin, reaching 20 percent.

Kazakhstan has paid a high social price for its rapid progress in the transition from communism. Under communism, economic growth was restrained but there was a very low level of inequality. Most workers made roughly the same income. Extremes of high and low incomes were rare. Since independence, Kazakhstan's success in rapid macroeconomic and political reforms created anxiety among the country's southern neighbors, particularly Uzbekistan, where government-regulated prices and subsidized production were still the norm. Kazakhstan's abandonment of subsidies for Soviet-era industries permitted a steep industrial decline, throwing hundreds of thousands of Kazakh citizens out of work. Kazakhstan's success in privatization led to charges in the press and among many industrial workers that the Kazakhstan government had sold out to large **multinational corporations**, abandoning social principles in favor of rapid income gains for the few. Kazakhstan's efforts to court a few large multinational enterprises—particularly in the gas, oil, and minerals sectors—led to the widespread perception of growing corruption, bribery, and cronyism.

The socio-economic consequences of the transition are immediately visible in Kazakhstan. High unemployment, deteriorating or even non-existent social services, unpaid salaries, social security and pension payments, unheated apartments, and unavoidable confrontations with dishonest or corrupt local officials: these are everyday features of life in Kazakhstan.

Kazakhstan's industrial workers have sought to use collective bargaining to promote their common welfare. However, trade unionism has weak traditions in the country. The Confederation of Free Trade Unions claims a membership of about 250,000 workers. In fact, the number of independent trade union members is much lower. Other unions have had even less success. To obtain legal status, an independent union must apply for registration with local judicial authorities and with the Ministry of Justice. Registration is generally lengthy, difficult, and expensive. Independent unions gravitated towards opposition political candidates but turned more pro-government in 1999 when the government authorities introduced protectionist trade policies aimed at supporting domestic industries. Kazakhstan law does little to protect workers who join independent unions from threats and harassment by enterprise management or state-run unions. Members of independent unions have been dismissed, transferred to lower-paying jobs, threatened, and intimidated.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

650–750. A tribal alliance of herders and nomads known as the Kaganate moves into the area that is now Kazakhstan.

750. Arabs invade the area, spreading the influence of the Islamic culture and religion.

1700. The people divide into 3 Kazakh tribes (called "Juz"), which become known as the senior, middle, and junior tribes.

1731. The junior tribe joins the Russian empire, while the senior and middle tribes remain independent.

1820. The khan of Kokand, ruling from the ancient city of Kokand located far to the south, extends its political influence northward, capturing and taking control of areas of southern Kazakhstan.

1850. Major Russian **emigration** occurs. Russians arrive in Kazakhstan in search of new agricultural lands.

1867. The Russian tsar decrees the establishment of the Turkestan general-governorship, extending official Russian rule into Kazakhstan and Central Asia, making Kazakhstan part of the Russian Empire.

1917. The Bolshevik Revolution in Russia toward the end of World War I leads to the establishment of a communist government and the creation, in 1918, of the Russian Socialist Republic (which includes the territory of present-day Kazakhstan).

1925. Ethnic Kazakhs in the southern region gain recognition as the separate Karakalpak Autonomous Province. The province is included in the new republic of Uzbekistan, not in Kazakhstan, thereby dividing the ethnic Kazakhs.

1929. The capital of Kazakhstan is moved from the city of Kzyl Orda to Alma-Ata (later known as Almaty).

1929–33. The Russian government embarks upon the collectivization of agriculture to reorganize agriculture along the lines of industrial management. The disastrous agricultural policies lead to widespread opposition, farmers' uprisings, and famine.

1936. The province of the territories of modern day Kazakhstan is proclaimed to be a Soviet Socialist Republic, called the Kazakh Soviet Socialist Republic. During the rule of Soviet leader Joseph Stalin, the communist government conducts campaigns against political opposition. Thousands of Kazakhs are imprisoned for crimes against the state, the political crime of disagreement with state policy.

1957–61. Under the leadership of Soviet leader Nikita Khrushchev a new agricultural initiative called the Virgin Lands Campaign relocates tens of thousands of people from the European parts of the USSR to Kazakhstan. Kazakhstan is identified as the new bread basket of the USSR.

1986. After a decision by Soviet leaders to appoint an ethnic Russian as the head of the Kazakhstan Communist Party, widespread nationalist opposition to the dominance of the Communist Party results in public protests and riots.

1990. Demands for greater political autonomy on the part of the Socialist Republics of the USSR lead to a movement for republican sovereignty. The Kazakhstan Soviet-era parliament passes the Declaration of Sovereignty, asserting that the natural resources of the country belong to Kazakhstan and not the Soviet Union.

1991. An unsuccessful attempt to take over the Russian government by Communist Party hard-liners precipitates a crisis in Moscow. Many rank and file communists join opponents of Moscow's long-standing domination of the rest of the country. Kazakhstan, like all of the 15 republics that made up the USSR, declares national independence.

1991. In December, 11 high Communist Party officials gather in Almaty (then known as "Alma-Ata") to sign a document announcing the end of the USSR and the establishment of the Commonwealth of Independent States (CIS).

1992. Kazakhstan joins major international organizations such as the United Nations, the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development.

1993. The Kazakhstan Constitution is adopted.

1995. A new version of the Kazakhstan Constitution, assigning greater powers to the executive branch, is adopted.

1995. The first Kazakhstan tax code is introduced.

2000. Kazakhstan joins the Eurasian Economic Community, an international organization designed to create a common economic market throughout much of the former USSR.

FUTURE TRENDS

Kazakhstan's government has made substantial progress in the transition to a modern, globally integrated economy. Following independence, Kazakhstan quickly carried out macroeconomic reforms and established the legal and regulatory structure of a private economy. The country has adopted a tradable currency, liberalized prices, and privatized major sectors of the economy including industry, telecommunications, and energy. Kazakhstan lifted virtually all subsidies on consumer goods in 1994. State industrial subsidies were abandoned in 1994, and small-scale privatization has also taken place. Kazakhstan established the fundamental institutions of a civil society—a constitution recognizing a separation of powers, an electoral process, a professional judiciary, a deliberative parliament, a free press, and rights of speech, assembly, and religious freedom. Kazakhstan's record of protection of human and civil rights compares favorably with that of its former Soviet neighbors. Given these facts, it can be argued that Kazakhstan has gone further than many of the former Soviet states in the establishment of a modern state. Yet serious challenges remain.

Kazakhstan inherited a physical infrastructure designed to serve the Soviet economy by providing primary commodities such as energy and minerals to industrial markets in the north, particularly in the Ural and central Siberian industrial regions of Russia. Kazakhstan's industry was previously tightly connected to these regions of Russia because its industrial suppliers and consumers were primarily in these regions. The country's rail and road transportation systems were designed to connect its primary commodity industries with the northern manufacturing markets. These are the realities of Kazakhstan's contemporary situation: primarily commodity-based industries, a sparse population, previous economic specialization under Soviet-style **socialism**, and a legacy of centralized planning.

In terms of Kazakhstan's political future, the stakes are obviously big. Kazakhstan is potentially one of the richer countries of the region, and perhaps one of the richer countries of the world if it can succeed in negotiating access to world markets for its oil, gas, and mineral riches. But an oil-led economic development strategy has potential drawbacks for Kazakhstan. A strategy that relies exclusively on the export of primary commodities and raw materials is likely to make Kazakhstan susceptible to fluctuations in international markets. Like the other post-communist countries, Kazakhstan will very likely continue to be influenced by economic trends that it cannot control. Private international investors, with the exception of the major oil companies, have been reluctant to make major commitments to Kazakhstan. Those foreign companies that have moved into the Kazakhstan

market, such as Tractabel, the large European energy company, have found the Kazakh domestic market to be more challenging than they anticipated. There is a consensus that the Kazakh government needs to strengthen the institutional and legal underpinnings of a market economy, balance its public and private sectors, and make a more substantial commitment to strengthening the social safety net. The Kazakh government has made substantial progress in developing a market-based policy framework, at least in theory. Making this framework function in practice is one of the main challenges facing the country's economic managers.

DEPENDENCIES

Kazakhstan has no territories or colonies.

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—Gregory Gleason

KIRIBATI

Republic of Kiribati

CAPITAL: Tarawa.

MONETARY UNIT: Australian dollar (A$). One Australian dollar equals 100 cents. There are notes of A$5, 10, 20, 50, and 100. There are coins of A$1 and 2, and 1, 2, 5, 10, 20, and 50 cents.

CHIEF EXPORTS: Copra, seaweed, fish.

CHIEF IMPORTS: Food, machinery and equipment, miscellaneous manufactured goods, fuels.

GROSS DOMESTIC PRODUCT: US$74 million (1999 est.).

BALANCE OF TRADE: **Exports:** US$6 million (1998 est.). **Imports:** US$37 million (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of Kiribati comprises 33 atolls in 3 principal island groups, scattered within an area of about 5 million square kilometers (2 million square miles) in the mid-Pacific Ocean. The 3 island groups are the Gilbert Islands, the Line Islands, and the Phoenix Islands. The country extends about 3,870 kilometers (2,400 miles) from east to west and about 2,050 kilometers (1,275 miles) from north to south and has a coastline of 1,143 kilometers (710 miles). The total land area is 717 square kilometers (277 square miles). The nearest neighbors are Nauru to the west, and Tuvalu and Tokelau to the south. The capital, Tarawa, is on the island of Bairiki. Bairiki is the most populous island with around 65,000 inhabitants. The nation's largest atoll is Kiritimati (Christmas Island)—in the Line Islands group at the eastern extremity—at 388 square kilometers (150 square miles). The smallest is Banaba Island in the west at 6 square kilometers (2.3 square miles).

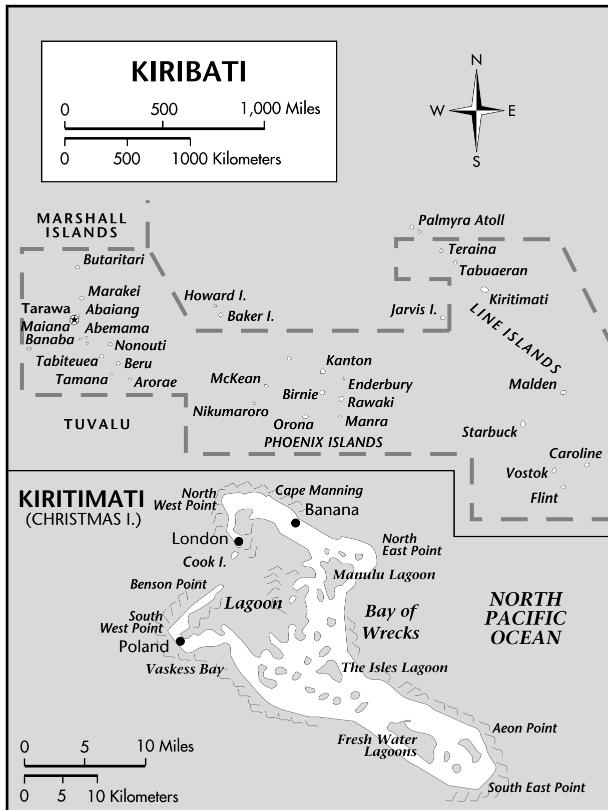
POPULATION. The population of Kiribati was estimated at 91,985 in July 2000. The current annual population growth rate is 2.34 percent, which will result in a population of 113,509 by 2010. The birth rate is 32.43 births per 1,000 population, and the fertility rate is 4.4 births per woman. The death rate is 9.01 deaths per 1,000 population. There is little or no migration to or from Kiribati. Partly because of sanitation problems caused by the lack of fresh water, as well as heavy pollution in the lagoon of South Tarawa, Kiribati has a high infant morality rate of 55.36 deaths per 1,000 live births (compared to the U.S. rate of 7 deaths per 1,000 live births).

The people are known locally as I-Kiribati. The population structure is biased toward the younger age groups, with some 41 percent of the population aged less than 15, while just 3 percent are over the age of 64. Most Kiribati are ethnically Micronesian (78 percent). The population is mainly urban and more than two-thirds (65,000) live on Tarawa atoll.

OVERVIEW OF ECONOMY

The Gilbert Islands were granted self-rule by the United Kingdom in 1971 and complete independence in 1979 under a new name, Kiribati. The United States relinquished all claims to the sparsely inhabited Phoenix and Line Island groups in a 1979 treaty of friendship with Kiribati, thus giving the island nation its present geographic composition.

The economy of Kiribati is small, and growth prospects are limited by the nation's remote location, poor **infrastructure**, poor soil, unskilled **labor force**, and lack of natural resources. Marine resources offer the greatest potential for the development of an independent, sustainable economy. Interest earned from the phosphate reserve fund is the nation's main source of foreign exchange. Prior to independence, it was realized that the phosphate resources of Kiribati were limited, and instead of using the royalty revenues from phosphate mining for immediate expenditures, they were placed in a trust fund, the Revenue Equalization Reserve Fund (RERF). The interest income from the investment of this trust fund has



been available for expenditure by the Kiribati government since independence in 1979. Commercially viable phosphate deposits were exhausted by the time of independence. Other sources of foreign exchange include some commodity exports (copra [coconut meat], seaweed, and fish), licensing income from fishing, and **remittances** from Kiribati citizens working for international shipping lines. The financial sector is at an early stage of development, as are private initiatives in other sectors. Economic development is constrained by a shortage of skilled workers, weak infrastructure, and remoteness from international markets.

Kiribati has a modest income level that places it among the poorer countries in the world's lower middle-income group. The agricultural base, including subsistence production, is narrow and generated 14 percent of GDP in 1996. Copra is the only important **cash crop**, and commercial fishing (mainly tuna) is undertaken by the small fleet of the national fishing company. The agriculture sector (including fishing) is the occupation of the majority of the working population and accounted for 71 percent of employment in 1990, though most of this employment was self-employment on small family farms. The industrial sector contributed 7 percent of GDP in 1996 (of which manufacturing was 1 percent) and the services sector contributed 79 percent. The main service activity is the government sector, with trade and hotels accounting for 14 percent of GDP. Tourism remains underdeveloped, although it has the potential to become the second largest sector after fisheries. Kiribati's extremely limited export base and dependence on imports for almost all essential commodities result in a permanent (and widening) **trade deficit**, which is in most years only partially offset by revenues from fishing license fees, interest earned on the RERF, and remittances from Kiribati working overseas.

The government has earmarked Christmas and Fanning islands in the Line group and Canton Island in the Phoenix group as prime areas for future development. There is little open unemployment in the sense of people being unable to find some gainful employment if they so wish, and unemployment is estimated at around 2 percent of the workforce. However, there is evidence of **underemployment**, with the workforce engaged for perhaps only 30 percent of the hours that might be considered normal in a working week.

Foreign financial aid is a critical supplement to GDP, equal to 25 to 50 percent of GDP since independence in 1979. Initially the United Kingdom was the largest aid donor, but has now been overtaken by some of Kiribati's Pacific Ocean neighbors. Grants from principal donors amounted to an estimated US$20.7 million in 1998, of which US$5.7 million was from Japan, US$4.5 million from Australia, and US$4.3 million from New Zealand. The country is particularly reliant on foreign assistance for its development budget. Remittances from workers abroad account for more than US$5 million each year.

The government is involved in all aspects of the economy—its spending accounts for 71.5 percent of GDP—and it is taking measures to expand the **private sector** and develop the fledgling industrial sector. The poor performance of most public enterprises burdens the budget and adversely effects economic efficiency. Unfortunately, little progress has been made in implementing the government's Medium Term Strategy, which focuses on reducing the role of the **public sector** by freezing civil service recruitment, reducing government spending, improving the accountability of public enterprises, and introducing **privatization**.

The sale of fishing licenses to foreign fleets provides an important source of income. Revenues from the sale of fishing licenses amounted to more than half of GDP in 1998. Mining of phosphate rock on the island of Banaba (which ceased in 1979) formerly provided some 80 percent of earnings. As well as providing foreign exchange, interest from the phosphate reserve fund, RERF, continues to be an important source of budgetary income. The value of the fund was put at US$380 million at the end of 1998, and generates around US$20 million a year in revenues from interest.

POLITICS, GOVERNMENT, AND TAXATION

Kiribati is an independent republic and a member of the British Commonwealth. The president is head of state and chief executive, and leads a cabinet made up of a vice-president, attorney-general, and 8 ministers. The president appoints the ministers, while the president is elected nationally from several candidates nominated by the House of Assembly (Maneaba-ni-Maungatabu). The House of Assembly consists of 41 members, elected every 4 years. Local councils have considerable autonomy in the management of local affairs.

Kiribati is governed by a constitution adopted in 1979. The first general election since independence took place in March-April 1982. The current president is Teburoro Tito, who was first elected in 1994 and re-elected in November 1998.

The Kiribati government aims to improve the growth performance of the country by encouraging new businesses and attracting new foreign companies through designation of "pioneer status." Any company that wishes to establish a business in Kiribati may apply to the Internal Revenue Board for "pioneer status". This allows for a reduced company tax rate of 10 percent for 5 years with the exceptions of business operations on South Tarawa and Christmas Islands. In addition, the government hopes to encourage diversification of the economy and is introducing reforms (such as privatization) to improve the efficiency of the economy.

There is personal **income tax**, which is set at 25 percent of gross income for the first US$36,000 and at 35 percent for amounts in excess of this. Normal company tax is based on a flat rate of 25 percent of net profit for the first US$36,000 and 35 percent for amounts above this. Tax on dividends paid to overseas investors is 30 percent, except for dividends paid to an Australian resident, where the rate is 15 percent.

Because of the high population density on South Tarawa was giving rise to social and economic problems, it was announced in 1988 that nearly 5,000 inhabitants were to be resettled on outlying atolls, mainly in the Line Islands. A further resettlement program from South Tarawa to 5 islands in the Phoenix group was initiated in 1995. Another important issue is a 1989 UN report on the "greenhouse effect" (the heating of the earth's atmosphere, and a resultant rise in the sea-level), which listed Kiribati as one of the countries that would completely disappear beneath the sea in the 21st century unless drastic measures are taken. None of the land on the islands is more than 2 meters above sea level, making the country extremely vulnerable to the effects of climate change.

The current president, Teburoro Tito, declared that reducing Kiribati's dependence on foreign aid would be a major objective for his government. He also announced his intention to pursue civil and criminal action against members of the previous administration for alleged misuse of public funds while in office.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The infrastructure of Kiribati is quite rudimentary. Whenever practicable, roads are built on all atolls, and connecting causeways between islets are also being built as funds and labor permit. A program to construct causeways between North and South Tarawa was completed in the mid-1990s. Kiribati has about 640 kilometers (398

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Kiribati	2,000	N/A	AM 1; FM 1; shortwave 1	17,000	1	1,000	1	1,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

miles) of roads that are suitable for motor vehicles. All-weather roads exist in Tarawa and Kiritimati. In 1998, there were some 2,000 motor vehicles registered in the islands, of which some 75 percent were motorcycles.

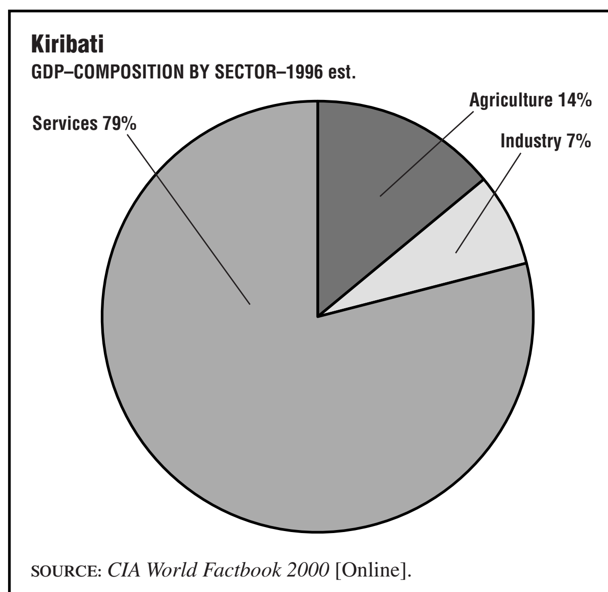
In early 1998, work began on a major project to rehabilitate the port terminal and facilities at Betio. Financing for the project, with expected completion by mid-2000, was funded by a grant from Japan of US$22 million. There is a small network of canals, totaling 5 kilometers (3.1 miles), in Line Islands as well as ports and harbors such as Banaba, Betio, English Harbor, and Kanton. There are 21 airports, 4 of them with paved runways. Only Tarawa and Christmas Island are served by international flights.

Electricity production and consumption was equal to 7 million kilowatt-hours (kWh) in 1998, 100 percent of which is produced from imported fossil fuels.

Kiribati has an earth satellite station, 1 Intelsat (Pacific Ocean). Kiribati is being linked to the Pacific Ocean Cooperative Telecommunications Network, which should improve the telephone service. In 1995, it was estimated that there were 2,600 main telephone lines in use. There is 1 short-wave radio station, 1 AM station, and 1 FM station broadcasting to 17,000 radios, according to 1997 estimates. There is 1 television broadcast station and 1,000 televisions.

ECONOMIC SECTORS

The majority of the population—an estimated 79 percent—depends on subsistence fishing and agriculture for its livelihood. Fishing and agriculture together contributed only 14 percent of GDP in 1996, however. The private sector of the economy is small, and there are few manufacturing activities. Industry contributed just 7 percent of GDP in 1996. Government services are the biggest portion of the services sector, which contributed a total of 79 percent of GDP in 1996. The country is heavily reliant on overseas aid for government administration, education, health, and the development of infrastructure. One of the government's main priorities is to reduce reliance on foreign aid through developing a more efficient economy.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agriculture (including fishing) employed 79 percent of the working population and contributed an estimated 14 percent of GDP in 1996. Much agricultural production goes to provide food for the families producing it. The major agricultural products are copra, taro, breadfruit, sweet potatoes, and vegetables; fishing is another major source of food for I-Kiribati. The principal cash crop is coconuts yielding copra, which accounted for an estimated 60 percent of merchandise export earnings in 1998. Bananas, screw-pine, breadfruit (a round seedless fruit from the mulberry family whose texture resembles bread when cooked), and papaya are also cultivated as food crops. Seaweed provided an estimated 8 percent of domestic export earnings in 1998. Pigs, chickens, and cattle are the most common agricultural livestock. Most of the land is farmed, and agriculture accounts for 51 percent of land-usage.

Average annual rainfall varies greatly, from 3,000 millimeters (118 inches) in the northern islands to 1,500 millimeters (59 inches) in Tarawa and 700 millimeters (28 inches) in the Line Islands, but the rains are reliable and sufficient to provide stable agricultural conditions.

The closure of the state fishing company was announced in 1991, as a result of a dramatic decline in the fish catch. Fish provided only 2 percent of export earnings in 1996 (compared with 32 percent in 1990). However, earnings from exports of fish had recovered to an estimated 12 percent of domestic export earnings by 1998. Agricultural GDP grew at an average annual rate of 4.1 percent in 1990–98, comfortably faster than the rate of increase of the population. Kiribati allows other nations such as South Korea, Japan, Taiwan, and the United States to fish in its territorial waters in exchange for license fees that amounted to US$28.3 million in 1998.

INDUSTRY

Industry (including manufacturing, construction, and power) contributed an estimated 7 percent of GDP in 1996. Industrial GDP increased by an average of 4.2 percent per year in the period 1990–98. Kiribati's industry is quite limited and mainly consists of fishing processing and handicrafts for tourists and for export.

SERVICES

Services provided 79 percent of GDP in 1996. The GDP of the services sector increased at an annual average rate of 4.2 percent between 1990 and 1998. Tourism makes a significant contribution to the economy, with the trade and hotels sector providing an estimated 15 percent of GDP in 1998. Between 3,000 and 4,000 visitors per year provide US$5 to US$10 million in revenues. Attractions include World War II battle sites, game fishing, **ecotourism**, and the Millennium Islands, situated just inside the International Date Line and the first place on earth to celebrate each New Year.

The financial sector is heavily reliant on 1 commercial bank, the Bank of Kiribati. Modern expertise is provided by the majority shareholder, the Westpac Banking Corporation of Australia, which owns 51 percent, while the government of Kiribati owns 49 percent. The bank has 3 branches and provides checking and savings accounts, makes loans to individuals and businesses, provides financial facilities for international trade (such as letters of credit), and undertakes foreign exchange dealings. However, the bank provides no credit card facilities. The only other bank is the Kiribati Development Bank, which lends to small-scale businesses.

The **retail** sector consists mainly of small outlets, with a few supermarkets and department stores, mostly owned by Australian companies, in the capital, Tarawa.

INTERNATIONAL TRADE

As a result of its small size and its negligible manufacturing sector, Kiribati relies heavily upon products produced in other countries. The main imports include foodstuffs, machinery and equipment, miscellaneous manufactured goods, and fuel. The main exports of Kiribati are copra (62 percent of the total), seaweed, and fish. Kiribati's main export destinations are the United States, Australia, and New Zealand, while the main origins of imports are Australia (46 percent), Fiji, Japan, New Zealand, and the United States. In 1998, the country had exports of US$6 million and imports of US$37 million.

MONEY

The Australian dollar (A$) is the legal currency of Kiribati. The value of the A$ fluctuates against the value of other world currencies. The Bank of Kiribati is responsible for the majority of the available financial services. In December 1997, its total assets amounted to US$26.1 million, of which deposits were US$23.3 million and reserves amounted to US$0.9 million. The Development Bank of Kiribati identifies, promotes, and finances small-scale projects, and its capital amounts to US$1.33 million. There is also a network of small-scale lending agencies known as "village banks" operating throughout the islands.

Exchange rates: Kiribati

Australian dollars (A$) per US$1	
Jan 2001	1.7995
2000	1.7173
1999	1.5497
1998	1.5888
1997	1.3439
1996	1.2773

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Only 2 percent of the working population is registered as unemployed, and poverty (as defined by the US$1 a day poverty line) is virtually unknown. Using the **purchasing power parity** conversion (which takes into account the low prices of many basic commodities in Kiribati, and which is the best indication of living standards) annual income per capita was US$860 in 1999 (in the United States, by way of comparison, it was US$33,900).

Education is free and compulsory for children between the ages of 6 and 15. Every atoll is provided with at least 1 primary school. The adult literacy rate was estimated at 90 percent in 1993–95. There are about 200 seamen trained each year by the Marine Training Center for employment by overseas shipping companies. In 1998, education was allocated US$7.8 million (22.5 percent of total budgetary expenditures).

The government maintains a free medical service. Each atoll has a dispensary, with a medical assistant in charge. In 1982, Kiribati had 34 government-controlled hospital establishments, with a total of 308 hospital beds. Life expectancy is 60 years (in the United States, by way

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Kiribati	800	N/A	N/A	860	850
United States	28,600	30,200	31,500	33,900	36,200
Philippines	2,600	3,200	3,500	3,600	3,800
Solomon Islands	3,000	3,000	2,600	2,650	2,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

of comparison, it is 76). In 1999, a major public health project, involving the improvement of water supply and sanitation, was undertaken with a loan of some US$10 million from the Asian Development Bank.

WORKING CONDITIONS

The society of Kiribati is egalitarian, democratic, and respectful of human rights. There have been no reports of human rights abuses. However, in the traditional culture, women occupy a subordinate role and have limited job opportunities.

The Kiribati Trades Union Congress (KTUC) was formed in 1998 and includes 2,500 members affiliated with other unions, of which the most important are the Fishermen's Union, the Seamen's Union, and the Teachers' Union. Workers are free to organize unions and choose their own representatives. The government does not control or restrict unions. More than 80 percent of the workforce is occupied in fishing or **subsistence farming**, but the small wage sector has a relatively strong and effective trade union movement.

The Constitution prohibits forced or compulsory labor, and it is not practiced. The prohibition does not specifically mention children, but the practice of forced and bonded labor by children does not occur. The law prohibits the employment of children under the age of 14. Children through the age of 15 are prohibited from industrial employment and employment aboard ships. Women may not work at night except under specified circumstances. Labor officers from the Ministry of Commerce, Industry, and Employment normally enforce these laws effectively, given the rudimentary conditions of the economy and its industrial relations system.

The government has taken no concrete action to implement longstanding legislation authorizing the establishment of minimum wages. There is no legislatively prescribed length to the working week. The government is the major employer in the cash economy. Employment laws provide rudimentary health and safety standards for the workplace. Employers must, for example, provide an adequate supply of clean water for workers and ensure the existence of sanitary toilet facilities. Employers are liable for the expenses of workers injured on the job. The government's ability to enforce employment laws is hampered by a lack of qualified personnel.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

0–100 A.D. Kiribati begins to be settled by Austronesian-speaking peoples.

1300. Fijians and Tongans arrive during the 14th century and subsequently merge with the already established groups to form the traditional I-Kiribati Micronesian society and culture.

1837. First British settlers arrive.

1892. British protectorate is established.

1915–16. Gilbert and Ellice Islands become a Crown Colony of Great Britain.

1919. Kiritimati (Christmas) Atoll becomes a part of the Crown Colony.

1937. Phoenix Islands becomes a part of the Crown Colony.

1941–45. Tarawa and other islands of the Gilbert group occupied by Japan during World War II. Tarawa is the site of one of the bloodiest battles in U.S. Marine Corps history when Marines land in November 1943 to dislodge Japanese defenders.

1975. The Gilbert Islands and Ellice Islands separate and the Ellice Islands are granted internal self-government (as Tuvalu) by Britain.

1979. Kiribati becomes independent on 12 July.

1995. Kiribati unilaterally moves the international date line to the east, so that all of Kiribati's islands are in the same date zone.

1999. Kiribati gains United Nations membership.

FUTURE TRENDS

Kiribati's economic prospects are limited by its small size in terms of both geographical area and population, its remote location, and the absence of any valuable mineral resources now that the phosphate deposits are exhausted. The population size not only means that there is not a domestic market of sufficient size to support any serious manufacturing, but that there is limited provision of services. There is only 1 bank, and as a **monopoly**, its services will tend to be expensive and the range of services limited.

On the positive side, Kiribati has a tropical location with good facilities for an expansion of tourism. Moreover, the marine fishing resources are excellent and can provide for expanded local production and employment and even be the basis of some manufacturing, such as fish processing and canning. Finally, the national revenue from the phosphate fund remains a vital, and secure, source of foreign exchange.

However, to make the most of its tourism and fishing grounds, it is important that Kiribati attract foreign investment into these sectors. The fishing is large-scale and requires expensive fishing fleets together with equipment and installations for storage. Tourism needs high-quality hotels and international marketing. The current

development plan recognizes these needs, but it remains to be seen how successful Kiribati will be in implementing the plan. A recent initiative is the agreement to lease land on Christmas Island to the Japanese National Space Agency, who will build a space shuttle launch facility there. Under the arrangement Kiribati will be paid just under $1 million a year in leasing fees. A research project is under way to use coconut oil to power internal combustion engines for electricity generation, and this may well contribute to energy self-sufficiency, as will the expansion of solar power on the outlying islands.

Overall, Kiribati can be expected to maintain its lower middle-income status in the immediate future, but its long-term growth prospects depend on its ability to expand tourism and undertake more of the exploitation of its fishing grounds rather than licensing foreign fleets.

DEPENDENCIES

Kiribati has no territories or colonies.

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—Oygal Musakhanova

INTRODUCTION TO WORLD CURRENCY

The following insert contains color photographs of paper currency from around the world. Where possible, the most recent issue and lowest denomination was selected to show the bank notes of the countries represented in this encyclopedia. As of the year 2002, approximately 169 countries issued their own paper money.

Bank notes are more than a measuring system for value to be used as payment for goods and services. In many instances a banknote is a graphic reflection of a country's history, politics, economy, environment, and its people. For example, many bank notes depict plant life such as flowers and trees, as well as birds and other animals native to that geographic region. The 5-lats note of Latvia has a giant oak tree on the front, while the 25-rupee note of Seychelles and the 5-guilder note of Suriname both show flowers from the homeland. Birds adorn notes from São Tomé and Príncipe, Papua New Guinea, and Zambia. Large animals such as the mountain gorillas on the 500-franc note from Rwanda, the white rhinoceros on the 10-rand note from South Africa, and the bull elephant on the 500-shilling note of Uganda are commonplace.

Famous rulers and political figures from history are prevalent. Sir Henry Parkes, a famous 19th-century statesman, graces the front of the 5-dollar note from Australia; and Canada's Sir John Alexander MacDonald, a noted Canadian prime minister from the same time period, appears on the front of the 10-dollar Canadian note. Mieszko I, a medieval prince credited with being the founder of Poland in 966, is on the 10-zloty note from that country. Bank notes also reflect the power of more contemporary rulers, as exemplified by the image of Iraq's current president, Saddam Hussein, on that country's 50-dinar note, issued in 1994. Malaysia's paramount ruler and first chief of state, Tunku Abdul Rahman, is on the front of that country's 1-ringgit note and all notes of all denominations issued since 1967.

Architectural vignettes are common on world notes. Islamic mosques with minarets can be found on the 5000-afghani note from Afghanistan, as well as the 25-piaster note from Egypt, indicating the prevalent Islamic religious influence in those 2 countries. The 5-pound 1994 regular issue note from Ireland shows the famous Mater Misericordiae Hospital in Ireland, where Sister Catherine McAuley, founder of the Sisters of Mercy religious order, served in the area of health care. The depiction of religious figures is common on European notes. Examples include St. Agnes of Bohemia on the 50-koruna note of the Czech Republic, St. John of Rila on the 1-lev note of Bulgaria, and the Archangel Gabriel on the 50-denar note of Macedonia.

Artists, authors, scientists, and musicians are also honored on many bank notes. James Ensor (1860–1949), an innovative painter and etcher, is shown on the 100-franc note from Belgium, while Baroness Karen Blixen (pen name Isak Dinesen), the famed Danish author of *Out of Africa* is found on the 50-krone note of Denmark.

Several notes commemorate the new millenium, significant local events, or anniversaries. The front of the 2000-leu commemorative note from Romania has an imaginative reproduction of the solar system as a reference to the total solar eclipse of 11 August 1999. Another example of a commemorative note is the 200-rupee note from Sri Lanka. The note was issued 4 February 1998 to commemorate the 50th anniversary of independence as a self-governing Dominion of the British Commonwealth.

As of 2002, 15 countries did not issue or use their own paper currency, but allowed the bank notes of neighboring countries as well as U.S. currency to circulate freely in their local economies. Many of these countries are relatively small in size with economies to match. Countries such as San Marino, Monaco, Liechtenstein, and Vatican City are tourist-oriented and do not see a need to issue their own homeland currency. Five of these fifteen countries—namely Marshall Islands, Micronesia, Palau, Panama, and Puerto Rico—all use the U.S. dollar as their monetary unit of exchange. As of March 2001, Ecuador and El Salvador had joined the above-mentioned countries in adopting the U.S. dollar. Countries struggling with hyperinflation (uncontrolled inflation marked by the sharp devaluation of the homeland currency) may choose to use the U.S. dollar in place of their own currencies in an attempt to stabilize their economy by linking it directly to the strength and stability of the

U.S. economy. Countries that use U.S. dollars in conjunction with sound economic policies can usually expect to control and/or minimize inflation. The complete adoption of the U.S. currency has been more successful than the practice of pegging the value of local currency to the U.S. dollar according to a fixed ratio, an approach attempted recently by Argentina to disastrous effect. Even those countries that have not completely adopted the U.S. dollar as their currency often have economies operating freely with both their own national and the U.S. currencies. The strength of the U.S. dollar has also made it the currency of choice in the global black market.

Another trend that will probably continue into the future is the joining together of several neighboring countries to form a central bank issuing a common currency. The primary objective of these economic and monetary unions is to eliminate obstacles to free trade, creating a single unified marketplace. This grouping together tends to strengthen the economy and currency of the member countries as well as providing a cost savings in currency production. While such economic partnerships have occurred throughout history, more recent examples began in the early 1950s with the union of the East Caribbean States, followed by the Central African States, French Pacific Territories, and West African States. The most recent and highly publicized example is the European Monetary Union (EMU), composed of 12 European member countries—namely Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. On 1 January 2002, the EMU, through its newly formed central bank, replaced the participating countries' homeland currencies with a new common currency called the *euro*. An example of the 10-euro note is shown on the following currency insert pages. Those countries that had pegged their currencies to an EU member's currency prior to the euro's adoption (as several Francophone countries in Africa did with the French franc) now peg their currency to the euro.

It should be mentioned that, in contrast to this recurring trend of country unification for economic and monetary purposes, there are several countries with isolationist governments that have done just the opposite in order to limit the influence of the international community on their economies and populations. For example, Iraq and Syria have made it illegal to use or export their currency outside of their homelands. Several other nations embraced this isolationist attitude through the use of trade voucher and tourist certificates in place of currency, thus keeping their national circulating bank notes from being used or exported by visitors to their country. China, Bulgaria, and Poland are examples of countries that issued what they termed "foreign exchange certificates" for this specific purpose. However, this practice has largely been discontinued, with the exception of Cuba, which still uses a similar certificate first issued in the mid-1980s.

So what does the future have in store for the economies of the world? Trends indicate most countries in the world want free, open, and balanced trade with a strong, stable, and growing economy, free of hyperinflation. More countries are achieving this goal by unifying in regional economic partnerships such as the European Union, or by clearing the barriers to free trade through agreements such as NAFTA (North American Free Trade Agreement). As the use of the U.S. dollar increases throughout the Americas, some economists predict that this region will follow in the footsteps of Europe in terms of establishing a common currency under a central bank. The Asian and Middle-Eastern regions are also likely candidates for similar regional economic partnerships given the prevalence of established trade agreements already in existence among those countries. As the globalization of trade necessitates closer economic ties between countries, it is not inconceivable that a single central bank and common currency will eventually unite the countries of the world. While that development is still only a remote possibility at this point, there is little doubt that nations' increased dependence on international trade for economic prosperity will promote a currency policy conducive to closer trade ties and cross-border partnerships.

—Keith S. Bauman, professional numismatist
International Bank Note Society
American Numismatic Association
Professional Currency Dealers Association

Afghanistan

Albania

Algeria

Andorra
(used both Spanish and French currency until the adoption of the euro in January of 2002)

Angola

Antigua and Barbuda
(shares currency with other East Caribbean States)

Argentina

Armenia

Aruba

Australia

Austria
(adopted the euro as of January 2002)

Azerbaijan

The Bahamas

Bahrain

Bangladesh

Barbados

Belarus

Belgium
(adopted the euro as of January 2002)

Belize

Benin
(shares currency with other West African States)

Bhutan

Bolivia

Bosnia and Herzegovina

Botswana

Brazil

Brunei Darussalam

Bulgaria

Burkina Faso
(shares currency with other West African States)

Burma (Myanmar)

Burundi

Cambodia

Cameroon
(shares currency with other Central African States)

Canada

Cape Verde

Central African Republic
(shares currency with other Central African States)

Chad
(shares currency with other Central African States)

Chile

China

Colombia

Comoros

Democratic Republic of the Congo

Republic of the Congo
(shares currency with other Central African States)

Costa Rica

Côte d'Ivoire
(shares currency with other West African States)

Croatia

Cuba

Cyprus

Czech Republic

Denmark

Djibouti

Dominica
(shares currency with other East Caribbean States)

Dominican Republic

Ecuador

Egypt

El Salvador

Equatorial Guinea
(shares currency with other Central African States)

Eritrea

Estonia

Ethiopia

European Union (EU)

Fiji

Finland
(adopted the euro as of January 2002)

France
(adopted the euro as of January 2002)

French Guiana, Martinique, and Guadeloupe
(used the Fench currency until the adoption of the euro in January 2002)

French Polynesia

Gabon
(shares currency with other Central African States)

The Gambia

Georgia

Germany
(adopted the euro as of January 2002)

Ghana

Greece
(adopted the euro as of January 2002)

Grenada
(shares currency with other East Carribbean States)

Guatemala

Guinea

Guinea-Bissau
(shares currency with other West African States)

Guyana

Haiti

Honduras

Hong Kong

Hungary

Iceland

India

Indonesia

Iran

Iraq

Ireland
(adopted the euro as of January 2002)

Israel

Italy
(adopted the euro as of January 2002)

Jamaica

Japan

Jordan

Kazakhstan

Kenya

Kiribati
(uses the Australian currency)

North Korea

South Korea

Kuwait

Kyrgyzstan

Laos

Latvia

Lebanon

Lesotho

Liberia

Libya

Liechtenstein
(uses the Swiss currency)

Lithuania

Luxembourg
(adopted the euro as of January 2002)

Macau

Macedonia

Madagascar

Malawi

Malaysia

Maldives

Mali
(shares currency with other West African States)

Malta

Marshall Islands
(uses the U.S. currency)

Mauritania

Mauritius

Mexico

Micronesia
(uses the U.S. currency)

Moldova

Monaco
(used the Frency currency until the adoption of the euro in January 2002)

Mongolia

Morocco

Mozambique

Namibia

Nauru
(uses the Australian currency)

Nepal

The Netherlands
(adopted the euro as of January 2002)

Netherlands Antilles

New Zealand

Nicaragua

Niger
(shares currency with other West African States)

Nigeria

Norway

Oman

Pakistan

Palau
(uses the U.S. currency)

Panama
(uses the U.S. currency)

Papua New Guinea

Paraguay

Peru

Philippines

Poland

Portugal
(adopted the euro as of January 2002)

Puerto Rico
(uses the U.S. currency)

Qatar

Romania

Russia

Rwanda

San Marino
(used the Italian currency until the adoption of the euro in January of 2002)

São Tomé and Príncipe

Saudi Arabia

Senegal
(shares currency with other West African States)

Seychelles

Sierra Leone

Singapore

Slovakia

Slovenia

Solomon Islands

Somalia

South Africa

Spain
(adopted the euro as of January 2002)

Sri Lanka

St. Kitts and Nevis
(shares currency with other East Caribbean States)

St. Lucia
(shares currency with other East Caribbean States)

St. Vincent and the Grenadines
(shares currency with other East Caribbean States)

Sudan

Suriname

Swaziland

Sweden

Switzerland

Syria

Taiwan

Tajikistan

Tanzania

Thailand

Togo
(shares currency with other West African States)

Tonga

Trinidad and Tobago

Tunisia

Turkey

Turkmenistan

Tuvalu
(uses Australian currency)

Uganda

Ukraine

United Arab Emirates

United Kingdom

United States

Uruguay

Uzbekistan

Vanuatu

Vatican City
(used the Italian currency until the adoption of the euro in January of 2002)

Venezuela

Vietnam

Yemen

Yugoslavia

Zambia

Zimbabwe

KOREA, NORTH

Democratic People's Republic of Korea
Choson Minjujuui Inmin Konghwa-guk

CAPITAL: P'yongyang.

MONETARY UNIT: North Korean won (KPW). One won equals 100 ch'on (or jeon). There are coins of 1, 5, 10, and 50 ch'on. There are notes of 1, 5, 10, 50, and 100 won.

CHIEF EXPORTS: Minerals, metallurgical products, manufactures (including armaments), agricultural, fishery products.

CHIEF IMPORTS: Petroleum, coal, machinery and equipment, consumer goods, grain.

GROSS DOMESTIC PRODUCT: US$22 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$520 million (f.o.b., 2000). **Imports:** US$960 million (c.i.f., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. North Korea is in eastern Asia and occupies the northern half of the Korean Peninsula. It borders China to the north, Russia to the far northeast, the Sea of Japan to the east, South Korea to the south, and the Korean Bay and Yellow Sea to the west. The country covers an area of 120,549 square kilometers (46,543 square miles), making it slightly smaller than the state of Mississippi. It has 1,673 kilometers (1,039 miles) of land borders and 2,495 kilometers (1,550 miles) of coastline. The capital city, P'yongyang, is situated in the western part of the country, while the other major cities of Hungnam, Ch'ongjin, and Namp'o are in the east, northeast, and west, respectively.

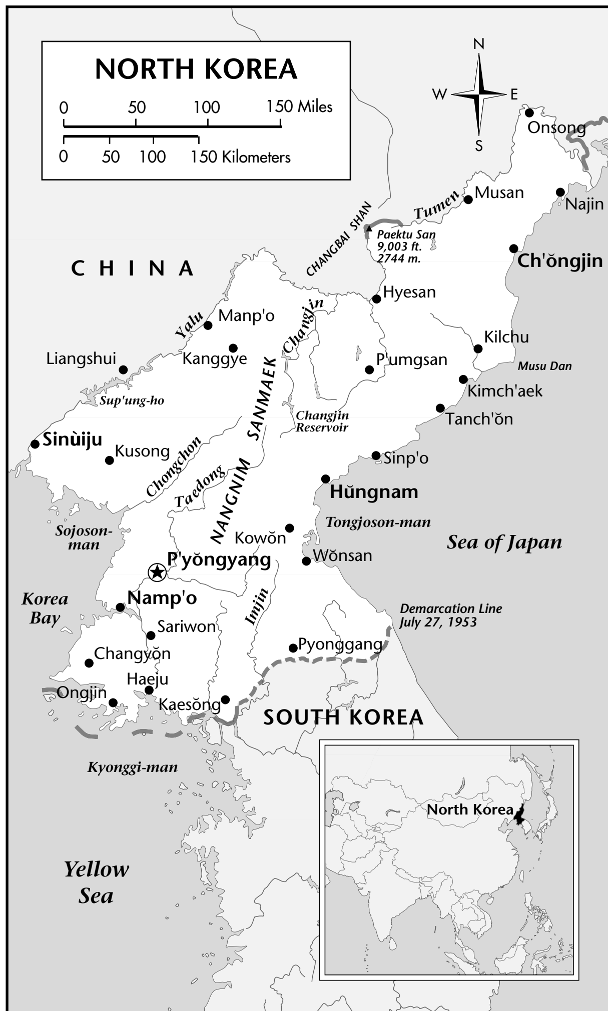
POPULATION. Data on North Korea's population is scarce and unreliable. Because of serious famine in the late 1990s, it is thought that between a half million and 3 million North Koreans may have died of hunger and about 100,000 might have fled to China in search of food. In July 2000 the population was estimated at 21,687,550, with a growth rate of about 1.35 percent. The birth rate in 2000 was 20.43 births per 1,000 population and the death rate 6.88 deaths per 1,000 population.

The population is ethnically homogenous, consisting primarily of ethnic Koreans plus small communities of Chinese and Japanese. About 68 percent of the people are aged between 15 and 64 years and 6 percent over 65 years. The literacy rate, estimated at 99 percent in 1990, is high. The majority of North Koreans (about 70 percent in 1993) live in urban areas. Based on 1987 statistics, P'yongyang is the largest city with a population of 2,355,000, followed by Hungnam (701,000), Ch'ongjin (520,000), and Namp'o (370,000).

Most of the population follows the Buddhist faith. There are a handful of Christians, but freedom of religion is illusory, religious practice—like all else in North Korea—being manipulated and controlled by the state.

OVERVIEW OF ECONOMY

The crippled economy of North Korea is the direct product of its political system, a **communist** dictatorship. Severe economic problems are the legacy of years of Soviet-style development and controls that have ceased to function efficiently in a free market oriented world. Korea was annexed by Japan in 1910. In 1945, at the end of World War II when the Japanese surrendered to the Western allies, Korea was divided into North and South under the control of the Soviet Union and United States, respectively. The division, marked at the 38th parallel, was made permanent in 1948. North Korea, under the dictatorship of President Kim Il Sung, emerged as an autocratic, state-controlled nation. Despite the establishment of an extensive **infrastructure** and the introduction of mechanized agriculture, the government's emphasis on heavy industry at the expense of light manufacturing, service, and agriculture, and the isolationist nature of the regime, have cost the country dearly. North Korea has accumulated many economic problems, experiencing years of negative growth in its **gross domestic product**



(GDP), which sank to -6.3 percent in 1997. The economy improved in 1999 and 2000 thanks to extensive foreign aid and better agricultural performance, but the reported growth rate of 6.2 percent for 1999 seems unrealistic. The estimated growth rate in 2000 was a more realistic -3.0 percent. Production in 1999 was 75 percent of the 1989 level.

The North Korean economy remains in decline, and the country is unable to meet its basic needs in food and **consumer goods**. It produces little for export, and its international isolation has limited its opportunities for trade or financial assistance, resulting in a **trade deficit** of US$440 million in 2000 and a growing dependency on foreign aid. High expenditures on defense (estimated at between 25 and 33 percent of GDP in 1998) has worsened the situation, while floods and drought between 1995 and 1997 devastated the country's agriculture and led to famine.

North Korea established its economy with assistance from the major communist powers, the Soviet Union and China. Until 1991, both regimes provided assistance in funds, equipment, training, and technology, enabling North Korea to advance more rapidly than South Korea during the 1970s. The government has also received loans from Japan, France, West Germany, Sweden, and Austria. By 1997, the country's **foreign debt** amounted to US$11.9 billion, of which US$7.4 billion was owed to China and Russia. Although hampered by financial problems in paying its debts, the government has refused to pay back loans even when it has been able to do so. It has acquired poor status in the international community, depriving the country of foreign loans. This is a serious situation for a country that requires substantial investment to modernize and expand its crumbling infrastructure, heavy industry, agriculture, light industry, and services.

The deteriorating economy has inclined the North Korean leadership to consider shifting to the Chinese model of **socialism**, which leaves room for a degree of free enterprise (though not a corresponding political and social openness). In 2000 President Kim Jong Il (who replaced his father upon his death in 1994) indicated a shift, reflecting constitutional revisions made in 1998. These revisions allow increased scope for private property ownership and the establishment of farmers' markets. By tolerating the expansion of these markets and increasing trade with China, North Korea's government has sanctioned the creation of a **private sector**. With its politically conciliatory hosting of official visits from South Korean President Kim Dae-jung and U.S. Secretary of State Madeline Albright to P'yongyang in 2000, North Korea hoped to create ties that would help in **restructuring** its economy. South Korea has offered to rebuild infrastructure in the North and to invest in its economy.

POLITICS, GOVERNMENT, AND TAXATION

The Korean Workers' Party (KWP) has dominated the North Korean political system since 1948. As a communist party opposed to free enterprise, it controls the economy with little room for private initiative. The state is the country's only economic actor, its only economic planner, and its sole employer. The suppression of any form of political dissent has not allowed opposition parties to advance an alternative economic model.

The constitution, created in 1948 and revised in 1972, 1992, and 1998, calls for a single legislative body called the Supreme People's Assembly, with 687 seats. Though Assembly members are "elected," in fact the KWP supplies a single list of candidates who are elected without opposition. The Assembly members similarly elect the premier, but true executive power lies with the president, Kim Jong Il. There is also a judicial branch whose members are selected by the Supreme People's Assembly.

The state's ideology and autocracy are responsible for North Korea's economic problems. The North Korean economy proved unstable because it relied on outside financing and socialist ideology, rather than private enterprise. In the absence of a viable private sector, the economy was forced to survive on foreign assistance and trade with the Soviet Union. The Soviet collapse in 1991 brought an end to its aid to North Korea. China's ideological "betrayal" of North Korea in establishing ties with South Korea in 1992 also deprived the North of much financial support. The North Korean government has since then found itself unable to solve its economic problems on its own. Despite the massive national deficit, the country spends vast sums of money (estimated at between US$3.7 and US$4.9 billion in 1998) on the armed services, maintaining one of the world's largest armies while requiring international food aid for the survival of its starving population.

Taxes and exports are the main sources of government revenues. In 1996 taxes accounted for 83 percent of revenue and exports for about 9 percent (US$9.4 billion). Additional funds come from the association of pro-P'yongyang Koreans residing in Japan, known as Chongryun, but the exact amount of their contribution is unknown. Income from rights leased to Japanese fishing boats operating in North Korean waters is another source of money. Allegations have been levied against the North Korean government about earning income from counterfeit money, heroin trafficking, and smuggling used cars.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Although North Korea's infrastructure is extensive, it is crumbling and in need of expansion and modernization. The country's road system, estimated at 20,000 to 31,200 kilometers (between 12,400 and 19,344 miles), is limited and unpaved. Private cars are scarce and the number of trucks is limited. The 5,000-kilometer (3,100-mile) railway network, originally built by the Japanese, provides 70 percent of passenger transport and carries about 90 percent of the annual freight traffic.

Most of the country's ports and airports need modernization. Of North Korea's 12 ports, only a few can handle large ships, while only 22 of its 49 airports have paved runways. P'yongyang's Sunan airport operates 20 weekly flights, servicing only 6 destinations.

North Korea suffers from a shortage of oil and gas. The oil shortage came after the country was deprived of its access to low-priced Soviet oil and saw a significant decrease in oil shipments from China. The country produces electricity from fossil fuel (34.4 percent) and hydroelectric power generators (65.6 percent). Over the next several years, North Korea will approve funds to construct over 100 new power generating plants. The state-owned oil and gas facilities are being **privatized** and provide excellent opportunities for investment. In 1999 it was estimated that the country produced 28.6 billion kilowatt-hours (kWh) of electricity.

The telecommunication system is undeveloped. In 1995 there were 1.1 million telephone lines in use. Based on 1998 statistics, North Korea has 12 radio stations (AM, FM and short wave) and 38 television stations. There are 3.36 million radios and 1.2 million television sets in use. The country has 1 Internet service provider and no cellular telephone system.

ECONOMIC SECTORS

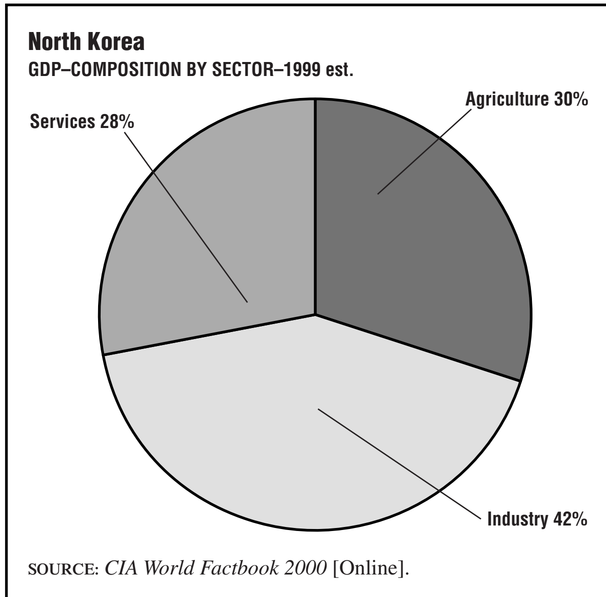
North Korea's economy is in ruins. The disintegration of the Soviet Union, government mismanagement, and natural disasters have been partly responsible for the poor performance of the country's economic sectors. Industry is the dominant sector but is unable to generate revenue, jobs, and consumer goods to meet the country's demands. While agriculture is mechanized, the equipment is outmoded and fertilizers are in short supply. The service sector is both limited and underdeveloped. The overhaul and development of these sectors is essential for

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
North Korea	199	147	53	N/A	0	N/A	N/A	N/A	N/A
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Japan	578	955	707	114.8	374	126.8	237.2	163.75	27,060
South Korea	393	1,033	346	138.3	302	N/A	156.8	55.53	10,860

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

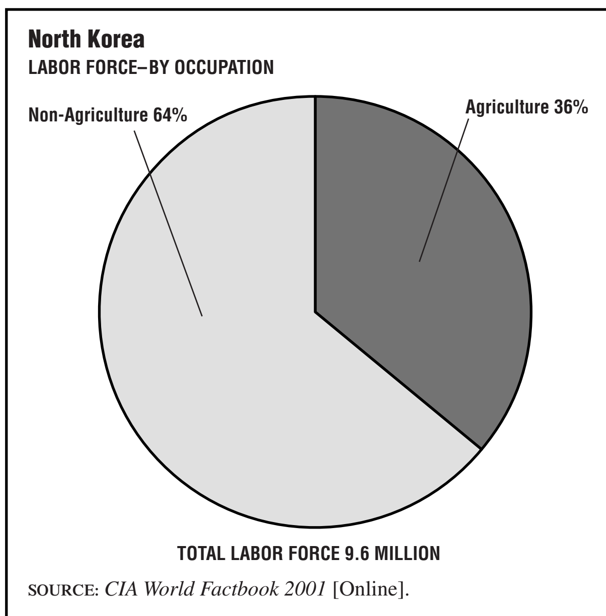


SOURCE: *CIA World Factbook 2000* [Online].

recovery and growth, as is the adoption of a new economic model.

AGRICULTURE

Despite the occurrence of drought in late spring, often followed by floods, the North Korean climate is temperate. Only 14 percent of the land is arable, however. North Korea has never been agriculturally self-sufficient. Agriculture is nevertheless a major contributor to the economy. In 1999, the sector accounted for 30 percent of GDP and employed 36 percent of the workforce (3.5 million workers). Rice, corn, potatoes, soybeans, pulses, eggs, and pork make up the bulk of agricultural production.



SOURCE: *CIA World Factbook 2001* [Online].

North Korea's agriculture was collectivized in the 1950s and was fairly successful until the early 1990s. Modern techniques more than doubled the total harvest from 3.85 million tons in 1966 to 8.47 million tons in 1984. However, the sector's annual growth rate fell from 2.8 percent in 1991 to 1.5 percent in 1995. A misguided emphasis on rice and maize production led to over-cultivation and exhausted the soil. Ill-conceived terracing, a shortage of fertilizers, floods, and a drought contributed to a steep decline in yield during the 1990s, leading to widespread famine and deaths. Massive foreign aid halted the death rate and helped increase the land under cultivation in 1998 and 1999. Crop production rose to 4.62 million tons in 1999, but remained 1.1 million tons short of the minimum needed. The country survived on foreign assistance, which included 550,000 tons of rice from Japan in 2000.

North Korea needs large investments for the revival of its agriculture. Recent initiatives include aid from the **United Nations Development Program** for Agricultural Recovery and Environmental Protection, and the expansion of farmers' markets, which might stimulate growth by creating financial incentives for farmers. However, these measures still fall short of what is required.

There is little data on 2 important contributors to the North Korean economy: forestry and fishing. Such data as there is suggests that these activities are sufficient to satisfy domestic demand for lumber and fish and to supply exports. Fish products are exported to Japan and lumber to Russia. However, North Korea's annual catch declined in 2000 when fuel shortages grounded much of its fishing fleet.

INDUSTRY

Accounting for 42 percent of GDP in 1999, industry is the largest sector of the North Korean economy. Along with services, it employs 64 percent of the North Korean workforce.

MINING. North Korea has significant mineral resources, including the world's largest deposits of magnesite. However, the rest of its resources (brown and lignite coal, iron ore, cement, copper, lead, zinc, gold, tungsten, graphite, salt, and silver) are not sizeable enough to make the country a major world producer, though it may be able to engage in some production should these sectors receive some investment. Precious and non-ferrous metals are the country's most important exports. Aging equipment and flood damage in the mid-1990s led to a fall in North Korea's mineral output. Mining recorded negative growth between 1991 (-6.8 percent) and 1995 (-2.3 percent), when its share of GDP was 8 percent. As with other in-

dustries, only significant investment will allow the mining industry to become a vital source of economic growth.

MANUFACTURING. Manufacturing is the largest contributor to North Korea's GDP, accounting for the bulk of industry's share of GDP. Manufacturing produces metallurgical products, armaments, and textiles for export to China, Japan, South Korea, Germany, and Russia. North Korea's heavy industrial base was developed originally by the Japanese and later expanded by the Soviets. However, while the country expanded heavy industry and the production of military hardware, little was invested in light industry or the manufacture of consumer goods. The heavy dependency on the Soviet Union for financing, technology, equipment, spare parts, and energy caused a major decline in manufacturing once the Soviet Union ceased to be a source of assistance. Many industrial units work at a fraction of their original output following the cut in Soviet aid in 1991.

The country's manufacturing facilities need modernization and the expansion of its light and consumer industries. An improved relationship between North and South Korea has brought the North limited investment by 2 South Korean companies, Samsung and LG, who manufacture electronics in North Korea. These companies take advantage of the country's low labor costs. The South Korea-based car company Hyundai has also been negotiating with the North Koreans about the possible creation of an export-oriented industrial complex.

CONSTRUCTION. The construction industry has also suffered from the country's economic decline. Since the 1990s, a decline in industrial construction, housing, and building of infrastructure has reduced activity in the sector. The construction industry's share of GDP fell from 9.1 percent in 1992 to 6.1 percent in 1999.

SERVICES

Services are the least developed sector in the North Korean economy, contributing just 28 percent of GDP in 1999. There is no precise record of employment figures for the services sector, but the little available evidence indicates that only a small percentage of the **labor force** is involved.

TOURISM. Since the 1990s, some tourists have begun to visit North Korea from Taiwan, Singapore, and the West. The country's scenic landscape and mountains offer much potential for the growth of tourism. The government built new hotels in the 1990s, and there is a casino for the use of foreigners, which accepts **hard currencies** only. Improved relations between the 2 Koreas have made short trips to the North possible for tourists from South Korea. The South Korean Hyundai company took a total of 80,000 South Koreans to Mount Kumgang between November 1998 and June 1999, but the South Korean government suspended such trips after a South Korean tourist was arrested on spy charges. North Korea claims that the number of tourists doubled in 2000 compared to 1999, but no actual figures are available for either year.

RETAIL. The **retail** sector is also state-dominated, although there is now a little room for limited private initiatives. The sector consists of state-run stores and direct factory outlets for average citizens, farmers' markets, and special shops for the elite where luxury products are sold. There is a chain of hard-currency stores in large cities that were established as a **joint venture** between the state and the Chongryun. As a general rule, the range of consumer goods is limited and their quality is low.

FINANCIAL SERVICES. North Korea's financial sector is state-dominated. Two state banks control the entire industry: the Central Bank of North Korea, which has 227 local branches, and Changgwang Credit Bank, with 172 branches. The Foreign Trade Bank handles most international trade affairs. Two state companies, the State Insurance Bureau and the Korea Foreign Insurance Company, **monopolize** the insurance industry.

INTERNATIONAL TRADE

North Korea's international trade is characterized by its ongoing deficit, which varied from US$570 million in 1995, US$320 million in 1998, and US$440 million in 1999. This chronic disparity between import expenditure and export income reflects the low level of the country's exportable products as well as its international isolation, which limits the number of its trade partners. The loss of large-scale trade with Russia in 1991 was a blow that worsened the trade deficit. Soviet-North Korean trade dropped from US$2.7 billion in 1990 to US$100 million in 1999. The loss increased North Korea's growing foreign debt.

North Korea exports minerals, metallurgical products, manufactures, armaments, timbers, and fish products, and imports energy products, grain, machinery, equipment, and consumer goods. Its 2 largest trading partners are China and Japan, with South Korea, Germany, and Russia making up its other markets. In 1995, Japan purchased 28 percent of North Korea's exports, followed by South Korea (21 percent), China (5 percent), Germany (4 percent), and Russia (1 percent.) The largest suppliers of imports to North Korea were China (33 percent), Japan (17 percent), Russia (5 percent), South Korea (4 percent), and Germany (3 percent).

Better relations between North and South Korea might well turn the South into the North's largest trading partner. Inter-Korean trade increased by 24 percent during the first 5 months of 2000, with more than a third of this sum contributed in aid from South Korea.

MONEY

North Korea used to have multiple **exchange rates**, but now has a single, fixed rate set by the Central Bank of North Korea. A free-**floating exchange rate**, determined by supply and demand, exists in the Rajin-Sonbong Free Economic and Trade Zone only (a zone in the north of Korea in which state control has been relaxed and free-market interactions flourish). This rate, and that of the **black market**, reveal the lack of worth of the North Korean currency. In 1999, floating and black market rates revealed an exchange rate of 200 won to US$1, while the official rate was 2.20 won to US$1. The economic upheavals of the 1990s had no impact on the official fixed rate, which has been kept just higher than 2 won against the U.S. dollar since 1989. The artificial rate and the low value of the North Korean won on the open market have made it very difficult for the country to trade with most modernized economies. North Koreans and foreigners are subject to exchange restrictions, with certain exceptions in the Rajin-Sonbong zone.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
North Korea	900	900	1,000	1,000	1,000
United States	28,600	30,200	31,500	33,900	36,200
Japan	22,700	24,500	23,100	23,400	24,900
South Korea	14,200	13,700	12,600	13,300	16,100

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

POVERTY AND WEALTH

Neither extreme poverty nor wealth exists in North Korea, though in general the inhabitants live under conditions that do not match those of people in more modern countries, including their prosperous neighbors in South Korea. The government is committed to providing necessities to every person, but the ruling elite enjoys a more prosperous life than the general population. They are entitled to privileges such as quality housing, access to select shops with quality imported goods, and foreign travel.

Until the famine of 1995, North Korea's education, health-care, and nutrition systems were thought to operate efficiently. Education is free and compulsory to age 15, which may explain the 99 percent literacy rate. A kindergarten system is available to all children. Higher education is serviced by over 200 institutions, which specialize in science and technology. In 1998 college graduates made up 13.7 percent of the adult population, compared to 9.2 percent in South Korea. Health care is free in North Korea. The health system provides a large number of hospitals and clinics staffed by skilled professionals.

The natural disasters of the late 1990s caused phenomenal human casualties, however. Although little information is available about survivors in the affected areas, the worsening economic situation and famine have lowered the living standard of the entire population. Attendance has fallen at all educational institutions, and there have been reports of severe shortages of medicines and equipment. Malnutrition among children has been increasing since 1995. A system of food rationing designed to provide an adequate diet collapsed in various parts of the country during the late 1990s. In 1998 about 16 percent of children were malnourished, and another 62 percent suffered from illnesses related to undernourishment.

Exchange rates: North Korea

North Korean won (KPW) per US$1	
1995–2001	N/A
May 1994	2.15
May 1992	2.13
Sep 1991	2.14
Jan 1990	2.1
Dec 1989	2.3

Note: Latest data available.

SOURCE: CIA *World Factbook 2001* [ONLINE].

WORKING CONDITIONS

Although North Korea has labor laws, it is not a member of the International Labor Organization. All working-age North Koreans are expected to work for the good of the nation. Women have equal rights, and are well represented in the workforce, except at senior party or government levels. Forced labor is not prohibited and is often used as punishment for political offenses; in addition, people are often mobilized for construction projects. Child labor for children under the age of 16 is prohibited, but school children are sent for short periods to factories or farms to help production. The law provides for an 8-hour working day, but some reports claim that the hours are longer.

The country's union, the General Federation of Trade Unions of Korea, is run by the state. It encourages workers to meet production goals and also provides health, education, cultural, and welfare services to its members. Workers do not have the right to organize, bargain collectively, or strike. The formation of independent unions is prohibited.

The government sets wages and assigns all jobs. Besides free medical care and education, it provides other benefits such as subsidized housing. No data exists on the minimum wage paid by the state-owned enterprises, but it fluctuates between US$80 and US$110 per month in North Korea's free economic zone, and in foreign-owned businesses and joint ventures.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1910. Japan annexes Korea following wars on the Asian continent with China and Russia, ruling Korea as a colony until the end of World War II in 1945.

1945. At the end of World War II, Japan surrenders to the Western allies and ends its colonial rule of Korea. The Korean Peninsula is "temporarily" divided between the Soviet Union and the United States.

1948. Led by Kim Il Sung, the Democratic People's Republic of Korea was established in the northern half of the Korean Peninsula.

1950–53. The Korean War pits the communist North, backed by Russia and China, against the capitalist South, backed by the United States. The war is fought to a standstill, and ends with the 2 countries divided by a demilitarized zone along the 38th parallel.

1950s. Agriculture is collectivized .

1980. Kim Il Sung's son, Kim Jong Il, is announced as his father's successor.

1991. The Soviet Union collapses and the Russian government stops economic assistance to North Korea.

1993. In December, North Korea's government admits the failure of its 7-year economic plan.

1994. Kim Il Sung dies and is replaced by his son, Kim Jong Il, as the country's supreme leader.

1995. A flood devastates North Korea's agriculture, sparking widespread famine.

1996. Another flood further damages agriculture and mining.

1997. A drought paralyzes the North Korean agricultural sector and worsens the famine.

1998. North Korea amends its constitution to make room for the growth of a small private sector.

2000. South Korean President Kim Dae-jung and U.S. Secretary of State Madeline Albright pay an official visit to P'yongyang, marking the end of North Korean isolation.

FUTURE TRENDS

Economic realities should soon force the North Korean government to loosen its constraints on free enterprise while keeping its socialist framework in place. The country needs foreign assistance in various forms to address its many economic problems, which should push it towards the cementing of improved relations and the forging of closer ties with South Korea. A better relationship with the United States would also help North Korea engage more actively in international trade. However, unless North Korea provides a suitable environment for economic growth, dissolves its isolationism, and improves relations with South Korea, the United States, and the major economies in its geographical region (e.g. Japan), the economic situation will continue to deteriorate and cause more social and political problems. The reclusive leader of the country, Kim Jong Il, has not yet given clear indications that he is capable of leading his country in the direction of improved economic conditions.

DEPENDENCIES

North Korea has no territories or colonies.

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—Hooman Peimani

KOREA, SOUTH

Republic of Korea
Taehan Min-guk

CAPITAL: Seoul.

MONETARY UNIT: South Korean won (W). A won is equal to 100 chun. There are notes of W1,000, 5,000, and 10,000, as well as coins in denominations of W10, 50, 100, and 500.

CHIEF EXPORTS: Electronic products, machinery and equipment, motor vehicles, steel, ships, textiles, clothing, footwear, fish.

CHIEF IMPORTS: Machinery, electronics and electronic equipment, oil, steel, transport equipment, textiles, organic chemicals, grains.

GROSS DOMESTIC PRODUCT: US$764.6 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$172.6 billion (f.o.b., 2000). **Imports:** US$160.5 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. South Korea occupies the southern half of the Korean Peninsula in eastern Asia. It is bordered by North Korea to the north, the Sea of Japan to the south and to the east, and the Yellow Sea to the west. South Korea has an area of 98,480 square kilometers (38,023 square miles), which makes it slightly larger than the state of Indiana. It has 238 kilometers (148 miles) of land borders with North Korea and 2,413 kilometers (1,499 miles) of coastline. Among its major cities, Seoul, the capital city, and Inchon are located in the northwestern part of the country, while Kwangju and Pusan are in the south, Taegu is in the southeast, and Taejon is in the center.

POPULATION. The population of South Korea was estimated at 47,470,969 in July 2000. It increased from 35.3 million in 1975 to 46.1 million in 1998, indicating a growth rate of 1.2 percent. At the current estimated growth rate of 0.6 percent, the population will increase to 51.1 million by 2015. In 2000 the estimated birth rate was 15.12 per 1,000 population while the estimated death rate was 5.85 per 1,000 population. The estimated migration rate was 0 percent.

South Korea's population is ethnically homogeneous. With the exception of a small Chinese community of about 20,000, the rest of the population are ethnic Koreans. Some 78 percent of the population falls within the age groups of 15–64 (71 percent) and 65 or older (7 percent). By 2015, 10.6 percent of the population will be older than 65.

South Korea is a highly urbanized society. In 1998, about 84.5 percent of its population lived in urban areas, a significant increase from 1975 when the urban population accounted for 48 percent of the total. The urban population is estimated to reach 92.2 percent by 2015. Seoul, the capital city, is the largest urban area, with a population of 10.4 million, followed by Pusan (3.9 million), Taegu (2.5 million), Inchon (2.5 million), Kwangju (1.3 million), and Taejon (1.3 million).

OVERVIEW OF ECONOMY

The 1945 surrender of Japan in World War II ended about half a century of the Japanese colonization of Korea. In its aftermath, the "temporary" division of Korea led to the creation, in 1948, of the Republic of Korea (South Korea) in the southern half of the Korean Peninsula and the Democratic People's Republic of Korea (North Korea) in its northern half.

South Korea opted for a free-enterprise economy at the time of independence and has since sought to consolidate it with a great deal of success. The mainly agrarian nation began to industrialize in the 1950s, after the Korean War (1950–1953). Its relatively insignificant industries mainly served its domestic market until the early 1960s, when the South Korean government encouraged

massive industrialization. Unlike many developing countries, South Korea chose an export-led industrialization strategy to produce labor-intensive products that could be produced more cheaply than in North America and Western Europe and therefore competitive and exportable to those markets. Initially, the emphasis was on light industry products such as fabric and clothing, later supplemented by assembly-line production of electronic products like radios or black-and-white television sets. By the late 1960s, South Korea became a major producer of telecommunication devices and computer parts.

The service sector, consisting of growing industries like **retail**, tourism, and finance is now South Korea's largest economic sector, accounting for 51.5 percent of **gross domestic product** (GDP) in 1999, while industry, including construction and mining, claimed a 43.5 percent share. Construction, though still a major industry, is in the process of decline. The industrial sector meets most of the needs of the country, but its manufacturing branch cannot produce without heavy imports of **capital goods**. Agriculture, which was the main economic activity in the 1960s, accounted for only about 5 percent of GDP in 1999. This sector, including forestry and fishery, was expanded and modernized in the 1950s and 1960s, a process that has continued to this date. The South Korean government has encouraged and generously supported its growth, while protecting it from foreign competition. The agricultural sector produces basic domestic needs in rice, vegetables, and fruits, though South Korea is still dependent on large imports of grains, fish, and forestry products (timber). The *World Factbook* reported similar, but not the same estimates of each sector's contributions for the same year, noting that services contributed 53 percent, industry 41.4 percent, and agriculture 5.6 percent of GDP.

Trade plays a major role in South Korea's export-oriented economy. In 1999, exports accounted for 45 percent of GDP, a phenomenal increase from the 1970s when it accounted for about 6 percent on average. Apart from a limited trade in fishery products, manufactured goods, including light- and heavy-industry products and high-tech devices and parts, are the major exports.

South Korea's economy grew rapidly from the 1960s through the 1980s, with an average annual GDP growth rate of 8.4 percent during that period. The growth rate fell to about 6.9 percent annually during the 1993–97 period. GDP contracted by 6.7 percent in 1998 alone as a result of the financial crisis, which pushed the unemployment rate to 6.8 percent (1,461,000 workers), a large increase from the 1997 rate of 2.6 percent (556,000). **Inflation** jumped from 4.5 percent in 1997 to 7.8 percent in 1998. Two factors helped economic recovery in 1999: the growth of the U.S. economy, which is South Korea's largest export market, and large direct foreign investments, made possible by economic **liberalization**. The latter rose to US$8.9 billion in 1998 and soon soared to US$15.5 billion, exceeding the total foreign investment over the previous 35 years. Data for the first 4 months of 2000 indicate such investment totaled US$3.7 billion, about 33 percent higher than the same period in 1999. South Korea's GDP grew by 10.7 percent in 1999, and continued its growth in the first quarter of 2000. The estimated growth rate for the entire year is about 8 percent. The recovery pushed the unemployment rate down to 4.8 percent (1,353,000 workers) in 1999, and it fell to 3.7 percent (about 800,000) in May 2000. It also brought the **inflation rate** down to 0.8 percent in 1999, a record low rate over the previous 3 decades. Inflation in 2000 was expected to be about 3 percent, far lower than during the 1980s, when the average inflation rate in the 1980s was 8.4 percent.

The South Korean government has helped the industrialization of its country via protectionist measures (the imposition of import quotas and **tariffs** aimed at limiting foreign competition in South Korea) as well as generous government financing for emerging industries and subsidization to make their products competitive in international markets. These government measures continued until the 1990s when they provoked criticism on the part of South Korea's competitors and trading partners, including the United States, Japan, and the European Union. Their growing pressure on the South Korean government to open its market to foreign competition and to stop subsidizing South Korean exports forced it to begin addressing these demands. Nevertheless, the South Korean market remained highly protected until 1997 when the financial crisis hit many Asian countries, including South Korea. Heavy borrowing by the public and **private sector**, especially from foreign banks, created the crisis, as most of the borrowers were unable to repay their large debts. Devastated by the crisis, the South Korean government, which desperately needed foreign financial assistance to stop the wave of bankruptcies and closures of large enterprises, had to accept the conditions outlined by the International Monetary Fund (IMF) in its rescue package: to liberalize its closed and highly protective economy through reforms and make it accessible to foreign competition.

Liberalization has sought to change South Korea's economy from one where the state directs and controls economic activities into one where the private sector, including foreign enterprises, operate with minimum government regulation. This required the nation to embark on a program of **privatization** designed to minimize the role of the **public sector** in the economy. This unfinished process has resulted in the sale of government assets in some large corporations to foreign investors, and the privatization of all state-owned banks, except for 2 development banks. By 2000, the government still owns about 108 non-financial enterprises, most of which are planned to be sold. Liberalization has also resulted in the removal of government regulations that restrict the economic activities of domestic and foreign enterprises in favor of a less-regulated economic system. Liberalization has also involved the **restructuring** of financial institutions and big corporations, most of which have long survived on heavy borrowing from public and private financial institutions, including foreign banks.

By and large, the reform of the financial system has been more successful than that of big corporations known as *chaebols* (conglomerates). The financial system's reform has justified the closure or merger of many non-viable private and public banks that formerly survived on government assistance, as well as the privatization of most public banks. The government's tight control on fiscal and monetary activities has been loosened in order to facilitate domestic and foreign private investments. In 1998, a Foreign Investment Protection Act was ratified to encourage and to ensure the safety of foreign investments. However, the 1998 corporate reform program called the "Big Deal" has been, so far, less successful. The program aims at turning the weak chaebols into strong corporations capable of offsetting the destructive impact of the financial crisis so that they might grow and compete with large foreign corporations inside and outside the South Korean market. To that end, the South Korean government has tried to reduce excessive competition between big corporations and to encourage their merger to create viable enterprises. It has also sought to encourage them to eliminate economic activities that are not of crucial significance to their main operations. For the most part, the chaebols' reform program is yet to be implemented.

South Korea has a very large **foreign debt**, which in 1999 was equal to more than 25 percent of its GDP. The debt burden emerged as a major economic problem in the 1990s. Encouraged and facilitated by the South Korean government, banks and large corporations borrowed heavily to finance industrialization, creating a debt that amounted to US$163.5 billion in 1996, a 5-fold increase from 1990. The heavy burden of this debt, most of which was borrowed on floating rates by major private enterprises, created the 1997 financial crisis, which resulted in a series of bankruptcies and closures of major enterprises. This situation also undermined the credit-worthiness of most surviving enterprises and forced the South Korean government to seek IMF assistance to prevent the total collapse of the economy. The IMF arranged a rescue package of about US$60 billion. It also facilitated an agreement between the South Korean government and the foreign banks for rescheduling debts held by South Korean private and public debtors. The IMF-led rescue package prevented the worsening of the situation and contributed to a gradual economic recovery. The recovery and the economic reform with its tough regulations on borrowing by large enterprises have reduced the debt from US$159.2 billion in 1997 to US$148.7 billion in 1998 and to US$136.4 billion in 1999. Statistics from the first 4 months of 2000 indicated a small increase in debt (US$4 billion), pushing its total to US$140.4 billion. Financing of a short-term **trade deficit** caused by an increase in the prices of imported oil products seems to be the reason for this increase. However, a predictably poor economic performance of South Korea's main trading partners (the United States and Japan) in 2001, which could reduce its exports and create a trade deficit, would likely increase its foreign debt substantially. South Korea's **foreign exchange reserves** are significant (US$86.8 billion in early 2000), but are still much smaller than its foreign debt.

History and geography have shaped the development of the South Korean economy to a great extent. The

division of the Korean Peninsula into 2 different political and economic systems has been a major factor. The Cold War rivalry between the United States and the Soviet Union made them the protectors of South Korea and North Korea, respectively. Each helped its protegé establish a peculiar economic system: free-enterprise in South Korea and a planned economy in North Korea. For South Korea, this situation led to a lack of ties with the 2 major supporters of North Korea: Russia and China, which lasted until the early 1990s when both sides began to normalize relations; South Korea established ties with Russia in 1990 and China in 1992. These ties have since expanded to the point where South Korea now produces some of its labor-intensive export products in China.

Threat of a North Korean military invasion forced the South Koreans to spend a significant amount on defense (US$9.9 billion in 1999, equal to 3.2 percent of GDP). However, South Korea's relations with North Korea have been improving since 1998 when President Kim Dae-jung initiated his "Sunshine Policy" to improve bilateral relations with the north. This policy led to a limited investment of South Korean corporations in North Korea, where local cheap labor is used to produce electronics for exports. South Korea's Hyundai group began tourist cruises to North Korea in 1998, but the trips were suspended after a South Korean tourist was arrested on spy charges. During that period, 80,000 South Koreans visited North Korea.

The South Koreans have backed the idea of peaceful unification of the 2 Koreas. Given the depth of North Korea's economic problems, they are not interested in an immediate unification, which would force them to spend an estimated US$1.2 trillion to rescue the North Korean economy. Instead, South Korea prefers a gradual process of unification in which it would help the economy of North Korea through modernization of **infrastructure** and by production of labor-intensive export goods in that country.

The bitter memory of the Japanese colonial era has also affected South Korean-Japanese economic relations. Japan has been a major source of equipment, machinery, and technology for South Korea, and has provided its largest source of tourism. Public resentment of the Japanese has limited their official and cultural ties. The situation has been improving since 1998 when President Kim Dae-jung took office. The heavy pressure of the 1997 financial crisis required Japanese economic aid and facilitated better official ties. The 1998 visit of President Kim to Japan broke the diplomatic ice between the 2 countries, and by mid-1999 a ban on Japanese cultural imports was lifted.

The South Korean economy has 2 major weaknesses. First is its heavy reliance on imported fossil fuels (oil and natural gas). South Korea is the second largest importer of liquefied natural gas (LNG), mostly from Malaysia and Indonesia. In 1999, it imported 874 million barrels of oil, 184.4 million barrels of petroleum products, and nearly 16.9 metric tons of LNG. These fuel imports accounted for 97.1 percent of its energy consumption in 1999, a significant increase from 1979 when fuel imports accounted for 73.4 percent of such consumption. Second, the South Korean economy depends heavily on imported capital goods and technology for its industries. Despite its emergence as a major exporter of light and heavy industrial products, its export industries require foreign machinery and equipment for production. While South Korea has surpassed Japan and the United States in selling memory chips, it still needs imported chip machinery to produce them. Another example is its automobile industry's reliance on imported parts and technology. Japan and the United States have been the major source of technology and capital goods for South Korea, constituting 40.5 percent of its annual imports in 1999.

POLITICS, GOVERNMENT, AND TAXATION

South Korea has a presidential system governed by a directly-elected president and a **unicameral** legislature, the National Assembly, in which various political parties are represented. Cabinet members are accountable only to the president. Parliamentary elections take place every 4 years, in which 227 candidates are elected, while an additional 46 parliamentary seats are distributed among political parties in proportion to their share of the popular vote.

Until 1995, the political system was a unitary one (the central government appointed all governors of provinces and mayors, who acted as its representatives). In 1995, the first elections for these provincial and local offices took place. A year later, there were local elections for councils at all levels: provincial, county, and ward. Still, the central government maintains enormous power at all levels by controlling appointments and by using its economic power, as in the allocation of construction projects.

Democratic regimes are very recent phenomena in South Korea's history, which has been ruled mainly by civilian and military authoritarian regimes. From 1948 to 1988, the country was governed by 1 civilian president (Syngman Rhee, 1948–60) and by 2 consecutive military rulers (Park Chung-hee from 1961–79 and Chun Doo-hwan from 1980–88). The first semi-democratic transfer of power happened in 1989 when Roh Tae-woo, a military nominee of President Chun Doo-hwan, was elected president in a relatively fair election. In 1993, he agreed to a peaceful transfer of power to a civilian, Kim Young-sam, who had been elected president in another relatively free election. The election of an opposition leader as pres-

ident, Kim Dae-jung in December 1997, was of great significance for the South Korean political system in that it marked the first transfer of power by an elected president to an opposition leader. Coming to power in the midst of the 1997 Asian financial crisis, President Kim Dae-jung has since presided over the restructuring of the economy.

The South Korean government has had a major role in the economy since the foundation of the nation in 1948. Through its direct involvement in the economy, it has sought the economic growth and industrialization by which it has turned South Korea from an agrarian society into a highly industrialized one. Various government measures and financial assistance have helped establish enterprises and protect them from foreign competition while helping them expand at home and abroad. The government has also been actively involved in industrial and financial activities through its industries and banks. Due to the IMF and other factors, its role in the economy has been limited since the mid-1990s, but it still plays a significant part in economic affairs as the mastermind of South Korea's economic reform, the director of its large infrastructure projects, and as the entity in charge of paying the country's foreign debt.

Despite the existence of political parties in South Korea, they had no major influence until recently. In practice, the military was the power base of the political system, and directly or indirectly ran the country—a situation that lasted until 1993. In that year, the election of a civilian, Kim Young-sam, as president laid the groundwork for meaningful participation by political parties, which led to the 1997 election of Kim Dae-jung, an opposition leader. Under his leadership, the Millennium Democratic Party (MDP) runs the country in coalition with the United Liberal Democrats (ULD). The opposition includes the Grand National Party (GNP) and the Democratic People's Party (DPP). However, the South Korean political parties have yet to establish themselves as the vehicles of representation of different political and economic interests. Generally speaking, they all lack internal cohesion, reflected in the constant defection of party members and their leaders from one party to another and the frequent formation, renaming, and merger of political parties.

All parties advocate a free-enterprise economy within which the state and the private sector both play a role. However, they also advocate a strong role for the government in economic growth through its policies and regulations. Under IMF pressure, the ruling coalition has significantly reduced the public sector by privatizing many state-owned financial and industrial enterprises and also by removing many economic regulations. Nevertheless, the government still has a major impact on the economy because its economic reforms and the payment of its foreign debt have incurred many new governmental regulations. Until the South Korean government privatizes all its enterprises, it will also remain a large economic player.

The South Korean constitution provides for an independent judiciary, though it is still trying to move toward that goal and away from manipulation by influential individuals. Absence of trial by jury gives judges the power of rendering verdicts in all cases, which makes the system more prone to abuse. Hence, in addition to political and economic liberalization, judicial reform is also necessary for creating a safe business environment. The judiciary provides for the defense of property and contractual rights through laws on economic activities. Commercial disputes can be adjudicated (settled) in a civil court, or may be presented to the Korean Commercial Arbitration Board. South Korea's membership in various international conventions obliges it to observe international commercial laws.

TAXATION. South Korea's tax system relies heavily on **indirect taxes**, which account for about 50 percent of tax revenue. Resident and non-resident individuals and corporations are liable for taxation. Real-estate rental income, business income, earned income, temporary property income, and miscellaneous income attributed to a resident are taxed progressively. Interests and dividends are subject to withholding tax. Non-residents are also taxed on income from sources in Korea. Tax rates on individual income range from 10 percent to 40 percent. Taxation applies to all corporations operating in South Korea, whether domestic or foreign. Companies that have been incorporated in Korea are considered to be domestic corporations and are liable for taxation on their worldwide income, whereas foreign corporations pay taxes on their Korean-generated income only. The corporate **income-tax** rates range between 16 percent and 28 percent.

Taxes, customs **duties**, and other government-generated revenues (assorted fees, social security contributions, and the income of public enterprises) are the main sources of government revenue. **Budget deficits** are financed through borrowing, either directly from domestic and foreign banks or through the issuance of bonds. In 1999, total government revenue was US$90.78 billion, of which all taxes and custom duties accounted for 70.1 percent of the revenue. Other government revenues accounted for 29.9 percent of the total revenue. The government spent a total of US$101.77 billion that year and incurred a deficit of US$10.99 billion. Better economic performance in 2000 resulted in a small surplus (about US$11 billion). Of the total revenue of US$118.18 billion, all taxes and customs duties accounted for 69.48 percent (US$82.12 billion) of the revenue, while other government revenues accounted for 30.52 percent (US$36.06 billion).

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

South Korea has a very advanced and modern infrastructure, which has been expanding since the 1960s. Both the South Korean government and the private sector are involved in the financing, construction, and operation of various infrastructure projects and services. Over the first 20 years of the 21st century, the government will spend more than US$300 billion on airports, roads, railways, and mega-resorts. Additionally, it will spend US$60 billion on the construction of more than 100 new power-generation facilities.

South Korea has an extensive and well-kept system of roads. In 1998, it boasted 64,808 kilometers (40,272 miles) of paved roads, including 1,996 kilometers (1,240 miles) of expressways, and 22,182 kilometers (13,784 miles) of unpaved roads. There are several major north-south and east-west highways, but the growing number of vehicles in use puts heavy pressure on the land transport network. The number of private cars rose from fewer than 500,000 in the early 1980s to 7.581 million in 1999 when there were also 2.1 million trucks and 749,000 buses in use. To deal with the growing pressure on roads, the South Korean government has initiated a multibillion dollar project to expand the highways. Land transportation also includes regular train and bus services around the country. The railways consist of 6,240 kilometers (3,878 miles) of standard gauge tracks of which 525 kilometers (326 miles) are electrified.

In 1999, South Korea's air transportation system was served by 103 airports, of which 67 have paved runways. Major international airports are in Seoul (Kimpo), Pusan, and on Cheju Island. A new international airport, Inchon, is scheduled to open in 2001, after which Kimpo will function as a domestic airport for Seoul.

South Korea's sea transportation network includes various ports and harbors, the most important of which are in Chinhae, Inchon, Kunsan, Masan, Mokpo, Pohang, Pusan, Tonghaehang, Ulsan, and Yosu. To meet the needs of its growing economy, the South Korean government is planning billions of dollars' worth of port/harbor expansion projects. In 1999, South Korea's merchant fleet consisted of 461 ships of various size and functions (bulk, cargo, container, passenger, vehicle carrier, and fuel tanker) with a net cargo capacity of 5 million metric tons.

South Korea has a growing power-generation system that provides electricity for private and commercial needs. Originally a state-owned sector, the power system is being privatized. During the 1990s, total production increased from 184,660 gigawatt-hours (gWh) in 1995 to 239,325 gWh in 1999, outpacing demand by a comfortable level. Over time, South Korea's dependency on thermal and hydroelectric generators has been reduced in favor of nuclear-powered generators. The country lacks domestic fossil-energy resources, so the growing cost of imported oil and natural gas has encouraged this shift. Still, thermal generators account for the bulk of generated electricity. In 1998, the percentage of electricity generated by various methods was as follows: fossil fuel generators (59.56 percent), nuclear-powered generators (38.51 percent), hydroelectric generators (1.91 percent), and other (0.02 percent). The share contributed by nuclear-power generators rose to 42.8 percent in 1999.

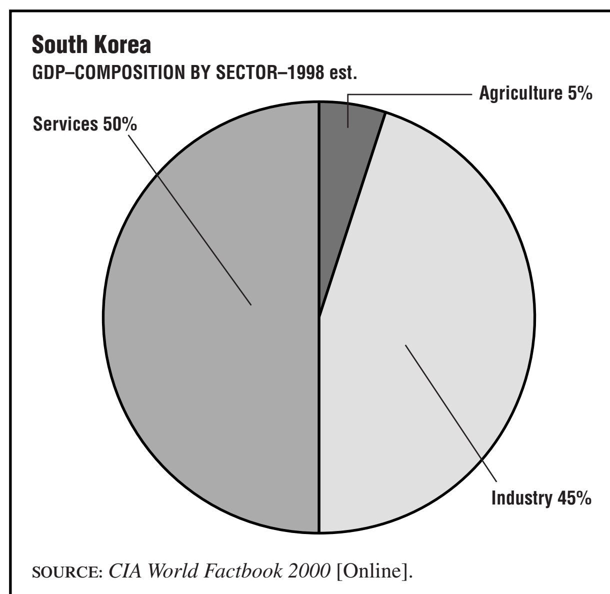
The South Korean telecommunications system is among the best, the most modern, and the fastest growing in the world. The number of fixed telephone lines increased from 763,200 in 1973 to 20,963,000 in 1999, while the number of cellular telephone lines jumped from 1,641,000 in 1995 to 12,019,000 in 1999, an eightfold increase over a 5-year period. In 1999, there were at least 11 Internet providers. With 14 million Internet users in 2000, South Korea ranked third in the world after the United States and the United Kingdom. Also in 1999, there were at least 106 AM, 97 FM, and 6 shortwave radio stations, and 121 television stations apart from the 8 stations operated by the U.S. Armed Forces in South Korea. In 1997, there were at least 47.5 million radios and 15.9 million television sets in use.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
South Korea	393	1,033	346	138.3	302	N/A	156.8	55.53	10,860
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Japan	578	955	707	114.8	374	126.8	237.2	163.75	27,060
North Korea	199	147	53	N/A	0	N/A	N/A	N/A	N/A

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

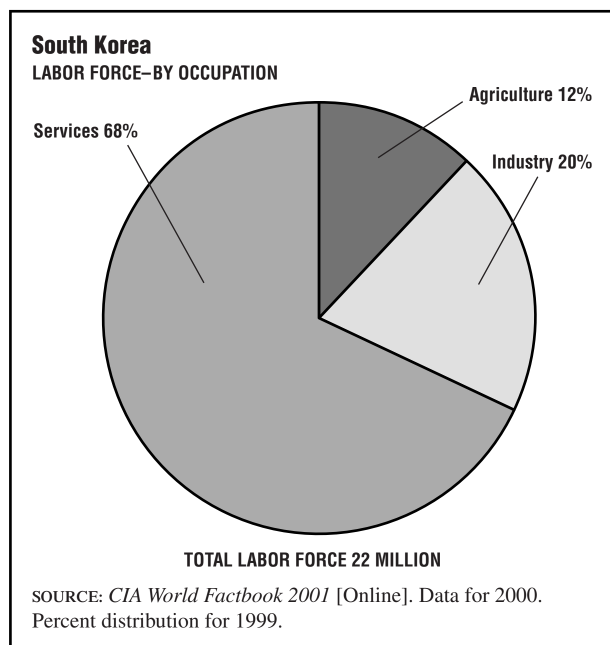
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

South Korea's economy has undergone a very impressive development experience. Through economic planning, its government modernized the agricultural sector, established a large industrial sector, and helped create a service sector. Its extensive regulations have largely protected domestic enterprises from foreign competition and helped them grow and consolidate over time. Government polices and practices, including generous loans, have stimulated economic growth. The 1997 financial crisis damaged the South Korean economy as a whole and forced it to contract in 1998, but the economy began its recovery in 1999 and continued it in 2000, an indicator of the strength of its sectors. At the beginning of the 21st century, South Korea's smallest economic sector, in terms of contribution to GDP, is agriculture, including forestry and fisheries. Second largest is the industrial sector, which consists of manufacturing, construction, and mining, a vital sector of which manufacturing accounts for the bulk of South Korea's expanding exports. As with agriculture, industry's share of GDP is declining while the service sector is growing, a phenomenon consistent with the maturity of the South Korean economy. The service sector is now the largest and the fastest growing economic sector, accounting for the largest share of GDP.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1999.

AGRICULTURE

FARMING. Arable land is limited in South Korea. It accounts for 21 percent of the total land (20.7 million hectares), a decrease from its share of 21.8 percent (21.6 million hectares) in the early 1950s. Growing urbanization and road building are the 2 major factors responsible for the decrease. Agriculture's share of GDP, including forestry and fishery, has declined from 6.2 percent in 1995 to 5 percent in 1999. The total output of the sector, including forestry and fishery, grew 4.7 percent in 1999, after a contraction of 6.6 percent in 1998 as a result of the 1997 financial crisis. In 1999, its share of the workforce was 10.09 percent (2,349,000 workers), a decrease from 1995 when its share was about 12.2 percent (2,534,000).

Since the 1950s, South Korea has a well-developed and highly productive agricultural sector, thanks to several factors: government financial assistance (US$8.3 billion in 2000), mechanization, and extensive use of fertilizers. To encourage growth and make the country self-sufficient in its major food item, rice, the government has prohibited rice imports under normal circumstances. It has also paid farmers higher than the world price for their rice while subsidizing consumers to make rice affordable for all. As a result, South Korea is now self-sufficient in rice production and the production of many kinds of fruit and vegetables. In 1999, rice production was 5,975,000 metric tons, a large increase from 1995 (5,060,000 metric tons). South Korea also produces significant amounts of other major items such as barley and wheat (189,000 metric tons in 1999), but it is not self-sufficient in grains. Therefore, it imports agricultural products, mainly cereals and preparations, equal to US$1.716 billion in 1998.

FORESTRY. Although forests account for 65.7 percent of its total land, the topography makes commercial forestry difficult, so South Korea imports most of its forestry products (timber), mainly from Indonesia and Malaysia. Beginning in the 1950s, the reforestation policy of the government, combined with the rural development program

of the 1970s known as the Saemaul Movement, has restored forests, which were massively destroyed during World War II. This resulted in a large increase in the production of timber from 30.8 million cubic meters in 1954 to 363.6 million cubic meters in 1998, mostly used by rural inhabitants as fuel. For its various needs, the country relies heavily on imported timber, which amounted to US$1.886 billion in 1998.

FISHERIES. The fishing industry has been declining over the last 2 decades, with only 315,000 people so employed in 1999, down from 750,000 in the 1970s. Its role in the economy has declined along with that of agriculture in general as a result of industrialization and the growth of the service sector. In 1999, fishery products accounted for about 1 percent of exports (about US$1.4 billion), a sharp decline from its share of 5 percent in the 1970s. South Korea relies on large imports of fishery products for domestic consumption, although catches increased from 2.4 million metric tons in the late 1970s to 3 million metric tons in the late 1990s. The value of imported fishery products was about US$1 billion in 1996–97, a huge jump from the mid-1970s when they were less than US$20 million annually.

INDUSTRY

The industrial sector, including mining, manufacturing, and construction, has been growing in South Korea since the 1960s. Its share of GDP has remained around 43 percent since 1995. The sector contracted by 6.1 percent in 1998 as a result of the 1997 financial crisis, but it expanded by 11 percent in 1999 when the South Korean economy began to recover. Despite its significant expansion, the overall economic growth pushed its share of GDP a little lower than 1998. In 1999, it accounted for about 25.61 percent (4,026,000 workers) of the workforce, a decrease from 1995 when it accounted for about 23 percent (4,824,000).

MINING. Mining and quarrying are very insignificant economic activities, accounting for only 0.4 percent of GDP (US$1.47 billion) in 1999. South Korea has few significant mineral resources, and no oil or natural gas. Its available minerals are lead, zinc, and copper, which supply only a fraction of its needs. As a result, it imports all its needs in fuel and almost all its needed minerals, accounting for 50.8 percent of its total imports in 1999. South Korea was once a major exporter of tungsten concentrate, but its output of tungsten ore stopped completely in 1993 when China flooded the world markets with tungsten, sharply decreasing its world prices. The mining industry, including quarrying, grew by 5.2 percent in 1999, a negligible growth for an industry that experienced a 24 percent contraction in 1998.

MANUFACTURING. Manufacturing has been the engine of growth and development for South Korea, which has emerged as a major supplier of various manufactured products. The sector's contribution to GDP was 31.8 percent in 1999, an increase from 30.9 percent in 1998 and an improvement over the levels during the economic slowdown of 1996 and 1997.

South Korea's manufacturing sector produces a wide range of labor- and capital-intensive products to satisfy domestic needs, but mainly for export. They include light and consumer products (fabrics and clothing); electronic, telecommunication, and computer devices; and heavy industrial products (metals, automobiles, and ships). Since the 1970s, South Korea has become one of the world's major steel producers. The automobile industry began growing in the 1980s for export purposes only, but it eventually expanded to meet domestic demands too. Annual production of automobiles grew from 935,271 in 1990 to 2.2 million in 1999.

The value of South Korea's manufactured goods was US$129.5 billion in 1999, as compared to US$97.9 billion in 1998 during the economic crisis. The best-performing sectors included telecommunications, electronics, industrial machinery, and transport equipment, which grew by more than 30 percent. Heavy industry and chemicals grew by 25.9 percent, and light industry (textile, footwear and food products) by 7.2 percent.

During the financial crisis of 1997, many manufacturers, including large conglomerates, went bankrupt. Corporate restructuring, as part of the conditions for receiving IMF aid, has changed the ownership structure of manufacturing to some extent. This previously closed sector is now open to unlimited investment and acquisition by foreign investors. In 1998 Hyundai Motor, the largest South Korean automaker, acquired the troubled Kia Motors, South Korea's third largest carmaker and its affiliate, Asia Motors. In 2000, Renault, a French automaker, purchased the bankrupt Samsung Motors while Ford, a U.S. company, bought the bankrupt Daewoo Motors.

The manufacturing sector employed 4,006,000 people in 1999, a substantial increase from 1998 (2,324,000 people). The 1999 figure indicates a large increase since the 1980s (15.3 percent), but a phenomenal increase since the early 1970s (169.9 percent). As has happened in most developed economies, the growing cost of labor has forced many South Korean manufacturers to relocate large industries and/or labor-intensive ones to countries with much cheaper wages, such as Thailand, Malaysia, Indonesia, the Philippines, Vietnam, and China. Thanks to better ties between the 2 Koreas since 1998, some South Korean manufacturers have established a few electronics factories in North Korea, but extensive relocation of South Korean industries to North Korea will not be a

real option until the 2 countries have further improved their relations.

CONSTRUCTION. Despite its decades of growth resulting from massive infrastructure projects, the construction industry has experienced a decline since 1995 when its share of GDP was 11.3 percent. With the financial crisis, its share fell to 10.1 percent in 1998 and 8.8 percent in 1999.

In the 1960s and the 1970s, construction prospered as South Korea was entering its industrialization phase. This continued until the housing boom of the late 1980s. The number of residences (houses and apartments) built averaged 196,000 annually from 1973 to 1982 and reached 750,000 in 1990. The boom continued until 1996 when the economic slowdown began. The 1997 financial crisis saw a sharp drop in construction-industry revenues from US$32.4 billion in 1997 to US$9.9 billion in 1998. The limited recovery of 1999 increased the revenues to US$16.7 billion.

Overseas projects have helped the construction industry over time, but their importance has declined since the early 1990s. Taking advantage of cheap labor, South Korean construction companies won contracts in the 1980s for road-building projects, mainly in the rich oil-producing nations of the Middle East.

SERVICES

The service sector has developed substantially over time, accounting for 51.5 percent of GDP in 1999, surpassing agriculture and industry. It is the largest employer, with 64.3 percent share of total workforce in 1999 (13,906,000 workers), a small increase from 1995.

FINANCIAL AND BUSINESS SERVICES. These services accounted for 19.7 percent of GDP in 1999, an increase of 5.7 percent since 1989. A major reason for its modest growth was the collapse of the Daewoo group with more than US$80 billion of unpaid loans. The collapse damaged the bond market and led to a loss of confidence in the investment trust industry.

Under the directive of the central bank (Bank of Korea), the government-owned banks have manipulated economic activities by providing credits to those enterprises who follow the government's development strategy, while punishing others by denying them credit. The 1997 crisis forced the government to reform the financial system to receive an IMF-led rescue package conditioned on economic restructuring. To minimize its intervention in the financial sector, the government has privatized all public banks with the exception of 2 development banks: the Korea Development Bank and the Export-Import Bank of Korea. They provide medium- and long-term credit for both export industries and the heavy-equipment and chemical industries funded by the South Korean government and foreign investors. In compliance with the IMF demand for the opening of South Korea's financial sector to foreign competition, it has sold one of its privatized banks to foreign bidders, while considering the sale of some others. Banks and insurance companies are still underdeveloped and suffer from various problems, a consequence of years of government mismanagement and especially the continued tight government control of financial services. Years of continued reform will therefore be required to address its underdevelopment.

The 1997 financial crisis forced many financial and business services to consolidate. Between 1997 and 2000, government regulators closed down about 498 financial institutions, including 11 banks, 21 merchant banking corporations, 13 insurers, 16 securities firms and investment trust companies, and 437 other non-banking institutions. In 2000, the financial system consisted of 22 banks and thousands of non-bank institutions, including 5 merchant banking corporations, 43 securities firms, 36 insurers, 28 investment-trust companies, 15 leasing companies, and 7 credit-card issuers. Non-bank institutions consist of several mutual savings and finance companies, credit unions, community credit cooperatives, postal savings plans, and insurance, installment-credit, and venture-capital companies. Assets held by all domestic banks totaled US$440.8 billion in 2000.

In January 2001, there were 44 foreign banks doing business in Korea, and some Korean banks have been taken over by foreign banks. Assets held by foreign banks are estimated at US$36 billion. Foreign banks work under regulatory conditions almost identical to those of domestic banks, but they are exempted from direct control by the South Korean government. However, they are not allowed to have a branch network, and therefore their retail operations are small.

Investment trust companies (ITCs) constitute another component of South Korea's financial and business services sector. The bankruptcy of the Daewoo group in late 1999 inflicted heavy damage on the ITCs, which had purchased a large share of its bonds. This drastic event caused panicked investors to transfer about US$84.2 billion of their investments from ITCs into banks. To restore confidence, the South Korean government has injected large sums (US$25.3 billion in 2000) into the worst-hit ITCs. It has also promised another rescue package of US$41.3 billion for 2001.

The South Korean life-insurance market is the world's sixth largest in terms of premium income. The insurance industry has also suffered from the weaknesses of the financial sector, and some companies have closed as a result. The government now supervises the insurance industry, which has been opened to foreign investors. In 2000, the insurance industry included 23 life-insurance

companies, including 7 foreign ones and 3 **joint ventures**, and 13 non-life insurance companies. In 1999, their assets were estimated at about US$47.2 billion.

TOURISM. With its ancient historical sites, many Buddhist temples, various opportunities for summer and winter sports, and natural beauty, South Korea has become an important tourist attraction. Government support and private investments have helped the tourist industry grow impressively in the 1990s, after it had been an insignificant industry in previous decades. The number of tourists grew on average by 7.2 percent per year between 1995 and 1999 to reach 3,921,000 in 1999, a large increase over the 2,294,000 visitors in 1995. In 1999, tourist-generated revenue was US$4.615 billion, a significant drop from 1998's figure of US$6.924 billion. The **devaluation** of the South Korean currency and a sharp decline in the price of many goods and services pushed down the tourist-generated revenues despite an increase in the number of tourists.

Tourists are mainly from the Pacific region. Japan has been the largest source of tourism, followed by the United States and Taiwan, with 1999 figures of 2,174,000, 473,000, and 146,000, respectively. South Koreans residing abroad form a large segment of tourists as well, sending 1,128,000 tourists that year. The tourist industry has a large and expanding infrastructure. In 1998, it included 446 hotels (nearly half of them 5-star) with 46,360 hotel rooms. The hotel industry received a boost in the 1980s with the 1986 Asian Games and the 1988 Summer Olympics. The 2002 World Cup soccer tournament, which will be co-hosted by Japan and South Korea, will give another major boost to the South Korean tourist industry.

TRANSPORTATION. South Korea's economic growth has contributed to the expansion of land, sea, and air transportation. The transportation industry grew significantly in the 1990s when South Korea began to emerge as a major trading nation. The industry accounted for 7 percent of GDP in 1999, a little more than its share in 1995 (6.6 percent). The South Korean marine commercial fleet has a large cargo capacity, (5,093,620 metric tons in 1999), and is expected to grow in the first decade of the 21st century. Its commercial air fleet grew rapidly in the 1990s, carrying 74,375,000 international passengers and 9,052,000 domestic ones in 1997. The slowdown in South Korea's economy in 1998 sharply reduced passengers to 55,736,000 and 6,877,000, respectively, but a likely recovery is suggested as the economy recovers.

RETAIL. South Korea has a very large and growing retail sector, whose share of GDP in 1999 was 10.9 percent. The retail industry, which had been dominated mainly by small-scale traditional shops and restaurants, began to diversify and include larger and modern establishments as well as various foreign retailing networks in the 1980s. Nevertheless, most retail units are still small family-run stores, stalls in markets, or street vendors, though this traditional retail network is giving way rapidly to large discount stores. Discount-store chains, including the domestic E-mart, the U.S. Wal-Mart and Price Costco, and the French Carrefour, are growing. The retail sector also includes a growing food service sector with estimated revenue of US$22.7 billion in 1999. Franchise restaurants, including American ones, accounted for about 5 percent of this sector's revenue in 1999. Like all other types of economic activities, the 1997 financial crisis damaged the retail sector in general and slowed growth of the franchised restaurants in particular, but the economic recovery has improved the situation. Retail and wholesale trade recovered 13 percent in 1999, offsetting a similar decline in 1998. Partial statistics for 2000 reflect about 6.9 percent growth of the retail industry and a sharp jump in retail sales of an estimated US$98 billion.

INTERNATIONAL TRADE

South Korea's international trade began in the 1960s when it started its export-led growth development strategy, exporting mainly light and **consumer goods** and labor-intensive products (toys, footwear, and clothing). Since the 1990s, it has reduced the exports of such items in favor of heavy-industry, capital-intensive, and high-tech products. This has come about for 2 reasons: light and labor-intensive products have lost their competitiveness in international markets where they now face cheaper products from the other Asian nations; and South Korea's industrial growth has enabled it to produce competitive heavy-industry products like automobiles and ships and high-tech products like memory chips and computer products. It is now a major exporter of telecommunications and computer equipment and devices. South Korea's shipbuilding industry now sells ships to Japan, a major global shipbuilder in its own right.

Since the early 1960s, South Korea has targeted developed markets (the United States, Japan, and Europe) for its exports. Since the 1990s, it has also added the growing Pacific market (China, including Hong Kong and Taiwan) to its target list.

South Korea's exports totaled US$143.7 billion in 1999, a growth of 8.6 percent from 1998 (US$132.3 billion) and of about 11 percent from 1995 (US$125.1 billion). An increasing demand for South Korea's semiconductors and telecommunication products pushed the share of semiconductors in total 1999 exports to 13.1 percent, slightly higher than its 1998 share of 12.8 percent. Vehicle exports also rose by 12.3 percent to US$11.1 billion, but textile exports increased only by 6.8 percent to US$5.8 billion. However, its labor-intensive steel exports declined by 13.4 percent to US$7 billion. In 1999, South Korea's major export destinations were the United States

(20.5 percent), the European Union (14.1 percent), Japan (11 percent), China (9.5 percent), and Hong Kong (6.3 percent).

South Korea's imports in 1999 totaled US$119.8 billion, a 28.4 percent rise over the 1998 levels of US$93.3 billion. South Korean export industries heavily depend on foreign capital goods (machinery and equipment) for their production. In 1999, South Korea's main sources of imports were the United States (20.8 percent), Japan (20.2 percent), the European Union (10.5 percent), China (7.4 percent), Saudi Arabia (4.7 percent), and Australia (3.9 percent). In the 1990s, its largest trade deficit was in 1996 (US$20.6 billion), while its largest trade surplus was in 1998 (US$39 billion).

MONEY

Four government entities are in charge of foreign exchange activities in South Korea: the Ministry of Finance and Economy (MOFE), the Bank of Korea (BOK), the Financial Supervisory Service (FSS), and the Korea Customs Service (KSS). The ministry sets the overall foreign exchange policy, and the Bank of Korea holds and manages the foreign reserves, while managing all transactions pertaining to foreign trade and capital movements. It also supervises money-changers and foreign-exchange brokers, and provides foreign-exchange banks with foreign currency loans. The FSS supervises financial institutions that are involved in foreign-exchange activities. The KSS has some foreign-exchange regulatory responsibilities towards international trade. Apart from these government regulatory and supervisory institutions, banks involved in foreign exchange have the authority to engage in such financial transactions, including international banking.

South Korea has a free-**floating exchange rate** (a rate determined by supply and demand). This type of fluctuating **exchange rate** limits the MOFE's ability to prevent or to minimize the negative impacts of sudden changes of exchange rates. In 1997, for instance, the MOFE temporarily prohibited South Koreans from purchasing foreign currencies for holding purposes.

The rate of exchange of the South Korean won against the U.S. dollar remained more or less stable in the early 1990s. As the economy began to experience problems in the second half of the 1990s, it began to depreciate gradually against the dollar from 771.27 in 1995, to 804.45 in 1996, and to 951.29 in 1997. This relatively small fluctuation did not have a major impact on the pace of economic activities and the purchasing power of the population until the financial crisis of 1997. In early 1998, the exchange rate jumped to 2,000 and gradually fell to average at about 1,401.44. As the economic recovery began, the rate fell to 1,188.82 in 1999 and to 1,130.96 in 2000. Reflecting the depreciation of the won against the U.S. dollar, the sharp and sudden increase in the exchange rate had a major negative impact on the South Korean economy, which is heavily dependent on large imports of capital goods and energy. The lowering of the exchange rate in 1999 and 2000, which was the result of a gradual economic recovery, contributed to the recovery itself by decreasing the cost of imported goods and fuel.

Exchange rates: South Korea

South Korean won (W) per US$1	
Jan 2001	1,271.89
2000	1,130.96
1999	1,188.82
1998	1,401.44
1997	951.29
1996	804.45

SOURCE: CIA *World Factbook 2001* [ONLINE].

There have been various restrictions and regulations on foreign-exchange operations since the 1960s. These government-imposed measures were designed to ensure the availability of foreign currencies to South Korean enterprises and to prevent the flight of capital from South Korea. Under foreign pressure, the South Korean government began to liberalize the foreign exchange market in mid-1992. The 1997 IMF-led rescue package required the country to commit itself to liberalizing all aspects of the foreign-exchange system by the end of 2001. In reality, the system has yet to become fully liberalized as the South Korean government has introduced many new direct and indirect regulations in various forms, including restrictions on certain transactions, tax rules, and monitoring regulations, to ensure its control over the financial system.

The Korea Stock Exchange (KSE) in Seoul is the only stock market in South Korea for trading bonds and stocks. It was opened in 1992 to direct portfolio investment from abroad. The reform of the South Korean economy since 1997 has removed restrictions on foreign ownership of South Korean enterprises, and the KSE is now authorized to sell their stocks to foreign buyers without any limit.

POVERTY AND WEALTH

Since the 1960s, South Korea has greatly improved the living standards of its entire population, especially in infrastructures that ensure access to safe water, sanitation, medical services, and adequate diet. According to 1998 statistics, all South Koreans have access to health services and adequate sanitation, while only 7 percent has no access to safe water. The expansion and modernization of

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
South Korea	2,894	3,766	5,190	7,967	11,123
United States	19,364	21,529	23,200	25,363	29,683
Japan	23,296	27,672	31,588	38,713	42,081
China	138	168	261	349	727

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: South Korea

Lowest 10%	2.9
Lowest 20%	7.5
Second 20%	12.9
Third 20%	17.4
Fourth 20%	22.9
Highest 20%	39.3
Highest 10%	24.3

Survey year: 1993

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

the health-care system has been particularly effective: between 1963 and 1998, the number of doctors rose from 9,052 (1 for every 2,981 people) to 65,431 (1 per 710 people), and the number of hospital beds from 10,477 (38 beds per 100,000 population) to 236,187 (509 beds per 100,000). There has been universal health-care insurance since 1989. Infant mortality decreased from 43 per 1,000 live births in 1970 to 5 per 1,000 in 1998. Life expectancy increased from 62.6 years in the period 1970–75 to 72.4 years during 1995–2000. It is significantly higher than other Pacific nations such as Thailand (68.8 years), but much lower than Japan, which has the world's highest life expectancy (80 years), and the United States (76.7 years).

Education, which is compulsory until the age of 14, has been a priority for the South Korean government since 1948. During the period 1995–97, it accounted for 17.5 percent of government annual spending, which is higher than most countries including Japan and the United States. The literacy rate has risen from 22 percent in 1945 to 87.6 percent in 1970 and to 97.5 percent in 1998, but is a little lower than North Korea's rate of 100 percent. South Korea has surpassed certain major industrialized countries in college-level enrollments in science (34 percent in South Korea, 23 percent in Japan, 29 percent in the United Kingdom, and 31 percent in Germany). Nevertheless, it is still lags behind North Korea in the percentage of the population with post-secondary education; in 1998, post-secondary graduates equaled 9.2 percent of the adult population compared to 13.7 percent in North Korea.

Economic development has improved the standards of living of the South Koreans over time. As a result, only 4.2 percent of them lived below the poverty line in 1999. However, the rapid economic development has created extremes of wealth and poverty. The 1997 financial crisis worsened the situation as many people lost their employment while many others faced wage cuts and declining purchasing power. To address the situation, the government spends large amounts on the social safety net (welfare and unemployment insurance), which amounted to 7 percent of government expenditure in 2000.

WORKING CONDITIONS

South Korea joined the International Labor Organization (ILO) in 1991, but has not yet ratified the ILO conventions on Workers Rights (agreements on the freedom of association, on the right to organize and collective bargaining, and on the right of public-service employees to organize). South Korea's constitution provides for the right of workers to associate freely, excluding public-sector employees. According to 1998 legislation, white-collar public workers are allowed to form work-

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
South Korea	18	3	7	5	14	6	48
United States	13	9	9	4	6	8	51
Japan	12	7	7	2	22	13	37
North Korea	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

place councils, but blue-collar workers in the postal services, railways, telecommunications, and the National Medical Center are allowed to have unions. In 1997, South Korea amended its labor laws to permit competing unions from 2002 onward, and also to permit more than 1 national labor federation. In 2000, there were 3 such federations: the Korean Confederation of Trade Unions, the Federation of Korean Trade Unions, and the Independent Korean Federation of Clerical and Financial Workers, in addition to 1,600 district labor unions.

The constitution and the Trade Union Law provide for the right of workers to collective bargaining and collective action. There are provisions for workers to seek retribution in case of unfair practices by employers. The 1997 revision of the labor law removed a ban on third-party intervention (union intervention) in labor disputes. In South Korea, labor disputes tend to escalate to work slowdowns and confrontational interruption of businesses through rallies, sit-ins, and occupation of company offices or factories.

Workers have the right to strike, but strikes in government agencies, state-run enterprises, and defense industries are prohibited. The government has the power to end labor disputes by compulsory arbitration in enterprises that are considered to be of “essential public interest” such as public transportation, public health, and utilities. Wage cuts and layoffs since the 1997 crisis have contributed to the rise of labor disputes, which had dropped to 80 cases in 1995 from the 1980s, when they numbered in the thousands.

The South Korean government implemented a minimum wage in 1998 for companies with more than 10 employees. The rate is subject to annual reviews. In 1999, the minimum wage was US$1.45 per hour. As a rule, it is not adequate for a typical blue-collar worker who must supplement his/her salary with overtime payments and bonuses that most companies usually offer to their employees.

The 1989 amendment to the labor law provides for a 44-hour workweek, but its 1997 revisions enable employers to require some 48-hour weeks without overtime. A reduction in the workweek to 40 hours has become a major goal of the labor movement.

Forced labor and child labor are prohibited, but children under the age of 18 may work under certain conditions. To do so, they require a special employment certificate from the Labor Ministry, which is rarely issued because education is compulsory until the age of 14. Children under the age of 18 who wish to work require written approval from their parents or guardians. There are several laws concerning child labor, which are usually enforced, but regular inspections are not done due to lack of human resources. The government sets safety and health standards at work, but accident rates are high because of the lack of regular inspections.

The 1987 Equal Employment Act provides for the equality of men and women in the workplace. Despite improvement in their hiring and promotion, women are still discriminated against, and many women have been sexually abused. The government has enacted laws to punish abusers and provide redress for the abused, but abuses still continue. Foreign workers, most of whom are undocumented, are subject to various physical and financial abuses. Although the government has legalized the status of some of them and sought to ensure their better treatment by employers, they are still vulnerable to various forms of abuse, including withholding wages and passports.

South Korea has a highly educated workforce of 22 million (1998 est.), a growing segment of which is skilled. Unemployment more than doubled during the 1997 financial crisis, from 2.6 percent (556,000) in 1997 to 6.8 percent (1,461,000) in 1998. Economic recovery reduced it to 4.8 percent (1,353,000) in 1999. In May 2000, the unemployment rate was 3.7 percent.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

c. 100 A.D. Emergence of the Kingdom of Koguryo, the first truly Korean state.

668–892. Silla Unification Period marked by cultural borrowings from China.

914–1392. Koryo Dynasty marked by Mongol invasion and decline of Buddhism in favor of Confucianism.

1392. Yi Dynasty moves capital to Seoul.

1590s. Japan invades Korea under Hideyoshi and occupies Seoul.

1884. U.S. Presbyterian missionaries arrive in Korea.

1910–45. Japan colonizes the Korean Peninsula.

1919. Samil (1 March) Independence Movement suppressed by the Japanese.

1945. Japan surrenders in World War II and ends its colonization of Korea. The Korean Peninsula is “temporarily” divided between Soviet and U.S. spheres of influence.

1948. The Republic of Korea is established in the southern half of the Korean Peninsula. Syngman Rhee, a civilian, becomes the first president of South Korea.

1950–53. The Korean War is fought between United Nations (mostly U.S.) and **Communist** forces.

1950s. South Korea mechanizes and expands its agricultural sector.

1961. Park Chung-hee, a military person, becomes the second president of South Korea.

1960s. South Korea begins its export-driven strategy of industrial growth by producing and exporting light consumer and labor-intensive products as well as some electronics (radios and black-and-white televisions).

1970s. Production and export of more sophisticated electronics, such as color televisions and calculators.

1974. Assassination attempt on President Park; his wife is killed.

1976. Opposition leaders are purged by President Park's increasingly authoritarian regime.

1979. President Park is assassinated a year after his re-election; martial law follows for 15 months.

1979. Major General Chun Doo-hwan becomes South Korea's third president and tightens military rule.

1980s. South Korea begins its production and export of more advanced electronics, such as VCRs, microwave ovens, and cameras. Heavy industry (steel, automobiles, and shipbuilding) emerges as an important sector.

1988. South Korea hosts the Summer Olympics, which also help expand its tourism industry.

1989. Roh Tae-woo, a former military person, becomes South Korea's fourth president.

1990s. South Korea's high-tech industry emerges, which turns South Korea into a major supplier of telecommunication and computer devices and parts.

1990. South Korea normalizes relations with the Soviet Union.

1992. South Korea normalizes relations with China.

1993. Kim Young-sam, a civilian, becomes the fifth president of South Korea.

1996. South Korea joins the OECD, for which it begins liberalizing its economy.

1997. After labor unrest in the early part of the year, a financial crisis emerges, resulting in a series of bankruptcies and collapse of major enterprises. The government negotiates a bail-out package with the IMF for about US$60 billion. Kim Dae-jung, an opposition leader, is elected as the sixth president of South Korea.

1998. Kim Dae-jung takes office as president and announces his "sunshine policy" of seeking better ties with North Korea. Financial crisis eases with private and public initiatives to reduce long-term debt.

1999. The South Korean government establishes the Financial Supervisory Service, and announces a fiscal plan to balance the budget by 2006. Curbs on foreign investments are eased.

2000. Foreign automakers take control of some troubled South Korean firms. President Kim Dae-jung pays an official visit to P'yongyang, the first such visit since the creation of the 2 Koreas.

FUTURE TRENDS

South Korea went through a very difficult economic period in the late 1990s. Its gradual recovery has shown the resilience of its economy and its capability to grow further. The major factor for its success has been the strength of its export industries, the engine of growth since the 1960s. The diversification of this sector, which also includes high-tech industries, will ensure a position for South Korea as a major economic power and a major global exporter.

The high domestic labor costs have led to the relocation of some labor-intensive industries to other Asian countries like China and Vietnam. This process will likely be accelerated, especially because it can speed up recovery of the South Korean economy and help it grow faster by making its products more competitive in world markets.

If the current process of reconciliation between the 2 Koreas continues, better ties will likely lead to extensive production of South Korean goods-for-export in North Korea, where labor costs are much lower. Better ties will also provide a big opportunity for South Korean industries as their government has agreed to expand and modernize North Korea's crumbling infrastructure pending the settlement of major security concerns. The unification of the 2 Koreas could also turn a united Korea into a stronger economic and military power. Despite its current difficulties, South Korea has a large military force and is an economic power with a growing high-tech sector. North Korea suffers from major economic problems and requires heavy investments to repair its aging industries, devastated agriculture, and crumbling infrastructure. However, it has a very extensive industrial sector with an advanced military branch, a relatively significant mining sector, and a highly educated population. It is linked via land to China and Russia, which are South Korea's targeted markets. The combined economic and military capabilities of the 2 Koreas will likely help a united Korea to establish itself as a regional power in the Pacific.

The restructuring of South Korea's economy and the growing presence of foreign investors and enterprises in the previously protected South Korean market will impose bankruptcies and mergers on weak and small firms to make the larger firms strong enough to withstand foreign competition. Unless the economy grows fast enough

to generate employment for the jobless, this situation could contribute to a growing unemployment rate with negative economic, social, and political consequences on South Korea. The role of foreign firms in its economy will significantly increase as its closed and highly-protected markets are opened.

DEPENDENCIES

South Korea has no territories or colonies.

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—Dr. Hooman Peimani

KUWAIT

State of Kuwait
Dawlat al-Kuwayt

CAPITAL: Kuwait City.

MONETARY UNIT: Kuwaiti dinar (KD). One Kuwaiti dinar is divided into 1000 fils. Bills come in denominations of ¼, ½, 1, 5, 10, and 20KD. There are coins of 5, 10, 20, 50, and 100 fils.

CHIEF EXPORTS: Oil and oil-related products and fertilizers.

CHIEF IMPORTS: Food and livestock, construction materials, vehicles and parts, clothing.

GROSS DOMESTIC PRODUCT: US$29.3 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$23.2 billion (f.o.b., 2000). **Imports:** US$7.6 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Kuwait lies at the northwestern corner of the Persian Gulf. With a total area of 17,820 square kilometers (11,073 square miles), it covers an area slightly smaller than the state of New Jersey. To the south and southwest, it shares a 222-kilometer (138-mile) border with Saudi Arabia. To the north and west, there is a 242-kilometer (150-mile) borderline with Iraq. Most major towns, including the capital, Kuwait City, are located along the Gulf, toward the south.

POPULATION. Kuwait's population totaled 2,041,961 in July 2001, of which almost 60 percent were foreign residents. The population increased 1.6 percent per year between 1980 and 1997. The population growth rate was estimated by the CIA to be 3.38 percent in 2001. Most of the growth stems from the arrival of foreign immigrants who come to Kuwait looking for jobs, rather than from a high birth rate. Nevertheless, an estimated 70 percent of the population is under the age of 24.

In 1998, the population density of Kuwait was 102 inhabitants per square kilometers (264 per square mile), with most people living in towns; the urbanization rate is 97 percent. The majority is Muslim (85 percent), with an almost equal split between Sunni Muslims (45 percent) and Shiites (40 percent). Christian, Hindu, Parsee, and other religious minorities make up the remaining 15 percent.

OVERVIEW OF ECONOMY

Kuwait is a small, open economy that depends to a large extent on oil. Worldwide, Kuwait's oil reserves are second only to those of Saudi Arabia, representing about 10 percent of total global reserves. Oil accounts for nearly half of the **gross domestic product** (GDP), more than 90 percent of exports, and 75 percent of government income. Over the last 20 years, the government has tried to broaden the country's importance as a player at all levels of the oil industry by purchasing petroleum distribution networks and gas stations in other parts of the world.

In 1990, Iraq invaded and annexed Kuwait and was then driven out by United Nations (UN) forces under the leadership of the United States. A decade later, Kuwait has fully recovered: the economy is on the upswing and the **infrastructure** has been restored. Kuwait operates the world's most generous state welfare system for its indigenous population. Nationals enjoy access to a free (local) telephone service, electricity at 10 percent of production cost, and water supplies at a third of cost. In addition, as the constitution stipulates, nationals are provided with lifetime guaranteed employment in the civil service, with subsidized housing for married employees.

Like many other Gulf states, Kuwait is heavily dependent on international oil prices. Therefore, it needs to develop a viable non-oil related industrial base and is pressed hard to create jobs for the growing number of young nationals entering the job market every year. The government is, in principle, committed to economic reform. It presented a package of structural reforms to the National Assembly in 1999, which are designed to

enhance overall efficiency and growth potential. However, implementation has been slow, and **privatization** programs have met stiff resistance because of fears over job losses between nationals and the possible elimination of consumer **subsidies**.

POLITICS, GOVERNMENT, AND TAXATION

The State of Kuwait is a hereditary constitutional monarchy, headed by an emir chosen from the Al-Sabah family. The current emir is Sheikh Jaber al-Ahmed al-Jaber al-Sabah, who acceded to the throne in 1977. Sheikh Jaber al-Sabah is head of state and head of the executive council of ministers, and he rules by decrees agreed to by the council of ministers and, in theory at least, approved by the 50-member National Assembly.

Kuwait can be considered a typical rentier state, that is, a state benefitting from large revenues from the sale of natural resources, in this case oil. As in another oil-dependent sheikhdom, Bahrain, the government distributes the income to its citizens by providing them with jobs and welfare and keeping taxation low. In return, Kuwait's citizens are tied to the state and remain loyal to an undemocratic regime. The concept may be captured in the phrase, "no taxation, no representation."

No political parties are allowed in Kuwait although informal groupings do exist. The largest are the religiously motivated Islamic Patriotic Coalition, the Islamic Constitutional Movement, and the Islamic Popular Grouping, also called the Salafi. The Kuwait Democratic Forum is the largest secular political group and is the voice of liberal and Arab nationalist opinions. The legislature, Majlis Al-Umma, is a **unicameral** National Assembly of 50 elected members, plus appointed cabinet ministers, serving for a 4-year period. The Assembly's legislative power is restricted, since the emir can simply dissolve it at will and rules by decree. In fact, the National Assembly was temporarily dissolved by decree of the emir in 1976, 1986, and 1999. Kuwaitis under the age of 21 and women cannot vote. Though the issue of women's suffrage (right to vote) is heavily debated, in January 2001, Kuwait's constitutional court followed a lower-court ruling refusing to grant women their voting rights.

The Kuwaiti emir also has ultimate authority over major decisions relating to oil. In December 1975, the country **nationalized** its domestic and foreign oil assets and created the Kuwait Petroleum Company (KPC), which is an umbrella company for subsidiaries handling oil production and marketing. The economy is heavily dominated by state-owned enterprises.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Kuwait's infrastructure is modern and well developed. Within a few years after liberation from the Iraqi occupation, Kuwait managed to restore facilities and services to pre-war standards.

TRANSPORTATION. A network of 3,800 kilometers (2,361 miles) of good paved roads and modern multi-lane expressways link all areas of the country, extending south and west from Kuwait City to neighboring cities and to Iraq and Saudi Arabia. The ports—Shuwaykh, Shuaybah, and Mina Al-Ahmadi—handle commercial shipping and petroleum exports.

POWER. Kuwait has several major electric power-generating plants. These incorporate desalination operations, which remove salt from seawater to provide the country with drinking water. Currently, the country has enough electric capacity from plants fired by natural gas or oil, but with demand rapidly rising as the population increases, expansion projects are already underway to increase capacity. To meet demand, the *Middle East Eco-*

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Kuwait	374	660	491	N/A	138	27.6	104.9	23.76	100
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Saudi Arabia	57	321	262	N/A	31	N/A	49.6	1.17	300
Iraq	19	229	83	N/A	0	N/A	N/A	0.00	N/A

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

nomic Digest (MEED) estimates that Kuwait will need to spend US$3.6 billion over the next 10 years to install 5,000 megawatts (MW) of generating capacity to add to the 6,900 MW that was already available at end-1999.

TELECOMMUNICATIONS. Before 1990–91, the telephone system had more than 250,000 subscribers, with work under way to increase this number to more than 500,000. Since demand is running at only 400,000 lines, the emphasis is on upgrading rather than expanding the system. There is a mobile cellular system in operation, which had 150,000 subscribers in 1996. By 2000, Kuwait had 3 Internet service providers and 5,000 hosts registered under their own domain. The Ministry of Communications retains control over these services and access is expensive, but the Internet is hugely popular and, according to the U.S. State Department's *Country Commercial Guide for 2001*, the number of individual users is expected to jump to 300,000 by 2003.

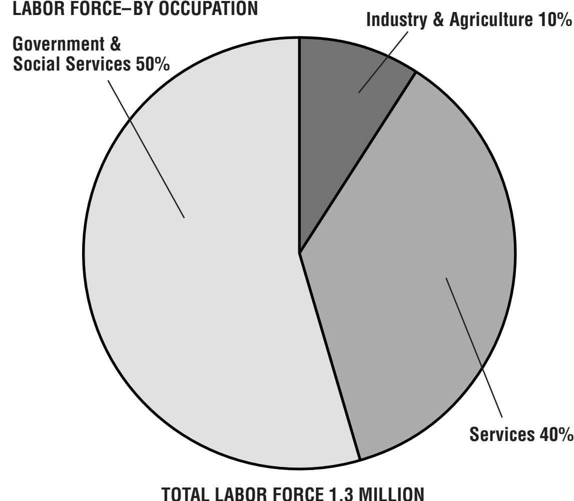
Kuwait
GDP–COMPOSITION BY SECTOR–1996

SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

The economy of Kuwait relies heavily on industry and services. In 1996, agriculture accounted for none of the country's GDP, while industry accounted for 55 percent and services accounted for 45 percent. Agriculture only contributed 0.4 percent to the GDP in 1999, while industry accounted for 51.4 percent, and services for 48.2 percent. These figures, however, can be misleading, since oil dominates the Kuwaiti economy. Except for petroleum industries, Kuwait's only other industrial enterprises are desalination, salt production, food processing, and construction.

Kuwait
LABOR FORCE–BY OCCUPATION



TOTAL LABOR FORCE 1.3 MILLION

SOURCE: *World Factbook 2001.* Percent distribution for 1996 est.

AGRICULTURE

Because Kuwait is desert and has almost no water, agriculture has seen minimal development. As a result, Kuwait imports over 96 percent of its food, while over 75 percent of its drinking water has to be distilled or imported.

Pollution, dating from the deliberate oil spillage and torching of wells under Iraqi occupation, has further hindered agricultural development in the aftermath of the war.

In the 1970s, over-fishing by many states in the Gulf considerably reduced catches of fish and shrimp. In the late 1980s, war and environmental damage, including oil spills, also harmed the fishing industry. Large-scale commercial fishing takes place as far afield as the Indian Ocean and the Red Sea but serves domestic demand.

INDUSTRY

Industrial development in Kuwait has faced formidable obstacles. The country, so rich in oil, is poor in most other resources. The small domestic market restricts production for local consumption to small-scale operations, while the small Kuwaiti **labor force**, possessing limited skills, and high labor costs are further constraints.

MINING/HYDROCARBONS. Kuwait's oil production of 2.095 million barrels per day (bpd) in 1998 accounted for 3 percent of total world output. Although Iraqi forces set fire to over 60 percent of Kuwaiti oil wells and thus destroyed about 2 percent of Kuwait's total reserves, the country holds about 10 percent of known world reserves. The U.S. Department of Energy estimates that Kuwait's importance as a world oil producer will steadily increase. Kuwait and Saudi Arabia hold about 80 percent of the world's excess production capacity, which means that the 2 countries can easily produce more or less oil at will, thus influencing the prices in the world markets. The emirate plans to invest US$15 billion over the period 1995–2005 to increase its output capacity to 3.5 million bpd. There are also plans to modernize 3 refineries to increase total domestic processing capacity from 800,000 barrels per day (bpd) to 1 million bpd and to allow for environmentally cleaner products. At present, Kuwait produces about 2 million barrels of crude oil per day. With oil prices remaining high throughout 2000, earnings amounted to an estimated KD5.4 billion (US$17.5 billion).

The emirate also ranks among the nations with the world's largest natural gas reserves. Most of its gas is used for domestic needs rather than export, but Kuwait estimates that it has 1.5 trillion cubic meters, or 1.1 percent of global reserves.

MANUFACTURING. Most industry is concentrated in petrochemicals and production of fertilizers. The Petrochemical Industries Company (PIC), a subsidiary of the Kuwait Petroleum Company (KPC) and the leading industrial enterprise, is involved in the production of petroleum-based fertilizers. Kuwait's capacity to produce fertilizer stands at approximately 1.65 million tons per year. In recent years, however, the market has been hit by technical problems, weak prices, and the imposition of European Union (EU) **tariffs**. Other light industries include chemicals, food processing, textiles, furniture, paper, mineral and metallic products, cement, sulphur processing, detergents, and construction materials.

SERVICES

Aside from oil, services dominate the Kuwaiti economy. Most people are employed by the government, whose over-staffed bureaucracy and generous welfare system provides most Kuwaitis with their income. Since there is hardly any tourism, banks and financial services are the only commercial services involving the **private sector**.

FINANCIAL SERVICES. By the 1980s, Kuwait's banks were among the Gulf region's largest financial institutions. Because of the high oil revenue in the 1970s, many private individuals with money to dispose began to speculate. This action prompted a small crash in the official stock market in 1977 and a much larger crash in the alternative stock market, the *Souq al-Manakh* in 1986. The debts from the crash (US$64 billion) left all but one bank in Kuwait technically insolvent and held up only by support from the Central Bank. A government imposed reform program for the banking sector was still incomplete in 1990 when the Iraqi invasion changed the entire financial picture.

After liberation, new plans were announced for reform, which involved the government purchase of the banks' outstanding debts, but the reform has not yet been completed. Only the National Bank of Kuwait (NBK), the largest commercial bank, which handled the exiled government's finances during the crisis, survived both crises intact. The NBK, with current assets of over US$12 billion, is one of the 5 biggest banks in the Arab world and ranks in the top 250 banks worldwide. the jointly owned Bank of Bahrain and Kuwait and 6 other Kuwaiti banks are also in the top 1,000.

INTERNATIONAL TRADE

Ever since the era of oil began after World War II, the priceless mineral has been Kuwait's main export product. Thanks to the huge revenue from oil sales, the government accumulated surplus money and invested abroad. Many of these reserve investments were cashed in during the Iraqi occupation and the liberation period to meet the expenses of Kuwait and the allied coalition. By the mid-1990s the value of exports exceeded the costs of imports by US$4 billion. **Trade surplus** hit a low in 1998, due to declining oil prices but began rising again in 1999. Figures show a US$2.7 billion increase to US$13.5 billion in the value of exports, and a US$1 billion drop in imports, which totaled US$8.1 billion, compared to 1998. By 2000, the *World Factbook* estimated

Trade (expressed in billions of US$): Kuwait

	Exports	Imports
1975	9.184	2.390
1980	19.663	6.529
1985	10.487	6.005
1990	7.042	3.972
1995	12.931	7.784
1998	9.529	6.130

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

that exports totaled US$23.2 billion and imports totaled US$7.6 billion.

Because of Kuwait's small domestic manufacturing sector, the country's imports for its high-income economy are finished products, which come primarily from the United States and Japan. In 1999, according to the *Economist Intelligence Unit*, 15.4 percent of imports came from the United States, 10.2 percent from Japan, 7.3 percent from Germany, and 7.1 percent from the United Kingdom. Japan, however, led Kuwait's export markets, absorbing 22.8 percent, followed by the United States at 11.5 percent, Singapore 8.2 percent, and the Netherlands 7.3 percent.

MONEY

The Kuwaiti dinar's **exchange rate** is pegged to the U.S. dollar and has remained stable throughout the last few decades. The International Monetary Fund (IMF) has praised the Central Bank of Kuwait, established in 1959, for its successful policies in keeping the Kuwaiti currency stable. One dinar roughly equals 3 dollars.

Kuwait is one of the few major capital-exporting countries, that is, the state has more income at its disposal than it spends, and this surplus money is invested overseas or lent to the international banking sector. The Kuwait Investment Authority (KIA) controls 2 portfolios, the Reserve Fund for Future Generations and the State General Reserve Fund. The combined value of these funds is estimated at between US$60billion and US$90 billion; although impressive, these figures are well below the pre-1990 Gulf War peak of US$117 billion. KIA's investments include bonds and international stocks listed on the New York and London stock exchanges, as well as real estate property, in Europe and North America. The (official) Kuwait Stock Exchange is small and is characterized by intensive trading, of only a limited number of stocks, among local investors.

Exchange rates: Kuwait

Kuwaiti dinars (KD) per US$1	
Jan 2001	0.3057
2000	0.3067
1999	0.3044
1998	0.3047
1997	0.3033
1996	0.2994

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

In a state such as Kuwait, class based on private property and wealth becomes less important than the power of access to the state that distributes the large (oil) revenues. Although Kuwait is a wealthy country and poverty is almost non-existent, there are still important divisions within society. There are divisions between long-settled tribal families and those who only settled in the last 3 decades and do not benefit from long established ties to the powerful. Some of the latter have not even been granted Kuwaiti citizenship and are usually called *Bidoon*, meaning "without" (nationality) and thus face grave disadvantages. Another important determinant of proximity to the state apparatus is the sectarian division between Sunni Muslims and Shiites. The Shi'a community (immigrants from neighboring countries) has often been excluded from the government bureaucracy that provides Kuwaiti Sunnis with work and social security.

The provision of social services to Kuwaiti citizens, compared with most Western countries, is extensive. The state welfare system especially cares for the needy, providing direct transfers to widows and students, and aiding families in need because of divorce, old age, disability, parental death, illness, or financial difficulty. Educational and marital status are taken into account in granting aid.

WORKING CONDITIONS

Kuwait's vast wealth has attracted many immigrants from poorer countries who come looking for work. Thus,

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Kuwait	21,838	16,922	10,736	N/A	N/A
United States	19,364	21,529	23,200	25,363	29,683
Saudi Arabia	9,658	11,553	7,437	7,100	6,516
Qatar	N/A	N/A	N/A	N/A	N/A

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

after decades of **immigration**, at least 55 percent of the total population of Kuwait are foreign, and the rate within the workforce is even higher (84 percent). In the private sector, 94 percent of employees are expatriates, working in shops, services and, frequently, as domestic servants. Only about 26 percent of Kuwaitis participate in the workforce, as opposed to 70 percent for expatriates. The Kuwaiti **participation rate**, although still low, has been gradually increasing (it was 22 percent in 1989) owing to a rise in female participation in the workforce. For cultural and social reasons this rate is still low, and, because of Kuwait's oil wealth, many women do not need to work.

Kuwaiti citizen workers—95 percent are government employees—are entitled to join unions. However, according to the U.S. State Department's *Country Commercial Guide for 2001*, in June 1998, there were only 50,000 union members. There is a legal minimum wage in the government sector, but none in the private sector. Public health care is free to citizens, but a health insurance charge is levied on employers to cover expatriates (most workers in the private sector). Foreigners thus do not benefit equally from the state social services, which favor Kuwaiti nationals.

About 40 percent of Kuwaitis are under the age of 14, and young Kuwaitis are seeking jobs in steadily increasing numbers. These factors are a cause for growing government concern, and the government will at some point have to abandon its guarantee of a **public sector** job for every university-educated citizen. One recent measure is the "Kuwaitization" of the economy, promoting the employment of Kuwaitis over foreign labor in the private sector and limiting immigration. It has been nearly impossible for foreign workers to obtain Kuwaiti citizenship; those who do achieve it are not entitled to vote for another 20 years.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1756. Part of the Ottoman Empire since the 16th century, Kuwait gains semi-autonomy under the Sheikh of the Sabah family.

1899. The ruling Sabah family accepts British protection to counter the spread of Turkish influence and grants control of external relations to Britain.

1918. The end of World War I ends what is already nominal Turkish control over Kuwait.

1938. Oil is discovered in Kuwait, but World War II interrupts further exploration. Drilling resumes after the war and Kuwait soon develops into a thriving commercial center. The government begins to use oil revenue to develop the country's infrastructure and a modern and comprehensive welfare system.

1960. Kuwait becomes a founding member of the Organization of Petroleum-Exporting Countries (OPEC) on 14 September.

1961. Kuwait's status as a British protectorate ends, and the country assumes independence on 19 June. The ruling sheikh becomes the emir and assumes full executive power.

1961–63. Iraq moves troops to the border, threatening to annex Kuwait but draws back due to international pressure and a coup within Iraq.

1974–75. The Supreme Petroleum Council is created, followed by the nationalization of domestic and foreign oil assets and the creation of the Kuwait Petroleum Company (KPC).

1977. Sheikh Jaber Al-Ahmad Al-Sabah becomes emir, succeeding Sheikh Sabah Al-Salem Al-Sabah.

1990–91. Iraq invades Kuwait. The international community condemns the invasion and, led by the United States, deploys armed forces to Saudi Arabia. The allied forces launch an aerial bombing campaign against Iraqi forces in Kuwait and Iraq on 17 January 1991. On 24 February 1991, American-led ground forces enter Kuwait, and on 28 February Iraq agrees to accept UN resolutions concerning Kuwait.

1999. A draft law granting women full political rights is narrowly rejected in December.

FUTURE TRENDS

At the beginning of the 21st century, Kuwait is facing major challenges. Political reform, including women's right to vote, is under debate and cannot be put off in the long run. Economic reform is even more pressing. Kuwait's oil reserves will last for another 100 years, but the country has to **restructure** its economy and reduce its dependence on oil. Many young Kuwaitis will demand their share in the country's wealth and need to be provided with work opportunities and prospects if they are not to challenge the country's political power structures. The government is currently debating various reform packages in both the economic and political arenas. And, however much resistance there may currently be to economic reform, privatization and **liberalization** might prove to be the only way to sustain the country's wealth in a post-oil era.

DEPENDENCIES

Kuwait has no territories or colonies.

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—Markus R. Bouillon and Ralph Stobwasser

KYRGYZSTAN

Kyrgyz Republic
Kyrgyz Respublikasy

CAPITAL: Bishkek (formerly known as Frunze).

MONETARY UNIT: Som (KS). One som equals 100 tyiyn. Som are circulated in denominations of 1, 3, 5, 10, 50, 100, 500, 1,000, 2,000, and 5,000.

CHIEF EXPORTS: Cotton, wool, meat, tobacco, gold, mercury, uranium, hydropower machinery, shoes.

CHIEF IMPORTS: Consumer durables, oil and gas, machinery and equipment, foodstuffs.

GROSS DOMESTIC PRODUCT: US$10.3 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$515 million (1999 est.). **Imports:** US$590 million (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in the central region of Asia, bordered by China on the east, Kazakhstan on the north, and Uzbekistan and Tajikistan on the west and south, Kyrgyzstan is a remote, landlocked, mountainous country with a total area of 198,500 square kilometers (76,641 square miles). It is a bit smaller than the U.S. state of South Dakota. Kyrgyzstan's capital, Bishkek, is located near the northern border of the country close to the border with Kazakhstan and Kazakhstan's largest city, Almaty.

POPULATION. The population of Kyrgyzstan was estimated at 4,685,230 in July 2000. In 2000 the birth rate stood at 26.29 births per 1,000 while the death rate was 9.15 deaths per 1,000 persons. The population growth rate was estimated at 1.43 percent in 2000. Migration out of the country was estimated at 2.8 per 1,000.

The vast majority of Kyrgyzstanis live in rural areas. The World Bank reported that only 33.6 percent of the population lived in urban areas in 1999. The population density for the entire country was 25 per square kilometer (65 per square mile) that same year, according to the World Bank.

At the beginning of the 21st century, roughly 50 percent of Kyrgyzstan's multinational population was ethnic Kyrgyz; 20 percent was ethnic Slavic (Russian, Ukrainian, and other Slavic groups); 13 percent was Uzbek; about 2 percent was German; and other groups comprised the remaining 12 percent. The Kyrgyz (also spelled Kirghiz) language is a Turkic language. Russian and Kyrgyz are the principal languages spoken in Kyrgyzstan, but Uzbek, Tajik, and Uigur are also widely spoken outside the major towns. In practice, most government and commerce is conducted in the Russian language in the large cities. Many Kyrgyz government officials and professional and technical workers use Russian as their principal language. Most rural areas use Kyrgyz or one of the other indigenous languages of the region as their principal language.

OVERVIEW OF ECONOMY

Kyrgyzstan is a remote, landlocked country with inadequate trade and transportation **infrastructure**. Kyrgyzstan's economy heavily emphasizes agriculture and animal husbandry, but there is a growing service sector in the urban areas. In 1999 agriculture accounted for 45 percent of the economy, while services comprised 35 percent. Industry made up the remaining 20 percent. Oil and gas, machinery and equipment, and foodstuffs are Kyrgyzstan's main imports. Kyrgyzstan's principal trading partners are Germany, Russia, Kazakhstan, and Uzbekistan. Cotton, wool, hides and meat are the main agricultural products and exports. Industrial exports include gold, mercury, uranium, and electricity. Kyrgyzstan is a mountainous country with significant hydroelectric power generating potential.

While it was part of the Union of Soviet Socialist Republics (USSR) from 1917 to 1991, Kyrgyzstan had a highly specialized economic niche in the **communist** economic system. Kyrgyzstan served primarily as a provider

of **primary commodities** such as gold, mercury, and uranium, and unprocessed agricultural goods such as foodstuffs, cotton, wool, and meat. After the USSR collapsed in 1991, Kyrgyzstan's mining and industrial enterprises underwent rapid contraction due to the loss of orders from buyers and the inability of the existing transportation infrastructure to make possible a rapid entrance into other markets. Kyrgyzstan's military industrial enterprises soon lost their financing. Production at Kyrgyzstan's gold, mercury, and uranium mines fell sharply.

After national independence on 31 August 1991, the newly established Kyrgyz government planned to create a market-based economy and to integrate into the world economy. Among the former communist countries, Kyrgyzstan became a leader in the movement of the post-Soviet states toward an open market economy. But the transition to an open economy has been difficult for this small country with few manufactured goods. The economy underwent severe contraction between 1990 and 1995. However, the Kyrgyzstan economy began to rebound in 1996 as new, post-communist practices began to take effect. The **budget deficit** as a proportion of the GDP was cut in half during the period 1995 through 1997.

With assistance from international organizations, such as the World Bank and the International Monetary Fund, the Kyrgyzstan government has made good headway in establishing the legal and regulatory foundation for a market economy. Kyrgyzstan carried out **privatization** of small enterprises and overhauled the country's banking and financial systems. In 1998 the Kyrgyzstan constitution was amended to allow for private ownership of land. Kyrgyzstan was the first country of the CIS to join the World Trade Organization (December 1998). At the urging of international financial institutions, the Kyrgyzstan government took steps to **liberalize** its foreign trade relations. These steps included eliminating some **tariff** restrictions (1991–92), eliminating certain highly bureaucratic export registration requirements (1998), and eliminating export **duties** (1999).

But Kyrgyzstan's enthusiastic pro-market posture has not met with the anticipated level of economic success. Basic economic indicators plunged between 1991 and 1995 when Soviet-era government **subsidies** for industry, farming, and public services were eliminated. Rapid **restructuring** of the economy led to sharp drops in farm and industrial output. From 1996 to 1997, the declines in output were reversed and the economic picture for Kyrgyzstan brightened considerably. A large increase in government revenue from the newly opened Kumotr gold mine, the largest single industrial enterprise in the country, combined with favorable weather that helped boost agricultural production. Economic growth in 1996 registered 7 percent and climbed to 10 percent in 1997. **Inflation** declined, and the government's current account

deficit, an indicator of the government's fiscal responsibility, dropped to its lowest level since independence.

This picture changed when Kyrgyzstan was hit hard by the 1998 financial collapse in its major trading partner, Russia. The financial collapse in Russia led to a sudden drop in orders for Kyrgyzstan goods from Russia. The contraction in output led also to a deterioration in Kyrgyzstan's **balance of payments** at the same time as the country's indebtedness to foreign lenders increased substantially.

POLITICS, GOVERNMENT, AND TAXATION

The Republic of Kyrgyzstan was an early leader in the post-communist transition. The country's pro-reform leader, Askar Akaev, a scientist and former president of the republic's Academy of Sciences, quickly established an impressive record of encouraging political and economic liberalization. The Kyrgyz government liberalized most prices, established a national currency, began privatization and financial sector reform, and introduced the legal and regulatory framework for open trade with its neighbors. Non-tariff barriers were removed, and export taxes were eliminated on all goods between 1994 and 1997. In December 1998, the Kyrgyz Republic became the first former communist country to qualify for entrance to the World Trade Organization.

Kyrgyzstan's legal system is based on the continental legal system. Kyrgyzstan's constitution was adopted in 1993. The constitution recognizes a separation of powers among 3 branches of government: an accountable executive, a deliberative legislative, and an independent judiciary. The constitution has provisions to ensure checks and balances, competitive elections, and judicial independence. The judiciary consists of Constitutional Court (to decide issues of constitutional import), the Supreme Court, an arbitration court to resolve commercial disputes. There is a system of lower courts. The constitution was amended in February 1996 by a popular referendum that substantially expanded the powers of the president.

The Kyrgyzstan political system is formally a competitive system. Officials are popularly elected in multicandidate elections. The country's president is elected by popular vote for a 5-year term. Kyrgyzstan president Askar Akaev was first elected in October 1990 and reelected in December 1995 and December 2000. High officials such as the prime minister and other top cabinet officials are appointed by the president and submitted for approval to the Kyrgyzstan legislature, the Zhogorku Kenesh. There are numerous parties and political movements. The officially registered political parties are the Agrarian Party, the Agrarian Party of Kyrgyzstan, the ASABA party, the Communist Party of Kyrgyzstan, the Democratic Movement of Kyrgyzstan, the Dignity Party, the Fatherland Party, the Justice Party, Kyrgyzstan Erkin Party, the Movement for the People's Salvation, the Ashar Party, the National Unity Democratic Movement, the Peasant Party, the Republican Popular Party of Kyrgyzstan, and the Social Democratic Party.

The Kyrgyzstan government has sought to limit the size of the **public sector** to enable greater opportunities for the growth of private industry and services. Accordingly the government has sought to reduce the total government revenue as a percentage of the GDP. However, after the 1998 economic crisis, tax collection fell behind anticipated levels. Tax revenue collection relies heavily on industry. Poor industrial performance contributed to the shortfall in tax revenue. Yet during the economic crisis total government expenditures were higher than anticipated in recent years due to the increased costs of social protection programs. International financial institutions urged the Kyrgyzstan government to maintain a tight **monetary policy**, reduce government spending, and increase revenue collection. Yet the Kyrgyzstan government was reluctant to adopt these politically unpopular measures.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The main components of Kyrgyzstan's physical infrastructure include roads, rail, electric grids, gas pipelines, and a telecommunications system. The country's road system consists 16,854 kilometers (10,467 miles) of paved roads. The rail system consists of 1 major rail line of a length of 370 kilometers (299 miles) linking the Kyrgyz capital, Bishkek, with Kazakhstan. The fixed (copper wire) telephone system and microwave relay stations dating from the Soviet period (consisting of 357,000 lines) are rapidly being overtaken by new, decentralized mobile phone services. Of the country's 14 airports, only the capital airport is capable of accommodating international flights.

Mountainous Kyrgyzstan has abundant low-cost hydropower but only very limited amounts of oil, gas, and coal. Consequently, Kyrgyzstan is dependent upon the other Central Asian countries for much of its gas and petroleum. Kyrgyzstan trades hydroelectric energy for natural gas with both Uzbekistan and Kazakhstan. With the urging of international donors, Kyrgyzstan is seeking to adopt an energy policy that will reduce the role of the state, increase **private sector** involvement, and explore the potential for energy exports, particularly to China. China's recently adopted "Go West" policy has opened a potentially rich market for hydroelectric energy in the adjoining Xinjiang-Uigur Autonomous Province of China.

Communications

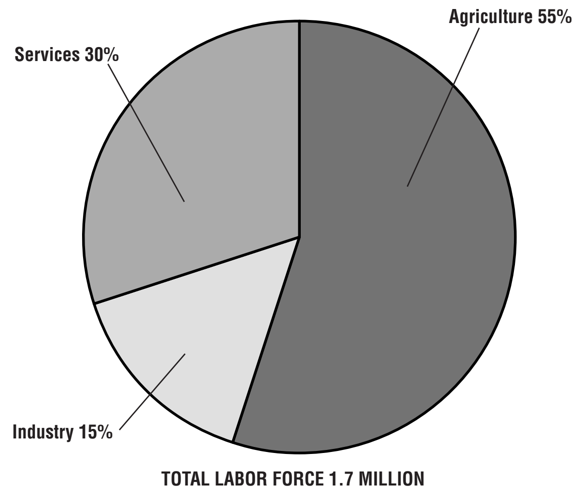
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Kyrgyzstan	N/A	384	231	N/A	2	0.1	N/A	1.42	10
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Tajikistan	20	142	285	N/A	0	0.3	N/A	0.24	2

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Since being corporatized (that is, separated from the previous unified Soviet system and turned into a Kyrgyzstan state-owned corporation) in 1994, the Kyrgyz state power company, Kyrgyzenergo, has operated 22 hydroelectric power stations with a combined capacity of over 30 billion kilowatt hours (kWh) annually. Electricity production averaged roughly 12 billion kWh per year. The expansion of electricity output was held back, though, by inadequate transmission equipment and inadequate pricing and cost recovery. Given these factors, Kyrgyzstan commenced the privatization of its energy utility in 1998. The process came to a conclusion in early 2001. The goal of the privatization was to separate regulatory functions from energy production and sales. As a result of the strategy to separate the various energy functions and shift to a cost-recovery basis for energy production, there have been significant increases in electricity and district heating costs. Loans and credits with the World Bank and other multilateral development banks are earmarked to reduce the social costs of the transition to a privatized energy sector.

Kyrgyzstan
LABOR FORCE–BY OCCUPATION



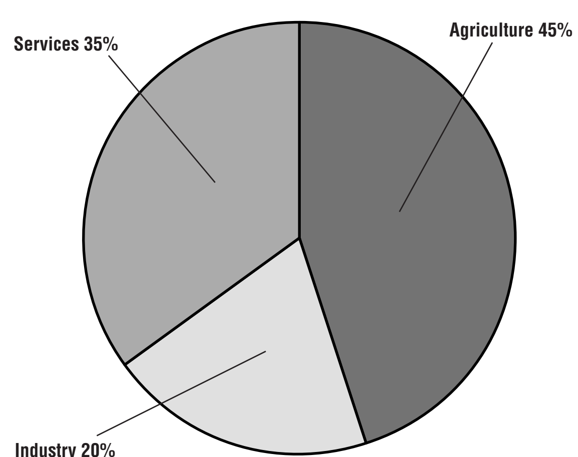
TOTAL LABOR FORCE 1.7 MILLION

SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1999 est.

ECONOMIC SECTORS

The 3 most important sectors of Kyrgyzstan's economy are: agriculture, accounting for about 45 percent of the GDP (US$52.8 million in 1999); industry, accounting for about 20 percent of the GDP; and services, accounting for the remaining 35 percent in 1999. The most significant economic sector, agriculture, is the largest employer in the country, employing over half of the country's **labor force**. In 1999 the International Monetary Fund estimated that 886,000 workers were employed in Kyrgyzstan's agriculture and forestry sectors. Agriculture accounted for about 22 percent of the country's exports in 1999. Other important sectors are hydroelectric energy production, mining, particularly gold mining, and service. Small industries and processing plants are located in Kyrgyzstan's larger cities, particularly Jalalabod, Osh, and Talas in addition to the capital, Bishkek.

Kyrgystan
GDP–COMPOSITION BY SECTOR–1999 est.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Kyrgyzstan produces cotton, sugar beets, vegetables, potatoes, grapes, melons, tobacco, fruits and berries, grain, wool, and meat. Total agricultural production dropped in 1992 from earlier levels and then began to rise. The disruption in farm inputs such as seeds, farm machinery, and agricultural extension services, along with transportation difficulties and weak consumer demand, led to the drop in output. After the effects of the market transition from communism began to be felt, overall agricultural production began to increase after 1996. However, livestock and wool production, 2 of the traditional mainstays of the Kyrgyzstan rural economy, continued to decline due to slack demand for products such as hides and wool and new competition from Turkish, Chinese, and other suppliers.

In connection with the Kyrgyzstan government's goal of maintaining an open market and **liberal economic** order, the government has avoided intervention in the agricultural economy through price supports and targeted subsidies. This policy contrasts sharply with that of neighboring Uzbekistan, where the government has continued to maintain a major presence in the agricultural economy. Kyrgyzstan instituted a land reform program to transfer use rights to land from the Soviet-era large state farm cooperatives to individual farmers. By 1999 over 90 percent of Kyrgyz farms were held in private hands with long term (99 years) use rights. Farm land may be bought and sold and transferred through inheritance. The CIA *World Factbook* reported that 55 percent of the Kyrgyzstan workforce was engaged in agriculture in 1999.

INDUSTRY

Since the collapse of the USSR, the industrial and manufacturing sector has undergone considerable contraction. Between 1990 and 1995 production declined in all sectors of the power industry, engineering and metalwork, and fuel, light, chemicals, and petrochemicals sectors. By 1999, the industry sector accounted for 20 percent of the country's GDP and employed 15 percent of the labor force, according to the CIA *World Factbook.*

Kyrgyzstan's manufacturing plants are concentrated in and around the capital, Bishkek. Many of these enterprises were not competitive on international markets and thus have been shuttered and closed since they lost subsidies from the government. The enterprises that remain tend to operate well below capacity.

Unlike other developing countries faced with transferring workers from low productivity subsistence agriculture to higher productivity industry, Kyrgyzstan faces the opposite problem. The government seeks to spur industrial restructuring to cut employment in formerly subsidized, inefficient industries, and to encourage the emergence of new lower tech enterprises in the agricultural and service sector.

The only industrial sector that experienced significant growth recently was gold mining. In May 1997 the Kumtor Operating Company, which is two-thirds owned by the Kyrgyzstan Republic and one-third by a Canadian company, began gold mining operations. The construction of the mine cost US$450 million. The initial estimate of recoverable gold was 16.5 million troy ounces of gold, and gold was expected to average around 485,000 ounces a year over the life of the project. In late 1999 the company revised its estimates of recoverable gold downward, taking into account the changes in the price of gold and a revision of the geological expectations of the mining work. Accordingly, the amount of recoverable gold was revised downward to 4.27 million troy ounces. Company officials announced that the mine would be closed in 2008. This represents a major setback for the Kyrgyz government's development plans, given that revenue from the gold mine constituted a major portion of the government's income (40 percent in 1999).

SERVICES

The service sector is the second largest sector after agriculture. An estimated 566,000 workers were employed in the Kyrgyzstan service sector in 1999, according to the International Monetary Fund. This sector was under developed during the Soviet period when the government put most emphasis on heavy industry and agriculture. After independence, the service sector expanded rapidly. New laws and regulations made it possible to open private businesses offering **consumer goods** and services. The small service sector surged ahead as business people began offering services, such as car repair, housing construction and improvement, real estate services, legal services, beauty shop services, and other small business that did not require substantial investment.

The banking and financial services industry expanded rapidly, although during the first decade of independence (1990–2000) this financial sector continued to be heavily oriented toward foreign economic activity rather than local financial services. The government adopted a program in 2000 to support micro-credit lending to put more emphasis on local financial services.

TOURISM. The year 2001 was declared the "year of the tourist." Since Kyrgyzstan is the "Switzerland of Asia," the government has sought to take advantage of the beauty of Kyrgyzstan's spectacular mountains and lakes to encourage greater tourism. The tourism sector is a priority area for economic development in Kyrgyzstan. The country, with major mountain ranges and some of the

highest peaks in the world, possesses breathtaking natural features. The towering mountains of Peak Pobeda (7,439 meters), Peak Lenin (7,134 meters), and Peak Khan-Tengri (6,995 meters) exist in what is called the "realm of eternal ice and snow." The country offers white water rafting, pony trekking, hiking, mountaineering, skiing, mountain biking, and many other possibilities.

INTERNATIONAL TRADE

Very nearly one-half of Kyrgyzstan's foreign trade is with former Soviet countries. Kyrgyzstan's largest trading partner is Russia, comprising almost 40 percent of foreign trade. Behind Russia is Ukraine, the United States, Uzbekistan, Turkey, the United Kingdom, Germany, South Korea, and other countries. Kyrgyzstan exported to Germany goods worth US$148 million in 1999. Russia imported goods worth US$70 million, Kazakhstan imported goods worth US$50 million, Uzbekistan imported US$46 million, and China imported goods worth US$25 million. In the same year, Kyrgyzstan imported from Russia goods worth US$110 million, from Kazakhstan US$73 million, from Uzbekistan US$50 million, from the United States US$56 million, from Germany US$47 million, from China US$36 million, and from Canada US$26 million.

Kyrgyzstan's main exports are processing industry products (67 percent) and agricultural goods (17 percent), while the main imports were machine-building products (21 percent), coal and petroleum products (11 percent), food and tobacco (7 percent) and textiles (6 percent).

Kyrgyzstan is heavily dependent on the outside world for fuel imports. In 1999 Kyrgyzstan imported 576 million metric meters of natural gas, 1,075,000 tons of coal and 368 tons of high grade petroleum fuels (diesel and gasoline). Kyrgyzstan sustains this level of fuel imports primarily through exporting electricity. The country exported, primarily to Kazakhstan and Uzbekistan, 2,001 million kilowatt hours in 1999.

Trade (expressed in millions of US$): Kyrgyzstan

	Exports	Imports
1994	340	522
1995	408	837
1996	505	709
1997	603	841
1998	513	599
1999	453	201

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

The Kyrgyzstan government has taken measures to improve the trade environment. Customs procedures and non-tariff barriers have been reduced in recent years in anticipation of the country's joining the World Trade Organization (1998). However, Kyrgyzstan's trade potential is complicated by the fact that Kyrgyzstan is landlocked. Few goods and services move from Uzbekistan into Kyrgyzstan. The borders with Tajikistan and China have been subject to heavy security regulation. But Kyrgyzstan's border with Kazakhstan is a long and relatively open border. The Kazakh and Kyrgyz languages are closely related and mutually comprehensible. However, Kazakhstan produces few of the manufactured goods that Kyrgyzstan requires. Consequently, Kazakhstan serves mainly as a transshipment point for goods from outside Central Asia, particularly Russia and Europe.

The Kyrgyzstan government has taken steps to improve the foreign investment climate in the country. A new foreign investment law was adopted in September 1997. The law was adopted to bring the country into conformance with the standards of the World Trade Organization. The law provides protection against expropriation, that is, **nationalization** of property by the government. According to the law, foreign investors have the same legal status and conditions as Kyrgyz investors and can do business as wholly-owned foreign businesses in Kyrgyzstan or as **joint ventures** either with Kyrgyz partners or other foreign partners. Foreigners can buy stocks and securities in Kyrgyz companies and participate in privatization programs. Foreign investors can **repatriate** capital, that is bring earnings from foreign investments and foreign trade back into the country. They can also freely export profits as foreign currency or as goods produced or as commodities or services bought. Local currency is freely convertible into foreign currency, including for import purposes or payment against project expenses. Investors may retain earned foreign currency, without having to convert it into local currency.

MONEY

Kyrgyzstan was the first country in Central Asia to introduce its own currency (May 1993) following the collapse of the USSR. When first introduced, 4 som were equal to US$1. However, over the years since the som was introduced inflation reduced the value of the som relative to the dollar. Kyrgyzstan experienced hyperinflation in the early 1990s, with inflation reaching 1,400 percent, but economic measures have since brought inflation down.

Between 1995 and 1997, positive developments in the economy reinforced the government's intention to restrict the supply of money. A scarce currency will tend to be valuable, but as the currency becomes more available, its value declines. Accordingly, as the money sup-

Exchange rates: Kyrgyzstan

soms (KS) per US$1	
Jan 2001	48.701
2000	47.704
1999	39.008
1998	20.838
1997	17.362
1996	12.810

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Kyrgyzstan	N/A	N/A	N/A	1,562	863
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Tajikistan	N/A	N/A	N/A	718	345

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

ply increased, the value of the Kyrgyz som declined. Following the 1997 crisis in the Asian financial markets and, in particular, following the collapse of financial markets in Russia in August 1998, the Kyrgyz economy suffered dramatically. Kyrgyzstan's money supply rose in 1998 and 1999. During this period inflation, which had been brought under control, rebounded in 1998 and reached nearly 40 percent in 1999. During 1999, the som lost 35 percent of its value to the U.S. dollar. Public confidence in the currency was further shaken by a major financial fraud involving some of the country's largest commercial banks.

In 1998 the Kyrgyzstan banking system suffered a major financial crisis which led to closing half of Kyrgyzstan's 26 commercial banks in 1999. The Soviet-era banking system had been expanded and slightly modified during the period between 1992 and 1995 but had not adopted standards of bank operations in accordance with international practice. As a result, in 1995, according to a World Bank study, over half of the commercial banks had a negative net worth. The study also concluded that 60 percent of all the banking sector's loans were considered unrecoverable, that is, these loans would never be paid back by the borrowers, according to the IMF. The public lost confidence in the banking system, and many people withdrew their funds, leading many of the banks to go out of business.

Kyrgyzstan is a relatively heavily indebted country. Outstanding debt in the first quarter of 2000 amounted to US$1,409 billion, according to the IMF. Much of the Kyrgyzstan republic's debt is concessional; that is, it has been loaned by public entities as special assistance at better-than-market terms by international financial institutions such as multilateral development banks. But a considerable portion is non-concessional; that is, it is money that was loaned by private lenders such as commercial banks. Even if Kyrgyzstan is granted special repayment terms, delays, or postponements in the repayment schedule, the burden of future debt will remain high. The Kyrgyzstan government will need to bolster its fiscal position through reducing government expenditures and increasing revenue. More competent debt management and limits on contracting debt will help. More emphasis on government reforms may also improve the overall economic pictures by improving the investment climate and enhancing the productive and export potential of the country.

POVERTY AND WEALTH

Poverty in Kyrgyzstan increased between 1994 and 2000. IMF estimates of the consumer **price index** rose in 1995 to 143 percent, in 1996 to 189 percent, in 1997 to 233 percent, in 1998 to 252 percent, and in 1999 to 343 percent, and in 2000 to over 400 percent. At the same time, the index of **real wages** (adjusted for inflation and other factors) climbed only gradually from 100 percent in 1994, to 117 percent in 1995, to 112 percent in 1996, to 116 percent in 1997, to 139 percent in 1998, dropping to 128 percent in 1999 and further to 105 percent in 2000. Thus, while the cost of living increased fourfold between 1994 and 2000, wages remained approximately at the same level.

In 2000 Kyrgyzstan ranked 98 out of 174 countries listed on the UNDP Human Development Index. Income distribution and social indicators for Kyrgyzstan fell considerably behind other countries at comparable stages of

Distribution of Income or Consumption by Percentage Share: Kyrgyzstan

Lowest 10%	2.7
Lowest 20%	6.3
Second 20%	10.2
Third 20%	14.7
Fourth 20%	21.4
Highest 20%	47.4
Highest 10%	31.7

Survey year: 1997

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Kyrgyzstan	33	11	11	3	22	6	14
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Tajikistan	48	7	10	0	14	5	18

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

development. For instance, nearly a quarter of the population was not expected to reach age 60. The proportion of young people enrolled in schools dropped. The rates of infectious diseases, particularly tuberculosis, increased. By 1997 an estimated one-half of the population had fallen below the official poverty line, living on the equivalent of less than US$0.75 per day. The average monthly pension payment was among the lowest in the former Soviet states, amounting to less than US$10 in 1999.

Although on national average only 1 in 2 persons in Kyrgyzstan is categorized as poor, 80 percent of the poor live in rural areas. During the 1990s, despite substantial recovery in agricultural production, rural incomes per capita fell substantially. The degree of poverty in rural areas has also become more severe relative to urban areas. While extreme poverty decreased from 19.1 percent of the population in 1996 to 14.8 percent in 1997, most of this resulted from a targeted poverty reduction program in urban areas only. Poverty is also distributed unevenly in the population, affecting more women than men. The Kyrgyzstan government has initiated a national poverty reduction program, the Arakat program. Moreover, the government is waging major efforts to revamp its poverty-fighting strategy in coordination with major donors, including the Asian Development Bank and the World Bank.

WORKING CONDITIONS

Kyrgyzstan had a working population in 1999 of 1,854,000 people, but the total number of people within working age (16 to 60) was 2,542,000. An estimated 1,718,000 of these were employed, and 54,000 people were estimated as unemployed in 1999, only 5,400 of whom received unemployment benefits.

The decline in Kyrgyzstan industrial sector has pushed many people out of technical and professional positions. Most of this movement has been in the direction of the service sector. A large proportion has also moved to agricultural employment. While the legal system and social security systems traditionally provide for fewer protections for these sectors, in fact working conditions in Kyrgyzstan's declining industry deteriorated significantly in the post-Soviet years as workers' unions and collective bargaining was unsuccessful in promoting the health and safety of working conditions in such declining industries. The international donor organizations, such as the World Bank and the multilateral development banks, have identified social protection as one of the highest priorities of future assistance to Kyrgyzstan.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

552. Formation of the first Turkic khanate, uniting Turkic-speaking regions under one political leadership.

750. Arabs conquer the area that is now Kazakhstan, spreading the influence of the Islamic culture and religion.

840. Formation of the Kyrgyz khanate.

1240–1440. The Mongol Horde—armies originating from what is now Mongolia—overwhelm the Kipchak nomads. The Mongol Horde sweeps westward and southward, extending Mongol influence over much of modern-day Central Asia.

1850. Major Russian **emigration** to Kyrgyzstan occurs as emigrants search for new agricultural lands.

1867. The Russian tsar decrees the establishment of the Turkestan general-governorship, extending official Russian rule into Kyrgyzstan, making the country part of the Russian Empire.

1917. The Russian provisional government, unable to rule a country exhausted by World War I, falls to the Bolshevik Revolution. Bolshevik revolutionaries (communists) in St. Petersburg proclaim the establishment of a communist government.

1918. The communists announce the establishment of the Russian Socialist Republic (which includes the territory of present-day Kyrgyzstan). Opponents of the communists rally to restore the monarchy. Civil war ensues and continues for 2 years.

1924. The Kyrgyz Autonomous District is formed within Russia.

1936. The Kyrgyz Autonomous District is transformed into the Kyrgyz Socialist Republic.

1957–61. Under Soviet leader, Nikita Khrushchev, a new agricultural initiative called the "Virgin Lands Campaign" relocates tens of thousands of people from the European parts of the USSR to Central Asia, including Kyrgyzstan.

1991. An unsuccessful attempt to take over the Soviet government by Communist Party hard-liners precipitates a crisis in Moscow. Kyrgyzstan declares independence from the USSR on 31 August. A group of 11 high Communist Party officials gather in Almaty (then known as Alma-Ata) to sign a document announcing the end of the USSR and the establishment of the **Commonwealth of Independent States** (CIS) on 21 December.

1992. Kyrgyzstan joins major international organizations: the UN, World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development.

1993. The Kyrgyzstan constitution is adopted.

1995. A new version of the Kazakhstan constitution, assigning greater powers to the executive branch, is adopted.

1998. Kyrgyzstan is the first post-Soviet state to be admitted as a member of the World Trade Organization.

2000. Kyrgyzstan joins the Eurasian Economic Community, an international organization designed to create a common economic market throughout much of the former USSR.

FUTURE TRENDS

Kyrgyzstan faces major challenges. The country has liberal trade orders in the former Soviet Union. However, as a small, landlocked country with only limited trade potential, the latitude for development through globalization is limited. The most urgent issue is reducing poverty. Changes in the way that the government treats foreign investors, tourists, and foreign companies may lead to an improvement in the country's ability to promote investment and create new jobs.

DEPENDENCIES

Kyrgyzstan has no territories or colonies.

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—Gregory Gleason

LAOS

Lao People's Democratic Republic
Sathalanalat Paxathipatai Paxaxon Lao

CAPITAL: Vientiane (Viangchan).

MONETARY UNIT: Lao kip (K). There are no coins, and there are notes of 1, 5, 10, 20, 50, 100, 500, 1,000, 2,000, and 5,000 kip. With considerable inflation over the last several decades, kip notes under 500 are rarely seen or used now. The Thai baht and U.S. dollar are also commonly used, especially in larger transactions, though official policy calls for the exclusive use of the kip.

CHIEF EXPORTS: Wood products, garments and textiles, electricity, coffee, tin.

CHIEF IMPORTS: Machinery and equipment, vehicles, fuel.

GROSS DOMESTIC PRODUCT: US$7 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$271 million (1999 est.). **Imports:** US$497 million (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Lao People's Democratic Republic, or Lao PDR, is a land-locked nation bordered on the north by China, the east by Vietnam, the west by Burma (Myanmar), and the south by Thailand and Cambodia. The Mekong River forms much of the boundary between Laos and Thailand. The country's total land boundaries are 5,083 kilometers (3,159 miles). Its geographic area is 236,800 square kilometers (91,428 square miles), making it just slightly larger than the state of Minnesota. Its capital, Vientiane, the largest city in central Laos, is located on the Mekong River. The other 3 major cities are Luang Prabang, Savannakhet, and Pakxé.

POPULATION. The Lao PDR differs from many other Asian countries in that it has an extremely low population density of only 23.2 persons per square kilometer (60 per square mile). Its population density is almost the same as the state of Minnesota. In July of 2000 its population was estimated as 5,497,459. This compares with a population of 3,586,083 in 1985; 2,886,000 in 1976; and 1,789,000 in 1953. The current population growth rate is a relatively high 2.5 percent. If this rate were to continue, the country's population would double to over 10 million by the year 2028. The major cause of this high population growth is the high fertility rate of Lao women. The Lao women on average currently have 5.21 children.

Thus, it is not uncommon to find families of 4 to 10 children, even in urban areas.

The ethnically diverse Lao PDR population is comprised of 3 major ethnic groups: Lao Lum, lowland; Lao Theung, upland; and Lao Sung, highland. Among prominent highland groups are the Hmong and Yao. Ethnic minorities comprise 47.5 percent of the total population, according to the 1995 census, which distinguished 47 main ethnic groups and 149 sub-groups. Thus, the Lao PDR is one of the most ethnically diverse countries in Asia.

With the country's low population density and the need to import labor (often Vietnamese **guest workers**), the government has been reluctant to adopt a strict birth control or family planning policy. Instead the policy has been the more moderate one of birth spacing (delaying natural pregnancies so that women have fewer children than the biological maximum).

With such high fertility, the Lao PDR has a very young population. Roughly 54.2 percent of the population is under the age of 20. With poor health conditions, particularly in rural areas and related high mortality rates, only 2.2 percent of the population is over 70 years of age.

OVERVIEW OF ECONOMY

Laos is one of the world's poorest countries, and thus its primary policy goal is to strengthen its economy and develop its own means to earn foreign exchange. Much of its population is involved in a subsistence economy, in which families produce by themselves what is needed for daily basic living. Laos' major economic disadvantage has been that it is a landlocked nation with weak **infrastructure**. Nearly 80 percent of the country is mountainous and/or forested with only 21 percent of the land cultivable and less than 4 percent actually cultivated. Laos perhaps has the highest ratio of forest cover to land area in all of Asia: 47 percent of the country is forested.

Laos' long history dates back to the founding of its first kingdom in 1353. It was then known as Lan Xang (the land of a million elephants). It reached its period of greatest glory and influence during the years 1633–90. Later succession struggles led Lan Xang to break into 3 smaller kingdoms. These weakened kingdoms then came initially under the Siamese orbit and later French colonialism. Under French colonialism, Laos suffered neglect.

After achieving complete independence from the French in 1953, the royalist Lao regime was gradually drawn into the vortex of the U.S. war in Vietnam. The economy became war-torn, suffering from extreme dependence on foreign aid. Extensive U.S. bombing of northern, northeastern, and eastern Laos from 1965 to 1973 seriously disrupted the rural economy. The U.S. dropped 33 percent more bombs on Laos than on Nazi Germany.

On 2 December 1975, the Lao People's Democratic Republic was established, representing the culmination of a long extended revolutionary war. This event brought peace and independence to the country. The economy was transformed into a Soviet-style state planned economy and received economic and technical assistance from other **communist** nations. The attempt to collectivize agriculture was rather quickly abandoned, however. In 1986, a new policy termed the New Economic Mechanism (NEM) was introduced to transform the economic system from a state-planned one to that of free market forces and prices. The major goal of this reform was to provide greater incentives to increase economic performance and productivity. With the collapse of the USSR in 1991, the Lao PDR opened its doors to active economic involvement with the West, both in terms of international aid and investment. The Lao PDR became a favorite of diverse donors, and foreign aid currently represents some 20 percent of the GDP. From 1991 to 1997, the Lao PDR enjoyed considerable **macroeconomic** success under the NEM system, with annual economic growth averaging 6.5 percent

During the 1990s, the Lao economy became increasingly interconnected with the Thai economy. Laos imports many basic modern consumer products from Thailand. On weekends, it is common to find many Lao families from Vientiane visiting Thailand via the Friendship Bridge, shopping for basic household items such as various packaged foods.

Initially, it appeared that the Lao economy (with no stock market and a currency not traded internationally) would be immune to the Asian economic crisis of 1997 which shook so many Asian economies. In a somewhat delayed effect, the Lao currency went into a free fall far greater than that of any other Asian country. Given Lao's dependence on imports, this had a serious, adverse effect on nearly all Lao, except a small number of elite individuals connected to the dollarized economy. The Asian economic crisis also adversely affected the Lao economy by reducing **foreign direct investment** from other Asian countries and reducing the demand for Lao electricity exports, a major source of foreign exchange.

Since it received foreign aid earlier from the Eastern block countries and in the past decade from multilateral agencies (primarily the World Bank and Asian Development Bank) and other countries, the country does have a debt burden. Total **external debt** in 1997 was estimated to be US$2.32 billion, and debt payments represented 4 percent of government expenditures in 1995–98. Many Lao loans are granted at highly concessional terms, meaning that the interest rates are quite low over a long payment period and thus are almost like grants.

The major challenge facing the Lao PDR currently is to restore the sound macroeconomic performance of the early and mid-1990s and develop its own sources of foreign exchange earnings. Hydroelectric power development on the tributaries of the Mekong, the development of light industries such as garments and textiles, marketing of natural resources such as gypsum, tin, and wood products, and tourism development are the primary economic sectors being promoted.

The government plays an active role in evaluating and assessing potential international investments coming into the country. The government, with the strong support of the Lao Women's Union, has been active in preventing the development of a commercial sex industry. At this point, there is absolutely no standardized fast food industry in the country, such as KFC or McDonald's. Interestingly, in terms of the cola wars, Laos is a Pepsi country. Coke must be imported from Singapore or Thailand.

POLITICS, GOVERNMENT, AND TAXATION

The Lao PDR remains a 1-party state with complete dominance by the Lao People's Revolutionary Party (LPRP). The president since 1998 has been Khamtain Siphandon and the prime minister has been Sisavat Keobounphan. The National Assembly, last elected in 1997, has 99 members. Basic economic policies are determined in major Party Congresses which are held every 5 years. The LPRP is strongly supportive of the current mixed policy of having a **privatized** economy with a reduced role for state-owned enterprises but with a 1-party political system.

As part of the reform policies introduced in 1986, the government has attempted to reduce the size of the **public sector**, including the military. They have done this, however, in humanistic ways by avoiding the direct firing of people. International donors and agencies have been concerned that such reforms have slowed in the late 1990s.

The government's ability to tax is limited. Tax revenue is only 10 percent of the GDP, and major capital outlays are financed by external assistance, according to Bourdet. Major sources of revenues are business taxes, import/export taxes, and various fees (such as visa fees and fly-over fees). For smaller businesses, flat fixed taxes are used, which discourages tax evasion. In 1995–98, tax on foreign trade represented 27.1 percent of government tax revenues. The **income tax** represents only 6.3 percent of all revenues.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Overall, the Lao PDR has a weak physical infrastructure. As yet, there is no train system. Travel to remote provinces requires a plane. During the rainy season, roads to remote areas may be impassable. At other times, inexpensive bus transportation is available for ordinary people to travel through the country.

The country is served by a network of 21,534 kilometers (13,381 miles) of roads, of which 16.5 percent are paved. As part of the 1996–2000 National Plan, major work has been undertaken to improve the country's limited road infrastructure. A key project is the reconstruction of Highway 13 which links China in the north and Pakxé in the south.

The Lao PDR is receiving considerable international assistance to develop its infrastructure. The Japanese, for example, provided assistance in building a new international airport in Vientiane, and the Thais assisted with a new airport in Luang Prabang. The country's weak road infrastructure adversely affects the development of its rich natural resources, such as minerals and wood products

In April 1994, the Friendship Bridge, the first ever across the lower parts of the Mekong River, was completed with a US$40 million grant from Australia. Upon completion of the bridge, the Lao government issued a regulation not allowing private cars to use the bridge. The government feared a wave of private cars from Thailand

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Laos	4	143	4	N/A	1	N/A	1.1	0.00	2
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Thailand	63	232	236	10.1	32	2.5	21.6	4.49	800

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.
SOURCE: World Bank. *World Development Indicators 2000.*

which would cause accidents, congestion, and pollution. Thus, the bridge is used mainly commercially by trucks and buses and has helped landlocked Laos connect economically with its neighbors in the region. A second new bridge over the Mekong, the Lao-Nippon Bridge, was completed in the south near Pakxé in August 2000 and was financed primarily by the Japanese. A third bridge across the Mekong at Savannakhet is scheduled for completion in 2003. This bridge connected to Route 9 will connect both central Laos and northeast Thailand to the Vietnamese port of Da Nang. These bridges, as well as better road infrastructure, will improve Lao links with major ports in Thailand and Vietnam.

With its many mountains and tributaries of the Mekong River, the Lao PDR has excellent hydroelectric power potential. The country's total hydropower potential is estimated to be 25,000 megawatts (MW). Laos has even been referred to as the potential battery of Southeast Asia. Currently the country has 10 major electric power plants with a total capacity of 1329.5 MW. In 1998, the nation consumed just over one-third of the 1.34 billion kilowatt hours (kWh) of electricity generated. The Lao PDR plans to construct a total of 12 dams on the Mekong's tributaries over the next decade. The decision has caused considerable controversy in the international environmental community. Major concerns include effects on displaced rural populations in Laos itself, the fish populations of the Mekong and its tributaries, and unintended effects on downstream communities in Cambodia and Vietnam, which are highly dependent on the natural flows of the Mekong River.

Only those of higher socioeconomic status have telephones in their homes, though cell phones are increasingly popular among those of higher socioeconomic status. The country has only a total of 18,139 conventional phone lines, of which 71.8 percent are in the capital. Phone cards are also now available. It is the goal of Lao Télécommunications to have 49,000 telephone lines installed by 2001. Televisions are widely used wherever there is access to electricity. About 72 percent of urban households and 22 percent of rural households have televisions. Much of the Lao population lives in the lowlands in close proximity to Thailand. Thus, they have access to popular Thai TV programming with related advertisements for a variety of popular Thai **consumer goods**. Shinawatra (a Thai telecommunications conglomerate) has been active in assisting the Lao PDR develop its telecommunications infrastructure.

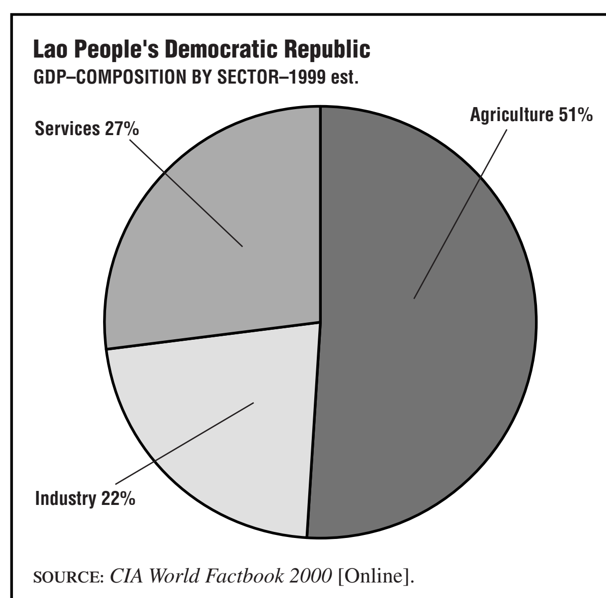
Though Laos has not officially joined the World Wide Web (there is not yet a .lao suffix), some Lao people, especially in urban areas, are using the Internet. There are now a number of private cyber shops in Vientiane offering public Internet service.

ECONOMIC SECTORS

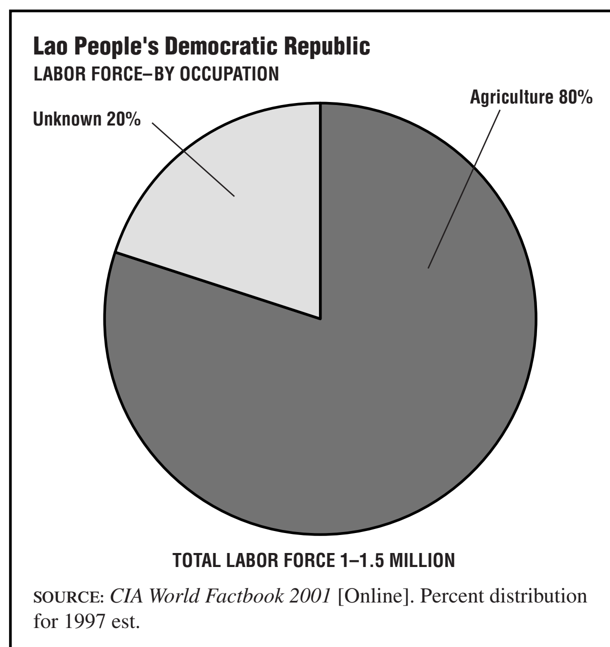
Like many undeveloped countries, Laos generates a majority of its GDP from the agricultural sector. Agriculture accounted for 51 percent of the GDP in 1999 and employs about 80 percent of the total **workforce** of 2,220,000. In most areas of the country, 90 percent of the people work in agriculture. Industry accounted for 22 percent of the GDP but employed only 3.3 percent of the people (though this figure was 20 percent in the capital). The services sector accounts for 27 percent of the GDP and roughly 10.3 percent of the workforce.

Traditionally, Laos has been a subsistence agricultural economy. That remains true today, though other economic sectors are growing in the Lao PDR. While the Lao PDR has no intention to develop heavy industry, it is developing its light industry, particularly the production of garments and textiles. The Lao PDR has excellent capability in producing attractive traditional textiles and handicrafts. Lao silk and cotton textiles are becoming known for their quality around the world.

The Lao PDR is also developing an important service sector, which has 2 new components: banking and tourism. There are now many newly established foreign banks located in the Vientiane area, most of which were established in the 1990s. Among 6 such Thai banks are the Bangkok Bank and Siam Commercial Bank. The 1999–2000 year was called the "Visit Laos Year" to promote tourism. In the late 1990s travel to Laos was dramatically **liberalized** with visas available on arrival. The tourist infrastructure was also improved substantially. Tourism has expanded dramatically in the 1990s from only 14,400 visitors in 1990 to 500,200 in 1998. In 1997 tourism contributed US$73.3 million to the economy,



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1997 est.

representing 23 percent of export earnings. The designation of Luang Prabang, perhaps the best preserved traditional Southeast Asian city, as a world heritage site was definitely a positive development for Lao tourism. Other important tourist attractions in Laos are the Wat Phu ancient Khmer ruins in southern Laos, the Khon waterfalls in the same region, and the Plain of Jars in Xiengkuang Province. The latter area was heavily bombed during the U.S. War in Vietnam. In fact, as of 2001 Laos is the most heavily bombed country in the history of the world.

AGRICULTURE

The Lao PDR is primarily an agricultural economy, with this sector contributing 51 percent of the GDP. Approximately 1,880,000 individuals are involved in agricultural work. Recently the Lao PDR conducted a major agricultural census which provides an excellent overview of the basic nature of Laos' agricultural system. The results of this survey indicate that 79.7 percent of the total population is engaged in farming. The average land holding is 1.62 hectares with 27 percent of households having 2 hectares or more and 36 percent having less than 1 hectare. An impressive 97 percent of farmers own their own land. About 93 percent of the area devoted to rice production is for the production of sticky rice, a subsistence crop used primarily for home consumption. Tree farming is another important part of Lao agricultural life. About 23 percent of such farms have mango trees, 17 percent coconut trees, 17 percent banana trees, 11 percent jackfruit trees, and 11 percent tamarind trees. Also 8 percent of farmers are engaged in aquaculture, and 71 percent do other fishing. Roughly 31 percent of farmers have cattle, 48 percent water buffaloes, 49 percent pigs (73 percent in the case of Hmong people), and 73 percent chickens.

Only 6 percent of farmers sell their total output, while 35 percent sell some of their farm output. This means that the majority of farmers (59 percent) are engaged solely in subsistence agriculture. The basic staple of such farmers is the production of sticky rice for local consumption. Unlike its neighbors Thailand and Vietnam, the Lao PDR is not a rice exporting country. Their goal is simply to attain self-sufficiency in rice production, which is possible in good weather years. The production of sticky rice may be supplemented by vegetable gardens; animal raising (goats, chickens, ducks, turkeys, pigs); and mango, coconut, or banana trees. Some maize is also grown. In the tropical forests of Laos, there are also many edible wild plants and foods that are gathered, primarily by women. Hunting and fishing also supplement the subsistence diet and provide valuable protein. Lao greatly enjoy fishing.

In terms of tons of agricultural production, the top 5 crops in Laos in order of importance are rice, vegetables and beans, sugarcane, starchy roots, and tobacco. Since 1990, among these 5 leading crops, production of vegetables and beans has grown the fastest in percentage terms, followed by sugarcane. In the decade since 1990 rice production has increased 47.9 percent. Among agricultural products often produced as **cash crops** are mungbeans, soybeans, peanuts, tobacco, cotton, sugarcane, coffee, and tea.

Given its subsistence nature, Lao agriculture has not played a major role in the country's foreign trade. The major export products from Laos' agricultural sector are timber, lumber, plywood, and coffee. The major agricultural imports are sugar, condensed milk, and long-grain rice.

Numerous city dwellers have rural roots and the Lao love gardening. Thus, some urban dwellers supplement limited cash incomes by having gardens, small fish ponds, or raising animals. They also may engage in fishing in the Mekong River, hunting, and the gathering wild foods. Some urban dwellers in the capital of Vientiane cultivate gardens along the Mekong River during the dry season.

FORESTRY AND LOGGING. The Lao PDR has extensive tropical forests containing many valuable hardwoods such as teak. With a total ban on logging in Thailand, there is considerable demand for Lao wood products from other Asian countries such as Thailand, Malaysia, and Japan. Malaysia has projects for teak cultivation in southern Laos. The Lao military is involved in timber exploitation. In 1991, timber and furniture exports totaled 39.2 percent of all exports, while in 1996 such exports dropped to 28 percent. In 1998, export of all types of

wood products brought in US$115.4 million to the Lao economy.

Deforestation and the need for sustainable forestry are major environmental issues facing the Lao PDR and its agricultural/rural sector. The Lao are very conscious that much of Thailand's northeast was deforested as the result of expanded rice field acreage. Also, upland agricultural production can result in serious deforestation. The reduction of upland rice production and the expansion of irrigated rice lands to allow more crops on a given piece of land should help preserve Lao forests by reducing the need to expand acreage at the expense of forests.

IRRIGATION PROJECTS. A major recent policy is an ambitious irrigation project. Given the spread of the contagion of the Asian economic crisis to Laos, organizations such as the IMF strongly urged restrictive monetary and **fiscal policies**. The Lao PDR ignored the policy dictates of the IMF and instead they moved boldly ahead with a major rural irrigation infrastructure project. For doing this they were severely criticized by the international financial community, and no doubt this expansionary program contributed to both **inflation** and the **devaluation** of the Lao kip. In continuing their agricultural irrigation program, the Lao government was both demonstrating its economic sovereignty and also clearly putting the interests of the Lao agricultural sector ahead of those in urban communities which are most severely affected by inflation.

The French scholar Catherine Aubertin argues that Lao agricultural policy favors the lowland Lao over the upland Lao because of its resettlement schemes to decrease slash and burn agriculture in mountainous areas. The Lao government feels such policies are essential for forest conservation.

INDUSTRY

The Lao PDR has relatively little industry. This sector employed only 3.3 percent of the workforce in 1995. There is no heavy industry and much of the country's industry is comprised of smaller companies. In 1999, there were only 108 establishments in the whole country with more than 100 employees. However, there were 19,797 establishments with fewer than 9 employees. These small establishments are involved primarily in the production of textiles and handicrafts. Laos is well known for the high quality of its aesthetically attractive textiles. Even though industry plays a small role in the Lao economy, its importance has increased significantly. In 1987, industry represented only 11 percent of the GDP of the Lao PDR, while in 1999, it represented 22 percent, doubling since the introduction of the New Economic Mechanism policy.

MANUFACTURING. The following are the principal products manufactured in the Lao PDR: oxygen-acetylene, battery acid, industrial alcohol, detergent powder, soap, shoes made of animal skin, leather, medical drugs, fans, vaccines, plastic goods, timber, lumber, plywood, flood lumber, rattan furniture, books, fabrics, clothing, bricks, blocks, cement, tiles, chalk, lime, electric poles, agricultural tools, tin plates, nails, electric wire, and barbed wire. For the economy, the most significant of these are clothing/fabrics and rattan furniture. Manufacturing represented 16.5 percent of the GDP in 1999, up from 13.9 percent in 1995. Except for fabrics and clothing, most of these manufactured products are for local consumption. Laos' manufacturing export potential is currently limited by its status as a "non-market economy" restricting its access to U.S. and other developed country markets. Admission to the WTO and completion of a trade agreement with the United States are essential to enable Laos to have more secure access for its exports.

ELECTRICITY AND WATER. Electric power generation is one of Lao's most significant industries. In 1998, the country produced 1.34 billion kWh of electric power. About 43 million cubic meters of water were produced and distributed, primarily in the 4 major urban areas for household and industrial use. Electricity and water production represented 2.3 percent of the GDP in 1999. As of the mid-1990s, only 1 percent of the country's vast electric potential had been exploited.

MINING. The Lao PDR has an abundant supply of minerals. Gypsum, for example, is exported to Vietnam. Tin, coal, lignite, and limestone are also mined. In the Vanvieng area, there is a major cement works, established with the assistance of the Chinese. Mining and quarrying, however, represented only .051 percent of the GDP in 1999, and minerals are not yet a significant export. The major problem in exploiting Lao mineral resources is their inaccessibility.

CONSTRUCTION. In recent years there have been a number of new construction projects mainly in the capital of Vientiane. International funding has assisted many of these projects. Among notable recent projects have been the Lao-Nippon Bridge, the new International Airport, the Lao Plaza Hotel, and the National Cultural Hall (with funding provided by the PRC). Construction in 1999 represented 2.6 percent of the GDP.

SERVICES

Services represented 27 percent of the Lao economy in 1999 and employed roughly 10 percent of the workforce. The largest component (37.2 percent) of the service sector is wholesale and **retail** trade. Perhaps the largest entities in this arena are Honda and Shell. Honda retails a wide variety of products, particularly motorcy-

cles. With Laos' rapid economic development in the 1990s, many Lao in urban areas have up-graded from bicycles to motorcycles or scooters, or among elites from motorcycles to private cars or SUVs. Toyota, Pepsi Cola, and Bier Lao are also active retailers. In urban areas there are a large number of formal retail shops as well as a large **informal economy**. Those in the formal retail sector market a wide range of consumer goods. A large number of small family-owned stores sell a variety of low cost products for basic everyday needs. Those selling goods in the large informal economy are often selling agricultural products.

The next largest component of the service sector is represented by transportation, communications, and postal services (23 percent), followed by ownership and rental of dwellings (12.1 percent). The latter grew significantly in the 1990s with the presence of a growing expatriate community associated with diverse development aid activities who are in need of modern housing.

The public service still represents an important element of the service sector (11.6 percent), though the government, with assistance from organizations such as the World Bank has sought to reduce the size of the public sector. For the most part, the Lao government has used non-draconian methods to reduce the size of this sector. Considerable success has been achieved in reducing the size of the military, for example. The next most important component of the service sector is represented by hotels and restaurants (7.6 percent), reflective of the growing importance of tourism in the Lao economy.

TOURISM. In the Lao service economy, tourism has been a major growth area. Between 1991 and 1995, tourism grew approximately 60-fold, and from 1995 to 2000 it has more than doubled. On a per capita basis, Laos has even more tourists than Thailand. The major tourist attractions of the country are its rich culture and many Buddhist temples; Luang Prabang, the former royal capital in the north and a world cultural heritage site; the majestic Mekong River which flows through the country; and shopping for Lao textiles and handicrafts in Vientiane. Laos is also noted for its genuinely friendly people who warmly welcome tourists. By April 1999, tourism was the country's highest revenue earner, contributing US$79.9 million to the Lao economy. Despite such economic contributions, tourism employs at most only 3 percent of the non-farm workforce. Tourist facilities have improved significantly in recent years. There are now large numbers of hotels, guesthouses, and restaurants in major cities. Both Vientiane and Luang Prabang now offer some up-scale tourist facilities.

BANKING. In the early 1990s banking reforms were introduced which diversified Laos' banking system. These reforms led to the National Bank being separated from 7 state-owned commercial banks such as the Lao Foreign Trade Bank (BCEL) and 5 regional banks. The reforms also opened the sector to international banks from Thailand, Vietnam, and Malaysia. In 1999, 6 of the 8 state-run commercial banks were merged into just 2 entities. Thus, the Bank of the Lao People's Democratic Republic (the national bank) now monitors a total of 14 banks consisting of 4 government banks, 3 joint banks (for example, the Lao-Viet Bank), and 7 foreign banks (6 Thai and 1 Malaysian). This network of local and international banks provides standard banking and financial services for both the average citizen and the commercial community. This banking component represents 5 percent of Laos' service sector. A major current issue facing the industry relates to questions about the **solvency** of the banking system as a result of the Asian regional economic crisis.

INTERNATIONAL TRADE

In the 1990s there were considerable diversification of Lao exports. Laos' largest export earner is timber and furniture (28 percent of exports), followed by garments (19.9 percent), raw logs (10.6 percent), electricity (9.2 percent), manufactured products (8.6 percent), coffee (7.7 percent), agricultural products (5.5 percent), gold **re-export** (4.7 percent), and motorcycle assembly (3.9 percent). With respect to garment exports, Nike, for example, is now sourcing some apparel production in Laos. Imports are comprised primarily of consumer goods (44.6 percent), **capital goods** (40.2 percent), and industrial inputs (11.9 percent).

Approximately 52 percent of Laos' imports are from neighboring Thailand, while only 22 percent of its exports go to Thailand, reflecting a strong negative trade balance with that country. In contrast, 42.7 percent of Laos' exports go to Vietnam, while only 3.9 percent of its imports are from that country. Thus, Laos has an extremely favorable trade balance with Vietnam. Other leading export destinations for Laos are in order of importance (after Vietnam and Thailand): France (6.3 percent), Germany (5.1 percent), and the U.K. (4.7 percent). Since the Lao PDR does not have most favored nation

Trade (expressed in billions of US$): Laos

	Exports	Imports
1975	.012	.045
1980	.028	.092
1985	.054	.193
1990	.079	.185
1995	.311	.589
1998	.370	.553

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

status with the United States, it is difficult to export to the U.S. market. Major sources of imports (after Thailand and Vietnam) are Japan (1.6 percent) and Hong Kong (1.5 percent).

Prior to the communist revolution, Laos had a severe trade imbalance with exports being only a tiny fraction of imports. While Laos still imports much more than it exports, the ratio of exports to imports has steadily improved. In 1975, the first year of the current communist regime, Lao exports were only adequate to cover 12 percent of imports. In 1999, exports of US$271 million were sufficient to cover 55 percent of imports, which stood at US$497 million. Also, the total of exports plus imports divided by the GDP has also steadily increased, reflecting the internationalization of the Lao economy. By 1998 this ratio had reached 72 percent. To decrease its dependence on international aid and to alleviate poverty, the Lao government seeks to expand its exports. That is the primary rationale for its long-term plan to build more dams to produce electricity exports, an area in which Laos has a clear comparative advantage. Laos also has a comparative advantage in the export of textiles such as clothing and garments.

Laos' current **trade deficit** is financed by 2 primary sources: international aid, primarily provided by Japan, Australia, and Sweden; and growing financial **remittances** from Lao living overseas. The State Planning Committee in a December 1999 report indicated that the latter was the single most important source of income in the Vientiane Valley. Given the recent economic crisis, the government has also turned to both China and Vietnam for important economic assistance.

MONEY

Since the establishment of the Lao PDR in 1975, the country has experienced periods of both currency stability and instability with related fluctuations in inflation. As part of the New Economic Mechanism introduced in 1986, the policy was to have a single **exchange rate** determined by market forces. During the early and mid-1990s the Lao PDR achieved impressive macroeconomic stability. However, contagion from the Asian economic crisis, especially in neighboring Thailand, eventually affected the Lao PDR dramatically in 1998 and 1999. The Lao currency at one point was worth only one-tenth of its previous value. It has since improved to be worth about one-seventh of its previous value. This led to 87.4 percent inflation in 1998 and 134 percent inflation in 1999.

In the year 2000 the currency stabilized and inflation fell to 33 percent. **Monetary policy** is implemented by the Bank of the Lao PDR, but it is certainly directly influenced by economic policies of the Party and Government.

Exchange rates: Laos

new kips (K) per US$1	
2001	N/A
Dec 2000	7,578.00
1999	7,102.03
1998	3,298.33
1997	1,259.98
1996	921.02

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Though Laos is an extremely poor country with 46.1 percent living below the material poverty line in 1993, the country does not have the gross economic inequalities typical of many developing countries. Rural farmers generally have their own land and are engaged in subsistence agriculture which provides for certain basic needs. Major problems for the rural poor are access to quality health care and education.

There are also serious regional income disparities primarily between urban centers and remote rural areas, often mountainous areas with a large proportion of ethnic nationalities. An average person in the richest province, Vientiane, has approximately 2 and a half times more income than the average individual in the poorest province, Huaphanh. The incidence of poverty in rural areas (53 percent) is double that of urban areas (24 percent). The areas most economically disadvantaged tend to be those more remote areas inhabited by diverse ethnic communities.

WORKING CONDITIONS

Because of the country's low population density and its former **socialist** economic system, unemployment has not been a serious problem in the Lao PDR. The visible urban unemployment rate in Laos was 3.5 percent overall in 1994. The large informal sector also provides opportunities for those who cannot find meaningful em-

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Laos	N/A	N/A	N/A	321	421
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Thailand	863	1,121	1,335	2,006	2,593

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Laos

Lowest 10%	4.2
Lowest 20%	9.6
Second 20%	12.9
Third 20%	16.3
Fourth 20%	21.0
Highest 20%	40.2
Highest 10%	26.4

Survey year: 1992

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

ployment in the formal sector. The Lao PDR has a progressive labor law, which is extremely specific related to working age, minimum wage, and overtime payments, for example. This labor law primarily covers those employees working in the modern formal sector. Women and children are active in the labor force, particularly in the agricultural sector and informal economy. Those able to attain higher levels of education can gain access to work in the public sector, the modern **private sector**, or with various international agencies and organizations present in the Lao PDR. Those with superior English language skills are particularly advantaged in the modern, urban labor market.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1353–73. Reign of Fa Ngum, king of Lan Xang (the land of a million elephants), marks the beginning of recorded Lao history.

1633–90. The height of the Lan Xang kingdom occurs.

18TH CENTURY. Lan Xang breaks into 3 independent kingdoms.

19TH CENTURY. Lao kingdoms fall under the Siamese orbit, and many Lao people are repopulated to Siam as slave labor.

1890. French colonial rule in Laos begins.

1953. On 22 October, Laos achieves its independence from France.

1975. Declaration of the Lao People's Democratic Republic occurs on 2 December.

1981. First 5 Year Plan begins.

1986. New Economic Mechanism approved at Fourth Lao People's Revolutionary Party (LPRP) Congress paves the way for major economic reforms.

1994. Completion of Friendship Bridge across the Mekong River connects Laos and Thailand.

1997. Lao PDR becomes the eighth member of the Association of Southeast Asian Nations (ASEAN).

1998–99. Asian economic crisis contagion spreads to the Lao PDR, leading to free fall of the Lao kip and triple digit inflation.

2000. The Lao-Nippon Bridge across the Mekong River is completed.

2000–01. Macroeconomic stability is restored.

FUTURE TRENDS

With its low population density and favorable natural resources/people ratio, the Lao PDR has a potentially bright economic future. Assuming recovery from the Asian economic crisis, there should be growing demand in the long term for Laos' valuable energy exports, which will enable the country to become more economically self-sufficient and less dependent on international aid. There are many in the West who would like Laos to adopt a multi-party system similar to that in liberal democracies. Given the problems of money politics and instability in such systems, however, the Lao PDR is more oriented toward a single party political system to ensure stability and avoid policy gridlock often associated with unstable multiple party systems. Given the past economic performance of areas such as Hong Kong, Singapore, South Korea, Taiwan, and Malaysia, the Lao are confident that their current political system is compatible with dynamic economic growth and reaching its goal to liberate the country from underdevelopment and mass poverty by the year 2020.

DEPENDENCIES

Laos has no territories or colonies.

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—Gerald W. Fry

LEBANON

Republic of Lebanon
Al-Jumhuriyah al-Lubnaniyah

CAPITAL: Beirut.

MONETARY UNIT: Lebanese pound. One Lebanese pound (known locally as the lira) equals 100 piasters. There are notes of 50, 100, 250, 500, 1,000, 10,000 and 50,000 liras. There are no coins.

CHIEF EXPORTS: Foodstuffs, tobacco, textiles, chemicals, metal and metal products, electrical equipment and products, jewelry, paper and paper products.

CHIEF IMPORTS: Machinery and transport equipment, foodstuffs, chemicals, consumer goods, textiles, metals, fuels, agricultural products.

GROSS DOMESTIC PRODUCT: US$16.2 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$866 million (f.o.b., 1999 est.). **Imports:** US$5.7 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Situated in the Middle East, Lebanon is a small country on the eastern shore of the Mediterranean Sea. Lebanon has a narrow coastal plain along the Mediterranean Sea, which is 225 kilometers (139.8 miles) long and is bordered by Syria on the north and east and by Israel on the south. A small country, Lebanon's total area is only 10,400 square kilometers (4,014 square miles), roughly two-thirds the size of the state of Connecticut in the United States. Beirut, the capital, is located in the center and overlooks the Mediterranean Sea. Other major cities include Tripoli in the north and Sidon in the south.

POPULATION. The population of Lebanon is estimated at 3,578,037, according to July 2000 estimates, an increase of 578,037 from 1980. In 2000, Lebanon's birth rate stood at 20.26 per 1,000, while the death rate was reported at 6.42 per 1,000. With a projected growth rate of 1.2 percent between 2000 and 2015, the population is expected to reach 6 million by the year 2029.

Lebanon's population is highly divided along both religious and confessional lines (the presence of groups of different faiths within the same religion). Muslims in 2001 were believed to have accounted for 60 percent of the population. Christians form the second largest group in the country. Lebanon is also home to some 200,000 Palestinian refugees, mostly Sunni Muslims, many of whom have lived in refugee camps since arriving in the country in 1948. For political reasons, no official census has been conducted since 1932. Muslim and Christian factions in Lebanon were engaged in a devastating civil war that began in 1975 and ended in 1990, when stability was restored to the country.

As in many developing countries, a majority of Lebanese (around 90 percent) live in urban areas. The population is unevenly distributed, with the vast majority of the population concentrated in the coastal cities of Beirut, Sidon, and Tyre, while other parts of the country, namely the Bekáa Valley, remain sparsely populated. The uneven population distribution has given rise to regional disparities. The coastal cities continue to receive much government attention, while the rest of the country has remained largely neglected. The population of urban areas has grown significantly since the 1960s, mostly because the cities have received more government funding and attention. In 2000, the capital Beirut and its suburbs was home to 1.3 million people. The northern city of Tripoli is the second largest in the country, with an estimated population of 450,000.

Lebanon's population is generally young, with 50.7 percent below the age 24, and is one of the most highly educated in the region. The adult literacy rate in Lebanon is estimated at 90 percent. Primary education in Lebanon is mandatory, and private education is prevalent. Lebanon's university system is also highly developed. The health-care system is one of the most

developed in the region. As a result, Lebanon also has one of the highest average life expectancies in the region, at 68.5 years. Infant mortality in Lebanon is also low by regional standards.

OVERVIEW OF ECONOMY

Lebanon's relatively small economy is based mainly on services, which have traditionally accounted for approximately 68 percent of the GDP. The sector is mainly comprised of a thriving regional banking market, tourism, and trade. Most economic activity is concentrated in the coastal cities. Other economic activity includes quarrying for the cement industry and small-scale farming, largely concentrated in the coastal plain and the Bekáa Valley in the south. Agriculture has traditionally accounted for only 13 percent of the GDP, which explains why the country is heavily dependent on the import of foodstuffs. The industrial sector is also relatively small, mostly because of the small domestic market. Jewelry, cement, processed food, and beverages are among the country's chief exports.

Lebanon entered the 20th century as a French protectorate heavily dependent on trade, especially along the coastal cities of Tyre, Sidon, Beirut, and Tripoli. Most of Lebanon's present-day problems can be traced to 1920, when the French incorporated Beirut and other coastal towns, the Bekáa Valley, and certain other districts in Mount Lebanon to form Greater Lebanon. The establishment of Greater Lebanon meant that the Maronites, concentrated largely in the Mount Lebanon area, were no longer the majority, and the population became equally divided between Muslims and Christians. In 1926, the French drew up a constitution that provided a formula for power-sharing among the various religious groups, making it mandatory for the president of the republic to be a Maronite, the prime minister a Sunni Muslim, and the speaker of the chamber a Shi'ite Muslim. This formula ensured that the pro-France Maronites exercised more control than any other religious group, allowing France to continue to control Lebanon through its close relations with the Maronites long after its full withdrawal from Lebanon in 1946.

The 1926 constitution, coupled with an unwritten power-sharing agreement known as the National Pact drawn up between Christians and Muslims in 1943, allowed Lebanon to maintain parliamentary democracy until the mid-1970s. However, rising tensions between Christians and Muslims, who by the mid-1970s became a majority and began demanding more political power, led to the outbreak of the civil war in 1975. In the immediate years before the outbreak of the war, Maronite Christians, feeling threatened by Muslim demands, resorted to violence to crush Lebanese Muslim opposition. They also wanted to oust the Palestinian Liberation Organization (PLO), which had a strong presence in Lebanon in the 1970s and was seen as an ally of the Muslims. The civil war intensified and broadened during the 1980s, with Palestinian refugees and their allies launching attacks into Israel from Lebanon, and the taking of Western hostages in Beirut by various Arab guerilla groups (guerilla groups practice non-conventional warfare in an effort to wear down the resistance of their adversaries). Syria was also involved, stepping in to fill the vacuum left by the weak Lebanese government and army. In an effort to stop the attacks and destroy the PLO, Israel invaded southern Lebanon in 1982, and it required major efforts by the United States and other powers to stop the fighting—at least temporarily—and escort the PLO out of the country. But Lebanon's war dragged on and did not end until 1990, with the adoption of the U.S./Arab-brokered Ta'if accords, which essentially recognized Syria's continued involvement in Lebanon's affairs and slightly adjusted the power-sharing formula

among the various religious groups designed by the French in 1926.

Until 1975, Lebanon's economy was characterized by minimal state intervention in private enterprise. In those years, the country managed to transform itself into a major banking center by avoiding restrictions on foreign exchange or capital movement and enforcing strict bank secrecy regulations. Lebanon's economic **infrastructure**, however, was severely damaged by the 1975–90 civil war. International organizations estimated the cost of physical destruction to be between US$25 billion and US$30 billion. Since the end of the civil war, the country has been engaged in an economic reconstruction process and has made significant progress toward the restoration of democracy. As a result, **inflation** fell from more than 100 percent to 5 percent between 1992 and 1998, and **foreign exchange reserves** jumped to more than US$6 billion from US$1.4 billion in the same period. The Lebanese pound has been relatively stable. Much of the physical and financial infrastructure damaged during the war has been rebuilt.

Lebanon's economic policy after the war has been largely shaped by Rafik al-Hariri, who served as prime minister between 1991 and 1998 and returned to power in August 2000. Hariri's economic policies have focused on reconstructing the country's war-damaged economy through the infusion of huge capital into the construction sector. Much of this capital has come from Lebanese expatriates and Arab investors from the Persian Gulf region. As a result, the period between 1991 and mid-1996 witnessed high levels of growth. This growth, however, slowed in 1996, mainly as investor confidence began to weaken in the wake of Israel's 2-week bombardment of the country in April 1996. The resulting economic slowdown has affected the country since, and attempts by the government to curb inflation by raising interest rates has caused the economy to slow even further. The Lebanese economy has been in **recession** since 1999, and the country's **real GDP** has experienced a decline of 0.5 percent, mainly the result of the drop in private demand, consumption, and investment. The government's huge spending bill has fueled a large **budget deficit**, which was equivalent to 53.5 percent of expenditure in the first 7 months of the year 2000.

Lebanon in 2001 continues to be primarily a free-market economy and is by far the most liberal among Arab economies. Since the end of the civil war in 1991, the country has had a fairly stable multiparty system and is strongly supported by the United States and the European Union. The main challenge facing the economy is the large budget deficit, which is fueled by a substantial government debt, mostly spent on reconstruction and a large government bureaucracy. A hike in public spending has thus far failed to stimulate economic growth. Further, the government's **privatization** program, launched in the first half of 2000, has thus far not been successful; in May 2000, the Lebanese parliament adopted a new law that sets the general framework for privatization. However, privatizing state-owned companies is going very slowly and hinders true economic reform.

Corruption is widespread in Lebanon. Officially, several anti-corruption regulations are in place, but they are rarely enforced. According to the U.S. State Department, corruption is more pervasive in the **public sector** than in private businesses, and is especially evident in **procurement** and public works contracts. A 1998 study by the World Bank estimated that at least US$45 million is spent annually in bribes to brokers and government officials. Between 1998 and mid-2000, the cabinet of Prime Minister Salim al-Hoss made it a priority to fight corruption, which it mostly blamed on Prime Minister Rafiq al-Hariri's economic reconstruction drive while he was in office. The government's initial efforts to enforce anti-corruption measures led to the dismissal of hundreds of public servants, but the general verdict has been that corruption continues to be pervasive in the country.

POLITICS, GOVERNMENT, AND TAXATION

The country's political system in 2001 is derived from the 1989 Ta'if Accords, which put an end to the 16-year civil war. Lebanon is now a parliamentary republic with a president and a **unicameral** (single chamber) National Assembly. The president of the republic is elected by the parliament for a 6-year term. The speaker of parliament is elected by parliament every 4 years, which is also the length of time between parliamentary elections. The president appoints the prime minister, who forms the Cabinet of Ministers. Under the new constitution drafted after the conclusion of the Ta'if Accords, Muslims now have an overall numerical advantage in the National Assembly, since representation is based along sectarian lines. Further, the power of the president has been somewhat diminished, although by custom, the president of the republic must still be Maronite Christian, while the prime minister must be a Sunni Muslim and the speaker of the parliament a Shi'ite Muslim.

The major political parties are arranged, although not explicitly, along religious lines. The Hizballah and Nabih Berri's Amal movement represents the Shi'ite Muslim community, while the Sunni Muslims are divided between pro-government parties and marginal leftist parties. The Druze, a community concentrated around Mount Lebanon, are represented by Walid Jumblatt's Progressive Socialist Party. The Christian-Maronite community controlled the country before the war. The Ta'if Accords attempted to correct this bias but left the Christian community feeling

relatively powerless. This impression was especially intensified when the accords resulted in the expulsion of a generation of Maronite leaders, including former president Amin Gemayyel and former Christian warlords Michel Aoun and Samir Jaja.

Parliamentary elections were held in August 1992 for the first time in 20 years. Prime Minister Rafiq al-Hariri's coalition won the majority of seats in those elections and in subsequent parliamentary elections in 1996 and 1998. Turnout by Christians was very low, and there were charges of irregularities. Municipal elections were held for the first time in 35 years in May and June 1998.

As of 2001, at least 35,000 Syrian troops still remain in northern, central, and eastern Lebanon, where they have been stationed since October 1990. Syria's deployment into Lebanon was legitimized by the Arab League a few years after the civil war started and then reaffirmed in the Ta'if Accords. Only with Syrian military power could Maronite-Christian leader Gen. Michel Aoun, who rejected the Ta'if Accords and maintained that he was the legitimate head of the government, be expelled from the country in 1991 and Lebanon reunited under one government. While Syria remains the dominant player in Lebanon, it began to withdraw its troops from central Beirut in 2000 and abandoned many checkpoints. It is gradually ceding more control to Lebanese security forces, which now control most strategic points in Beirut as well as the main highway to the airport, but Syria still exercises de facto control over Lebanese politics. Syria continues to cast a shadow on Lebanese politics because of the Syrian-Israeli conflict in the area, which makes Lebanon strategically important to Syria.

Since the end of the civil war, Lebanon has been engaged in a massive reconstruction process to repair the damage inflicted during the war. In 1993, Hariri launched "Horizon 2000," an US$18 billion program to rebuild Lebanon and transform the country into a regional center of finance and services. Under this national reconstruction plan, a huge investment has been made in various sectors focused on rebuilding the country. Large infrastructure projects, including a coastal highway, a new airport, and a highway to the Syrian border are being built as part of "Horizon 2000." The program also seeks to rehabilitate Beirut's city center and the telecommunications network. The financing for the project has come from a growing budget deficit and foreign investors, particularly Saudi Arabia and Kuwait. The expansion was coupled with a **fiscal policy** that aimed to raise interest rates in order to curb inflation. Hariri's reconstruction program was hampered by increased government spending in the 1990s, mainly as a result of the government's hiring policies, which sought to expand the civil service by hiring employees of various religious backgrounds as a means to ease friction between the various religious groups. As a result, the Lebanese government's debt, considered one of the highest in the region, soared to 140 percent of the GDP by the end of 2000.

The budget deficit has also proven difficult to tackle for the administration of Salim al-Hoss, which came to power following Hariri's resignation in 1998. The Hoss government focused on **restructuring** the public-sector debt and other fiscal reforms. For instance, the government improved tax collection methods, increased income and corporate taxes, and increased customs **duties**. Customs duties and property transaction fees are the two most important sources of revenue for the government. Custom duties account for 40 percent of the government's revenue, mostly from Beirut port. The government's efforts were seen as half-hearted and ineffective, primarily due to its weakness in the face of opposition from the legislature and its inability to institute a **value-added tax** (VAT). Perceptions that the Hoss government had not followed through in its efforts to reform the economy led to the resignation of the prime minister in August 2000.

With the return of Prime Minister Hariri to office in August 2000, the government once more focused on resuming reconstruction efforts by securing foreign aid, mainly from European and Arab countries. In October 2000, the Kuwaiti government agreed to deposit US$100 million at the Lebanese Central Bank to help stabilize the Lebanese pound. Hariri is also expected to proceed with economic reforms, especially the privatization of state-owned enterprises. In mid-January 2001, the government announced plans to introduce a sales tax on consumer products rather than the VAT, previously planned by the government of Prime Minister Salim al-Hoss. The government, however, has no plans to slash the budget deficit and has argued that it can be maintained for years without affecting economic growth.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Lebanon enjoys an extensive, though aging, infrastructure that was severely damaged during the civil war. The country is served by a network of over 7,000 kilometers (4,350 miles) of primary and secondary roads, 6,200 kilometers (3,853 miles) of which are paved. Since 1991, the government has given much attention to rebuilding the infrastructure. The road system, however, especially within Beirut and in remote areas, remains in poor condition. With growing numbers of licensed automobiles in the 1990s, the road system, especially in Beirut, has become congested. The country's railway system is mostly unusable, due largely to damage sustained during the civil war.

Lebanon has 9 airports, 2 of which have unpaved runways. Beirut International Airport, the country's ma-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Lebanon	107	906	352	1.4	157	N/A	39.2	7.02	200
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Egypt	40	324	122	N/A	1	0.5	9.1	0.28	200
Israel	290	520	318	184.0	359	24.9	217.2	187.41	800

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

jor airport, handles 2 million passengers a year. In fact, 35 airlines service Beirut and bring in most of the country's tourists. Lebanon has 12 ports, the most notable of which are Beirut, Tyre, Sidon, and Tripoli. The ports of Beirut and Tripoli are currently being rehabilitated and modernized.

Electrical power is supplied to Lebanon by the state-owned Electricite du Liban (EDL), which has the capacity to produce 1,500 megawatts (mw) of power. Plans are underway to expand power production to 2,700 mw by 2006. Total annual electricity production came to 9.7 billion kilowatt hours (kWh) in 1998, with the majority produced from fossil fuels. Power production falls short of actual demand, however, and the 220-volt power system is subject to repeated shortages and blackouts. Furthermore, several Israeli raids on Lebanon's power stations since 1996 have led to severe power cuts.

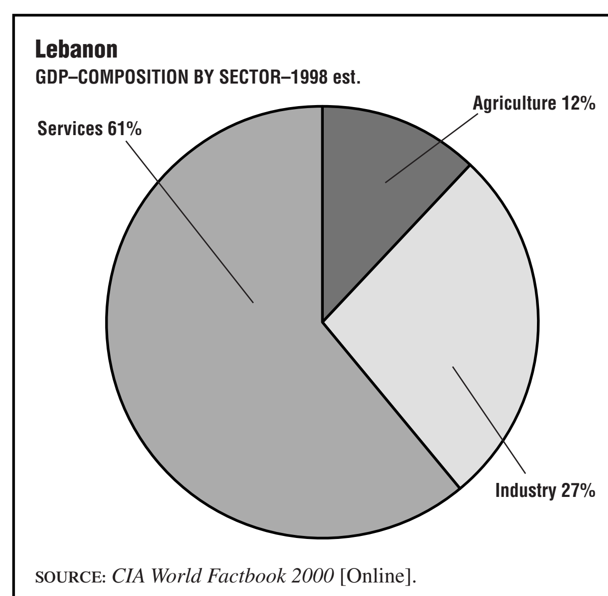
Telecommunications services, damaged during the civil war, have been largely restored. The government has been expanding the public telephone network to reach some 698,000 customers. Cellular telephone service is widely available with some 750,000 subscribers. In 1999, the country had 19 Internet service providers.

ECONOMIC SECTORS

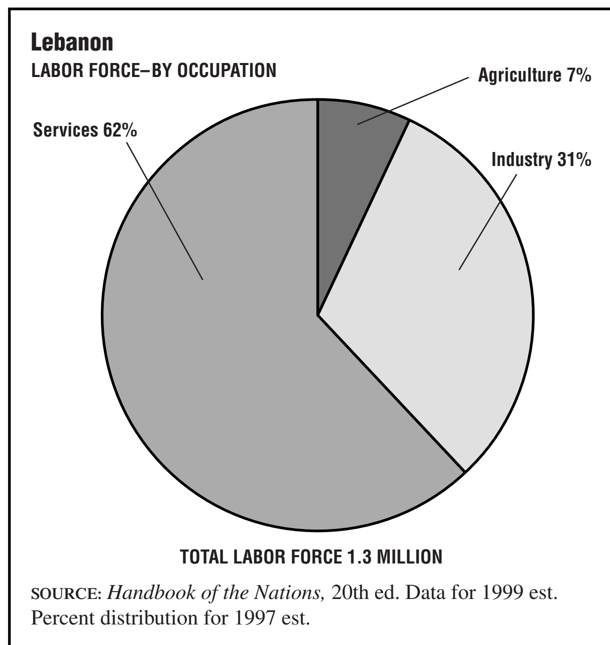
Lebanon's economic sectors reflect the small size of the economy, which places limits on the availability of natural resources, population, and domestic markets. Before the civil war, the services sector was by far the largest contributor to the economy and employed the largest proportion of the **labor force**. The industrial sector was the second largest contributor to the economy, while agriculture accounted for a smaller proportion of national income.

As of 2001, Lebanon's economy continues to rely heavily on the services sector. Services—mainly banking, tourism and trade—account for 68 percent of the GDP. Lebanon's agricultural and manufacturing base continue to be small and has yet to regain its pre-war competitiveness. Economic slowdowns in Lebanon began in 1996, with a drop in construction activity, and the economy was in recession during the 2000–01 period. The greatest obstacles to growth in all of Lebanon's economic sectors are their vulnerability to regional instability and international trade opportunity.

Recognizing these obstacles, Lebanon has moved to form a series of trade alliances, including a customs union concluded with Syria in 2000, an Arab free trade agreement, and a Euro-Mediterranean Association Agreement with the European Union. Lebanon is also planning to join the World Trade Organization. Lebanon's domestic political environment has improved since the Israeli withdrawal from south Lebanon in May 2000. Although some elements of instability still remain (mainly the occasional exchanges of gunfire between guerrillas belonging to the Shi'ite Hizballah group and Israeli soldiers), the Israeli withdrawal is expected to enhance international confidence in Lebanon's investment potential. The tourism



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *Handbook of the Nations,* 20th ed. Data for 1999 est. Percent distribution for 1997 est.

sector stands to benefit most. Since 1997, the government has attempted to tackle seriously the budget deficit, raising custom duties by 2 percent in 1998 and introducing an entertainment tax on restaurant, bar, and hotel bills. However, spending continues to be high, and the budget deficit in 2000 was equivalent to 53.5 percent of expenditures.

AGRICULTURE

Lebanon's agricultural sector is underdeveloped and has yet to realize its potential. The sector's development is hindered by the large number of small un-irrigated land holdings and the lack of modern equipment and efficient production techniques. The sector also suffers from a lack of funding and inaccessibility to loans. In 1999, the government allocated only US$11 million, or 0.4 percent of the state budget, to agriculture.

There are 207,060 hectares of arable land in Lebanon, 60,047 hectares of which are irrigated. Most agricultural activity is concentrated in the High Bekáa Valley and the coastal plains, which combined account for more than two-thirds of the cultivated land. Bekáa Valley crops mostly consist of vegetables and some cereals. Fruits, such as bananas, melons, and apples, are cultivated in the coastal plains. The production of certain crops, such as tobacco, is subsidized by the government. During the civil war, Lebanon was a major producer and exporter of heroin and hashish. In 1992—pressured by the United States, Interpol, and the United Nations—the Lebanese government officially banned poppy and cannabis cultivation, a ban effectively enforced by the Syrian and Lebanese armies.

Agricultural production is a moderate contributor to Lebanon's economy, traditionally accounting for 13 percent of the GDP and employing approximately 13 percent of the labor force. Most of Lebanon's agricultural products are consumed locally and a small percentage is exported to the Gulf region, primarily to Saudi Arabia and the United Arab Emirates.

INDUSTRY

MANUFACTURING. The manufacturing sector is an important contributor to the economy, accounting for 17 percent of the GDP in 1998 and employing 15 percent of the labor force. In 1999, the sector accounted for 40 percent of exports. Total employment in the manufacturing sector in 1998 stood at 180,000 people.

Historically, and unlike neighboring Arab countries, Lebanon has never gone through a state-led industrial growth phase, and the governments have generally adopted an open policy that has encouraged free competition in the sector without government interference. Lebanon's industrial base is by all means modest, mostly comprised of family-based small firms. Most finished and semi-finished goods are imported. Much of Lebanon's local manufacturing consists of producing goods for local consumption—mainly food, furniture, and clothing manufacturing. The most important industrial activity is focused on food, beverages, and chemical products, which receive the highest level of investment. Manufacturing activity is concentrated in the population centers of Beirut and Mount Lebanon, where an estimated 60 percent of the firms are located. Some 19 percent of manufacturing firms are located in the north.

Since the end of the civil war in 1991, the manufacturing sector has had to struggle to regain its pre-war competitiveness and invest heavily in new equipment. During the war, several factories were forced to close as a result of the armed hostilities, declining consumer spending, and lack of funding. Major barriers facing the sector in 2001 are rising customs duties and political instability, 2 difficulties which have prevented many multinational companies from establishing subsidiaries in Lebanon. The U.S. State Department stated that "the sector's outlook remains bleak, as high operating costs, low productivity, obsolete equipment and limited access to medium and long term credit impede the performance of the sector."

MINING. With no commercially exploitable mineral deposits, Lebanon has no significant mining base. Quarrying for marble, sand, and limestone for cement production, however, has accelerated in recent years. The output is mostly consumed locally for construction, and only a tiny fraction is now being exported.

SERVICES

TOURISM. Tourism was once a very important contributor to Lebanon's economy, accounting for almost 20 percent of the GDP in the 2 decades before the start of the civil war. Since the end of the war, the sector has managed to revive somewhat, but tourism has yet to return to its pre-war levels. Tourism in 1999 accounted for 9 percent of the GDP. In 2001, the tourism sector was one of the fastest growing sectors of the economy, with the number of tourists visiting Lebanon between 1996 and 2000 growing at the rate of 14 percent annually. Lebanon's rich archeological and cultural heritage, coupled with a mild climate and diverse terrain, has been a major attraction to tourists.

Successive governments have invested heavily in the sector, and there has been substantial investment in building luxury hotels and upscale restaurants, in response to the return of tourists (mainly Gulf Arabs) to Lebanon, especially in summer. It is estimated that there are 12,000 hotel beds, with 90 percent located in Beirut and Mount Lebanon. Some 860 additional hotel rooms will be built in 2001 and another 1,200 will be added in 2002. Despite continued political instability, growth in the tourism sector is expected to pick up in the coming years, especially after the Israeli withdrawal from south Lebanon in May 2000.

FINANCIAL SERVICES. The most important sector of Lebanon's service industry is the financial services industry. The sector lost most of its importance during the civil war with the flight of the majority of foreign firms, but there has been a concerted effort to renew the sector since 1991. As a result, the sector grew rapidly in the 1990s, mostly the result of investment in government debt and reconstruction and reported double-digit growth throughout the 1990s.

Financial services continue to undergo expansion and consolidation, especially of small family-owned banks. Several international banks now have offices in Beirut. In an effort to present Lebanon as an international financial center, the government announced in 1995 a series of financial laws aimed at preventing **money laundering**. In particular, one of the passed laws gives international investigators access to the accounts of Lebanese banks.

Banking, by far the most profitable sector, employs some 15,000 people. Before the civil war, Lebanon was the banking center of the Middle East, owing to its liberal banking regime, one of the most liberal in the Arab world. Several Arab and foreign banks pulled out of Lebanon during the war, but by 2001 several of these banks had returned. However, most of them have only small branches in Beirut, and the pre-war interest in Lebanon's banking sector is yet to return.

There are some 67 active commercial banks in the country, in addition to small family-owned enterprises. Most of these banks are up to international standards, largely due to concerted government efforts to tighten regulations and increase **capital adequacy** requirements.

The Beirut Stock Exchange, closed in 1975 with the outbreak of the civil war, re-opened in 1995. Trading, which began in January 1996, has been thin, and the number of listed companies has been relatively small. There is a total of 12 listed companies, including 4 financial institutions, 1 car retailer, and a supermarket chain. Weekly trading in 2000 rarely exceeded US$2 million.

CONSTRUCTION. The construction sector grew at a very fast pace between 1991 and 1996, contributing to an average of 6.5 percent growth in the GDP. The sector's growth was in response to the influx of huge sums of private investments, mostly from Lebanese expatriates and Gulf Arabs who were devoted to the reconstruction of residential and commercial buildings destroyed during the war. These investments were coupled with large-scale government projects to rebuild the country's infrastructure, including the US$400 million project to rebuild Beirut International Airport and the complete renovation of downtown Beirut by the quasi-government company, Solidere.

Since 1996, the sector's contribution to GDP has dropped, as private investments and government spending began to dwindle. The slowdown was partly brought about by the oversupply in some areas of the construction market, especially in housing. International and domestic confidence in Lebanon's stability also dropped significantly in the aftermath of Israel's military operations in Lebanon in the summer of 1996.

RETAIL. Lacking many large commercial centers other than Beirut and its suburbs, Lebanon has a poorly-developed **retail** sector. While Beirut is home to a variety of retail stores, including fast food franchises such as McDonald's, Burger King, and Starbuck's, the majority of towns in the interior of the country have small family-owned shops, farmers' markets, and temporary roadside stands.

ADVERTISING. Lebanon has a booming advertising industry that ranks second in the region in terms of size and profitability after Dubai. Some 150 national and international advertising agencies are based in Lebanon, employing some 8,000 people. In the absence of reliable statistics, the sector's revenue is believed to be in the range of US$150 million annually. The largely unregulated sector is dominated by the country's 4 television stations and the print media, which account for 55 percent and 34 percent of the sector's revenue, respectively.

Trade (expressed in billions of US$): Lebanon

	Exports	Imports
1975	1.233	2.048
1980	.955	3.650
1985	.530	2.203
1990	.494	2.525
1995	.825	7.278
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Lebanon

Lebanese pounds per US$1	
Jan 2001	1,507.5
2000	1,507.5
1999	1,507.8
1998	1,516.1
1997	1,539.5
1996	1,571.4

SOURCE: CIA *World Factbook 2001* [ONLINE].

INTERNATIONAL TRADE

With few natural resources, over the past several decades, Lebanon has relied heavily on imports. The value of imports in 1999 was US$5.7 billion, while exports totaled just US$866 million. Lebanon imports the majority of its goods from Europe—mostly Italy (12 percent), France (10 percent), and Germany (9 percent)—followed by the United States (9 percent). On the other hand, the majority of Lebanon's exports are sent to neighboring Arab Gulf countries, especially Saudi Arabia (12 percent) and the United Arab Emirates (10 percent), which are Lebanon's largest trade partners. Major exports are food, vegetables and fruits, followed by chemical products and jewelry.

Imports of foreign goods have usually amounted to 40–65 percent of the GDP. Lebanon's imports consist of fuel, electrical goods, and vehicles. Expenditures on imports rose dramatically in the post-civil war period, largely due to the need to import **capital goods** and high consumer spending on food, cars, and luxury items. The trend has reversed since 1999 due to the economic slowdown but is expected to rise again as the economy recovers.

Although the value of exports increased from US$544 million in 1994 to US$866 million in 1999, the substantial trade imbalance that Lebanon has endured over the years has meant that the country will continue to run a **trade deficit** which forces it to borrow heavily to pay for its consumption.

MONEY

The value of the Lebanese pound has slowly improved on the world market since 1992, thanks to a wise monitory policy that has sought to restore its value. As a result, the value of the pound to the dollar has improved from 1,800 Lebanese pounds for every U.S. dollar at the end of 1992 to 1,508 pounds to 1 U.S. dollar at the end of 1999, and has remained at roughly this value in the years since. The U.S. dollar was widely used throughout the civil war, and although its use has decreased since 1991, more than 60 percent of transactions in 2001 are still conducted using the U.S. dollar, which is available at many Lebanese banks. The nation's central bank, the Central Bank of Lebanon, is highly respected by the international banking community and has done a good job of maintaining the value of the currency and keeping low inflation.

POVERTY AND WEALTH

Wealth and income are unevenly distributed in Lebanon. Despite the absence of reliable statistics, income disparity in Lebanon is believed to have increased in the last 10 years since the end of the civil war. According to a recent study, the income of the upper and middle classes has risen since 1991, but most Lebanese have not seen a significant appreciation in their income. A minority of Lebanese have in fact seen their incomes drop below the poverty line. Farmers in the Bekáa Valley, for example, have been affected by the ban on the cultivation of hashish, which during the civil war constituted a major source of income for the region.

Income disparity also is manifested along regional lines. According to the UN Economic and Social Council for Western Asia (ESCWA), the average **GDP per capita** in 1999 reached US$5,148 (the CIA World Factbook places the figure at US$4500). However, average GDP per capita in areas such as the Bekáa Valley is only US$620 per year. Almost one-third of the population live

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Lebanon	N/A	N/A	N/A	1,721	2,999
United States	19,364	21,529	23,200	25,363	29,683
Israel	10,620	11,412	12,093	13,566	15,978
Egypt	516	731	890	971	1,146

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Lebanon	31	13	10	7	9	7	22
United States	13	9	9	4	6	8	51
Egypt	44	9	7	3	17	3	17
Israel	23	6	11	2	6	8	44

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

below the poverty line, with one-quarter of families subsisting on less than US$620 per year. Unemployment in 1997 was estimated to have reached 18 percent.

As a result of declining economic conditions, public-sector strikes have become commonplace. To prevent mass protest against its economic and social policies and to preclude opposition forces from exploiting discontent, the government uses the army to guard public security. As a result, the army has been privileged and strengthened, becoming assertive in its demands for salaries and promotions.

The government has generally adopted a hands off policy toward social inequality and has not attempted to redress differences between the poor and the rich. Lebanon's dependence on imports, especially food and fuel, has made it increasingly more difficult for the poor to spend a high amount of their relatively small incomes on the necessities of life. As a result, many Lebanese have opted to seek job opportunities in neighboring Arab countries, especially in the Gulf region.

WORKING CONDITIONS

Reliable official data about Lebanon's labor force are unavailable, but it is estimated that the country's labor force in 1999 was 1.3 million. A 1996 Ministry of Social Affairs survey estimated that there were some 944,282 foreign workers in the country as well. Foreign workers are mostly unskilled laborers from Syria, Asia, India, and Africa, and they are employed mostly in construction, agriculture, industry, and households. Unemployment in the country is high, with official estimates in 1999 set at 10 percent and unofficial estimates reaching as high as 25 percent; the CIA World Factbook reported 1999 unemployment of 18 percent.

Trade unions are allowed in Lebanon and are supported by the government with membership restricted to Lebanese workers. Trade unions operate under the umbrella of the Federation of Labor Unions, which negotiates cost of living adjustments and other social benefits on behalf of the workers. The 48-hour work week is the standard.

Although labor laws protecting the right of workers have been in place since 1964, regulations are rarely enforced, and working conditions in Lebanon are far from ideal. Labor actions, strikes, slow downs, and protests frequently disturb work life, and wages remain relatively low. The largest proportion of the labor force, some 15,000 people, is employed by the financial sector, working in banks and other financial institutions, followed by the manufacturing industry, which employs 15 percent of the labor force.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1516. Lebanon becomes part of the Ottoman Empire.

1920. French General Gouraud establishes Greater Lebanon with its present boundaries and with Beirut as its capital.

1926. First Lebanese constitution is promulgated.

1932. The first and only complete census is taken in Lebanon. Charles Dabbas, a Greek Orthodox, is elected the first president of Lebanon.

1936. Emile Iddi elected president.

1941. Lebanon gains independence from the French.

1943. General elections take place; Bishara al Khuri is elected president.

1945. Lebanon becomes a member of the Arab League and the United Nations (UN). French troops completely withdraw from the country, with the signing of the Franco-Lebanese Treaty.

1975. Civil war breaks out.

1978. The Riyadh Conference formally ends the Lebanese Civil War; Syria intervenes militarily in Lebanon.

1981. Fighting resumes.

1982. Israel invades Lebanon.

1989. Ta'if Accords officially ends civil war and sets power-sharing formula between Lebanon's religious groups.

1992. Prime Minister Hariri launches "Horizon 2000" reconstruction program.

1997. Entertainment tax is introduced. Custom duties are raised.

1998. Prime Minister Hariri resigns. Salim al-Hoss takes office.

2000. Israel withdraws its troops from South Lebanon. Prime Minister Hariri returns to office.

FUTURE TRENDS

After nearly 2 decades of civil conflict, Lebanon entered the 21tst century on a positive note. Most of the country's infrastructure has been restored, and despite occasional violence, Lebanon's political system has been fairly stable. The 1989 Ta'if Accords, which brought an end to the civil war and set the terms for power-sharing among the various religious groups, has thus far been successful in creating a functional government in Beirut that is increasingly spreading its control over the rest of the country. Parliamentary elections have been held periodically since 1992. After almost 2 decades of occupation, Israel withdrew its military forces from southern Lebanon in May 2000.

Despite these positive developments, the government is faced with serious challenges, mainly lowering the budget deficit by focusing on tax reform and modernization, expenditure rationalizing, and reducing of the burden of servicing its debt. The government is also under pressure from the IMF to proceed with plans to adopt a privatization program of state-owned enterprises. Having lost its status as a regional banking and trade center and lacking a solid agricultural and industrial base, Lebanon must develop alternative plans to define its new role in the Middle East region. So far, beyond rhetorical official statements, no steps have been taken in that direction.

DEPENDENCIES

Lebanon has no territories or colonies.

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—Reem Nuseibeh

MACAU

Macau Special Administrative Region
Macao

CAPITAL: Macau.

MONETARY UNIT: Pataca (MOP). One Macau pataca equals 100 avos. Coins include denominations of 1, 5, 10, 20 and 50 avos, as well as MOP1 and MOP5. Paper currency comes in denominations of MOP5, 10, 50, 100, and 500.

CHIEF EXPORTS: Textiles, clothing, toys, electronics, cement, footwear, machinery.

CHIEF IMPORTS: Raw materials, foodstuffs, capital goods, mineral fuel, consumer goods.

GROSS DOMESTIC PRODUCT: US$7.65 billion (1999 est).

BALANCE OF TRADE: **Exports:** US$1.7 billion (1999 est.). **Imports:** US$1.5 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Macau is located in Southeast Asia, approximately 60 kilometers (37 miles) southwest of Hong Kong, bordering China. Made up of Macau city and the islands of Taipa and Coloane, Macau has a land area of 21 square kilometers (8.3 square miles). Comparatively, the territory of Macau is 4 times smaller than the Manhattan area of New York City. Macau is joined to the Chinese province of Guangdong by a narrow land corridor. Because of land reclamation efforts, Macau has enlarged its territory by 50 percent since 1912.

POPULATION. The population of Macau, which is virtually all urban-based, was estimated at 445,594 in July 2000. In 2000, the birth rate stood at 12.54 per 1,000 and this low level is mainly attributed to the effect of urbanization. The death rate stood at 3.64 per 1,000. The estimated population growth rate is 1.83 percent, although unofficial estimates show higher figures due to a high net migration rate, which has been estimated at 9.41 migrants per 1,000. Macau has one of the highest population densities in the world, standing at a level of around 21,218 people per square kilometer (or 54,954 per square mile).

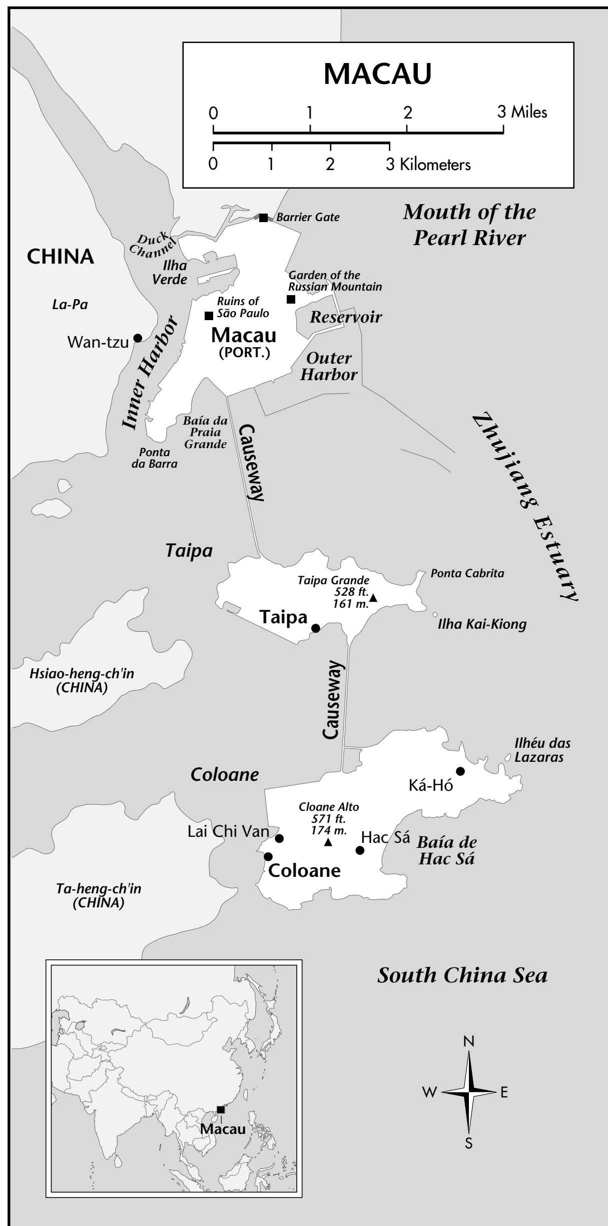
The Macau population represents 2 major ethnic groups, with ethnic Chinese making up almost 95 percent of the population, and Macanese (mixed Portuguese and Asian ancestry) and other ethnic groups making up the remaining 5 percent. Around 100,000 inhabitants of Macau hold Portuguese passports that give them the right to settle in Portugal. Approximately 23 percent of the population is below the age of 15, and just 8 percent of the population is older than 65. The current ethnic structure was formed in the 19th century and remains practically unchanged. Buddhism is the primary religion, with 50 percent of the population practicing; Roman Catholicism follows with 15 percent, and the remainder is made up of numerous other faiths.

The government is keen to limit the inflow of illegal immigrants from China. Between 20 and 25 illegal immigrants are deported daily, although foreigners may legally buy residential permits for US$250,000. New chronic diseases such as AIDS are also of great concern to the Macau government, since the country is a busy tourist destination.

OVERVIEW OF ECONOMY

Manufacturing and services are the 2 main pillars of the modern Macau economy. Macau, like Hong Kong and Singapore, has an export-oriented economy, which benefits from growing trade with Western Europe and the United States. Throughout the 20th century, Macau specialized in manufacturing for the export market and servicing international merchants and bankers.

Macau was established as a Portuguese colony in 1557, becoming one of the most important trade distribution centers in the region for the next 3 centuries. Its significance as a trading center rose as the Chinese government maintained a policy of voluntary isolation from



the world, allowing international trade only in few assigned ports. Portugal proclaimed Macau a free port (such ports were set up in Asia by the European colonial powers in the 19th century in an effort to promote international trade with a minimum of **tariffs** and other barriers) in 1849. However, in the 19th century Macau's importance declined with the rise of the British colony in Hong Kong.

The Macau administration has maintained a free-market economy, which in combination with the entrepreneurial skills of the local population and the region's political stability, has contributed to growth of wealth and prosperity. Macau's main exports are textiles, clothing, and services, though it lags behind Hong Kong and Singapore in the proportion of **value-added** production. Tourism also plays a significant role in Macau's economy. However, it has been the gambling industry that has contributed so much to the image of Macau as a tourist destination. The gambling industry also has attracted organized criminal syndicates, called "triads," which are involved in gambling, illegal people trafficking, prostitution, and pirated production of various goods, including music and computer CDs. During the 1990s, the government made considerable efforts to restrain and eliminate the power of these criminal groups.

The territory depends heavily on imports of foodstuffs and raw materials from neighboring China because it has no agriculture, due to its very small size. Nonetheless, it maintains a relatively high standard of living due to its sound **infrastructure**, promotion of economic balance, low **inflation**, stable currency, and foreign **trade surplus**.

POLITICS, GOVERNMENT, AND TAXATION

Throughout the 20th century, Macau remained a remote outpost of the Portuguese colonial empire. The situation changed, however, after the 1974 revolution in Portugal. The new democratic Portuguese government offered Macau back to China, although it took more than a decade before Portugal and China formally agreed on the future of Macau in 1987. This agreement was very similar to the one struck between the British government and China on the future of Hong Kong. On 20 December 1999, the administration of the territory was formally handed over to China. Macau became a Special Administrative Region (SAR) of the People's Republic of China with a "high degree of autonomy" (self-government) in domestic affairs for a period of 50 years under the principle of "one country, two systems." In 1999, Edmund Ho Hau-Wah became the first governor appointed by China's central government, replacing General de Rocha Vieira, the last Portuguese governor of the territory. According to the Macau's Basic Law (the territory's constitution), the governor has strong policy-making and executive powers, which are limited only by the central government in Beijing and by the Macau legislature. The Legislative Assembly is comprised of 8 directly elected members, 8 indirectly elected members, and 7 members appointed by the governor, totaling 23 members. After establishing its control over Macau, Beijing stationed its army on the territory. However, the military does not play any active role in Macau's economic development.

The Macau authorities traditionally did not attempt to establish control over the territory's economy and, unlike the **communist** Chinese, they always supported free-market institutions. Nevertheless, since the early 1980s, the Macau government has begun to adopt a more active role in the economic development, encouraging eco-

nomic variety, promoting large infrastructure projects, and introducing attractive fiscal initiatives for local and foreign investors.

In order to compete with neighboring Hong Kong, Macau established very low **direct taxes** and abolished currency exchange controls. The property tax ranges up to 15 percent and the wage tax up to 10 percent; this is a very low rate compared to countries in Europe or North America. There are also profit and business taxes on industrial enterprises. Nevertheless, the web of various fiscal initiatives reduces business and other taxes considerably. Imports are free of **duty**, but they are subject to a consumption tax. The main source of revenue in Macau is taxes on gambling, accounting for 44 percent of total revenue (1999). The pataca, the Macau currency, is pegged to the Hong Kong dollar at the rate of 1.03 patacas per Hong Kong dollar. Unlike South Korea, Thailand, or Indonesia, the pataca remained stable despite the Asian financial crisis in 1997 and the Russian **foreign debt** default in 1998.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Macau's infrastructure and well-developed transportation network were established mainly during the colonial era. Visitors can reach Macau by ferry, hydrofoils, or helicopters from Hong Kong, or by cars or buses from China. The territory's international profile was boosted by opening the US$1 billion international airport built on reclaimed land on Taipa island. It is capable of carrying 6 million passengers and 180,000 metric tons of cargo per year. Macau was eclipsed long ago by Hong Kong as the area's leading port, because its surrounding waters were not deep enough for large ocean cargo vessels. Nevertheless, the Macau authorities made considerable efforts to develop its seaport as an alternative to Hong Kong, and Macau's port is currently able to handle container cargo vessels and oil tankers. In 1993, a new ferry terminal capable of carrying 30 million passengers a year was opened.

Macau is served by a network of 50 kilometers (31 miles) of highways, all of them paved. In the 1990s, there was a steep increase in private car ownership, leading to traffic congestion and rising air pollution. In 1999, there was a total of 55,144 registered motor vehicles or 123 cars per 1,000 inhabitants, an increase of almost 30 percent from the 40,600 cars in 1995.

Macau is totally reliant on imports of mineral fuel for domestic consumption, and these imports accounted for almost 6 percent of merchandise imports in 1999. This makes Macau particularly vulnerable to world oil prices. Electrical power plants, which use imported fossil fuel, have a total capacity of 351.6 megawatts (mw). In 1999 electricity net supply stood at 1.53 billion kilowatt hours (kWh) and imports stood at 194.4 million kWh.

Macau had 70,403 new telephone lines installed in 1999, bringing the number of telephones up to 300,000, or 686 telephones per 1,000 people. The number of mobile cellular telephones was growing rapidly, reaching 55,000 in 1998. Macau has only 2 radio stations—both FM—and no television stations, receiving their television signals from Hong Kong. Macau's Internet service was to be opened to applicants in October 2000, having formerly been a **monopoly** owned by Macau Telecom.

ECONOMIC SECTORS

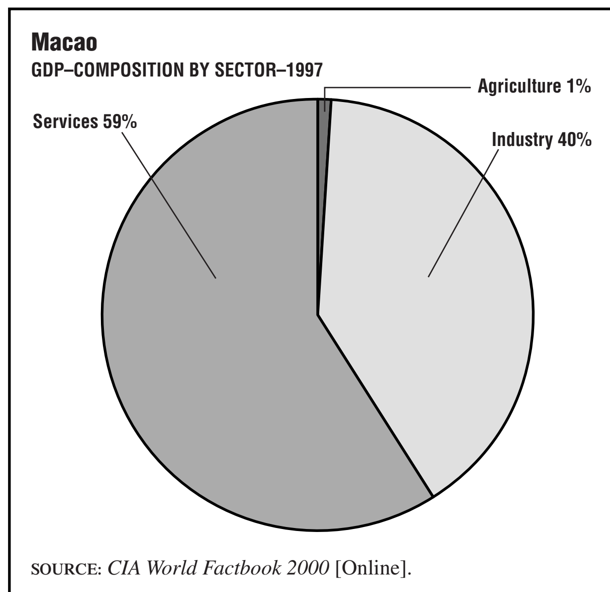
Macau has the advantage of being an entry point to the huge China market, although its economic development has been held back by its small territory, small pop-

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Macau	176,837 (2000)	120,957 (2000)	AM 0; FM 2; shortwave 0	160,000	0	49,000	1	40,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
China	135 M (2000)	65 M (2001)	AM 369; FM 259; shortwave 45	417 M	3,240	400 M	3	22 M (2001)
Hong Kong	3.839 M (1999)	3.7 M (1999)	AM 7; FM 13; shortwave 0	4.45 M	4	1.84 M	17	1.85 M

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

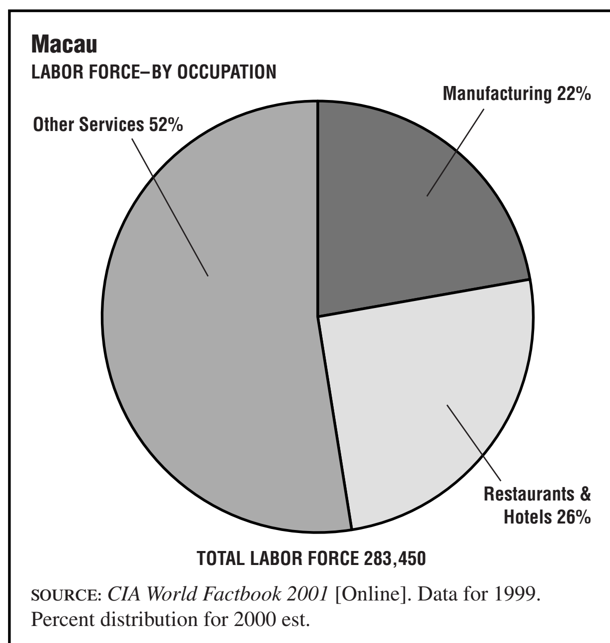
SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].

ulation, and extremely limited natural resources, as well as competition from neighboring Hong Kong. The policy of encouraging private entrepreneurship, giving priority to the development of export-oriented sectors and capital intensive industries—combined with a relatively cheap **labor force**—has contributed to the rise of Macau's prosperity. By 2000, manufacturing (textiles, clothing, toys, and electronics), gambling, and tourism became the largest sectors of Macau's economy.

The 1997 Asian financial crisis contributed to the slowing of economic growth in all sectors of the economy, although Macau managed to avoid an economic decline on the scale of Indonesia or Thailand. The crisis also indicated the need for a further broadening of the economy. Throughout the 1990s, the Macau government struggled to attract value-added manufacturing on the same scale as Hong Kong or Singapore, especially in such important sectors as computer hardware and information technologies (IT). Due to the small size of Macau's market, it lags behind neighboring Hong Kong in providing business and banking services. Macau tries to compete with Hong Kong by offering good infrastructure, cheaper business property rent and labor, and efficient administrative services.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 2000 est.

AGRICULTURE

Agriculture and fishing play a negligible role in Macau's economy, accounting for just 1 percent of the GDP and employing less than 1 percent of the workforce. For a long time, Macau has been fully reliant on imports of foodstuffs, mainly from neighboring China. The territory has a very small fishing industry, consisting of a small fishing fleet, which supplies local restaurants and the fish market with fresh catch. There is a small land area under cultivation mainly for fresh vegetables. A very small livestock industry supplies chickens and ducks to the restaurants specializing in traditional Asian cuisine.

INDUSTRY

MANUFACTURING. Macau has a well-established manufacturing sector that plays an important economic role. Manufacturing contributes 40 percent of the GDP, providing employment to 87,141 people or 31 percent of the workforce (1998). In the 1960s and 1970s, Macau attracted investment and technologies to its manufacturing industry (mainly textiles, clothing, toys, and electronics) through low cost and efficiency, producing a range of exports to Europe and the United States. However, Macau fell behind Hong Kong and Singapore in attracting electronic assembling and computer technologies in the 1980s and 1990s. Since the early 1990s, however, the manufacturing sector's share in the GDP has been steadily declining because of strong competition from China's Special Economic zone of Zhuhai. The manufacturing sector is dominated by small- and medium-size enterprises, which specialize in small-volume and high-quality garments, toys, leather goods, and artificial flowers. It also produces optical goods, electronics, and machinery.

Manufacturing was negatively affected by the 1997 Asian financial crisis. However, Macau escaped a large-scale **recession** because the local business community switched quickly between markets and products, and because most of the goods were produced by small private enterprises for export to the United States, Europe, and East Asia. Macau benefited from the existence of U.S.-imposed quotas for goods made in China. Such restric-

tions can provide an initiative for **re-export** of goods manufactured in China and labeled as Macau-made products. During recent years, Macau reportedly became heavily involved in producing pirated computer software, CD-ROMs, and DVDs, which have been distributed in Southeast Asia, Eastern Europe, and even in the United States.

SERVICES

TOURISM. Tourism is the most important sector of Macau economy, providing direct employment (such as in hotels and restaurants) for 28 percent of the labor force or 78,708 people. Macau has long been a tourist destination for business people and other travelers due to its famous gambling facilities. Macau promotes itself as a "dream come true," offering 24-hour gambling services, a multicultural environment, exotic festivals, and tax-free shopping (most items are 50 percent cheaper than in Hong Kong). According to the national authorities, Macau had a total room capacity of 8,886 in 1999, although most of the hotels report an occupancy rate below 60 percent. Most visitors come for a short stay, arriving from Hong Kong, China, Taiwan, and Japan. The number of tourists visiting the territory rose steadily throughout the 1980s and 1990s, reaching a peak in 1996 with 8.1 million tourists. There was, however, a sharp decline of around 15 percent in 1997 and a further 3 percent in 1998, because of economic turmoil in the region and the outbreak of gangster-style killings and bombings on Macau's streets. In 1999 and 2000, tourism was helped by the economic recovery in Hong Kong and Taiwan.

GAMBLING. Gambling, together with tourism, is one of the most important sectors of Macau's economy. Macau's casinos and its facilities for horse and greyhound racing have attracted visitors to the region for decades. The government has benefited from the gambling industry by imposing direct taxes, which accounted for 44 percent of its revenue in 1999. However, the dark side of the industry is gambling addiction and criminal activities. In fact, the outbreak of violence in hotels, restaurants, and casinos in 1997 and 1998 was largely attributed to feuds between powerful organized crime syndicates.

FINANCIAL SERVICES. Macau has a small but vibrant financial services sector, which provided employment for 8 percent of the labor force, or 22,488 people, in 1999. It is built around banking, insurance, and business services. The banking sector was opened for international competition in 1992, and there were 9 local and 13 foreign incorporated banks in 1998. The largest banks are Banco Comercial Portugues and Bank of China. The 1997 Asian financial crisis hurt the financial services sector, although there were no major bank collapses or bankruptcies.

RETAIL. The **retail** sector is well-established in Macau, providing inexpensive products to the local population and foreign tourists. Large supermarkets are complemented by thousands of small retail shops where tourists and local consumers can buy a wide variety of duty-free products much cheaper than in Hong Kong. Thousands of small- and medium-size restaurants serve exotic Asian cuisine, attracting gourmands (sophisticated diners) from across the region.

INTERNATIONAL TRADE

Macau was declared a "free port" in 1849, establishing very few barriers against the import of goods and services and promoting export to the international market. Historically, the United States has remained one of Macau's major trading partners, with exports to the United States reaching US$1 billion dollars in 1999 or 46.9 percent of all exports, consisting mainly of textiles, garments, and manufactured electronics. The European Union is the second-largest trading export market, accounting for US$663 million or 30.2 percent of total exports. China and Hong Kong were also important destinations for Macau exports, accounting for 9.2 percent and 6.8 percent of exports, respectively.

Imports originating from China accounted for US$725 million, or 35.6 percent of its total imports in 1999, so Macau was running a considerable trade deficit with this country. Hong Kong was the second largest source of import accounting for US$368 million or 18.1 percent of total imports. The European Union, Japan, and the United States were other major sources of imports.

Macau's economic vulnerabilities were exposed during the sharp oil price increases in 2000 and 2001. It also faces increasing competition from low-cost, mass-production enterprises in neighboring China and is vulnerable to changes in the U.S. and EU markets.

MONEY

Macau's currency, the pataca, is pegged to the Hong Kong dollar and remains stable. The territory managed to avoid high inflation or economic recession during last

Trade (expressed in billions of US$): Macau

	Exports	Imports
1975	.133	.161
1980	.538	.544
1985	.905	.778
1990	1.694	1.532
1995	1.977	2.021
1998	2.122	1.937

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Macau

patacas (MOP) per US$1	
Jan 2001	8.033
2000	8.025
1999	7.990
1998	7.978
1997	7.974
1996	7.966

Note: Linked to the Hong Kong dollar at the rate of 1.03 patacas per Hong Kong dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

2 decades, although the Asian financial crisis of 1997 did hurt its economy. There was an economic slow-down in 1997 and 1998, affecting all sectors and bringing a small rise in inflation. However, in 1999 and 2000 the economy overcame these difficulties and began to grow again. One of the unique features of Macau's economy was that in 1998 it experienced **deflation** of 4 percent.

Due to the regional economic downturn, the value of the Macau patacas declined slightly against the U.S. dollar from 7.962 in 1996 to 8.1 in January 2000.

POVERTY AND WEALTH

Macau has no official poverty line, so the number of citizens living at that level is difficult to determine. Also, many foreign workers illegally enter Macau looking for jobs, and these individuals cannot be accounted for in official statistics. Their presence in Macau ebbs and flows, as the government fights a continuing battle to deport illegal entrants into the region.

Macau's gap between poor and rich is wide. Macau's per capita GDP was listed in 2000 at US$17,500, placing it 37th in the world. While impressive considering Macau's small size, such wealth does not get equally passed among all strata of society. Gambling, which provides more than 40 percent of Macau's income, benefits the poor very little.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Macau	13,600	15,600	16,000	17,500	17,500
United States	28,600	30,200	31,500	33,900	36,200
China	2,800	3,460	3,600	3,800	3,600
Hong Kong	26,000	26,800	25,100	23,100	25,400

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

WORKING CONDITIONS

In 1998, Macau's labor force stood at 281,117 people, with an unemployment rate of around 6.9 percent. Macau's economy experienced 2 difficult years in 1997 and 1998, when the unemployment rate was on the rise. However, since the beginning of the economic recovery in 1999 and 2000, there has been some improvement in the labor market. Wages are generally below those in neighboring Hong Kong, but much higher than in China, although there is no regulation of minimum wages or unemployment compensations.

The Macau government encourages women to work, and women made up around 40 percent of the workforce in 1999. In 1984 child labor was banned in Macau, but the law has never been strongly enforced.

Trade unions are allowed in Macau, within the framework of its labor law and other regulations. Labor actions, such as strikes, slow downs, and other protests, are very rare in Macau.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1513. First Portuguese ship anchors in the Pearl River estuary.

1557. Portuguese establish a trading post on the islands.

1849. Portugal proclaims Macau a free port.

1949. Communist party comes to power in China.

1951. Portugal officially makes Macau an overseas province.

1974. A military coup takes place in Portugal. The new democratic Portuguese government offers to return Macau to China.

1979. Portugal and China establish diplomatic relations.

1987. Portugal and China reach a formal agreement on future status of Macau.

1989. People demonstrate in Macau in support of the pro-democracy demonstrations in Beijing.

1989. Chinese language is made an official language along with Portuguese.

1992. A new banking ordinance is introduced, opening the banking sector for international competition.

1997. Outbreak of contract killings and bombings indicate the beginning of the war between organized criminal groups.

1999. Macau officially returns to Chinese jurisdiction.

FUTURE TRENDS

Macau has experienced 2 decades of economic growth, benefiting from the rise of international trade and the dismantling of barriers to free movement of goods and services in the global market. This has elevated standards of living and brought prosperity to Macau's people. However, globalization also made the territory's economy vulnerable to downturns in the international market and to increasing competition from other Asian economies. Still, Macau has been able to find its economic niche in services and manufacturing.

On the eve of the 21st century, the territory was finally returned to Chinese sovereignty, but was given a high degree of economic autonomy. In the longer term, Macau will depend on economic and political developments in China and Hong Kong. Future economic development depends fully on the capability of the government to maintain the country's economic position and to promote economic growth based on capital- and skill-intensive technologies.

DEPENDENCIES

Macau has no territories or colonies.

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—Rafis Abazov

MALAYSIA

CAPITAL: Kuala Lumpur.

MONETARY UNIT: Malaysian ringgit (also known as the Malaysian dollar). One Malaysian ringgit (RM1) equals 100 sens. There are coins of 1, 5, 10, 20, and 50 sens. Paper currency is in denominations of RM2, 5, 20, 50, and 100.

CHIEF EXPORTS: Electronic equipment, petroleum and liquefied natural gas, chemicals, palm oil, wood and wood products, rubber, textiles.

CHIEF IMPORTS: Machinery and equipment, chemicals, food, fuel, lubricants.

GROSS DOMESTIC PRODUCT: US$229.1 billion (at purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$83.5 billion (1999 est.). **Imports:** US$61.5 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Malaysia is situated in Southeast Asia, bordered by Thailand in the north, Indonesia in the south, and the Philippines in the east. The country has an area of 329,758 square kilometers (127,320 square miles). Comparatively, the territory of Malaysia is slightly greater than that of the state of New Mexico, the fourth-largest state in the United States. The Federation of Malaysia consists of 13 states, and is divided into 2 parts: 11 states are located in Peninsular Malaysia (also called West Malaysia) and 2 comprise East Malaysia, which is situated on the island of Borneo (see map). Peninsular and East Malaysia are separated by 640 kilometers (400 miles) of the South China Sea. Malaysia's capital city, Kuala Lumpur, is located in southeast Peninsular Malaysia, just 300 kilometers (187 miles) from Singapore. However, a new capital, Putrajaya, is being developed outside the overcrowded metropolitan area as the new administrative center. The strategic importance of Malaysia is in its location along the Strait of Malacca, which is a major sea-route connecting the Far East to Asia, Europe, and the Middle East.

POPULATION. The population of Malaysia was estimated at 21,793,000 in July 2000. It has almost doubled since the 1960s due to improved health, medical facilities, and longer life expectancy. In 2000, the birth rate stood at 25.3 per 1,000, while the death rate stood at 5.25 per 1,000. The estimated population growth rate is 2.01 percent and if the current trend remains unchanged, the population could reach 31 million by 2020. The population is very unevenly distributed, with almost 81 percent, or 17.5 million, living in Peninsular Malaysia, and 19 percent, or 4.2 million, living in East Malaysia. The population density is about 129 people per square kilometer (334 people per square mile) in Peninsular Malaysia and about 20 people per square kilometer (52 people per square mile) in East Malaysia.

Malaysia is a multinational and multicultural country with a very diverse population. Malays and several indigenous groups make up 58 percent of the population. Ethnic Chinese, the second-largest ethnic group, make up 26 percent of the population; Indian descendants make up 7 percent, and various other groups together account for the remaining 9 percent. The current ethnic structure was formed during the colonial era in the 19th and 20th centuries, when the British administration encouraged migration from India and especially from China. The Malaysian population is very young, with 35 percent below age 14 and just 4 percent of the population older than 65. Urbanization came to Malaysia relatively late. In 1970, just over 28.8 percent of Malaysians lived in urban areas. In 1999 over half of Malaysians—57 percent—were living in urban areas. It is expected that within the next 10 to 15 years more than 70 percent of the population will live in urban areas, mainly in the Peninsular Malaysia.

Religion plays a very important role in the country. Islam is the official national religion and nearly all Malays are Muslims. Most ethnic Chinese are Buddhist. The majority of Indians (comprising the descendants of migrants from what became India, Pakistan, and Bangladesh) are Hindu, although there are many Muslims among members of this community. The largest proportion of the Chinese community has traditionally lived in the urban areas, while Malays have often lived in the country's rural regions.

In 1960, the Malaysian population was about 8 million, and the country at one time had one of the highest

birth rates in Asia. The population doubled between 1960 and 1990, although population growth began to decline in the 1990s. The decline in population rates could be linked to the socio-economic changes in the economy that tightened the labor market and increased the number of women in the workforce, and the better education of women. Malaysia experienced an inflow of foreign workers employed mainly in the low-skill and low-wage construction and services sectors and in agricultural plantations. The Malaysian government would like to regulate the inflow of illegal migrants, who arrive mainly from neighboring Indonesia, as well as from Bangladesh and Burma, attracted by the geographical proximity and higher wages.

OVERVIEW OF ECONOMY

At present, Malaysia's industrial and service sectors are the 2 major pillars of the national economy. However, agriculture and mining were the 2 dominant sectors during its early history. Britain had slowly but steadily advanced into the region in the 18th and 19th centuries, establishing control over the territory of what would become present-day Malaysia. The British were attracted by the rich natural resources of this region and its convenient location along the Strait of Malacca, which was the main sea route connecting the Far East with British India and Europe. The British established large-scale plantations and introduced new commercial crops (rubber in 1876, palm oil in 1917, and cocoa in the 1950s). They also developed a large mining sector and encouraged migration of Chinese and Indian workers to these plantations and mines.

In August 1957, the Federation of Malaya was granted independence within the Commonwealth of Nations. In 1963, the Malaysian Federation was founded, comprising the Federation of Malaya, Sabah, Sarawak, and the State of Singapore. Singapore, however, left in 1965.

Since achieving independence, the Federation of Malaysia faced a need to develop and to diversify its economy, having a rapidly growing population. The country abandoned reliance on the export of primary natural resources and agricultural products and established itself as a rapidly industrializing country with a diversified export base. By the beginning of the 21st century Malaysia had become one of the fastest growing economies in Southeast Asia and third-richest state (after Brunei and Singapore) in the regional grouping known as the Association of South East Asian Nations (ASEAN).

The Malaysian government promoted the free market with limited state intervention and export-oriented industrialization. Its exports to the international market were used to promote efficient use of the country's re-

sources and generate **hard currency**, which was necessary for catching up and further developing into areas of technological and industrial innovation. In the mid-1960s, Malaysia established 5-year planning, targeting certain areas of economic growth and social changes, and allocating public resources for priority sectors of the economy and for **infrastructure** development. Despite these efforts, the government was reluctant to institute centralized control over the state's economy. The 5-year plans became a basis for official development strategies. For example, the recently completed "Seventh Plan" (1996–2000) targeted productivity growth and moved the country towards capital-intensive, high-technology industries. The political and inter-communal violence that had undermined the country's stability and security in the 1960s and 1970s gave way to a period of remarkable stability. This has attracted international investors and greatly contributed to the rapid economic growth of the 1980s and 1990s, especially in the manufacturing and service sectors of the Malaysian economy. Unlike the government of neighboring Indonesia, the Malaysian government has managed to keep its **external debt** at a relatively moderate level. In 1998, external debt stood at US$42 billion, or 59 percent of GDP with **debt service** payments of about US$6.0 billion. Estimates for the year 2000 estimated that Malaysian official reserves stood at US$29.6 billion. However, the **repatriation** of the profits by foreign investors may cause a problem for the Malaysian economy in the future.

The structure of the Malaysian economy has changed during the last 2 decades. According to the World Bank, the proportion of manufactured production grew from roughly 20 percent of GDP in the early 1980s to 31.5 percent of GDP in the late 1990s. Manufactured products accounted for around 85 percent of gross export earnings in 1999, with electronic goods becoming one of the most important products. The role of mining has steadily declined during the last few decades (Malaysia was one of the world's largest exporters of tin in the 1970s), now contributing just 7 percent of GDP. Malaysia continues, however, to export tin, gold, bauxite, ilmenite (a titanium ore), oil, and gas. Meanwhile, the role of agriculture in the country's economy has also been declining, although it provides employment to large numbers of Malaysians. Nevertheless, Malaysia remains one of the world's leading exporters of rubber and timber and produces almost half the world's palm oil. Tourism is another important and rapidly growing sector of the economy, with about 7.5 million tourists visiting the country in 1999 and contributing RM10 billion to the national economy.

Malaysia has a very diverse economy. The manufacturing sector is dominated by large **multinational corporations**, with a heavy Japanese presence among the largest companies. Meanwhile, the agricultural sector is dominated by medium and small firms. In East Malaysia, Sabah, and Sarawak, and in some northern states, many farmers are still engaged in subsistence agriculture. In the service sector, especially in **retail** trade, large international superstores such as Marks and Spencer, SOGO, and Yaohan are complemented by a number of medium and small enterprises.

Rapid economic growth and stability brought economic prosperity to a large proportion of the population, especially in urban areas. It also helped to keep unemployment at a very low 3 percent (for comparison, unemployment in the United States was 4.2 percent in 1999). In some sectors, Malaysia has begun to experience a shortage of labor. In the late 1990s, there was an inflow of large numbers of foreign workers through legal and illegal channels from neighboring Indonesia, with whom Malaysia shares some linguistic and cultural similarities, and from Bangladesh, the Philippines, and Burma (Myanmar). This inflow is sometimes blamed for existing criminal activities and **black market** operations.

Drugs are another important issue; Malaysia is situated very close to the so-called "Golden Triangle" (an area between Burma, Laos, and Thailand) that is the world's largest producer of illicit drugs such as opium. Malaysia is among the few countries in the world to have adopted the death penalty for possession and sale of drugs. However, neither organized crime nor the black market have had a significant impact on the national economy.

Due to the tremendous economic growth and its ability to preserve stability and promote its multicultural environment, Malaysia has become an increasingly popular destination for tourists from Europe, Japan, and North America. Malaysian tropical forests and beaches, colorful festivals in major cities, and luxurious hotels provide a vibrant environment for the development of hospitality businesses.

POLITICS, GOVERNMENT, AND TAXATION

Malaysia is a federal constitutional monarchy with a parliamentary democracy largely influenced by the British parliamentary system. The country consists of 13 states and 2 federal territories. The heads of 9 of the states are hereditary rulers, and the heads of the remaining 4 states are governors appointed by the sovereign, on the advice of the federal parliament. One of the unique features of the political system in Malaysia is that the sovereign (Paramount Ruler or *Yang di-Pertuan Agang* in Malay) is elected every 5 years by and from the 9 hereditary rulers of 9 states of Peninsular Malaysia. The sovereign is the supreme head of Malaysia and supreme commander of the armed forces, but his power significantly diminished in the 1990s due to the constitutional changes

initiated by the parliament; at present he plays a visible but mostly ceremonial role in the political process in the country. The prime minister, who has considerable executive power, must be a member of the 192-seat House of Representatives, and he chooses the cabinet with approval from the sovereign.

There are a number of political organizations in Malaysia. Most prominent of them are the *Barisan Nasional* (National Front); the governing coalition of 14 parties that forms the United Malays National Organization (UMNO); the Malaysian Chinese Association (MCA); and the Malaysian Indian Congress (MIC). Of the opposition parties, the most influential is the *Barisan Alternatif* (Alternative Front), which brings together the *Parti Islam sa-Malaysia* (Islamic Party of Malaysia), the Democratic Action Party, and some others. The governing coalition of the UMNO, MCA, and MIC was formed on the eve of independence, on a platform of achieving independence by peaceful means. It was transformed into the National Front after bloody inter-communal riots between Malays and Chinese in 1969. The Malayan Communist Party (MCP), which had gained much of its influence through its leading role in the resistance to Japanese occupation during World War II, ran a militant campaign for independence that did not get mass support and led to the Malayan Emergency (1948–1960), a period of social and political unrest. The MCP was banned and has never played an active political role in independent Malaysia.

Since Malaysia achieved independence, preservation of the balance between the main ethnic groups, political stability, and equal access to the national wealth were the major issues that shaped political debate and fueled conflict in the state. The coalition between the 3 main political parties and later the National Front, which represent the biggest ethnic communities in Malaysia, came to power on a platform of national consolidation and state paternalism (where the state makes decisions in social and economic affairs that in other countries would have been left to individuals and the market). This coalition was able to overcome deep divisions in Malaysian society and implement a successful policy of economic reforms, and it has remained in power ever since. In economic areas, the government has taken a very active role in the development and industrialization of the national economy. This has included significant investment in the state sector, a close alliance between government and private businesses, and the gradual **privatization** of state enterprises under a major privatization program launched in 1986.

In response to growing discontent between ethnic communities and the resultant rising social polarization, in 1970 the Malaysian government introduced a 20-year program called the New Economic Policy (NEP). The program was intended to encourage rapid economic growth in all sectors of the national economy, promote private entrepreneurship—especially among representatives of poor communities—and support small and medium-sized businesses. It was also intended to attract foreign investments, especially in modern technologies, by offering cheap and well-trained labor. At the same time, however, the government made major efforts to redistribute wealth. The NEP recognized the need for radical social changes and aimed to improve living conditions, economic power, and access to education and social benefits for Malays and indigenous people. These groups, who were called *Bumiputera* (sons of the soil), received privileged access to public services, were granted land rights and preferences in education and training, and benefited from job quotas in the **public sector**. This program was successful, and Malaysia achieved impressive economic growth, especially during the late 1970s, and throughout the 1980s. Between 1979 and 1989, the average annual GDP growth rate was around 5.2 percent, with manufacturing growing at an annual average of 8.2 percent and exports of goods and services at an annual average of 9.3 percent. In 1990, the NEP was replaced by the National Development Policy (NDP), which continued to promote economic growth, but relaxed some of the social requirements and privileges institutionalized under the NEP. Between 1989 and 1999, the average annual growth of GDP was around 7.6 percent, with manufacturing growing at an even more impressive 10.2 percent.

However, in 1997 Malaysia was affected heavily by the Asian financial crisis that started with the currency collapse in neighboring Thailand. Unlike Indonesia and Thailand, Malaysia became the only country in Southeast Asia to reject the International Monetary Fund's package of conditions and financial assistance, blaming international speculators for creating the crisis. The government, led by Prime Minister Dr. Mahathir bin Muhammad, opted for direct state intervention, imposing temporary restrictions on the currency exchange market and introducing various other measures, while his deputy called for further **liberalization** and economic **restructuring**. Against the recommendations of the International Monetary Fund (IMF), the Malaysian government temporarily established tough capital-control measures to contain **capital outflow**. The Malaysian currency, the Malaysian ringgit, was pegged to the U.S. dollar at a fixed rate of RM3.8 per U.S. dollar (according to the IMF, out of 16 larger **emerging market** economies, only China and Malaysia have fixed pegs). Although the IMF initially criticized the Malaysian government's imposition of capital control and other restrictive measures, it later recognized their effectiveness.

Allegedly, disagreement over the handling of the crisis led to the dismissal of Anwar Ibrahim, finance minister and deputy prime minister, who was also expelled from the UMNO, effectively ending his career. In 1998, An-

war was arrested on charges of corruption and homosexual activity and allegedly beaten while in custody. The trial consolidated Anwar's supporters and sparked protests across Malaysia in 1998 and 1999. Nevertheless, he was convicted on controversial charges of obstruction of justice. This trial undermined Mahathir's popularity at home and his standing internationally. The irregularities during the trial and police actions against demonstrations were condemned by human rights activists around the world.

The major proportion of government revenue comes from taxes, totaling 76 percent of revenue in 1999 (46 percent from **direct taxes** and 30 percent from **indirect taxes**). In 1999, the **income tax** rate was 28 percent for both resident and non-resident companies; however, companies resident in Malaysia have tax exemption on income brought in from abroad. The Malaysian government has introduced a number of initiatives for manufacturing activities, tourism, the agricultural sector, transportation, and communication.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

From the colonial era, Malaysia inherited relatively well-developed but unevenly distributed infrastructure and transportation networks. After achieving independence, the Malaysian government made considerable efforts and large investments in expanding its highways, railroads, seaports, and airports. More recently, the government played an active role in encouraging development of modern modes of communications such as satellite telecommunications and the Internet. In the late 1990s, the government launched a privatization program in the transportation and communication sector, which brought private investments, allowed more flexibility, and provided initiatives for managers to increase profitability and production efficiency.

Malaysia is served by a network of 94,500 kilometers (58,721 miles) of primary and secondary roads, 70,970 kilometers (44,100 miles) of which are paved. This includes 580 kilometers (360 miles) of superior quality expressways, which connect Kuala Lumpur with Singapore and with major seaports and other destinations. However, the road transportation system is still underdeveloped in East Malaysia (Sabah and Sarawak), with most of the roads in Peninsular Malaysia. In the 1990s, with the rapidly growing number of privately-owned cars (840,000 new registrations in 1997 alone), the roads in the capital and other major cities became highly congested. This also brought air pollution in Kuala Lumpur to a very high level, which combined with pollution from forest fires in the Indonesian part of Borneo to create hazardous smog in 1997 and 1998. In 1996, there was a total of almost 7 million motor vehicles registered in Malaysia, including 2.8 million passenger cars, 3.4 million motorcycles and mopeds, 37,000 buses and coaches, and 400,000 trucks and vans. In response to the growing number of cars on the national roads, the government invested in development of the public transport system, including modernization of the country's railways and the construction of a light rapid-transit system in Kuala Lumpur.

Malaysia has a railway system of about 1,800 kilometers (1,120 miles), part of which was planned for privatization in 1998–99. In 2000, only 148 kilometers (92 miles) of railways were electrified. The major tracks run from Singapore to Kuala Lumpur, and further to Pinang and Bangkok (Thailand). However, the railways are unevenly distributed. There is only 1 railway track of about 134 kilometers (83 miles) in East Malaysia (in Sabah). Malaysia intends to invest heavily in development of a monorail system in Kuala Lumpur and into building new railways. The biggest project is the US$632 million (RM2.4 billion) Express Rail Link (ERL), which will connect Kuala Lumpur Central (the main railway station in the Kuala Lumpur City) with Kuala Lumpur International Airport (KLIA). In 1996–97, the 8.6-kilometer Kuala Lumpur People Rapid Transit (monorail) was built at a cost of US$300 million (RM1.14 billion). The U.S.-based Parsons Transportation Group provided design and engineering services to the local Malaysian firm build-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Malaysia	158	420	166	5.2	99	6.9	58.6	23.53	1,500
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Indonesia	24	156	136	N/A	5	0.9	8.2	0.76	900

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

ing Kuala Lumpur's light rail transit systems. Several other multi-multimillion dollar railway projects have been initiated, but some were put on hold due to the difficulties caused by the Asian financial crisis.

Malaysia's seaports were established during the colonial era and served as merchant ports as well as British naval bases. The major ports are Kelang, George Town, Pinang, and Kuantan on the Peninsula, and Kota Kinabalu and Kuching in East Malaysia. During the last few decades, these ports were expanded to serve rapidly-growing Malaysian exports and imports. The West Port of Port Kelang has seen RM2.2 billion worth of combined (private and government) investments, while there has been RM2.8 billion worth of investment in the Tanjung Pelepas Port. Competition has grown between Malaysia and Singapore for servicing international ships and handling containers, although 40 percent of Malaysia's international trade was handled through Singapore until recently. In 1998 Malaysia's seaports handled 83 million metric tons of cargo. In late 2000, there was an announcement that the world's largest container line, Maersk-Sealand, intends to move its regional transshipment operations from Singapore to the Malaysian port in Johor.

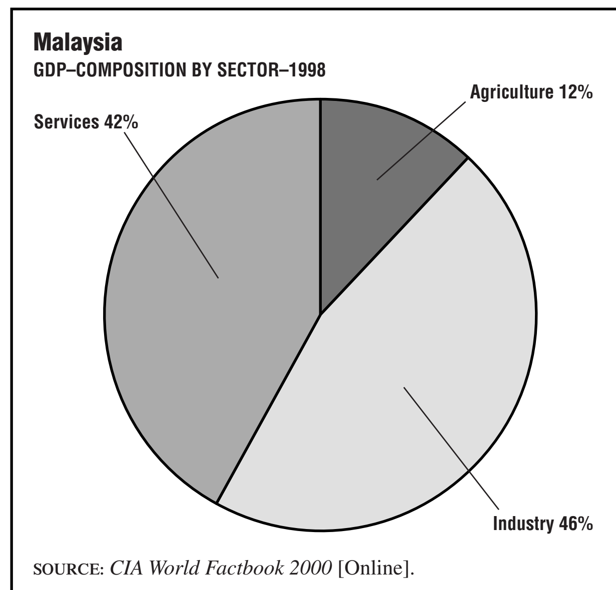
Malaysia has also promoted development of aviation in order to serve growing tourism and business needs. The country has 32 airports with paved runways, and 83 airports with unpaved runways. The largest of them, the US$3.2 billion state-of-the-art Kuala Lumpur International Airport, was opened in 1998. It is capable of handling 25 million passengers and 1.2 million tons of cargo annually. U.S. firms, including Harris, FMC, Adtranz, and Honeywell, have been awarded contracts to supply passenger trams, jetways, and information systems for this new airport. Malaysia transformed its national partly-privatized air carrier, Malaysian Airlines, into a world-class company, operating a fleet of about 100 aircraft.

In Peninsular Malaysia, electrical power is supplied by the predominantly state-controlled *Tenaga Nasional* company. Due to the rapid industrial development and growing demand for electricity, considerable efforts were made to privatize the national utility company and develop private initiatives to build and operate new power generating plants. To this end, a private consortium, the Independent Power Providers (IPPs), was established. Malaysia has sufficient reserves of oil, gas, and coal to meet its energy needs. Additionally, in East Malaysia there is huge potential for building hydroelectric power plants, but their development will require considerable investments. In the mid-1990s, the Malaysian government considered building the Bakun Hydro-electric Dam, which would have been one of the world's largest dams, in Sarawak; the controversial plan was abandoned, however, due to financial difficulties. In 1998, Malaysia produced 57.45 billion kilowatt hours (kWh), 94 percent of which was produced using fossil fuel and 5.22 percent by hydroelectric power plants.

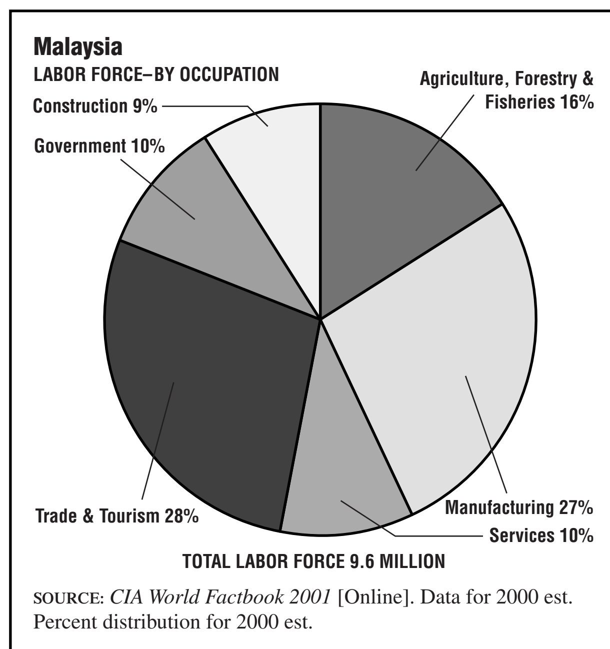
Telecommunications services in Malaysia are provided by several competing companies. The largest is Telecom Malaysia, which formerly had a state **monopoly** in the sector. The quality of telecommunication services is up to international standards, thanks to an inflow of private investments and the government's initiatives in developing this sector. In 1998, the country had 4.4 million telephone lines and 2.17 million mobile phones. In 1999 there were 8 major Internet service providers (including Telecom Malaysia, MIMOS Ltd., and Maxis Ltd.), with a number of new companies announcing their intention to enter the market. In 1998, the Malaysian government announced the development of the multi-billion-dollar Multimedia Super Corridor (MSC). This ambitious project, 15 kilometers wide and 50 kilometers long, and stretching from Kuala Lumpur to the new international airport, is planned to become a Malaysian "Silicon Valley." The MSC will include 2 "smart cities," employing a high-technology environment, high-capacity telecommunications, sophisticated infrastructure, and even "electronic government."

ECONOMIC SECTORS

By international standards, Malaysia has a medium-sized, but rapidly growing economy. It is self-sufficient in important natural resources, including gas and oil, and has a good environment and climate for the production of various crops. Its location, on a crossroads of major sea routes that connect the Far East to South Asia, the Middle East and Europe, provides some additional advantages for the development of its international trade.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 2000 est.

Malaysia has a diversified and rapidly expanding manufacturing sector, which between 1989 and 1999 grew at an annual average of 10 percent. Although in many areas of manufacturing, it relies on imported technologies and foreign investments, Malaysia was able to join the world's leaders in some fields. In the 1990s, it became the world's third-largest producer of integrated circuits and one of the leading producers of domestic appliances. Some of the world's largest corporations, such as Dell and Microsoft of the United States, NEC and Mitsubishi of Japan, and others, have opened branches in Malaysia.

Agriculture is still an important export earner, although it experienced stagnation with an average annual growth of only 0.2 percent between 1989 and 1999. Malaysia is the world's largest producer of palm oil, accounting for almost half of the world's production. In the past, the country also was the world's largest producer of rubber, but in the early 1990s it was overtaken by Thailand and Indonesia. Malaysia remains the world's fourth-largest producer of cocoa. Nevertheless, the share of agriculture in the GDP declined from 29 percent in 1970 to 12 percent in 1998.

The role of the mining sector, which once played a very important role in Malaysian exports, is also declining. For a long time, Malaysia was the world's largest producer of tin, but in the early 1990s was overtaken by Brazil and neighboring Indonesia. Malaysia has relatively large reserves of gas and oil. The country is ranked 13th in terms of the world's gas reserves and 22nd in oil reserves.

Malaysia also tries to promote its service sector, which has grown steadily over the last 2 decades, becoming the second-largest sector of the Malaysian economy. However, in doing so, Malaysia has to compete with neighboring Singapore. Local trade, tourism, and other services currently make important contributions to the country's GDP, providing employment for 32 percent of the Malaysian **labor force**.

AGRICULTURE

Agriculture remains an important sector of Malaysia's economy, contributing 12 percent to the national GDP and providing employment for 16 percent of the population. The British established large-scale plantations and introduced new commercial crops (rubber in 1876, palm oil in 1917, and cocoa in the 1950s). The 3 main crops—rubber, palm oil, and cocoa—have dominated agricultural exports ever since, although the Malaysian share of the world's production of these crops declined steadily during the last 2 decades. In addition to these products, Malaysian farmers produce a number of fruits and vegetables for the domestic market, including bananas, coconuts, durian, pineapples, rice, rambutan (a red, oval fruit grown on a tree of the same name in Southeast Asia), and others. The Malaysian tropical climate is very favorable for the production of various exotic fruits and vegetables, especially since Peninsular Malaysia seldom experiences hurricanes or droughts.

As rice is a staple foodstuff in the everyday diet of Malaysians and is a symbol of traditional Malay culture, the production of rice, which stood at 1.94 million metric tons in 1998, plays an important part in the country's agriculture. However, the overall production of rice does not satisfy the country's needs, and Malaysia imports rice from neighboring Thailand and Vietnam.

In 1999, Malaysia produced 10.55 million metric tons of palm oil, remaining one of the world's largest producers. Almost 85 percent or 8.8 million metric tons of this was exported to international market. Malaysia is one of the world's leading suppliers of rubber, producing 767,000 metric tons of rubber in 1999. However, in the 1990s, large plantation companies began to turn to the more profitable palm oil production. Malaysia also is the world's fourth-largest producer of cocoa, producing 84,000 metric tons in 1999.

Logging in the tropical rainforest is an important export revenue earner in East Malaysia and in the northern states of Peninsular Malaysia. In 2000, Malaysia produced 21.94 million cubic meters of sawed logs, earning RM1.7 billion (US$450 million) from exports. Malaysia sells more tropical logs and sawed tropical timber abroad than any other country, and is one of the biggest exporters of hardwood. Despite attempts at administrative control and strict requirements regarding reforestation in the early 1990s, logging companies often damage the frag-

ile tropical environment. Sharp criticism from local and international environmentalist groups gradually led to bans on the direct export of timber from almost all states, except Sarawak and Sabah. In December 2000, the government and representatives of indigenous and environmentalist groups agreed that there is a need to adopt standards set by the international Forest Stewardship Council (FSC), which certifies that timber comes from well-managed forests and logging companies have to be responsible for reforestation.

INDUSTRY

MINING. Tin, oil, and gas are the major natural resources of export significance produced by the mining sector in Malaysia. The mining of tin was introduced during the colonial era and until the 1980s the country was the world's largest producer of tin, being overtaken in the early 1990s by Brazil and neighboring Indonesia. The major mines are situated in Peninsular Malaysia, making it easy to transport their products to the nearest seaports. Malaysia's exports of tin declined from 36,812 metric tons in 1994 to 22,376 metric tons in 1998, affected by fluctuations in the world market.

During recent decades, Malaysia has increased production of crude petroleum and natural gas. In 1999, it produced 693,000 barrels of crude oil per day and 3.8 billion cubic feet of liquefied natural gas (LNG). The high-quality oil is extracted mainly from offshore platforms in the states of Terengganu, Sabah, and Sarawak, with a total of about 40 oilfields in operation (1999). There are 5 oil refineries situated in Malaysia. The production of gas increased steadily in the 1990s to meet the rising demand in the domestic and international markets, with exports mainly going to Taiwan, South Korea, and Singapore. Malaysia was ranked thirteenth in the world in terms of gas reserves and twenty-second in oil reserves in 1999. The state-controlled petroleum corporation, Petronas, has been seeking a greater role in the international market, investing in promising new projects in the Middle East and Southeast Asia.

Overall, mining plays a declining role in the national economy of the country, contributing just under 7.3 percent of GDP and providing employment for 39,000 people or under 1 percent of the labor force (1998). However, there is great potential for development of this sector, since Malaysia has various relatively under-exploited mineral resources in East Malaysia (Sabah and Sarawak), including bauxite, iron ore, copper, ilmenite, and gold. Additionally, there are large offshore reserves of high-quality oil and gas.

MANUFACTURING. Malaysia has established a diverse and quickly-growing manufacturing sector that plays an increasing role in the Malaysian economy. Manufacturing contributes about 29 percent of the GDP, providing employment to 2.3 million people or 27 percent of the workforce (1999). From the late 1970s, the proportion of GDP provided by the manufacturing sector in Malaysia grew from 20.2 percent in 1979 to around 29 percent in 1999. The United States continues to be the single largest foreign investor in Malaysia's manufacturing sector, with approved new manufacturing investments totaling US$1.37 billion (RM5.2 billion) in 1999. The major investment projects were in the chemical, electronics, and electrical industries.

Malaysia built up its manufacturing sector mainly in the 1970s and 1980s, utilizing its long-established industrial centers on the island of Pinang and the Kelang Valley, its well-developed transportation infrastructure (including seaports and railways), and the entrepreneurial skills of its small and medium-sized businesses. The industrial sector initially consisted of oil refining, machinery assembly, and light industries (including foodstuff processing and textile manufacturing). However, as in neighboring Singapore, the Malaysian manufacturing sector was boosted in the 1970s and 1980s by the extensive growth of the electric assembly and electronics sectors. Malaysia became an important producer of radios, television sets, stereo equipment, and other related products. In the 1980s, the Malaysian government launched its national automobile project, the locally produced Proton car (in cooperation with Mitsubishi of Japan), and in the late 1980s, it started exporting the Proton to the international market. In the 1990s, there was further growth in the manufacturing sector, especially in export-oriented electronics production, including semiconductors, silicon wafers, and other items. Malaysia has become the world's third-largest producer, and one of the world's largest exporters, of semiconductors.

As in neighboring Singapore, the Malaysian government has played an active role in industrialization and economic development. In this regard, the Malaysian Industrial Development Agency (MIDA) has been instrumental in promoting the rapid development of targeted sectors of industries (especially knowledge- and technology-intensive sectors), since all industrial projects that involve **foreign direct investments** (FDIs) must be approved by the MIDA. The government also used direct investments and encouraged the inflow of FDIs, establishing special export-processing zones where investors were given access to well-developed infrastructure and enjoyed tax breaks and other privileges. Since the 1980s, the government has actively promoted the electronics, information technology, and multimedia sectors, and has encouraged the relocation of labor-intensive industries to Indonesia and Thailand.

Most of Malaysia's electrical and electronic products are produced for export to the United States, Europe,

and other markets. This makes its manufacturing economy vulnerable to downturns in the regional and international market. Despite some restrictive measures and financial initiatives, Malaysia was negatively affected by the 1997 Asian financial crisis. In 1997 and 1998, its manufacturing sector experienced serious contraction; dozens of plants were closed and thousands of workers lost their jobs. In 1998 alone, the sector was reduced by about 10.9 percent across the board. However, in 1999 and 2000, Malaysia managed to reverse the **recession** in manufacturing, and this sector experienced an impressive growth of 12 percent per annum.

Malaysia is one of ASEAN's leading exporters of furniture, with total exports reaching about US$1.02 billion (RM3.9 billion) in 1999. Access to cheap local wood makes Malaysian furniture manufactures very competitive in the international market. In 1999, the United States was the largest single market for Malaysian wooden furniture (37 percent), followed by Japan (14 percent), Singapore (9 percent), and the United Kingdom (9 percent). If the rapid growth in this sector remains unchanged, by 2005 Malaysia could become one of the top ten furniture exporters in the world.

SERVICES

TOURISM. Tourism is becoming an increasingly important sector of Malaysia economy. Together with the retail sector, it provides employment for almost 1.57 million people, or around 17 percent of the labor force. Roughly 7.5 million tourists visited the country in 1999, contributing RM10 billion to the national economy. This makes tourism one of Malaysia's top foreign exchange earners. According to the national authorities, the country has 1,426 hotels, the total room capacity of which almost doubled during the 1990s to about 110,000 in 2000. Most visitors have been from Singapore, Thailand, Indonesia, Japan, China, the United Kingdom, and Australia.

In order to develop tourism, Malaysia has promoted its diverse cultural environment, hosting a number of cultural festivals and performances. It has also publicized its rich natural heritage, which includes tropical forests, coral reefs, unspoiled mountain ranges, rivers, and national parks. The country offers tax-free bargain shopping and excellent service, with top-class hotels such as Sheraton, Hilton, Intercontinental, and other well-established international chains opening branches. It offers a wide variety of activities, from eco-friendly and adventure tourism to scuba diving and relaxed family holidays on the numerous Malaysian islands and beaches. Additionally, Malaysia has signed visa-free regimes with most countries in Asia, the Americas, and Europe, enabling international tourists to travel to Malaysia without obtaining entry visas. In 1997, however, tourism suffered from the regional financial crisis and by the smog caused by several months of forest fires in Indonesia. The number of tourist arrivals declined significantly in 1997 and 1998; however, there was a strong recovery in arrivals in 1999 and 2000.

FINANCIAL SERVICES. The financial service industry is another rapidly growing sector of Malaysia's economy. In terms of employment, it almost doubled from 230,900 people in 1988 to 447,200 people in 1998. Traditionally, this sector was built around the banking system, investments, insurance, and some other activities. For more than a decade until 1997, the financial service sector experienced rapid expansion fuelled by the inflow of Foreign Direct Investments (FDIs), reasonably cheap credits, and overall rapid economic growth in all sectors of the economy. Malaysia developed a sophisticated computerized banking payment system, encouraging development of electronic payment systems and electronic banking. The U.S.-based Motorola and Unisys have taken part in these projects as members of consortia that included local companies. Malaysia's government considered developing Kuala Lumpur into a regional financial center, competing with Singapore for this role, although it was slow to allow foreign brokers to operate at the Kuala Lumpur Stock Exchange (KLSE).

The 1997 regional financial crisis started with the collapse of the Thai currency (the Baht), which severely affected the Malaysian financial sector. Share and property prices declined significantly, provoking panic among local and international investors. Within a short time, the Malaysian ringgit had depreciated against major international currencies, especially the U.S. dollar. This inflicted considerable damage on local businesses, as a significant number of credits were in U.S. dollars and local companies faced extreme difficulties repaying those credits. The Kuala Lumpur Stock Exchange (KLSE) lost more than half its value, plunging from RM807 billion in the middle of 1996 to RM376 billion in the middle of 1997. In response to this crisis, the Malaysian government imposed currency and capital controls, locked in foreign investors' share holdings for 1 year, and initiated a share-buying scheme with the government-controlled funds. In 1999 and 2000, financial services began their recovery, and the government slowly eased various restrictions and state control in this sector.

RETAIL. Traditionally, in Malaysia many small and medium-sized businesses were built around the retail sector and were often associated with small shops and cafés run by Chinese merchants. The retail sector grew, in terms of its size and quality of service, due to a general rise in income among the population and an increase in tourism arrivals. In the 1990s, major international retail chains such as Yaohan and SOGO of Japan, Marks and Spencer of the United Kingdom, MAKRO of France and

fast-food franchises such as McDonald's, Kentucky Fried Chicken (KFC), and others opened outlets in Malaysia. However, there are still a number of small family-run traditional shops and cafés, selling both imported and locally-made products.

Tourists can also buy pirated products, including footwear, optical disks (CDs), and computer software. According to one study, piracy may have accounted for losses of US$84.2 million (RM320 million) in market value in 1999. In April 2000, the United States Trade Representative (USTR) placed Malaysia on the special Priority Watch List for its failure to reduce pirated optical disc production and export. In response to this, the Malaysian police regularly launch crackdowns on unlicensed software businesses.

INTERNATIONAL TRADE

Malaysia's international trade experienced tremendous growth throughout the last 3 decades. The Malaysian government welcomed export-oriented industries, created a very positive investment environment in the country, and fostered close relations between government and private businesses. The government established a few barriers on the importation of goods and services, although it often opted for selective intervention and for protecting some sectors of the national economy. Over 5 years, Malaysia more than doubled its exports from US$29.416 billion in 1990 to US$74.037 billion in 1995. After the 1997 regional financial turmoil, Malaysia experienced economic recession, although this recession was much smaller and less destructive than that in South Korea or in Indonesia. Due to tough economic measures, Malaysia's exports recovered and reached US$83.5 billion in 1999.

Historically, the United States has long been one of Malaysia's largest trading partners, its exports to the United States reaching 21.9 percent in 1999, a year in which it was the United States' 12th largest trading partner. Trade between these 2 countries consisted mainly of assembled electrical goods and manufactured electronic products. Neighboring Singapore is traditionally the second-largest export market, with the proportion of goods to Singapore reaching 16.5 percent and dominated by electrical and electronic equipment, machinery, metals, and mineral fuels. Japan is in third place at 11.6 percent, and, once again, exports are dominated by electrical and electronic equipment, machinery and mineral fuels. Other export destinations are the Netherlands, Taiwan, and Hong Kong.

Japan, the United States, and Singapore are also the 3 largest sources of imports. Most Malaysian imports originate from Japan, with the Japanese share of imported products reaching 20.8 percent in 1999, and consisting mainly of electrical and electronic equipment and machinery. The second most important source of imports is the United States, totaling 17.4 percent and dominated by electrical and electronic equipment and transportation equipment. Malaysia was the United States' 17th largest export market in 1999. Malaysia's third most important source of imports is Singapore, totaling 14.0 percent.

During the last 3 decades, Malaysian exports shifted from the sale of agricultural products, raw and processed natural resources, and labor-intensive manufactured goods (including clothing, footwear, and textiles) to the sale of skill-intensive products, including electrical and electronic equipment and parts, and services. The proportion of exported electrical machinery, appliances, and parts—including semiconductors, electronic equipment, and electrical appliances—reached almost 56 percent in 1998. The other important export products were commodities, chemicals and chemical products, manufactured metal products, and textiles, clothing, and footwear.

Malaysia has managed to maintain a positive trade balance, exporting more goods than it imports. Even during the recession of 1997 and 1998, the country had a large **trade surplus** of US$4.0 billion in 1997 and US$17.7 billion in 1998.

In the mid-1990s Malaysia faced growing competition from neighboring Indonesia, the Philippines, and Thailand, which could offer cheaper labor and larger and growing domestic markets. However, recent political and economic uncertainty in the region, especially military conflicts and terrorist activities in Indonesia and the Philippines has undermined the attractiveness of those markets. This has given an advantage to politically and economically stable Malaysia, although its government has often been criticized for the undemocratic measures used to maintain stability and political balance within the country.

Although Malaysia's industrialization and economic growth is highly dependent on international trade, the Malaysian government was less supportive of full economic liberalization than neighboring Singapore.

Trade (expressed in billions of US$): Malaysia

	Exports	Imports
1975	3.843	3.566
1980	12.958	10.820
1985	15.442	12.301
1990	29.416	29.258
1995	74.037	77.751
1998	73.304	58.326

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Malaysia's leadership was quite reluctant to support free trade within the Asia Pacific Economic Co-operation (APEC) region, arguing that developing countries need more time to prepare for lifting all trade barriers. Additionally, the Malaysian prime minister, Dr. Mahathir, suggested setting up a new regional body, the East Asian Economic Caucus (EAEC), in order to strengthen the negotiating power of East-Asian countries with regard to the North American Free-Trade Agreement (NAFTA) and the European Union.

MONEY

During the last 2 decades the value of Malaysian currency has shown remarkable stability, mainly due to the country's steady economic growth and regular state intervention into the currency **exchange rate**. The Malaysian dollar was floated in 1973, and in that year its exchange rate stood at around RM2.45 per US$1. At the same time, the Malaysian dollar became the sole unit of legal tender, as Singapore and Brunei currencies were excluded from free circulation in the country. The government periodically revised its exchange control regulations, introducing further liberalization of the controls. In 1985, the Malaysian ringgit was valued at RM2.48 per US$1, and this exchange rate remained practically unchanged until the 1997 Asian financial crisis.

During the period between 1973 and 1997, inflationary pressure was relatively small, with a peak **inflation rate** of around 17 percent in 1974. Remarkable stability was supported by a very high rate of savings. Malaysia has one of the highest savings rates in the world, at a level of around 40 percent of GDP. However, Malaysians also borrow rampantly, with a large proportion of investments directed to the booming property market and stock market. Outstanding loans were equivalent to 170 percent of GDP by the end of 1997, one of the highest such ratios in the world.

The Malaysian banking system is well established, with 38 commercial banks operating in the country in 1996, including 14 foreign banks and 12 merchant banks.

Exchange rates: Malaysia

ringgits (RM) per US$1	
Jan 2001	3.8000
2000	3.8000
1999	3.8000
1998	3.9244
1997	2.8133
1996	2.5159

SOURCE: CIA *World Factbook 2001* [ONLINE].

The foreign banks were represented by the biggest names, such as ABN AMRO Bank of the Netherlands, Mitsubishi and Tokyo banks of Japan, Citibank of the United States, Standard Chartered Bank of the United Kingdom, and others. However, the fundamental problem of the banking system in Malaysia, as in other emerging markets in Asia, was its exposure to **bad loans**, allegedly made to politically well-connected businessmen and to overheated property and share markets. This was an important factor that eventually led to a financial downturn.

The 1997 Asian financial crisis affected all regional currencies, dragging them downwards. The property and share markets also dwindled, putting additional pressure on the currencies. The Malaysian ringgit had plummeted from about RM2.55 per U.S. dollar in early 1997 to about RM3.75 in April 1998, and further to RM4.2 in August 1998 (speculations against the Malaysian ringgit on the currency exchange market largely contributed to this downturn). In response to this pressure, in September of 1998 the Malaysian government introduced a range of capital and currency-exchange control measures. A key component of this unprecedented move was pegging the Malaysian ringgit at RM3.80 per US$1. The Malaysian government also closed all legal channels for the transfer of Malaysian ringgit abroad and froze the repatriation of stock assets abroad held by non-residents in Malaysia for a period of 12 months. It even limited its own tourists headed abroad from taking more than RM500 in cash.

Such tough measures reduced the impact of the financial turmoil of 1997 and 1998, although they were sharply criticized by the IMF and other international organizations. In August 1998, Russia defaulted on its international obligations, while Malaysia was slowly achieving economic recovery. Malaysia rejected financial assistance from the IMF and kept its external debt at the relatively moderate level of US$42 billion, or 59 percent of GDP, with debt service payments of about US$6.0 billion (1998). In order to rehabilitate **non-performing loans** (NPLs), the Malaysian government established the *Danaharta,* an asset-managing company with the task of buying and rehabilitating NPLs, and the Corporate Debt Restructuring Committee, which facilitated voluntary debt restructuring between creditors and debtors. By May 2000, the *Danaharta* had acquired about 42 percent of NPLs, with a total value of US$9.63 billion. The government also injected US$1.9 billion into 10 banking institutions. In 1999 and 2000, Malaysia's economy was recovering, prompting the government to ease many of the restrictive measures, although it will take time for international investors to revive their confidence in the Malaysian market.

Malaysia has a single stock exchange, the Kuala Lumpur Stock Exchange (KLSE). During the period of expansion in the 1980s and 1990s, the KLSE was among the fastest growing stock exchanges in the region, with

ambitions to become one of the region's leading financial centers. However, the KLSE lost ground after the stock market collapse in 1997, with some shares losing up to 80 percent of their value. With the strong economic recovery, there was a return of investors and the KLSE strengthened in late 1999 and 2000.

POVERTY AND WEALTH

Malaysia experienced extraordinary economic growth during the last 3 decades, which brought prosperity and higher standards of living to the majority of the people. One of the most important achievements in Malaysia has been the elimination of extreme poverty and hunger. The urban areas—especially the capital Kuala Lumpur, and major tourist destinations and industrial cities such as George Town, Malacca, and Petaling Jaya—enjoy a quality of living very similar to that in developed countries. The major cities have first-class shopping centers, condominiums with air-conditioning and swimming pools, expensive private schools, and elite clubs. The rural population, meanwhile, often lives in traditional wooden houses in *kampungs* (villages) with limited facilities.

The monthly gross household income nearly doubled from MR1,167 in 1990 to MR2,007 in 1995. There has emerged a fairly strong middle class. However, incomes are still distributed unevenly. For instance, the wealthiest 20 percent of Malaysians control 53.8 percent of the wealth, while the poorest 60 percent of the population controls just 21.3 percent of wealth. At the very bottom of the income range, the poorest 20 percent of the population controls only 4.5 percent of wealth. Disparities exist along both geographic and ethnic lines. In general, the Chinese population, which has traditionally lived in urban areas and been involved in small and medium-sized businesses or employed in various industries, has had higher incomes than the Malays, who often live in small towns and villages and were traditionally engaged in agriculture. Secondly, there are considerable differences in standards of living, incomes, and access to medical and other social benefits in different parts of the country. Peninsular Malaysia, where the majority of the population lives, has much higher standards of living compared to East Malaysia.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Malaysia	1,750	2,348	2,644	3,164	4,251
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Indonesia	385	504	603	778	972

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Malaysia

Lowest 10%	1.8
Lowest 20%	4.5
Second 20%	8.3
Third 20%	13.0
Fourth 20%	20.4
Highest 20%	53.8
Highest 10%	37.9

Survey year: 1995

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Since 1970, the Malaysian government has actively implemented social policies aimed at the elimination of poverty and social inequality, and the development of a **social welfare system**. The communal unrest of 1969 prompted the Malaysian government to introduce the New Economic Policy (NEP). This 20-year program established state support of poor communities and access to education and social benefits for Malays and indigenous people (the *Bumiputera*). This latter aspect included the establishment of privileged access to public services, the granting of land rights, preference in education and training, and job quotas in the public sector. In the 1980s, Malaysia's leadership envisioned the formation of the *Malay Baru* (New Malays), a better-educated, politically and socially active people able to live in harmony with other communities. In the early 1990s the government relaxed some privileges and reduced some quotas for *Bumiputera,* making the social welfare system more inclusive and accessible to a wider range of people than it had been before.

The recent economic turbulence of 1997 and 1998 brought higher unemployment, higher prices, and lower incomes. This particularly affected the most vulnerable social groups of society, not only in rural areas, but also in major urban centers. Nevertheless, there were no large groups of people migrating from the country, and Malaysia's quality of life remained much better than in neighboring Indonesia, the Philippines, or Thailand. Around 6.8 percent of the population lived below the poverty line in 1997, most of them in East Malaysia (for comparison, in the neighboring Philippines 32 percent of the population lived below the poverty line in 1997). The economic recovery of 1999 and 2000 reversed the decline in incomes and standards of living.

WORKING CONDITIONS

During the last decade the Malaysian labor force has grown rapidly, due to robust economic growth and the large proportion of young people born in the 1970s. In

1999, the Malaysian labor force was 9.3 million people, with an unemployment rate of 3 percent, or around 270,000. Due to rapid expansion of all sectors of the national economy, there has been a high demand for all types of workers, especially skilled labor in the manufacturing sector and well-trained professionals in the services sector. This led in turn to better wages and rapidly improving working conditions.

The Malaysian government is trying to develop better education at all levels, as it wants to attract skill-intensive industries and services to the country. Primary education is compulsory, and young people may choose between a large number of both public and private schools and colleges. There is an established system of vocational and technical training. A number of Malaysians receive their education overseas, many of them with state support, although during 1997 and 1998, many students returned home. The most popular destinations for overseas education are the United States, England, Canada, and Australia. However, even the rapidly growing numbers of educated and trained Malaysians cannot meet market demand. In the late 1990s, Malaysia experienced shortages of medical doctors, information technology specialists, and professionals in various other areas. In order to meet growing demand of university-trained professionals, in 1994 Malaysia allowed foreign universities to establish campuses in the country.

The higher wages and better working conditions attract large numbers of temporary workers from neighboring Indonesia, Bangladesh, Thailand, and the Philippines. Many of them are hired to work in the low-skill and low-wage construction and service sectors and on agricultural plantations. However, Malaysia has also experienced an inflow of illegal foreign workers, prompting the government to implement harsh detention measures and mass deportation of unauthorized arrivals. Malaysian law does not allow foreign workers to join trade unions. The working conditions of illegal workers are generally inferior to those enjoyed by legally contracted workers. However, labor contractors may be prosecuted if workers complain about abuses or other problems.

The first trade unions appeared in Malaysia before World War II. There are currently 544 trade unions in Malaysia, engaging in the union activities of just over 11 percent of the workforce. Most of the **private-sector** trade unions are members of the Malaysian Trade Union Congress (MTUC), which was established in 1951. Around 90 unions of public- and civil-sector employees are members of the Congress of Unions of Employees in the Public and Civil Services (CUEPACS). Unions maintain their independence from the government and from political parties; by law, union officers may not hold principal positions in political organizations. However, some individual trade union leaders have been elected to the parliament, and the leader of MTUC joined the ruling party in 1997. The Malaysian Trade Union Act guarantees the right to form or participate in trade union activities, but it restricts the right to strike, calling for "socially responsible behavior." Strikes are extremely rare in Malaysia for several reasons, including strong demand in the labor market and the government's promotion of "industrial harmony." In case of labor disputes, the Ministry of Human Resources may intervene in conciliation procedures; in extreme cases, disputants may refer their case to the Industrial Court. The Industrial Relations Act prohibits employers from taking actions against workers for participating in lawful trade-union activities. There is no national minimum wage, although there have been calls recently from trade unions for its introduction. The Employment Act of 1955 established a maximum 48-hour working week.

The Malaysian Constitution prohibits forced and bonded labor by children, and the government claims that it rigorously enforces child-labor provisions. However, the International Confederation of Free Trade Unions estimates that 75,000 children are engaged as laborers. Faced with the shortages in the workforce, the Malaysian government encourages women to work, providing various initiatives. Currently, more than 35 percent of the labor force are women. However, unionization among women is generally lower than among men.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1400s. The Kingdom of Malacca is founded.

1511. Malacca is conquered by the Portuguese under Afonso de Albuquerque.

1641. The Dutch establish control in the region.

1786. The Sultan of Kedah leases the island of Pinang to the British East India Company.

1819. Singapore is founded by Sir Thomas Raffles.

1824. Malacca falls to Britain.

1888. British North Borneo and Sarawak become British protectorates.

1896. The British form a federation, comprised of Perak, Selangor, Negri Sembilan, and Pahang.

1909. British acquire control over Kedah, Kelantan, Perak, and Terengannu—the 4 northern states in Peninsular Malaysia—from Siam (now Thailand).

1921. Port Singapore becomes the principal base for British Navy in East Asia.

1942. Malay Peninsula is occupied by Japanese Army.

1945. Malaya is liberated from Japanese occupation.

1946. British impose a system known as the Malayan Union and grant political rights to immigrants.

1948. The Federation of Malaya is established.

1948. State of Emergency is declared in response to armed campaign by the Malayan Communist Party.

1957. Malaya is granted independence within the British Commonwealth.

1963. Malaysia is expanded to form the Federation of Malaysia; Singapore joins the federation.

1965. Singapore leaves the federation.

1967. Malaysia becomes a founding member of the Association of South East Asian Nations (ASEAN).

1969. Serious rioting breaks out in the capital city, Kuala Lumpur; more than 200 people killed.

1970. The Malaysian government introduces the New Economic Policy (NEP).

1981. Dr. Mahathir bin Muhammad becomes prime minister of Malaysia.

1983. Prime minister imposes restrictions on the power of the *Yang di-Pertuan Agang* and the Council of Rulers.

1995. The ruling political coalition *Barisan Nasional* wins parliamentary elections in landslide victory.

1997. In response to the Asian financial crisis, the government imposes restrictions on currency trading and announces public spending cuts.

1998. National Economic Action Council is established to advise the Malaysian Cabinet on the economic crisis.

1998. Prime Minister Mahathir bin Muhammad dismisses his apparent successor, Finance Minister and Deputy Prime Minister Anwar Ibrahim.

1999. The ruling political coalition *Barisan Nasional* wins parliamentary elections while losing 14 seats in the parliament.

FUTURE TRENDS

Malaysia's economy has benefited from several factors, including a stable political environment, an effective bureaucracy, flexible economic policies, export-oriented industrialization, and inflow of foreign direct investments (FDIs). This has brought prosperity and a high level of confidence to the majority of the population. The country has a healthy, rapidly growing economy, although its government has often been criticized for state intervention into economic development and the imposition of capital and currency exchange controls in 1998. However, subsequent events have shown that these were temporary measures, and the government is considering re-liberalization of its economy. **Inflation** remains low and is under control. Malaysian currency exchange is still tightly regulated and pegged to the U.S. dollar; with the economic recovery, the Malaysian ringgit might be floated again within the next few years. In 1999 and 2000, Malaysia achieved strong economic recovery and, if economic growth at an annual rate of 7.4 percent continues, within the next 20–30 years Malaysia may join the international club of developed nations. In 1998, as if to announce that it had arrived on the world stage, Kuala Lumpur saw the completion of the stunning Petronas Towers, the world's tallest skyscraper complex.

Nevertheless, there are several issues to be addressed. Malaysia's government has developed close relations with its private businesses. These "special relations" with some business groups have allegedly led to the emergence of political cronies with unlimited access to public resources. The experience of neighboring Indonesia shows that this is a dangerous trend that could negatively affect economic development in the future. In 1998–99, Malaysia was widely criticized for establishing increasingly tough political control of the country, and for some harsh measures against the opposition. It remains to be seen whether these measures have in the long term strengthened political stability or undermined it. The political succession of the current leadership will also be a problem. In neighboring Indonesia and Thailand, changes in the political leadership have led to destabilization of the political environment.

In the longer term, Malaysia will need to maintain its international competitiveness, since there is growing competition from other emerging markets for FDIs and for the transfer of modern technologies. Although political and social unrest in neighboring Indonesia and the Philippines has no direct effect on Malaysia, it threatens social stability by causing influxes of refugees and by undermining regional stability. Environmental issues are also important for Malaysia in the longer term as deforestation and global climate change may undermine the country's agriculture, which still plays an important role in the national economy. The recent forest fires in the Indonesian part of Borneo affected not only East Malaysia, but Peninsular Malaysia as well, by injecting hazardous air pollution. This sort of thing, if repeated, may undermine tourism, another important sector of the Malaysian economy. The forecast global economic slowdown may also negatively effect the export-oriented Malaysian economy.

DEPENDENCIES

Malaysia has no territories or colonies.

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—Rafis Abazov

MALDIVES

Republic of Maldives
Dhivehi Raajjeyge Jumhooriyyaa

CAPITAL: Malé.

MONETARY UNIT: Rufiyaa (Rf). One rufiyaa equals 100 laari. There are coins of 1, 2, 5, 10, 25, and 50 laari, and 1 and 2 rufiyaa. There are notes of 2, 5, 10, 20, 50, 100, and 500 rufiyaa.

CHIEF EXPORTS: Fish products, clothing.

CHIEF IMPORTS: Consumer goods, intermediate and capital goods, petroleum products.

GROSS DOMESTIC PRODUCT: US$540 million (1999 est.).

BALANCE OF TRADE: **Exports:** US$92 million (1999 est.). **Imports:** US$402 million (1999 est.). [*CIA World Factbook* indicates exports at US$98 million (1998) and imports at US$312 million (1998).]

COUNTRY OVERVIEW

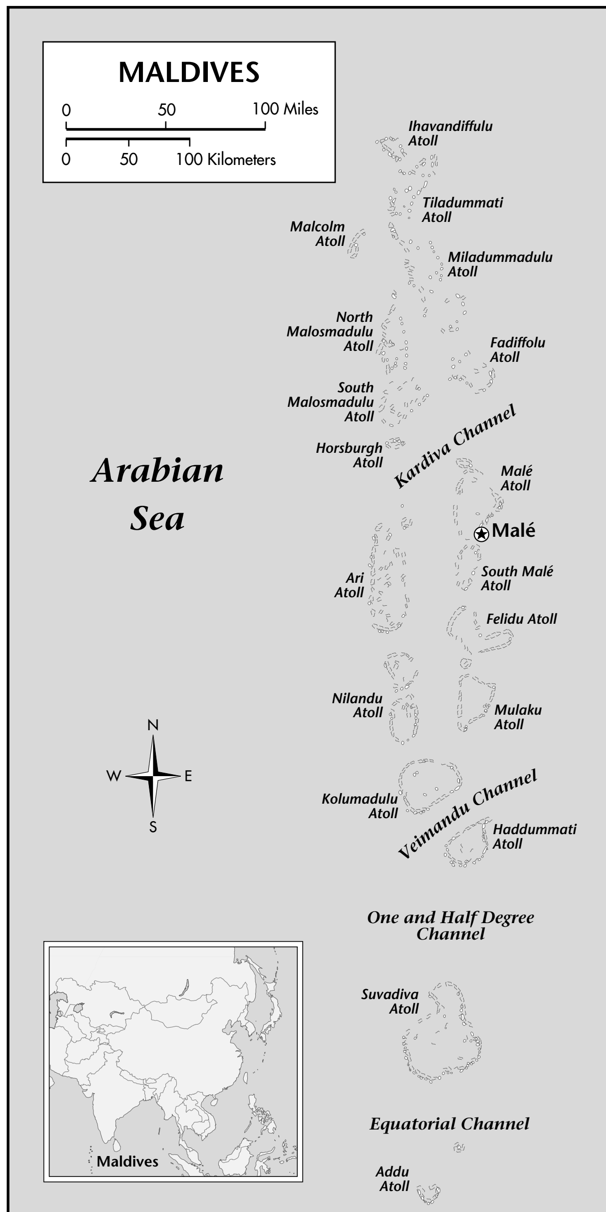
LOCATION AND SIZE. A series of 1,190 coral islands grouped into 26 atolls (a ring-shaped coral reef enclosing a lagoon) located in the Indian Ocean, the Maldives has an area of less than 300 square kilometers (115 square miles) and a total coastline of 644 kilometers (400 miles). The islands form a narrow chain 820 kilometers (510 miles) in length and 130 kilometers (81 miles) in width within an area of 90,000 square kilometers (34,749 square miles) of ocean. Of these islands, around 200 are inhabited and 85 are tourist resorts. Comparatively, the area occupied by the Maldives is about 1.7 times the size of Washington, D.C. The capital city island, Malé, is located within Malé atoll, which is in the center of the strip of islands that makes up the Maldives. The Maldives is the smallest country in Asia.

POPULATION. From a 1980 level of 155,300, the population of the Maldives was estimated at 301,475 in July 2000. With the 2000 population growth rate at 3.06 percent per annum (one of the highest population growth rates in the world), by 2010 the Maldives population is expected to have almost doubled. In 2000, the birth rate stood at 38.96 per 1,000, while the death rate was 8.32 deaths per 1,000. With the continuation of a similar population growth rate, the population of the Maldives will fail to stabilize for at least another 50 years.

More than 200 of the 1,190 islands in the Maldives are inhabited, of which only 5 islands have a population of more than 3,000. The majority have a population of 500 or less. Nonetheless, the country has a very high population density of 916 people per square kilometer. Twenty-six percent of Maldivians live on the overcrowded capital island of Malé, with an average of 10 persons per household compared with a national average of 6.5. The implications of the country's high population growth and density are severe. The traditional construction material, coral, is near its point of full depletion. More importantly, the fresh water held beneath the soil surface is in rapid decline. This means that the Maldives faces the prospect of importing a large percentage of its water needs to support the growing population, unless there are fast developments in desalination services on the islands.

OVERVIEW OF ECONOMY

The Maldives government has followed a policy of free market economy, making it one of the most liberal in the developing world. This has had considerable benefits. The promotion of a favorable economic climate has assisted the economy's inflow of **foreign direct investment**. This doubled from an annual average inflow of $5 million between 1988 and 1993 to $10 million in 1999. But with the economy's high level of dependence on just 2 economic sectors—fisheries and tourism—it is highly susceptible to constant fluctuations on world markets. Total dependence on imports to supply a number of its sectors, such as textile manufactures and tourist supplies, means that the rise and fall of the rufiyaa on international money markets can significantly affect the competitive-



ness of exports and cost of imports. The simultaneous decline of fisheries exports and influx of tourists in the early 1990s led to a serious deficit in the national **balance of payments** that required the government to introduce unpopular cuts in public spending.

Compared to the other Maldives, Malé is highly developed. Some of the other islands have benefited from the carry-over effects of the tourism sector, the availability of arable land, or from the collection service for fish catches provided by the government. However, the geographical isolation of a significant number of islands means that their access to the productive sectors of the economy and to social services is very limited. The government has initiated a set of policies to address these disparities and spent 28.7 percent of its 1999 budget on atoll development. This was done in part to take the strain off the high population density in Malé and also to allow more of the outlying population access to the strategic economic situation of the capital. One example is Villingili, a nearby former resort island, which was transformed into a residential island with a commercial harbor. It now supports around 15,000 Maldivians. A similar government policy is to provide **infrastructure** and facilities to regional centers throughout the atolls to encourage people to move from isolated islands to local commercial focal points and develop the economy in a more unified trajectory.

Although the Maldives has benefited considerably from growth over the past 20 years, there are a number of factors that act as considerable limitations on the continued sustainable development of the economy. For example, the exploitation of coral for construction purposes is at such a level that it is estimated that all of the reefs in the north Malé atoll will be depleted by 2014. **National debt** has risen considerably, from $13 million in 1979 to $203 million in 1999. Rising population growth and such factors as the rise of tourism and the mechanization of the fishing fleet has meant that imports have risen significantly, especially for such commodities as petroleum products. Consequently, whereas exports only rose from $8 million in 1980 to $64 million in 1999, imports expanded from $29 million to $402 million. Although the total national balance of payments remained at an annual average of $7 million in credit between 1994 and 1999, the serious drain of imported goods limits the potential of reinvestment and development on the islands.

The Maldives Ministry of Planning and National development emphasizes the government's "international reputation for its high-level commitment to environmental protection, demonstrating its readiness to subordinate short-term economic gain to environmental conservation." This progressive policy-orientation entails a number of factors of self-interest ranging from the desire to maintain the country's natural beauty to continue enticing tourists, to the more serious issue of 80 percent of the land elevation being less than 1 meter above sea level. This means that the islands will be even more susceptible to storms and rising sea levels if the projected consequences of the "greenhouse effect" are realized.

POLITICS, GOVERNMENT, AND TAXATION

The formation of the Maldives as a political entity is generally dated from the period of conversion to Islam in the 1100s. This makes the Maldives one of the oldest surviving small states in the world. Unlike most other countries in the region, the Maldives was not subject to the overt domination of foreign powers. This is most

likely due to the problems of navigating the sea around and within the islands as, without a high level of knowledge of the dangers of the reefs and shallow lagoons, ships would often be smashed or grounded. The Portuguese managed to rule the Maldives for a period of 17 years in the mid-1500s. They were soon thwarted in their dominance by a guerrilla war assisted by the Rajah of Cannanore in what is now India. Various sultans then ruled the Maldives unhindered, until Sultan Muhammad Muenuddin entered into an agreement with the British in 1887. The British, whose empire extended throughout South Asia, made the Maldives a British protectorate in return for the payment of tribute.

After a gradual rise in its level of sovereignty, the Maldives became fully independent of Britain on 26 July 1965. Three years after, a national referendum saw 80 percent of votes cast call for the abolition of the hereditary sultanate in favor of a republic, although the country's status as an Islamic state remained. This included civil law being subject to Sharia (Islamic law) which remained in place by mid-2001. Although the executive position of sultan was abolished, the office of the president wields similarly large powers. (The president is required to be a male Sunni Muslim.) The president is the head of state, the supreme authority defending the national faith of Islam, the chief executive, and commander-in-chief of the military. And not only does he have the power to appoint the prime minister and cabinet of ministers, but he can dismiss them too. Amir Ibrahim Nasir, formerly the prime minister under the sultan, was elected president in 1968. Nasir ruled until the 1978 elections, when he cited poor health and did not stand for office. He instead left for Singapore after the new president, Maumoon Abdul Gayoom, initiated investigations into Nasir's alleged misappropriation of government revenues.

President Gayoom was re-elected in 1998 for a fifth consecutive 5-year term with the support of 90.9 percent of votes cast. In each election, he ran unopposed—presidential candidates are selected by the Citizens' Majlis (parliament) and posed to the people in a simple "for" or "against" referendum. The Majlis itself consists of 48 members, 8 of whom are selected by the president, while voters in the Maldives' 20 administrative atoll districts elect the rest (2 members per district). In November 1988, Tamil mercenaries from Sri Lanka, in collusion with some Maldivian nationals, attempted to overthrow the government. However, President Gayoom appealed to India for military assistance, which swiftly foiled the rebels.

The Maldives electoral system has received criticism for being limited, unfair, and unrepresentative. For example, Freedom House (the U.S. political liberties and civil rights advocacy group) classified the Maldives in 2000 as "Not Free." Amnesty International (a London-based human rights organization) has reported the detention of a number of politically motivated prisoners. Gayoom himself is often cited as authoritarian. In a country profile on the Maldives, the British Broadcasting Corporation (BBC) suggested that Gayoom "has been accused of heading a small heredity elite which holds decisive power and which uses intimidation to discourage political activity." However, the government addresses these criticisms by maintaining that this limited style of democracy provides a stable and consistent form of rule that also acts to protect the basic tenets of the nation's Muslim faith. Maldives' brand of Islam is among the most emancipated of current Islamic states. This is exemplified by the Maldives' comparatively high rating in the Gender-related Development Index.

The Maldives government receives the majority of its revenues through **direct taxation** and the earnings of state-owned enterprise and property. There is no **income tax**. Import **duties** provided 63 percent of government tax revenues in 1997, while various taxes on the lucrative tourism sector accounted for 27 percent of tax revenues. Key non-tax revenue sources are government-owned property, such as resort islands which are leased to tour operators, and the profits from public enterprise, such as the regular collection of fisheries produce, which provided 46 percent of total government revenues in 1997.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The Maldives transportation infrastructure is very limited. The capital city island, Malé, has 9.6 kilometers (6 miles) of coral highways. Due to their small size and the tiny amount of cars throughout the rest of the islands, the total quantity of roads is not known. There are no railways in the Maldives. Since the tourism boom of the 1970s, the availability and frequency of inter-island transportation has considerably improved. While the cheapest and most common mode of transport used by Maldivians are *dhonis* (wooden all-purpose water taxis/fishing boats), tourists and the wealthy have the option of using private seaplanes, helicopters, and speedboats. When travelling on an island, the majority of people use bicycles or motorbikes, although there are a limited number of cars and taxis in use on the more populated and larger islands.

When Malé International Airport on Hulhule Island (2.5 miles from Malé) was opened in 1981, it caused a considerable rise in tourist arrivals. While improved air transportation has benefited the tourism sector, international sea cargo remains very important. Malé's port can intake around 200,000 tons of cargo per year and offers shipping services to and from Europe and a large portion of Asia. With its fleet of 7 cargo boats and 1 container vessel, Maldives National Shipping Ltd. handles about 60 percent of the country's imports.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Maldives	21,000 (1999)	1,290	AM 1; FM 1; shortwave 1	35,000 (1999)	1	10,000 (1999)	1	2,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
India	27.7 M (October 2000)	2.93 M (2000)	AM 153; FM 91; shortwave 68	116 M	562	63 M	43	4.5 M
Sri Lanka	494,509 (1998)	228,604 (1999)	AM 26; FM 45; shortwave 1	3.85 M	21	1.53 M	5	65,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

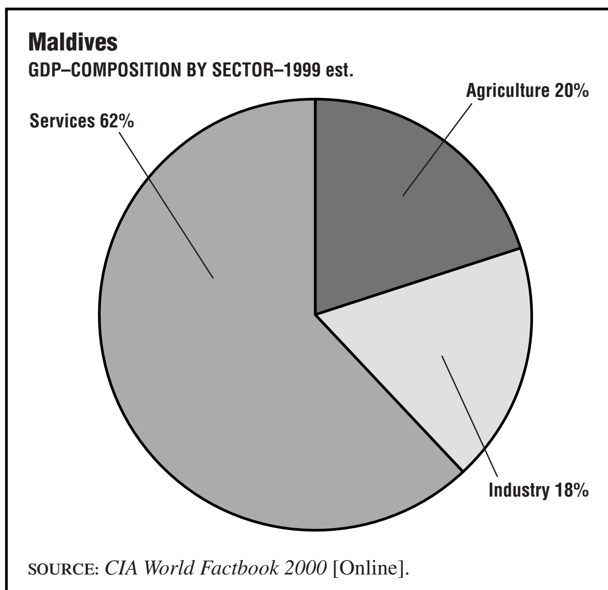
SOURCE: CIA *World Factbook 2001* [Online].

The **parastatals** the Maldives Electricity Bureau and the State Electricity Company (STELCO) provide power throughout over 95 percent of the Maldives inhabited islands. Tourist resort islands are required by the government to supply independent energy supplies, this is generally via oil-fuelled generators. However, wood accounts for 55 percent of total domestic energy consumption and is mainly used in households for cooking purposes.

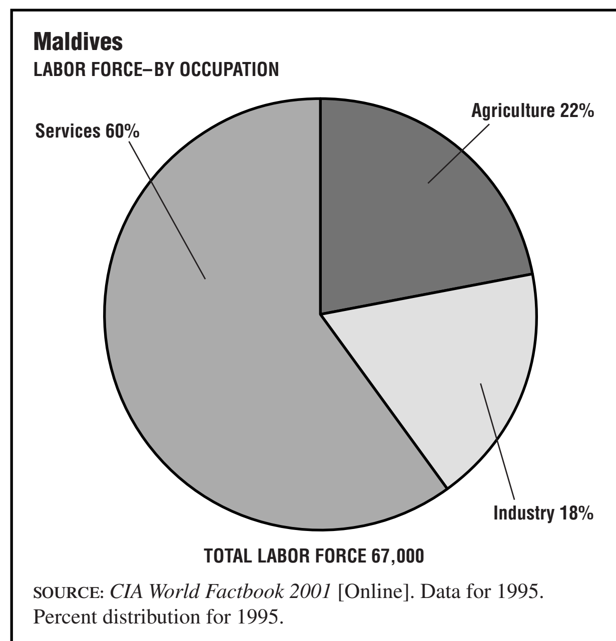
Telecommunications facilities are of an excellent quality in Malé and throughout most of the tourist islands. By 2001, the government had successfully extended the availability of telephones throughout the vast majority of inhabited islands. Telecommunications are provided through a **joint venture** between the government and the British company, Cable and Wireless. By 1999, there were 8.1 Internet hosts per 100,000 people.

ECONOMIC SECTORS

The Republic of Maldives' economic sectors reflect the very small size of the population, a limited infrastructure principally caused by the country's division across hundreds of tiny islands, a low level of skilled labor, and the very limited level of agricultural potential and mineral resources. Consequently there are severe limits on domestic markets and the availability of land on those islands that are inhabited. Nonetheless, the country's situation as a series of small isolated islands works



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1995. Percent distribution for 1995.

more positively as a strategic trading point, a tourist destination, and as an excellent base for tapping the Indian Ocean's abundant fish stocks.

The Maldives economy consists of 3 main sectors—trade, tourism, and fisheries. Although the fisheries sector was historically the primary source of national employment and economic activity, the rise of tourism in the 1970s caused it to become the third most important economic sector by 2001.

AGRICULTURE

Traditional agricultural production in the Maldives is limited by poor soil, a low level of arable land, and a geographically split landmass which disallows large-scale commercial farming. In 1995, only 3,000 hectares of arable land was under permanent crops. There are, however, a number of crops grown for domestic consumption. These include coconuts, bananas, breadfruit, other exotic fruits, betel, chiles, sweet potatoes, and onions.

FISHERIES. Until the development of the tourist industry, the fisheries sector was the Maldives principle economic activity and source of export earnings. In 2000, the sector employed about 20 percent of the national workforce and acted as the main source of livelihood for a majority of Maldivians. In addition, it is the second largest source of foreign exchange and provides more than 10 percent of GDP. The government established the Maldives Fishing Corporation in 1979 to exploit the country's vast fisheries resource.

The use of fishing nets is illegal, and as a result, the more labor intensive traditional method of fishing by line and pole dominates. Nonetheless, the productivity of the fisheries sector has improved considerably during the 1990s. Although traditional small boats made of coconut wood remain in use, most are used in conjunction with outboard motors. The mechanization of the fishing fleet has been combined with the introduction of Fish Aggregating Devices (which allow the detection of shoals of fish). This meant that the nominal catch of fish in the Maldives expanded from 71,245 metric tons in 1989 to 118,183 tons in 1998. The opening of the Maldives **Exclusive Economic Zone** in the early 1990s meant that more Maldivian vessels were fishing in the sea around the islands. In fact, this zone allowed Maldivian fishermen to tap into a range of around 330 kilometers (200 miles). With the decline of fish stocks in the Atlantic Ocean, the price of fish on international markets seems likely to continue rising into the 21st century, although the subsequent increased pressure on Indian Ocean fish stocks threatens one of the foundations of the Maldives economy.

INDUSTRY

The Maldives industrial sector is small. Traditional industries are still in place. For example, women collect cowrie shells (the former national currency) for export. They weave the labor-intensive coir rope from coconut husks, which is a very strong, flexible and waterproof rope. Male carpenters build the traditional fishing boats (dhonis) from coconut trees, which can last up to 20 years. However, more modern developments have occurred in the Maldives industrial sector.

CANNING. The Maldives' primary industry is the canning and processing of fish. In 1998, $19.06 million of canned fish, predominantly tuna, was exported. The development of the Felivaru Tuna Fish Cannery in the early 1990s was a key factor in the modernization of this industry. The export of dried, smoked, and salted fish constituted an additional $9.07 million of exports in 1998. This constitutes a significant enterprise for levels of employment and national income, although it remains a more traditional industry. The canning industry is expected to continue to thrive and replace more traditional fish exports with the opening of the Kooddoo Fisheries Complex, which included large refrigeration facilities.

MANUFACTURING. The development of manufacturing is limited by the low level of domestic demand, limited skilled labor, and the lack of national resources. This means that many material and labor inputs into domestic goods rely heavily on imports. The economy has diversified into the production of clothing, both for domestic consumption and for export. In 1989, garment exports amounted to $10 million. Because of government initiatives, this had more than doubled to $25 million by 1999.

However, garment factories (some with U.S. investment) rely almost exclusively on the import of materials for the manufacture of their goods. The competitiveness of finished products is reduced due to the costs of passing through multiple **tariff** boundaries. In an attempt to address this problem, the government has granted duty-free status on the import of fabrics and similar materials essential in the production of clothing and apparel. The government is keen to follow this policy, as it wishes to improve the amount of foreign exchange earnings and, in a similar vein, to create jobs for an ever-expanding and very young population. Other low-level manufactures that have developed in the Maldives through the 1990s are the production of PVC piping, soap, and food products. Between 1989–2000, the average annual growth of the manufacturing sector was 9.4 percent.

SERVICES

TOURISM. The Maldives' principal assets are its beauty, geographical isolation, and rich marine resources. When

an Italian entrepreneur set up some uninhabited islands as resorts for foreign visitors in the early 1970s, the tourism sector began to develop very rapidly. Tourists come to spend time relaxing in one of the Maldives' 85 idyllic resort islands. A key pastime for tourists is diving in the cleanest ocean in the world amongst more than 1,000 species of fish, constituting one of world's most species-rich marine areas.

The influx of tourists to the Maldives has been increasing steadily since the 1970s. In 1993, 241,020 tourists travelled to experience the beauty of the Maldives, and by 1997, this number had risen nearly 50 percent to 365,563. Of these, the vast majority came from Western Europe, Japan, and from nearby countries in South Asia. The increase in tourist arrivals has significantly improved the country's receipts from tourism, which increased from $146 million in 1993 to $286 million in 1997. The recent purchase of resorts by the multinational hotel groups, Hilton and Four Seasons, is a clear indication of the projected growth of the Maldives' tourism sector. Yet the cultural effect of foreign influences has been controlled by the government policy of restricting tourist access to resort islands, unless they specifically apply for permission. Also, no Maldivians have their permanent residence on resort islands. The purpose of this is to maintain the population's apparent cultural unity as based upon the Islamic faith.

INTERNATIONAL TRADE

The Maldives is increasingly relying upon imports. This is due to a lack of agricultural production and fossil fuel resources, a growing population and household incomes, and the high influx of tourists since the 1970s who demand certain foodstuffs and luxuries. In 1977, imports totalled $11.1 million, whereas by 1998 they had boomed to $354 million. The Maldives receives its imports from a wide range of countries. The European Union countries supplied $65 million in 1998, of which the 2 largest partners, the UK and the Netherlands, provided $18.5 million and $12.5 million, respectively. In the same year, Singapore supplied $40.9 million in imports, India $39.3 million, Malaysia $34.9 million, Sri Lanka $30.9 million, the United Arab Emirates $23.8 million, Japan $22.3 million, and the United States $19.1 million.

Maldivian exports totalled $76.2 million in 1998—a considerable growth from a 1977 level of $4.8 million. The main destination was the EU countries, which consumed $20.1 million. The UK was the primary partner here and purchased $14.7 million in Maldivian exports, Germany imported $5.1 million. Exports to the United States totalled $15.7 million, nearby Sri Lanka $13.1 million, Japan $10.9 million, and Thailand $9.8 million.

The Republic of Maldives is an active member of the South Asian Association for Regional Co-operation (SAARC), whose other members are Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka. Of these countries, the Maldives can boast the second highest GDP growth in the 1990s and the highest level of average individual incomes.

MONEY

There is no stock market in the Maldives, although at times some of the larger parastatals issue shares. According to the CIA *World Factbook 2001*, the national currency has had a fixed exchange rate since 1995 when it was pegged to the U.S. dollar at a rate of Rf11.77:US$1. This contributed to a low **inflation rate** of 3 percent in 1998. As a result, the price of **consumer goods** has remained fairly consistent, and the cost of living is steady. The Maldives Monetary Authority regulates the banking system and the money supply. It also functions as the central bank.

POVERTY AND WEALTH

Throughout the 1990s, nearly all of the available measures used to classify sustainable human development indicated that there had been considerable positive progression in the material and social conditions in the

Trade (expressed in billions of US$): Maldives

	Exports	Imports
1975	.003	.007
1980	.008	.029
1985	.023	.053
1990	.052	.138
1995	.050	.268
1998	.076	.354

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Maldives

rufiyaa (Rf) per US$1	
2001	11.770
2000	11.770
1999	11.770
1998	11.770
1997	11.770
1996	11.770

Note: Currency has had a fixed rate since 1995.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Maldives	N/A	N/A	650	917	1,247
United States	19,364	21,529	23,200	25,363	29,683
India	222	231	270	331	444
Sri Lanka	382	452	536	590	802

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

lives of Maldivians. The **United Nations Development Program** has marked the Maldives out as being one of just two countries in the South Asian region to be a medium human development country. Between 1977 and 1995, the life expectancy of the average Maldivian increased by 20 years to 71 years, which is a remarkable level for a developing country.

Despite that, it is estimated by the Maldives Ministry of Planning and National Development that almost 50 percent of children suffer, to different degrees, from stunting and wasting in their physical development. This is due to malnutrition in the more remote and less easily accessible islands. This is mainly caused by limited agricultural potential and the high cost of imports. Consequently, the majority of Maldivians consume a relatively restricted range of foodstuffs, with rice, fish, and coconut being the staples. A 1993 survey found that less than 30 percent of children ate fruits and vegetables. On the other hand, the annual average intake of protein rose from 69 grams (1980–82) to 94.6 grams (1995–97), and over the same period caloric intake improved from 2,194.3 to 2,505.1.

WORKING CONDITIONS

The Maldives is not a member of the International Labor Organisation. Although the national constitution does not explicitly bar the formation of trade unions, they do not exist in the Maldives. This is partly due to the lack of the legal right to stage strikes or engage in collective bargaining processes. Also, most workers are employed outside of the formal sector. In fact, due to the low recognition of workers' rights by the Maldives government, in 1995 the United States temporarily suspended the Maldives' tariff preferences within the U.S. Generalized System of Preferences.

While enrollment at primary schools is very high (98 percent in 1999), secondary school enrollment is only about 50 percent of the relevant age group. This results from having only 2 secondary schools outside of Malé (even though the government spent 17.6 percent of its 1999 budget on education). This not only has the effect of limiting secondary education to the more wealthy tiers of Maldivian society but acts against equal educational opportunities for girls. Girls are considerably more socially restricted in their movement than boys and have fewer employment opportunities. In addition, a recent UNDP survey found that there were only around 250 Maldivians with university degrees. The end result is that professional, skilled, and even semi-skilled workers are lacking in the Maldives. For example, 70 percent of primary and secondary school teachers are foreign workers. The total amount of imported labor grew from 2,000 in 1986 to 18,500 in 1995, which places an additional drain on already sparse **foreign exchange reserves**.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

12TH CENTURY. The population adopts the Islamic faith.

1558. The Portuguese colonize the islands (only to be driven out in 1573).

17TH CENTURY. Maldives becomes a protectorate under the Dutch rulers of Sri Lanka (then Ceylon).

1887. The British officially declared the Maldives a protectorate.

1965. The Maldives become fully independent on 26 July.

1968. A national referendum votes in favor of the abolition of the sultanate in favor of a republic. Amir Ibrahim Nasir is elected president.

1978. Maumoon Abdul Gayoom is elected president.

1981. Maldives Monetary Authority is established and Malé International Airport is opened.

1988. Coup attempt by Tamil mercenaries is successfully halted with the aid of Indian forces.

1998. Gayoom is re-elected as president for the fifth consecutive term.

FUTURE TRENDS

In mid-2001, the two most important issues in the continued development of the Maldives are the partly linked factors of population growth and anticipated global environment problems. If projected population growth proves correct (a doubling of late 1990s levels by 2010), there will simply not be enough jobs in the country to employ the country's young people. Slightly less than 50 percent of the population are under 15 years old and the Maldives future will be dominated by the effects of a large proportion of young people entering the labor market, with estimated annual levels of 5,000 new job

seekers looking for work. Similarly, population growth exerts considerable strain on already highly depleted reserves of potable water and building materials (particularly coral). Moreover, if pollution in the world's ecosystem continues to have the effect of raising the temperate of global climates thereby increasing sea-levels (a phenomenon know as the "greenhouse effect"), then the majority of the low-level land mass of the Maldives will simply disappear.

On a more positive note, the economy has consistently grown throughout the 1990s, and foreign investment is on the increase. With the decline of stocks of fish in most of the world's other oceans, the Maldives' access to the rich fish reserves of the Indian Ocean means that this industry will remain of significant importance, especially if the modernizing trend in the domestic canning and refrigeration of fish continues. In addition, except for some slight drops in tourism receipts during the financial crises of the late 1990s, the tourism sector is likely to continue to grow as is indicated by the recent investment of multinational hotel groups there.

DEPENDENCIES

Maldives has no territories or colonies.

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—Liam Campling

MARSHALL ISLANDS

Republic of the Marshall Islands

CAPITAL: Majuro.

MONETARY UNIT: United States dollar ($). One U.S. dollar equals 100 cents. There are notes of 1, 2, 5, 10, 20, 50, and 100 dollars. Coins come in denominations of 1, 5, 10, 25, and 50 cents and 1 dollar.

CHIEF EXPORTS: Fish, coconut products, and shells.

CHIEF IMPORTS: Foodstuffs, machinery and equipment, fuels, beverages, and tobacco.

GROSS DOMESTIC PRODUCT: US$105 million (1998 est.).

BALANCE OF TRADE: **Exports:** US$28 million (1997 est.). **Imports:** US$58 million (1997 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Marshall Islands are located in the North Pacific Ocean some 4,000 kilometers (2,486 miles) northeast of Australia. They consist of 2 groups of small islands, atolls (coral islands), and reefs running from the northwest to the southeast. The more easterly of these is the Ratak Chain, the more westerly, the Ralik Chain. It is estimated that there are 1,152 islands and 30 atolls, but only 4 islands and 19 atolls are inhabited. With terrains of coral, limestone, and sand, none of the islands have any high ground, and the most elevated location of the islands is 10 meters (33 feet). The total land area is 181 square kilometers (70 square miles), and about 60 percent is taken up by crops. There are phosphate deposits and the possibility of minerals in the seabed within the 200 nautical mile economic zone claimed by the Marshall Islands. The capital is Majuro, which is located on an atoll of the same name.

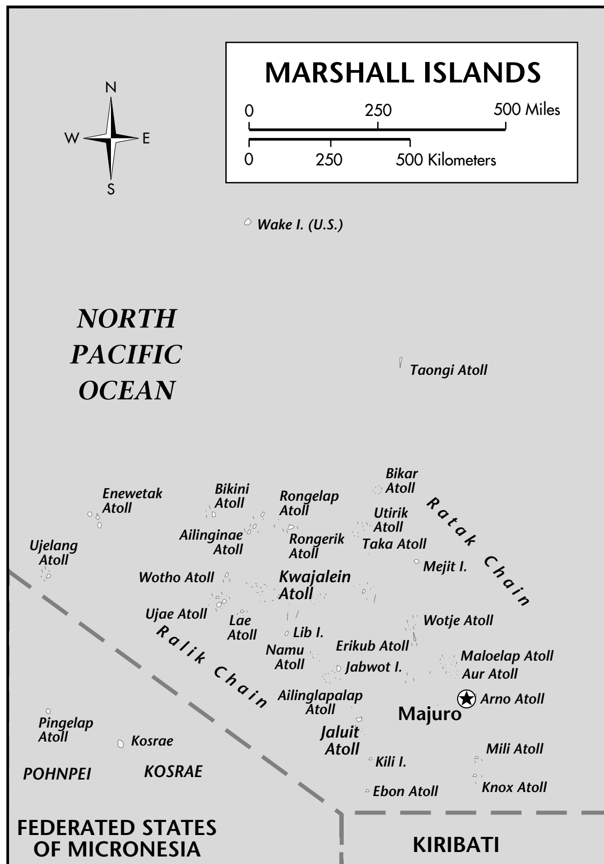
The Marshall Islands are located within the tropics, and the weather is generally hot and very humid. Temperatures average around 27°C (81°F), and vary little during the year. There is a rainy season from May to November, with annual rainfall of about 4,000 millimeters (157 inches), but the sandy terrain means that little water is collected, and the shortage of drinking water is a continual problem. The islands are occasionally hit by typhoons.

POPULATION. The population was estimated at 68,126 in 2000, giving a population density of 375 persons per square kilometer (971 per square mile), quite a bit higher than in neighboring island states in the Pacific. The population was estimated to be growing at 3.9 percent a year in 2000, which is considered a very rapid rate. The birth rate was 45 births per 1,000 population, and the death rate was 6 persons per 1,000. The figures indicate negligible migration, but the International Monetary Fund (IMF) has indicated that there is in fact significant out-migration to the United States. The average fertility rate is 6.6 children per woman. With such a rapid rate of growth, the population can be expected to have a young age structure. The 0–14 age group contains 50 percent of the population, the 15–64 group contains 48 percent, while only 2 percent are 65 and over. Slightly more than half of the population lives on Majuro Atoll, and a further 20 percent live on Kwajalein. The urban population is about 70 percent of the total.

Almost all of the people on the Marshall Islands belong to the Micronesian ethnic group and follow the Christian religion. Most are Protestant, although there are some Catholics and small communities of Seventh-Day Adventists, Mormons, Jehovah's Witnesses, and Bahai. English is the official language and is spoken by everyone. Two local Malayo-Polynesian dialects are in use as local languages, and they are used in parliament and for some radio broadcasts. Overall life expectancy is 66 years, with a 64-year expectancy for males and a 67-year expectancy for females. The adult literacy rate was 93 percent in 1980, with practically all adult males and 88 percent of females being literate.

OVERVIEW OF ECONOMY

Given its small size in terms of population, its inaccessible location, and the absence of any minerals apart



from phosphates (which are not currently exploited), it is surprising that the economy of the Marshall Islands generates as much income for its citizens as it does. The per capita **gross domestic product** (GDP) was estimated at $1,670 (**purchasing power parity**, 1998 est.), and this rate would just squeeze the Marshall Islands into the lower-middle income group. In addition, the Marshall Islands receive very substantial receipts from the United States—partly aid and partly rents for the use of military bases—which add more than 50 percent to the income that is generated domestically.

Most employment is in the services sector, which, because of the receipts from the United States, is able to support health workers, teachers, and government administrators. The agriculture sector is quite small in terms of both its contribution to total output and employment. The small industry sector, primarily engaged in crop and fish processing, is about what would be expected given the general level of development of the islands.

Coconut products and fish are the main exports, and these earnings are supplemented by tourism. Almost everything, aside from some food products, is imported and, without U.S. aid there would be a drastic fall in imports.

The growth of the economy varies from year to year and is affected by the impact of climatic conditions on agriculture. In recent years, output has declined by 2 percent to 5 percent per year, although El Niño weather conditions caused severe disruption in 1996, when output fell by 13 percent.

POLITICS, GOVERNMENT, AND TAXATION

The Marshall Islands were originally settled by people from neighboring Pacific islands. In the 16th century, Spain claimed the islands, although Germany was allowed trading rights. With decline of Spanish influence, the islands came under the control of Germany, who established a protectorate. At the outbreak of World War I (1914–18), the Japanese took over the islands and administered them under a United Nations (UN) mandate. World War II (1939–45) saw clashes between the United States and the occupying Japanese, with the United States finally establishing control of the islands in 1944. The United States administered the islands as a trustee for the United Nations and used them to begin a series of nuclear tests. The tests subjected the islanders to serious radiation and made Bikini Atoll uninhabitable. This was to have long-term implications for the Marshall Islands, leading to the United States providing considerable financial support while continuing to operate its military bases. In 1965, movements for self-determination of the islands began, culminating in full independence in 1990. The Marshall Islands has a Compact of Free Association with the United States, agreed to in 1986, by which the United States is responsible for defense of the Marshall Islands, rents military bases, and provides financial assistance. The initial agreement was valid for 15 years from 1986 and is being renegotiated.

The 1979 constitution established a parliamentary government, with a president as chief executive and head of state. The parliament is known as the Nitijela. Directly elected for 4-year terms, the parliament has 33 members, known as Senators. The president is elected by the parliament, and the president chooses his cabinet from among the members of parliament. The voting age is 18. Although elections were typically non-partisan on the Marshall Islands, opposition began to emerge in 1991, and subsequent elections have seen incumbents losing their seats. In 2000, the opposition gained 40 percent of the seats in the parliament and established a significant presence. Parliamentary candidates tend to contest elections on the basis of their personalities, rather than their party affiliations, and it is sometimes not clear which party an elected member supports. In 2001, during a no confidence vote (which decides if the ruling government has enough support to survive), 2 ostensible government members voted with the opposition and 1 opposition member voted with the government.

The legal system is based on the former Trust Territory laws, but has been modified by the legislature, mu-

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Marshall Islands	3,000 (1996)	365 (1996)	AM 3; FM 4; shortwave 0	N/A	3	N/A	1	500
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

nicipal bodies, customary law, and common law. There are 4 levels of judicial courts: the Supreme Court, High Court, district and community courts, and traditional courts. The traditional courts are limited mainly to jurisdiction over traditional titles and land issues.

In the **fiscal year** 1997–98, the budget anticipated that government revenues would be 25 percent of GDP. **Income tax** raised 32 percent of government revenue (excluding grants), import **duties** 28 percent, sales taxes 13 percent, and other income (interest, fees, licenses) 27 percent. There is a continuing program to try to improve tax performance by tightening administration, reducing tax **arrears**, simplifying import duties to a basic duty of 12 percent (with some exceptions), doubling the fuel tax, reducing tax exemptions, introducing a **value-added tax** (VAT) and taxes on commercial rentals, and the introduction of user charges.

Total spending in 1997–98 was projected at 53 percent of GDP. On the recurrent expenditure side, general administration takes up 12 percent of total government spending, education 23 percent, health 12 percent, and foreign affairs 10 percent. The gap between revenues and expenditures was more than met by receipts from the United States of 40 percent of GDP, and on this basis, a **budgetary surplus** of 11 percent of GDP was forecast. Budget surpluses have not always been the norm. Between 1992 and 1995, **budget deficits** averaged 14 percent of GDP.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Perhaps because the country's limited roadways are scattered widely across the many islands, there are no measurements of roadway length on the Marshall Islands. The main settlements on Majuro Atoll and Kwajalein have paved roads, and the roads in Majuro have recently been upgraded. Elsewhere there are coral surfaced roads and sandy tracks. There are no railways. The main port is at Majuro, and this is the only port that is able to receive large ocean-going vessels. A dry-dock facility was recently completed on Majuro Atoll for the islands' fleet of 143 ships, mostly bulk and cargo carriers, petroleum tankers, and a vehicle carrier. Sixteen of the inhabited atolls and islands have airports and 4 have paved runways.

All of the Marshall Islands' electricity is supplied by diesel generators. In 1994, the Marshall Islands generated and consumed 57 million kilowatt hours (kWh). There is some domestic use of bottled gas, and many families use kerosene stoves or wood as cooking fuel. The water supply is erratic, and there are projects to increase water storage facilities and to construct desalinization plants.

In 1994, there were an estimated 3,000 land line telephones in use and 280 mobile telephones. The 3 major settlements of Majuro Atoll and the islands of Ebeye and Kwajalein are connected by a direct dial system; the other locations are linked by short-wave radiotelephone, mainly used by the government. International links are provided by 2 Intelsat satellite earth stations. There is a U.S. government satellite link on Kwajalein Island.

The islands had 3 AM radio stations and 4 FM stations in 1998, and in 1997, there were 3 television stations, although 2 of these were provided by the U.S. military on Kwajalein Island. The local newspaper is the weekly *Marshall Islands Journal.*

ECONOMIC SECTORS

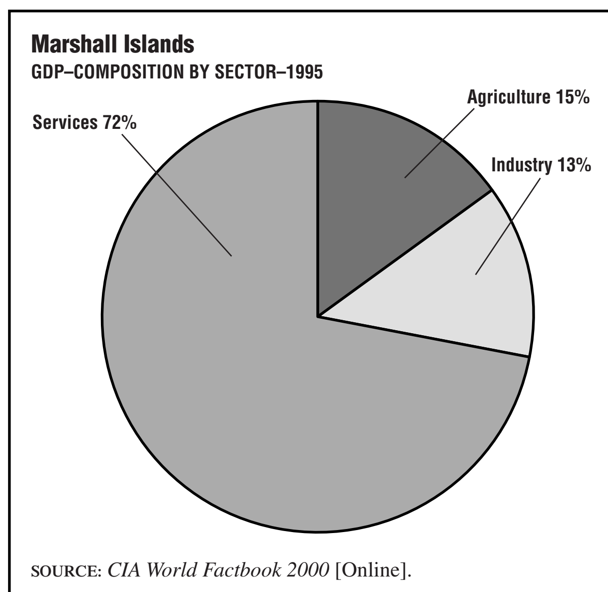
The services sector dominates the economy, and is primarily composed of the large number of government

employees, those providing services for the U.S. military installation on Kwajalein Island, and the tourism industry. In 1995, services generated 72 percent of GDP. The most recent employment figures, from 1988, indicate that the services sector employed 58 percent of the **labor force**. Incomes in this sector are above average. The smallest sector in terms of output is industry, which produced 13 percent of output in 1995 and engaged 23 percent of the labor force in 1988. The agriculture sector (which includes fishing) only employed 19 percent of the labor force in 1998, generating 15 percent of output in 1995.

AGRICULTURE

Copra (dried coconut) is the main **cash crop**, though its output has been falling. There was a 16 percent fall in 1996 as a result of El Niño rains, but this was followed by an 11 percent fall in 1997. The poor transport links between the islands, atolls, and Majuro is a problem, as the crop has to come to the capital for processing and packaging before exportation. The price earned by growers has fallen (the price halved between 1994 and 1997), reducing their incentive to produce, but it was still above the world price due to a government **subsidy**. The long-term problem is that the coconut trees are declining in productivity as they become older and, with lower prices, the growers have little incentive to replace the tree stock. The lack of private land titles and a land market is a further problem. Without land as collateral, farmers find it difficult to raise loans to finance replanting.

Fish exports appear substantial and fast-growing, but much of the catch is in fact caught by Chinese and Japanese vessels, taken to land, and then shipped from the islands in refrigerated cargo boats. The main benefits to the islands are fishing license fees, supplying the fishing fleet, and some processing and packaging of the catch. The Marshall Islands do have some government-owned boats, but their catches were very low. They ceased operation in 1996. Trochus shells are collected from the reefs. They are exported to be made into buttons and ornaments, and they can be ground to produce an ingredient for lacquers.



SOURCE: *CIA World Factbook 2000* [Online].

Food and livestock production has grown modestly in the period from 1993 to 1997 (by about 3.5 percent annually), basically reflecting the increase in the population. However, production is not encouraged due to the low prices of imported food as compared with domestic output. A total of 60 percent of caloric intake comes from imports. Local food producers are hampered by poor transportation, which raises the cost of their products. The main food crops are bananas, breadfruit (a large fruit with edible pulp and seeds), pandanus (a fruit with edible nuts), taro (a starchy root crop similar to the potato), vegetables, and tropical fruits. Livestock is mostly poultry and pigs, with some cattle.

INDUSTRY

There is no mining on the Marshall Islands, although there are some phosphate deposits. The main manufacturing enterprise is the Tobolar Copra Processing Authority, which is government-owned but run by a private management team. It is the only purchaser of copra, which it crushes to produce coconut oil. Currently, it is unable to purchase enough copra and operates at about one-third of its capacity. A garment factory was established in 1998 in a **joint venture** with China. Other manufacturers are involved in the production of drinking water and beer, and the processing of breadfruit and taro.

The Marshalls Electricity Company is government-owned, and manages to cover its costs, as does the publicly-owned Majuro Water and Sewage Services. The construction sector is made up of small private enterprises that mainly construct private dwellings. An international construction company undertakes any large project, such as the new port at Majuro, and the local workforce provides only some unskilled labor.

SERVICES

The services sector is the largest employer, and generates almost three-quarters of GDP. Transport and communications generate 7 percent of GDP; distribution, restaurants and hotels, 18 percent; financial services 14 percent; and public administration and community services, 30 percent.

Much of the high value of this sector comes from servicing the U.S. installation on Kwajalein Island, which is used for missile tracking and weapons testing. Another

source of service sector income has been the sale of Marshall Islands passports since 1996. These were initially offered at $350,000 each, and later at $100,000. The islands indicated that they were prepared to sell up to 3,000 passports, and to date the sales have realized about $10 million. The sales were suspended in 1997 but there are plans for resumption. The services sector also supplies the international fishing fleets operating in the waters that surround the islands, serves as an onshore leave destination, and generates further income from the sale of fishing licenses (about $1.5 million to $3 million, a year).

The National Telecommunications Authority is still majority-owned by the government. By virtue of being a **monopoly** and making relatively high charges for international calls, it manages to cover its costs. Air Marshall Islands is government-owned. It sustained large losses in 1996 and 1997, and its routes have been restructured with plans of eventual **privatization**.

BANKING AND FINANCES. The banking sector includes 2 U.S. commercial banks, the domestic Bank of the Marshall Islands, and the Marshall Islands Development Bank. Most lending consists of consumer loans for construction, travel, and education. The lack of private titles to land or a land market makes lending to the agriculture sector difficult.

TOURISM. Tourism offers some prospects for expansion. In 1997, there were 6,000 arrivals in the islands, but less than 1,000 were tourists; the rest were on business or in transit. There are presently less than 200 hotel beds, although a new government-owned hotel of 150 beds is under construction. In 1997, tourism is estimated to have earned $3 million for the Marshall Islands. Visitors are presently deterred by the lack of facilities (particularly outside Majuro), the relatively high cost of transportation to the islands, the radiation contamination of some of the atolls by nuclear testing, and the current program of weapons testing on Kwajalein. It is thought, however, that the islands have some possibilities in establishing a specialty market in tourism, based on sport fishing, diving and snorkeling, gambling (approved in 1996), and the general tropical attractions of the islands.

INTERNATIONAL TRADE

Merchandise exports of $28 million were made up entirely of coconut products (11 percent) and fish products (89 percent) in 1997. Frozen fish exports have increased from $1.3 million in 1993 to $21.9 million in 1997 as a result of a Chinese fishing fleet that based itself at Majuro. Exports of trochus shells for buttons, ornaments, and making lacquers are not recorded, but there is probably some small informal trade. Diesel used to be **re-exported** to Micronesia, but this ended in 1996. Exports go mostly to China as a result of the frozen fish expansion, with the United States, Japan, and Australia being other export destinations.

Merchandise imports were $58 million in 1997, with food and beverages making up 31 percent and fuels 23 percent. The rest consisted of consumer manufactures, machinery and transport equipment, and chemicals. The United States supplied 52 percent of imports in 1997, much of which was goods for the U.S. workers at the Kwajalein installation. The next biggest supplier was Singapore with 4 percent.

MONEY

The Marshall Islands use the U.S. dollar as their currency. This has the advantages of not having the expense of running a central bank, the currency is completely convertible, and price stability is reasonably well ensured as the Marshallese do not have the ability to print currency. The rate of **inflation** has been in single digits in the period from 1993 to 1997, ranging from 4.8 percent to 9.6 percent. The only drawback for "dollarized" economies is that they do not earn the seigniorage (profit from the minting of coins) they would gain if they issued their own currency. The increasing number of countries that have been attracted to using the U.S. dollar in place of a domestic currency has caused the United States to consider sharing some of the seigniorage it earns as currency issuer.

POVERTY AND WEALTH

The are no figures on the numbers below the dollar-a-day poverty line, but given the income level and the structure of the economy, perhaps 20 percent of Marshallese might live poverty. Most of those affected will be among the 30 percent of the population living on the atolls other than Majuro and Kwajalein, relying on small-scale agriculture and fishing for their livelihoods.

Life expectancy (at 65 years in 2000) is considered high, and the level of adult literacy, last surveyed in 1980, was 93 percent. Together with its lower-middle

Exchange rates: Marshall Islands

US$	
Jan 2001	1.0000
2000	1.0000
1999	1.0000
1998	1.0000
1997	1.0000
1996	1.0000

Note: US currency is used in the Marshall Islands.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Marshall Islands	1,680	N/A	1,450	1,670	N/A
United States	28,600	30,200	31,500	33,900	36,200
Philippines	2,600	3,200	3,500	3,600	3,800
Solomon Islands	3,000	3,000	2,600	2,650	2,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

income status, the Marshall Islands has a medium level of human development when evaluated by the criteria used by the UN. Infant mortality is high, however, at 41 per 1,000 births in 2000 (in the United States the rate is 6 per 1,000).

WORKING CONDITIONS

The economically active labor force was estimated at 11,500 in 1988, of which 73 percent were males. Approximately 12 percent of the labor force was recorded as being unemployed. However, the unemployment rate has little meaning in an economy like that of the Marshall Islands, as it relates to those registering as looking for jobs in the urban areas as a percentage of the formal labor force. A substantial part of the labor force of the Marshall Islands is in the agriculture and fishing sectors, much of it in small-scale family enterprises outside the formal sector. With negligible social security provisions, those without work or support from families or charities cannot survive. It is likely that there is considerable disguised unemployment in the rural areas, meaning that the work could be carried by a smaller workforce than is used.

There is a Marshall Islands Social Security Administration, but it is under investigation for mismanagement, and it is not able to make much of a contribution to helping those who are out-of-work or in need.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1000 B.C. Migration to the Marshall Islands from other Pacific Ocean islands begins.

1525. Spanish navigator Alonso de Salasar is the first European to sight the islands.

1529. Alvaaro de Saavedra lands on the islands and claims them for Spain.

1788. The British sea captain, John Marshall, visits the islands.

1874. Pope Leo XIII, acting as a European mediator, confirms Spanish dominion over the islands, while also allocating trading rights to Germany.

1885. Germany establishes a protectorate over the islands.

1914. With the outbreak of World War I, Japan assumes administration of the islands.

1920. Japan receives a United Nations mandate to administer the islands.

1944. After fierce fighting between Japanese and American forces during World War II, the United States occupies the islands.

1945. Japanese settlers are **repatriated**.

1947. The UN assigns the islands (which are known as the Trust Territory of the Pacific Ocean) to the United States. The U.S. Navy undertakes their day-to-day administration.

1948. The United States begins a series of nuclear test explosions on the islands, which subject the islanders to high levels of radiation.

1965. The Congress of Micronesia is formed by delegates from Pacific islands to press for independence.

1970. A commission on self-government confirms that the peoples of Micronesia have a right to sovereignty, self-rule, and to terminate association with the United States.

1979. Marshall Islands District, named after the British explorer who visited the islands in 1788, drafts and approves a constitution, which is recognized by the United States. Amata Kabua, who holds the traditional position of High Chief, is elected as the first president.

1982. The United States signs a Compact of Free Association, which outlines proposals for the end of its trustee relationship with the Marshall Islands.

1983. Marshall Islanders vote to accept the Compact of Free Association. Kabua is reelected as president.

1986. The Compact of Free Association, after several mutually agreed amendments, comes into operation, and the islands become self-governing.

1987. Kabua reelected as president.

1990. The UN removes the trustee status of the islands, establishing the Republic of the Marshall Islands.

1991. The Marshall Islands joins the UN as an independent, sovereign nation. The Ralik-Ratak Democratic Party is formed to oppose the supporters of Kabua, and wins 2 seats in the parliament.

1995. Kabua is reelected as president. The Government Party (or Kabua Party, as it is often known) wins

23 seats, and the newly formed United Democratic Party (UDP) wins 10 seats.

1996. President Kabua dies and is succeeded by Imata Kabua, the paramount chief. The Kabua Party becomes Our Islands Party (OIP).

2000. Elections give the OIP 20 seats and the UDP 13 seats. Kessai Note, who had held no traditional post, is elected president.

2001. The United States Nuclear Claims Tribunal awards Marshall Islands $563 million, but the tribunal has no powers to enforce payment.

FUTURE TRENDS

It is clearly very important that the islands extend the agreement with the United States relating to the use of Kwajalein for missile testing. About 1,500 Islanders work at the complex, making up about 13 percent of the labor force, and the jobs are particularly well-paid. The major success in recent years has been the expansion of the frozen fish export sector, and the government would be wise to make sure that the agreements with the Chinese fishing fleets are continued. Tourism has some possibilities as a specialty market, but foreign investment will be vital if significant expansion is to be achieved.

The main sector of concern is the production of coconut products. In the long-term, many of these problems can be solved by registering land-titles and extending loans to farmers to replace exhausted trees. This is particularly important from a social standpoint, as the coconut farmers are among the poorest members of the community. In the short-term, some efforts to improve transport between the islands and atolls would help both the coconut farmers and the small fishermen.

DEPENDENCIES

Marshall Islands has no territories or colonies.

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—Michael Hodd

MICRONESIA

Federated States of Micronesia

CAPITAL: Palikir, Pohnpei Island.

MONETARY UNIT: The official currency of Micronesia is the United States dollar ($). One dollar equals 100 cents. There are coins of 1, 5, 10, 25, and 50 cents and 1 dollar. There are notes of 1, 2, 5, 10, 20, 50, and 100 dollars.

CHIEF EXPORTS: Fish, garments, bananas, and black pepper.

CHIEF IMPORTS: Food, manufactured goods, machinery and equipment, and beverages.

GROSS DOMESTIC PRODUCT: US$263 million (1999 est.).

BALANCE OF TRADE: **Exports:** US$73 million (1996 est.). **Imports:** US$168 million (1996 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Federated States of Micronesia forms (with Palau) the archipelago of the Caroline Islands, and lies about 800 kilometers (497 miles) east of the Philippines. The Federated States of Micronesia (FSM) consists of 607 islands and includes (from west to east) the states of Yap, Chuuk (formerly Truk), Pohnpei (formerly Ponape), and Kosrae. Micronesia covers about 702 square kilometers of land (271 square miles), has a coastline of 6,112 kilometers (3,798 miles) and is scattered over more than 2.7 million square kilometers (1 million square miles) of the ocean. Micronesia's largest island cluster is Pohnpei (163 islands), with an area of 344 square kilometers (133 square miles), while the smallest cluster is Kosrae (5 islands), spanning 110 square kilometers (42.5 square miles). The islands include a variety of terrains, ranging from mountainous islands to low, coral atolls and volcanic outcrops.

POPULATION. The population of Micronesia was estimated at 134,597 in July 2001, up 18 percent from 114,000 in 1998. The current annual population growth rate is 3.28 percent, which will result in a population of 176,815 by 2010. The birth rate is 27.09 per 1,000 population, with a fertility rate of 3.83 children per woman. The death rate is 5.95 per 1,000 population. The **immigration** rate is 11.65 migrants per 1,000 population. The infant mortality rate in July 2000 was 33.48 per 1,000 births (the U.S. rate was 7 per 1,000).

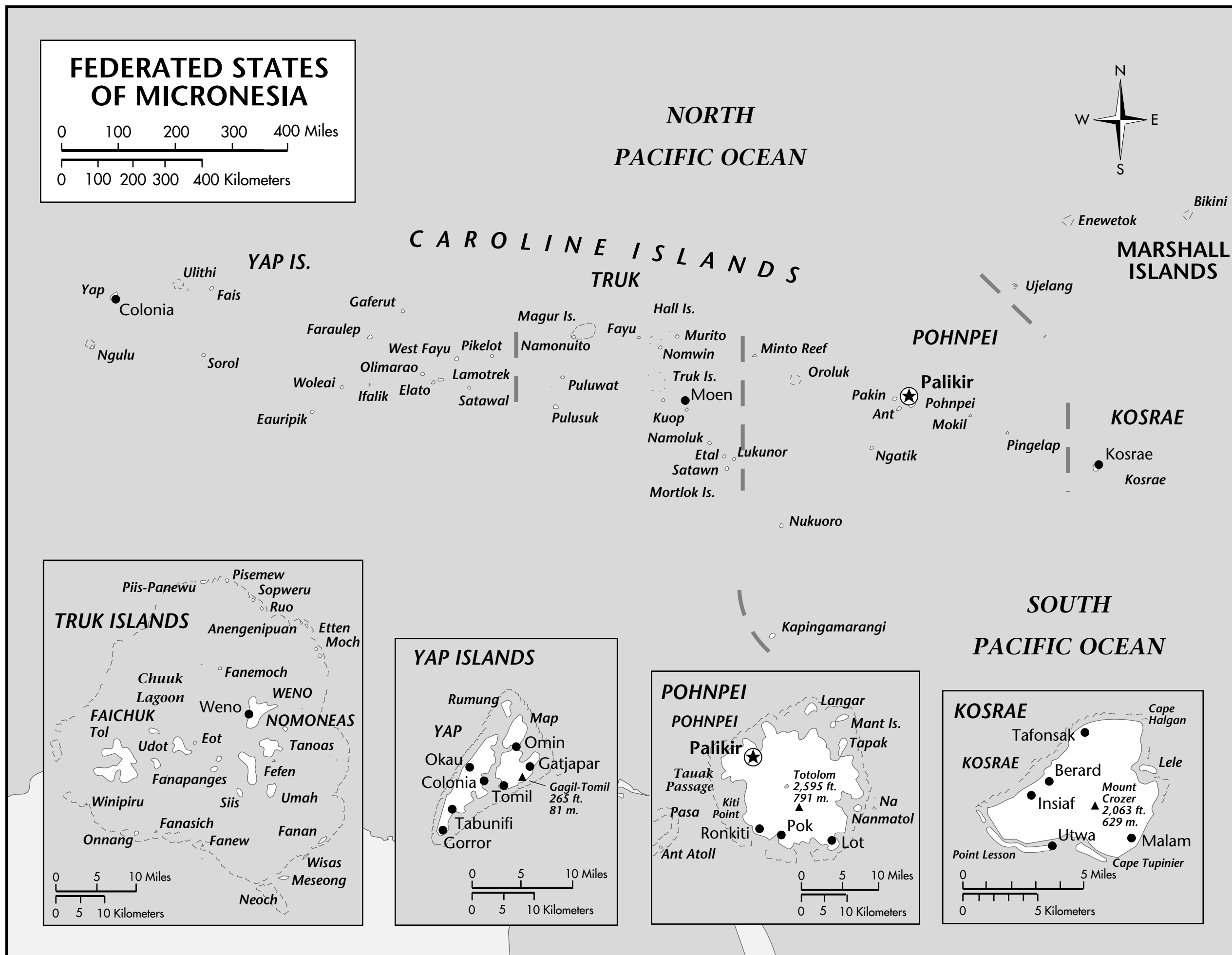
There are 9 ethnic Micronesian and Polynesian groups, spread across the islands. In 1994, around 53,319 people lived in Chuuk; 33,692 in Pohnpei; 11,178 in Yap; and 7,317 in Kosrae. The highest population density was estimated in Chuuk island with 419.8 people per square kilometer (1,087 per square mile) in 1994.

OVERVIEW OF ECONOMY

Previously administered by the United States as a Trust Territory of the United Nations, the Federated States of Micronesia became self-governing in domestic matters in 1986, and fully independent in 1991.

The small size of Micronesia, both in terms of geographical area and population size, its remote location, and its lack of commercially viable mineral resources all combine to set limits on the economy. The nation's main assets are its tropical location (which provides good potential for tourism), productive fishing grounds, and reasonably well-educated **workforce**.

Micronesia's estimated **GDP per capita** is $2,000, which places it near the top of 45 world economies the World Bank classifies as Lower Middle-Income (countries with GDP per capita in a range from $700-$2,800). Financial support from the United States has been a vital feature of the period since self-government was introduced in 1986, with $1.3 billion allocated over the period from 1986 to 2001, an enormous sum for a community of 134,000—almost $100,000 per person. The money has been allocated to improving educational and health provisions, providing **infrastructure**, training for political and community leaders, bolstering **public**



sector efficiency, and encouraging the **private sector**. Grants from external sources amounted to some $91.5 million in 1996–97 (equivalent to 43 percent of GDP).

The most significant cash export is fish, which accounted for 82 percent of total exports in 1996. Micronesia has established an **exclusive economic zone**, which covers an ocean area of more than 2.5 million square kilometers (965,250 square miles) of particularly productive fishing grounds yielding tuna, red snapper, and grouper. Local producers fish these waters, and licenses are granted to foreign fishing fleets to work these waters as well. Other marine resources include phosphate deposits, and there are currently trials under way to see if these deposits on the ocean floor can be exploited commercially.

In the past, copra (the sun-dried white flesh of the coconut, from which coconut oil is extracted) was Micronesia's main **cash crop**. However, low world prices have led to production plummeting from 8,500 tons in 1979 to 200 in 1992, and it has remained around that level since, although in some years no exports of copra are recorded at all, and this despite a government **subsidy** to try to maintain production. Copra now makes a small contribution to income in Micronesia, and the economy is no longer buffeted by fluctuations in world copra prices. Also, Micronesia no longer faces a dilemma of whether to continue production in the face of current low prices. Needless to say, the decline in copra production is a particular blow for farmers on the outer islands for whom coconuts have been an important source of income.

The islands all have some tree cover, and timber, including wood from the coconut tree, is used for house construction, furniture, and household utensils. The climate in the Micronesia is tropical, and there is a healthy amount of rainfall. The soil is rich, and fruits indigenous to the islands include bananas, mangos, pineapples, and papayas.

Economic growth in the Micronesia is heavily influenced by changes in global and regional commodity prices and the climate. The nation is mainly made up of small, flat islands, which makes it difficult to support large-scale cultivation. The main form of agriculture is therefore subsistence production. It is difficult for subsistence producers to create a large surplus due to the lack

of storage facilities and transportation. The strongest areas for economic growth are tourism, fishing, manufacturing and mining.

The government employed as much as two-thirds of the population before 1997. However, in 1997, the Asian Development Bank approved a loan of $17.68 million for the funding of a program of major economic structural adjustment. This was done in preparation for the ending of U.S. assistance under the Compact of Free Association at the beginning of the 21st century. The reform package included measures for attracting new sources of foreign aid and private investment, for fiscal reform, and for the strengthening of the private sector, as well as severe reductions in the number of public-sector employees. The year 1997 saw the balance of the workforce begin to tilt toward the private sector, and in 1998, government expenditures declined by 27 percent, spurred by continuing **privatization**. In terms of GDP components, the government's recent efforts to encourage privatization of certain industries seem to be working. Non-market production dropped 4.3 percent as more citizens chose to work in the money economy.

In exchange for allowing the United States exclusive access to its waters, Micronesia receives an annual fixed payment from the U.S. government.

POLITICS, GOVERNMENT, AND TAXATION

The Federated States of Micronesia emerged as a nation from the former United Nations Trust Territory of the Pacific Islands (TTPI) administered by the United States from the end of World War II. The Federated States of Micronesia became self-governing in 1986.

Political legitimacy rests on a majority vote through elections in accordance with the constitution. On May 10, 1979, the locally drafted Constitution of the Federated States of Micronesia incorporated the 4 states of Kosrae, Yap, Ponape (later Pohnpei), and Truk (later Chuuk). The Congress includes 14 members, called Senators. The 4 states each elect 1 "Senator-at-Large" for a 4-year term. The remaining 10 Senators are elected for 2-year terms: their seats are distributed in proportion to the population of each state. Each of the 4 states has its own constitution, governor, and legislature. The federal president and vice-president are elected by the Congress from among the 4 "Senators-at-Large." The president of the Federated States of Micronesia since May 1999 has been Leo A. Falcam.

The state governments are fairly autonomous and work like state governments in the United States, with individual executive, legislative, and judicial systems. In each state, traditional leaders work closely with the local governments to maintain cultural traditions.

There are 3 branches of government: an executive branch led by a president who also serves as head of state; a **unicameral** (single house) legislature elected from the 4 constituent states; and a judicial system that applies criminal and civil laws and procedures closely paralleling those of the United States. Under the Compact of Free Association, the United States is responsible for defence.

The Council of the Micronesian Government Executives aims to facilitate discussion of economic developments in the region and to examine possibilities for reducing the considerable cost of shipping essential goods between the islands.

The main tax that all businesses in Micronesia pay is the Gross Receipts Tax. The tax is assessed on the gross revenues of businesses, which includes all receipts without deductions. The rate is $80 on the first $10,000 of gross revenues and 3 percent of any excess for the calendar year. Businesses with less than $2,000 gross revenue in a year are eligible for a refund of the taxes paid for that year. A Wages and Salaries Tax is assessed on an employee's income. The **Social Security Tax** requires the employer to pay half of the tax and the employee to pay the other half. The current rate is 4 percent of wages paid by both the employee and the employer.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Micronesia has a total of 240 kilometers (149 miles) of roadways, 42 kilometers (26 miles) of which are paved. Macadam (a mix of small broken stone and concrete or asphalt) and concrete roads are found in the more important islands. Other islands have stone and coral-surfaced roads and tracks. There are no rail lines in the islands.

The country has a total of 6 airports, of which 5 have paved runways. International airports which can accommodate medium-sized jets can be found in Pohnpei, Chuuk, Yap, and Kosrae, and there are airstrips in the outer islands of Onoun and Ta in Chuuk. The Federated States of Micronesia is considering expanding air terminals in order to meet the increasing demand for air traffic. The islands are served by Continental Micronesia, Air Nauru, and Continental Airlines (USA). Pacific Missionary Aviation, based in Pohnpei and Yap, provides domestic air services.

There are several ports and harbors, such as Colonia (Yap), Kolonia (Pohnpei), Lele, and Moen. All of the states in the Federated States of Micronesia have deep draft harbors capable of handling almost all commercial shipping needs. Each port is capable of providing containerized cargo handling, as well as some warehousing and transshipment capabilities. All ports offer cold storage

Communications

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[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

facilities. Shipping services are available to anywhere in the world on a monthly schedule by PM & O Line, Pacific Micronesia Line, Kyowa Lines, Palau Shipping Lines, Tiger Lines, and Saipan Shipping Company. Freight rates are relatively high, as volume shipping is rarely possible.

The 4 urban centers all have public water and sewer systems. Outside of the urban centers, the populations rely on water catchments (devices for trapping water), wells, and septic tank systems. Charges for water usage range from $1.50 to $5.40 per 6,000 gallons of water. Kosrae does not charge for water and sewerage.

With the exception of some small hydroelectric facilities in Kosrae and Pohnpei, electricity in the Federated States of Micronesia is produced by diesel generators. The principal energy source in Micronesia is imported petroleum. From 1993 to 1997, Micronesia spent $10 to $20 million per year for petroleum products. Power is generally available only in the 4 urban centers. The power system in Pohnpei is operated as a state enterprise fund and is the most reliable system. The other 3 states are moving in a similar direction. The existing power system can accommodate additional users, and the government is willing to provide such means when necessary. Electricity generating costs are $0.19 a kilowatt-hour, while charges range from $.05 a kilowatt-hour to $0.25 a kilowatt-hour.

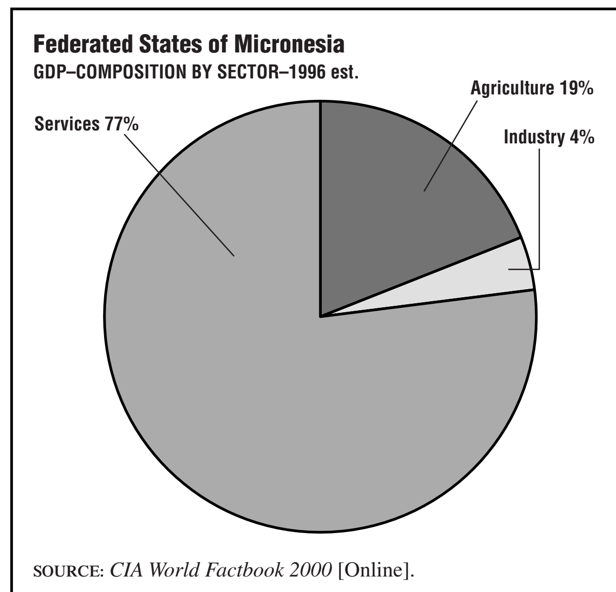
The telecommunications system in the Federated States of Micronesia is highly developed and offers satellite access for telephone, telex, and facsimile to any location worldwide. There were 8,000 main telephone lines in use in 1995. For domestic purposes, the islands are interconnected by short-wave radiotelephones (used mostly for government business). For international links there are 4 Intelsat (Pacific Ocean) satellite earth stations.

The Federated States of Micronesia Postal Service delivers and sends mail by air. The Federated States of Micronesia is part of the U.S. zip code system. Postage rates between the Federated States of Micronesia and the United States are the same as U.S. domestic rates.

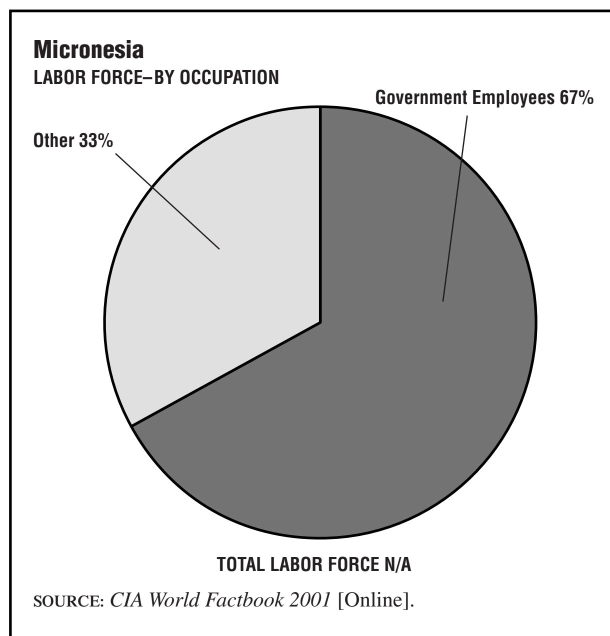
There are 5 AM radio stations and 1 FM radio station. The majority of stations broadcast in English. There are 2 broadcasting television stations.

ECONOMIC SECTORS

Economic activity in Micronesia consists primarily of **subsistence farming** and fishing as well as revenues from external licensing (the U.S. government, for example, makes a fixed payment to the Federated States of



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online].

Micronesia for exclusive access to its waters). In the financial year ending September 30, 1997, fees from fisheries licensing agreements, mainly with Japan, contributed some 30 percent of domestic budgetary revenues.

The islands have no mineral deposits worth exploiting, with the possible exception of off-shore phosphate, but it is uncertain whether these deposits can be extracted commercially. The potential for a tourist industry exists, but the remoteness of the location and a lack of adequate facilities hinder development. Currently, monetary aid from the United States provides the majority of revenue for both the government and the national economy.

The government's main economic priority is to develop a sustainable, independent economy by bolstering the private sector and reforming the public sector with the objective of reducing dependence on foreign aid and encouraging economic self-sufficiency. In addition, the government supports international efforts to stop global warming and pollution in general, in order to protect the islands and their agricultural sectors. In recent years, the climate has been very unstable with typhoons, flooding, and mudslides followed by a drought.

AGRICULTURE

Farming is mainly on a subsistence level, although its importance is diminishing. The principal agricultural crops are coconuts, bananas, betel nuts, cassava, and sweet potatoes. The agricultural sector contributed 19 percent of GDP in 1996 and engaged 27 percent of the total labor force in 1994. Exports of agricultural products (excluding fish) accounted for 6 percent of export earnings in 1996, while exports of marine products accounted for 84 percent of total export revenues in that year. The annual rainfall received each year varies from 2,500 millimeters (98 inches) in Yap to 4,500–7,500 millimeters (177–295 inches) in Pohnpei. The limited water reserves in both Chuuk and Yap are a source of concern for the long term.

INDUSTRY

Industry (including mining, manufacturing, utilities, and construction) provided 4 percent of GDP in 1996, and engaged 10 percent of the total labor force in 1994. The major industrial productions are construction, fish processing, and craft items from shells, wood, and pearls. There is little manufacturing, other than garment production (in Yap) and the manufacture of buttons using troche shells.

SERVICES

The service sector provided an estimated 77 percent of GDP in 1996, and government services alone contributed 42.1 percent. The national and state governments in 1996–97 employed a total of 6,015 people, and services as a whole employed 63 percent of the labor force. Tourism is an increasingly important industry, and it is hoped that several projects to improve communications will further stimulate the sector, which has been hindered by the territory's remote location. The tourism industry was identified in the Asian Development Bank in mid-1995 as having the greatest potential for development and thus contributing to Micronesia's economic growth. Presently, most of the Federated States of Micronesia's tourism industry is inadequate and not competitive with destinations such as Guam and, soon, Palau. As of 1991, the most recent year for which such data are available, the Federated States of Micronesia's entire tourism industry (hotel, motel, and other accommodations) amounted to only 290 rooms, 144 of which were in Pohnpei, 80 in Chuuk, 26 in Yap, and 30 in Kosrae. Among the visitors from overseas, 60 percent are from the United States and 25 percent from Japan.

INTERNATIONAL TRADE

Thanks to its lack of exportable goods, Micronesia has traditionally run a large trade imbalance. In 1996, the **trade deficit** was $95 million, on exports of $73 million and imports of $168 million. The main exports of the Federated States of Micronesia are marine products, while the main imports are food, manufactured goods, machinery and equipment, beverages, and fuels. Micronesia's main trading partners are the United States, Japan, Australia, and Guam. In 1996, the United States supplied 73.2 percent of Micronesia's imports and Japan 11.9 percent.

Exchange rates: Micronesia

US$	
Jan 2001	1.0000
2000	1.0000
1999	1.0000
1998	1.0000
1997	1.0000
1996	1.0000

Note: US currency is used in the Federated States of Micronesia.

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The United States dollar is the official currency of Federated States of Micronesia. Its value fluctuates in terms of the other main currencies of the world, but remains relatively stable. Financial regulation is provided by the Federated States of Micronesia Banking Board. Commercial banks include the Bank of the Federated States of Micronesia, the Bank of Guam, and the Bank of Hawaii. There is also the Federated States of Micronesia Development Bank, which has branches in all of the states, and which makes low-interest, long-term loans primarily to local investors.

POVERTY AND WEALTH

The average per capita income was estimated at $2,000 in 1998 (in the United States, by way of comparison, per capita income in 1998 was $29,340). Although manufactured goods are expensive, as they are mostly imported, basic foodstuffs are cheap, and this does much to alleviate poverty. The government has a considerable amount of income at its disposal as a result of the financial support from the United States, and as a result, it is able to support sections of the community (such as farmers in the outlying islands, with the subsidy of copra production) that might otherwise be in poverty.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Federated States of Micronesia	1,760	2,000	N/A	2,000	N/A
United States	28,600	30,200	31,500	33,900	36,200
Philippines	2,600	3,200	3,500	3,600	3,800
Solomon Islands	3,000	3,000	2,600	2,650	2,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

There is a compulsory education law that requires all children to begin school at the age of 6. Children may leave school when they reach the age of 14 or after completing the eighth grade. There are virtually 100 percent enrollment rates in primary and, until the age of 14, in secondary education. The adult literacy rate was estimated at 89 percent in 1980. The government maintains a free medical service.

WORKING CONDITIONS

The unemployment rate in Federated States of Micronesia was estimated at 27 percent in 1989, but had fallen to 16 percent by 1999. These figures are high, the degree of under-utilization of the labor force is somewhat greater than even these figures suggest. For much of the year in small-scale family farming there is relatively little work to do, and this is shared among the family members. During planting and harvesting, there is more work to be done, and everyone is more fully occupied. Everyone sharing the work appears to have an occupation in agriculture, but many workers are not engaged full time for all the year, and hence there is some "disguised unemployment."

The government respects the human rights of its citizens. There is no law dealing specifically with trade unions or with the right to collective bargaining. Individual employers, the largest of which are the national and state governments, set wages.

Neither the constitution nor the law specifically prohibits forced and bonded labor by children, but such practices are not known to occur. There is no law establishing a minimum age for employment of children. While in practice there is no employment of children for wages, they often assist their families in subsistence farming activities.

The 4 state governments have established minimum wage rates for government workers. Pohnpei has a minimum hourly wage rate of $2.00 an hour for government and $1.35 an hour for private workers. The other 3 states have established minimum hourly rates only for government workers of $1.25 for Chuuk, $1.49 for Kosrae, and $0.80 for Yap. The minimum hourly wage for employment with the national government is $1.68. These minimum wage structures and the wages customarily paid to skilled workers are sufficient to provide an adequate standard of living under local conditions.

There are no laws regulating hours of work (although a 40-hour workweek is standard practice) or prescribing standards of occupational safety and health. A federal regulation requires that employers provide a safe workplace. The Department of Health has no enforcement capability and working conditions vary in practice. Foreign

laborers are paid at a lower rate than citizens, work longer hours per day, and work a 6-day week in contrast to the 5-day week for citizens.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1525. Portuguese navigators in search of the Spice Islands (Indonesia) come upon Yap and Ulithi. Spanish expeditions later explored the rest of the Caroline Islands and make the first European contact with native peoples.

1526–1899. The Spanish Empire claims sovereignty over the Caroline Islands.

1899. Facing insurmountable management challenges in its Pacific empire as war with the United States looms, Spain sells the islands to Germany. The German administration encourages the development of trade and the production of copra (dried coconuts).

1914. German administration ends when Japanese naval squadrons take possession of the Caroline Islands, the Marshall Islands, and the islands of the Marianas at the start of World War I (1914–18).

1918. Japanese economic interest and settlement in the islands expands. The Japanese population in Micronesia exceeds 100,000, compared with an indigenous population of about 40,000. Sugar cane, other tropical crops, mining, and fishing are developed as major industries.

1939–1945. World War II abruptly ends the relative prosperity experienced during the period of Japanese civil administration.

1947. The United Nations establishes the Trust Territory of the Pacific Islands (TTPI), and the United States takes on the role of trustee as administering authority. The TTPI consists of the 4 island groups that will later become the states of the Federated States of Micronesia.

1965. The Congress of Micronesia formed.

1967. A commission is established to examine the future political status of the islands.

1970. Micronesians declare their rights to sovereignty over their own lands, to self-determination, to devise their own constitution, and to revoke their association with the United States.

1977. U.S. President Jimmy Carter announces that his administration intends to terminate the trusteeship agreement.

1978. Following a constitutional convention, the Federated States of Micronesia drafts a constitution that provides for federation of the 4 states: Chuuk (formerly Truk), Pohnpei (formerly Ponape), Kosrae (formerly Kusaie), and Yap.

1979. The 4 states ratify the constitution, and the Federated States of Micronesia comes into being.

1982. The United States signs a Compact of Free Association with the Federated States of Micronesia.

1986. The Federated States of Micronesia becomes self-governing.

1991. Micronesia achieves full independence and becomes a member of the United Nations.

1993. Micronesia joins the International Monetary Fund.

2001. Micronesia begins a renegotiation of Compact of Free Association with the United States to secure the continuation of financial support. The government announces a privatization plan.

FUTURE TRENDS

Although Micronesia will continue to be hampered economically by its isolated location, small geographical area, and population size, it has the enormous benefit of the generous financial support of the United States. The level of this support is undergoing renegotiation, with the United States offering $74 million a year and Micronesia requesting $84 million. Even at the lower level of support, this would secure Micronesia's living standards for the next 15 years of the agreement (the level of U.S. assistance in 2000 was $79 million).

Micronesia had a positive GDP growth rate in 2000 of 2.5 percent, and although this is encouraging in view of the negative growth rates recorded from 1996 to 1999, it is still below the population growth rate of 3.3 percent a year. There is pressure on the government from the IMF to reduce expenditures and increase revenue collection to maintain the **budget surplus** achieved since 1996, and to maintain the current low **inflation rate** (2.8 percent in 2000). The government has announced a privatization program to try to improve efficiency in the economy, and this is to be supported by loans from the Asian Development Bank

Fisheries is targeted as one the industries presenting the greatest potential for growth in the private sector. The fishing industry should see improvements in the near future as Japan is funding a $2.8 million project to train fishermen in Micronesia. However, both Taiwan and Japan are seeking to reduce the license payments they make for fishing in Micronesia's waters. They argue that the current low price for tuna on the world market makes

this necessary, and they also claim that tuna have begun to migrate away from Micronesia's waters to other parts of the Pacific.

Tourism is the second sector with expansion potential. In 2000, the islands received 17,152 visitors. The number of visitors has fallen slightly for each of the past 4 years. Initially, the fall was credited to the Asian financial crisis, particularly affecting the number of Japanese tourists. However, the fact that the fall has continued indicates that there is much to be done in regenerating the sector, and this will require foreign investment in hotels and an international marketing program. A British firm, Travel Research International, has been engaged to promote Micronesia's tourism, concentrating on diving, cultural tourism, deep-sea fishing, and **eco-tourism** as the main attractions.

In common with many other South Pacific countries, Micronesia is alarmed by the effect continuing global warming will have on its islands. The consequent rise in the level of the oceans threatens low-lying islands with flooding and, eventually, with submergence.

DEPENDENCIES

Micronesia has no territories or colonies.

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—Oygul Musakhanova

MONGOLIA

Mongol Uls

CAPITAL: Ulaanbaatar (formerly spelled Ulan Bator).

MONETARY UNIT: Mongolian tughrik (togrog) (MT), equal to 100 mongos. There are coins of 1, 5, 10, and 50 mongos. Paper money comes in notes of 1, 5, 10, 20, 50, 100, 500, 1,000, 5,000, and 10,000 tughriks.

CHIEF EXPORTS: Copper, gold, non-ferrous metals and animal products, including cashmere, wool, livestock.

CHIEF IMPORTS: Machinery and equipment, chemicals, industrial consumer goods, fuel and food products, including sugar and tea.

GROSS DOMESTIC PRODUCT: US$6.1 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$454.3 million (1999 est.). **Imports:** US$510.7 million (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Formerly known as Outer Mongolia, the Republic of Mongolia is a landlocked country located between the Russian Federation and the People's Republic of China. The country has an area of 1,565,000 square kilometers (604,246 square miles), slightly smaller than the state of Alaska. Mongolia's capital city, Ulaanbaatar, is located in the northeast of the country, 200 kilometers (124 miles) from the Russian border.

POPULATION. The population of Mongolia was estimated at 2,650,952 in July 2000. It has almost doubled since the 1960s, due to improved health and medical facilities, and longer life expectancy. In 2000 the birth rate stood at 21.53 per 1,000 while the death rate stood at 6.14 per 1,000. The estimated annual population growth rate is 1.54 percent; if the current trend remains unchanged, the population is expected to double once more within the next 25–30 years.

With ethnic Mongols making up almost 90 percent of the population, Mongolia is ethnically homogenous (uniform). Kazakhs make up 4 percent, and other ethnic groups, including Chinese and Russians, round out the total. The Mongolian population is young, with 34 percent below the age of 15 and just 4 percent older than 65. Urbanization started only in the 1960s, but by the late 1990s almost 58 percent of Mongolians lived in urban areas. Ulaanbaatar and its suburbs are home to 773,700 people, or nearly one-third of the country's total.

At the beginning of the 20th century, the Mongolians were under threat of extinction due to the absence of medical services, high infant mortality, diseases and epidemics, and natural disasters. After independence in 1921, the government in this sparsely populated country began promoting population growth. This policy reversed the decline and stimulated a rapid increase in the population during the second half of the 20th century. However, population density remains one of the lowest in the world, with about 1.6 people per square kilometer (3.9 people per square mile). The country's low population can be explained in part by its geographic and climatic extremes: Mongolia is home to soaring mountains and burning deserts, including the Gobi Desert in the southern third of the country; because of the country's high average altitude, winters are long and temperatures extreme.

OVERVIEW OF ECONOMY

Mining, agriculture, and the processing of agricultural products are the 3 main sectors of the Mongolian economy. For centuries, the Mongolians have been engaged in animal husbandry, raising horses, sheep, goats, cattle, and camels. Since the vast prairie land could support millions of cattle and sheep, but not sustain crop cultivation, the Mongolians often bought wheat, barley, and oats from their neighbors, and crop production was of secondary importance for them. Animal husbandry and hunting provided other important sources of livelihood and products for trade, such as marmot and squirrels found in the rich forests of northern Mongolia.

The Mongolians long had close relations with neighboring China, which historically was one of its biggest trading partners. However, relations between Mongolians and Chinese were often interrupted by devastating wars and military conflicts and, gradually, the Chinese Empire established political control over Mongolia. These wars damaged Mongolian economic and social development. Consequently, Mongolia entered the 20th century as an underdeveloped, feudal country.

Most of the major economic and social changes in the 20th century came as a result of **communist** revolutions in neighboring countries. The Chinese Revolution of 1911 and the Russian Revolution of 1917, which were directed against imperial regimes and promised social justice, had profound effects on the Mongolian elite. In 1921, with Soviet assistance, Mongolia established an independent provisional government and declared independence from China. In 1924 the Mongolian People's Revolutionary Party came to power, remaining in control for the next 70 years. It introduced radical political and economic changes, state control, and central state planning, modeled on the Soviet political and economic systems. With Soviet assistance, the Mongolian government introduced large-scale farming centered around state-controlled collective farms. It also established light industry and mining operations. As in most **socialist** countries, almost all economic activities in Mongolia were state-controlled, and private entrepreneurial initiatives were limited. Until the 1990s, the Soviet Union and its eastern European territories remained Mongolia's main trading partners, the main market for its products, and the main source of foreign aid. According to the International Monetary Fund (IMF), the Mongolian economy grew at an average annual rate of 6.0 percent between 1979 and 1989, which was one of the highest growth rates in communist countries.

Major changes came in the late 1980s with the introduction of democratization and market-oriented reforms. These changes were largely peaceful since they were started by the ruling class under the influence of the neighboring Soviet Union and China. In early 1990s, the Mongolian government formulated its program of radical economic change (the so-called "shock therapy" approach) with the assistance of international organizations

such as the World Bank and the IMF. This program was based on 3 main strategies: rapid **privatization**, rapid price **liberalization**, and currency reform. According to the IMF, Mongolia's economy declined at an average annual rate of 0.1 percent between 1989 and 1999.

The modern Mongolian economy largely relies on the export of raw materials to international markets. The country's main exports are copper concentrate (which accounted for almost 47 percent of its total export earnings in 1998), cashmere (the country produces almost 30 percent of the world's cashmere), and textile and meat products. Mongolia depends heavily on imports of machinery, fuels, industrial and **consumer goods**, and food products. Because of the transitional **recession** and disappearance of aid from the former USSR, Mongolia's economy increasingly relies on foreign aid and credits. Total **external debt** has reached almost US$738.8 million (1998), quite a large figure for a nation of only 2.6 million people.

POLITICS, GOVERNMENT, AND TAXATION

Since achieving independence from China in 1921, Mongolia has made consistent attempts to expand political participation beyond tribal and religious identities and affiliations. An attempt was made to build a Soviet-type political regime based on political parties, a parliamentary system, and Communist ideology. The Mongolian People's Party was founded in 1921, and renamed the Mongolian People's Revolutionary Party (MPRP) in 1924. Until 1990, Mongolia preserved a one-party political system in which the MPRP remained the main political force.

Influenced by the late 1980s reforms of USSR leader Mikhail Gorbachev, the Mongolian Constitution was amended in 1990, and the first multiparty election for the Great Hural (Parliament) took place that same year. The MPRP was challenged by the newly formed Mongolian National Democratic Party (MNDP), the Mongolian Socialist Democratic Party (MSDP), and several others. The MPRP gained almost 80 percent of the seats in the new Parliament and formed a government led by President Punsalmaagiin Ochirbat. Despite their overwhelming victory, the former Communists showed a great sense of tolerance toward the opposition and promoted genuine reforms in liberalizing the political and economic system, introducing a new constitution (1992) and a new **unicameral** (one house) Parliament. However, the MPRP had a serious setback when President Ochirbat broke with his party; in 1993 he won the first direct presidential elections as an opposition candidate. In 1996, the Democratic Coalition, led by the MNDP and the MSDP, defeated the MPRP, taking 49 of the 76 seats in Parliament. The Democratic Coalition advocated a greater opening up of the economy and full privatization. In the 1997 presidential election, President Orchibat, the Democratic Coalition candidate, lost to MPRP candidate Natsagiin Bagabandi, who came to power calling for greater social assistance and more balanced reforms. The MPRP further strengthened its position in the July 2000 Parliamentary election, taking 72 seats. This latest Mongolian transition was largely peaceful, and its military does not play any active role in its politics.

Throughout the 1990s, the government promoted market-oriented reforms, abandoning the **centrally planned economy** and focusing on privatization, price liberalization, and a new monetary system. However, the state's sudden withdrawal of **subsidies** led to a steep transitional recession affecting almost all sectors of the economy, especially construction and industries. The weakness of the legal system and the inability of state institutions to implement property rights and contract law undermined confidence among local and foreign investors.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

During the Cold War (1945–89), Mongolia's transportation **infrastructure** enjoyed a relatively high level of investment to insure its military usefulness. After-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Mongolia	27	151	63	10.8	1	2.7	5.4	0.04	6
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Kazakhstan	N/A	384	231	N/A	2	0.1	N/A	1.42	70

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

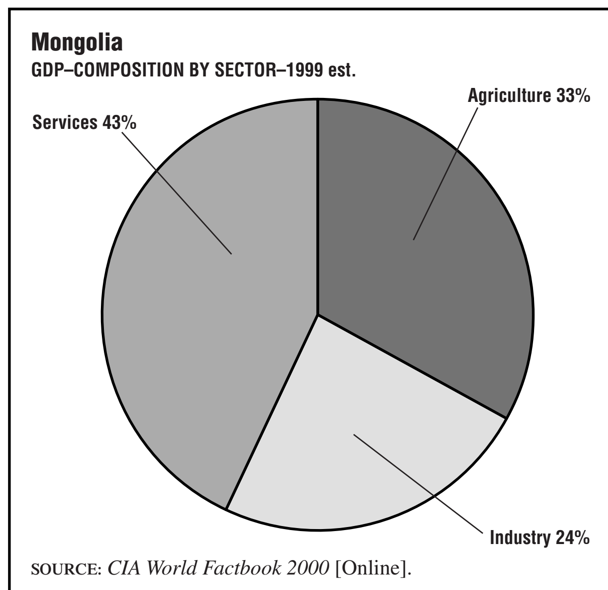
wards, investments in transportation infrastructure diminished considerably, and the quality of the roads is declining. The country is served by the 1,928 kilometer (1,198 mile) Trans-Mongolian railway, which connects it with both Beijing and Moscow. Mongolia also has 49,250 kilometers (30,603 miles) of unevenly distributed highways, of which only 1,674 kilometers (1,040 miles) are paved, mainly in the northern part of the country. In the south and southwest, horses and camels are still important modes of transportation. An international airport connects Ulaanbaatar with Beijing, Moscow, and other destinations, and there are 34 smaller airports, only 7 of which have paved runways.

Electrical power is supplied by the Central Electricity System (CES), which produces around 2.66 billion kilowatt hours (1998) of power. Five coal-fired power stations provide almost 85 percent of the total, with the balance imported from Russia. During the 1990s, attempts were made to renovate the CES with international aid and to build small hydroelectric and wind-powered stations. Power interruptions are common, and some remote areas remain without electricity, where diesel oil, wood, and dried horse and camel dung is used as fuel.

Telecommunication services in Mongolia have been under reconstruction since the early 1990s. In 1997, there were 93,800 telephone lines, 2,000 mobile-phone subscribers, and 13,000 personal computers. Internet access was established in 1996.

ECONOMIC SECTORS

In 1999, Mongolia derived its GDP from 3 principal sectors: agriculture, fishing, and hunting (33 percent), industry (24 percent), and services (43 percent). Historically, livestock breeding and agriculture have been the cornerstones of the national economy. With Soviet assistance, Mongolia established an industrial sector based mainly on mining and the processing of agricultural products. Mongolian economic development is limited by its landlocked isolation, harsh continental climate, and small population. Significant economic potential lies in its unexploited natural resources including copper, molybdenum, tin, tungsten, and gold. Domestic reserves of coal can satisfy growing energy consumption, and the discovery of oil reserves in 1994 raises the possibility that Mongolia might eventually become a petroleum-exporting country.



SOURCE: *CIA World Factbook 2000* [Online].

During the 1990s, Mongolia experienced a deep recession with the disappearance of Soviet economic assistance and the disintegration of the Soviet-backed Council for Mutual Economic Assistance (CMEA), which had been a major market for Mongolian exports. The country increasingly relies on the export of raw materials to the international market, and it is extremely vulnerable to fluctuations in world prices for its major export products, copper and cashmere. Mongolia needs large **foreign direct investments** and international assistance to modernize existing technologies and to begin major economic changes. In the 1990s, the Mongolian government undertook a series of free-market oriented economic reforms focusing on privatization, internal and external trade liberalization, and promotion of private entrepreneurs. In 1997, because of its rapid and extended economic liberalization, Mongolia became one of the first of the former socialist countries to be accepted into the World Trade Organization (WTO), opening up Western markets for Mongolian goods.

AGRICULTURE

The agricultural sector, which employs about half of Mongolia's population, underwent major **deregulation** during the 1990s. In September 1991, the *negdels* (state-controlled collective farms) were privatized and reformed into smaller units. A combination of mismanagement and harsh weather led to higher meat prices and a depression in the agricultural processing industries. Since 1991 many herders, having no experience outside their negdels, have struggled to adapt themselves to the new economic realities. Both animal herding and crop cultivation are extremely vulnerable to the region's harsh weather and climate changes, which include occasional drought. In 1996, forest and prairie fires caused damage estimated at $1.4 billion and seriously damaged the region's environment. In the winter of 1999–2000, approximately 2.4 million animals died as a result of extremely cold and icy weather, bringing poverty and hunger to many Mongolian farmers.

ANIMAL HERDING. Animal herding is the most important sector of Mongolian agriculture, providing almost two-thirds of agricultural production. It provides a source of income, food, and a mode of transportation for a significant part of the population as well as being an important part of Mongolia's exports. Mongols still migrate around vast prairies, raising horses, sheep, goats, cattle, and camels. By the second half of the 1990s, the livestock population had reached a record high of 31.2 million, almost 90 percent of which was privately owned. With the liberalization of international trade, many herders turned to raising goats to produce valuable cashmere, and the number of goats almost doubled to 11 million between 1992 and 1998. In 1998 Mongolia produced 502.1 tons of cashmere, but fluctuations in the world price of this commodity have hurt profits. Overgrazing of pasture land, especially by goats, could potentially cause environmental degradation in the fragile prairie ecosystem, and there are limited resources available to reverse the trend.

CROP CULTIVATION. In 1998 Mongolia produced 194,900 tons of cereals (down from 330,700 tons in 1994), 65.2 tons of potatoes, and 45.7 tons of vegetables. Crop cultivation is limited, due to the harsh continental climate (the growing season is just more than 100 days long) and a shortage of arable (cultivatable) land, though this sector plays an important role in sustaining self-sufficiency in foodstuffs. After the privatization of the large state-controlled farms in the 1990s, crop production fell sharply, a decline blamed on a lack of management skills, funds, and technologies, and on an ill-considered and ill-implemented privatization program. Other sectors of Mongolian agriculture include forestry, fishery, and fur production, all relatively minor.

INDUSTRY

Industrialization was introduced into Mongolia in the 1970s, with large investments from the Soviet Union, especially for mining and the processing of agricultural products. Through the 1970s and 1980s, the Mongolian government implemented an industrialization program that emphasized increasing investments and diversifying the country's exports. In the 1990s, because of prevailing conditions in the international market and the collapse of the traditional Soviet market, Mongolian industry underwent considerable restructuring. By 2001, Mongolia increasingly relied on export of its mineral resources, although there have been considerable efforts made to revive its manufacturing sector.

MINING. Copper, gold, molybdenum and fluorspar concentrates are the major natural resources of export significance in Mongolia. In 1998 Mongolia exported 485,000 tons of copper concentrate, valued at $124 million; around 12.5 tons of gold, valued at $117.2 million; and 4,131 tons of molybdenum concentrate, valued at $12.1 million. Export of these mineral resources provided around 60 percent of total export earnings in 1998. Mongolian coal reserves are estimated at approximately 100 billion tons, but the country extracts coal mainly for domestic consumption, at a level of around 5.1 million tons per year.

Mining is a relatively new sector in the Mongolian economy. Although the country is rich in various natural resources, until the 1970s they were under-exploited. Major mining plants were built in the 1970s with Soviet assistance. The biggest, Erdenet and Darhan, are situated in the north of the country, close to the Russian border. In the 1990s, the Mongolian government struggled to attract international investors into the mining sector. Mongolia still largely relies on Russian technology in this sector of the economy, although Russian involvement began to diminish during the 1990s as **multinational corporations** started to move into the mining sector.

In the mid-1990s, oil reserves were discovered, estimated at around 5 billion barrels, that could be used both for domestic consumption and for export to China. Extraction of oil from Tamsag basin began in 1997 and completion of an oil refinery is expected in Nalaikh, near Ulaanbaatar, in 2002. International investment is needed to develop its oil reserves at full scale.

MANUFACTURING. Mongolia's manufacturing sector accounted for 24 percent of GDP in 1998, employing 12.4 percent of the **labor force** in the production of agricultural products, garments, leather goods, and carpets. During the era of state-controlled industry (1924–91), these goods were produced mainly in small and medium-sized, state-owned enterprises for export to the Soviet Union and Eastern Europe. Russia was also the main market for Mongolia's food processing industry, which produced sausages and canned meat.

The manufacturing industry was one of the fastest growing sectors of the economy in the 1970s and 1980s, but because of excessive state control, it was relatively inefficient and made low quality products. In the 1990s, the government introduced a privatization program aimed at stimulating private initiative and increasing productivity, but the sector could not compete internationally because of a lack of management skills, lack of investments, and inefficient technologies. A steep recession, which threatened thousands of jobs and provoked social protests, followed. Between 1994 and 1998, production of leather footwear declined from 407,000 pairs to 33,000, leather coats from 35,000 to zero, sheepskin coats from 57,000 to 1,000, and woolen fabrics from 77,000 square meters to 5,000 square meters.

SERVICES

Between 1924 and 1991, Mongolia's services sector was heavily state-controlled and was significantly un-

derdeveloped. Since the early 1990s, the Mongolian government has made considerable efforts to deregulate this sector, with special attention focused on reforming the financial services industry. The **monopoly** of the state bank was broken and commercial banks were allowed to compete. This sector was restructured with assistance from the World Bank and the International Monetary Fund (IMF). In 2000 there were 12 banks, 6 state-owned and 6 privately owned.

Tourism is an underdeveloped sector of the economy, limited by lack of accommodation facilities and transportation infrastructure. Thanks to the combination of Mongolia's landscape and its position on the old Silk Road (the trade route connecting China with Western Europe in medieval times), adventure tourism offers a high growth potential. Mongolia welcomed about 160,000 tourists in 1999, and the government passed a law establishing the National Tourism Development Program: 2000–2015 in order to boost this sector.

The **retail** sector is quite underdeveloped by Western standards, consisting mainly of small shops and restaurants. With the growth in tourism since the 1990s, the quality of the retail sector and diversity of services have been improving.

INTERNATIONAL TRADE

Mongolian international trade has fluctuated considerably during last 3 decades. After the collapse of both the Council for Mutual Economic Assistance (CMEA) and trade with the former Soviet Union, Mongolian international trade experienced a dramatic decline that continued until the mid-1990s. Since then, Mongolian trade has started a slow recovery, boosted by growing exports of gold and other mineral resources. Mongolia joined the World Trade Organization (WTO) in 1997.

During the 1990s Mongolia managed to diversify its markets, and China became one of its fastest-growing trade partners. In 1998 exports to China amounted to 30.1 percent of total Mongolian exports, followed by Switzerland (21.5 percent), Russia (12.1 percent), South Korea (9.7 percent) and the United States (8.1 percent). In that year, Russia remained the primary source of imports (30.6 percent), followed by China (13.3 percent), Japan (11.7 percent), South Korea (7.5 percent), and the United States (6.9 percent.) In 1998 Mongolia exported a total of $316.8 million in goods and imported $472.4 million in goods.

Trade (expressed in billions of US$): Mongolia

	Exports	Imports
1975	N/A	N/A
1980	.403	.548
1985	.689	1.096
1990	.661	.924
1995	.473	.415
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Mongolia

tughriks per US$1	
Dec 2000	1,097.00
2000	1,076.67
1999	1,072.37
1998	840.83
1997	789.99
1996	548.40

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

During the era of state control (1924–91), the Mongolian tughrik had a fixed rate (4 to the U.S. dollar in 1989), and was not freely convertible. With the introduction of convertibility in the early 1990s, there was a sudden surge in **hard currency** demand and the tughrik depreciated (dropped in value) sharply (MT448.61 to the U.S. dollar in 1995 and MT1,072.37 to the U.S. dollar in 1999). The Mongolian government has tried to stabilize its currency and its economy by relying heavily on international assistance from the World Bank and the IMF. The annual rate of **inflation**, which soared to around 300 percent in 1993, was reduced to 15 percent in 2000. The Bank of Mongolia, the nation's central bank, seeks to maintain a tight **monetary policy** in order to stabilize the value of the currency and reduce inflation.

POVERTY AND WEALTH

Reforms during the 1990s brought mixed results to the Mongolian people. While they removed state control over the economy, allowed private businesses, and di-

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Mongolia	N/A	N/A	479	498	408
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Kazakhstan	N/A	N/A	N/A	2,073	1,281

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Mongolia

Lowest 10%	2.9
Lowest 20%	7.3
Second 20%	12.2
Third 20%	16.6
Fourth 20%	23.0
Highest 20%	40.9
Highest 10%	24.5

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

versified international trade, they also brought widespread poverty, a diminishing **social-welfare system**, especially in health care and education, a rise in organized crime, and huge gaps in personal income.

In 1999, per capita GDP was estimated at US$2,320. According to the United Nations Development Program's Human Development Report, a statistical survey of the standard of living of the world's nations, Mongolia was ranked 110th, just behind China and Egypt, but just ahead of El Salvador and Bolivia. This is largely because of the strong education and health systems built during the single party (1924–1991) era, which remain strong despite declines in the 1990s. In 2000, the enrollment rate at primary and secondary schools stood at 84 percent, and most people had access to health care services. The government plans to increase spending in these areas, however, to return them to the levels the country enjoyed before 1991.

WORKING CONDITIONS

Since the abandonment of state guarantees of employment in 1993, the unemployment rate among Mongolia's workforce of 1.256 million has been rising, reaching an official rate of 4.5 percent in 1998. In 1998, there were 49,800 workers registered as unemployed, but some estimates put the figure as high as 200,000, especially in remote small towns and villages. Working conditions remain far from ideal because of low wages and harsh economic conditions. Until the 1990s, the trade-union movement was state-controlled; with the introduction of market-oriented reforms Mongolia's trade unions have struggled to gain membership, though they still maintain close affiliations with political parties.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1921. Mongolia declares independence from China.

1924. Mongolian People's Revolutionary Party (MPRP) comes to power, remaining the ruling party for the next 70 years.

1946. China formally recognizes Mongolia's independence.

1961. Mongolia joins the United Nations.

1987. Mongolia normalizes its relations with China and signs a treaty concerning the resolution of border disputes.

1990. Mongolian Constitution is amended, and the first multiparty election for Parliament takes place.

1992. New constitution is adopted by the Great Hural (Parliament).

1993. Punsalmaagiin Ochirbat is elected president in the first direct presidential election.

1993. Mongolian tughrik is made freely convertible.

1996. For the first time in modern Mongolian electoral history, the MPRP is defeated by a Democratic Coalition led by the MNDP and the MSDP.

1997. Mongolia joins the World Trade Organization.

2000. MPRP returns to power, taking 72 seats in parliamentary elections.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Mongolia	56	14	9	8	14	1	−2
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kazakhstan	37	10	20	9	6	6	12

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

FUTURE TRENDS

By 2001, Mongolia was able to achieve **macroeconomic** (large-scale, overall) stability, although at the very high cost of growing poverty and inequality. It will likely take another decade before the country achieves full recovery from its transition from state control to private control of the economy. Mongolia's future is uncertain because of its geographical isolation, difficulties in attracting foreign investors, growing debt, and increasing dependence on international humanitarian assistance. Global climate changes may threaten the very existence of agriculture and animal husbandry in Mongolia. However, Mongolia should be able to depend on its strengths in exporting raw materials, and it has potential oil fields that could also contribute to export earnings—if oil field development receives the necessary investments. Moreover, private enterprise has proved surprisingly strong, outperforming state-controlled industries in head-to-head competition. As more private businesses gain experience and financial strength, the Mongolian economy should become more diversified and stable.

DEPENDENCIES

Mongolia has no territories or colonies.

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—Rafis Abazov

NAURU

Republic of Nauru

CAPITAL: No official capital, but the Yaren District houses the government offices.

MONETARY UNIT: Nauru uses the Australian dollar (A$). One Australian dollar equals 100 cents. There are coins of 2 dollars, 1 dollar, 50 cents, 20 cents, 10 cents, and 5 cents. There is no 1 cent coin. Banknotes come in denominations of 100, 50, 20, 10, and 5 dollars.

CHIEF EXPORTS: Phosphate.

CHIEF IMPORTS: Food, fuel, manufactured goods, building materials, machinery.

GROSS DOMESTIC PRODUCT: US$201.3 million (1999 est.).

BALANCE OF TRADE: **Exports:** US$19 million (1997). **Imports:** US$17.2 million (1996).

COUNTRY OVERVIEW

LOCATION AND SIZE. Nauru is a tiny island in the Pacific Ocean, located just south of the equator, to the northeast of New Guinea and the Solomon Islands. Nauru is only 21 square kilometers (8.1 square miles) in size, making it one of the smallest nations in the world. As an island country, Nauru has no land borders with other countries. It is roughly circular in shape and has about 30 kilometers (18 miles) of coastline. Comparatively, Nauru is about one-tenth the size of Washington, D.C. Nauru has no cities and its population lives in small settlements along the coast.

POPULATION. Nauru's population was estimated at 11,845 in July 2000. About 58 percent of the total consists of indigenous Nauruans, a Pacific people of mixed Melanesian, Micronesian, and Polynesian ancestry. About 26 percent of the population consists of other Pacific peoples (mainly from the neighboring island countries of Kiribati and Tuvalu). Nauru's smaller minority populations are 8 percent Chinese and 8 percent European. The population growth rate was 2.4 percent in 1998. Nauru has no official population policy.

About 80 percent of Nauru's territory consists of land that has been mined for phosphate. This land is not inhabited and is not suitable for agriculture. Nauru's people live entirely in the fertile coastal areas, especially along the southwest coast.

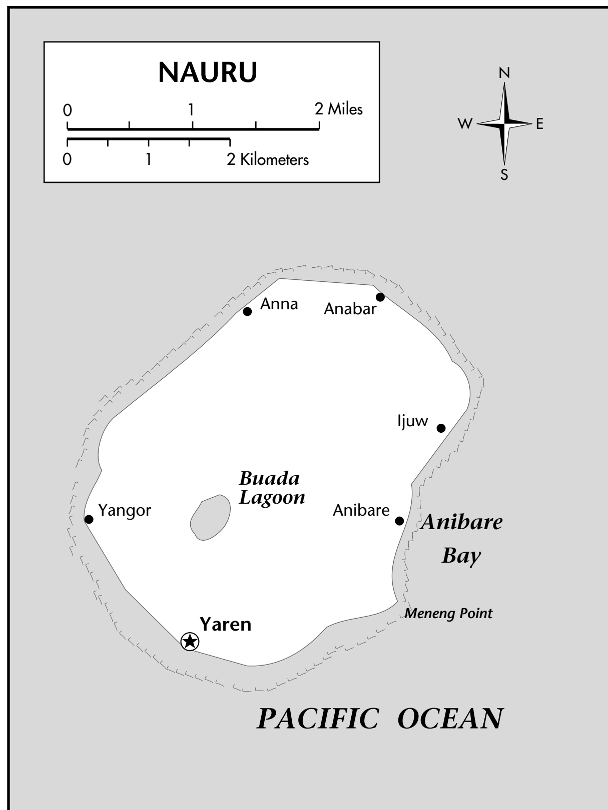
Nauru's population is very young. About 41 percent of the total population is under the age of 15, while about 57 percent are between the ages of 15 and 64. Only about 2 percent of the population is above the age of 65.

OVERVIEW OF ECONOMY

Nauru's economy is dominated by the export of phosphate, a mineral used as a fertilizer. Supplies of phosphate are running out and are expected to last no more than 5 years. The government is encouraging new industries, such as **offshore banking** and tourism, to replace the declining phosphate industry.

Phosphate has been the basis of Nauru's economy since 1906, when the island was a German colony. The decay of marine microorganisms on an atoll (a coral island made up of a reef surrounding a lagoon), supplemented by thousands of years of bird droppings, have made Nauru into an island made almost entirely of phosphate. Phosphate has been exported mainly to Australia and New Zealand, where it improved the poor soils in those countries. After Germany's defeat in World War I, Nauru was made a trust territory by the League of Nations (and later the United Nations) and governed jointly by Australia, New Zealand, and Great Britain, although Australia effectively handled all of the administration. Nauru became independent in 1968.

During the colonial administration, a trust fund was established in which part of the income from phosphate sales was deposited. This fund was set up to provide the country with income when phosphate supplies run out. This trust fund—the Nauru Phosphate Royalties



Trust—as well as the phosphate mining company, are controlled by the Nauruan government.

Phosphate mining has made Nauru very rich and provides citizens with some of the highest per capita incomes in the Pacific region. But phosphate mining has also seriously damaged Nauru's environment. About 80 percent of the land consists of mined-over territory that is now uninhabitable. Nauru's extreme dependence on phosphate means that it has to import nearly everything else, including food, fresh water, fuel, and all manufactured products.

As the country's reserves of phosphate have dwindled, the Nauruan government has encouraged other industries, especially tourism and off-shore banking, to locate in the country. Tourism is limited by Nauru's remote location and lack of major attractions. Off-shore banking has proved more successful, but has been marred by corruption and scandals involving **money laundering**. For example, the Russian mafia has been accused of using Nauruan banks to process its illegal revenues. Apart from Internet-based banking, there is almost no foreign investment in Nauru and no foreign investment policy.

POLITICS, GOVERNMENT, AND TAXATION

Nauru became an independent republic in 1968; it is the smallest republic in the world. Nauru is a member of the British Commonwealth and was admitted as a full member of the United Nations in 1999. Nauru generally follows the political system of Great Britain and has a **unicameral** (one chamber) Parliament with 18 members who hold office for 3 years. The Parliament elects the president, speaker, and deputy speaker. The cabinet, which consists of the president and 5 other members of Parliament, holds executive power. Members are elected as independents rather than from political parties. Nauru has had 8 changes of government since independence. Lately Nauru's government has become increasingly fractious, with a constant reshuffling of leaders and ministers.

The Nauruan government controls most aspects of the country's economy. The government owns most of the large businesses, including the Nauru Phosphate Corporation, the national airline, and the national bank. The government also controls the Nauru Phosphate Royalties Trust, which collects and invests phosphate royalties. The fund is currently estimated to have a value somewhere between $100 million and $800 million, but no details are publicly released. There are no taxes in Nauru, and government activity is financed entirely from phosphate revenues. The government is the largest employer and provides free health care and education to all citizens. As the Nauruan government is extremely secretive, it is difficult to obtain exact figures for many aspects of the country's economy.

Nauru has no military, but the Nauruan police are responsible for law and order and for national defense. Nauru generally has good relations with neighboring island countries. Nauru has had disputes with France because of French nuclear testing in the South Pacific in 1995, and the passage of French ships carrying plutonium and nuclear waste through Nauruan waters in 1992 and 1997.

The Asian Development Bank is the only provider of external financial assistance, in the form of loans, to Nauru. This aid is used to help reform the Nauruan government, to make it more open, to help diversify the economy away from phosphate mining, and to provide for health care, sanitation, and education.

In 1994, Nauru agreed to an out-of-court settlement in a lawsuit it had brought against Australia, New Zealand, and Great Britain. The basis of the lawsuit was to seek compensation for environmental damage to the country during the pre-independence period when phosphate mining was controlled by these countries. Australia agreed to pay Nauru US$73 million as part of the settlement. Great Britain and New Zealand reimbursed Australia for a small portion of this payment.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Nauru	2,000 (1996)	450 (1994)	AM 1; FM 0; shortwave 0	7,000	1	500	1	N/A
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Nauru has 30 kilometers (19 miles) of roads, of which about 80 percent are paved. The major road circles the island, while the others connect the phosphate mines with coastal settlements. The only rail facilities on Nauru are narrow-gauge and run 5.2 kilometers (3.2 miles) from the phosphate mines to a processing plant. Nauru has no port or harbor, but it does have a deep water anchorage and facilities for loading phosphate onto ships. Nauru operates its own airline, called Air Nauru, with 2 aircraft (Boeing 737s), based at Nauru's international airport. The airline connects Nauru with Australia and other Pacific and Asian countries. The government heavily subsidizes Air Nauru, and its future is questionable. Nauru has international telephone connections by satellite. The country is completely electrified and power is supplied by diesel generators, the fuel for which is imported.

ECONOMIC SECTORS

Nauru has only 2 important economic sectors: mining and financial services. Nauru's economy is dominated by phosphate mining, while Internet-based banking is an emerging sector. Nauru's agriculture is extremely small-scale and cannot provide enough food for the population. Despite being an island, Nauru has no real fishing industry. Apart from a few handicrafts, there is no manufacturing industry on Nauru.

AGRICULTURE

Agriculture accounts for only a tiny portion of Nauru's economic activity, making up only 5 percent of GDP in 1995. Apart from some market gardens, the only agricultural products of any significance are coconuts, in addition to chickens and pigs for domestic consumption. Because of environmental damage from phosphate mining, less than 20 percent of Nauru's land is suitable for agricultural production.

INDUSTRY

MINING. Phosphate mining dominates Nauru's economy and has done so throughout the 20th century. The large phosphate mines are located in the center of the island, an area called Topside. Between 1920 and the country's independence in 1968, Nauru was administered by Australia, and the phosphate mines were owned and operated by the British Phosphate Commission (BPC). After independence, the Nauruan government took control of the phosphate mines and created the Nauru Phosphate Corporation. The Nauru phosphate deposits are among the world's richest. Phosphate was and continues to be exported, primarily to Australia, New Zealand, Japan, South Korea, and Indonesia. Phosphate supplies are expected to run out within 5 years.

Mining has had a severe environmental impact on the country. About 80 percent of the land area has been devastated after phosphate has been removed, leaving a landscape unsuitable for any other kind of industry or as residential land.

SERVICES

TOURISM. The tourism sector in Nauru is very small, as the country does not offer many attractions and cannot compete with neighboring Pacific island countries. Nauru is remote and expensive to get to, and tourist facilities are extremely limited. There are only 2 hotels and no resorts.

Nevertheless, the Nauruan government is attempting to develop the tourist industry to replace dependence on phosphate mining, but little has been done so far.

FINANCIAL SERVICES. Nauru has developed a large Internet-based "offshore" banking industry, with more than 400 banks registered in the country (all of which are listed at the same address, that of the government-owned Nauru Agency Corporation). The advantages of banking in Nauru are the absence of taxes and banking secrecy. It costs only about US$5,680 to establish a bank in the country, and US$4,980 per year in registration fees after that. In 1998, Nauru was accused by the Russian government of accepting an estimated US$70 billion in deposits from the Russian mafia, and providing cover for organized crime (this money does not actually come to Nauru, but is electronically transferred through the Nauru banks). Other countries, including the United States, have also protested against Nauru's "laundering" of illegally-obtained funds. The United States even threatened to abolish Nauru's right to trade in U.S. dollars. In 1999, Nauru bowed to these international pressures and vowed to clean up its banking industry.

The government controls the Nauru Phosphate Royalties Trust, which receives a share of the profits from phosphate sales. The assets of the fund have been estimated as being anywhere between $100 million and $800 million. Most of the assets consist of overseas real estate as well as stocks and bonds. Major real estate developments owned by the Nauru Phosphate Royalties Trust include Nauru House, which is one of the largest office buildings in Melbourne, Australia, and hotel developments in Hawaii and Fiji. The secrecy of the Nauruan government prevents exact figures from being known, but most experts suggest that the lower end of the estimated asset range is more accurate. The trust fund has been the subject of numerous allegations of corruption and mismanagement.

Exchange rates: Nauru

Australian dollars per US$	
Jan 2001	1.7995
2000	1.7173
1999	1.5497
1998	1.5888
1997	1.3439
1996	1.2773

SOURCE: CIA *World Factbook 2001* [ONLINE].

INTERNATIONAL TRADE

Nauru's major trading partner is Australia. Other important partners are New Zealand, Japan, South Korea, and Indonesia. These countries purchase Nauruan phosphate for use as a fertilizer. Phosphate is Nauru's only export. Apart from some locally-produced foods (fruit, coconuts, chickens, and pigs), virtually everything is imported into Nauru, including most foods, fresh water, fuels, motor vehicles, building materials, and machinery. Most of these goods are imported from Australia.

MONEY

Nauru does not have its own currency, but uses the Australian dollar. By doing so, it gains the advantages of allying its economy with a stronger, larger neighbor. As Australia is Nauru's largest trading partner, using the Australian dollar simplifies trade because currencies do not need to be converted. On the other hand, Nauru's **monetary policy** is linked to changes in the Australian dollar, which has dramatically depreciated (decreased in value) against the U.S. dollar over the past several years. **Inflation** in Nauru has generally been quite low.

POVERTY AND WEALTH

Nauru's phosphate wealth has made it one of the richest countries in the Pacific and, on a per capita basis, one of the richest countries in the world. Revenues from phosphate mining provide an extensive system of social support for Nauruan citizens. Nauru is a true **welfare state**, and everything is provided by the Nauru government, including free health care and education. Many Nauruans also receive various kinds of payments from the government, including a share of mining royalties, compensation for damage to land, and unemployment insurance. This has led to complete dependence on government. Nauruans have been described as living a life of "luxury and leisure."

Residents' luxurious lifestyles have come with a high price, however. The change in the local diet, which is now rich in high-fat imported foods, has given Nauru one of the highest rates of diabetes in the world. Nauru also has

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Nauru	N/A	N/A	N/A	N/A	5,000
United States	28,600	30,200	31,500	33,900	36,200
Philippines	2,600	3,200	3,500	3,600	3,800
Solomon Islands	3,000	3,000	2,600	2,650	2,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

high rates of unemployment and alcoholism, among other health and social problems. Unemployment has not become a major concern, however, as the government, as well as family members, provide support for non-workers. According to the Asian Development Bank, there is no evidence of absolute poverty in Nauru. The entire population has access to safe drinking water, and 97 percent have access to good sanitation.

WORKING CONDITIONS

The government is the main employer in Nauru, and the **private sector** employs only 1 percent of the workforce. Major branches of government employment include the government-owned Nauru Phosphate Corporation and the administrative and bureaucratic branches of government. Many Nauruans do not work but receive assistance from the government. Much of the mining work is done by foreigners, especially temporary workers from China, the Philippines, and the neighboring island countries of Kiribati and Tuvalu. About 3,000 foreign workers live in Nauru. Non-Nauruans face many restrictions, including limitations on travel in and out of the country and limitations on their political rights.

Nauruan workers have the right to form unions, but none have yet been established. Women's access to employment is restricted by social conventions, and there are few women employed by government companies and no women in Parliament. Because the government takes care of all its citizens' needs, there has been little incentive for education in Nauru, and few Nauruans travel overseas to study at universities.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1798. British whaler Captain John Fearn is the first European to visit Nauru and names it "Pleasant Island."

1888. Nauru annexed by Germany.

1899. Phosphate deposits discovered.

1906. Phosphate mining started by a British-Australian company.

1914. Nauru occupied by Australia after World War I begins.

1920. Australia begins administration of Nauru on behalf of the 3 trustees: Australia, New Zealand, and Great Britain.

1941. Nauru's industrial plant and housing facilities are completely destroyed by Japanese bombings.

1942. Nauru occupied by Japanese forces until 1945.

1951. A local government council set up to handle local affairs.

1968. Nauru achieves independence.

1994. Australia agrees to out-of-court settlement of US$73 million for environmental damage caused by phosphate mining during the Australian administration of the island.

1998. Russian mafia transfers an estimated US$70 billion to Nauru banks to evade taxes.

1999. Nauru bows to international pressures to control its banking industry; Nauru admitted as a member of the United Nations.

1999. Nauru government borrows US$100 million from General Electric Corporation; trust fund assets used as collateral.

2000. Fiji government seizes the Nauru-owned Grand Hotel in Fiji on the grounds that the Nauru government failed to develop the property as agreed.

2001. Nauru agrees to process more than 300 refugee "boat people" (mainly from Afghanistan, Iraq, and Pakistan) originally bound for Australia. Australian government agrees to give Nauru US$10 million and pay all costs of housing and feeding refugees. A refugee camp is built in the center of the island.

2001. Australia grounds Air Nauru's 2 Boeing 737 aircraft, claiming that the airline did not have sound management and that the Nauru airport was unsafe.

2001. Bank of Nauru closes because of lack of cash. Economists warn that the value of the Nauru Phosphate Royalties Trust Fund may be approaching zero.

FUTURE TRENDS

Nauru's phosphate industry has reached the end of its life, with the last supplies expected to run out within a few years. It is unclear how the country will support itself once the mines close. Diversification into other economic sectors, such as tourism and offshore banking, have not proven especially successful. Tourism has remained small due to the country's remoteness and lack of attractions. Offshore banking has been marred by scandals involving money laundering and corruption, and the country has been heavily criticized for this. With its tarnished reputation, many foreign companies will be hesitant about investing in Nauru.

The imminent closure of Nauru's phosphate mines mean that the country will be left with no major source of income and with severe environmental problems. About 80 percent of the country has been ecologically devastated by mining, and this land is not suitable for agriculture or for residential property. The cost of rehabilitating the mined-out land is expected to cost at least

US$200 million and it is unclear where this money will come from. Nauru's water supply is becoming more limited because of the depletion of natural underground reserves. The country already has to import drinking water.

Income from the country's Nauru Phosphate Royalties Trust will help tide over the country when the mines first close, but it will not be sufficient to replace the income from mining royalties themselves. The trust fund itself has been marred by allegations of corruption and mismanagement, and the ability of the trust fund to keep producing income is questionable.

With its mines closing and its environment in ruins, Nauru faces a grim future. The careful and wise investment of the country's remaining assets—in its trust fund—is the most likely source of salvation for Nauru.

DEPENDENCIES

Nauru has no territories or colonies.

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—Michael Pretes

NEPAL

Kingdom of Nepal

CAPITAL: Kathmandu.

MONETARY UNIT: Nepalese rupee (NR). One Nepali rupee is made up of 100 paisa. Rupee notes come in denominations of NR1, 2, 5, 10, 20, 25, 50, 100, 250, 500, and 1,000. Coins are denominated as 5, 10, 25, and 50 paisa and NR1, 2, and 5.

CHIEF EXPORTS: Carpets, clothing, leather goods, jute goods, grain.

CHIEF IMPORTS: Gold, machinery and equipment, petroleum products, fertilizer.

GROSS DOMESTIC PRODUCT: US$27.4 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$485 million (f.o.b., 1998). **Imports:** US$1.2 billion (f.o.b., 1998).

COUNTRY OVERVIEW

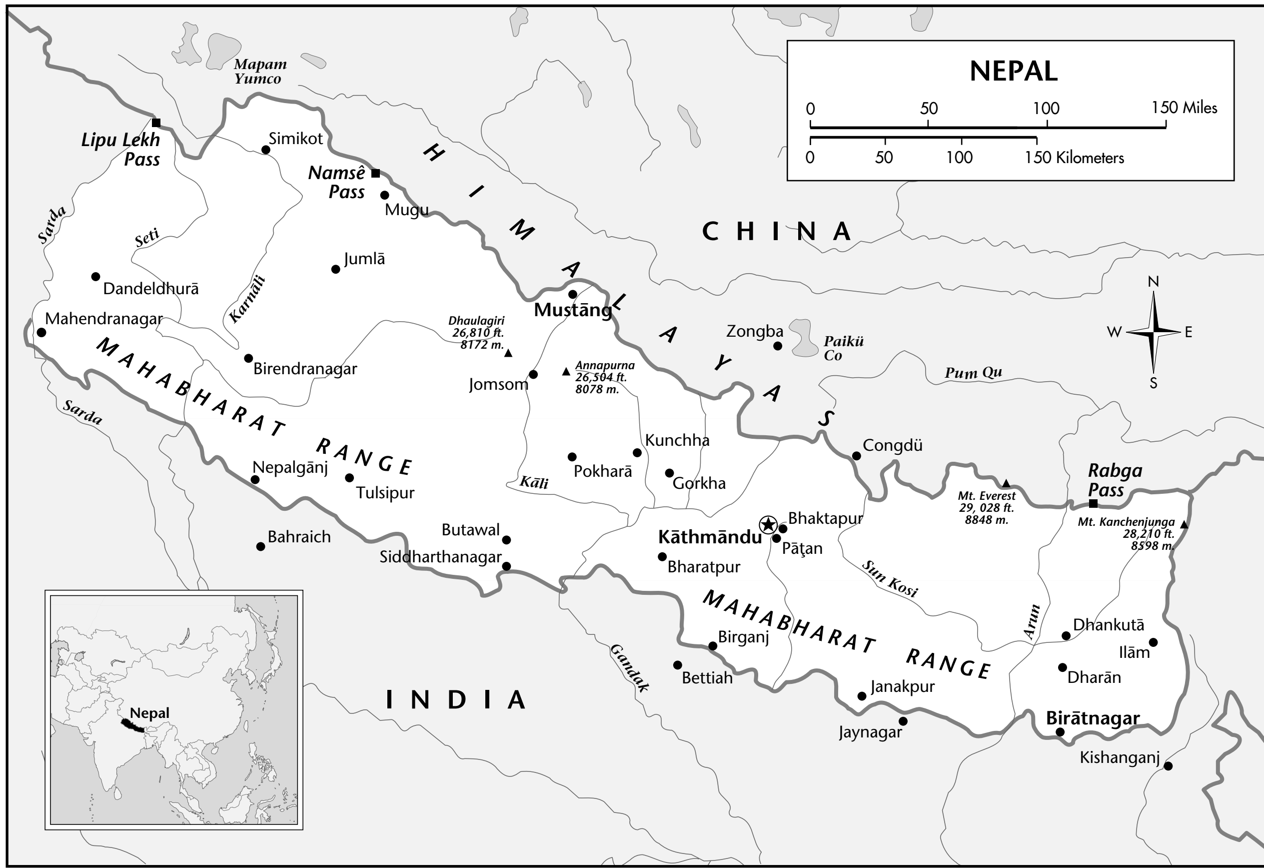
LOCATION AND SIZE. Nepal is a landlocked country in South Asia, bordered by India on 3 sides and by China to the north. It has an area of 140,800 square kilometers (54,363 square miles), a border of 2,926 kilometers (1,818 miles), and is slightly larger than Arkansas. Roughly rectangular in shape, Nepal can be divided lengthwise into 3 ecological zones from south to north: the fertile alluvial plains of the Tarai region, the mountains and valleys of the central Hilly region, and the inhospitable Mountain region, home to the Himalayas and the world's highest mountain, Everest. Nepal is drained by over 6,000 rivers which form the Karnali, Narayani, and Koshi river systems. Its capital, Kathmandu, is in the central part of the country.

POPULATION. Nepal had a population of 24,702,119 in 2000, up from 19,145,800 in 1990. Government sources estimate a population of 28,618,668 by 2010. While the death rate has declined significantly over the last few decades to 10.41 per 1,000 people, the birth rate has remained high at 33.83 per 1,000. The infant mortality rate declined from 147 deaths per 1,000 in 1985 to 64 deaths per 1,000 in 2000, but while health services have improved, high fertility rates have led to a population growth rate that increased from less than 2 percent in the 1950s to about 2.6 percent in the 1980s. According to the World Bank, the growth rate in 1999 was 2.3 percent.

Nepal is one of the few countries in the world where men live longer than women. Female life expectancy is 57.3 years, compared to 58.3 years for males. Forty-one percent of the population is aged 0–14 years, 56 percent are between 15 and 64, and only 3 percent are above 65 years of age in 2000. The population can be grouped by 3 major ethnicities: Indo-Nepalese, Tibeto-Nepalese, and indigenous Nepalese. In 1991 46.7 percent of the people resided in the southernmost plains of the Tarai region, 45.5 percent in the central Hilly region, and 7.8 percent in the northernmost Mountain region, but large-scale internal migration in recent years has led to overcrowding in the fertile Tarai region. The population of Nepal is overwhelmingly rural, with just over 9 percent living in urban areas such as the Kathmandu Valley. Population density stands at 175 people per square kilometer (453 per square mile).

Family planning in Nepal began in the late 1950s. An increase in government expenditure on family planning offices and door-to-door campaigns have contributed towards the adoption of family planning. In 1969, only 7,774 people used some form of contraception; this number rose to 419,950 by 1999. Difficulties in rural access to family planning services and cultural and socioeconomic considerations which favor large families continue to impede the implementation of a coherent population control policy.

In addition to the established Nepalese population, there are approximately 96,500 Bhutanese refugees in Nepal, 90 percent of whom are accommodated in 7 camps run by the United Nations Office of the High Commissioner for Refugees (UNHCR).



OVERVIEW OF ECONOMY

Nepal's place in the western imagination as a latter-day Shangri-La stems from its historical isolation, maintained until the overthrow of the Rana oligarchy (a small group of people who rule a nation) in 1951. Development planning commenced soon after, but half a century on, the country still struggles to free itself from its feudal legacy and temper the effects of an unpredictable global economy. Today, Nepal is one of the least developed countries in the world, with nearly half of its inhabitants living below the poverty line. Decentralization and **privatization** of government-run businesses have not worked for this agricultural nation; the 1989 trade-transit crisis with India, which caused severe commodity shortages, demonstrated how frail the economy was. Popular protests brought about multiparty democracy in 1990, and the reigning Hindu monarch was relegated to constitutional status. Ever since, recurring political instability culminating in a massacre within the royal family in June 2001 has hampered the implementation of economic reforms designed to relax trade regulations, attract foreign investment, and cut government expenditure.

Nepal's spectacular landscape, while attracting the tourism that both pays and pollutes the country, has been the major hindrance to its economic development. Rugged mountains cover over 80 percent of the land, isolating communities from each other and from the Kathmandu Valley. Trade, industrial growth, and foreign investment have been defeated by the terrain, despite significant efforts to improve the transport and communications **infrastructure**. As a landlocked nation, Nepal is heavily dependent on India economically. The industrial sector employs only 3 percent of the population, while the successful cottage industries that produce carpets and garments bring in up to 80 percent of foreign exchange earnings from countries other than India. Exports consist largely of primary produce sent to India, and trade with nations other than India is expanding. Imports include industrial and agricultural inputs such as machinery, fertilizers, petroleum products, and additional primary produce.

For now, agriculture constitutes most of Nepal's economy, with 81 percent of the population engaged in farming activities that account for over 40 percent of **gross domestic product** (GDP). The major food crops are rice, wheat, and maize, while sugar cane, oilseed, tobacco, and potatoes are other major **cash crops**. Despite government programs to introduce fertilizers and modern techniques, most farms still generate only enough produce to feed the farmer's family, with little or nothing left over to sell. **Underemployment** is high in the farm-

ing sector. The lack of irrigation facilities has left the average farmer dependent on the seasonal monsoon rains, and increased production has resulted mostly from the extension of arable land. The growth of a population heavily reliant on firewood has led to deforestation, which contributes to erosion and floods with serious consequences for communities in southern Nepal, India, and Bangladesh.

While efforts to develop the Nepalese economy systematically through the implementation of the government's 5-year plans have established a basic infrastructure, the benefits have been reaped by the urbanized, educated minority of Nepalese rather than by the rural poor. However, impoverished peasants and highly qualified urbanites alike **emigrate** and migrate within the country in search of better prospects, with serious implications for the economy. Foreign aid, which has supplied over 60 percent of development expenditure over the decades, has been underutilized and mismanaged. The increasing loan component of such aid has added to the country's **foreign debt**, which totaled US$1.5 billion in 1998.

POLITICS, GOVERNMENT, AND TAXATION

The unification of Nepal in 1769 under the Shah dynasty of Gorkha failed to prevent 2 centuries of intrigue among the aristocratic families of Kathmandu. From 1846 onwards, hereditary prime ministers from the Rana family governed in the name of the Shah kings. Their downfall in 1951 led to a succession of governments appointed by royalty. Nepal had its first democratic elections in 1959, and the Nepali Congress Party governed until a royal coup d'etat, or takeover, a year later. The partyless system known as *Panchayat* followed. This comprised public assemblies at village, district, and national levels, who were ultimately accountable to the king. Undercurrents of political dissent periodically rumbled beneath the Himalayan kingdom's facade of tranquility, but it took an economic crisis, a coalition of political parties, and widespread urban demonstrations before the ruling Hindu monarch, King Birendra Bir Bikram Shah Dev, was forced to dismantle the Panchayat system in favor of a multiparty democracy within a constitutional monarchy in 1990. More than a decade on from the introduction of democracy, Nepal has failed to achieve political stability. The turmoil of years past echoes among antagonistic factions and has led to much discontent, particularly in the neglected countryside, where a Maoist insurgency has claimed over 1,600 lives in the 5 years from 1996. In June 2001, a massacre within the royal family, instigated by the Crown Prince, led to rioting and curfews in the Kathmandu Valley. The political situation remains fragile.

With the transition to democracy in 1990, the Nepali Congress Party was voted into power. Established in 1947, this party is the largest political organization in the country and has governed for most of the last decade. The old guard of political leaders, represented by Prime Minister Girija Prasad Koirala and Krishna Prasad Bhattarai, has held sway over this reform-oriented centrist party. The Nepali Congress had its roots in democratic **socialism**, but in the 1980s it modified its program to espouse a mixed economy. During a relatively stable tenure from 1991 to 1994, the party implemented various economic reforms that facilitated privatization and foreign investment, and attempted to improve public enterprise management.

Left of the political spectrum, **communist** parties briefly worked with the Nepali Congress during the revolution of 1990. Parties within this United Left Front Coalition, however, differed widely in their socialist ideologies. The centrist United **Marxist**-Leninist Party (UML), which supports the creation of a **welfare state** (a political system in which the government assumes primary responsibility for the social welfare of its citizens), is the second largest party in Nepal, and remains a potent force despite a damaging split in 1998. The appointment of a minority UML government in 1994 slowed the process of **liberalization**, and **subsidies** to public enterprises increased. Other parties include 2 factions of the monarchist National Democratic Party and the Nepal Sadbhavana Party, which is based in the Tarai region and favors closer economic integration with India. Political bickering has consumed the national agenda, resulting in 9 changes of government between 1991 and 2001. The struggle for political power has filtered down to **public sectors**, which have witnessed widespread corruption and politicization. Though **inflation** has remained moderate and the urban population has benefited from exposure to the global economy, there has been little progress in reducing rural poverty. If the current state of affairs continues, problems with law and order may seriously jeopardize the internal security of Nepal.

The political system is based on the British parliamentary system. The king is head of state, and, along with the Council of Ministers retains executive powers. There are 2 legislative bodies: the National Council and the House of Representatives. Members of the National Council are appointed by the House, the king, and an electoral college. Members of the House of Representatives are elected by popular vote for 5-year terms. The political party with a majority in the House of Representatives appoints the prime minister. The judiciary is headed by the Supreme Court, and is composed of a network of appellate courts and district courts.

Management of the Nepalese economy has changed significantly over time. Prior to the 1950s, while feudal

overlords vied for economic gain at the expense of the rural population, little planned development took place. Under the Panchayat regime, a succession of 5-year plans attempted to impose government control over all aspects of the economy. However, against a background of poor infrastructure, the country's geographical difficulties, and the spread of corruption, the lot of the rural majority was little changed. Attempts to accelerate growth through increased government spending resulted in economic instability in the early 1980s. Under pressure from financial institutions such as the International Monetary Fund (IMF) and the World Bank (WB), certain structural reforms were implemented, which helped the growth of the **private sector**.

Before 1951, Nepalese administrations extracted revenue in the form of land tax and a **tariff** on foreign trade. Their reliance on middlemen reduced the revenue available and subjected traders and producers to exploitation that discouraged economic activity. Moreover, the income derived was rarely used for purposes of benefiting the economy. From the late 1950s, a combination of income, sales, and property taxes were introduced. Today, corporate tax stands at 25 percent, though certain industries are taxed at a maximum of 20 percent of their income. **Income tax** is progressive, with different exemption limits for individuals and families. Relative to average Nepalese incomes, income tax exemption is fairly high. Agreements are underway with other governments to avoid double taxation and encourage foreign investors. Government revenues have increased substantially in recent years, from just over 6 billion rupees in 1989 to a high of over 24 billion rupees in 1997, but falling to 17 billion the following year. Customs and consumption taxes (such as taxes of food and drink) have been the primary sources of revenue. A **value-added tax** was introduced from 1995. However, a weak tax administration, resulting in low tax compliance, limits this important source of development funds.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

In post-1950s Nepal, planners and foreign aid donors viewed the creation of infrastructure as vital to the success of the country's economic development. Five-year plans prioritized transportation and communications, but although the results were significant, they remain inadequate. Nepal has 13,849 kilometers (8,522 miles) of paved, graveled, and fair-weather roads, with the major highways linking east to west and north to south. However, monsoon rains work on the unstable mountain geology, causing widespread landslides and driving up road maintenance costs. There were 253,407 vehicles registered in 1999, of which 142,000 were in the Kathmandu Valley. Airports operate in 44 out of 75 districts, and include domestic airports in remote areas which link up with the international airport in Kathmandu. This network is crucial to the tourist industry. Recently, Nepal adopted an open-sky policy, allowing private airlines to operate domestic and international services.

Other forms of transportation are underdeveloped. There is a single narrow gauge railway line covering a distance of 52 kilometers (32 miles) from Janakpur to Jayanagar in the south, and an under-utilized 42-kilometer (26-mile) ropeway (suspended cable-car line) from Hetauda to Kathmandu, which transported 10,684 metric tons of goods in 1995. A limited trolley bus service operates in the Kathmandu Valley. Access to the sea is only possible through the Indian ports of Calcutta (1,150 kilometers, or 713 miles, from the Nepalese border) and Haldia.

Much has been said about the potential of Nepal's hydropower to fulfill local power needs, drive industrialization, and boost revenues through the sale of surplus power to India. Of a feasible potential of 27,000 megawatts (MW), Nepal currently uses a mere 332.7 MW. "Mega-projects," sponsored by institutions such as the World Bank, have been embraced and publicized by successive governments as a panacea to some of the country's eco-

Communications

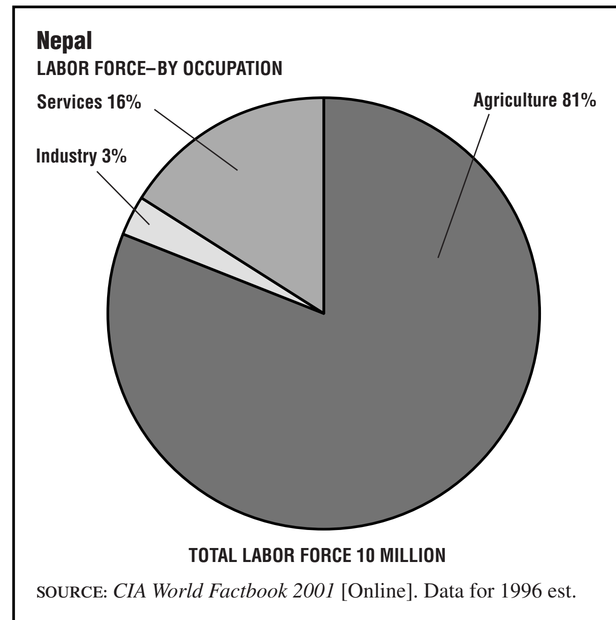
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Nepal	11	38	6	0.2	0	N/A	N/A	0.07	35
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Thailand	63	232	236	10.1	32	2.5	21.6	4.49	800

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

nomic ills without sufficient consideration to the displacement of people and the environmental damage they may cause. Examples of power-generating mega-projects under consideration are those in Chisapani (10,800 MW), Pancheshwor (6,480 MW), and the Arun Valley (643 MW). Local opponents have cited the inherently unsustainable and wasteful nature of such projects, which stand to plunge the country into serious debt. Locally based small to medium hydropower schemes have met with success, but this approach needs government support.

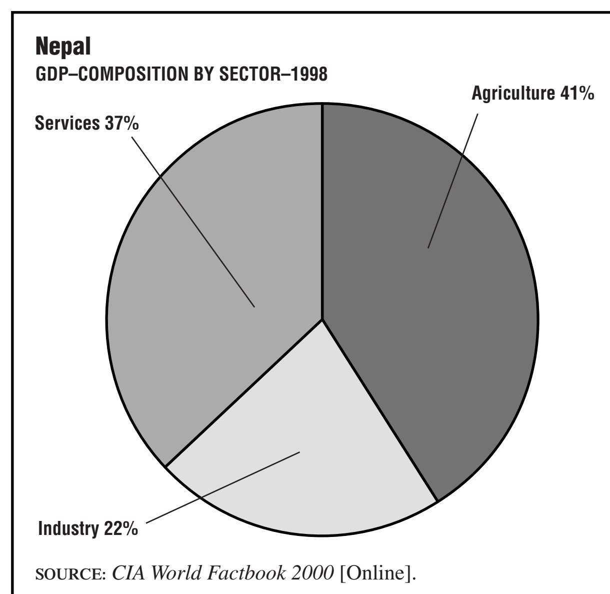
Nepal has considerably improved its postal and telephone services, though they remain deficient in rural areas. The Nepalese telecommunications network is digitized, and the Nepal Telecommunications Corporation (NTC) provides basic services for the country. Television programming began in 1985 and many families receive (not always legally) transmissions from foreign networks such as Star TV. Radio Nepal has existed since the 1950s and has a significant rural audience.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1996 est.

ECONOMIC SECTORS

The agricultural economy has failed to make the transition from **subsistence farming**, and is still largely dependent on weather conditions. Despite its undeveloped nature, agriculture supplied 41 percent of the country's GDP in 1998. The industrial sector only involves a minority of the population. In recent years, successive governments have passed legislation intended to encourage investment and privatization. Industry contributed some 22 percent to GDP in 1998. In contrast to the stagnation in both these sectors, the service industry derives major impetus from tourism, where the Himalayan kingdom enjoys a comparative advantage rivaled by few other nations. All told, the services sector contributed 37 percent to GDP in 1998. While the particular configuration of Nepal's topography and landlocked status have acted as limiting factors on the full development of its economy, this alone cannot explain the problems that continue to trouble a country with one of the highest per capita shares of foreign aid in the world today.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agriculture in Nepal has long been based on subsistence farming, particularly in the hilly regions where peasants derive their living from fragmented plots of land cultivated in difficult conditions. Government programs to introduce irrigation facilities and fertilizers have proved inadequate, their delivery hampered by the mountainous terrain. Population increases and environmental degradation have ensured that the minimal gains in agricultural production, owing more to the extension of arable land than to improvements in farming practices, have been cancelled out. Once an exporter of rice, Nepal now has a food deficit.

Over 80 percent of the population is involved in agriculture, which constitutes 41 percent of GDP. The seasonal nature of farming leads to widespread underemployment, but programs to grow cash crops and encourage cottage industries have had some success over the years. Two-sevenths of the total land is cultivated, of which 1.5 million hectares produced 3.7 million metric tons of the staple crop of rice in 1999. Wheat and maize together take up a similar portion of the available land, with harvests of 1 million metric tons and 1.5 million metric tons, respectively, in 1999. Production of cash crops increased

substantially in the 1970s, and sugarcane, oilseed, tobacco, and potatoes (a staple food in some areas) were the major crops. Agricultural production accounted for about three-fourths of total exports in the late 1980s. As noted earlier, most exports consist of primary agricultural produce which goes to India. In general the majority of Nepalese farmers are subsistence farmers and do not export surplus; this does not prevent a minority in the fertile southern Tarai region from being able to do so. Most of the country is mountainous, and there are pockets of food-deficit areas. The difficulties of transportation make it far easier to export across the border to India than to transport surplus to remote mountain regions within Nepal. A considerable livestock population of cattle, goats, and poultry exists, but the quality is poor and produces insufficient food for local needs.

Government efforts to boost the agricultural economy have focused on easing dependence on weather conditions, increasing productivity, and diversifying the range of crops for local consumption, export, and industrial inputs. Solutions have included the deployment of irrigation, chemical fertilizers, and improved seed varieties, together with credit provision, technical advice, and limited mechanization. This has had some effect. Land under irrigation increased from 6,200 hectares in 1956 to 583,000 hectares in 1990. The use of chemical fertilizers, introduced in the 1950s, climbed to about 47,000 metric tons by 1998. Still, the weather continues to determine good and bad years for the average farmer. On a national scale, while production of both food and cash crops grew annually by 2.4 percent from 1974 to 1989, population increased at a rate of 2.6 percent over the same period.

Increased agricultural activity has placed tremendous stress on the fragile ecosystems of the mountains, with severe deforestation leading to erosion and flooding that threatens the livelihoods of farmers throughout the country. In the rush to open up arable land in the early years of development, Nepal lost half its forest cover in the space of 3 decades. Government plans to maintain cover at 37 percent depend on the success of community forestry programs, which merge traditional and modern agro-forestry and conservation practices. Responsibility is placed in the hands of Forest User Groups, which included almost 800,000 households in 1999.

A potent issue is that of land reform. Before 1950, a feudal system held sway. Land ownership was concentrated in the hands of landlords who contracted out to tenant farmers. Increased productivity may have been suppressed by such a system. Even though the legal mechanisms for land reform (such as placing limits on the amount of land owned) do exist, in practice most farmers still have pitifully small holdings. Predictably, land reform has been the mandate of every political party in Nepal, particularly the communists.

INDUSTRY

The industrial sector in Nepal is very undeveloped. Early industrial ventures, spurred by domestic shortages in the 1930s and 1940s, fared badly due to inexperience. By 1960 there were 63 registered industries, unsupported by adequate institutional organization or infrastructure. With the influx of foreign aid targeted at both the industrial sector and the transport and communications infrastructure, a mix of modern industries and cottage industries slowly developed, numbering 3,557 institutions by 1997. They are small by international standards. Industrial activity, accounting for about 21 percent of GDP, employs only 3 percent of the population. Most of these industries are located around urban centers such as the Kathmandu Valley and in the Tarai region.

Nepal suffers from a lack of both internal and external investment. This stems from low domestic savings, a small domestic market, a severe shortage of skilled labor, chronically corrupt and inefficient public administrations, high transport and operating costs, the inadequacy of power resources and, increasingly, political instability. There have been recent attempts to encourage investment and privatization through the Industrial Policy 1992 and Foreign Investment and One Window Policy 1992, and the creation of industrial centers with governmental land and buildings on lease for private ventures.

MODERN INDUSTRIES. The largest manufacturing industries in Nepal produce jute, sugar, cigarettes, beer, chemicals, tea, vegetable ghee (clarified butter used in Indian and Nepali cooking) and oil, matches, soap, shoes, and processed leather. While industries such as jute, tea, and sugar use local raw materials, other industries have to import inputs from India. Mining is based on deposits of limestone (for cement), clay, garnet, magnetite, and talc. Surveys of other deposits have been sporadic and inadequate, and the difficulty of the terrain has limited development.

COTTAGE INDUSTRIES. As early as 1952, the Nepalese government recognized that industrialization would have to take into account the severe limitations imposed by the country's geography. Cottage industries—the local production of traditional handicrafts—were seen as a way to engage the underemployed rural population and contribute towards export earnings. In Nepal, these industries have included pottery, handmade paper and products, woodwork, metal work, weaving, embroidery, and basket making, and draw on artistic traditions dating back centuries. However, even with the creation of Cottage Industries Training Centers across the country, many of these crafts have been in decline. Still, they contribute about 60 percent of industrial production, with the garment and carpet industries showing rapid growth since

the 1980s and earning 84.3 percent of export earnings from countries other than India.

SERVICES

TOURISM. While the topography of Nepal has hampered economic development, it has also blessed the country with the matchless beauty of the mighty Himalayan mountain range in the north, rugged hills and valleys with cultural centers such as Kathmandu, and sub-tropical climes in the south that house rare species of wildlife such as tigers, rhinos, and gharial crocodiles. Ever since the successful ascent of Mount Everest in 1953, the tourist industry has been booming. For a country that was closed to the world until the mid-20th century, tourist arrivals of almost half a million in 1999 are impressive. A network of trekking agencies, hotels, and restaurants exists. There were a total of 708 hotels in 1999, with 31,355 beds. Tourism is an important contributor to the economy, constituting 3.6 percent of GDP and 26.3 percent of export earnings. Recognizing this, the state has supported the industry by building airports in otherwise inaccessible areas and opening up tourist routes.

Through the 1960s and 1970s, Nepal's allure as a tourist destination stemmed as much from the Himalayas as it did from its exotic appeal and the relatively easy availability of marijuana. Today, the industry is more broad-based, and mountaineering, trekking, white-water rafting, wildlife tours, cultural tours, and pilgrimages attract young and old, rich and poor alike. Almost a third of visitors are from neighboring India. The influx of tourists has been a strong influence on the Nepalese people. Ethnic groups such as the Sherpas, who escort mountaineering expeditions, have benefited considerably from their involvement with tourist activities. Culturally, Nepal has been exposed to western influence. Environmentally, the country has suffered adverse effects from tourism, though awareness of environmental issues is growing.

Tourism will continue to represent an important renewable resource, with government targets of a million visitors a year promoted through campaigns such as "Visit Nepal Year 1998" and "Destination Nepal 2002." Lately, pollution in the Kathmandu Valley, political violence, strikes in the hotel industry, and the royal massacre of 2001 have threatened to dent the number of tourist arrivals. Nevertheless, the potential for the expansion of tourism-related activities such as the provision of rural infrastructure and the local production of specialized food and equipment remains high.

FINANCIAL SERVICES. The use of institutional financial services has been slow to spread in rural areas. Until the mid-1990s, most Nepalese banks were state controlled or owned. The country's first commercial bank, Nepal Bank Ltd., opened in 1937. The central bank, Nepal Rastra Bank, opened in 1956, and Rastriya Banijya Bank opened in 1966. Specialized financial institutions such as the Nepal Industrial Development Corporation (NIDC) and the Agricultural Development Bank (ADB) were also established to provide assistance to private industry and small farmers, respectively. These have had mixed success since traditional moneylenders still play a central role in village financial affairs. By 1990 the ADB had only granted loans to 9 percent of all farming families. Since 1984, foreign banks have been allowed to operate in Nepal as part of a strategy to encourage foreign investment. By the beginning of the 21st century, there were 14 commercial banks and 45 finance companies in Nepal.

RETAIL. **Retail** services in Nepal are mostly small, independent, family businesses. Large franchises do not exist and, with the exception of Indian-owned businesses, foreign investment is limited. Ethnic groups such as the Marwaris and the Newars are noted for their entrepreneurial skills and have a large share of the retail sector.

INTERNATIONAL TRADE

Nepal is a landlocked nation, surrounded by India on 3 sides and by Tibet (now a province of China) in the north. Historically, international trade before the 1950s was with these countries. Exports have consisted of primary agricultural produce, while everything not produced locally has been imported. Throughout the years of development, these imports have included industrial inputs, fertilizers, and petroleum. Since the 1970s, the **balance of trade** has been increasingly negative. During the same period, however, exports of garments and carpets have grown, reaching sales close to US$300 million, and trade with other countries has increased to the detriment of the trade with India.

Until the 1950s, 90 percent of Nepal's trade was with its giant neighbor, India. The essentially open border facilitates trade, but also makes unquantifiable smuggling hard to control. Exports to India are generally supplied

Trade (expressed in billions of US$): Nepal

	Exports	Imports
1975	.100	.171
1980	.080	.342
1985	.160	.453
1990	.204	.672
1995	.345	1.330
1998	.474	1.239

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

by agricultural surplus from the fertile Tarai region—mostly rice, but also tobacco, jute, and vegetable oils. Raw materials such as hides, skins, herbs, textile fibers, metal ores, and some manufactured goods, such as bamboo products, wooden furniture, and textiles, are also exported. Imports consist of daily necessities such as salt, sugar, tea, medicines, petroleum products, and items such as chemicals, machines, cement, coal, and spare parts that are needed for development work. The trading relationship with India was first codified in 1950 with the Treaty of Trade and Transit, which lowered tariffs and tax **duties** on goods passing between Nepal and India. In successive modifications and renewals of the treaty (notably in 1960), transit facilities for trade between Nepal and other countries were established in India at the port of Calcutta. The decline in India's percentage of trade with Nepal to just above 30 percent in 1998 demonstrates the success of these arrangements. In March 1989, delayed negotiations led to the expiration of the treaty, and all but 2 trading points were closed for a year. This crippled the Nepalese economy, as internal trade (much of which had to pass through Indian territory) and external trade with India was subjected to virtual closure. Shortages of basic goods such as salt and petroleum caused considerable strife, leading to both anti-India and anti-government demonstrations in Nepal, and were partly responsible for the downfall of the Panchayat system. An interim government successfully reinstated the treaty in June 1990.

Trade with Tibet, mostly the **bartering** of agricultural produce, went into decline at the turn of the 20th century when the British in India opened alternative routes. The limited Tibetan market and its inaccessibility further hindered the development of this barter trade. Negotiations on maritime access via Bangladesh, traversing 26 kilometers (16 miles) of Indian territory, have been difficult. Nepal has been more successful in expanding its exports with countries such as the United States, Britain, Germany, and Japan, the value of which rose from 14.4 million rupees in 1965 to over 16 billion rupees in 1996.

Nepal's trade balance is skewed towards imports, partly because the demand for industrial inputs and **consumer goods** has grown while local production has not. In 1998, Nepal imported US$1.2 billion in goods while exporting just US$474 million. India, Hong Kong, and Singapore are the country's major import partners. Governments have attempted to increase export earnings by diversifying products, and also to reduce import costs by substituting imports with local production. Policies such as the Exporter's Exchange Entitlement Scheme and both a Dual Exchange Rate and a Single Exchange Rate were formulated to facilitate these objectives. To its credit, Nepal has obtained favorable agreements with its trade partners to offset its landlocked status. But the treaty crisis with India and the failure to agree on Bangladeshi access highlight the country's limited bargaining power. Still very much a developing nation, Nepal is unable to influence the global market to which it exports primary goods at prices that are generally both low and unpredictable; the geographical diversification of its trade needs to include a shift towards a wider array of manufactured products.

MONEY

With the establishment of the central Nepal Rastra Bank, Nepal began to gain control of its **foreign exchange reserves**, which until 1960 were channeled through the Central Bank of India. Indian currency, prevalent throughout the country and freely convertible, was separated from other foreign currencies. In 1983, in order to counter economic instability and increased inflation, the **exchange rate** of the Nepalese rupee was weighted against a basket of important currencies such as the U.S. dollar. In reality, the Nepalese currency is quite strongly influenced by fluctuations of the Indian rupee. The value of the Nepalese rupee has been in decline for years; as of June 2001, US$1 was equivalent to 74.66 Nepalese rupees. Inflation was moderate at 11.8 percent in 1999, but imported goods are still beyond the reach of many Nepalese. While economic growth was strong in the late 1980s, the temporary breakdown of the trade treaty with India significantly damaged the economy.

In 1993, the Nepal Stock Exchange was born out of the Securities Exchange Centre. Interest has exceeded expectations, though only a minority of the urban population is involved in the stock market. The minimal development of the industrial sector limits opportunities for investment.

POVERTY AND WEALTH

Nepal's largely rural population depends on subsistence agriculture for a living. As this is outside the realm of the quantifiable modern economy, the low **GDP per capita** of US$217 in 1998 may be misleading. Nonetheless, 42 percent of the population lives below the poverty

Exchange rates: Nepal

Nepalese rupees per US$1	
Jan 2001	74.129
2000	71.104
1999	68.239
1998	65.976
1997	58.010
1996	56.692

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Nepal	149	148	165	182	217
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Bhutan	N/A	232	292	387	493

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Nepal

Lowest 10%	3.2
Lowest 20%	7.6
Second 20%	11.5
Third 20%	15.1
Fourth 20%	21.0
Highest 20%	44.8
Highest 10%	29.8

Survey year: 1995–96

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

line (1996), and patterns of income and resource distribution reveal chronic inequalities within a population separated along the lines of the caste system (a hierarchical class system), gender, and place of residence.

Hindus fleeing Muslim invaders in India hundreds of years ago brought the caste system to Nepal. The educational and technological superiority of the Indo-Nepalese migrants allowed them to dominate both the indigenous and Tibeto-Nepalese ethnic groups. The caste system—with its notions of hereditary superiority and traditional rights to power, access, and livelihood—was imposed upon Hindus and non-Hindus. In order of status, the Brahmins (priests) were followed by Chhetris (administrators), Vaishyas (merchants), Sudras (farmers, artisans, and laborers), and untouchables (outcasts and the socially polluted). These divisions are not as sharply defined in the changing Nepal of today where caste has no legal justification, but a 1991 study revealed that 80 percent of civil service, army, and police posts were held by Brahmins and Chhetris of the hills (less than 50 percent of the population). The Newars of the Kathmandu Valley have also occupied an important niche in the political and economic culture of Nepal relative to their numbers.

Not surprisingly, land and income distribution is skewed. A 1983 study indicated that more than 50 percent of landholdings in the Hill region were smaller than half a hectare. In 1990, 75 percent of the families in Nepal earned less than 35 percent of the total national income. The harsh reality behind these figures has forced many in the Hill and Mountain regions to migrate to urban centers, the Tarai, and abroad to seek employment as soldiers, laborers, and domestic help. The burden of poverty is particularly hard on women, and a growing population of Nepalese sex workers in the brothels of India is sad testimonial to this problem.

Although government planning has channeled resources into the health and education sectors, doctors and health care centers are concentrated in urban areas, and rural services are still inadequate. Health services barely cope with widespread malnutrition, gastrointestinal diseases, tuberculosis, and polio. There is a rising incidence of cardiovascular disease in urban centers and a shortage of trained medical personnel and supplies. Those who can afford it prefer to be treated for serious illnesses abroad. Though many Nepalese are aware of the link between education and socio-economic betterment, regular attendance at school (conventional school is usually the only option; there are no distance/part-time/private tuition type educational courses in the villages) means time away from vital household and farming chores. Primary education is free, but standards in public schools are low, and literacy was still only 45 percent in 1999 among those over the age of 15. A college education abroad is much coveted, and is the prerogative of the rich or the fortunate few who secure scholarships.

So far, government policies have not significantly improved the lot of the poor Nepalese peasant. Programs targeting rural areas often end up enriching local officials and prosperous farmers. Ironically, the "development industry," fueled by foreign aid, has provided income for many in Kathmandu, while conditions remain bleak in the countryside. Governmental neglect of rural areas and ongoing political instability only add to the resentments that are manifest in the violence surrounding the Maoist "People's War" in the country.

THE LIVES OF THE POOR AND RICH. A rural family often lives under precarious conditions. In a typical village in the hills, a poor household relies on the produce from a small plot of land that has no irrigation facilities and is subject to erosion every year. A woman usually lives in her husband's house with his parents and siblings. The family house is made of stone and provides only 1 or 2 shared rooms. Cooking is done over an open stove in the main room. If they are fortunate, the family might own livestock such as cattle or chickens. Very little can be set aside from year to year, so they are unable to afford basic necessities. Such pleasures as a varied diet, clean water, fuel, medicines, decent clothing, and electricity may not be available. Education is considered a luxury that detracts from the time the children, especially the girls, can spend working. Water is drawn from the

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Nepal	44	9	7	5	14	5	15
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bhutan	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

local stream. Dependence on firewood has led to severe deforestation in the hills, and the women have to walk hours to forage. Health facilities are limited. If a member of the family falls sick, they may be carried along treacherous mountain paths for hours to reach a health post. Often, the men in the household leave the village in search of jobs to help support the family.

A prosperous family in Kathmandu may derive its wealth from an aristocratic legacy, or modern occupations such as business, law, or medicine. They may have houses in the urban center that can be rented out, and also own land worked by tenant farmers outside the Kathmandu Valley. Together, a wealthy married couple can earn upwards of US$6,000 a year. The easy availability of domestic workers from rural villages allows the wife to delegate household chores. The education of the children is perceived as fundamentally important in securing a future in modern Nepal. They study in private English-medium boarding schools and go on to complete college degrees abroad. Health services in Kathmandu are good in comparison to the rest of the country, but serious problems such as cardiovascular disease are entrusted to doctors in India or Thailand. Despite the irregular supply of electricity in the Valley, the family will have a range of electrical appliances and might have invested in a computer with Internet access. Their lives in Kathmandu are very comfortable, but they share with the poor the common problems of water and electricity shortages, frequent strikes, and the threat of political violence.

WORKING CONDITIONS

Working conditions in Nepal are largely unregulated. For the minority of the population working in the formal economy, labor laws allow for a 6-day, 48-hour week with 30 days of annual leave, 15 days of sick leave, basic health and safety standards, and some benefits. The amended Factories and Factory Workers' Act 1977, which set out these standards, was revised following the democratic transition in 1990. In the Kathmandu Valley, a 5-day, 40-hour week with 25 days of annual leave has been implemented. In 2000, unemployment was 14 percent, and underemployment 47.5 percent. The latter is a common feature of the agricultural sector, where work patterns are determined by the planting and harvest seasons, and alternate opportunities may be either unavailable or culturally unattractive. Skilled labor is severely limited in Nepal, and a quarter of the **labor force** is composed of Indians. This shortage has hampered the development of the industrial economy.

In practice, laws passed to protect workers have hardly been implemented. Working conditions in the family-run farms and businesses that drive the economy retain both positive and negative features of power structures within the family. So while arrangements may be more cooperative, women and girls bear the brunt of the drudgery, leaving the men to reap the benefits and have time for leisure. This is particularly true of rural Nepal. Larger farms which employ tenant farmers often maintain feudalistic structures of patronage. Safety and health standards in industry are also widely neglected.

The democratic change in 1990, especially in the light of communist success, has altered the dynamics of labor in Nepal. Labor unions, restricted prior to 1991 along with political parties, now operate nationally, overseen by the General Federation of Nepalese Trade Unions (GEFONT). In 1991, labor union membership included 30 percent of non-agricultural workers. Workers regularly carry out strikes, and deadlocks in negotiations with government and industry have caused great inconvenience in urban centers such as Kathmandu. Strikes in recent years by public transport drivers and trash collectors are examples of this disruption. In early 2001, a dispute between workers in the tourist industry and the hotel association concerning the inclusion of service charges led to a temporary breakdown in services. Nepal's export-oriented industries have also had to adjust to the demands of Western consumers. In 1994, the Nepalese government responded to negative publicity in Europe over the prevalence of child labor in the carpet industry, and continues

to work with non-governmental organizations to eliminate this problem.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

c. 563 B.C. The Buddha (Prince Siddhartha) is born in Lumbini, in the Tarai region of Nepal.

c. 400–750 A.D. Licchhavi kingdom in power in Kathmandu.

1100–1484. Khasa Malla kings rule in western Nepal.

1484. Malla kingdom divided; the 3 kingdoms of Kathmandu, Bhadgaon, and Patan are established.

1769. Nepal emerges as a unified state under the leadership of Prithivi Narayan Shah, who has waged his campaign from Gorkha in midwest Nepal. For the next half century, the economy is geared towards military expansion pursued by successive Shah rulers and their administrators.

1791–92. War between Nepal and China.

1814–16. Nepal is at war with Britain; hostilities are ended with the Treaty of Sugauli, which reduces the territory of Nepal.

1846. Jang Bahadur establishes hereditary Rana rule.

1854. The country's first legal code is proclaimed.

1855. Nepal goes to war with Tibet, which results in duty-free privileges for Nepalese traders and payment of tribute from Tibet.

1923. Treaty of Friendship is signed with Britain, confirming the independence of Nepal and a special relationship with the British Empire.

1950–51. The first democratic revolution takes place in Nepal, leading to the end of the Rana regime and the rehabilitation of the Shah dynasty. The government signs the Treaty of Trade and Commerce with India.

1955. Nepal is admitted to the United Nations.

1956. The first 5-year plan of economic development is drawn up.

1959. The first general elections are held in Nepal. The Nepali Congress Party is elected to government with Bishweswor Prasad Koirala as prime minister.

1960. Important revisions are made to the Trade and Transit Treaty with India. King Mahendra dismisses the elected Nepalese government and imprisons political leaders.

1962. The Panchayat system is established. The Land Reorganization Act and a new legal code are established.

1972. King Mahendra dies and is succeeded by King Birendra.

1980. A national referendum votes to support the Panchayat system.

1985. Nepal becomes a founding member of the South Asian Association for Regional Cooperation (SAARC).

1989. Failure to renegotiate the trade and transit treaties with India results in economic disruption.

1990. Popular protests led by the Nepali Congress and the United Left Front Coalition lead to the establishment of multiparty democracy.

1991. General elections are won by the Nepali Congress. Girija Prasad Koirala becomes prime minister.

1994. The Communist Party of Nepal (UML) wins mid-term elections and forms a minority government under Man Mohan Adhikari.

1995. A coalition government is formed under Sher Bahadur Deuba of the Nepali Congress.

1997–98. Successive coalition governments take power following the collapse of the Deuba government.

1999. General elections bring a new government under Krishna Prasad Bhattarai of the Nepali Congress. He is replaced by Girija Prasad Koirala the following year.

2001. The Crown Prince Dipendra opens fire on a family gathering at the royal palace, killing 9 members of the royal family, including the king and the queen. Dipendra dies of a self-inflicted wound. Widespread mourning and rioting accompanies the ascension to the throne of Gyanendra, the surviving brother of the late king.

FUTURE TRENDS

Many observers have characterized Nepal as a country spanning the medieval and modern ages. The urban-rural divide illustrates this split. Nepal is in limbo, a condition that has managed to perpetuate itself through half a century of development planning and massive infusions of foreign aid. Undeniably, the country has made great progress since it opened up to the world, particularly in establishing a basic infrastructure in transport, communications, health, and education. However, its difficult topography, coupled with inefficiencies that are the legacy of an enduring system of feudalistic patronage in society and government, mean that the results of development plans rarely match expectations.

Economic gains in various sectors have been offset by population growth and environmental degradation, both poised to become even more problematic in the future. The disparity between rich and poor is growing, and discontent in the countryside bodes ill for the stability of a country that depends heavily on tourism. While Nepal has continued to prioritize liberalization and privatization of its economy in order to encourage growth and attract investment, the political problems of the last decade have hardly fostered a conducive environment. Until these policies are allowed to bear fruit, Nepal will not be able to break out of the shackles of its subsistence agriculture economy and develop industrially.

Cottage industries exporting goods such as carpets and garments will continue to grow. Tourism, as long as visitors remain safe from internal instability, will remain crucial to the economy. Foreign aid—so far mismanaged, underutilized, and responsible for a debt burden that demands servicing—is set to provide the bulk of development funds in the years to come. The development of large hydroelectricity projects could bring considerable benefits, but these carry inevitable social and environmental consequences. Ultimately, until Nepal achieves democratic stability and the institutional culture demonstrates that it is prepared to deal with corruption at every level, it will fail to achieve economic prosperity. The emigration of peasants and highly educated urbanites will also continue, draining Nepal of valuable population resources. The benefits of development have accrued to the rich, privileged, and educated; as in olden times, the country lives in the shadow of the Kathmandu Valley.

DEPENDENCIES

Nepal has no territories or colonies.

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—Rabi Thapa

NEW ZEALAND

CAPITAL: Wellington.

MONETARY UNIT: New Zealand dollar (NZ$). One dollar equals 100 cents. There are coins of 5, 10, 20, and 50 cents, and of 1 and 2 dollars. Notes are of 5, 10, 20, 50, and 100 dollars.

CHIEF EXPORTS: Dairy products, meat, forestry products, fish, fruit and nuts, wool, manufactures.

CHIEF IMPORTS: Mechanical machinery, vehicles, electrical machinery, fuels, plastics, technical equipment, aircraft, paper products, pharmaceuticals.

GROSS DOMESTIC PRODUCT: US$63.8 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$12.2 billion (f.o.b., 1998). **Imports:** US$11.2 billion (f.o.b., 1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. New Zealand is an archipelago (group of islands) located in Oceania, southeast of Australia. The 2 main islands are North Island (Te Ika a Maui) and South Island (Pounamu), with some near onshore islands and smaller outlying islands including Chatham Islands, Kermadec Islands, and Auckland Islands. Its total land area is 268,670 square kilometers (103,733 square miles), making it about the size of the state of Colorado, with a coastline of 15,134 kilometers (9,404 miles). The capital, Wellington, is located at the south end of North Island.

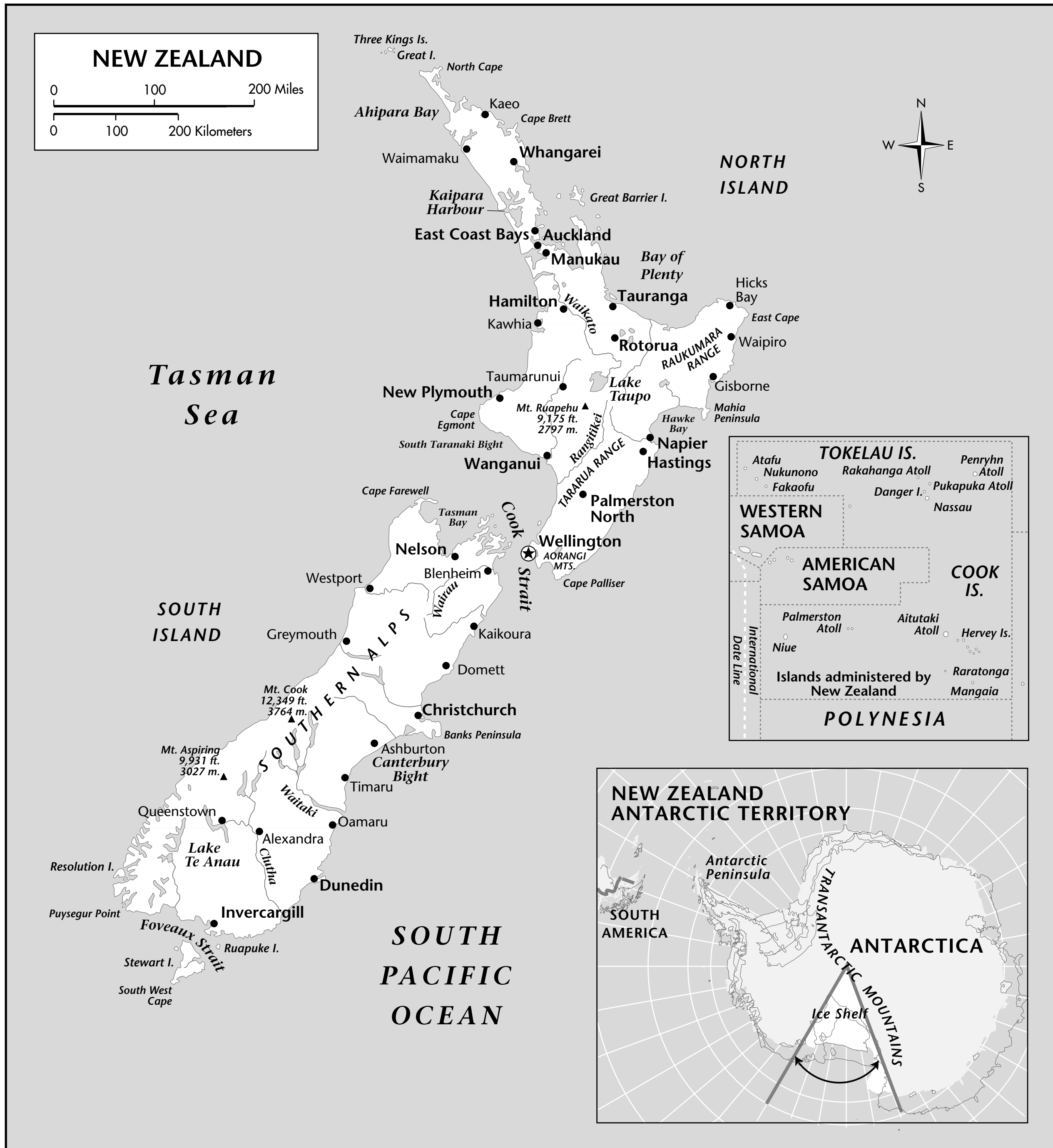
POPULATION. The population of New Zealand was estimated at 3,862,000 in mid-2000, an increase of 12.4 percent from the 1996 census population of 3,434,950. Between the censuses of 1991 and 1996, New Zealand had the highest rate of growth in the Organization for Economic Cooperation and Development (OECD), partly resulting from high levels of **immigration**, but also as a result of a relatively young population. In 2000 the birth rate stood at 15.3 per 1,000 population while the death rate was 7.8 per 1,000 population. With a projected annual population growth rate of about 1 percent between 1996 and 2010, the population is expected to reach 4,207,000 by 2010.

In most years, New Zealand has a net migration loss of New Zealand citizens who move to Australia, the United Kingdom, and elsewhere, so one of the objectives of its recent immigration policy (1987) is to offset this loss with new migrants, preferrably those with skills and investment capital. While migrants from the United Kingdom continued to arrive as they had throughout the 20th century, a significant new migration stream came from Asia especially from China, Taiwan, Hong Kong, and Korea. These new populations, together with Pacific peoples who arrived in earlier decades, have resulted in an increasingly multicultural society. In 1996 about 72 percent of the population considered themselves of European ethnicity, down from about 81 percent 10 years earlier. The indigenous Maori made up nearly 15 percent of the population, Pacific people 6 percent, and Asians about 5 percent. The Asian population had increased the most rapidly, from only 1.5 percent 10 years earlier.

By most standards, New Zealand is sparsely populated, with an average of only 13 persons per square kilometer. This population is unevenly distributed, with three-quarters on North Island, and one-third in the largest city, Auckland. Over the years, Auckland has grown faster than the rest of the country, being the center of much manufacturing and, more recently, service industries. More than half of all migrants have settled in Auckland, and of new migrants from the Pacific and Asia, about two-thirds have settled there.

OVERVIEW OF ECONOMY

Throughout the 20th century, New Zealand has been considered to be a nation of primary production, with exports being predominated by meat, wool, dairy products, timber, and fish. However, by 1999 agricultural exports had declined to about half of all exports, and less than 10 percent of the workforce were employed in agriculture. Nevertheless, agriculture remains an important



element in the economy and there have been ongoing moves to diversify the agricultural base. In recent years, horticulture has become more important; significant exports include apples, citrus fruit, kiwifruit, stone fruit, squash, and many other products. Wine production has increased rapidly in the last 2 decades, and New Zealand's reputation for its wines is growing.

Traditional sectors of agriculture still have great potential. With the **devaluation** of New Zealand's currency in recent years, producers of dairy products, meats, and wool have found their products very competitive on the world market and have increased their incomes substantially. Further, it is expected that as international trade **tariffs** decline, New Zealand will gain access to markets in which its products will be even more competitive.

Manufacturing has increased dramatically since World War II. With a comparative advantage in food processing, this sector led the post-war manufacturing boom.

With the protectionism of the 1950s and 1960s (i.e. high tariffs/taxes on imports), manufacturing diversified into many areas of **import substitution**, including textiles and footwear, home appliances, furniture, machine construction, automobile assembly, and many others. Following an economic restructuring program that began in 1984 with the election of a new government, some of these industries were exposed to increased international competition with the progressive reduction of tariffs. Some have done well, others have declined, and one has disappeared (the automobile assembly industry).

Most industrialized countries have had the greatest growth in services in the late 20th century. By 1998 in New Zealand, services accounted for 69 percent of **gross domestic product** (GDP) and fully 65 percent of wage and salary employment. Important sectors include government services such as general administration, education, and health. In the **private sector**, major growth areas have been tourism and specialized services in business advice, real estate, computing, and telecommunications. Tourism is often seen as the industry of the future, and New Zealand has experienced a steady increase in visitor numbers and an expansion of tourist **infrastructure**. Financial services have been especially affected by **deregulation** after 1984, and much of that sector has been acquired by foreign corporations.

POLITICS, GOVERNMENT, AND TAXATION

New Zealand is a parliamentary democracy with the British queen as the nominal head of state. It has a **unicameral** (1 house) parliament with 120 seats; half of these represent constituencies and the other half are "list" seats. In the mixed member proportional (MMP) system established in 1996, each voter has 2 votes: 1 for the constituency member of parliament and 1 for a party. After the constituencies are declared, the list seats are calculated so that a party's representation in parliament is similar to the party vote that they received in an election. In contrast to the "first past the post" system in which 2 parties predominate (as in the United States), MMP has allowed smaller parties to be represented, although they must either have a constituency member of parliament elected or get a minimum of 5 percent of the national party vote to qualify for list seats.

Throughout the 20th century, until 1996, the political system was dominated by 2 political parties: a conservative party called "National" since the 1930s and a liberal/left wing party called "Labour." The first Labour Party government was elected in 1935 and began constructing a **welfare state**, building state housing, and investing in health and education. New state enterprises were established. From the 1940s to the 1970s the Labour and National parties exchanged control several times, but the welfare state remained intact. Ironically, the election of a new Labour government in 1984 began a movement to weaken the welfare state and to reduce the role of government in the economy (a "monetarist" approach). The reforms instituted by the new government included progressive tariff reductions, **privatization** of many state enterprises, and cutbacks in some social services. These policies were pursued and, in some cases, strengthened by the National Party government elected in 1990; for example, there were cutbacks in social welfare payments and more privatizations. It was not until the election of 1999 that some of these policies were slowed or reversed with the election of a coalition government led by the "reformed" Labour Party in coalition with the "left-wing" Alliance Party.

The impact of MMP on the political system has been considerable. The 2 governments elected since 1996 have been coalitions, first of "the right" and then of "the left." In each parliament, several smaller parties have held 5 or more seats and, in some cases, have had an influence on coalition government policy. The smaller parties range from the ACT Party, which advocates more radical "monetarist" reforms than those already undertaken, to the Green Party, which has among its parliamentary members advocates for legalization of marijuana and environmentalists of various types.

Income tax is the largest source of revenue for the government, accounting for 46 percent of all taxes in 1998–99 (with an additional 5 percent withholding tax on interest and dividends). A Goods and Services Tax (GST) was instituted in 1996 and currently stands at 12.5 percent on virtually all goods and services; this tax contributed 26 percent of tax revenue. Company tax contributed only 12 percent to revenue in 1998–99 while the other 11 percent of tax came from various **duties**. There is a 3-layered income tax system, with income up to NZ$38,000 a year taxed at 19.5 percent, then income above this and up to NZ$60,000 taxed at 33 percent, and income above that is taxed at 39 percent. Companies are taxed at a flat rate of 33 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

New Zealand's transport network is relatively modern. Of its 92,075 kilometers (57,086 miles) of roads, about 60 percent are paved, and over US$225 million was spent on road construction and maintenance in 1999. Most major cities and towns are linked by bus services and some by rail, but the private car is the predominant mode of transport. There are 3,973 kilometers (2,463 miles) of railways running the length of the country, although these now mostly carry freight rather than

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
New Zealand	216	990	508	1.3	203	N/A	282.1	476.18	700
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Australia	293	1,376	639	43.6	286	48.6	411.6	477.85	6,000
Papua New Guinea	15	97	24	N/A	1	N/A	N/A	0.49	2

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

passengers. In North Island about 500 kilometers of the railway network is electrified. Large train/truck/car ferries link the North and South Islands with frequent services.

Throughout the country there are 111 airports, with 44 of these having paved runways. Domestic air services are predominantly provided by 2 airlines: Air New Zealand and Qantas New Zealand (which bought out Ansett New Zealand in 2001). Air New Zealand flies to at least 21 destinations in Australia, Asia, North America, Europe, and the Pacific Islands. In 2000, 24 international passenger airlines and at least 4 freight-only airlines flew into New Zealand. In addition to commercial flying, New Zealand is a global leader in the number of aviators per capita who pilot small, privately-owned aircraft: there is roughly 1 pilot for every 430 people, and 1 aircraft for every 1,170 people. At least 5 ports in the country can service large international shipping.

New Zealand's system of utilities is extensive and modern. Large hydroelectric dams, mainly in South Island, generate about 65 percent of electricity. Most of the rest is generated by fossil fuels, although 6 percent comes from geothermal plants, and small amounts from wind, wood, and biogas. Gas is piped from oilfields in the west of North Island, mostly to larger population centers.

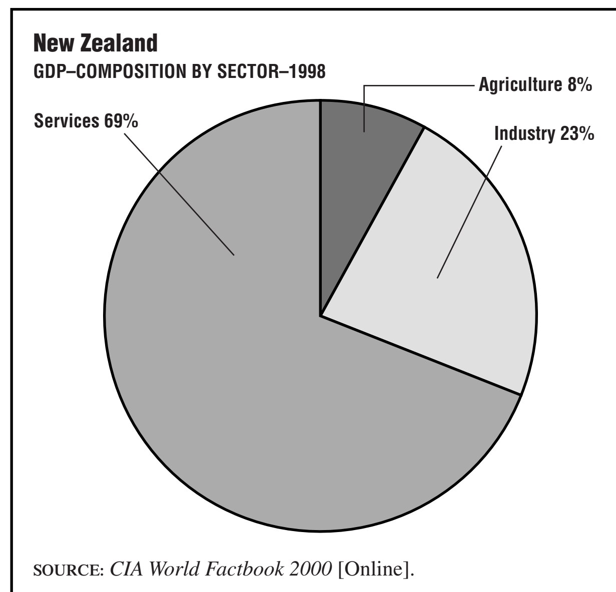
The telephone system is modern and extensive with 96 percent of New Zealand households having a telephone in 1996. In 2000, about 30 percent of New Zealanders also had a cellular phone. As part of the privatization program of the 1980s, the telephone system was sold to a consortium of American companies. Currently, Telecom is the largest operator, but other companies have entered this very lucrative market.

In 1999 there were at least 80 Internet service providers in New Zealand and in the following year over 1 million Internet users; around 52 percent of the population had some sort of Internet access. In 2000 there were 46,000 .nz domain names, although some New Zealand websites also used generic names such as .com and .org.

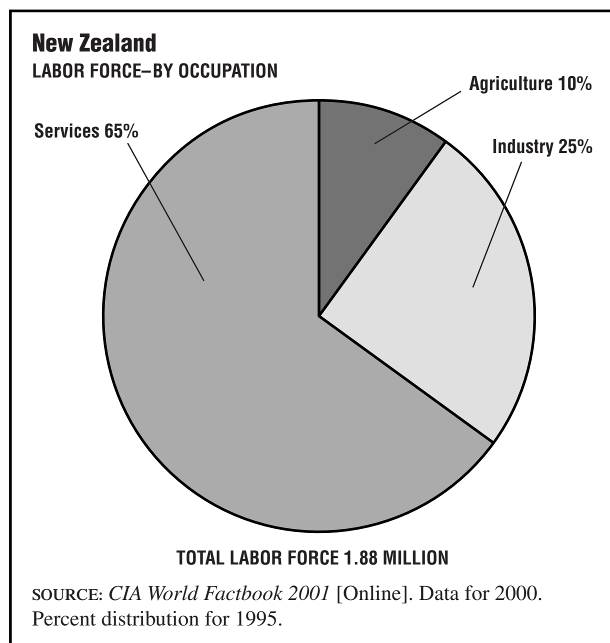
ECONOMIC SECTORS

Despite its reputation as a country of primary production, the contribution of agriculture, fishing, and hunting to New Zealand's gross domestic product was only 8.4 percent in 1999. This proportion has been slowly declining since the early 1980s. The relative decline in industry has been even more dramatic, falling from 32.1 percent in 1975 to 23.2 percent of GDP in 1999. This has been partly a result of economic restructuring under which tariffs have been dramatically reduced on manufactured imports, but it also follows the trend in most industrialized countries away from manufacturing and other sectors in "industry" to services. However, the growth of the latter has not been great in relative terms in New Zealand. Services have increased only slightly from 45.3 percent in 1975 to 47.2 percent of GDP in 1999. Aspects of the economy which do not fit into the 3 service sector categories have increased the most over the last quarter century. These include gen-

New Zealand
GDP–COMPOSITION BY SECTOR–1998



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1995.

eral government transactions and the increasing value of owner-occupied dwellings.

AGRICULTURE

New Zealand has been considered an agricultural country since the 19th century, when the introduction of refrigerated transport allowed its sheep and dairy industries to expand to provide the United Kingdom with meat, wool, butter, and other agricultural products. Throughout the 20th century agricultural imports have remained important to the New Zealand economy, contributing 50 percent of all export income in 1999. At the same time, with increasing mechanization and the rapid growth of other sectors, the proportion of the population working in agriculture (including fishing and forestry) declined steadily from about 37 percent in 1901 to 9.4 percent in 1999.

Pastoral farming involves the raising of sheep, cattle, and more recently other animals such as deer and goats. An often-heard statistic is that there are 20 sheep for every person in New Zealand, and this was true in 1981 when there were 80 million sheep on the land. As other types of farming have become popular, the number of sheep has declined to 45 million, so there are only about 12 sheep per person now. There are also about 5 million beef cattle, 4 million dairy cattle, and 1.2 million domestic deer. Sheep and beef meats comprised 12.5 percent of exports in 1999 and are processed at plants in various parts of the country for shipment to many parts of the world, notably Europe and North America, but also increasingly Asia. Wool is also an important export, and while Europe is the traditional destination for this export, increasing amounts are going to China for processing.

In terms of export income, dairy products have the highest value of agricultural products, making up 17 percent of exports in 1999. Dairy farms are found throughout the country, but certain areas are particularly well known as dairying areas, such as Waikato and Taranaki in North Island. The supply of fresh milk to New Zealanders explains the location of dairy farms near larger towns, but most dairy production is destined for international markets, and farms which produce for this market must locate wherever production conditions allow. There are a range of dairy products exported, but the most important are butter, cheese, and milk powders. The market for these products is wide; for example, in 1999 there were exports to all continents, with substantial quantities going to Latin America and Africa.

After pastoral farming, the next most important type of farming is horticulture, the growing of fruits and vegetables. New Zealand's climate is suitable for a large variety of fruit ranging from temperate fruit such as apples, pears, peaches, plums, and cherries, to subtropicals such as avocados, passionfruit, grapes, and kiwifruit, as well as many other citrus fruits. In terms of area planted and exports sales, the 2 most important of these in recent years have been apples and kiwifruit. The latter were rebranded from Chinese gooseberry when New Zealand producers started commercial production, and then controlled most of the world supply of this fruit in the early 1980s. Since that time, many other countries have started growing kiwifruit, and the New Zealand industry had a difficult time in the 1990s with problems of oversupply and low world prices (at least compared to the 1980s).

Another important and rapidly growing part of the horticultural industry is grape growing, especially for production of wine. Although wine has been produced in New Zealand for 150 years, the growth of the wine industry has been most dramatic in the last 20 years. The land area in grape production has steadily increased and the areas of production have diversified so that drinkable wine is now produced near the northern tip of the country as well as in the south-central area of South Island. Favored grape varieties include cabernet sauvignon, merlot, pinot noir, and chardonnay, but New Zealand has become best known for its sauvignon blanc. The most important destinations for New Zealand wine are the United Kingdom and Australia.

FORESTRY. Products based on the forestry industry, including logs, processed wood, wood pulp, and paper, make up just over 10 percent of exports by value. In the past, logging has taken place in the indigenous forests of New Zealand, but the depletion of these forests and the strong political support for their conservation have resulted in an end to this practice. The timber industry is

now centered on the exotic forests, mainly of pine, first planted during the depression of the 1930s, but much expanded from the 1970s onwards. The original planting was done by the state, but in recent years private companies have undertaken nearly all new planting. The largest forests are in the center of North Island, but smaller plantations are found in various parts of the country. The main destinations for forestry products are Australia, Japan, Korea, and the United States, and while a great deal of processing takes place in New Zealand, there is also a large trade in unprocessed logs.

FISHING. New Zealand has an **Exclusive Economic Zone** (EEZ) of 1.3 million square nautical miles, an area about 15 times its land mass (the EEZ extends 200 miles from the coast and is the area in which a country has rights to economic resources such as fish). However, in much of this area the waters are extremely deep and not suitable for many of the commercially significant fish species. Nevertheless, fishing is still an important industry accounting for about 5 percent of exports, as well as supplying the domestic market. Each year the government assesses the maximum sustainable yields of each major species and sets a quota which is divided up between those who hold quota rights. The fishing fleet is made up of foreign-based boats as well as those based in New Zealand, which process their catch within the country. The indigenous Maori have some traditional fishing rights which are separate from the quota system, but in recent years Maori corporations have also become important in the commercial industry, having bought a company which owns about one-third of the fishing quota. A growing part of the fishing industry more generally is aquaculture, especially the cultivation of salmon, greenshell mussels, and Pacific oysters.

INDUSTRY

MINING. There is a diverse range of minerals found in New Zealand, although minerals make up only about 3 percent of exports (not counting the export of aluminum; see below). Gold has been mined since the 19th century and there is a small but steady production, as well as of silver, which is usually associated with gold. The highest value mineral production is of iron and steel, processed from black ironsands on the west coast of North Island. A nearby smelter provides iron and steel for the domestic market as well as for export. At the southern tip of South Island is a large aluminum smelter which processes bauxite from Queensland using power from nearby hydroelectric stations. The output from this smelter accounted for 4.2 percent of exports in 1999.

MANUFACTURING. Manufacturing employed the full time equivalent of 234,220 people in 1999, but this number has fluctuated considerably through time. The processing of food products has been a significant part of manufacturing throughout the 20th century, but it was after World War II that many other types developed when the government placed high tariffs on most imports. As part of the economic restructuring from 1984 onwards, that process has been reversed with a rapid reduction in tariffs on most imported manufactured goods. Often these imported manufactures come from countries with low labor costs, and New Zealand manufacturing enterprises are not able to compete on the basis of price. In some cases New Zealand industries benefitted from lower input costs, although a considerable amount of the raw materials originated in the country, and there was little saving in the costs of production. This has resulted in the decline of some sectors such as clothing and footwear and the closure of the automotive assembly industry. The impacts on other sectors have varied. The processing of food has a comparative advantage related to the strength and diversity of agricultural production in New Zealand and the fact that most food processing takes place near a source of supply. Still there has been some restructuring of this sector related to technological changes and to changing company structures (e.g. the purchase of Watties Industries by the transnational company Heinz). New Zealand has established a reputation for the production of carpets, especially those made with high quality wool. Sectors supplying the construction industry have done well during the 1990s under conditions of rapid population growth, especially in the Auckland region. With its ongoing successes in international yachting, New Zealand is also establishing a reputation for the construction of both hi-tech sailing yachts and luxury leisure boats.

SERVICES

TOURISM. Consistent with a worldwide trend, tourism has been rapidly growing in New Zealand. In 1970, there were less than 200,000 visitors each year to New Zealand, but in 1999 this number surpassed 1.5 million. About half of these can be considered as tourists, the other half being involved with business, visiting friends and relatives and other activities (although even these are likely to be "partly tourists"). The economic impacts of tourism are great, although they are difficult to measure because tourism has an impact in many different economic sectors. In 1995 it was estimated that tourism provided about 58,000 full-time equivalent jobs directly and 60,000 indirectly. In the same year it brought in about NZ$4.3 billion (US$2.7 billion), more than all dairy exports (the largest agricultural export sector).

Tourism in New Zealand is based on a variety of attractions. Most generally the country is seen as having many natural assets, including mountains, subtropical forests, beautiful beaches, active volcanoes, geothermal pools, and geysers. Many also come to see the culture of

the indigenous Maori, which is expressed in many ways, including dance and art. As international tourism has become more competitive and diverse, tourists tend to demand a broad range of attractions, so dynamic urban spaces may also be seen to be part of the total tourist experience. Thus, for example, the waterfront village in Auckland built to host New Zealand's defense of the America's Cup has become an important part of the tourist infrastructure, as has the spectacular new national museum in Wellington, Te Papa. Other forms of tourism are also expanding. **Eco-tourists** come to watch whales and dolphins or simply to walk in the forests. New Zealand has also become well known for adventure tourism with such sports as bungee jumping, white water rafting, and hang-gliding.

FINANCIAL SERVICES. Since the economic restructuring which started in 1984, there has been considerable change in the financial sector. Most controls on the financial sector were removed and there has been a rapid growth in the money market since then, especially in relation to foreign exchange. New financial institutions entered the country, and foreign investment in the financial sector accelerated, as it did in other sectors. By 1999 there were 18 banks registered in New Zealand, only 1 of which was wholly New Zealand owned. About 70 percent of this foreign ownership was Australian. In 2001 the coalition government was set to introduce a state-owned enterprise "People's Bank" which would use the existing network of New Zealand Post outlets.

The Reserve Bank of New Zealand has several roles: 1) operating **monetary policy** to maintain price stability, 2) maintaining an efficient financial system, and 3) meeting currency needs. Thus, despite the distancing of the government from intervention in the financial system, the Reserve Bank may intervene to stabilize the currency or influence interest rates or the rate of **inflation**.

RETAIL. Wholesale and **retail** trade accounted for about 16 percent of GDP in 1999. During the 1990s the parts of the retail sector that grew most rapidly were food retailing, accommodation, hotels, liquor, cafes, restaurants, and takeaways. The 2 major factors in stimulating these sub-sectors were increases in tourist numbers and changing lifestyles among New Zealanders to favor more convenience foods, eating out, and diversity of food choice. These are trends common to other industrial countries. Other parts of the retail sector are also following international trends. The move to suburban shopping malls has taken place for several decades, but a relatively recent variation is the "mega-mall" with huge barn-like stores, each catering to a particular range of products (electronics, home furnishings, sports, etc.). At the same time, huge cut-price department stores have undercut traditional department stores. In New Zealand the most successful of these has been The Warehouse whose success is similar to that of Wal-Mart in the United States.

Another international trend experienced in New Zealand in the last 2 decades is international franchising. International brand names introduced during that period include McDonald's, Burger King, Pizza Hut, Starbucks, Planet Hollywood, Borders, and Body Shop. Of course, the same trend has occurred for specific product lines.

INTERNATIONAL TRADE

Over the years, New Zealand has tended to import more than it exports, but the trade imbalance is relatively small.

The major destinations of New Zealand's exports, in order of importance, are Australia, United States, Japan, United Kingdom, South Korea, Germany, and China. The products exported to each of these countries varies considerably. For example, there is a great contrast between Australia and United States. Since Australia produces many of the same agricultural products as New Zealand, the most important exports are manufactures such as machinery, textiles, and paper products, as well as wood and mineral fuels. Exports to the United States, however, are more agricultural: meat, dairy products, fish, fruit, and nuts, followed by specialized manufactures. There is a mixture of agricultural and manufactured products flowing to Japan, while to the United Kingdom the pattern is similar to the United States.

The sources of New Zealand's imports are similar to the export destinations: Australia, United States, Japan, China, Germany, and United Kingdom. From Australia, New Zealand imports products in many of the same categories as it exports, mainly fuels and manufactures. From the United States the most important imports are machinery, aircraft, plastics, and vehicles. More than half of the imports from Japan are of vehicles, with various types of machinery making most of the rest. Through the 1990s, as trade tariffs have been reduced, New Zealand's trade within Asian countries, especially China, has increased and is likely to increase further.

Trade (expressed in billions of US$): New Zealand

	Exports	Imports
1975	2.162	3.155
1980	5.421	5.472
1985	5.720	5.992
1990	9.488	9.501
1995	13.738	13.958
1998	12.070	12.496

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: New Zealand

New Zealand dollars (NZ$) per US$1	
Jan 2001	2.2502
2000	2.1863
1999	1.8886
1998	1.8632
1997	1.5083
1996	1.4543

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
New Zealand	14,005	13,961	15,416	15,026	16,427
United States	19,364	21,529	23,200	25,363	29,683
Australia	14,317	15,721	17,078	18,023	21,881
Papua New Guinea	1,048	975	936	888	1,085

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

MONEY

A **floating exchange rate** was adopted in 1985 as part of the economic restructuring started the previous year. Before that time, the **exchange rate** was controlled in relation to a basket of currencies, and in 1984 it appeared that the New Zealand dollar was overvalued, since it was held at a value higher than was justified in terms of the country's trade and investment transactions. Through the 1990s the exchange rate has fluctuated, but from 1996 it has been steadily devalued against the American dollar, a process accelerated during 2000. The impact on the rate of inflation in the late 1990s was not as great as might be expected. One reason was that there was still a downward trend in the price of many manufactures, and many of these originated in countries whose currencies were also declining against the American dollar. Even for products originating in the United States, such as computer software, companies often kept prices down to remain competitive.

The New Zealand Stock Exchange is the only one in the country. At the beginning of 1999 there were 146 New Zealand companies and 83 overseas companies listed with the exchange. There are 3 types of stocks bought and sold on this exchange: company shares, bonds, and debentures and other loans, although the bulk of the trading is in the first of these.

POVERTY AND WEALTH

According to **United Nations Development Program**'s (UNDP) Human Development Indicator (HDI), New Zealand ranked 19th on the list of countries in terms of education, health, and the quality of life in 2001. This ranking is lower than it once was, but still definitely qualifies New Zealand as one of the world's "wealthy" countries. In terms of per capita GDP it is substantially below the American level, although between 1975 and 1998 **real GDP** per capita showed steady growth.

In the past, New Zealand has had a reputation as an equitable society because it was the first country in the world to give women the vote (1893), and it was one of the first to develop a welfare state, among other things. Yet a look at the income distribution in 1996 reveals that income is very unequally distributed, with the lowest 20 percent of income earners accounting for only 2.4 percent of all income, while the top 20 percent earned 51.8 percent, and the top 10 percent more than one-third of the total. A comparison of the data for 5 years earlier shows that in each of these last 2 categories the percentages have increased by nearly 5 percent (from 46.9 and 29.8 percent, respectively).

When gender differences are considered, it is shown that in the top 10 percent of income earners, only 22 percent are females. Although the equivalent comparison is not available by ethnicity, a comparison of median income is clear: men of European ethnic background earned 20 percent more than Maori men and 38 percent more than those of Pacific island origin.

Inequalities in income have existed for a very long time and result partly from large wage differences between professionals and managers on the one hand and unskilled laborers on the other. Minority ethnic groups and women tend to hold a disproportionate number of jobs in certain sectors, often those that are most vulnerable to economic change, such as seasonal work (e.g. fruit harvesting, food processing) and casual work (e.g. out-

Distribution of Income or Consumption by Percentage Share: New Zealand

Lowest 10%	0.3
Lowest 20%	2.7
Second 20%	10.0
Third 20%	16.3
Fourth 20%	24.1
Highest 20%	46.9
Highest 10%	29.8

Survey year: 1991

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
New Zealand	21	5	12	3	2	8	49
United States	13	9	9	4	6	8	51
Australia	24	5	9	2	16	9	36
Papua New Guinea	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

work on clothing). In New Zealand the restructuring which took place after 1984 had a considerable impact on work patterns, with many becoming unemployed in the private sector as tariffs were lowered or **subsidies** withdrawn, and in the **public sector** as government services were reduced. In the late 1980s ethnic minorities in particular were affected, with unemployment rates 2 or 3 times the national average. Workers were also affected by changes in labor legislation which reduced the power of unions (see Working Conditions section). On the other hand, many investors made large profits in the recently deregulated finance sector.

WORKING CONDITIONS

Many of the reforms that resulted in a welfare state in New Zealand were brought into effect in the 1930s and again in the 1970s by the Labour Party, which was strongly supported by labor unions. This suggests that labor unions were quite powerful in some periods. However, as the economy became increasingly service-oriented the power of the traditional unions—associated with unskilled and semi-skilled workers—declined. In 1991, a new National Party (conservative) government brought in the Employment Contracts Act (ECA), which weakened the power of labor unions. In particular it abolished compulsory unionism in which, if a high proportion of workers in a workplace voted to have a union represent them, then all workers were obliged to join. It also made it more difficult to take strike action, restricted the rights of union representatives to enter a workplace, and instituted several other restrictions which ultimately weakened union power. Soon after the Labour Party was elected in 1999, new legislation, the Employment Relations Act, overturned some aspects of the ECA once again increasing the role of unions in the workplace.

Working conditions are regulated by several acts of parliament. The minimum wage in 2000 was NZ$7 an hour for adult workers and NZ$4.20 an hour for those aged 16 to 19. Minimum annual leave after 1 year of employment is 3 weeks, and there are 11 public holidays a year for which a worker must be paid if they fall on days which would otherwise be working days for them (Christmas and New Year's Day must be compensated regardless). The number of hours in the workweek are not legislated, but must be outlined as part of an employment contract; if nothing is explicitly stated in the contract, it defaults to a 40-hour workweek. Parental leave is available to either a mother or a father, and time periods vary according to particular conditions. Parental leave is currently unpaid, but under debate during 2001 is a more comprehensive system of paid parental leave.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1300 A.D. Evidence of human habitation on Aotearoa (New Zealand).

1642. Dutchman Tasman first European to sight "Staten Landt"; later renamed "Nieuw Zeeland."

1769. James Cook claims country for Great Britain.

1790s-1800s. Ongoing Maori-European (Pakeha) contacts: whaling, timber, spread of disease.

1840. Treaty of Waitangi between British Crown and many Maori chiefs cedes some political powers to British but maintains indigenous rights in perpetuity.

1860s. Land wars fought between Maori and British administration/settlers; Maori armed resistance ends in 1872 after loss of much land.

1882. First shipment of frozen meat to England.

1907. New Zealand becomes a dominion.

1914–18. World War I; New Zealand takes over Samoa from Germany.

1935. First Labour government elected; state housing program started.

1939–45. World War II; New Zealand troops in Africa, Europe, Pacific; bulk purchases of farm produce for war effort.

1950s. Manufacturing industry expands; Maori urbanization for employment; beginning of substantial Pacific immigration.

1960s. National government in power; open access to British market for farm products.

1972–75. Labour government in power.

1975–84. National government in power; New Zealand butter quotas set by European Commission; wage and price freeze.

1984–91. Labour government undertakes economic restructuring including reduction of tariffs, abolition of subsidies to agriculture, regions etc., privatization, reduction of government services.

1987. International and New Zealand stock market crash following period of much property speculation in New Zealand.

1991–99. National coalition government in power; Employment Contracts Act introduced; welfare benefits cut; further privatization.

1999. Labour-Alliance coalition government elected on reformed policies focusing on preservation of government services, more pro-labor stance.

FUTURE TRENDS

At the turn of the century there were mixed feelings about the economic future of New Zealand. The country has been quite successful in diversifying its agricultural base, and there is optimism that international trade **liberalization** will benefit producers who are efficient by world standards. There is an ongoing focus on identifying new niche markets whether they are in new varieties of wine, more exotic varieties of subtropical fruit, or in ostrich feathers. In the manufacturing sector there is ongoing concern about the degree to which New Zealand industries can compete with countries with low labor costs in Asia and elsewhere. Once again, there is some optimism that niche markets will boost manufacturing, with recent examples including carpet weaving and yacht construction. At the same time, there are regular reminders of the problems of global trade liberalization, with factories being closed or relocated to other countries which have lower rates of pay and government subsidies.

Further hope is found in the service sector. In particular, tourism is likely to continue to expand, although to some extent this may depend on the cost of international air travel. If airfares continue to decline in real terms as they have for some years, that will benefit New Zealand, distant as it is from major markets. However, if prices are increased substantially by fuel increases or the impact of global alliances, then New Zealand's tourism future may be more problematic. There have also been some successes in areas of high technology such as the software industry, and if New Zealand manages to fulfill its objective of achieving a "high knowledge" economy there are likely to be many other possibilities.

There are also areas of concern or even pessimism. For some, the socioeconomic inequalities which have increased during the period of economic restructuring are likely to increase under ongoing trade and investment liberalization. The restructuring has driven down wages for unskilled workers while at the same time provided large profits for investors in some sectors. The way in which these issues are resolved will depend on the economic and social policies of the new government.

DEPENDENCIES

New Zealand has no territories or colonies.

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—Wardlow Friesen

OMAN

Sultanate of Oman
Saltanat ‘Uman

CAPITAL: Muscat.

MONETARY UNIT: Omani riyal (OR). One OR equals 1,000 baiza. Coins are in denominations of 500, 250, 200, 100, 50, 25, 10, and 5 baiza. Paper currency comes in denominations of OR50, 20, 10, 5, and 1, as well as 500, 250, 200, and 100 baiza.

CHIEF EXPORTS: Petroleum, re-exports, fish, metals, and textiles.

CHIEF IMPORTS: Machinery and transport equipment, manufactured goods, food, livestock, and lubricants.

GROSS DOMESTIC PRODUCT: US$19.6 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$7.63 billion (f.o.b., 1997 est.). **Imports:** US$5.682 billion (f.o.b., 1997 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Sultanate of Oman borders the Arabian Sea, the Gulf of Oman, and the Persian Gulf and shares borders with Yemen, the United Arab Emirates, and Saudi Arabia. Oman has an area of 212,460 square kilometers (82,030 square miles) and a coastline that totals 2,092 kilometers (1,299 miles). Comparatively, Oman occupies an area slightly smaller than Kansas. Muscat, Oman's capital, is located on the country's northeastern coastline.

POPULATION. In July 2000 the population of Oman was estimated at 2,533,389, of whom 2,006,311 were Omani and 527,078 were non-Omani. Large expatriate communities (communities of foreigners who have left their own country to live and work abroad) are very common in the Gulf countries on account of the oil and services industries. In Oman many unskilled expatriates from Asia are employed to carry out menial jobs, although this community has been declining slowly since 1996. The Omani population increases on average by 2.7 percent a year and, as a result, the country has a very young population. Some 47 percent of Omanis are under the age of 20 compared to only 4 percent who are over the age of 60. In 2000 the birth rate stood at 38.08 births per 1,000 population, while the death rate stood at 4.16 per 1,000. With a projected annual population growth rate of 3.46 percent, the population is expected to reach 3,848,217 by the year 2015.

The majority of the Omani population is Sunni Muslim, but a substantial number of people—including the ruling family—follow Ibahism, an offshoot of Shia Islam. Given Oman's long trading history, its population is a mixture of different races and even one of its most prominent mercantile families is of Hindu descent. Oman was a hub for the slave trade in the 18th and 19th century and although this practice was abolished in the 20th century, many continue to work for the families that previously owned their ancestors.

Employment in Oman is largely dependent on nationality. In the **public sector**, Omanis held 70 percent of the jobs in 1999, while in the **private sector**—which contains most of the lower-paying jobs—90 percent of the employees were from foreign countries. Rising unemployment in Oman has forced the government to realize that it can no longer pursue its policy of guaranteeing jobs to young Omanis entering the labor market and it is now focusing on increasing employment opportunities for Omanis in the private sector. Oman has seen a dramatic migration of people to the cities in search of better jobs; the largest proportion of the population is found in the capital city Muscat and in the larger northern towns of Suhar, Nizwa, and Sur.

OVERVIEW OF ECONOMY

Historically, Oman has been a gateway for trade between Asia and the Middle East. Its capital, Muscat, is

the country's most developed city as well as the center of economic activity, thanks to its coastal location. The strategic Musandam peninsula gives Oman control over the land adjacent to the vital Strait of Hormuz, through which a majority of the world's oil passes. Oil is the most important factor in the Omani economy and it is the oil industry that is the catalyst for growth in **gross domestic product** (GDP). GDP growth averaged 4.4 percent between 1993 and 1996, reached 6.2 percent in 1997, and fell to 2.9 percent in 1998 due to the crash in global oil prices. Crude oil has accounted for over 30 percent of Oman's GDP since 1980. Oman differs from other Gulf countries such as Saudi Arabia and the United Arab Emirates in that its reserves of oil are difficult to extract from the ground, limited in quantity, and predicted to run out in 17 years. Given that the oil industry is not labor intensive, the population in the Sultanate is growing rapidly, and the public sector is over-staffed, there is a serious unemployment problem in the country. However, the government has never released any unemployment statistics and no credible estimates have been made since 1995 due to international skepticism about the official population figures.

Oman is a free market economy, but the government is at present the most important factor in the economy, both as an employer and as a purchaser of goods and services. The Omani economy has been growing steadily over the last 25 years and considerable development has taken place. However, with the fluctuations in the global price of oil, an oil industry that will soon be negligible, massive investments made in **infrastructure**, and hence shrinking **foreign exchange reserves**, there is a pressing need to diversify the economy. It is especially important to expand the sources of export earnings as well as to provide jobs for a growing population. These 2 goals form the basis of Oman's policy initiatives. The government has encouraged private domestic and foreign investors to take the lead in promoting these initiatives, and a period of structural transformation from primary to manufactured exports has begun. In the late 1980s the government's commitment to economic diversification coincided with the discovery of abundant natural gas and since this time, drilling sites for both gas and oil are to be found all over the country. The Omani government has announced that it intends to implement a 5-year plan (2001–2006) in order to address these important challenges. In addition, policymakers will also have to focus on Oman's membership in the World Trade Organization (WTO). This will expose the country to even more foreign competition.

Political parties in Oman are not legal, but the major trading families who control the bulk of the country's trade and industry are very powerful groups and are represented in the government. In 1998 Oman received US$509,100,000 in official development assistance, the largest portion of which came from the United Kingdom, a country with which Oman enjoys strong ties. Oman also has a good relationship with the European Union and much improved relations with the United States; its main trading partners are Japan and China. The economy's main exports are oil, live animals, animal products, textiles, base metals, and mineral products. Before the discovery of oil in the 1960s, the Omani economy was dependent on agriculture, however, in 1999 this sector accounted for 2 percent of GDP due to the lack of water supply. Nevertheless, it still employs a large number of people along the northern coast and in the south.

POLITICS, GOVERNMENT, AND TAXATION

Oman has been ruled by the Royal Al Bu Sa'id family since the 18th century. Political parties are not allowed in the country and there are no directly elected representatives. The current sultan, Qaboos Bin Sa'id Al Sa'id, overthrew his father in a palace coup in 1970 and seized the throne. Although the family has traditionally ruled over all state affairs, the new sultan has been careful to balance tribal, ethnic, and regional interests and as a result he has placed several tribal leaders in the government. In 1991 the sultan established the 59-seat Consultative Council, or Majlis Ash-Shura, to act as a consultative body, thus allowing a limited form of political expression. The government selects council members from lists of nominees proposed by each of the 59 wilayats (regions). Nevertheless, the country is an absolute hereditary monarchy and the sultan still rules by royal decree. He can appoint and fire all council ministers as well as ministers in the defense department, the department of foreign affairs, and the department of finance.

Oman did not have a constitution until 1996, when the sultan promulgated (proclaimed) the "Basic Law" by decree. This basic law clarifies the royal succession, provides for a prime minister, bars ministers from holding interests in companies doing business with the government, establishes a **bicameral** legislature, and guarantees basic civil liberties for Omani citizens. The legislature has no power to overturn the sultan's wishes. Its role has been purposefully ill-defined so as to render it a fairly ineffective body. The state promises to provide health care and education for all citizens as well as maintain security through the use of the army. Basic freedoms such as freedom of the press are touched upon, however, they are not clearly defined and are still very restricted. The Omani legal system is based both on English common law and Islamic law. The ultimate authority in law remains the sultan and he has not yet accepted compulsory jurisdiction of the International Court of Justice (this institution has its seat in The Hague and is the principal judicial organ of the United Nations).

The major source of government revenue does not come from taxation but from oil revenues. The only **direct taxes** in Oman are **income tax** (which ranges from 15 to 45 percent) and some regional taxes; the only **indirect tax** is customs **duty**. There are 5 percent taxes on hotel and restaurant bills, a 2 percent tax on electricity bills exceeding OR50. Oman makes no distinction between resident and non-resident companies. If a company has income from Oman that requires occasional visits to the Sultanate, the income will be considered taxable. Tax rates on non-petroleum, foreign-owned firms were lowered in October 1996 for all except those firms with greater than 90 percent foreign ownership. The nature of the relationship between the petroleum companies and the government will often govern taxation and royalties on petroleum producers. Labor law and the Oman tax law also affects a foreigner's ability to do business in Oman. There is no complete body of regulations codifying these laws and many government decisions are made on an ad hoc basis.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Due to the large-scale program of road construction carried out by the Ministry of Communications over the past 3 decades, there are now approximately 6,000 kilometers (3,720 miles) of paved roads and 24,000 kilometers (14,880 miles) of unpaved roads in Oman. In 1970 there were only 10 kilometers (6 miles) of paved roads and about 1,700 kilometers (1,054 miles) of unpaved road in the entire country. The number of licensed automobiles on the road increased from 261,627 in 1992 to 404,375 in 1998 and this increase in traffic also led to an increase in the number of road deaths from 218 in 1992 to 478 in 1998. Oman does not have a rail system.

The country's main airport, Muscat Seeb International, has a capacity of 1.3 million passengers. The

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Oman	29	598	595	0	43	2.7	21	2.87	50
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Saudi Arabia	57	321	262	N/A	31	N/A	49.6	1.17	300
Yemen	15	64	29	N/A	1	N/A	1.2	0.02	10

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

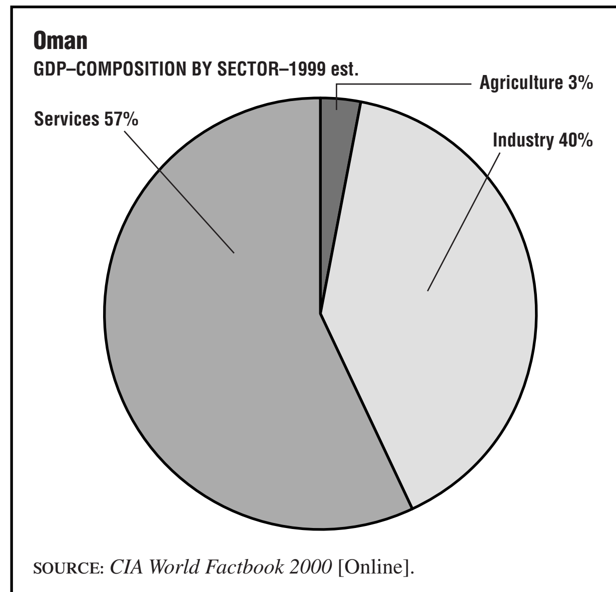
SOURCE: World Bank. *World Development Indicators 2000.*

airport has been fully modernized and boasts duty-free shopping areas, impressive lounges, and large transit areas. The main runway has been extended to 3,585 meters (11,760 feet) and the passenger terminals have been expanded to handle 3,000 passengers an hour. In 1995 the total number of passengers passing through Seeb International airport amounted to 2,176,033. Salalah, the country's second airport, which was built initially as a military installation, began operating a passenger terminal in 1986 and the main runway was extended in 1992. Oman now has 6 civil airports in total at Seeb, Salalah, Sur, Masirah, Khasab, and Diba in Musandam. The country's main port is Mina Sultan Qaboos, which was completed in 1974 with a capacity to handle 2.2 million tons annually. Many improvements have since been made, including dredging the harbor entrance to a depth of 13 meters (42 feet). The second-largest port is called Mina Raysut and it is this port that serves Salalah and the Governorate of Dhofar. The construction of a third port in Suhar started in 1999 and the project is expected to cost US$250 million.

Electrical power in Oman is supplied both by the public sector and by the private sector. In 1999 the total national production amounted to 5.2 billion kilowatt hours (kWh) with consumption reaching 4.9 billion kWh. In 1999 there were 31 power stations with a total installed capacity of 1,662 megawatts. The government-owned General Telecommunications Organization (GTO) was established in 1980 and was responsible for setting up the modern telephone system throughout the country. Thirty years ago there were only 500 lines in and around the capital and international telephone calls could be made only through radio channels. As of 1998, all the telephone exchanges became digital and one can now telephone all over the world. Oman has an overall telephone capacity of 420,000 lines, both fixed and mobile, and given the widespread use of the telephone, it is estimated that Oman will need about 500,000 telephone lines by the year 2020, which will require massive investment.

ECONOMIC SECTORS

The Omani economy is a diverse one with services contributing 57 percent of GDP and industry contributing approximately 40 percent. However, over the past 40 years there has been a major shift in the structure of the economy. In the 1950s and 1960s, when the oil fields had not yet been discovered, the agricultural sector drove the economy. This sector has diminished in importance since the early 1970s, representing only 3 percent of GDP in 1999, whereas the export of oil and petroleum-related products and the manufacturing of goods such as textiles has increased. The sector's output is heavily dependent upon the weather, and accurate figures on employment in agriculture remain unknown.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Prior to the discovery of oil in the 1960s, the agricultural sector was central in the Omani economy. However, in 1999 the sector contributed only 3 percent to GDP and was heavily subsidized by the government. Oman is not self-sufficient in food and in 1995 the country spent US$572 million on food and live animals. This figure rose to US$650 million in 1999. There are efforts underway to develop self-sufficiency in staple foods. The main crops grown in Oman are tomatoes, eggplant, dates, bananas, limes, and carrots. The principal agricultural area is found along the Batinah coast, in the northeast between Muscat and Diba al-Hisn, which accounts for about half the total crop area of approximately 101,000 acres. In the south, agriculture is centered on a small coastal plain that is fed by monsoon rain coming from the Indian Ocean. In spite of its small contribution to GDP, the agricultural sector is still a major employer. In 1994, the World Bank estimated that over half the Omani **labor force** was working in the agricultural sector. The Omani government reports that a total of 140,000 people are employed permanently in this sector and that 47,000 of these people are unpaid family workers. Agricultural employees are primarily of Omani descent.

Oman is famed for producing very high quality agricultural goods and the highest quality products are usually exported to the neighboring Gulf Cooperation Council (GCC) countries. (On 26 May 1981 an agreement was signed between the 6 conservative monarchies of the Gulf: Saudi Arabia, Bahrain, United Arab Emirates, Kuwait, Oman, and Qatar to coordinate their economic, political, cultural, and security policy.) However, the agricultural farm is threatened by many problems, in-

cluding outdated technology and an increase in the salinity of the water. The government has responded to these issues by investing more into the sector. Its goal is to obtain self-sufficiency in food production by improving agricultural conditions. In working to make the agricultural sector internationally competitive, the government has introduced incentives for foreign investors. These exemptions include tax reductions, utilities discounts, loans, and **tariff** protection. The government has also helped Omani firms in exporting their products.

FISHING. With 2,092 kilometers (1,297 miles) of coastline running from the mouth of the Gulf in the north to the border with Yemen in the south, Oman has very rich fishing potential which has yet to be fully developed. There is a 200-mile **exclusive economic zone** which extends from Oman out to sea and over 150 species of fish and crustaceans have been identified in Omani waters ranging from tuna and crayfish to lobster and shrimp. Large amounts of lobsters are caught off the Masirah islands and off the coast of Dhofar, and they are exported to Saudi Arabia and the United Arab Emirates where they are in great demand. In 1998, approximately 26,940 Omanis were employed in the fishing industry and a total of 116,780 tons of fish were caught. The number of fish caught per annum has been slowly declining over the past 20 years due to pollution and the depletion of fish stocks. In response to this, the Omani government has put restrictions on the amount of fish catches. Lobster may now be harvested only twice a year. The annual fish catch remains at over 100,000 tons per year, and efforts to produce **value-added**, manufactured fish products are underway. Processing and packaging for export are key concerns, as is the use of better technology at sea.

IRRIGATION. Oman's position in a semi-arid climatic zone results in the serious problem of water scarcity. The government has been pursuing programs of improved water efficiency and water resource development and some far-reaching legislation has been passed through the government. In 1999 there were 48 dams all over the country that collect rainwater as well as a major project underway to decrease water consumption through the use of water-saving devices on taps. The government has also initiated a plan for the supply of water to Muscat up until 2010 that involves extending the existing pipelines. Two additional reservoirs have been built around Muscat at a cost of US$3 million.

INDUSTRY

OIL. Similar to many of the Gulf countries, the Omani industrial sector makes up a large proportion of GDP, accounting for 40 percent of it in 1999. However, Oman is not a typical Persian Gulf oil producer due to its small, scattered oil fields and, as a result, production costs are much higher per barrel than those in other GCC countries. The average Omani oil field produces one-tenth the volume per well that Saudi Arabia or Iran produce. Oil was not discovered in commercial amounts until 1962, much later than most oil-producing Gulf states. Oman is not a member of the Organization of Petroleum Exporting Countries (OPEC). (OPEC is an international organization of 11 developing countries which are heavily reliant on oil revenues as their main source of income. The current members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.) However, in the past Oman has cut production in co-operation with OPEC in an attempt to raise prices. Oman's oil production has wavered between 910,000 barrels a day (b/d) and 890,000 b/d since April 1999. The Omani government has announced a new 5-year plan which is to run from 2001 to 2005 and which aims to increase production to 1 million b/d. The bulk of Oman's 5.28 billion barrels in proven reserves is situated in the north and in the center of the country. In the north the largest fields are Yibal, Natih, Fahud, al-Huwaisah, and Lekhwair. The largest field is Yibal, producing 180,000 b/d and, together, these fields produce half of the total Omani oil production. The crude oil produced in the north is mainly light or medium crude and is found alongside natural gas. The oil fields further south tend to produce heavier crude and are usually not associated with natural gas.

With oil reserves amounting to 5.28 billion barrels, Oman has a further 17-year supply of oil if it continues to produce at 910,000 b/d. Since the discovery of oil, the oil and gas industry has been the catalyst of growth for the Omani economy, contributing approximately 37 percent to GDP each year and as much as 55 percent of GDP up until the early 1980s. In addition, oil provides 75.3 percent of state revenues. The oil industry is largely run by Petroleum Development Oman (PDO) which has a government majority ownership. PDO controls 90 percent of the country's output. Shell owns 34 percent of the company and operates the majority of Oman's large fields. In 1999, Oman exported 95.8 million barrels of oil to Japan, 65.6 million barrels to Thailand, 55.9 million barrels to South Korea, and 39.4 million barrels to China.

GAS. The gas sector in Oman is considered to be the cornerstone of the government's economic growth strategy and great efforts have been made to turn natural gas into a thriving export industry. There are abundant gas reserves in Oman and 1999 estimates put the proven reserves at 29.28 trillion cubic feet (tcf). The government has projected that by the year 2002 natural gas will contribute 15 percent of GDP. Most of the gas reserves are located in areas that are controlled by PDO. Oman has entered into a number of projects with overseas companies such as Gulfstream resources of Canada and Neste Oy of

Finland to develop, explore, and produce natural gas in the northern part of the country.

MANUFACTURING. Following the discovery of large gas deposits, attention moved away from the manufacturing industry and in 1999, manufacturing contributed 5 percent to GDP. Most of the country's industrial enterprises are involved in light industry. Existing companies manufacture soft drinks, textiles, perfume, and cement. The sector grew by 3 percent between 1994 and 1998, but it relies heavily on skilled expatriate labor and therefore does not contribute much to the creation of local jobs.

SERVICES

TOURISM. Evidence of Oman's rich cultural and architectural heritage can be seen in its hundreds of historic sites and its many beautiful beaches. The country's varied geography and range of climatic conditions give it enormous potential in the tourism industry, a sector which is still very undeveloped. Given Oman's current unemployment problem, combined with the thousands of young Omanis entering the workforce every year, the expansion of the tourism sector could create much-needed jobs. The government initiated a 15-year tourism plan in 1990, easing visa restrictions in order to open up the country to more tourists, and very quickly the number of visitors rose from 290,000 in 1994 to 503,000 in 1999.

In 2000, tourism represented less than 1 percent of GDP even though there was an 11 percent increase in the number of visitors between 1988 and 1992. In 1994 there were only 37 hotels in Oman and in 2000 there were 89. The government has made an attempt to attract visitors from the Gulf region, signing an agreement with Dubai whereby nationals of both countries can easily obtain visas. However, the government's plan is to attract affluent European visitors to the country who are happy to take supervised coach tours instead of exploring the country on their own. Government concerns about local sensitivities as well as the continuing high tax on alcohol serve as major constraints to the growth of this potentially lucrative industry.

FINANCIAL SERVICES. The Omani government has made serious attempts to ensure the stability of the banking sector and in 2000 there were 16 commercial banks in the country, of which 9 were branches of foreign banks. In addition to the commercial banks, the government has set up 2 credit institutions that provide small loans for Omani citizens. The Omani Housing Bank provides loans to finance the construction of homes and the Oman Development Bank provides general **microcredit**. The Central Bank of Oman places restrictions on the amount of foreign exchange that banks are allowed to lend and invest and in addition sets the total amount of capital to be held by local banks at US$26 million and by foreign banks at US$9 million.

Oman's stock exchange was established in 1989 and is called the Muscat Securities Market (MSM). There are over 100 banks and companies listed on the exchange with a current capitalization of over US$2 billion. In 1999 Oman was included in the International Finance Corporation's **emerging market** index and the government has made concerted efforts to make the stock market more transparent and more regulated. Electronic trading was introduced in 1999 as well as a regulatory agency called the Capital Markets Authority (CMA).

INTERNATIONAL TRADE

In 1999, Oman's exports amounted to US$7.2 billion and its imports were valued at US$5.4 billion. The country's principal export is oil and in 1999 the commodity accounted for 76 percent of all exports. In the 1980s, however, oil accounted for over 90 percent but its share has declined due to the falling price of crude oil. The second major export in Oman is **re-exports** which totaled US$1.3 billion in 1999. Given that the Omani economy is not very diversified, the smallest proportion of exports is non-oil exports such as foodstuffs and animal products. These accounted for 35 percent of total non-oil Omani exports in 1999. In 1999 the principle importer of Omani crude oil was Japan. Japan imported a total of 95.8 million barrels followed by Thailand, which imported 65.6 million barrels.

Oman has slowly increased its production of crude oil and as a result the country has enjoyed **trade surpluses** throughout the last decade even though it has increased its imports. Nevertheless, the size of these surpluses varies considerably from year to year due to the world prices of crude oil. When Iraq invaded Kuwait in 1990 the price of oil increased substantially and that year Oman's trade surplus amounted to US$2.9 billion. However, when world oil prices fell drastically in 1998, Oman's surplus fell to just US$291 million. In 1993 the

Trade (expressed in billions of US$): Oman

	Exports	Imports
1975	1.044	.765
1980	2.386	1.732
1985	4.705	3.153
1990	5.508	2.681
1995	5.962	4.248
1998	N/A	5.682

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

surplus stood at US$1.3 billion and in 1996 the rise in the price of crude oil pushed it up to US$3 billion.

Over the past 30 years, Oman has come to rely more and more on imports because it has a very small industrial sector and an agricultural sector that is unable to meet the demand for the variety and quantity of food that the middle- and upper-class Omanis desire. Imports of food amounted to 14 percent of the total value of imports in 1999. The bulk of imports come from the United Arab Emirates and Japan, representing 26.3 percent and 15.8 percent of all imports, respectively. Major Omani imports include food and live animals, beverages and tobacco, crude materials, and minerals. In 1999, Oman's imports totaled US$4.67 billion. Oman's main trading partners are Japan, China, Thailand, South Korea, the United Arab Emirates, and the United States.

In October 2000 the General Council of the World Trade Organization approved Omani membership and in November Oman became the 139th member. Prior to its accession, Oman had to make several changes in order to conform to WTO's membership rules. Not only did the authorities have to agree upon a custom duty ceiling, allow foreign firms with under 70 percent foreign ownership to be taxed the same rates as Omani firms, but also it had to establish intellectual property rights. The consequence of this new membership will open up the Omani markets further and expose local companies to increased competition. By 2003, Oman is required to allow fully foreign-owned computer companies, banks, and insurance companies to operate within the country.

MONEY

Due to the small size of the Omani economy, the country's **monetary policy** is quite straightforward. The goal of the Omani Central Bank is to maintain a stable riyal so that the economy can function competitively abroad. The riyal has been pegged to the dollar since 1973. In 1986 the riyal was devalued by 10.2 percent and since then it has been stable at about US$2.60 to 1 riyal. All the money flowing into the economy is regulated by the Central Bank of Oman. The central bank also regulates the commercial banks through a variety of measures.

POVERTY AND WEALTH

In 1970 Oman initiated a comprehensive sustainable development program and it was among one of the first developing countries to place a real emphasis on the social sector. The program was called Oman 2020 and, since its inception, it has achieved some of the fastest-ever recorded growth in the history of human development. In 1970 there was no formal education system in place apart from 3 primary schools in Muscat that had a maximum capacity of 900 boys. By the end of 1994, 920 schools had opened all over the country and approximately 450,000 students were enrolled in formal education of whom about 50 percent were girls. In 1999, 70 percent of all Omani children attended primary school. In addition to the improvements in education, there have been far-reaching improvements in life expectancy and infant mortality. Life expectancy has increased by 24 years from 47 in 1970 to 71 in 1997, and infant mortality has been reduced 10 times over from more than 215 per 1,000 live births to less than 18 in 1997.

Before the development program began, there were many health problems that were prevalent in Oman due to the poverty and the lack of education. One of the most serious diseases that afflicted more than half of all Omani school children was trachoma, a disease that leads to blindness. This disease is spread through the bite of a blackfly, which breeds in fast-flowing rivers and streams. When the fly bites, it deposits the larvae of a parasitic worm which moves rapidly through the body, causing severe eyesight damage and possible blindness when it enters the eyes. This disease has now been totally wiped out. Additional gains in social and health conditions have led to improvements in the sanitation system; almost three-quarters of all houses have clean running water and toilets that flush. The vast majority of homes have electric light, electricity, and gas with which to cook. The government provides pensions for the elderly and the disabled as well as widows, orphans,

Exchange rates: Oman

Omani riyals per US$1	
2001	0.3845
2000	0.3845
1999	0.3845
1998	0.3845
1997	0.3845
1996	0.3845

Note: Currency rates have been fixed since 1986.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Oman	3,516	3,509	5,607	5,581	N/A
United States	19,364	21,529	23,200	25,363	29,683
Saudi Arabia	9,658	11,553	7,437	7,100	6,516
Yemen	N/A	N/A	N/A	266	254

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Oman	22	8	25	13	21	5	7
United States	13	9	9	4	6	8	51
Saudi Arabia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Yemen	25	5	26	3	5	5	31

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

and divorced women. This massive investment in human capital was made possible by the revenues that the state collected from the oil industry. Without this income it is unlikely that Oman would have made such groundbreaking progress in achieving better standards of living for a large part of its population.

Although Oman serves as a good example for other less-developed countries, there is still much room for improvement due to the high income inequality. The female literacy rate is still less than half that of the male literacy rate, and the total fertility rate (the number of children the average woman will have in her lifetime) is 6.9, one of the highest in the world.

WORKING CONDITIONS

Oman is heavily dependent on expatriate labor with an expatriate community of 527,078 and a total labor force of 650,000. Expatriate workers send large amounts of their wages back home, and in 1997 these earnings amounted to US$1.5 billion or 9.5 percent of GDP. Foreign labor mostly comes from India, Bangladesh, Pakistan, and Sri Lanka, and in most cases these expatriates perform menial and physical jobs. In some cases they have managerial jobs. There are an estimated 30,000 young Omanis entering the workforce every year, and the government has realized that it can no longer provide jobs for the entire workforce. To this end, it has been pursuing a policy of "Omanization" whereby expatriate labor is slowly replaced by Omani labor. Foreigners are not allowed to work in agriculture or public relations, nor are they allowed to be Arabic typists, guards, or technical assistants unless the employer can show that no Omanis are capable of filling the position. Taxi drivers and fishermen must be Omani. In 1994 Oman joined the International Labor Organization (ILO). (This is a UN agency that seeks the promotion of social justice and human and labor rights.) As a consequence, Oman must follow international standards covering a wide range of issues in the world of work, including certain basic human rights, the abolition of forced labor, the elimination of discrimination in employment, the employment of women, and the employment of children.

Oman's labor code lays out basic workers' rights and in 1998 the minimum wage was raised by the government and set at US$260 (100 riyals) per month plus US$52 (20 riyals) for transport costs and housing costs. However, the minimum wage does not apply to all occupations such as small businesses that employ fewer than 5 people, domestic servants, dependent family members working in a family business, and some manual labor jobs. The government has been reluctant to enforce the minimum wage for foreign workers employed in menial jobs. In contrast, the foreign workers who are highly skilled and in managerial positions are often paid much more than their Omani counterparts. The working week is 5 days in the public sector and 5 and a half days in the private sector. Non-Omanis working in construction, **retail**, in the personal service outlets, or in the petroleum fields usually work a 7-day week.

Foreign men and women employed in manual labor or as domestic servants have made official complaints in the past about employers withholding salaries and inhumane treatment. In many cases the government has been unhelpful or undertaken investigative procedures that have been detrimental to the employee concerned, which clearly goes directly against the principles of the International Labor Organization. Employers who mistreat their foreign domestic servants are not always held accountable for their actions and several foreign women working in Oman have been forced to contact their governments' embassies to seek shelter and escape from abuse.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1921. Treaty of Sib is signed, which marks the British takeover of the government of Oman. A council of Ministers governs with British advisers and the British

take control of customs revenue. Also during this time, new Western strategic interests develop in Oman in the form of air routes and oil prospecting.

1951. British recognize Oman as an independent state.

1962. Oil is discovered.

1967. Oil production starts.

1970. Sultan Sa'id is overthrown by his own son, Qaboos Bin Sa'id, in a palace coup. Sultan Qaboos **liberalizes** the political system, and starts many development projects. Oman is plagued by civil war.

1980. Military agreement signed with the United States which reflects the Western strategic interest in Oman for the planning of rapid deployment force capabilities to secure Western access to gulf oil.

1981. Oman forms the Gulf Cooperation. This agreement is signed between the 6 conservative monarchies of the Gulf: Saudi Arabia, Bahrain, United Arab Emirates, Kuwait, Oman, and Qatar to coordinate their economic, political, cultural, and security policy.

1991. Sultan Qaboos expands and **restructures** Oman's consultative council.

1994. Oman joins the International Labor Organization (ILO).

1999. Oman is included in the International Finance Corporation's emerging market index. Electronic trading is introduced.

2000. Oman becomes a member of the World Trade Organization.

FUTURE TRENDS

Oman looks to the future with both pessimism and optimism. The pessimism comes from the certainty that the country's major source of revenue—oil—will run out before the year 2020. Oil accounted for the great majority of Oman's exports and GDP ever since it was discovered in the early 1960s. The oil boom had a widespread impact on the economy: it allowed Oman to provide jobs for many of its people in the public sector, it allowed the country to import labor to perform the least wanted jobs in the economy, and it allowed Oman to avoid developing other industries. With the coming decline of the oil economy, Oman must seek alternative means for economic development.

Fortunately, Oman's government has taken a number of steps to ease the country into new economic patterns. The government plans to develop the production of its natural gas and other non-oil energy-based industries. Its 4 previous 5-year plans have been successful and the current 5-year plan focuses on the private sector as the catalyst for non-petroleum economic growth. The government is moving ahead with **privatization** of its utilities, the development of a body of commercial law to facilitate foreign investment, and increased budgetary outlays. However, Oman will have to continue to liberalize its markets in conjunction with its accession to the World Trade Organization (WTO).

Managing the transition from an oil-based to a more diversified economy will not be easy. Even though Oman has a reputation for stability and cooperation, the country's future success is likely to depend on the wisdom and political will of the country's leaders.

DEPENDENCIES

Oman has no territories or colonies.

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—Salamander Davoudi

PAKISTAN

Islamic Republic of Pakistan
Islami Jamhooria Pakistan

CAPITAL: Islamabad.

MONETARY UNIT: Pakistani rupee (R). 1 Pakistani rupee equals 100 paisa. Currency notes of 1, 2, 5, 10, 50, 100, 500, and 1,000 rupees are in use.

CHIEF EXPORTS: Cotton, fabrics and yarn, rice, other agricultural products.

CHIEF IMPORTS: Machinery, petroleum, petroleum products, chemicals, transportation equipment, edible oils, grains, pulses, flour.

GROSS DOMESTIC PRODUCT: US$282 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$8.4 billion (f.o.b., 1999). **Imports:** US$9.8 billion (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Pakistan is a country located in South Asia that covers an area of 796,095 square kilometers (310,410 square miles), almost twice the size of California. In the south, it borders the Arabian Sea, with a coastline of 1,046 kilometers (650 miles) and stretches north to the great Hindukush and Karakoram mountain ranges, with peaks as high as the Nanga Parbat (8,126 meters, 26,660 feet) and the K2 (8,611 meters, 28,251 feet). Pakistan is edged between India, with whom it shares a 2,192-kilometer (1,362-mile) borderline to the east, and Afghanistan and Iran, with whom it has 2,430 kilometers (1,510 miles) and 909 kilometers (565 miles), respectively, of common border. It also shares a 523-kilometer (325-mile) border with China in the north.

The country's temperatures are amongst the most extreme on earth, ranging from 50 degrees Celsius (122 degrees Fahrenheit) or more at the height of summer in the deserts of Sindh to -50 degrees Celsius (-58 degrees Fahrenheit) and below in the depths of winter on the northern mountain ranges. Until 1947, Pakistan was part of British India, which was then divided into the largely Hindu India and the Muslim state of Pakistan. Until 1971, this state consisted of a large territory to the west of the newly established Republic of India and a smaller territory in the northeastern part of historic British India, separated from each other by 1,600 kilometers (995 miles). East Pakistan succeeded in that year to become independent Bangladesh.

POPULATION. The government of Pakistan estimated that Pakistan's population was 137.5 million in June 2000, excluding about 1.5 million refugees from Afghanistan. Pakistan's Afghani refugee population increased significantly in the fall of 2001 after a U.S. bombing campaign against Afghanistan's ruling Taliban regime caused thousands to flee to Pakistan. A large majority of Pakistanis are very young, owing to the high rate of population growth in recent decades. About 41 percent of the population is under the age of 14 years, and 55 percent is between the ages of 15 and 64 years. Population growth is still quite high at around 2.2 percent in 2000. Pakistan has a very high infant mortality rate, with 88 deaths per 1,000 live births, but, on average, every woman in the country gives birth to more than 4 children. According to government figures, only about a third of the population lives in towns (33 percent in 2000), while two-thirds (67 percent) are rural. The population density was 175 people per square kilometer in 1999, according to World Bank figures, which makes Pakistan a heavily populated country despite its size. The largest towns are Karachi with 9.3 million inhabitants, Lahore (5.1 million), and Faisalabad (2 million).

Pakistan has 4 major provinces: the Punjab, Sindh, Baluchistan, and the North-West Frontier Province (NWFP), as well as some federally administered tribal areas. In 1998, 55.6 percent of the population lived in Punjab, 23.0 percent in Sindh, 13.4 percent in the NWFP, 5 percent in Baluchistan, 2.4 percent in the Federally Administered Tribal Areas (FATA), and 0.6 percent in the northern areas and the federal capital of Islamabad.

The provinces are, by and large, based on the 5 major ethnic groups prevalent in Pakistan. Punjabis live mainly in the fertile and most populous region, Punjab, in the center and east of the country. Sindhis live in the south; the Pashtuns share a common ethnic heritage with most Afghanis and live in the west. Baluchis live in the mountainous areas in the southwestern part of the country. Finally, the immigrants from India at the time of the partition and their descendants are called Muhajir (Muhajireen), after the Arabic term for immigrant.

Urdu is the national language of the state, and English is the official language, most widely used among the elite and in government ministries, since only 10 percent of the population speak Urdu as their native tongue. Punjabi is spoken by 48 percent of the population, while Sindhi is used by 12 percent; Siraiki, a Punjabi variant, is spoken by 10 percent, and Pashtu by 8 percent of the population. Only 40 percent of Pakistanis are able to read and write, compared to an average of 49 percent in South Asia and 53 percent in low-income countries worldwide. The literacy rate for women is even lower than for men, showing gender disparities in education.

Islam is the state religion of Pakistan, which was designed to be the homeland for Muslims living in British India. At the time of the census in 1998, 96.7 percent of Pakistanis were Muslims. The remaining 3.3 percent consist of non-Muslim minorities, such as Christians (1.6 percent of total population), Hindus (1.5 percent), and others. The majority of Muslims are adherents to the Sunni branch of Islam, but a minority, variously esti-

mated at 15 to 25 percent, are Shia Muslims. An offshoot Shia sect, the Ismailis, led by Prince Karim Aga Khan, are prominent in some northern areas. Shia-Sunni tensions have increased in recent years and there have been occasional clashes.

OVERVIEW OF ECONOMY

Pakistan is a poor, heavily populated country on which internal political instability, phases of military dictatorship, and inefficient, corrupt governmental rule have taken a toll as much as the costly confrontation with neighboring India ever since partition in 1947. The economy is dominated by services, but agriculture still plays an important role. Pakistan's most important industry is textiles, which alone represents about 60 percent of the country's exports. After growing at an average rate of over 6 percent per year from 1980 to 1991, **real gross domestic product** (GDP) growth slowed during the 1990s and dropped to 1.3 percent in 1996–97 due to a poor cotton crop and related setbacks in the textile industry. In 1997–98, growth hit 4.3 percent against a governmental target of 6 percent. Real GDP grew only by 3.1 percent in 1998–99 but went up to 4.5 percent during 1999–2000. Pakistan's **GDP per capita** was US$450 in 1999, which puts it slightly above the South-Asian average of US$440 per capita.

Since the late 1980s, Pakistan has pursued a program of market-oriented economic adjustment, reform, and development. With the support of international financial institutions—mainly the International Monetary Fund (IMF) and bilateral donors—this program has aimed at enhancing **macroeconomic** stability, promoting the **private sector** and export-led industrial development, and reversing past neglect of key social sectors such as health, education, and population planning. Specifically, the government has sought to reduce monetary and external imbalances, reduce trade barriers, modernize the financial sector, **privatize** state-owned industries, and offer specific incentives to attract foreign investment. Unfortunately, the implementation of this program has mostly lagged behind expectations.

Despite the availability of cheap labor, a large domestic market, and access to regional markets, foreign investors have shied away from investing their money in Pakistan because of its widespread corruption, lack of skilled labor, law and order problems (especially in Karachi, the industrial hub), and an outdated **infrastructure**. Domestic investment has also slowed in recent years. According to official figures, total investment has declined from an average of 17.1 percent of GDP a year between 1984 and 1994 to 7.9 percent between 1994 and 2000. One reason is that manufacturers, who are traditionally served by the domestic banking system (particularly yarn spinners and sugar refiners), have often failed to honor their debts, contributing to a banking crisis.

Underlying most of the economic problems faced by Pakistan is the "crisis of governance," as the World Bank calls it. This phrase refers to the poor performance of the public institutions in terms of accountability, efficient management, corruption, and tax collection. Among these, corruption is one of the most pressing problems. Transparency International, an international non-governmental organization monitoring governments, ranked Pakistan 2nd, 5th, and 11th, in its annual reports on the most corrupt countries in the world between 1996 and 1998. Corruption hurts the economy by raising transaction costs. Even if these payoffs are considered part of the cost of doing business, there is an economic loss as these payments are neither available for expansion and improvement in the quality of public services, nor for private sector investment. A 1994 survey conducted by the World Bank among 200 business firms in Pakistan revealed that a significant amount of time and money was wasted in numerous unpredictable interactions with petty and higher-level bureaucrats seeking bribes. Entrepreneurs reported spending about 12 percent of their time dealing with tax and regulatory requirements. Also, corruption depresses economic growth by lowering public investment. Only a part of the amount appearing in budget documents as expenditure on public projects may actually get spent on these projects; the rest is siphoned off by government functionaries and contractors. One study estimated that the value for money obtained in government construction of school buildings may be only 50 to 60 percent.

Another major problem is Pakistan's huge **external debt** and its continued dependence on financial aid. Foreign loans and grants provide approximately 25 percent of government revenue, and **debt service** obligations total nearly 50 percent of government expenditure, which means that as much as half of all government expenditures are used to repay loans. Defense and debt service together absorb more than two-thirds of total federal expenditure, or almost all revenues from federal taxes. Improving tax collection in the medium- to long-term is crucial if Pakistan is to maintain repayments on its combined foreign and domestic debt of about US$62 billion, almost equivalent to Pakistan's annual GDP. It is estimated that the country needs at least US$21 billion of aid up to 2004 just for debt repayment, a large figure for a nation with annual exports of less than US$9 billion and very little **foreign exchange reserves**. In the case of the provinces, the bulk of expenditure is taken up by establishment costs (civil servants' salaries, benefits, and pensions), interest payments, and **subsidies**. The government under General Pervez Musharraf, which overthrew the government under Nawaz Sharif in 1999, faced US$32 billion in external debt. General Musharraf's ambitious economic agenda includes measures to widen the

tax net, privatize **public sector** assets, and improve its **balance of trade** position. Commitment to these reforms, however, has to withstand strong opposition from interest groups such as employees of state-owned corporations, private traders, landlords, and government bureaucrats. It is unclear how the U.S. war against the Taliban regime in neighboring Afghanistan, begun in 2001, will impact Pakistan's economy.

POLITICS, GOVERNMENT, AND TAXATION

Democracy has not yet taken root in Pakistan. The military has intervened several times in Pakistan's history and has always remained an important political player even when not in power. A military intervention occurred as recently as 12 October 1999, when elected institutions were suspended. Under the suspended constitution, the parliament consists of 2 houses: a National Assembly elected directly through universal suffrage (voter eligibility begins at 21 years of age), and a Senate elected by the provincial legislatures. The prime minister is the head of government and is elected by and from the National Assembly. The president is the head of state and is chosen by an electoral college consisting of the National Assembly, the Senate, and the provincial assemblies. The constitution requires that the president be a Muslim and provides for a 5-year term. For all practical purposes, the prime minister has to be a Muslim as well.

Each of Pakistan's 4 provinces had its own directly elected provincial assembly, a government headed by a chief minister, and a governor appointed by the president upon recommendation by the prime minister. After 12 October 1999, however, provinces had only governors, with no assemblies or chief ministers. The 217-member National Assembly is elected for a 5-year term and the 87-member Senate for a 6-year term. The National Assembly seats are currently divided, with 8 going to the Federally-Administered Tribal Areas (FATA), 1 to the federal capital of Islamabad, and 10 additional seats reserved for religious minorities. Each of the 4 provinces has 19 senators; there are 8 senators from the FATA and 3 from the federal capital area. Indirect elections for half the members of the Senate are held at 3-year intervals.

The constitution guarantees an independent judiciary. The supreme court is the highest court in the country; high courts in the provincial capitals of Lahore, Karachi, Peshawar, and Quetta stand at the head of the provincial judicial systems. In principle, Pakistan's press publishes freely. However, self-censorship is widely practiced by journalists, and advertising and other tactics are used by the government to influence media content. About 90 percent of Pakistan's paper-reading public reads papers and magazines in the Urdu language which are not noted for their objectivity, fairness, or accuracy. The electronic media are strictly controlled by the state and are notorious for their propaganda against domestic political opposition and India.

Pakistan came into existence in August 1947 with the partition of British India and has had a turbulent political history ever since. The country was designed to be the homeland for Muslims living in British India. The creation of a separate Muslim nation was accomplished largely through the efforts of Mohammed Ali Jinnah, Pakistan's first governor general, who is also remembered as "Quaid-e-Azam" (The Great Leader). Between 1947 and 1948, Pakistan and India fought the first of 3 wars over the Muslim-majority territory of Kashmir, claimed by both states. The conflict ended in a stalemate. Kashmir continues to be a disputed territory and the principal subject of discussion within the Pakistani establishment and media.

Initially, Pakistan consisted of 2 parts: East Pakistan and West Pakistan, separated by 1,610 kilometers (nearly 1,000 miles) of Indian territory. In 1970 general elections resulted in the Awami League sweeping the East Pakistan seats to gain a majority in Pakistan as a whole. The Pakistan People's Party (PPP), founded by Zulfikar Ali Bhutto, won a majority of the seats in West Pakistan. The outcome was a country completely divided, with neither major party having support in the other area. Negotiations to form a coalition government broke down, and a civil war ensued. In 1971, the eastern section declared itself the independent nation of Bangladesh. Leadership of the western part of Pakistan was handed over to Bhutto, who became prime minister and the first civilian chief martial law administrator.

In July 1977, Bhutto was deposed by the chief of army staff, General Zia-ul-Haq, who became president in 1978. (Bhutto was executed in 1979.) Under Zia, the government of Pakistan became increasingly Islamized and benefited from supporting mujahideen (holy warriors) efforts to counter the Soviet invasion of Afghanistan. General elections were held in November 1988 after General Zia died in a plane crash, and the PPP, headed by Benazir Bhutto, daughter of the late prime minister, won a majority of seats in parliament and formed a coalition government. In August 1990, President Ghulam Ishaq Khan exercised his right under the constitution to dissolve the National Assembly, dismiss the prime minister, and call for new elections. In the general election held in October 1990, the Islamic Democratic Alliance won the largest number of seats, and Mian Nawaz Sharif, leader of its largest component party, the Pakistan Muslim League (PML), became prime minister. Nawaz Sharif, the first industrialist to lead Pakistan, continued a trend toward **liberalization** of the economy and pro-

motion of private sector growth, though largely unsuccessfully.

In 1997, Nawaz Sharif was re-elected prime minister with a substantial majority, but on 12 October 1999 his government was removed in a bloodless military coup. The chief of army staff, General Pervez Musharraf, took over as "chief executive," suspended the constitution, established a military-dominated National Security Council as the country's supreme decision-making body, and named a mostly civilian cabinet. Many western countries, led by the United States—Pakistan's Cold War ally and partner in the jihad (holy war) of the 1980s that expelled the Soviets from neighboring Afghanistan—tolerated the coup, even though it seemed a throwback to a pre-Cold War era. After the nuclear standoff with India over the Kashmir dispute, it seemed favorable to have the army in command rather than have Islamists take over the country from a run-down civilian government.

Upon assuming power, General Musharraf set an ambitious reform agenda, which included fighting corruption, devolving power to the local level, and fighting sectarianism. In May 2000, the supreme court validated the coup, but gave General Musharraf 3 years from 12 October to return to a civilian government. Musharraf agreed to this time frame. Tensions with India, religious sectarianism, corruption, and political uncertainty are among the many challenges his government faces.

Plans have been put forward to implement well-designed and comprehensive civil service reforms. These reforms, as favored by the World Bank, could foster economic growth and sustained poverty reduction by reducing the obstacles to private sector development that the poorly performing public sector now creates. They are also designed to expand access of the poor to good-quality basic social services, and address serious problems of governance, such as corruption. The country's civil service is largely unchanged since the days of British colonial rule and is characterized by rigid, often irrelevant, and unevenly enforced rules and mismanagement. The erosion of **real wages** even of high-level officials (which is the consequence of high rates of **inflation** without attendant pay raises in the civil service) add to the factors that have eroded accountability and transparency, and led to widespread corruption. At the same time, the government is burdened by wage costs and rising pension costs, which are making important non-wage expenditures impossible.

An economic team, headed by the finance minister, has identified tax reform as the single most urgent measure needed to hold Pakistan together. Without a rise in tax revenues the state will simply not have the money to tackle any of the major problems facing the country. Economists warn that Pakistan must eventually raise its annual tax collection to 20 percent of GDP, up from a range of 10.7 to 15.5 percent in the past decade, to begin balancing its budget. At the moment, annual tax revenues just about pay for debt servicing and national defense, leaving other crucial areas to be financed through more loans. Only about 1 percent of the country's population of nearly 140 million pay **income tax**.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Pakistan's infrastructure is poor and suffers from decades of neglect. Roads and railways are insufficient and in poor condition. Both the telephone system and the provision of electricity are hampered by corrupt and inefficient governmental service providers, which increasingly face competition from private entrepreneurs.

TRANSPORTATION. Pakistan has a total of 247,811 kilometers (153,990 miles) of roads, of which 141,252

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Pakistan	2.861 M (1999)	158,000 (1998)	AM 27; FM 1; shortwave 21	13.5 M	22	3.1 M	30	1.2 M
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
India	27.7 M (October 2000)	2.93 M (2000)	AM 153; FM 91; shortwave 68	116 M	562	63 M	43	4.5 M
Afghanistan	29,000 (1996)	N/A	AM 7; FM 1; shortwave 1 (1999)	167,000 (1999)	10	100,000 (1999)	1	N/A

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

kilometers (87,774 miles) are paved. There are only 339 kilometers (211 miles) of expressway. Almost 90 percent of Pakistan's freight and passenger traffic travels by road. The major north-south and east-west link is Lahore and Rawalpindi to Peshawar and carries over half of Pakistan's goods and passenger traffic. The World Bank reports that Pakistan's road network is notable for its poor condition. Over two-thirds of paved arterial roads are not wide enough for 2 lanes. At both federal and provincial levels, Pakistan provides insufficient funding for road maintenance. According to the World Bank, these poorly maintained roads can result in 30 to 40 percent higher transportation costs.

Trains, the classic means of public transportation in British India, diminished in importance during the last decade of the 20th century. There are 8,163 kilometers (5,072 miles) of railway tracks. Pakistan Railways, an autonomous agency under the Ministry of Railways, operates the railroad system. Over the past 15 years, there has been a marked shift in freight traffic from rail to highways, a trend that the government hopes to stabilize and reverse. Railways carry about 15 percent of freight traffic and road vehicles 85 percent. The rail system comprises 781 stations. Rolling stock includes about 550 locomotives, 4,250 passenger coaches, and 32,000 freight cars. Pakistan Railways plans to improve railroad's share of long-haul freight traffic, upgrade track to permit trains to operate at higher speeds, and rehabilitate infrastructure to make better use of capacity.

Pakistan's major ports are Karachi and Port Muhammad bin Qasim, where Pakistan's merchant fleet of 20 ships is based; the country also has 2 proposed sites for future facilities at Gwadar and Pasni, both on Baluchistan's Makran Coast. Karachi is the main port, handling the majority of all dry and liquid cargo. During 1999 and 2000, Karachi Port handled 18 million tons of cargo, an increase of 2.4 percent from the preceding year. Port Qasim during the same period handled 9.5 million tons of cargo, showing an impressive increase of 19 percent over the corresponding period. To facilitate this expansion, the Pakistani government has allowed 2 shipping companies to construct and operate specialized integrated container terminals at Port Qasim and on Karachi's West and East Wharves.

The government-owned national air carrier, Pakistan International Airlines (PIA), has a fleet of 48 planes and serves 35 domestic and 37 international destinations. Karachi's Quaid-i-Azam International Airport, whose Jinnah Terminal opened in August 1992, is the principal international gateway to Pakistan, although Islamabad, Lahore, Peshawar, Faisalabad, and Quetta also have a number of international flights. In line with plans to continue modernizing and upgrading its civil aviation facilities, a new international airport is being constructed at Lahore. New airports and improvements in runways are also planned for Islamabad and other cities. The government recently opened the domestic aviation market to private sector competition. As of July 2000, 3 private airlines—Aero Asia, Shaheen Air, and Bhoja Air—are operating on local and international routes, while a fourth private sector airline, Safe Air, is operating on domestic routes only.

POWER. The combined generating capacity of the 2 public energy producers and distributors—the Water and Power Development Authority (WAPDA) and the Karachi Electricity Supply Corporation (KESC)—reached 11,701 megawatts (MW) in 1999–2000. Private producers contributed an extra 4,674 MW, bringing the total installed capacity to 16,375 MW. Pakistan's energy supply comes from a combination of oil (42.8 percent), natural gas (38.6 percent), water (12.8 percent), coal (5.2 percent), liquid petroleum gas (0.4 percent), and nuclear production (0.2 percent). Pakistan has faced chronic energy shortages, and domestic energy demand has outstripped supply. The development of the energy sector remains a high priority. From July 1998 to June 1999, the largest electricity consumption was by the industrial and transport sectors (34.4 percent each), followed by domestic (22.1 percent), commercial (3.2 percent), agriculture (3.0 percent), and other government sectors (2.9 percent). Pakistan's commercial energy demand is estimated to double over the next 10 years and, despite recent gas discoveries, the energy shortfall is expected to increase.

Even after recent rationalization of power **tariffs**, industrial and commercial tariffs are quite high in Pakistan. Nevertheless, the state-run WAPDA remains close to bankruptcy due to numerous unpaid bills. Unpaid bills (many in dispute) mounted from R15 billion at the end of June 1998 to R28 billion by the end of February 1999. KESC, which is supposed to be privatized, owes WAPDA R8 billion. The government reacted by using armed forces personnel to collect overdue electricity bills from private consumers and to check for theft of electricity. The successful drive against illegal connections led to a fall in sales demand as illegal connections were removed by WAPDA as well as by the consumers themselves. Although bill collection from private consumers is greatly improved, collection from government agencies is still a serious problem.

TELECOMMUNICATIONS. Pakistan has a mediocre but improving domestic telephone system. Service is adequate for government and business use, in part because major businesses have established their own private systems. Since 1988, the government has promoted investment in the national telecommunications system on a priority basis, significantly increasing network capacity. However, despite improvements in urban systems, telecommunication services are still not readily available to the majority

of the rural population. There were 2.861 million fixed lines in 1999 and another 400,000 applications are being processed, yet Pakistan's Telecommunication Corporation (PTC) is meeting less than half of this demand each year. One reason is that much of the demand is from customers in rural areas where two-thirds of the population lives and where the payback takes much longer and is less lucrative.

In December 1990, the Pakistan Telephone and Telegraph (PTT) Department, which was directly controlled by the Ministry of Communications, was converted into the Pakistan Telecommunications Corporation (PTC), which still is the only provider of basic telephone services. PTC today employs 60,000 civil servants and is the country's most lucrative state-owned franchise. PTC earned net profits of about R18 billion on sales of R60 billion in the first half of 2001. Nevertheless, the government is eager to privatize PTC by first selling 26 percent ownership to a "strategic investor," and then selling further parts after the firm is on a solid footing. This new urgency to sell parts of PTC stems from a desire to lay a telecom infrastructure that supports a wider ambition. Pakistan, with an eye on India's IT success, wants to develop a software sector, but IT companies will invest only if they have access to affordable bandwidth capacity. Since private-sector inflows are necessary to achieve this goal, the sector is being **deregulated** in rapid fashion.

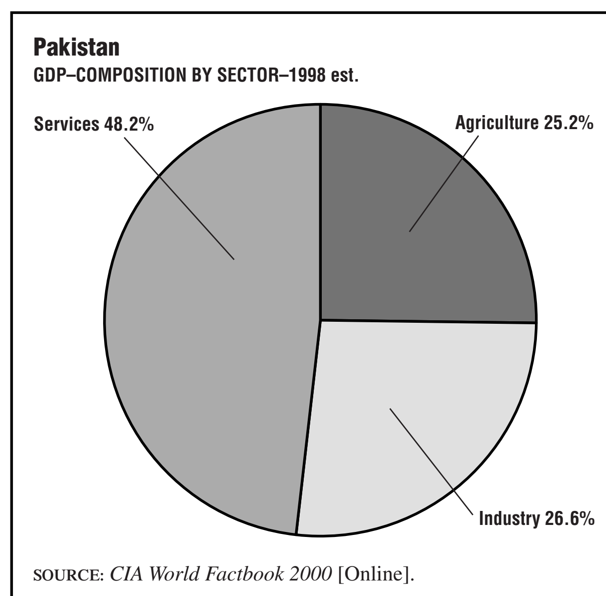
At present there are 3 cellular mobile phone operators. Cellular phones are a small market, with a penetration of only 0.24 percent, but it is growing quickly as deregulation lowers tariffs and as the cost of handsets falls. In 1998, there was only 1 operator, which had 158,000 subscribers. The current 350,000 cellular phone subscribers is forecast to swell to 1 million by 2003. There were 49 radio stations in 1998, broadcasting to about 13.5 million radios. In 1997, the country had 22 television broadcast stations, and Pakistanis owned 3.1 million televisions. In 1999, there were 26 different Internet service providers (ISPs); by 2000, this number had increased above 30 ISPs. Internet bandwidth usage grew heavily as access expanded from 29 cities in August 2000 to 350 population centers in a 4-month crash program. The number of Internet accounts is about 150,000, sharpening a market struggle between several Internet service providers.

Pakistan's IT policy focuses on education, and the budget reflects the emphasis: the allocation to science and technology went from R120 million in 2000 to R5 billion in 2001. The aim is to equip and upgrade universities; train teachers and public servants; improve economic rewards for PhDs; draw women into the IT net by training them for, say, medical transcription services; and teach the computer language Java on a mass scale, especially to the large number of jobless young people. At the same time, 15-year tax breaks are being offered to create the right business environment for foreign investment.

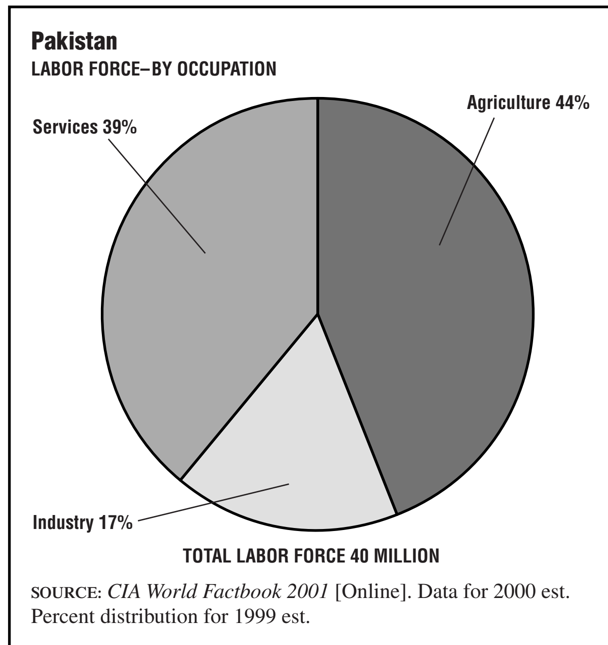
ECONOMIC SECTORS

Services dominate the Pakistani economy. In 1998, they contributed 48.2 percent to GDP, while agriculture and industry each accounted for about a quarter of **gross domestic production** (25.2 percent and 26.6 percent, respectively). After the crisis following the nuclear standoff with India and the subsequent international **sanctions** against Pakistan in May 1998, **value-added** large-scale manufacturing was projected to grow by only 2.4 percent in 1998–99, sharply down from 6.2 percent in 1997–98. Growth of the agricultural sector, too, was expected to be only about half the level of the previous year. The manufacturing sector has seen dramatic fluctuations, averaging 9 percent per year during the first 2 decades of independence, but dropping to less than 3 percent in the 1970s, when large-scale **nationalization** significantly reduced investment levels. The rate recovered in the 1980s, averaging 7.6 percent, but fell back to 3.9 percent in the 5 years prior to 1999–2000.

A common feature in developing countries is the **informal sector**, often making up a good deal of the services sector. The popular view of informal sector activities is that they are primarily those of petty traders, smugglers, drug traffickers, street **hawkers**, shoeshine boys, and other groups **underemployed** on the streets of the big towns. Evidence suggests that the bulk of employment in the informal sector, far from being only marginally productive, is economically efficient and profit-making, though mostly small in scale and limited by



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1999 est.

simple technologies and little capital. The informal sector employs a variety of tradesmen offering virtually the full range of basic skills needed to provide goods and services for a large though often poor section of the population. Persons employed in this sector are not documented, meaning they do not have access to public services and do not pay income tax. The informal sector also includes the heroin manufacturers flourishing in the North-West Frontier Province and Baluchistan, who compensate for the bareness of their soil and the neglect of successive central governments by resorting to the "**black market**" economy, notably the processing of opium, grown in neighboring Afghanistan, into heroin. Smuggling across the porous border with Afghanistan is also a large constituent of the economy. However, the opium smuggling trade with Afghanistan will no doubt be undercut by the U.S. bombing campaign in Afghanistan, which targeted Afghani poppy fields as well as Taliban military operations. Acting in cooperation with the United States, Pakistan officially closed its border with Afghanistan, which could also stem the flow of drugs into Pakistan.

AGRICULTURE

Agriculture is a vital sector of Pakistan's economy and accounted for 25.9 percent of GDP in 1999–2000, according to government estimates. The sector directly supports three-quarters of the country's population, employs half the **labor force**, and contributes a large share of foreign exchange earnings. The main agricultural products are cotton, wheat, rice, sugarcane, fruits, and vegetables, in addition to milk, beef, mutton, and eggs. Pakistan depends on one of the world's largest irrigation systems to support production. There are 2 principal seasons. Cotton, rice, and sugarcane are produced during the *kharif* season, which lasts from May to November. Wheat is the major *rabi* crop, which extends from November to April. The key to a much-needed improvement of productivity lies in a more efficient use of resources, principally land and water. However, change is dependent on the large landowners who own 40 percent of the arable land and control most of the irrigation system, which makes widespread reform difficult. Assessments by independent agencies, including the World Bank, show these large landholdings to be very unproductive. Pakistan is a net importer of agricultural commodities. Annual imports total about US$2 billion and include wheat, edible oils, pulses, and consumer foods.

Pakistan is one of the world's largest producers of raw cotton. The size of the annual cotton crop—the bulk of it grown in Punjab province—is a crucial barometer of the health of the overall economy, as it determines the availability and cost of the main raw material for the yarn-spinning industry, much of which is concentrated around the southern port city of Karachi. Official estimates put the 1999–2000 harvest at some 11.2 million 170-kilogram bales, compared with the 1998–99 outturn of 8.8 million bales and the record 12.8 million bales achieved in 1991–92. The government recently actively intervened in the market to boost prices and to encourage production. A major problem is that the cotton crop is highly susceptible to adverse weather and pest damage, which is reflected in crop figures. After peaking at 2.18 million tons in 1991–92, the lint harvest has since fluctuated considerably, ranging from a low of 1.37 million tons in 1993–94 to a high of 1.9 million tons in 1999–2000.

The 2000–01 wheat crop was forecast at a record 19.3 million tons, compared to 17.8 million tons produced during the previous year. This increase is due largely to favorable weather and a 25-percent increase in the **procurement** price to about US$135 per ton. About 85 percent of the crop is irrigated. Despite the record production, Pakistan will continue to be a major wheat importer. The government has imported an average of US$2.4 million annually over the past 5 years. The United States and Australia are the major suppliers. Demand for wheat is increasing from Pakistan's rapidly growing population as well as from cross-border trade with Afghanistan.

Pakistan is a major rice exporter and annually exports about 2 million tons, or about 10 percent of world trade. About 25 percent of exports is Pakistan's famous fragrant Basmati rice. Rice is Pakistan's second leading source of export earnings. Private traders handle all exports. Pakistan's main competitors in rice trade are Thailand, Vietnam, and India.

Tobacco is grown mainly in the North-West Frontier Province and Punjab and is an important **cash crop**. Yields in Pakistan are about twice those for neighboring countries largely due to the extension services provided by the industry. Quality, however, is improving only slowly due to problems related to climate and soil. Farmers have started inter-cropping tobacco with vegetables and sugarcane to increase returns. About half of the total production is used for cigarette manufacturing and the remainder used in traditional ways of smoking (in hand-rolled cigarettes called birris, in water pipes, and as snuff). The share of imported tobacco is increasing gradually in response to an increased demand for high-quality cigarettes.

Minor crops account for only 5 percent of total cultivated area; these include oilseeds (sunflower, soybean), chilies, potatoes, and onions. Domestic oilseed production accounts only for about 25 percent of Pakistan total edible oil needs. As a result, Pakistan spends more than US$1 billion annually in scarce foreign exchange to import edible oils, while its oilseed processing industry operates at less than 25 percent of capacity due to an inadequate supply of oilseeds. For 2000–01 total oilseed production was forecast to decrease 10 percent to 3.6 million tons. The government has highlighted development of the oilseed sector as a priority.

Pakistan's fishing industry is relatively modest, but has shown strong growth in recent years. The domestic market is quite small, with per capita annual consumption of approximately 2 kilograms. About 80 percent of production comes from marine fisheries from 2 main areas, the Sindh coast east from Karachi to the Indian border, and the Makran coast of Baluchistan. Ninety percent of the total marine catch is fish; the shrimp which constitute the remainder are prized because of their greater relative value and demand in foreign markets. During 1999–00, total fish production was 620,000 tons, of which 440,000 tons consisted of sea fish and the remainder were fresh-water species. About one-third of the catch is consumed fresh, 9 percent is frozen, 8 percent canned, and about 43 percent used as fish meal for animal food.

Livestock accounts for 40 percent of the agricultural sector and 9 percent of the total GDP. Principal products are milk, beef, mutton, poultry, and wool. During 1999, the livestock population increased to 120 million head. That same year Pakistan generated 970,000 tons of beef, 640,000 tons of mutton, and 190,000 tons of poultry. In an effort to enhance milk and meat production, the government recently launched a comprehensive livestock development project with Asian Development Bank assistance. Poultry production provides an increasingly popular low-cost source of protein. Modern poultry production is constrained by high mortality, high incidence of disease, poor quality chicks, and poor quality feed, combined with an inadequate marketing system. Frozen poultry have only recently been introduced.

Forests cover an area of 4.2 million hectares or about 5 percent of the total area of Pakistan. The principal forest products are timber, principally for house construction, furniture, and firewood. Many of the country's wooded areas are severely depleted as a result of over-exploitation. The government has restricted cutting to protect remaining resources—though corruption often jeopardizes environmental efforts—and has lowered **duties** to encourage imports. Forestry production has since declined from 1.07 million cubic meters in 1990–91 to 475,000 cubic meters in 1998–99. Pakistan imports an estimated US$150 million of wood products annually to meet the requirements of a growing population and rising demand by a wealthy elite.

INDUSTRY

Pakistan, which had almost no large industrial units at the time of partition in 1947, now has a fairly broad industrial base, and manufacturing accounts for about 17 percent of GDP. Cotton textile production is the single most important industry, accounting for about 19 percent of large-scale industrial employment. Cotton yarn, cotton cloth, made-up textiles, ready-made garments, and knitwear collectively accounted for nearly 60 percent of Pakistan's exports in 1999–2000. Other important industries are cement, vegetable oil, fertilizer, sugar, steel, machinery, tobacco, paper and paperboard, chemicals, and food processing. The government is attempting to diversify the country's industrial base and to increase the emphasis on export industries. Small-scale and cottage industries are numerically significant but account for a relatively small proportion of the GDP at about 6 percent. Small-scale industry includes facilities, which employ fewer than 50 workers, and cottage industries (industrial units in which the owner works and is aided by family members but employs no hired labor). In 1999, industrial production grew by 3.8 percent.

Privatization of many state-owned enterprises is a key element of Pakistan's reform program. In 1991, the government identified a group of 118 state-owned industrial units for privatization. Of these, 97 units have been sold off. Industrial units—including factories producing cement, chemicals, automobiles, food products, etc.—have mainly attracted domestic private investors. The government plans to spend 90 percent of privatization proceeds for debt repayment and 10 percent for poverty alleviation. The government has laid out a time frame for privatization of various organizations in the financial, oil and gas, power, industrial, and telecommunication sectors, and the privatization process is to be

completed by 30 June 2002. In most cases, the government aims to find "strategic investors" to buy up a certain stake of these firms and gain management control. The privatization process is a very complex undertaking, since new regulations of private sector entities in these sectors are still being established.

MINING/HYDROCARBONS. Unless there are major new discoveries, crude oil production—which satisfies under 18 percent of the country's requirements, compared with 35 percent in 1991–92—will ultimately run out. Recoverable reserves were estimated at 225 million barrels. Crude oil and related product imports cost R100.4 billion (US$1.7 billion) during the first 9 months of 1999–2000, accounting for 25.9 percent of all imports.

There have been promising gas discoveries in recent years. Natural gas production averaged 2.22 billion cubic feet per day in 1999–2000, about 10 percent above the previous year, while known recoverable reserves were estimated at over 19.5 trillion cubic feet at the end of March 2000. The government faced the prospect of buying this gas at international oil prices, since it had earlier promised to do so. However, it can hardly afford the price, which caused problems with the gas exploration companies.

There is an extensive range of non-fuel minerals. Deposits of limestone, marble, china clay, dolomite, gypsum, silica, ochre, sulfur, barytes, bauxite, iron ore, and emeralds are being exploited, but all on a very low scale. International exploration and development companies would, if they could, flock to Baluchistan, which is believed to possess massive reserves, particularly of natural gas. The problem is that the province's tribal chiefs, over whom the central government exerts little control, have been demanding too high a price for permission to drill. Most of the foreign companies initially awarded concessions were not able to make use of them when faced with obstruction from Baluchi tribesmen. An exception is the country's biggest development project in the remote Chagai district of Baluchistan, where the Metallurgical Construction Corporation of China is mining blister copper. It is also hoping to exploit some of the area's gold and silver reserves.

MANUFACTURING. Before 1947 there was little manufacturing in the area that makes up present-day Pakistan. Its primary role was as a supplier of raw materials, including cotton, to industrial hubs across British India, such as Bombay. In general, manufacturing still works with relatively basic technologies, generates few value-added products, and has a narrow production base, i.e., it does not diversify into many different product groups. Textiles are Pakistan's primary industry, and in 1999 accounted for 8.5 percent of the gross domestic product, 31 percent of total investment, 38 percent of industrial employment, and almost 60 percent of total exports. Pakistan is Asia's eighth-biggest textiles exporter, with export revenues of US$5.7 billion in the first half of 2000. Export growth has been declining since a recent peak of 6.1 percent in 1996. The trend is reversing, encouraged by large cotton crops in the past 2 years which have lifted output to about 11 million bales (each bale weighing 170 kilograms), the bulk of which is consumed at home, and large-scale capital investment to modernize plants. However, progress is still expected to fall short of targets, notably to be among Asia's top 5 exporters with sales of US$14 billion by 2005.

As a rule, large textile firms concentrate on spinning and weaving, leaving garment manufacturing to highly fragmented small to medium-scale producers. The industry, particularly its spinning and weaving sectors, has been under pressure since the mid-1990s, owing to increased competition in the international market, financial mismanagement within the industry, and rising global demand for value-added textiles, as well as the increase in production capacity in other developing countries. Pakistan's textile sector must move to higher value-added production to meet challenges and opportunities beyond 2005, when quotas are removed and tariff barriers lowered, as mandated by the World Trade Organization (WTO). This will expose Pakistan's mills to intense competition from China, Asia's largest textile exporter.

Food processing is a large industry, generating an estimated 27 percent of value-added production and making up 16 percent of the total employment in the manufacturing sector. Major sub-sectors of Pakistan's food industry are cooking oils and hydrogenated vegetable oils, sugar, flour, tea, dairy products, beverages, and canned foods. The fish, meat, and fruit and vegetable sectors remain underdeveloped, partly for lack of adequate infrastructure, including storage and transportation facilities. A small quantity of processed foods is imported to feed a few supermarkets catering to the country's elite. The vast agricultural resources and the country's geographic location make Pakistan an ideal country for investment in the food sector. Several foreign firms have entered the market and established their own presence as manufacturers, or established **joint ventures** with local partners. The fastest growing sectors are beverages—including carbonated soft drinks and juice and juice-flavored drinks—poultry, and edible oils.

Pakistan Steel, with an annual capacity of 1.1 million tons, is Pakistan's only integrated steel plant. It is located near Port Bin Qasim, 25 kilometers (15.5 miles) east of Karachi. The steel mill was constructed with technical assistance from the former Soviet Union, and currently employs about 20,000 workers. Iron ore, manganese, and cocking coal for the plant are all imported.

Leather is one of the major foreign exchange earners for Pakistan. The leather and leather products indus-

try is labor-intensive (directly employing more than 200,000 workers), and there are over 500 tanneries in Pakistan. The recent growth of the industry is due in large part to its successful progression from the export of raw hides and skins and semi-processed leather towards high value-added finished leathers and leather products (including leather jackets, gloves, footwear, and sporting goods). The tanning sector is concentrated in Punjab, where manufacturing units process primarily buffalo and cow hides; tanneries in Sindh process primarily goat and sheep skins. The local market for leather is limited, and about 80 percent of production is exported. More sophisticated machinery and productivity increases can be expected to further boost exports. Pollution, especially through tannic acid and dyes, is a serious problem for this industry.

SERVICES

In 2000, services contributed about 49 percent to GDP. Wholesale and **retail** trade alone accounted for 14.9 percent of GDP, while transport, storage, and communications contributed 10.1 percent, public administration and defense 6.3 percent, ownership of dwellings another 6 percent, and finance and insurance 2.5 percent. Other services contributed 9.3 percent to GDP.

FINANCIAL SERVICES. A ruling by the Pakistani supreme court in December 1999 obliged the government under General Pervez Musharraf to finalize arrangements for an Islamic banking system by the end of the 2001 financial year. The issue of converting to an Islamic banking system, under which fixed interest is abolished in favor of a regime where profits and losses are shared between depositors and borrowers, has never been as central in the country's history as it is now. Some of the existing instruments, such as leasing, are considered compatible with Islam and could be offered on a wider variety of products to respond to demand. Bankers assert that once the issue of Islamic banking is resolved Pakistan will launch the privatization of 1 or 2 of its 3 large public sector banks: Habib Bank, United Bank, and National Bank.

Financial reforms introduced in 1990 have liberalized Pakistan's banking sector, which had long been dominated by state-owned banks, and private banks are gradually playing a more significant role. In December 1990, the government announced plans to privatize state-owned banks and to allow the establishment of private domestic banks. As of 2001 the government had privatized 2 formerly nationalized banks: Allied Bank Limited (ABL) and Muslim Commercial Bank. There are 44 banks operating in the country, of which 25 are domestic, while 19 are foreign banks. The 25 Pakistani commercial banks have over 8,000 branches nationwide. Commercial banks are engaged predominantly in corporate lending. Consumer banking in Pakistan is largely undeveloped. There is no tradition of lending to small individual consumers, and purchases of automobiles, housing, and **consumer goods** are generally made on a cash basis. High interest rates combine with high start-up costs to discourage initiatives in the consumer sector.

In 1996, the banking system was on the verge of collapse due to the breakdown of governance and loss of financial discipline. Over the years there had been widespread political interference in both lending and loan recovery by banks, and borrowers had come to expect not to repay loans they took, especially from the state-owned banks. As a result, the stock of **non-performing loans** (NPLs) grew by almost 600 percent between the end of June 1989 and the end of June 1998, when the total amount of NPLs stood at R146 billion. Since December 1997 a reform program has been implemented, with support from the World Bank. Corporate governance has been improved through changes in management of the state-owned banks and protection given to the new management from political interference. The legal and judicial processes for recovery of loans have been strengthened. Operating losses have been reduced through staff separations and closures of non-viable bank branches. Much remains to be done to further strengthen banking regulation and supervision, and develop a well-functioning legal and judicial system. At the same time, privatization needs to be accelerated while ensuring that banks are sold to sponsors that bring in internationally recognized good corporate governance.

COMMERCE. Commercial activities such as wholesale and retail trade have the largest share of business in the service sector at around 30 percent.

In 2000, General Pervez Musharraf, the military ruler, ordered his troops to accompany teams of tax inspectors to visit neighborhoods to collect information on the expenditures of individual Pakistanis. The move sparked resistance from traders in parts of the country, eventually forcing the government to make some concessions. Many of the tax board's employees are poorly paid and have wide-ranging powers, a combination that breeds corruption. Businessmen complain of being harassed by tax officials and subjected to complicated bureaucratic procedures as penalties for not paying bribes. Concessions made to traders included the abolition of a newly introduced general sales tax at retail level. This measure did not meet International Monetary Fund (IMF) conditionality, and the organization subsequently stalled the payment of a sizeable adjustment loan.

TOURISM. The number of foreign tourist arrivals in the South Asia region was 5 million in 1998; Pakistan's share of tourist arrivals in this region was 7.6 percent. More than half of foreign tourists in 1999 traveled to Pakistan to visit friends and relatives, followed by business travelers (18.3

percent), holidays and recreational travelers (13.4 percent), and religious tourists (2.5 percent). Most of the total tourists from overseas visited main cities like Karachi, Rawalpindi/Islamabad, and Lahore. Of the 420,000 tourists visiting in 1999, the largest share of around 125,000 came from the United Kingdom, mostly native Pakistanis working and living in Great Britain.

INTERNATIONAL TRADE

The external sector was seriously affected by the economic sanctions imposed on Pakistan after it conducted nuclear tests in May 1998. The lack of foreign investor confidence following the freeze on foreign currency deposits led to a decline in foreign private capital inflows and a sharp decline in money sent home from citizens working abroad, or so called "workers' **remittances**." The level of **foreign direct investment** declined by 32.1 percent per year to a low of US$296 million in 1998–99, according to official data. Remittances from Pakistanis abroad, most of them in the Gulf, the United Kingdom, and North America, peaked at US$2.89 billion in 1982–83, but fell to under US$1.5 billion in 1998–99. These adverse developments, along with suspension of new economic assistance by major donors, pushed Pakistan's foreign exchange reserves down from US$1,533 million at the end of April 1998 to US$415 million (the lowest level reached during the crisis) by 12 November 1998, hardly sufficient to finance 2–3 weeks worth of imports.

Disappointing foreign sales performances have given Pakistan a trade deficit every year since 1972–73. This is partly due to the narrow range of export products. Five categories of goods—cotton yarn, garments, cotton cloth, raw cotton, and rice—still account for over 60 percent of export earnings. A second major reason is the vulnerability of key products, notably cotton, to droughts, floods, and pestilence. However, there are other reasons for the poor performance, including the small proportion of high value-added goods in the sales mix, low product quality, and poor marketing.

Trade (expressed in billions of US$): Pakistan

	Exports	Imports
1975	1.054	2.161
1980	2.623	5.359
1985	2.744	5.900
1990	5.598	7.388
1995	8.005	11.480
1998	8.501	9.315

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

The United States has long been Pakistan's largest export market, absorbing over 21 percent of total sales in 1999–2000. The United Kingdom, Hong Kong, and Germany have also been major outlets. In recent years, Japan and the United States have alternated as Pakistan's top supplier, although Gulf countries took a bigger share in 1999–2000, reflecting the sharp increase in the cost of oil imports. In 1999, Pakistan exported goods worth US$8.4 billion; it imported goods in the value of US$9.8 billion, creating a trade deficit of US$1.4 billion. Pakistan's main exports are cotton, fabrics, yarn, rice, and other agricultural products, most of which go to the United States (21 percent), Hong Kong (7 percent), the United Kingdom (7 percent), Germany (7 percent), and the United Arab Emirates (5 percent). Imports are mainly machinery, oil and oil-related products, chemicals, transportation equipment, grains, pulses, and flour. They come mainly from the United States (8 percent), Japan (8 percent), Malaysia (7 percent), Saudi Arabia (7 percent), and the United Arab Emirates (7 percent). Exports of goods and services represent roughly 15 to 16 percent of GDP, and imports equal around 18 percent of GDP.

Pakistan is a member of the World Trade Organization (WTO). Though not a member of any regional free trade arrangement, the country is party to 2 arrangements which are progressing toward regional trade liberalization. The Economic Cooperation Organization (ECO), whose founding members are Pakistan, Turkey, and Iran, grants a 10 percent tariff preference on several goods. ECO membership was expanded to 10 in 1993, when Afghanistan, Azerbaijan, and the 5 former Soviet Muslim republics of central Asia were admitted. The second arrangement, the South Asian Association for Regional Cooperation (SAARC), is comprised of India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, and the Maldives. Because of competition in key export sectors such as textiles among the larger member states, this association is not expected to stimulate regional trade flows. Pakistan's leading regional trading partners are Bangladesh (its former eastern part), India, and Sri Lanka. Pakistan is also a member (along with India and Nepal) of the Asian Clearing Union, which was founded in 1976 and aims to facilitate multilateral payments through the use of currencies of participating countries in regional transactions in order to expand intra-regional trade and save convertible foreign exchange.

MONEY

In June 2001, 1 U.S. dollar equaled 63 Pakistani rupees. The rupee's average value against the dollar had been R12.7 for US$1 in 1982–83. This shows that inflation has been running high since that time. For the decade from 1980 to 1990, the **inflation rate** averaged 7 percent per year, and from 1990 to 1995, it reached an average

Exchange rates: Pakistan

Pakistani rupees per US$1	
Jan 2001	59.152
2000	52.814
1999	49.118
1998	44.943
1997	40.918
1996	35.909

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Pakistan	274	318	385	448	511
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
India	222	231	270	331	444

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

of more than 11 percent annually. After the economic crisis that came as a consequence of the nuclear standoff with India and international sanctions against Pakistan in 1998, it went down to about 7 percent again. There are 3 stock exchanges in Pakistan: Karachi, Lahore, and Islamabad. In 2001 the Karachi stock exchange had about 780 listed companies with trading volume increasing from 1.1 million shares a day in 1990 to about 95 million in 2001. Lahore and Islamabad stock exchanges are substantially smaller than Karachi.

The State Bank of Pakistan (SBP), the central bank, controls the money supply and credit, supervises the operations of banks, administers the country's international reserves, and acts as banker to the federal and provincial governments. The government of Pakistan has followed a liberal **monetary policy** from 1999 to 2000 in order to provide cheap credit to the industrial sector. The demand for credit, however, has not come forth from the private sector. Although domestic credit expansion was higher this year due to large borrowing by the government sector, conversion of non-resident foreign currency accounts into rupees, and an increase in liquid reserves, actual growth in money supply has remained stagnant due to low credit demand from the private sector. The government and the SBP are attempting structural reforms in an effort to move toward more indirect, market-based methods of monetary control along with greater autonomy for the SBP. The central bank's autonomy was considerably strengthened with the passage of new banking laws in the State Bank Act in May 1997.

Pakistan's external debt increased significantly during the 1990s, mainly due to growth of private debt. Total external debt, including private sector debt, increased from US$27.5 billion in 1993–94 to US$32.6 billion in 1997–98, equivalent to 50.6 percent of GNP.

POVERTY AND WEALTH

A third of the population of Pakistan lives below the poverty line (34 percent in 1991). While the lowest 10 percent of the population has a share of only 4.1 percent in the overall household income and consumption, the richest 10 percent of the population has a share of 27.6 percent. The slowdown of economic growth in recent years has resulted in an increase in the incidence of poverty in the 1990s. Thus, there is a compelling need for a clear strategy focusing on reviving and sustaining high economic growth in a stable macroeconomic environment (i.e. low fiscal and external deficits with single digit inflation). It includes the provision of quality basic social services—particularly education, health, and drinking water—and an efficient and responsive social safety net program for the very poor. Low inflation in the prices of food and other mass consumption goods are also very important for the welfare of the poor.

Pakistan's human development indicators, especially those for women, fall significantly below those of countries with comparable levels of per-capita income. Only 40 percent of the population is literate (28 percent of women), compared with 49 percent in South Asia and 53 percent in low-income countries. About two-fifths of the population has no access to safe drinking water, and more than half has no access to sanitation. The infant mortality rate of 88 per 1,000 live births is higher than the average of 73 in South Asian countries and 83 for low-income countries. Pakistan's population growth rate of 2.6 percent remains among the highest in the world and frustrates efforts to increase the coverage of social services.

Distribution of Income or Consumption by Percentage Share: Pakistan

Lowest 10%	4.1
Lowest 20%	9.5
Second 20%	12.9
Third 20%	16.0
Fourth 20%	20.5
Highest 20%	41.1
Highest 10%	27.6

Survey year: 1996–97

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Pakistan	45	7	19	6	5	7	11
United States	13	9	9	4	6	8	51
India	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Afghanistan	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

To address these problems, the government initiated a Social Action Plan (SAP) in 1993. Increasingly, the design and implementation of social service programs involve active participation from communities and nongovernmental organizations (NGOs). To make further progress in the social sectors, the second phase of the SAP was initiated in 1997–98. A key part of the poverty reduction strategy is the provision of adequate basic social services—particularly elementary education and basic health services—to a much higher proportion of the poor. Only through better education and improved health can the life-long earning capacity of the poor be enhanced.

Pakistan is a major transit and consumer country for opiates (opium, heroin, morphine) from neighboring Afghanistan, the world's largest producer of opium. In 2000, Afghanistan cultivated 82,000 hectares of opium poppies, yielding 3,275 metric tons of fresh opium. As a result of the high levels of opium production in the region over the past 2 decades, Pakistan now has one the highest addiction rates in the world. Drug addiction is a common reason for the incidence of poverty for individuals and families. A recent shift to injecting heroin instead of smoking or sniffing it has heightened fears of an HIV/AIDS epidemic.

WORKING CONDITIONS

The workforce comprises of 38.6 million people, growing at an annual average rate of 2.7 percent in 1992–99. There is an extensive export of labor, mostly to the rich Middle Eastern states in the Gulf region, where Pakistanis, alongside Sri Lankis, Indians, and Filipinos find work as cleaners and domestic servants, but also in industry, commerce, and governmental services. The convenience of affordable travel to the oil-rich Arabian Gulf states and the expectation of work opportunities makes those countries attractive destinations for Pakistanis seeking jobs.

Officially, about 7 percent of the workforce is currently unemployed, a crude measure in most countries, but even more so in a country with a massive undocumented labor force. Pakistan's employment statistics are incomplete, omitting a range of wage earners and self-employed persons, male as well as female, in what is termed "the informal sector." According to unofficial estimates, unemployment may reach about 15 percent, and represents a growing problem for the government. With a majority of the population poised to enter a job market with few employment prospects, the provision of jobs, especially in rural areas, is of increasing importance. Due to the low quality or absence of educational services, again particularly in rural areas, there is a lack of skilled labor.

Several attempts have been made to eradicate bonded labor over the past decade in Pakistan, but the system remains partially in place. The bonded labor system is a lending structure in which the debtor/worker is bound to the creditor/employer as long as all or part of the debt remains outstanding. In case of sickness or death, the family of the individual is responsible for the debt, which often passes down from generation to generation. The problem of child bonded labor is especially serious: bonded money is paid to a parent or guardian, who then provides the child to work off the debt. The most severe conditions have been detected among the *haris* (landless tenant farmers) in the Sindh region, as documented by the Human Rights Commission of Pakistan. Some 1,000 laborers surveyed revealed that three-quarters had been subject to physical restraint, such as private jails, and that some 90 percent of the children had been compelled to work. To alleviate this problem the Human Rights Commission of Pakistan has purchased land and set up temporary camps in order for families to take refuge, and the government has allowed haris to settle on government land.

A related but distinct problem is that of child labor. Although most Pakistani children work in the agricultural sector, a large number of children work in urban centers weaving carpets, manufacturing surgical instruments, and producing sporting goods for export. A 1992

UNICEF/Government of Pakistan study reported that 90 percent of the 1 million workers in the carpet industry are children, many of whom began working in the industry before 10 years of age. Just as the data on Pakistan's labor force is unreliable, figures on child labor remain somewhat unclear. Nevertheless, there is little doubt that child labor has assumed massive proportions in Pakistan. The actual total number of working children in Pakistan is probably somewhere between 8 and 10 million.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1930. The idea of establishing a separate state for all Muslims of South Asia is conceived by the poet-philosopher Allama Muhammad Iqbal.

1947. On 14 August, the British divide the crown colony of India into 2 territories: the Republic of India and the future Islamic Republic of Pakistan, essentially establishing separate Hindu and Muslim states. Several millions of Muslims and Hindus are killed in sporadic fighting between the 2 groups as people migrate across the border into the country aligned with their religious affiliation.

1948. On 30 July, Pakistan signs the General Agreement on Tariffs and Trade (GATT), an agreement aimed at regulating international trade.

1950s-60s. Pakistan uses military and economic aid from its Cold-War alliances to create an artificial prosperity.

1970–71. Zulfikar Bhutto's Pakistan People's Party (PPP) wins elections in West Pakistan, while the Awami League wins the overall majority due to its clear victory in East Pakistan. After the ensuing civil war, East Pakistan declares its independence as the People's Republic of Bangladesh. Bhutto becomes prime minister of the remaining Pakistan.

1970s. The 1970s oil boom in the nearby manpower-starved Persian Gulf enables Pakistan to export manpower in large numbers. Money from Gulf workers transferred home to Pakistan in large amounts helps to sustain the economy in the 1970s.

1977–79. The chief of army staff, General Zia-ul-Haq, overthrows Bhutto in a military coup on 5 July 1977 and becomes president in 1978. Bhutto is executed in April 1979.

1980s. Pakistan's opposition to the Soviet invasion of neighboring Afghanistan in late 1979 helps it procure heavy doses of financial aid from Western nations also opposed to the Soviet action. However, when the aid dries up with the end of the Cold War towards the close of the decade, Pakistan's economy becomes saddled with huge amounts of **foreign debt**.

1988. Pakistan returns to democratic rule after Zia-ul Haq dies in an airplane crash. The country once again comes under the rule of the Pakistan People's Party, now led by Bhutto's daughter, Benazir. The constitution is restored with some amendments on 30 December.

1996–97. The Bhutto government is dismissed by the president due to charges of corruption, mismanagement, and involvement in extra-judicial killings. Elections in February 1997 result in an overwhelming victory for the Pakistan Muslim League and Nawaz Sharif, who becomes prime minister.

1998. In May, India and Pakistan both conduct nuclear tests, demonstrating their strength and bringing the region to the verge of nuclear war over the disputed Kashmir province. The ensuing international economic sanctions and the related drying up of most capital inflows lead to severe financial difficulties.

1999. The government of Sharif is overthrown by the chief of army staff, General Pervez Musharraf, who jails Sharif and declares himself chief executive of the state. The supreme court validates the military coup against Sharif but restricts the rule of the chief executive to a period of 3 years.

FUTURE TRENDS

Pakistan's prospects for the immediate future are bleak. There is uncertainty as to the political future of the country; the supreme court legitimized General Musharraf's military coup of 12 October 1999 in the course of 2000, but also restricted the rule of the chief executive to 3 years. Nobody knows whether the country will return to democratic rule or whether this new phase of democracy will be equally dominated by the large landowners and characterized by widespread corruption as it was in the past. Observers warn that Pakistan's economic outlook and the extent to which its communities outside Punjab feel that they live in an unjust system could be the key determinant of the country's political future rather than the system of government it follows. The pending return of Benazir Bhutto, the former prime minister convicted of bribery and corruption, to Pakistan and possibly into politics further complicates the picture. The ongoing dispute with India over the province of Kashmir, where frequent ambushes have led to casualties and brought the 2 countries to the verge of nuclear confrontation, is unlikely to be resolved in the near future.

While Pakistan's military regime earns credit from Western economists for having a deeper commitment to reforms than previous rulers, many add that the pace of change is not fast enough. With a short-term mechanism

in place to service the debt, the long-term challenge is to seek a significant increase in annual export income and large inputs of foreign inward investment. Another challenge to face is the public sector's poor performance. Public sector companies alone run a combined annual deficit equivalent to about 2 percent of GDP. The government promised to begin privatizing some large companies in 2001 and eventually sell some loss-making ones in an attempt to improve the risky state of public finances. It is vital for the country that it keeps the support of the IMF and other donors as it struggles to maintain payments. Improving tax collection in the medium- to long-term is crucial if Pakistan is to maintain repayments on its combined foreign and domestic debt of about US$62 billion, almost equivalent to Pakistan's annual GDP. It is estimated that the country needs at least US$21 billion of aid up to 2004 just for debt repayment, a large figure for a nation with annual exports of less than US$9 billion and reserves of below US$1 billion—sufficient to pay for about 5 weeks of imports.

Pakistan, it seems, has plans for reforms, but the success of its program will ultimately depend on how quickly and comprehensively it can deal with low social indicators, attract investors, and convince lenders that the future management of the economy will be different from the past.

DEPENDENCIES

Pakistan has no territories or colonies.

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—Markus R. Bouillon and Ralph Stobwasser

PALAU

Republic of Palau
Belau

CAPITAL: Koror (a new capital is being constructed on the nearby island of Babeldoab).

MONETARY UNIT: United States dollar ($).

CHIEF EXPORTS: Fish, coconut products, shells, handicrafts.

CHIEF IMPORTS: Foodstuffs, beverages, tobacco, petroleum, cement, machinery, transport equipment, consumer manufactures.

GROSS DOMESTIC PRODUCT: US$160 million (1997 est.) [includes U.S. spending].

BALANCE OF TRADE: **Exports:** US$11 million (1998 est.). **Imports:** US$63 million (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Palau is located in the north Pacific Ocean some 2,000 kilometers (1,242.8 miles) north of Australia. It estimated that there are more than 200 islands in a chain running from northeast to southwest, although only 8 are inhabited. The islands are rocky and mountainous, with the highest point being Mount Ngerchelchauus at 242 meters. The largest island is Babeldoab (also spelled Babelthuap). The total land area is 458 square kilometers (176.8 square miles). There are gold deposits (although unmined) and the possibility of further minerals in the seabed within the 200 nautical mile economic zone claimed by the islands. The capital is Koror on Koror Island. However, the constitution calls for the capital to be sited at Melekeok on the nearby island of Babeldoab, and construction is under way to fulfill that requirement. The country is ranked as the fourteenth smallest nation in the world.

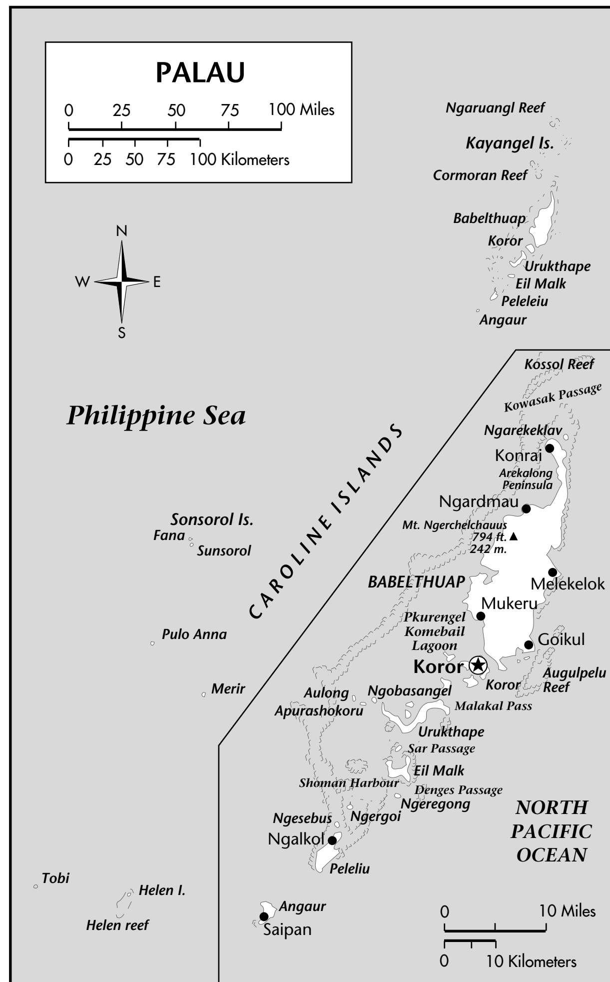
Palau is located in the tropics, and the weather is generally hot and very humid. Temperatures average around 27 degrees Celsius (80 degrees Farenheit), and vary little during the year. A rainy season lasts from May to November, with annual rainfall of around 3,600 milimeters (142 inches). The islands are hit by typhoons from time-to-time, and the main typhoon season is in the second half of the calendar year.

POPULATION. The population was estimated at 18,766 in mid-2000, giving a population density of 41 persons per square kilometer (106 per square mile), quite a bit lower than the neighboring Marshall Islands, which have a density of 375 persons per square kilometer (971 per square mile). The population was estimated to be growing at 1.8 percent a year in 2000. The birth rate is 20 per 1,000 people, and the death rate is 7 persons per 1,000. Migration is low, with about 90 citizens leaving each year. The average fertility rate is 2.5 children per woman. With this modest rate of population growth, the population can be expected to have most of its population in the working age groups. The 0 to 14 age group contains 27 percent of the population, and the 15 to 64 group contains 68 percent. Five percent are 65 and over. More than half the population live in the current capital, Koror, and urban residents account for 80 percent of the total population.

Almost all the people on the islands originate from Polynesian, Malayan, and Melanesian ethnic groups, and mostly follow the Christian religion, although a local traditional belief, Modekngei, is practiced by more than 30 percent of the population. English is the main official language. In 13 states Palauan is also an official language; in Sonsoral, Sonsoralese is also official; in Tobi, the Tobi language is also official; and in Angaur, Anguar and Japanese are also official. Overall life expectancy is 69 years, with male life expectancy being 65 years and female life expectancy 72 years. The adult literacy rate in 1980 was 92 percent, with 93 percent of adult males and 90 percent of females achieving literacy.

OVERVIEW OF ECONOMY

Given its small population, its inaccessible location, poor **infrastructure**, lack of skilled labor, and the absence



of any significant minerals, it is remarkable that the economy generates as much income for its citizens as it does. **Gross domestic product (GDP) per capita**, at $6,696 in 1998, places Palau in the upper-middle income group of countries in the world economy. This is increased by significant receipts from the United States, which add around 16 percent to the income generated domestically.

Most employment, 89 percent in 1995, was in the services sector. The agriculture sector is very small in terms of both its contribution to total output and employment, while the industry sector is also small and is mainly made up of construction. Fish is the main export, and tourism is the main foreign exchange earner. Almost all commodities, apart from some food, are imported.

Economic growth can vary yearly, affected by fashions in tourism and by the economic conditions in the countries of origin of tourists. Since 1992, the level of GDP has remained almost unchanged, with a zero growth rate over the period. However, the volatility is observed in a fall in GDP of 12.3 percent in 1993 and an expansion of 14.3 percent in 1995.

POLITICS, GOVERNMENT, AND TAXATION

The islands of Palau were originally settled by people from neighboring Pacific islands. In the 16th century, Spain claimed the islands, although Germany was allowed trading rights. With the decline of Spanish influence, the islands came under German control. The Germans established Palau as a protectorate. At the outbreak of World War I, the Japanese took over the islands and administered them under a United Nations (UN) mandate. This was a period of considerable development, with the creation of schools, hospitals, and a change in land tenure that allowed private land rights. By the end of their administration period, the Japanese in Palau numbered 26,000, outnumbering the local inhabitants. During World War II, the United States clashed with the occupying Japanese, and the United States established control of the islands in 1944. From 1947, the United States administered Palau as Trustees for the United Nations. Talk of self-determination for Palau began in 1965. In 1979, Palau approved a constitution, and in 1981 became the Republic of Palau, although not fully independent of the United States. Efforts to have approval for a Compact of Free Association with the United States (which would allow the United States to provide defense and contribute financial support) were continually thwarted by an inability to have the proposals approved by 75 percent of the vote in a referendum. After changing the constitution to allow approval by simple majority, the compact was approved in 1993, and Palau became fully independent in 1994.

The Palau government is a democracy modeled on the United States. Although the country has a long history of traditional tribal rule, democracy has been accepted and any citizen is eligible for high office. The 1979 constitution established a parliamentary government, with 2 houses. The Senate (Oibiil Era Kelulau) has 14 seats, and members are elected for 4-year terms by popular vote. The House of Delegates has 16 members, one for each state, and members are elected by popular vote, also for 4-year terms. Parliamentary candidates contest elections on the basis of their personalities and platforms; there are no party affiliations. There is a president and vice-president. There are 3 levels of court, headed by a Supreme Court, supported by a National Court, and Courts of Common Pleas.

Palau has been successful at blending its traditional heritage with its new democratic government, and that resulting government has helped to mix Palau's traditional economy with its new, more market-oriented one. Land ownership is one example of Palau's success at blending traditional practices with its new economy. As with many Pacific island nations, Palau has a long his-

tory of sharing income and land within a clan and community. Market economies are based on private ownership of land. The Palau government has taken legislative steps to accommodate the traditional sharing of lands with the free market economy by designing laws that provide guidelines for issuing land titles on land traditionally held by a family or clan.

In the year 1997–98, that government revenue (including grants) was anticipated in the budget as 57 percent of GDP. Of this, 59 percent was raised by government tax and other non-tax income, and 41 percent was grants from the United States. **Income tax** raised 11 percent of government revenues (excluding grants), import **duties** 10 percent, gross revenue tax on business 14 percent, other taxes 8 percent, and non-tax revenue (licenses, fees, trust fund income, investment income) 56 percent.

Total spending in 1997–98 was projected at 50 percent of GDP. General administration makes up 57 percent of total government spending, education 14 percent, health 14 percent, and capital expenditures 15 percent. A **budgetary surplus** of 6 percent of GDP was realized. The budget has been in overall surplus from 1992 to 1998, although the annual outcome has varied between a 119 percent surplus in 1994–95 (as a result of a substantial grant from the United States on the final acceptance of the Compact agreement), and a projected deficit of 18 percent in 1997–98.

The main tax rates are: 6 percent on incomes from employment, rising to 12 percent; 4 percent on the gross revenues of businesses; 4 percent on the net incomes of financial institutions; import duties varying between 3 percent (most goods) to 150 percent (tobacco); hotel room tax (10 percent); departure tax ($20); and road tax ($50 to $150).

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

There are 61 kilometers (38 miles) of roads, of which 36 kilometers (22.4 miles) are paved. The road round Babeldaob, 100 kilometers (62 miles) in length, is a major improvement in the road system. The unpaved roads are coral-surfaced roads and provide practical, if bumpy, highways. There are no railways. The main port is on Koror, and this is the only port that is able to receive large ocean-going vessels. The mountainous terrain makes the construction of airports a problem, but there are 3 airports. The only one with a paved runway is the international airport located across from the capital Koror on Babeldoab island.

Palau's electricity is supplied mostly by diesel generators (85 percent in 1996), but the terrain does allow for the construction of dams, and 15 percent of electricity comes from hydroelectricity. In 1996 the Palau generated 200 million kWh. There is some domestic use of bottled gas for cooking. Water supply is adequate.

In 1988, there were an estimated 1,500 land line telephones in use and no mobile telephones. It is to be expected that provision of telephones, both land lines and mobiles, have increased substantially since then. International links are provided by an Intelsat satellite earth station.

The islands had 1 AM radio station and 1 shortwave station in 1998, and in 1997 there was 1 television station, and 11,000 television receivers. The *Palau Gazette* is published monthly by the government, and *Tia Belau* is published bi-weekly in both English and Palauan.

ECONOMIC SECTORS

The services sector dominates the economy, with a large number of **public sector** employees. In 1998, services generated 87 percent of GDP and employed 76 per-

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Palau	1,500 (1988)	0 (1988)	AM 1; FM 0; shortwave 1	12,000	1	11,000	N/A	N/A
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

cent of the **labor force** in 1995. The incomes in this sector are above average. The smallest sector in terms of output is agriculture (which includes fishing), which produced 5 percent of output in 1998 and engaged 9 percent of the labor force in 1995. The industry sector only employed 15 percent of the labor force in 1995, generating 8 percent of GDP in 1998.

AGRICULTURE

Palau does not produce enough food to support itself, mainly because the cost of doing so is higher than the cost of importing needed items. The main crops are coconuts, bananas, root crops such as taro (similar to the potato), vegetables, and tropical fruits. Poultry, pigs, and dairy cows are the main livestock. Crops and livestock generated only about 2 percent of GDP in 1998. Since Palau cannot incorporate any economies of scale in agricultural production, the likelihood of significant increases in the sector are slim. Fisheries generated about 3 percent of GDP in 1998, but output from the fisheries sector appears to be in a steady decline—in 1992, the value of fish landed was almost 4 times greater, and the fishing fleet has halved to 150 vessels in 1998.

Much of the catch from Palau's waters is taken by Chinese and Japanese vessels, and Palau receives income from licence fees of around $200,000 a year. It is felt that there is considerable illegal fishing. In addition, local boats meet with Chinese and Japanese vessels at sea and sell their catches to them, leading to under-recording of the Palau catch.

INDUSTRY

There is little mining and quarrying, being almost entirely the quarrying of coral for construction. The main manufacturing enterprise is a garment factory, employing some 300 workers. Other manufacturing includes bakeries, building material, furniture, and handicrafts, all of which serve the domestic market.

There are 2 power plants at Aimeliik and Malakai. The construction sector is the largest part of the industry sector, and it generates 8 percent of GDP and employs 14 percent of the workforce.

SERVICES

The services sector employs three-quarters of the workforce and generates more than four-fifths of GDP. Transport and communications generate 16 percent of GDP; distribution, restaurants and hotels, 27 percent; financial services 6 percent; and public administration, community and other services, 51 percent.

The banking sector is made up of 3 U.S. commercial banks, 5 domestically-owned commercial banks, and the National Development Bank of Palau (NDBP). Most lending by the commercial banks is made up of consumer loans for construction, travel, and education. The NDBP is responsible for most business loans. There was concern over the operation of the domestically-owned commercial banks in 1999, which were not subject to any banking regulation. A ban was imposed on certain international transactions, as it was thought that the banks were being used for **money laundering**. There have subsequently been U.S.-assisted initiatives to tighten control of the banks.

The publicly-owned Palau National Communication Corporation, by virtue of operating a **monopoly**, generally manages to cover its costs. However, the 1997–98 reduction in tourism, as a result of the Asian economic crisis, led to a fall in the number of lucrative international calls, and the corporation posted a loss.

Tourism is a major source of foreign exchange earnings. In 1997, there were 73,000 arrivals in the Islands, and the sector generated $70 million, equivalent to 53 percent of GDP. The sector is expanding rapidly—in 1993, tourism receipts were $18 million. At present there are 1,200 hotel beds, and a further 560 are planned to be in operation by the end of 2001.

INTERNATIONAL TRADE

Merchandise exports of $11 million in 1997–98 were made up almost entirely of fish products. There are some exports of copra (dried coconut), garments and handicrafts. Exports of seashells for buttons, ornaments, and making lacquers are not recorded, but there is probably a small amount of informal trade. The fishing sector appears to be in a steady decline. In 1992–93, fish exports were around $17.7 million. The decline is partly because of changes in the available fish stocks, as a result of oceanographic factors. In addition, fish prices fell after 1996 as a result of the Asian economic crisis, reducing demand for fish. Exports of fish have also been hindered by a shortage of refrigerated air freight services from Palau. Exports go mostly to the United States and Japan.

Merchandise imports were $52 million in 1997–99. Food products made up 14 percent of imports by value, beverages and tobacco 8 percent, petroleum 25 percent, chemicals 3 percent, machinery and transport equipment 23 percent, and manufactured **consumer goods** 26 percent. The main sources of imports were the United States (40 percent), Guam (18 percent), Japan (13 percent), Singapore (13 percent), and Taiwan (5 percent).

MONEY

Palau uses the U.S. dollar as its currency. This has the advantage of bypassing the expense of running a central bank. Also, the currency is completely convertible,

Exchange rates: Palau

US$	
Jan 2001	1.0000
2000	1.0000
1999	1.0000
1998	1.0000
1997	1.0000
1996	1.0000

Note: US currency is used in Palau.

SOURCE: CIA *World Factbook 2001* [ONLINE].

and price stability is reasonably well ensured, as Palau does not have the ability to print currency. The rate of **inflation** was less than 3 percent a year from 1996–98. The only drawback for "dollarised" economies is that they do not earn the seigniorage (the profit earned from the minting of coins) they would gain if they issued their own currency. The increasing number of countries that have been attracted to using the U.S. dollar in place of a domestic currency has caused the United States to consider sharing some of the seigniorage it earns as a currency issuer.

POVERTY AND WEALTH

There are no figures on the numbers below the poverty line, but given the income level and the structure of the economy, probably less than 10 percent of the population live in poverty. Most of those affected are among the 30 percent of the population living outside Koror, who rely on small-scale agriculture and fishing for their livelihoods. Infant mortality is 18 per 1,000 births in 2000 (in the United States, the rate is 6 per 1,000). The per capita GDP of Palau ($6,987 in 1998) was one-third that of Guam and about one-quarter that of Hawaii. Household and agricultural workers had the lowest wages, while bankers, insurance agents, and lawyers had the highest.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Palau	N/A	8,800	7,100	N/A	N/A
United States	28,600	30,200	31,500	33,900	36,200
Philippines	2,600	3,200	3,500	3,600	3,800
Solomon Islands	3,000	3,000	2,600	2,650	2,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

Retail workers made up the largest category of wage earners and reported an average yearly wage ($6,044) that was slightly lower than the **GDP per capita**.

A life expectancy in 2000 of 69 years is high, and the level of adult literacy, last surveyed in 1980, was 92 percent. Taken together with its upper-middle income status, these factors, when evaluated by the criteria used by the UN, give Palau a position near the top of the countries with a medium level of human development.

WORKING CONDITIONS

The economically active labor force was estimated at 8,300 in 1988, and 7 percent of the labor force was recorded as being unemployed. However, the unemployment rate has little meaning in an economy like that of Palau—it relates to those registering as looking for jobs in the urban areas as a percentage of the formal labor force. A substantial part of the labor force is in the agriculture and fishing sectors, much of it in small-scale family enterprises outside the formal sector. There are no unemployment benefits, and those without work or support from families or charities cannot survive. It is likely that there is considerable disguised unemployment in the rural areas, with tasks being shared and the work capable of being carried out by a smaller workforce.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1000 B.C. Migration to Palau Islands from other Pacific Ocean islands begins.

1525. Spanish navigator Alonso de Salasar is first European to sight the archipelago of the Caroline Islands, of which present-day Palau is a part.

1529. Alvaaro de Saavedra lands on the Caroline Islands, and claims them for Spain.

1783. British vessel, under Captain Henry Wilson is shipwrecked near Koror, and the crew stays 3 months rebuilding the ship.

1885. Pope Leo XIII, acting as a European mediator, confirms Spanish dominion over the Caroline Islands, while also allocating Germany trading rights.

1899. Spain sells islands to Germany, who begin phosphate mining in Anguar, plant coconuts and begin to reduce the impact of influenza and dysentery which were causing widespread loss of life.

1914. With the outbreak of World War I, Japan assumes control of the islands.

1920. Japan receives a UN mandate to administer the islands, establish schools and land property rights, and develop Koror.

1922. Japan establishes administration of all of its Micronesian territories from Koror.

1944. After fierce fighting between Japanese and American forces, the United States occupies the islands.

1945. Japanese settlers are **repatriated**.

1947. UN assigns the Caroline Islands, as the Trust Territory of the Pacific Ocean, to the United States. The U.S. Navy undertakes day-to-day administration.

1965. Congress of Micronesia formed by delegates from Pacific islands to press for independence.

1967. Commission established to make recommendations on the future government of the islands of Micronesia.

1970. Commission confirms that the peoples of Micronesia have a right to sovereignty, self-rule, and to terminate association with the United States.

1979. Referendum in Palau District approves constitution, which forbids presence of nuclear weapons, including those on visiting vessels.

1981. Constitution comes into effect, and the islands become the Republic of Palau, although not independent of the United States. Haruo Remeliik becomes first president.

1982. The United States signs Compact of Free Association which will allow an independent Palau to rely on the United States for defense and to receive U.S. aid.

1983. Referendum in Palau fails to endorse Compact of Free Association (which allows transit and storage of nuclear materials) by requisite 75 percent of votes cast.

1984. Referendum again fails to endorse Compact.

1985. President Remeliik assassinated. Lazarus Salii elected to succeed Remeliik.

1986. Despite the United States agreeing to observe ban on nuclear material, Compact again fails to be endorsed in 2 successive referenda.

1987. Fifth referendum on Compact fails. President suspends 70 percent of public sector employees on the grounds of financial crisis. Further referendum approves change in constitution to require only simple majority for the endorsement of the Compact. In December, Compact is approved by referendum on a simple majority.

1988. Supreme Court rules against approval of Compact by a simple majority. President Salii, under investigation for corruption by U.S. General Accounting Office, commits suicide. Ngiratkel Etpison elected president.

1990. Seventh referendum again fails to approve Compact by required 75 percent.

1992. Kuniwo Nakamura wins presidential election. Second referendum to allow simple majority for endorsement of Compact is approved by 62 percent of voters. Challenge to decision in courts is unsuccessful.

1993. Eighth referendum on the Compact is endorsed by 68 percent of voters, but the decision is challenged in the courts.

1994. Court challenges fail. Palau finally becomes independent on October 1, under the terms of the Compact of Free Association.

1996. During presidential election, bridge between the islands of Koror and Babeldoab collapses, killing 2. Nakamura re-elected president.

1997. Legal settlement for collapse of bridge between Koror and Babeldoab with payment of $13.8 million to Palau. New bridge approved at cost of $3.8 million.

1999. Palau is subject to an international banking transactions ban as a result of practices thought to facilitate money laundering.

2000. Tommy Remengesau elected president. New $100 million road around the island of Babeldoab is announced which will allow capital to be moved to Melekeok.

FUTURE TRENDS

The economy is heavily dependent on the grants received from the United States as part of the Compact agreement. In the 1998–99 budget the Compact grants were $13 million (10 percent of GDP), and other grants from the United States were $11 million (8.5 percent of GDP). The Compact grants are scheduled to be phased out, and to end in 2008–09. Palau has invested some of the large early payments under the Compact agreement, and income from these investments will serve to cushion the position when the Compact agreement is due to end. It is expected that the Compact agreement will be renewed, as the defense provisions are an important consideration for Palau, and it is possible that Compact grants will be continued. Even if they are not, it is likely that the United States will increase grants under other headings to compensate, so that the situation after 2008–09 is not likely to be as severe as at one time anticipated.

Tourism is clearly the best long-term prospect for generating income in Palau, given the scenic attractions of the mountainous islands and the strong association with Japan (Japanese is an official language in one of the states). However, international investment will be necessary for the development of tourism, but a barrier at present is the regulation that prevents foreigners from owning land.

DEPENDENCIES

Palau has no territories or colonies.

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—Michael Hodd

PAPUA NEW GUINEA

Independent State of Papua New Guinea

CAPITAL: Port Moresby.

MONETARY UNIT: Kina (K). One kina equals 100 toea. There are coins of 1, 2, 5, 10, and 20 toea, and 1 kina. There are notes of 2, 5, 10, 20, and 50 kina.

CHIEF EXPORTS: Oil, gold, copper ore, timber, palm oil, coffee, cocoa, coconut products.

CHIEF IMPORTS: Machinery and transport equipment, manufactured goods, food, fuels, chemicals.

GROSS DOMESTIC PRODUCT: US$11.6 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$1.9 billion (f.o.b., 1999 est.). **Imports:** US$1 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Papua New Guinea occupies the eastern half of the island of New Guinea (the western half, called Irian Jaya or West Papua, is part of Indonesia), as well as some nearby islands. New Guinea is part of the Pacific island region known as Melanesia. Papua New Guinea lies at the southeastern edge of Southeast Asia, to the east of Indonesia, and north of Australia. The total area of Papua New Guinea is 459,854 square kilometers (285,753 square miles). Papua New Guinea's only land border is with Indonesia, and it is 820 kilometers (509 miles) long. The country's coastline is 5,152 kilometers (3,201 miles) long. Papua New Guinea is about the same size as California. The capital, Port Moresby, is located on the southern side of the mainland, on the Coral Sea.

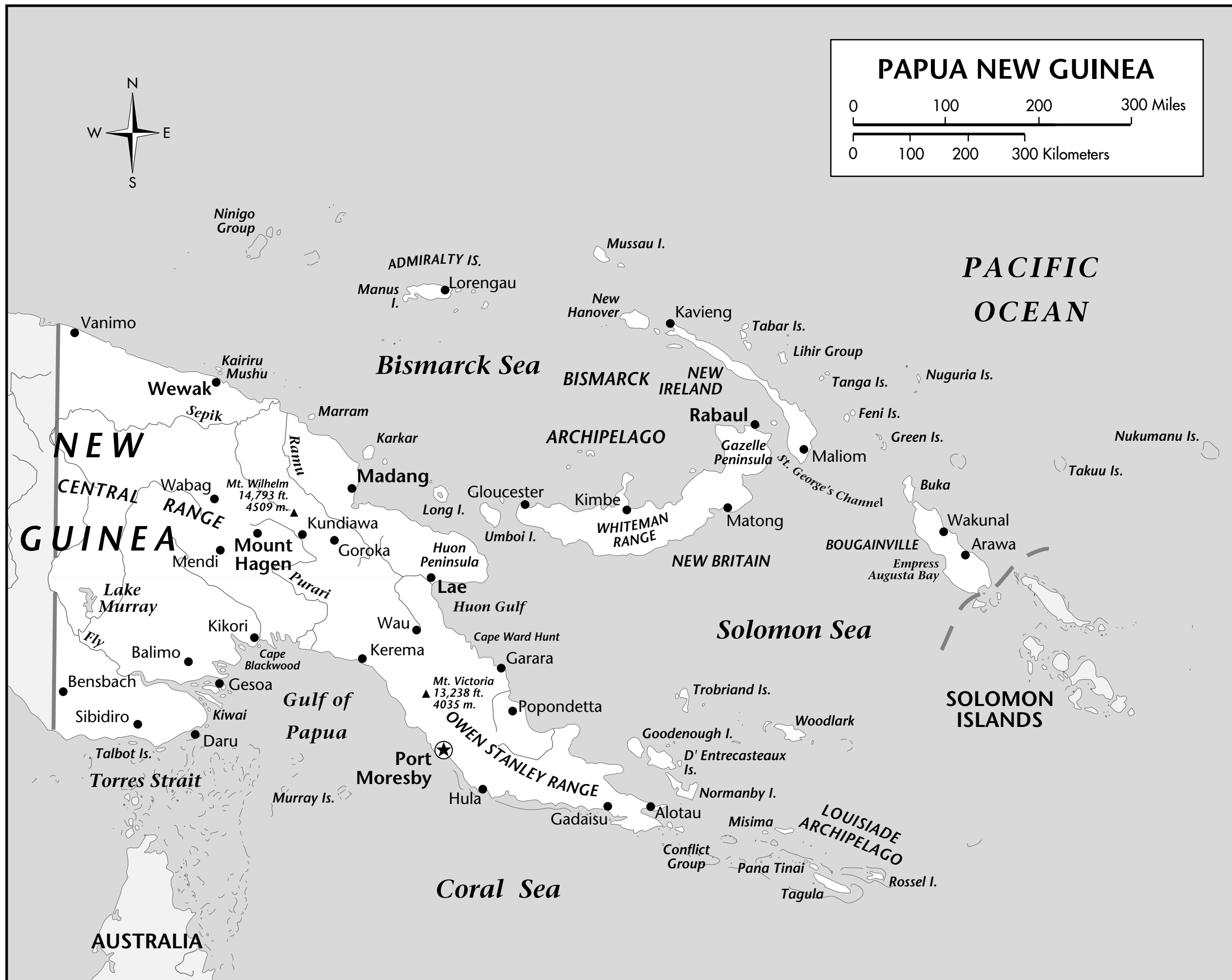
POPULATION. Papua New Guinea has perhaps the world's most diverse population, with at least 846 indigenous languages spoken. The population is almost entirely indigenous Melanesian, with small numbers of European and Asian immigrants. The population was estimated at 4.7 million in 2000. The growth rate of the population was estimated at 2.3 percent in the same year. Although the overall population density of Papua New Guinea remains low, there are great differences between regions. In general, the low-lying, coastal parts of the country have fairly low population densities, while the mountain valleys, or "highlands," have much greater population densities. For example, the Western Province averages only 1 person per square kilometer (2.6 per square mile), while parts of the highlands average up to 100 people per square kilometer (260 per square mile).

Papua New Guinea has few large cities. The largest is the capital, Port Moresby, with a population over 400,000. The most serious population issue facing the country is the migration of rural residents to the cities, especially to Port Moresby and to the second largest city, Lae. Many of these migrants are unable to find jobs, leading to crime and other social problems. The Papua New Guinea government has sought ways to control population growth but faces an uphill battle.

The population of Papua New Guinea is generally quite young, with 39 percent between the ages of 0–14, 58 percent between the ages of 15–64, and only 3 percent over the age of 64.

OVERVIEW OF ECONOMY

The extraction of Papua New Guinea's rich mineral and petroleum resource base dominates the national economy, accounting for 72 percent of export earnings. Gold, copper, and petroleum are the most important of these resources. Mining, however, is concentrated in only a few areas, employs only a small percentage of the country's population, and is dominated by international corporations. Most Papua New Guineans (85 percent) depend on **subsistence agriculture**, in which crops are grown for family and local use and not exported. Papua New Guinea's tropical climate and rich soil allow both subsistence and commercial agriculture to flourish. The commercial agricultural sector, which once dominated



the economy, has greatly decreased in size relative to the growing mining sector. Coffee, palm oil, cocoa, and coconut products (a dried form called copra and coconut oil) are the most important agricultural exports. Forestry is also a growing economic sector. Despite its rich mineral and agricultural resource base, Papua New Guinea has limited manufacturing and service sectors, and must import most manufactured products such as machinery, motor vehicles, and many foods.

The diversity of the population, political disputes, and the ruggedness of Papua New Guinea's landscape have been the key factors limiting economic development in the country. Changing political leadership and policies since independence in 1975 have hampered long-term planning. Additionally, the rugged terrain of much of the country, with extensive swamps, mountains, and scattered islands, requires expensive communications and extraction **infrastructure** with high maintenance costs. Conflicts between the national and provincial governments reflect the country's diversity and add to the difficulties of formulating economic policy. A revolutionary movement on the island of Bougainville, the location of one of Papua New Guinea's largest mines, led to sabotage and closure of the mine in 1989. The mine has not reopened but recent peace talks are putting an end to the conflict.

Papua New Guinea's total **external debt** is estimated at US$2.4 billion (1999). In 1998, the country's **debt service** stood at US$178 million. Australia is by far the largest donor of foreign aid, giving about US$150 million each year. Much of this aid is used for the development of health services, infrastructure, education, and the maintenance of law and order. Papua New Guinea also receives aid from other donors such as the Asian Development Bank. Donors have also provided additional aid in times of crisis, such as during the devastating 1997 drought.

POLITICS, GOVERNMENT, AND TAXATION

The territory comprising today's Papua New Guinea was colonized in the 19th century by both Germany and Great Britain. The British territory was transferred to Australia in 1906. During World War I, Great Britain ac-

quired the German territory and in 1920 transferred control of this territory to Australia as well. Australian policy and culture shaped much of modern Papua New Guinea, and the country remains a constitutional monarchy within the British Commonwealth, with Queen Elizabeth II as the ceremonial head of state. The parliament is **unicameral** (it has only 1 chamber) and the prime minister is a member of parliament. Mekere Morauta became prime minister in 1999 at the head of a coalition government. Papua New Guinea's parliamentary, political, and judicial institutions are similar to those in Australia and Great Britain.

The cultural and regional diversity of Papua New Guinea's population means that there are many political parties. The main ones are the Black Action Party, Bougainville Unity Alliance, Christian Democratic Party, Hausman Party, League for National Advancement, Liberal Party, Melanesian Alliance, Melanesian Labour Party, Milne Bay Party, Movement for Greater Autonomy, National Alliance, National Party, Papua New Guinea First Party, Christian Country Party, Papua New Guinea United Party, Peoples Action Party, and Peoples Democratic Movement. In the 1997 elections the People's Progress Party won the most votes, with just 15 percent, and led the coalition government. Because of the high number of parties, governments are composed of coalitions between several parties.

Papua New Guinea is divided into 19 provinces plus the national capital district. Legally, the national government retains most political power, and the provinces are therefore politically quite weak. In practice, however, the national government is often unable to exert its authority in provincial matters. The weakness of the national government in practice is demonstrated in the continuing difficulties on the island of Bougainville. In 1989, a rebel movement called the Bougainville Revolutionary Army (BRA) seized control of the Panguna mine on the island and demanded full independence for the province. The mine was closed and is not likely to reopen. Peace negotiations have been taking place over the past 3 years and are close to being resolved.

Papua New Guinea's government has in general encouraged foreign investment, especially in the mining industry. This is done by offering favorable tax rates for mining companies. The national government often takes a part interest in large mining projects by owning a portion of the stock in these projects, which provides revenue for the government. The national government also gathers revenue from personal taxes (on property and vehicles), a **value-added tax** (VAT), corporate **income taxes**, and mining taxes.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Papua New Guinea currently has a limited infrastructure, largely due to the country's rugged terrain. Extreme weather, such as storms and floods, means that roads and other infrastructure deteriorate quickly. Political disputes and corruption, leading to unnecessary infrastructure and the diversion of money away from useful projects, also contributes to the problem. Papua New Guinea has 19,600 kilometers (12,179 miles) of roads, of which only 686 kilometers (426 miles) are paved (approximately 3.5 percent of the total). The main ports are at Port Moresby, Lae, Madang, and Rabaul. There are 492 airports, but only 19 have paved runways. The national air carrier is Air Niugini, which flies domestically as well as to Australia, several Asian countries, and the Solomon Islands. There is no rail system in the country.

About 70 percent of Papua New Guinea's electricity comes from fossil fuels, with hydroelectric power providing the remaining 30 percent. The total electricity consumption in 1998 was 1.618 billion kilowatt hours (kWh).

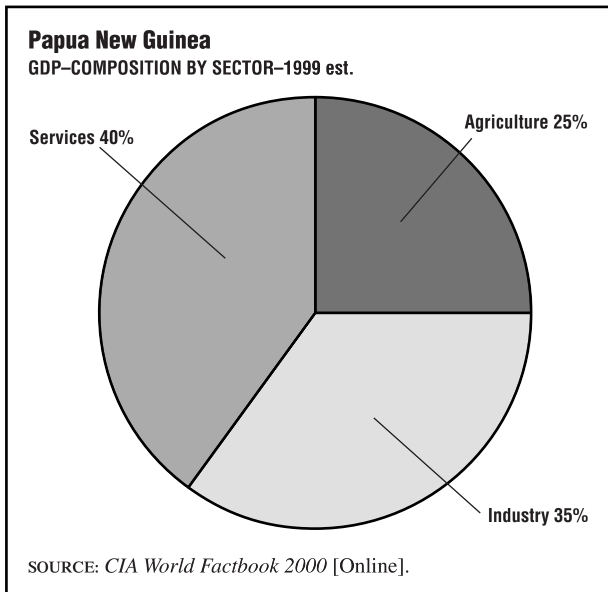
Telecommunication systems in the country are generally adequate. Papua New Guinea had 44,000 telephone mainlines in use in 1995, and has recently established a cellular telephone network in several areas. By 1997,

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Papua New Guinea	15	97	24	N/A	1	N/A	N/A	0.49	2
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Australia	293	1,376	639	43.6	286	48.6	411.6	477.85	6,000
Indonesia	24	156	136	N/A	5	0.9	8.2	0.76	900

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

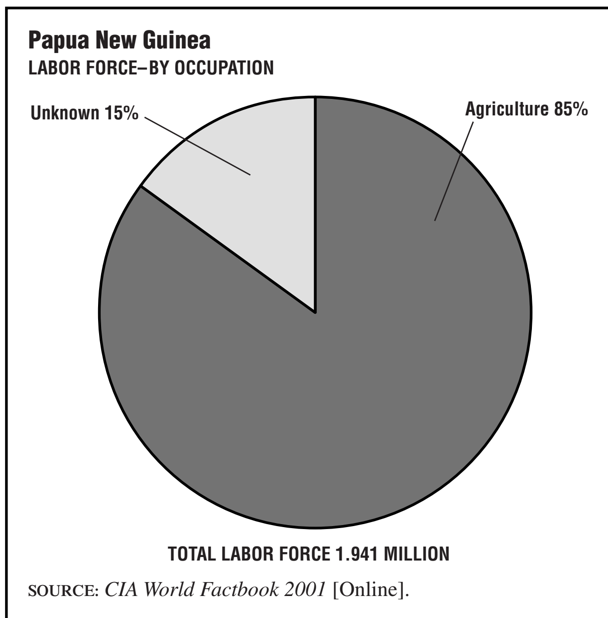


SOURCE: *CIA World Factbook 2000* [Online].

there were 3,053 mobile cellular subscribers. In 1999, the country had 2 Internet service providers.

ECONOMIC SECTORS

Papua New Guinea is heavily dependent on the development of its natural resources. Its rich mineral deposits make the country a leading world supplier of gold and copper. Mining began on a large scale in the 1970s and rapidly surpassed agriculture as the largest source of export earnings. However, the mining industry is concentrated in a few areas and does not employ many people. Most of the population still depends on subsistence agriculture for its livelihood. The manufacturing and service sectors remain extremely small in comparison. In 1999, agriculture represented 25 percent of GDP, industry represented 35 percent, and services 40 percent. Papua New Guinea's mineral-based economy is subject to world market fluctuations in commodity demand and prices.



SOURCE: *CIA World Factbook 2001* [Online].

AGRICULTURE

Agriculture is important to Papua New Guinea for both income and as a source of food. In total, the agricultural sector contributes 25 percent of **gross domestic product** (GDP), not including subsistence agriculture. This contribution comes primarily from the production of crops such as coffee, oil palms, cocoa, and coconuts, all of which grow well in the country's tropical climate. Coffee, palm oil, cocoa, and coconut products (copra and oil) are the main agricultural export revenue earners, with US$240.3 million total value in 1998, and their production employs an estimated 77 percent of labor in the country. The bulk of Papua New Guinea's export agricultural products are produced by villagers. Australia, Japan, and South Korea have consistently been the major buyers of the country's agricultural exports since 1970.

Most Papua New Guineans own the land on which they grow their own food crops, of which sweet potatoes, sago, bananas, coconuts, taro, and yams are the most important.

Forestry is an emerging part of the agricultural sector, and about one-third of forest lands have been opened to commercial exploitation. Much of the timber industry is dominated by Malaysian companies. Papua New Guinea is now the world's second-largest exporter of round tropical logs, most of these going to Japan and Korea.

INDUSTRY

MINING. Since the 1970s the mining of rich mineral deposits has dominated the Papua New Guinea economy. In contrast to the agricultural sector, mining in Papua New Guinea is characterized by large and highly mechanized operations. Copper, gold, and crude oil are the key income earners for the country.

In 1970 mineral exports were a mere 1 percent of total exports. Within 2 years, this figure had risen to 55 percent. By the start of the 1990s the contribution of the mining sector to total exports had continued to rise, reaching 70 percent. The large Panguna mine on the island of Bougainville opened in 1972, and until its closure in 1989 was one of the largest copper mines in the world. The shutdown of the mine was due to what many people have charged was environmental havoc created by the mine. It also became a flashpoint for resentment against the

Papua New Guinean government by the indigenous people on Bougainville.

Since the closure of the Panguna mine, gold has been the main mineral export earner for the country, with a peak contribution to export value of 50.9 percent in 1991. In 1994, gold was contributing 26.4 percent of the value of total exports, equal to crude oil as the dominant export earner. Gold is mined at Porgera in the highlands and at several other locations, and in 1997 a new gold mine on Lihir Island opened. The Lihir mine reserves are estimated to be 103.4 million tons of ore, with a mine life of approximately 37 years, making it one of the world's largest gold reserves.

The Ok Tedi copper mine near the border with Indonesia has in some respects replaced production from the closed Panguna mine. Ok Tedi is expected to operate for about 10 more years, though because of a lawsuit resulting from environmental damage caused by mining, the main operating company, Broken Hill Proprietary (BHP), would like to close the mine earlier, against the wishes of the Papua New Guinea government.

MANUFACTURING. The manufacturing sector in Papua New Guinea is small. In the 15 years between 1977 and 1992, the manufacturing sector's contribution to GDP varied between 15–18 percent. Food processing, beverage production, and tobacco processing are the main products manufactured in the country.

The Papua New Guinea government uses **tariffs** and **subsidies**, as well as direct industry support, to keep this sector afloat. While the industry has become dependent upon such measures, the government sees the manufacturing sector as providing employment for the increasing number of urban migrants. Most manufacturing is for domestic consumption only, and does not generate any export earnings.

SERVICES

The services sector in Papua New Guinea is small and almost entirely in the **public sector**. This sector employs an estimated 17.2 percent of the **labor force**, consisting mainly of government employees such as administrators, teachers, and health care workers. Approximately 66,000 tourist visas were issued in 1997, though under 10,000 of these are "real" tourists, with the others being people visiting relatives and other temporary visitors. Tourism generated US$72 million in 1997, but the high cost of travel to and within the country limits tourism development at present. Financial services are likewise a limited sector.

INTERNATIONAL TRADE

Papua New Guinea's traditional trading partners have been consistent for both exports and imports since the early 1970s. Prior to independence in 1975, Australia was the main buyer of Papua New Guinean exports, and while this relationship has continued, Japan, South Korea, Germany, and New Zealand have since played major roles as importers of Papua New Guinean goods. In 1998 20 percent of Papua New Guinea's goods went to Australia, 13 percent to Japan, 7 percent to Germany, 5 percent to South Korea, 4 percent to the Philippines, and 3 percent to the United Kingdom. Traditionally, the major exports to these countries have been **cash crops** such as copra, cocoa, and coffee. Australia has been a major buyer of Papua New Guinea's gold. Minerals are also exported to such countries as Japan and Germany. Papua New Guinea purchases most of its imports (machinery, foods, and technology) from these same countries, and especially from Australia. In 1998 Australia accounted for 51 percent of the country's imports, Singapore 10 percent, Japan 8 percent, the United States and New Zealand 5 percent, and Malaysia 3 percent. In 1999 the country enjoyed a positive trade balance of nearly a billion dollars on exports of US$1.9 billion and imports of US$1.0 billion.

Trade (expressed in billions of US$): Papua New Guinea

	Exports	Imports
1975	.441	.592
1980	1.031	1.176
1985	.912	1.008
1990	1.144	1.193
1995	2.644	1.452
1998	1.677	1.189

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

MONEY

Since 1994 the kina has fallen dramatically relative to the U.S. dollar. The depreciation of the kina means that imports into the country become more expensive, limiting Papua New Guinea's ability to purchase technology and manufactured goods. In general, the coun-

Exchange rates: Papua New Guinea

kina (K) per US$1	
Oct 2000	2.810
2000	2.696
1999	2.539
1998	2.058
1997	1.434
1996	1.318

SOURCE: CIA *World Factbook 2001* [ONLINE].

try's finances have been characterized by relatively low **inflation** since independence, except for a period of higher inflation in the 1990s. The **inflation rate** was 16.5 percent in 1999.

Papua New Guinea's first stock exchange, in Port Moresby, opened in 1999. The first 4 companies listed were Oil Search, Orogen Minerals, Lihir Gold, and Steamships Trading.

Distribution of Income or Consumption by Percentage Share: Papua New Guinea

Lowest 10%	1.7
Lowest 20%	4.5
Second 20%	7.9
Third 20%	11.9
Fourth 20%	19.2
Highest 20%	56.5
Highest 10%	40.5

Survey year: 1996

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

POVERTY AND WEALTH

Papua New Guinea has a complex distribution of wealth. The extremely varied and rugged terrain kept some indigenous people of the country isolated from any connection with the "modern world" until as late as 1970. This factor, combined with the belated and rapid economic development from the 1970s, has produced a highly variable distribution of income and wealth. While much of the wealth from economic development has been concentrated in urban centers, cultural factors also feature in the distribution of poverty and wealth. Much of Papua New Guinean society is still very traditional, and differs from European-based societies in several important ways. Papua New Guinean society is centered around agriculture and attachment to the land. Land is rarely sold, but instead is inherited by children. Papua New Guinean society has a complex structure, with many bonds among family members, distant relatives, and neighbors. These bonds include obligations to share wealth, and to give and receive gifts. Papua New Guinean society did not and does not have a tradition of chiefs or leaders who gain their status through inheritance. Instead, in traditional Papua New Guinea society men become leaders through their own efforts, especially through the gaining and sharing of wealth. All of these factors are important in the way that wealth is distributed in the country.

Despite these cultural factors, the Papua New Guinea government has made some efforts to decentralize services—especially health and education—and to provide equal access to them throughout the country. These efforts, begun in the 1970s, have made little difference, if any, in greatly varying levels of income and wealth between urban and remote areas. About 85 percent of the population still depends on subsistence agriculture, and 37 percent of these people are below the poverty line.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Papua New Guinea	1,048	975	936	888	1,085
United States	19,364	21,529	23,200	25,363	29,683
Australia	14,317	15,721	17,078	18,023	21,881
Indonesia	385	504	603	778	972

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

WORKING CONDITIONS

Papua New Guinea has a total workforce of 1.941 million, and the unemployment rate has fluctuated between 3 and 10 percent since the 1980s. The development of new sectors in the Papua New Guinea economy has shaped the characteristics of employment. Before 1950, plantations provided almost the sole source of employment for both women and men, with only a fraction of the workforce employed formally. Little changed until after World War II, when both a legal minimum wage was set and the transition to a formal cash wage system was under way. By the 1950s Papua New Guineans were extensively employed in all areas of the country's economy. Women's participation in the formal employment sector has remained very small, with an estimated 14 percent of wage employment in 1980. Women and unskilled men are still subject to difficulties in job advancement. Regional differences in employment are extreme. Most formal employment is in the urban centers, especially Port Moresby.

Working conditions vary accordingly. The plantations have traditionally required a young workforce, owing to the early retirement of plantation employees, whose work is hard and largely unregulated. In contrast, those sectors such as mining, which have been driven by the infrastructure created by international corporations, provide considerable salaries (and benefits to land owners). However, the value of mineral exports in relation to agricultural subsistence or commodity exports means that the proportion of those involved in the mining sector remains very small in comparison. Papua New Guinea also has a substantial **informal sector**, consisting of small businesses that do not typically pay taxes or keep accounting records. Such businesses receive little support from the

government, even though they may be in great need of loans to help start and expand their activities. Life for these small businesses is made even more difficult by laws that require them to, for example, obtain licenses or record their profits.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1526. First European exploration by Spaniard Don Jorge de Meneses, naming the principal island "Papua."

1545. Spaniard Ynigo Ortis de Retez names the island "New Guinea."

1828. The Dutch East India company, which controls the western part of the island, declares the island to be a colonial possession attached to the Dutch East Indies.

1884. Germany takes possession of the northeast part of the main island and the nearby smaller islands, while Great Britain establishes a protectorate on the southern coast of Papua.

1920. Britain, which took control of German possessions on the island during World War I (1914–1918), grants control of the entire territory to Australia.

1942. Japan takes possession of the Australian territories of New Guinea and Papua early in World War II. Following the Japanese surrender in 1945, the Territory of Papua is joined in administrative union with the Territory of New Guinea.

1964. The first House of Assembly opens, replacing the Legislative Council.

1972. The name of the territory is changed to Papua New Guinea; the Panguna copper mine on Bougainville island opens.

1973. Papua New Guinea receives self-government.

1975. Papua New Guinea achieves independence.

1984. The Ok Tedi copper and gold mine opens near the Indonesian border.

1990. The environmental consequences of mining come under scrutiny following natural disasters at Wau and Bulolo from disposal of tailings into Bulolo River.

1997. Lihir gold mine opens on Lihir Island.

1999. Port Moresby Stock Exchange opens; Sir Mekere Morauta becomes prime minister following the resignation of Bill Skate.

FUTURE TRENDS

Papua New Guinea will continue to depend heavily on mineral exports for the bulk of its foreign currency earnings, while simultaneously remaining a largely agricultural country in terms of employment and food production. Exploration for new mineral deposits continues on a large scale, and several projects, such as a nickel mine in Ramu, are likely to open within the next few years. The Lihir gold mine, one of the world's largest, has recently started operating and production is expected to increase. As always, the mining sector is subject to international market conditions, especially demand for minerals and changing prices.

The country's mining sector is coming under increased international scrutiny for its environmental practices. For example, villagers downstream from the Ok Tedi mine have accused the mining company of negligence in releasing toxic materials into local rivers and other water sources.

Papua New Guinea is also likely to see a continuation of political tension, especially with respect to tensions between the national and provincial governments. The independence movement on Bougainville island still simmers, although there is hope that peace talks will finally resolve the dispute. Other provincial governments are demanding greater powers and the national government will have to come to terms with these demands.

DEPENDENCIES

Papua New Guinea has no territories or colonies.

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—Michael Pretes and Rory Eames

PHILIPPINES

Republic of the Philippines
Republika ng Pilipinas

CAPITAL: Manila.

MONETARY UNIT: Philippine peso (P). Paper money is printed in bills of 1,000, 500, 100, 50, 20, and 10 pesos. There are coins of 5 and 1 pesos and 25, 10, and 5 centavos. There are 100 centavos in 1 peso.

CHIEF EXPORTS: Electronic equipment, machinery and transport equipment, garments, and coconut products.

CHIEF IMPORTS: Raw materials and intermediate goods, capital goods, consumer goods, and fuels.

GROSS DOMESTIC PRODUCT: US$282 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$34.8 billion (1999 est.). **Imports:** US$30.7 billion (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Made up of about 7,100 islands, the Philippines is on the southeastern rim of Asia and is bordered by the Philippine Sea on the east, the South China Sea on the west, the Luzon Strait on the north, and the Celebes Sea on the south. Its land area, which is slightly larger than that of Arizona, measures 300,000 square kilometers (115,830 square miles), and its coastline is 36,289 kilometers (22,550 miles). The capital, Manila, is on the island of Luzon in the highly urbanized National Capital Region, which is made up of 12 other urban areas including the cities of Mandaluyong, Marikina, Pasig, Quezon, Kalookan, Valenzuela, Las Piñas, Makati, Muntinlupa, Parañaque, and Pasay. The main financial district is in Makati City.

POPULATION. The Philippine population has more than tripled since 1948, from 19 million to an official estimate of 81.16 million in 2000. From 1995 to 2000, and the annual population growth rate stood at 2.02 percent, slightly lower than in 1990 and one-third less than the growth rate of 3 percent during the 1960s.

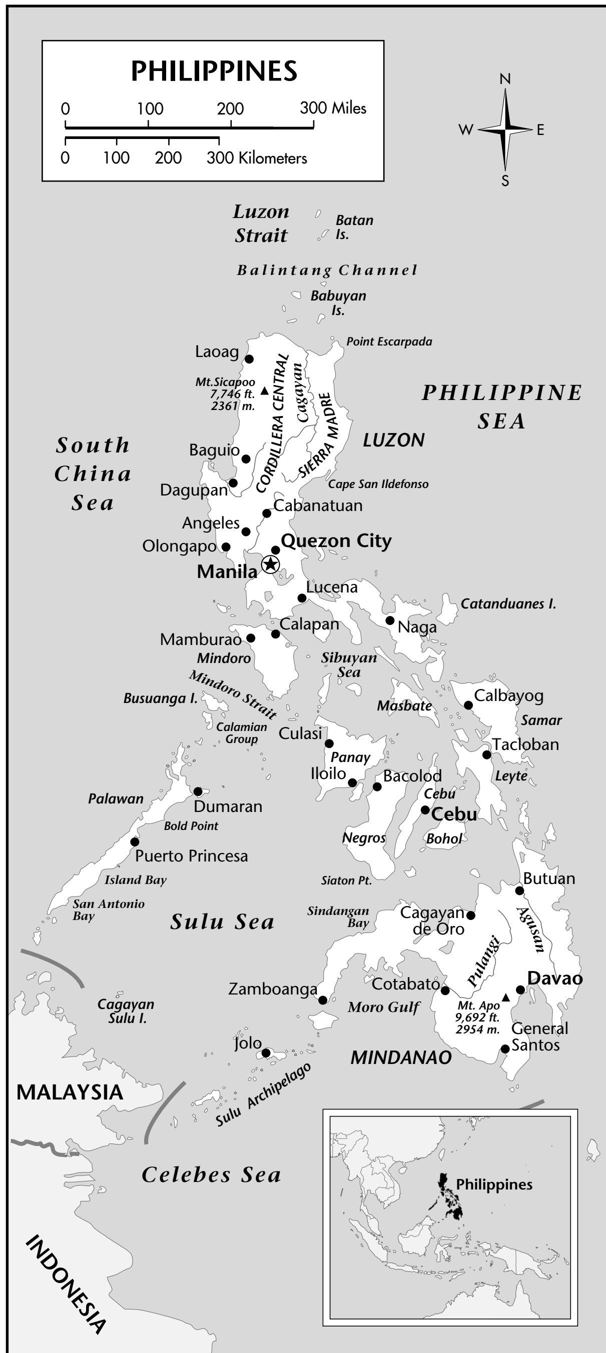
The population of the Philippines is young, with people aged between 15–64 years making up 59 percent of the population, while those under 15 make up 37 percent of the population. Those aged 65 years and above make up only 4 percent of the population.

In January 2000, the U.S. Agency for International Development (USAID) warned of the serious consequences of the booming Philippine population. It predicted the population will double by 2030 based on its 1999 growth rate of 2.3 percent, giving the Philippines "the equivalent of 58 percent of the current population of the United States [living] on 3 percent of its land area," a situation with "grave consequences" for the Philippine economy, society, and the environment.

The country is divided into 3 island groups: Luzon, Visayas, and Mindanao, known together as Luzviminda. These 3 groups are further subdivided into 16 regions. The 2000 National Census lists 61 chartered cities and 73 provinces in the Philippines, with the most populated regions in Luzon. Four out of ten persons in the Philippines lives in the National Capital Region and the adjoining regions of Central Luzon and Southern Tagalog.

OVERVIEW OF ECONOMY

The Philippine economy has experienced repeated boom-and-bust cycles in the 5 decades since the nation achieved independence from the United States in 1946. In the 1950s and early 1960s its economy ranked as the second most progressive in Asia, next to that of Japan. After 1965, when Ferdinand E. Marcos became president, the nation experienced economic problems and social unrest, especially from the 1970s, when corruption and cronyism (the practice of appointing friends to well-paid posts regardless of their qualifications) took hold. In 1972, Marcos declared a state of emergency and placed the country under martial law to stifle unrest and control economic development. By his third term in



1981, democratic institutions in the country had severely eroded, **foreign debt** ballooned, and the country's economy plummeted. In less than 20 years, the Philippines had gone from relative prosperity to becoming the "sick man of Asia." In 1983, the leader of the political opposition, former senator Benigno Aquino, was assassinated upon his returned from exile in the United States.

Marcos was removed from office in 1986 through a peaceful "People Power" revolution in which millions of people demonstrated in the streets. Aquino's widow, Corazon, became president, and a new constitution was approved in 1987. Meanwhile, the GDP growth rate increased steadily from 3.5 percent in 1986 to 4.3 percent in 1987, peaking in 1988 at 6.7 percent. The Aquino administration endured many troubles, including 6 coup d'etat attempts, many natural disasters (e.g. earthquakes, the Mt. Pinatubo eruption), and a power shortage problem that caused economic activities to stop. During this period, the Aquino administration passed various critical laws such as a liberal Foreign Investment Act, the Comprehensive Agrarian Reform Law, and the **privatization** of government corporations that brought the economy back to its feet.

Aquino's successor, Fidel Ramos, embarked on an ambitious development plan dubbed "Philippines 2000." Under the plan, several industries critical to economic development were privatized, such as electricity, telecommunications, banking, domestic shipping, and oil. The taxation system was reformed, and **external debt** was brought to more manageable levels by debt restructuring and sensible fiscal management. By 1996, GNP was growing at a rate of 7.2 percent and GDP at 5.2 percent. The annual **inflation rate** had dropped to 5.9 percent from its high of 9.1 percent in 1995. By the late 1990s, the Philippines' economic growth gained favorable comparisons with other Asian countries such as Taiwan, Thailand, South Korea, and Malaysia.

The Philippine economy took a sharp downturn during the Asian financial crisis of 1997. Its fiscal deficit in 1998 reached P49.981 billion from a surplus of P1.564 billion in 1997. The peso depreciated (fell in value) to P40.89 per U.S. dollar from its previous rate of P29.47 to a dollar. The annual growth rate of the GNP fell to 0.1 percent in 1998 from 5.3 percent in 1997. Despite these setbacks, the Philippine economy fared better than that of some of its Asian neighbors, and other nations praised the Ramos administration for its "good housekeeping."

In 1998, Joseph Estrada was elected president. Even with its strong economic team, the Estrada administration failed to capitalize on the gains of the previous administration. His administration was severely criticized for cronyism, incompetence, and corruption, causing it to lose the confidence of foreign investors. Foreign investors' confidence was further damaged when, in his second year, Estrada was accused of exerting influence in an investigation of a friend's involvement in stock market manipulation. Social unrest brought about by numerous bombing threats, actual bombings, kidnappings, and other criminal activities contributed to the economy's troubles. Economic performance was also hurt by climatic disturbance that caused extremes of dry and wet weather. Toward the end of Estrada's administration, the fiscal deficit had doubled to more than P100 billion from a low of P49 billion in 1998. Despite such setbacks, the

rate of GNP in 1999 increased to 3.6 percent from 0.1 percent in 1998, and the GDP posted a 3.2 percent growth rate, up from a low of -0.5 percent in 1998. Debt reached P2.1 trillion in 1999. Domestic debt amounted to P986.7 billion while foreign debt stood at US$52.2 billion. In January 2001 Estrada was removed from office by a second peaceful "People Power" revolution engineered primarily by youth, non-governmental organizations, and the business sector. President Estrada was the first Philippine president to be impeached by Congress, and his vice-president, Gloria Macapagal-Arroyo, became the fourteenth President of the Republic.

The economy of the Philippines is hampered by huge foreign debt, a low savings rate, inefficient tax collection, inadequate **infrastructure**, especially outside major cities, and poor agricultural performance. The Philippine economy is vulnerable to oil-price increases, interest-rate shifts by the U.S. Federal Reserve, and the performance of international stock exchanges. Social factors that have a negative impact on the economy include a high crime rate, especially kidnappings and rape, pockets of **Communist** rebels in rural areas, threats from Muslim separatist movements, high rates of poverty and unemployment, and the government's inability to begin its land-distribution program. Environmental factors also damage economic development, including frequent typhoons and drought. Worker productivity is adversely affected by illnesses brought on by air and water pollution. In metropolitan Manila alone, the effect of pollution on health and labor productivity has been estimated to be equal to a loss of about 1 percent of **gross national product** annually.

Foreign aid, or official development assistance (ODA) funds, have contributed immensely to the development of the nation's economy. Through grants and loans extended by development agencies and international creditors, the government is able to finance infrastructure development (bridges, roads, highways, railways, transportation systems) and social programs (livelihood projects, training seminars, immunization programs, and environmental projects). Since the late 1990s, ODA funds have helped improve living conditions in the most depressed rural areas, especially in Mindanao, Southern Philippines, mostly via agricultural programs. In 1999 most funds were allocated to agricultural programs. About 95 percent of ODA assistance is distributed in loans, with the remainder in grants.

POLITICS, GOVERNMENT, AND TAXATION

The government of the Republic of the Philippines is composed of 3 equal branches: the executive, legislative, and judicial, with checks and balances on each other. The popularly elected president is the nation's highest executive official. The legislature is divided into 2 chambers, a Senate (upper chamber) of 24 members and a House of Representatives (lower chamber) of a maximum of 260 members. The Supreme Court, led by the Chief Justice and 14 associate justices, is the highest judicial body, and acts as the final arbiter of the legal validity of any executive or legislative policy. In 1991 a Local Government Code was enacted that transferred some of national government powers to local government officials. Administratively, the country is divided into political subdivisions such as provinces, cities, municipalities, and barangays (villages). Each political subdivision has its own local government, which enjoys a certain level of autonomy (self-governance) and is legally entitled to an equitable share of the national wealth called the Internal Revenue Allotment.

The country practices a multi-party system. Political parties are required to register with the Commission on Elections (COMELEC) to which they must present a constitution, by-laws, and platform. In practice, parties in the Philippines are very weak and merely exist to host individual political ambitions. Hence, it is not unusual for new political parties to crop up just weeks before election time and dissolve after the elections, with winning candidates merely transferring to the dominant party.

Elections in the Philippines are often swayed by patronage (support given by a moneyed or influential individual) and the personality of the candidate. In fact, it is unusual for candidates to discuss their platforms during campaign rallies since many of those who attend such rallies are usually more interested in watching the entertainers that accompany these candidates than the candidates themselves. In 2001, after the ouster of former president Joseph Estrada, formerly a well-known movie star, reformers called for an end to personality-oriented elections and for campaigns built around a relevant discussion of national issues.

The military plays a significant role in the economy by ensuring peace and order in the country, particularly in Mindanao, southern Philippines, where a long-term war against rebels continues to be waged. In special instances, military personnel are partnered with police personnel to patrol the cities and minimize urban crime. The navy also guards the country's coastal borders against poachers and illegal fishing vessels, which deplete the country's coastal resources.

The policies and programs of government are funded by various taxes imposed at the national and local levels, and by borrowing. Taxes are collected by the Bureau of Internal Revenue and the Bureau of Customs. Domestic corporations, resident citizens, and resident aliens are taxed on their net income from all sources, worldwide, while resident foreign corporations are taxed on

their Philippine net income. Government also generates funds from other offices, such as the Land Transportation Office, which collect taxes for specific government services. Other sources of revenue are derived from the sale of government corporations to the **private sector**, fees and service incomes of various government agencies, foreign grants, and proceeds from the sale of transferred, surrendered, and privatized assets.

Revenue earned by government is usually inadequate to finance its programs and activities. Bernardo Villegas, an economist at the University of Asia and the Pacific, explains that for a developing country like the Philippines to remedy this situation, the government must resort to borrowing money either from external or domestic sources, such as via **treasury bills**, notes, and bonds issued as collateral (property pledged by a borrower to guarantee the investment of a lender) for domestic loans. Foreign sources are used because there is no adequate, long-term source of capital in the country, a situation that is made worse by the country's low savings rate. Funds borrowed abroad are readily available and come with lower interest rates. International lending institutions such as the Asian Development Bank, the International Monetary Fund, and the Japan Bank for International Cooperation are some of the country's foreign creditors. Borrowing has increased the **national debt** to P2.1 trillion. Domestic debt at the end of 1999 reached P986.7 billion, while foreign debt stood at US$52.2 billion.

In the past, the government has played an active role in influencing the country's economy, often to the displeasure of the business sector, which wants the economy left to market forces with minimal government intervention. Like many developing countries, the Philippines' economic policies include **import substitution** policies and the promotion of labor-intensive industries to support a burgeoning workforce. The government also exerts control over the economy through the regulation or prohibition of **monopolies**, the sourcing and formation of capital, the provision of private incentives, and through the regulation of strategic sectors that are vital to national interests.

Government in developing countries, such as the Philippines, must take charge of building strategic infrastructure, such as farm-to-market roads and bridges linking landlocked areas, to stimulate the exchange of goods and services between localities. It is also the government's function to protect natural resources from illegal exploitation.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The transport infrastructure includes 492 kilometers (306 miles) of working railroads and 199,950 kilometers (124,249 miles) of roads, of which 39,590 kilometers (24,601 miles) are paved. In the first quarter of 2000, infrastructure projects got the biggest share of official development assistance (ODA) loans, taking 66 percent of the $11.4 billion ODA package extended to the Philippines. Among the projects are plans to decongest traffic by expanding roads and building bridges and highway interchanges.

The Philippine archipelago has more than 1,490 ports that serve to connect its major islands. As of 1996, there were 566 registered cargo and container ships, and total cargo handled was estimated at 140.1 million tons. The busiest national port is in Manila. Ninety percent of the country's imports and more than 20 percent of its exports pass through its South Harbor and the Manila International Container Terminal. In February 2001 the Philippine Ports Authority earmarked US$122 million to upgrade port services here and in even other locations.

As of 1999, there were 266 registered airports and 5 domestic airlines operating in the Philippines. Beginning in 2000, the government and its private-sector partners speeded up the schedule for the construction and upgrading of at least 20 airports to enable them to meet world standards by 2004.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Philippines	79	159	108	8.2	22	N/A	15.1	1.29	500
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Indonesia	24	156	136	N/A	5	0.9	8.2	0.76	900

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

In 1986 the country's economy was severely crippled by continuous power shortages that lasted more than 10 hours daily, paralyzing the manufacturing sector. In 1992 the Ramos administration took steps to resolve this problem by allowing private operators to build more power plants that substantially improved the country's power-generating capacity. By March 2000, 74 percent of the country's households had access to electric service, and dependence on oil-run power plants was reduced to 19 percent from a previous high of 80 percent. Power is now generated from several sources, including coal (38 percent), geothermal (27 percent), and hydroelectric (16 percent). The opening of the offshore Malampaya gas field in Palawan will further reduce dependence on foreign oil with its initial production rate of 145 billion cubic feet annually, which can be used to create 2,700 megawatts of power.

Under the Ramos administration, the monopolistic (one company in control) telecommunications industry was opened up to competition and by 2001 there were more than 50 firms offering service. Telephone density per 100 inhabitants nearly tripled during the 1990s, from 3 lines per 100 inhabitants in 1992 to 8 lines in 1998. In 1999 there were 1.9 million main lines in use and another 1.95 million cellular telephones, plus 93 Internet service providers. In September 2000, Globe Telecom and 7 other telecommunication carriers in the Asia-Pacific region agreed to create the C2C Cable Network, an undersea fiber-optic-cable system, worth US$2 billion. Upon completion, the C2C network will be able to accommodate 90 million conversations simultaneously.

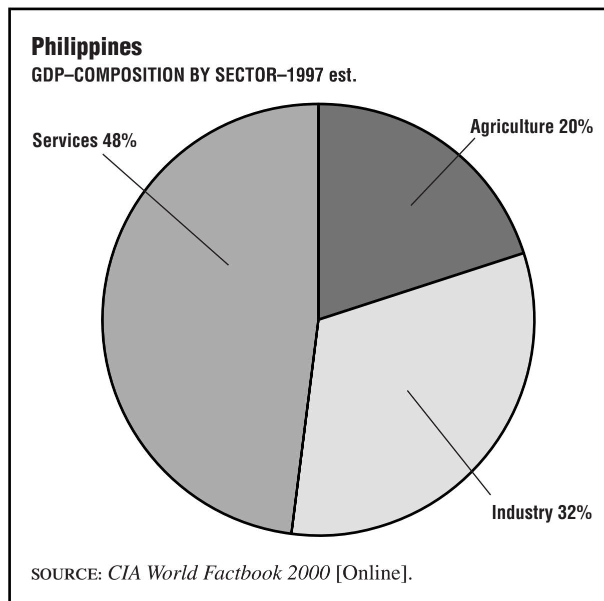
The Philippines has been recognized as the global capital for text messaging, a feature of digital mobile phones virtually ignored in other countries. This allows the user to type brief messages and send it to another mobile phone. Each day, more than 18 million text messages are transmitted in the country, twice as many as in all of Europe. However, high fees make this service still out of reach for most people.

ECONOMIC SECTORS

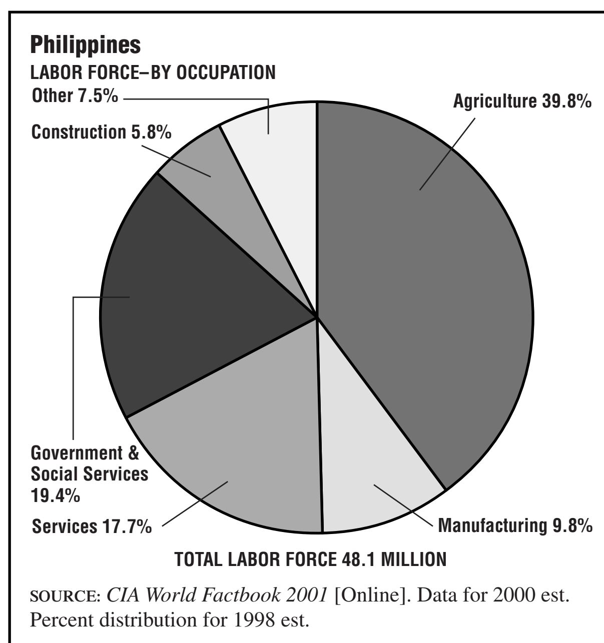
In the Philippines, the 3 largest economic sectors are industry, service, and agriculture, in terms of contribution to GDP. In past years, the service sector has exhibited continuous growth. Agriculture, although still substantial, continues to decline. Estimates from 1997 reveal that agriculture contributed 20 percent to GDP, industry contributed 32 percent, and services dominated the economy with 48 percent of GDP.

In 1999 the rate of growth of the GDP stood at 3.2 percent. Economists blamed the sluggish growth on the lackluster performance of the industry sector, which grew by 0.5 percent. With the end of the dry spell brought about by El Niño weather conditions, the agriculture sector's performance rebounded and grew 6.6 percent, the highest rate in decades. Services grew by 3.9 percent that year because of the strong performance in **retail**.

Maximum economic growth for 1999 and 2000 was slowed by successive political crises in the Estrada administration that caused foreign and international lending agencies to lose confidence. In 2000 GDP posted a 3.9 percent positive growth rate, with industry growing 4 times faster than it did in 1999. Services continued its strong performance, with a 4.4 percent increase over its 1999 figures.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1998 est.

AGRICULTURE

The Philippines is still primarily an agricultural country despite the plan to make it an industrialized economy by 2000. Most citizens still live in rural areas and support themselves through agriculture. The country's agriculture sector is made up of 4 sub-sectors: farming, fisheries, livestock, and forestry (the latter 2 sectors are very small), which together employ 39.8 percent of the **labor force** and contribute 20 percent of GDP.

The country's main agricultural crops are rice, corn, coconut, sugarcane, bananas, pineapple, coffee, mangoes, tobacco, and abaca (a banana-like plant). Secondary crops include peanut, cassava, camote (a type of rootcrop), garlic, onion, cabbage, eggplant, calamansi (a variety of lemon), rubber, and cotton. The year 1998 was a bad year for agriculture because of adverse weather conditions. Sector output shrank by 8.3 percent, but it posted growth the following year. Yet, hog farming and commercial fishing posted declines in their gross revenues in 1999. The sector is burdened with low productivity for most of its crops.

The Philippines exports its agricultural products around the world, including the United States, Japan, Europe, and ASEAN countries (members of the Association of Southeast Asian Nations). Major export products are coconut oil and other coconut products, fruits and vegetables, bananas, and prawns (a type of shrimp). Other exports include the Cavendish banana, Cayenne pineapple, tuna, seaweed, and carrageenan. The value of coconut-product exports amounted to US$989 million in 1995 but declined to US$569 million by 2000. Imported agricultural products include unmilled wheat and meslin, oilcake and other soybean residues, malt and malt flour, urea, flour, meals and pellets of fish, soybeans and whey.

One of the most pressing concerns of the agricultural sector is the rampant conversion of agricultural land into golf courses, residential subdivisions, and industrial parks or resorts. In 1993 the nation was losing irrigated rice lands at a rate of 2,300 hectares per year. Small landholders find it more profitable to sell their land to developers in exchange for cash, especially since they lack capital for seeds, fertilizers, pesticides, and wages for hiring workers to plant and harvest the crops. Another concern is farmers' continued reliance on chemical-based fertilizers or pesticides that have destroyed soil productivity over time. In recent years however, farmers have been slowly turning to organic fertilizer, or at least to a combination of chemical and organic inputs.

Environmental damage is another major concern. Coral-reef destruction, pollution of coastal and marine resources, mangrove forest destruction, and siltation (the clogging of bodies of water with silt deposits) are significant problems.

The agriculture sector has not received adequate resources for the funding of critical programs or projects, such as the construction of efficient irrigation systems. According to the World Bank, the share of irrigated crop land in the Philippines averaged only about 19.5 percent in the mid-1990s, compared with 37.5 percent for China, 24.8 percent for Thailand, and 30.8 percent for Vietnam. In the late 1990s, the government attempted to modernize the agriculture sector with the Medium Term Agricultural Development Plan and the Agricultural Fisheries Modernization Act.

The fisheries sector is divided into 3 sub-sectors: commercial, municipal, and aquaculture (cultivation of the natural produce of bodies of water). In 1995, the Philippines contributed 2.2 million tons, or 2 percent of total world catch, ranking it twelfth among the top 80 fish-producing countries. In the same year, the country also earned the distinction of being the fourth biggest producer of seaweed and ninth biggest producer of world aquaculture products.

In 1999 the fisheries sector contributed P80.4 billion at current prices, or 16 percent of gross **value added** in agriculture. Total production in 1999 reached 2.7 million tons. Aquaculture contributed the most, with 949,000 tons, followed closely by commercial fishing with 948,000 tons, and municipal fisheries with 910,000 tons. Domestic demand for fish is substantial, with average yearly fish consumption at 36kg per person compared to a 12kg figure for consumption of meat and other food products.

INDUSTRY

In 2000 following the Asian economic slump of the late 1990s, industrial sectors (manufacturing, transportation, communication and storage, mining and quarrying) all posted positive growth rates, lifting the entire economy from the previous year's lackluster performance. Yet, the construction industry suffered because of the lack of long-term investments by the private sector. Although public construction grew by 15 percent from 1998 to 1999, private construction sank to 11 percent because of real estate oversupply. Mining and quarrying continued to suffer from low metal prices in the world market.

In the Philippines, small and medium enterprises make up 99 percent of all manufacturing companies. Revenue of the top 420 manufacturing firms increased by 9.9 percent in 1998. In 2000 manufacturing accounted for almost a quarter of the country's production. According to the Labor Department's January 2001 Labor Force Survey, 9.8 percent of all workers were employed in this sector.

The manufacturing sector produces the country's top export products such as semiconductors, electronics, ma-

chinery and transport equipment, and garments. Exports of electronics and semiconductors generated US$17.4 billion in 1998 and US$21.6 billion in 1999. Other chief imports of this sector include paper and paper products, textile yarn and fabrics, nonmetallic minerals, iron and steel, and metal products. Most of the large and medium manufacturing companies are in special export-processing zones or industrial parks. Some provinces have been specially designated to host these companies, such as the CALABARZON area which is made up of 4 provinces: Cavite, Laguna, Batangas, and Quezon.

SERVICES

According to the 2001 Labor Force Survey, employment in the service sector rose to 13.2 million in 2000, up from 12.7 million in 1999. The proportion of workers in the Philippines service sector increased accordingly, from 45.8 percent to 46.8 percent.

RETAIL. The Philippines has a variety of retail establishments scattered throughout the country, from small village-based general stores that supply all the needs of a small community to a web of specialized stores in the larger cities. The wholesale and retail sector was affected by the economic slowdown in 1998, so retailers and wholesalers tried to increase consumer spending with aggressive marketing campaigns, quarterly sales, and discount promotions. In 1999 revenue rose to P145.41 billion from a low of P138.64 in 1998. Around this time, the retail sector was opened to foreign competition by the Retail Trade **Liberalization** Act, which allows foreign retailers to conduct business and fully own enterprises as long as they meet certain capitalization (available funds) requirements.

TOURISM. According to the Department of Tourism (DOT), which works with other government agencies to improve infrastructure and guarantee peace and order in the country, the Philippines was the twelfth ranked tourist destination in Asia in 1997. In Southeast Asia, the Philippines ranked fifth, behind Thailand, Singapore, Malaysia and Indonesia. In 1999, 2.17 million tourists visited the country, mostly from East Asia, followed by North America and Europe. These tourists spent $2.55 billion in the country. The country offers nearly 12,000 rooms in numerous hotels. To attract more tourists, as well as to encourage locals to travel to other areas of the country, the government implemented 5 major programs in 1999. Among these programs were the promotion of community-based tourism, the rehabilitation of the world-renowned Ifugao rice terraces, and the promotion of Manila as a multi-faceted destination. Also introduced were programs geared toward overseas workers and attracting expatriate (living abroad), third- and fourth-generation Filipinos to visit their homeland, and programs highlighting cultural artifacts and national heritage. The Philippines boasts some of the best scuba diving in the world, and its World War II sites are also major tourist attractions.

COMMUNICATIONS. In the early 1990s, the monopoly of the Philippine Long Distance Telephone Company (PLDT) was abolished and the sector was opened to competition. Two telecommunications companies, Globe Communications and Smart Communications, are locked in battle over mobile-phone market share. By 1999, Globe was leading with 720,000 subscribers, but Smart followed closely behind. The call-center service business is thriving with the entry of foreign companies like America Online, Etelecare International, People Support, and Getronics. Although still in its infancy, the industry is expected to expand, aided by the availability of workers proficient in English, suitable facilities, and government incentives.

INTERNATIONAL TRADE

EXPORTS. The growth and stability of the Philippine economy is dependent on foreign trade, particularly on the dollar revenue generated from export. For this reason, the Department of Trade and Industry (DTI) has established an Export Development Council to oversee the growth of this sector as guided by the Philippine Export Development Plan. The plan uses a comprehensive approach in promoting Philippine exports to world markets. Another organization that assists the DTI in export promotion is the Center for International Trade Exposition Missions (CITEM), which assists Filipino exporters in marketing and promoting their products through regular trade fairs, trade missions, and other export-promotion programs and activities at home and abroad.

The primary trading partners of the Philippines have always been the United States and Japan, both former colonizers. Trade with these 2 countries has accounted for 50 to 60 percent of Philippine exports for the last 10 years. The Philippines also trades with Singapore, the

Trade (expressed in billions of US$): Philippines

	Exports	Imports
1975	2.294	3.756
1980	5.741	8.295
1985	4.607	5.459
1990	8.068	13.041
1995	17.502	28.337
1998	27.783	30.705

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Netherlands, Taiwan, Hong Kong, the United Kingdom, Malaysia, Germany, and Thailand.

Labor-intensive industrial manufacturers dominate the Philippine export scene. Electronics and semiconductors continue to lead the country's top-10 export products, generating US$1.74 billion in 1998 and US$2.16 billion in 1999. Officials of the Department of Science and Technology predict that earnings from electronic exports will reach US$4.7 billion by 2004. A 1997 government survey revealed that 75 percent of the 784 firms in the country's export-processing zones were electronics manufacturers, and that these firms account for 59 percent of the country's exports. Other important export products are machinery and transport equipment, garments and coconut products, furniture and fixtures, bananas, processed food and beverages, and textile yarns.

Trade officials have forecast that Philippine merchandise exports are likely to hit the US$50 billion mark by the end of 2001, up from $35 billion in 1999. Philippine foreign trade continues to increase every year. In 1998 and 1998, the Philippines posted positive export growth rates—16.9 percent and 18.8 percent—when those of other Asian countries were in decline.

IMPORTS. Imports for 1999 were $30.7 billion. The country's top 10 imports are electronic components, telecommunications equipment and electrical machinery, mineral fuels and lubricants, industrial machinery and equipment, textile yarn and fabric, transport equipment, iron and steel, and organic and inorganic chemicals. The Philippines has attempted several strategies to correct the trade imbalance where imports exceed exports. These strategies range from exchange and import controls to raising **tariffs** for imported products. Despite these efforts, imports have continued to surpass exports for the last 30 years, except in 1973. This forces the government to borrow from international lending agencies to pay for the products that it imports, which are paid for in foreign currencies, commonly in U.S. dollars. These loans are compounded by interest, which further increases the national debt. Over the last 2 decades, this imbalance has been eased somewhat by the money sent by Filipinos working abroad to their families, estimated at US$6.8 million in 1999, a substantial rise over the US$4.5 million figure for 1998.

The major countries importing goods to the Philippines are the United States (22 percent), Japan (20 percent), South Korea (8 percent), Singapore (6 percent), Taiwan (5 percent), and Hong Kong (4 percent), according to 1998 estimates.

MONEY

In the late 1950s, the **exchange rate** for the Philippine peso against the U.S. dollar was 2 to 1. Because the country's economy was undermined by flawed economic policies, innumerable political crises, and a ballooning foreign debt, the peso continued to weaken so that by 1972, the average exchange rate was P6.67 to $1 and, by 1982, at P8.54 to $1. By 1986, the peso had depreciated (lost its value) further and the average exchange rate was P20.39 to US$1, sinking to P40.8 during the 1997 Asian financial crisis. In 2000, at the height of the political crisis that hit the Estrada administration, the peso hit rock bottom at P55 to US$1. Immediately upon Estrada's ouster, the peso gained strength against the U.S. dollar and stabilized at the average exchange rate of P48.50 to a dollar.

Exchange rates: Philippines

Philippine pesos (P) per US$1	
Jan 2001	50.969
2000	44.192
1999	39.089
1998	40.893
1997	29.471
1996	26.216

SOURCE: CIA *World Factbook 2001* [ONLINE].

In the late 1980s, the government began a series of financial reforms aimed at strengthening the banking sector. One of the most important was the restructuring and infusion of fresh capital to the nation's central bank, Bangko Sentral ng Pilipinas, which had become bankrupt following successive political and economic crises in the 1980s. Under the New Central Bank Act of 1993, the central bank was granted "increased fiscal and administrative autonomy (self-government) from other sectors of the government." The act also prohibits the Central Bank from engaging in development banking or financing.

The most important of the agencies overseeing the **monetary policy** of the Philippines are the Department of Finance, the Department of Budget and Management, and the Bangko Sentral ng Pilipinas (Central Bank of the Philippines).

The Department of Finance is the government's central finance office, which manages and mobilizes resources to insure that government policies inspire confidence in foreign investors. This Department manages the bureaus of Internal Revenue, Customs, Treasury and Local Government Finance, and supervises the Securities and Exchange Commission and the Philippine Deposit Insurance Corporation, charged with overseeing the stock market and guaranteeing bank deposits. The Department of Budget and Management is responsible for the formulation and implementation of the national budget and for the sound utilization of government funds to achieve

the country's development goals. The re-organized Bangko Sentral ng Pilipinas conducts monetary policy, issues currency, supervises lending to other banks and the government, manages foreign currency reserves, determines exchange rate policy, and provides other banking functions to the government.

BANKING SECTOR. There are 5 types of banks in the Philippines: universal banks (also called "expanded commercial banks"), commercial banks, thrift banks, rural banks, and government-owned banks. Thrift banks, which include savings and mortgage banks, private development banks, and stock and savings associations, service mainly the consumer retail market and small- and medium-size enterprises. The rural banking system services the needs of the agricultural sector, farmers, and rural cooperatives. There are 3 fully government-owned banks: the Land Bank of the Philippines, the Development Bank of the Philippines, and the Al Amanah Islamic Investment Bank of the Philippines. The banking sector encountered great difficulty during the Asian financial crisis in 1997, but owing to past reforms, the financial condition of the Philippine banking system has been more stable compared to several of its neighboring countries, and major bank failures have been avoided.

STOCK EXCHANGES. The Manila Stock Exchange was established by American businessmen in 1927 after a gold boom. In order to protect its investors, the Securities and Exchange Commission (SEC) was set up in 1936, making it the oldest securities regulatory body in Asia. The Makati Stock Exchange was founded in 1956 by some Filipino brokers who felt dominated by the Americans. For many years, the 2 stock exchanges competed against each other for clients, but they merged in 1992 after a Supreme Court ruling. The newly merged stock exchanges commenced commercial operations in March 1994. Standard and Poor's estimated the **market capitalization** of the merged exchanges at US$48.105 million and trading value was at US$19.673 million.

POVERTY AND WEALTH

Poverty remains a serious problem in the Philippines, which is the only populous country in East Asia in which the absolute number of people living on less than $1 a day remained constant over the 1981–1995 period, according to figures compiled by the World Bank. That body estimates that even if the Philippine economy posts a 6 to 8 percent growth through 2005, it will still not be possible to bring the poverty level below 15 percent. Economists believe that it may take some 20 years of continuous economic reforms and implementation of social programs before the country can match the single-digit poverty figures of its more wealthy neighbors. In general, widespread poverty in the country is a direct result of inappropriate and unresponsive economic policies, mismanagement of resources, corruption, and failure of the government to implement anti-poverty programs.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Philippines	974	1,166	967	1,064	1,092
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Indonesia	385	504	603	778	972

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Economic policies from the 1960s to the 1980s focused on a capital-intensive, import-substituting strategy, which bred inefficient industries and contributed to the neglect of the agricultural sector. Policies promoting industrialization favored the development of urban areas to the detriment of rural areas, most of which remained underdeveloped. At the outset, urban areas, especially Metro Manila, cornered major infrastructure and social projects, thereby attracting most of the investments and jobs in the manufacturing and industrial sectors. In contrast, living standards in the rural areas continued to decline, leaving most of the peasant communities to subsist on a hand-to-mouth existence.

Starting in the mid-1980s, policies adopted by the government moved toward a more open, market-friendly economy. However, as government continued to pursue industrialization, the country's foreign debt ballooned and most of the government's resources went for debt and interest payments. This greatly hindered the government's ability to finance infrastructure and social programs for the neglected sectors of the population.

The mid-1990s witnessed a significant increase in income inequality. Only the top 10 percent of the population increased its share of total income, while the remaining 90

Distribution of Income or Consumption by Percentage Share: Philippines

Lowest 10%	2.3
Lowest 20%	5.4
Second 20%	8.8
Third 20%	13.2
Fourth 20%	20.3
Highest 20%	52.3
Highest 10%	36.6

Survey year: 1997

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Philippines	37	3	11	1	14	1	32
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Indonesia	47	3	6	5	14	3	22

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

percent lost income share. A 1997 government survey revealed that more than a third of the population (36.7 percent) lived below acceptable standards. Still, the incidence of extreme poverty had declined since 1985, when the comparable figure was 49.2 percent. In 1999, the National Statistics Office estimated that, of the 14.7 million families in the Philippines, the top 20 percent earned 14 times more (P502.1 billion) than the lowest 20 percent (P35.8 billion).

A survey by the National Statistics Office of income distribution in the period from 1991 to 1997 shows the combined earnings of 80 percent of Filipino families amounted to only 44 percent of total income in the country, while the top 10 percent of families owned 39.3 percent. In 1999, almost half (46.6 percent) of the total income, or P417.9 billion, came from wages and salaries, and about a quarter (23.5 percent), or P210.3 billion, from entrepreneurial activities.

Among the poorest Filipinos, most family income is derived from entrepreneurial activities such as selling food on street corners or collecting recyclable materials to sell at the junkyards. Those belonging to the higher income strata obtain a bigger share of their incomes from wages and salaries. Most of the poor are lowland landless agricultural workers, lowland small farm owners and cultivators, industrial wage laborers, **hawkers**, microentrepreneurs, and scavengers. Most poor Filipinos live in rural areas, where they are subject to the low productivity of agricultural employment. Urban poverty is caused by low household incomes and the internal migration of poor rural families to urban areas.

Due to inadequate access to community health centers, members of poor households are not able to maximize health services benefits, such as family planning, the lack of which results in larger families with more malnourished and uneducated children. The condition of the poor is made worse by lack of housing, clean water and electricity, especially in the urban areas.

In 1987 Congress enacted the Cooperative Code of the Philippines in order to improve income opportunities, promote self-reliance, and encourage the entrepreneurial spirit in the countryside. As of December 2000, there were 57,470 cooperatives (a collective organization owned and operated by the people drawing benefits from it) registered with the Cooperative Development Authority. In 1991, Congress enacted the Local Government Code, which expanded basic social services on the grassroots level. The Social Reform Agenda (1993), formulated during the Ramos administration, is one of the government's most comprehensive development frameworks for combating poverty; its strategies aim at improving access to basic social services, increasing opportunities for employment, income generation, and self-reliance. The Estrada administration established the National Anti-Poverty Commission and allocated P2.5 billion for suitable programs.

WORKING CONDITIONS

Working conditions in the Philippines are closely related to one's social class. Those belonging to the upper class enjoy the best opportunities in terms of job satisfaction, facilities, advancement, and choice of career. Those from the middle class are usually able to land white-collar jobs with some room for advancement by capitalizing on education, company loyalty, and hard work. Those belonging to the lower class, due to their lack of education or capital, largely engage in poorly paid manual labor or blue-collar jobs, viewed as menial in Philippine society.

The unemployment rate in the Philippines rose to 10.1 percent in October 2000 during a political crisis provoked by President Estrada's impeachment trial on charges of graft (illegal or unfair gain) and corruption. The performance of the manufacturing industry sank to an historic low and investor confidence hit rock-bottom. Nearly 3 million Filipinos were unemployed and the unemployment rate in Metro Manila reached 17.8 percent.

The Department of Labor and Employment is the main agency making and implementing labor policies and

government programs. Guidelines set by the Labor Code of the Philippines guarantee equal work opportunities to all, equal compensation for work of equal value, secure work tenure, overtime and vacation benefits, safe working conditions, the right to collective bargaining, and social-security benefits.

OVERSEAS FILIPINO WORKERS (OFWS). Beginning in the 1980s, lack of employment opportunities and **inflation** at home caused many Filipinos to seek employment in Europe, the Middle East, and neighboring countries in Southeast Asia through legal and illegal means. According to labor statistics released in January 2001, a total of 789,000 documented OFWs left to work abroad from January to November 2000 as information technology workers, engineers, seafarers, housekeepers, and nurses, among others. As of December 2000 labor statistics released by the Inter-Agency Committee on Tourism and Overseas Employment Statistics reveal that there are 7,383,122 Filipino professionals working abroad. Money sent home by the OFWs in 1999 amounted to US$6.8 million, a big jump from US$4.5 million in 1998. The social costs of this phenomenon were also substantial, for it caused the breakdown of the family unit, carrying with it attendant problems such as extramarital affairs and increased delinquency among unsupervised children. An equally disturbing problem was the rampant sexual and physical abuse of OFWs, especially women, and those victimized by illegal recruiters.

WOMEN AND CHILDREN IN THE WORKFORCE. On one hand, economic growth has opened up more opportunities for women, particularly in export industries; on the other hand, women are first to be terminated when industries are forced to downsize. Since the Asian financial crisis in 1997, women have been forced to seek additional sources of income to supplement their meager take-home pay and are thus working longer hours than men. A 1998 study revealed that the number of women employed in the manufacturing sector had decreased by 12 percent, while those engaged in mining and quarrying increased by more than 16 percent.

A government agency, the National Commission on the Role of Filipino Women (NCRFW), is mandated to conduct gender consciousness-raising programs among government policymakers, planners, implementers, women in government, and non-government institutions. Through its initiative, the Philippine Development Plan for Women was formulated and adopted by the government. Another agency, the Bureau of Women and Young Workers, a subordinate agency of the Department of Labor and Employment, looks after the interests of working women and children. There are laws in place protecting women from gender discrimination and sexual harassment and establishing community day-care centers for children, but the implementation of these laws is not always strictly monitored.

Though the minimum age of employment is 18 years for hazardous jobs and 15 years for non-hazardous jobs, it is not unusual to see children engaged in some form of labor to contribute to their family's daily survival. A government survey in 1995 estimates that 3.6 million children, mostly boys aged 5 to 17 years, were engaged in some form of child labor. At least 1 in 10 of them is engaged in heavy physical work.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1521. In his search for the Moluccas, Ferdinand Magellan docks in the Philippines and is slain by native chieftain Lapu-Lapu in battle.

1543. Spanish conquistador Ruy Lopez de Villalobos names the islands Filipinas after Spain's Philip II.

1565. Miguel Lopes de Legazpe establishes his base in the province of Cebu and later moves it to Manila.

1575. Spain takes control of non-Islamic areas and monopolizes trade.

1896. Nationalist Jose Rizal is executed by the Spaniards. He is later honored as a national hero.

1898. Spain sells the Philippines to the United States for $20 million after a mock battle in Manila Bay.

1900. The United States establishes a commonwealth government and enacts a law that will grant the Philippines independence by 1944.

1935. Manuel L. Quezon is elected president and a new constitution is adopted.

1941. Japanese forces invade Luzon.

1942. Japanese forces conquer Manila as U.S. troops on the Bataan peninsula surrender to Gen. Yamashita.

1945. Japanese occupation ends. The Philippines joins the United Nations as a charter member.

1946. The Philippines gains independence from the United States on July 4, becoming an independent republic with Manuel Roxas as president.

1947. The Philippines and the United States sign a Military Bases Agreement.

1948. President Roxas dies and is succeeded in office by Elpidio Quirino.

1950S. The Communist Hukbalahap Movement collapses. The country rebuilds itself and earns the distinction of becoming the second most prosperous nation in Asia, next to Japan.

1953. Ramon Magsaysay is elected to the presidency as standard bearer of the Nacionalista Party.

1957. President Magsaysay dies in an air crash and is succeeded in office by Vice President Carlos P. Garcia.

1961. Vice President Diosdado Macapagal is elected president over incumbent Garcia.

1965. Ferdinand E. Marcos is elected president, defeating incumbent Macapagal.

1967. The Philippines joins the Association of Southeast Asian Nations (ASEAN).

1969. President Marcos is re-elected and becomes the first president ever to be sworn in for a second time. The New People's Army is founded.

1972. President Marcos declares martial law in the guise of controlling a Communist rebellion. He orders the arrest of all opposition leaders, suspends the constitution, and dissolves the National Assembly. A new constitution is approved in a national referendum that proposes a return to a parliamentary form of government. President Marcos serves as president while Cesar Virata serves as prime minister. Muslim insurgency in the South intensifies.

1981. President Marcos ends 8 years of martial law and wins elections for a second 6-year term.

1983. Senator Benigno S. Aquino Jr. returns from exile in the United States and is assassinated on his arrival at the Manila airport. Marcos calls for a quick election to quell domestic unrest and international pressure.

1986. Millions of Filipinos hold a peaceful "People Power" revolution protesting President Marcos's victory amidst charges of ballot tampering. Marcos and his family are exiled to Hawaii, and Corazon C. Aquino, wife of the slain Senator Aquino, assumes the presidency. A new constitution is soon ratified.

1989. Limited autonomy is granted to Muslim provinces. Dispute escalates with China over the Spratly Islands. Military stages a coup d'état.

1990. A destructive earthquake, measuring 7.7 on the Richter scale, kills more than 1,600 and destroys property amounting to hundreds of millions of pesos. Typhoons batter the Visayas region.

1991. Eruption of the volcano Mount Pinatubo, burying many towns under lava including the ones where 2 American bases, Clark Air Base and the Subic Naval Bay Station, were located.

1992. Fidel V. Ramos is elected president. He unveils his blueprint for development called Philippines 2000. The Philippine Senate votes against the continued presence of U.S. military bases in the country.

1990s. The Philippine economy registers positive growth. International agencies express optimism about the country's development and dubs the country as one of Asia's "tiger cub" economies.

1998. Joseph E. Estrada, running under a social-justice platform, wins the presidency by a wide margin. The Philippines' fiscal deficit balloons to P111.66 billion from a deficit of P11.14 billion in 1986.

2000. President Estrada becomes the first Philippine president to be impeached by Congress. After mass "People Power" demonstrations, vice president Gloria Macapagal-Arroyo becomes the fourteenth President of the Republic.

FUTURE TRENDS

The greatest task at hand for the government of President Gloria Macapagal-Arroyo is to stimulate the economy to sustained growth and reduce poverty by ensuring that the benefits of development are evenly distributed. In order to achieve this, government must manage its huge **budget deficit** and the national debt, and both the private and **public sectors** must reduce unemployment by attracting more foreign investors or generating employment locally through entrepreneurship. The new president is an economist by training, and it is believed she can inspire confidence in investment. By 2001, forecasters were revising upward their predictions of GDP growth from 2.7 percent to 4 percent.

In May 2001, voters will elect 13 senators, 209 representatives, 53 party-list representatives, and 79 governors and vice-governors. The outcome of the elections is crucial to the political and economic stability of the country. Any perception of election irregularities such as vote-buying or cheating will diminish investor confidence. In fact, most foreign investors are postponing business decisions until the outcome of the elections is known. In addition, it is crucial that the candidates of the current administration win a majority of the positions in order to affirm its mandate and ensure the smooth passage of its priority bills in both the Senate and the House of Representatives.

Some of the existing problems that can cause destabilization are the remaining pockets of Communist insurgency, the continuing struggle by Muslim separatists, and the feeble, but divisive, attempts of the former president to regain the presidency. The precarious state of the country's environment and natural resources can also hurt political stability and economic growth. In 2000, the government was severely criticized for not being able to effectively address the crisis in waste management. Dozens of slum dwellers living near the Payatas dumpsite were buried alive under mountains of trash that collapsed on their houses after continuing rains. A temporary shutdown of the dumpsite resulted in the accumulation of un-

collected garbage in Metro Manila and added to public perceptions of the government as incompetent and ineffective. The continuing degradation of the environment is negatively affecting health and livelihood. The heavily polluted air in Metro Manila is the primary cause of respiratory illnesses, which harms labor productivity. Water pollution disrupts marine-dependent livelihoods, as well as the country's source of food. Although initiatives for resource conservation and environmental protection have gone a long way, there is still much to be done in terms of strict implementation of the laws and instilling respect for the environment.

DEPENDENCIES

Philippines has no territories or colonies.

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—Maria Cecilia T. Ubarra

QATAR

State of Qatar
Dawlat Qatar

CAPITAL: Doha (Ad-Dawhah).

MONETARY UNIT: Qatari riyal (QR). One riyal equals 100 dirhams. Coins are in denominations of 50, 25, 10, 5, and 1 dirhams. Paper currency is in denominations of QR500, 100, 50, 10, 5, and 1.

CHIEF EXPORTS: Petroleum products, fertilizers, and steel.

CHIEF IMPORTS: Machinery and transport equipment, food, and chemicals.

GROSS DOMESTIC PRODUCT: US$15.1 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$9.8 billion (f.o.b., 2000 est.). **Imports:** US$3.8 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Qatar is a tiny peninsula jutting into the Persian Gulf and bordering only Saudi Arabia. With an area of 11,437 square kilometers (4,416 square miles) and a short coastline of 563 kilometers (345 miles), Qatar is slightly smaller than the state of Connecticut. Qatar's capital city, Doha, is located in the east on the Persian Gulf and is home to 320,000 people. Other major cities include Umm Sa'id and al-Khawr.

POPULATION. The population of Qatar was estimated at 769,152 in July of 2001, a marked increase from the 1990 population of about 486,000. Arabs make up 40 percent of the population, but there are also Pakistanis (18 percent), Indians (18 percent), Iranians (10 percent). Non-Qataris make up the largest proportion of the country's **labor force**. Since 1998, the population growth has slowed down, as evidenced in the 5.3 percent drop in the population in 1998. The slowdown is believed to come as a result of the government's "Qatarizing" movement—to encourage the employment of local workers—following the sharp decline in oil prices in 1997 and 1998.

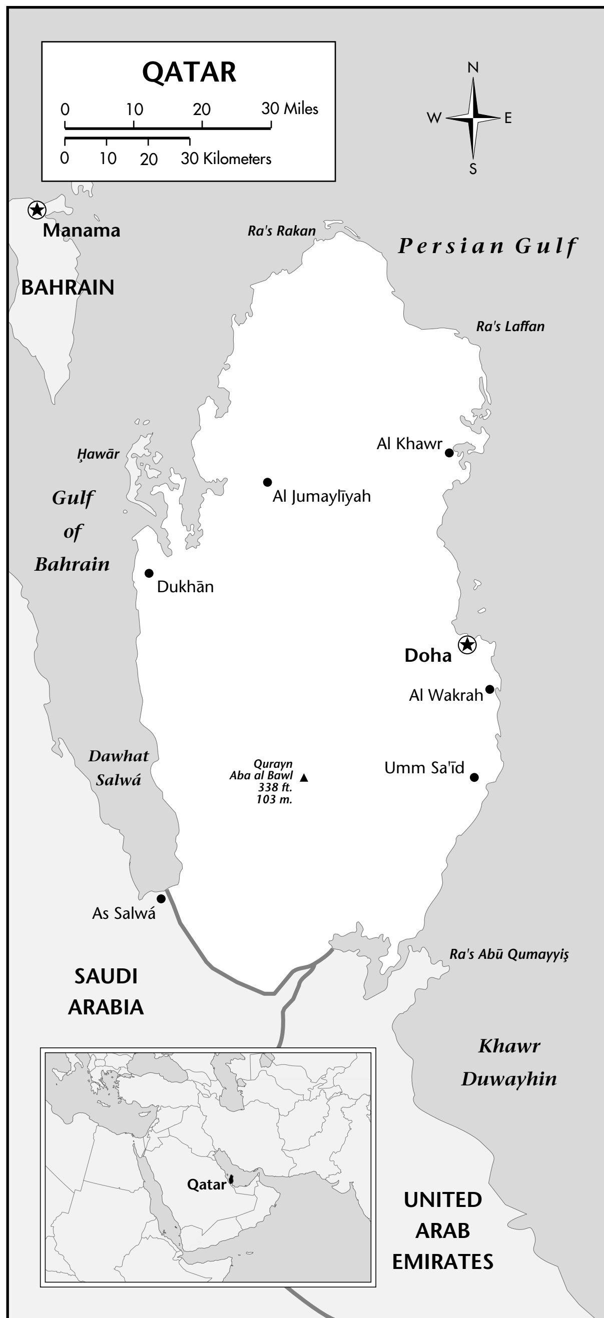
Qatar's population growth has accelerated since the 1960s, mainly as the result of the influx of large numbers of expatriate workers into the country. Between the late 1960s and 1997, the population grew from 70,000 to 522,000, of whom only 160,000 are Qatari nationals. According to the Economist Intelligence Unit (EIU) *Country Profile* for 2000, the population growth rate reached 1.5 percent in 1999, and is projected to reach 1.8 percent in the coming decade. The expatriate worker community, which accounts for 70 percent of the population, is largely made up of Indians and Pakistanis.

Like most Arab countries, Qatar's population is mostly young; 27 percent of the population is younger than 15. Also like many developing countries, a majority of Qataris (90 percent) are concentrated in urban areas. Major cities have been growing at the rate of 2 percent annually. Almost 80 percent of the population is concentrated in the capital, Doha. Other major cities include Messaieed, an industrial township 124 kilometers (77 miles) south of Doha.

OVERVIEW OF ECONOMY

Qatar's domestic economy is heavily dependent on the hydrocarbons sector. Oil accounts for about 40 percent of **gross domestic product** (GDP) and about 63 percent of government revenues. Qatar's oil reserves are small relative to its Persian Gulf neighbors, although its output has tripled in recent years with the exploration of new fields. Other non-oil industries exist, but they are heavily dependent on the oil sector, which means that Qatar's dependence on oil is likely to continue for a long time to come.

More importantly, Qatar has the third-largest reserves of natural gas in the world. Its reserves are expected to last for 250 years at the current rate of production. The government has increased emphasis on the natural gas sector since 1990 with the goal of replacing oil as the main



source of revenue. Several hydrocarbon-related industries, mainly petrochemicals, have also been set up since 1990. It is likely to take years before this diversification strategy begins to yield profit, however, largely because of the huge investments and heavy foreign borrowing that the government needed for the development of the natural gas sector. These loans would have to be paid before the government could show a profit.

Agriculture is not a major contributor to the economy. The state, which owns all agricultural land, has attempted to promote production by increasing the number of small farms. These efforts have been largely unsuccessful, mainly because of the lack of water for irrigation.

Qatar entered the 20th century as a tribal settlement on the peninsula nominally controlled by the al-Thani tribe, whose exact origins remain unknown. Real power, however, rested with the British, who effectively controlled the country's foreign relations. The al-Thani ruling family had signed a series of treaties with the British in the 19th century. In return the British promised protection against other powerful regional tribes, especially the Wahhabis from neighboring Saudi Arabia and against Bahrain, which claimed Qatar as its own. By the end of World War I, however, Qatar's importance had waned, largely due to the diversion of British trade routes to India after the opening of the Suez Canal. Unlike bigger oil producers in the Gulf region, oil was not discovered in Qatar until the 1950s. Until the 1970s, foreign companies, who owned and managed the oil industry in return for fees paid to the al-Thani family, dominated oil production. By the early 1990s, many of the foreign subsidiaries had become completely state-owned. After several Gulf sheikhdoms declared their independence from the British, Qatar followed suit on September 3, 1971, after securing continued support from the al-Saud tribe that ruled neighboring Saudi Arabia.

Since the early 1970s, increased oil revenue has allowed the government to embark on massive development projects that brought rapid material and social change. The state's role in the economy remains central, as the government controls the oil revenue. Income from oil fluctuates according to changes in world oil prices. The government's dependence on oil revenue and decades of government overspending have resulted in recurring **budget deficits**, especially during low oil prices, and a high **external debt**, which was estimated by the EIU to have reached US$12.2 billion in 1999.

Since 1997, at the recommendation of the International Monetary Fund (IMF), Qatar has embarked on a program to reduce **subsidies** on utilities, gasoline, wheat, and sugar and to introduce charges for health care and education for the purpose of stabilizing the **exchange rate**. As a result, the expatriate community in Qatar no longer enjoys free medical benefits. Services to Qataris, however, continue to be heavily subsidized by the state. In 1999, an official stock market was set up and the government issued 2 domestic bonds and 1 international bond as a means to develop alternative financing methods. In 2001, the government plans to **privatize** the generation, transmission, and distribution of utilities, and to continue its policy of encouraging locals to seek employment to reduce the country's dependence on foreign workers. The government is also expected to continue to encourage the **private sector** to play a bigger role in the economy.

POLITICS, GOVERNMENT, AND TAXATION

Qatar is an absolute monarchy that has been ruled by the al-Thani family since the mid-1800s. It is currently headed by Sheikh Hamad, who ousted his father, Sheikh Khalifa, in a bloodless *coup d'etat* (a takeover of a government) in June 1995. Although autocratic (ruling through absolute power), the ruling family has been committed to building the state and developing its resources. Since taking over, the widely popular Sheikh Hamad has embarked on an ambitious political and economic reform program to modernize the state and address the decline in economic performance that began in the early 1990s. In 1999, the first municipal elections in the country's history were held, followed by the establishment of a constituent assembly in mid-1999 entrusted with the task of drawing up a permanent constitution and providing for an elected parliament. Sheikh Hamad has also allowed greater political freedoms. Despite these efforts, however, ultimate authority continues to rest with him and his circle of advisors. The sheikh remains the source of absolute authority and enjoys the power to dissolve the Consultative Council (a 35-member advisory council appointed by the sheikh) and rule by decree, powers given to him by the 1970 provisional constitution.

Qatar is a **welfare state**, where health care and education are almost free. Since 1998, the government has moved to introduce small charges for these services, especially for health care, in an effort to boost the government's budget by reducing spending. However, most utilities in 2001 continue to be heavily subsidized by the government, and education remains entirely free. Qataris do not pay taxes and the government's budget continues to rely heavily on oil revenue.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Qatar enjoys an extensive and highly-developed **infrastructure** that has been built and developed with oil wealth since the 1950s. The country is served by a network of over 1,230 kilometers (764 miles) of primary and secondary roads, linking Doha with major industrial and oil producing areas. Most of these roads, some 1,107 kilometers (688 miles), are paved. The country has no railway system. Qatar has 4 airports, 2 of which have unpaved runways. Doha International Airport is the country's major airport. Twenty-eight airlines service Doha and bring in most of the country's tourists. Qatar has 3 ports and harbors: Doha, Halul Island, and Umm Sa'id.

Electrical power is provided to Qataris from the Ras Aby Aboud and Ras Abu Fontas power stations. In addition, there are 6 gas turbines and an estimated 5,000 diesel units spread across the country. Altogether, Qatar's total power capacity is estimated at 2,019 megawatts (MW). In 2000, the government drew up plans to build an independent power station with a capacity of 1,902 MW to meet the increasing demands of industrial projects and satisfy rising power demand, which peaks in the summer due to soaring temperatures. Several foreign companies, which are expected to own 60 percent of the project, have submitted bids, but the project's completion date remained unknown in 2001.

Telecommunications services in Qatar are thoroughly modern. Telephone service is provided by the Qatar Public Telecommunications Corporation (Q-Tel), which is 55 percent government owned. There are 430,000 landlines in the country, and in 2001, Q-Tel will be installing additional exchanges for Doha and Ras Laffan. Q-Tel also provides Internet and cable television access.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Qatar	142,000	43,476	AM 6; FM 5; shortwave 1	256,000	2	230,000	1	45,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Saudi Arabia	3.1 M (1998)	1 M (1998)	AM 43; FM 31; shortwave 2	6.25 M	117	5.1 M	42 (2001)	400,000 (2001)
Bahrain	152,000	58,543	AM 2, FM 3, shortwave 0	338,000	4	275,000	1	37,500

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

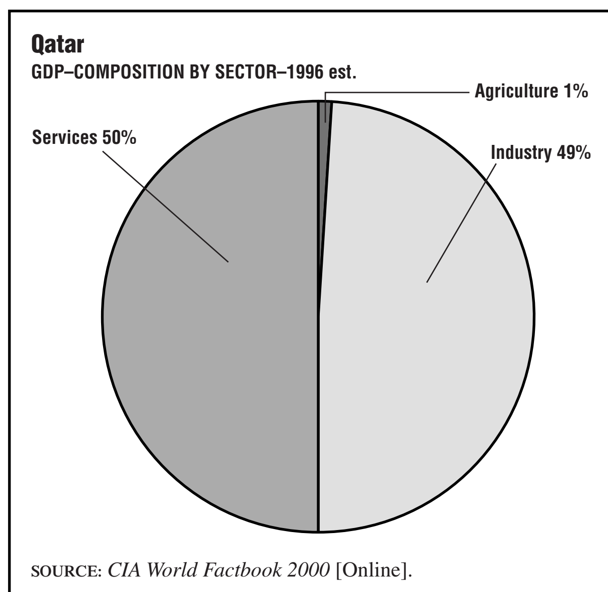
SOURCE: CIA *World Factbook 2001* [Online].

ECONOMIC SECTORS

Qatar's economic sectors reflect the small size of the country. Qatar relies heavily on the oil sector, exporting some 650,000 barrels a day, mostly to Europe and eastern Asia. The services sector is the country's second-largest economic sector and most important non-oil sector. According to the CIA *World Factbook* for 2001, the sector's contribution to GDP reached 50 percent in 1996. The industrial sector is also an important contributor to the economy, accounting for 49 percent of GDP in 1996. This sector is dominated by the oil industry, which accounts for a little over 40 percent of GDP. The non-oil manufacturing sector, on the other hand, accounts for only 8.8 percent, according to the EIU. Agriculture is an insignificant contributor to the economy, accounting for roughly 1 percent of GDP.

One of the greatest problems facing all of Qatar's economic sectors is the dependence on oil revenue and the adverse impact of the fluctuation of oil prices on the country's investment climate and fiscal deficit. Lower oil prices generally mean lower revenue for the government. Reduced government revenues in turn translate into lower government spending on economic projects, a situation that brings about an overall slowdown in the economy.

Recognizing these obstacles, Qatar has moved to diversify its sources of income by developing its liquefied natural gas (LNG) industry and expanding its industrial base. Qatar's efforts to diversify its economic base have not been very successful. Most economic activity continues to be centered on oil. Qatar has 2 natural gas plants that have been in existence since 1980. With the help of international oil companies, Qatar launched 2 LNG projects in 1992, the North Field development at Ras Laffan city. The first phase of the project was completed in 1992, and the second project is scheduled to start in 2001. According to the EIU *Country Profile* for 2000, once completed, the North Field will be "the largest single concentration of natural gas" in the world. The government invested some US$20 billion in the development of the North Field between 1995 and 2000. However, it is not expected to make a profit from these projects until its debts to the companies that financed the exploration projects are paid. Therefore, Qatar's dependence on oil is likely to continue.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

The government, which owns all agricultural land, has attempted to encourage agricultural production, accounting for only 1 percent of GDP. Given the scarcity of fresh surface water, however, most agricultural activity is dependent on wells. The government has also attempted to increase the number of small farms. As a result, the number of farms has increased from 338 in 1975 to 891 in 1995. Most farmers are absentee landlords, who are relatively uninterested in investing in agriculture, and the land is mostly cultivated by foreign workers.

Qatar's agricultural products are consumed locally, providing 70 percent and 40 percent of the consumption of summer and winter vegetables, respectively. In addition to vegetables, Qatar produces cereals, fruits and dates, eggs, poultry, and dairy products. Despite a noticeable increase in agricultural production in the course of the past 20 years, however, Qatar continues to rely on food imports, especially foodstuffs and live animals, which account for roughly 10 percent of total imports.

INDUSTRY

MINING. Qatar's economy is heavily dependent on oil. Oil accounts for 40 percent of GDP and 63 percent of the state's income. The Qatar General Petroleum Corporation estimates that Qatar's total oil reserves have reached 12.2 billion barrels, up from 3.7 billion in 1995, due to the exploration of new oil fields by western companies since 1990. Oil production has risen consistently since 1994. Average production reached 854,000 barrels a day in May 2000, up from 410,000 barrels a day in 1994. Despite the increased production levels, Qatar's output is relatively low by regional standards.

In addition to oil, Qatar has been a producer and exporter of natural gas since 1980, when the first liquefied natural gas (LNG) plant was opened. Altogether, there are 3 LNG plants in the country, and a fourth is being constructed. The first plant was opened in 1980, producing up to 1,284 tons a day of propane, 851 tons a day of

butane, 588 tons a day of condensate, and 1,350 tons a day of ethane-rich gas. A second LNG factory was opened in 1982, and it also produces large quantities of propane, butane, condensate, and other gases. The third LNG project was completed at Ras Laffan in 1992 as the first phase of the North Field Project. According to the EIU, the plant produces some 22.6 million cubic meters a day of gas and around 50,000 barrels a day of condensates. A fourth project, phase two of the Ras Laffan North Field project, is being constructed in 2001 to produce ethylene and polyethylene for use as feedstock (raw materials used for chemical and biological processes) by Qatar Chemical Complex. The project also aims to export 22 million cubic meters of gas a day to neighboring Persian Gulf states. LNG products are mostly exported to generate foreign exchange but are also used as feedstock for the emerging petrochemical industry.

MANUFACTURING. Qatar's non-oil industrial base is relatively small. However, the contribution of the non-oil manufacturing sector to the economy has increased steadily since the 1970s, in large part thanks to the huge investments and efforts by the country to build a non-oil industrial base. Since 1992, the government has moved to establish the Ministry of Energy and Industry to encourage industrialization and to set up the Qatar Industrial Development Bank to provide loans with easy terms to would-be investors. In 2001, Qatar enacted a law allowing foreign companies a 100-percent ownership of projects in some sectors, including education, tourism, and health care. Despite these efforts, however, industrial output remains low. The sector's contribution to GDP reached 8.8 percent in 1999.

Qatar's industrial base is dominated by the petrochemicals sector, which is controlled by the government. It is the biggest producer of low-density polyethylene and chemical fertilizers in the world. The sector has traditionally accounted for 40 percent of GDP. However, since 1998, the sector's contribution to GDP has been affected by the economic slowdown in Asia, the primary market for Qatar's oil products. Efforts are underway in 2001 to set up new petrochemical ventures that are expected to resume exports once the economic slump affecting Asia is over. In addition to petrochemicals, there is a small steel production operated by the 100-percent state-owned Qatar Steel Company. The sector produces 500,000 metric tons a year. Since 1998, the government has attempted to privatize the company by selling 49 percent of its shares on the Doha Securities Market to improve its profitability and as part of an overall scheme to reform the economy. The government, however, was forced to delay the partial privatization of the company as a result of the poor performance of the Doha Securities Market since 1998, which meant that the company's shares will be sold for much less than the government had hoped for.

SERVICES

TOURISM. Tourism is a very negligible contributor to Qatar's economy. Since 1996, the government has attempted to establish a tourism industry and to turn Qatar into a major destination for international sporting events. The government has, as a result, invested heavily in the construction sector. These efforts came to a halt in the wake of the 1998 spending cuts, which were prompted by the sharp fall in world oil prices, but were revived in the 2001 budget, as oil prices rose again in 2000.

FINANCIAL SERVICES. Qatar has a fledgling financial sector regulated by the Central Bank of Qatar. There are 14 banks operating in the country, including 5 locally-owned banks that hold 80 percent of the financial sector's assets. There are also 16 currency exchange companies. There are no investment banks. The Qatar National Bank, the country's largest bank, is the only bank involved in the government's hydrocarbon development program, and handles all the government's business. Other banks include the Qatar International Islamic Bank, Doha Bank, and the Commercial Bank of Qatar.

The government introduced new regulations in August 1995 to ease earlier restrictions placed on financial transactions. Despite these efforts, some restrictions continue to affect interest rates paid by banks on deposit accounts. Although the Central Bank requires banks to disclose accounts according to international standards, there is growing concern that some banks do not disclose their **non-performing loans**.

The Doha Securities Market (DSM) was established in 1997 with QR21 billion (US$5.8 billion) in assets. Nineteen companies are listed on the DSM, but trading has been generally weak, resulting in a 0.5 percent drop in the stock market index at the end of 1999.

RETAIL. Lacking many large commercial centers other than Doha and its suburbs, Qatar has a relatively undeveloped **retail** sector. While Doha is home to a variety of retail stores, including fast food franchises such as McDonald's, the majority of towns in the interior of the country have small family-owned shops, farmer's markets, and temporary roadside stands.

INTERNATIONAL TRADE

Over the past decade, Qatar has relied more and more on imports. The value of imports more than doubled since 1990, peaking to US$3.9 billion in 1999, up from US$1.2 billion in 1989. Imports have traditionally varied from basic foodstuffs to **consumer goods**. Since the early 1990s, however, capital purchases for gas development projects have accounted for approximately 40 percent of imports. The volume of imports is expected to rise by

Trade (expressed in billions of US$): Qatar

	Exports	Imports
1975	1.805	.413
1980	5.672	1.423
1985	N/A	1.139
1990	N/A	1.695
1995	N/A	N/A
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Qatar

Qatari riyals (QR) per US$1	
2001	3.6400
2000	N/A
1999	N/A
1998	N/A
1997	N/A
1996	N/A

Note: Rate is fixed.

SOURCE: CIA *World Factbook 2001* [ONLINE].

2002, largely because of revived government spending in the construction business.

Imports of foreign goods are dominated by Organization for Economic Development and Cooperation (OECD) suppliers, namely Japan, the United Kingdom, the United States, Italy, and Germany. (The OECD is a 30-member organization that provides governments with a forum to discuss and develop economic and social policy.) In 1998, Japan overtook the United Kingdom as Qatar's major supplier of machinery and manufactures, providing 15.4 percent of total imports. Imports from the United Kingdom accounted for 13.9 percent of total imports, followed by France, the United States, and Germany.

Qatar's exports are dominated by crude oil, although its importance has begun to decline in recent years due to the increase in the export of LNGs. As a result of its dependence on crude oil, which roughly accounts for 56 percent of exports, Qatar's export bill has fluctuated with world oil prices. Export revenue surged from US$4.36 billion in 1998 to US$6.6 billion in 1999. In 1998, Japan was also Qatar's largest export partner, accounting for 58.1 percent of the total export bill. South Korea came next at 11.0 percent, followed by Singapore, the United States, and Thailand.

The substantial oil revenue has allowed Qatar to maintain a **trade surplus**. However, the transfer of large amounts of money in **remittances** by the large expatriate workers community has consistently resulted in a deficit in the current account for most of the past decade. The deficit peaked to US$1.6 billion in 1993, and the government's efforts to reduce the number of expatriate workers is expected to reverse the trend in the coming years. Similarly, the service balance has registered a deficit for much of the past decade, due to the government's heavy spending on defense and capital imports related to the LNG development. In 1999, the deficit in the service balance reached US$1.5 billion. The income balance also has registered a deficit as a result of the interest on the country's mounting **foreign debt**.

MONEY

The value of the Qatari riyal has remained stable since it was first issued in 1969. The majority of Qatar's exports are denominated by the U.S. dollar. The Central Bank of Qatar has kept a **fixed exchange rate** of QR3.64: US$1, despite a fall in the value of the dollar in 1995, mainly to prevent **inflation**.

POVERTY AND WEALTH

Qataris enjoy one of the highest living standards in the world. Per capita income is high by both regional and international standards. In 1999, per capita income was estimated at US$21,841, US$1,803 higher than 1998. By contrast, per capita income in the United States is US$29,683.

The country's vast wealth from oil revenue and its relatively small population have allowed the government to invest heavily in education and in providing first-class health and educational services to its citizens since the 1970s. As a result, the literacy rate in the country is estimated by the United Nations to have reached 80 percent in 1995. Vast oil wealth has also allowed the government to offer heavily-subsidized or free services, such as public education.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Qatar	21,300	16,700	17,100	17,000	20,300
United States	28,600	30,200	31,500	33,900	36,200
Saudi Arabia	10,600	10,300	9,000	9,000	10,500
Bahrain	13,000	13,700	13,100	13,700	15,900

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Qatar	22	12	11	5	13	8	29
United States	13	9	9	4	6	8	51
Saudi Arabia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bahrain	32	7	8	1	6	9	37

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

No information is available about the distribution of wealth in Qatar, but poverty among Qataris is believed to be virtually non-existent.

WORKING CONDITIONS

Qataris have traditionally been uninterested in working at menial jobs and have instead relied on foreign workers in the administration of their country. Locals generally tend to occupy high positions in government ministries and private businesses, but the bulk of the manual labor is performed by Indians and Pakistanis. Unemployment among nationals is believed to be quite low (figures are unavailable). Since 1998, the government has launched a program to encourage Qataris to replace foreign-born laborers. This program also expanded labor training programs for Qatari nationals. No official statistics are available to assess its success.

The Ministry of Interior controls all transactions relating to foreign workers in the country. There is no minimum wage requirement. Salaries are negotiable. Expatriate workers pay for health care and are required to pay annual residency fees in the amount of US$275. According to the U.S. State Department *Country Commercial Guide, 2001*, the wives and children of expatriate workers are required to pay US$137 and US$82 respectively in residency fees. Qatar has no tradition of labor unions, although trade associations and labor unions are not forbidden by law.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

MID-1800s. Al Khalifa, Bahrain's ruling family, establish Qatar.

1915. Al Khalifa family expels the Turks from Qatar.

1916. Qatar signs treaty to receive protection from United Kingdom.

1949. Sheikh Abdullah abdicates in favor of his son Ali.

1950s. Oil is discovered in commercial quantities.

1971. Qatar declares independence from the British.

1973. World oil crisis. Qatar's oil revenue increases dramatically.

1981. Qatar, Kuwait, Bahrain, Saudi Arabia, Oman, and the United Arab Emirates form the Gulf Cooperation Council.

1995. Sheikh Hamad deposes his father, Sheikh Khalifa, in a bloodless coup.

1997. Economic reform program launched.

1999. The first municipal elections are held.

FUTURE TRENDS

Qatar entered the 21st century under a cloud of uncertainty. Despite the large sums of money that have entered the government's coffers from the sale of oil in the last 50 years, decades of government overspending and misuse have created serious financial constraints, mainly large foreign debt and recurring budget deficits. Despite the government's attempts to address these 2 problems by diversifying the country's economic base and introducing reform, Qatar's dependence on oil and the government's large role in the economy have meant that economic performance will continue to fluctuate according to oil prices. As a result, economic performance will be best when oil prices are high.

Given the structure of the economy, the government is expected to proceed with the "Qatarization" of its labor force. The government is also expected to forge ahead with the economic reform program started in 1997, which will seek to increase the role of the private sector, and to push for the privatization of more state-owned enterprises. Given that Qatar's budgetary problems are unlikely to be resolved until revenue from the sale of liquid natural gas exports begins to flow, the government will have no choice but to proceed with the promised democratization process and to engage the population

politically to deflect the potentially disruptive impact of declining conditions. Political participation will engage citizens in the decision-making process by allowing them to elect their representatives through a popular vote, hence reducing the perception among the largest proportion of Qataris that they are outside the political process.

DEPENDENCIES

Qatar has no territories or colonies.

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—Reem Nuseibeh

SAMOA

Independent State of Samoa
Malo Sa'oloto Tuto'atasi o Samoa i Sisifo

CAPITAL: Apia.

MONETARY UNIT: Tala (WST). One tala equals 100 sene. Coins are 1, 2, 5, 10, 20, and 50 sene and 1 tala. Notes are 2, 5, 10, 20, 50 and 100 talas.

CHIEF EXPORTS: Copra, coconut oil, coconut cream, taro, fish, and kava.

CHIEF IMPORTS: Food, machines and transport equipment, manufactures, and fuels.

GROSS DOMESTIC PRODUCT: US$571 million (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$17 million (f.o.b., 2000). **Imports:** US$90 million (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in the South Pacific Ocean, about halfway between Hawaii and New Zealand and just east of the International Date Line. The country consists of 2 large islands—Savai'i to the west and Upolu to the east—and several smaller islands. It has a land area of 2,850 square kilometers (1,100 square miles) and a coastline of 403 kilometers (250 miles), making it slightly smaller than Rhode Island. The capital city, Apia is located on the north coast of Upolu.

POPULATION. The population of Samoa was estimated at 169,200 in mid-2000, an increase of 17 percent since the census of 1991. In 2000 the birth rate stood at 30.3 per 1,000 people, while the death rate was 6.4 per 1,000. With a projected annual population growth rate of only 0.6 percent between 2000 and 2010, Samoa would have 179,000 by 2010; the U.S. Central Intelligence Agency (CIA) *World Factbook 2001* estimated the population at 179,058 for 2001, though. The low growth rate resulted mainly from a high rate of outward-migration, which in 2000 was estimated at 17.6 per 1,000. This migration is mostly to the United States and New Zealand.

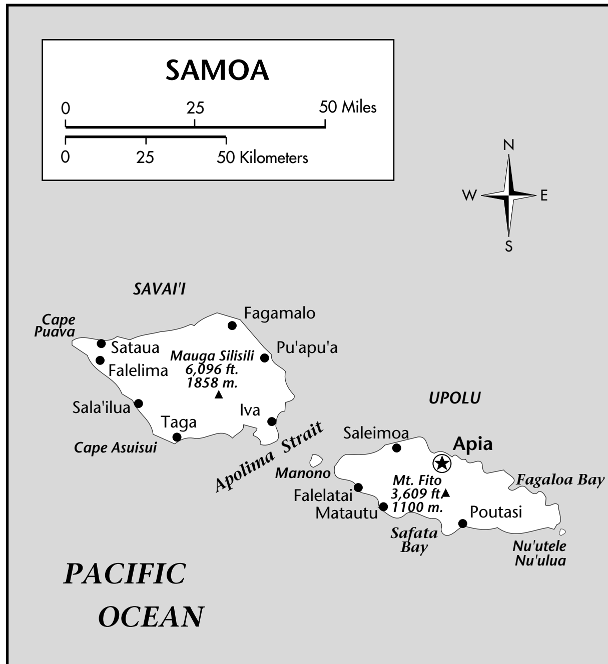
The population is predominantly of Samoan (Polynesian) ethnic origin, although about 7 percent also have European origins. Only 21 percent of the population live in an urban area, with Apia accounting for most of this. The urban growth rate is twice as high as the general growth rate, but at 1.2 percent per year still relatively low by Pacific standards.

OVERVIEW OF ECONOMY

As a small island country in the South Pacific, Samoa (formerly Western Samoa) has an economy largely based on agriculture, government and tourist services, and **remittances** from Samoans living abroad. The majority of households in Samoa are dependent on subsistence production for at least part of their food supply and other basic items. At the same time, most households rely on cash income to provide basics that are not available from subsistence. In other words, food products grown or caught for personal consumption—such as taro, coconut, banana, fish, and crayfish—are also sold to generate cash for village households.

The export economy mainly relies on agricultural products. The most important of these are coconut products such as copra (the dried flesh of the coconut), copra meal, coconut oil, and coconut cream. In the early 1990s taro (a tropical Asian plant) was an important export but was destroyed by disease in 1993 and is only starting to re-emerge as an export. In the late 1990s the development of a commercial fishing operation illustrated the competitive advantage Samoa has in this industry, with its proximity to fish canning facilities in American Samoa. Timber has been a modest source of export income in the past, but is not likely to be significant for 25 years when recently planted trees mature.

Manufacturing in Samoa is mainly to supply the domestic market, although there have been some initiatives to foster export manufacturing using tax breaks. Tourism grew steadily through the 1990s and has



considerable potential, especially if tourism **infrastructure** is developed.

Besides tourism, remittances and international aid offset Samoa's annual trade imbalance. Remittances from relatives overseas are an important source of income for many families in Samoa and a significant source of foreign exchange for the country. The largest source of remittance income, comes from the Samoan population living in New Zealand. Another substantial amount comes Samoan communities in Hawaii and California. International aid contributes about one-quarter of **gross domestic product** (GDP) and supports many of the government's development projects. The largest aid donors are Japan, Australia, and New Zealand followed by multilateral aid agencies such as the Asian Development Bank.

POLITICS, GOVERNMENT, AND TAXATION

Traditionally, political power in Samoa was held by matai (chiefs), whose positions were generally inherited, although individuals with charisma and power can earn positions. The matai system survives to the present day, but was changed during the colonial and post-colonial periods. Political turbulence characterized the 19th century in Samoa, during which matai-lead governments formed and reformed, often with support from traders, missionaries, and other foreigners. In 1899 the colonial powers of Germany, Great Britain, and the United States resolved this impasse for their own purposes by signing a treaty granting Germany control of Western Samoa and the United States control of Eastern (American) Samoa. Western Samoa, however, was occupied by New Zealand during World War I and was a colony of that country until it gained independence in 1962. In the 1920s the Mau movement, advocating non-payment of tax and whose ultimate goal was independence, was formed. The movement was suppressed by New Zealander troops in the late 1920s but it remains a symbol of nationalism to the present day.

Samoa has a parliamentary system with the Paramount Chief of Samoa as the ceremonial head of state. Until 1991, members of Parliament were elected by the matai, but in that year universal suffrage for all citizens 21 years and over was introduced. Tradition is still maintained, however, since only matai can be elected to 1 of the 49 parliamentary seats. There are 2 main parties, the Human Rights Protection Party and the Samoa National Development Party, but these parties tend to revolve around personalities more than political positions that allow them to be labeled left, center, or right.

Until recently the main domestic sources of government revenue were trade **tariffs** and, to a lesser extent, **income taxes**. In 1994, a **value added** goods and services tax (VAGST) was introduced despite popular opposition. The VAGST of 10 percent is imposed on most items of consumption including imports, with exceptions including unprocessed local primary production, financial services, and hospital and educational services. Since this tax's creation, most individuals do not have to pay income tax and trade tariffs have been reduced.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The 2 main islands of Upolu and Savai'i are quite well serviced by 790 kilometers (491 miles) of roads, of which about 40 percent are paved. Nearly all villages can be accessed by road, and bus services reach most parts of the country. The 2 islands are linked by passenger and car ferries with frequent sailings. The size of the country and the existence of road and ferry services mean that internal air travel is relatively rare. The sole international airport, Faleolo Airport, on the northwest coast of Upolu, provides international air passage to New Zealand, Fiji, Tonga, American Samoa, Australia, and Honolulu, Hawaii. Polynesian Airlines, owned by the Samoan government, and Samoa Air are 2 of the main regional carriers. Samoa also has 2 unpaved airports on Savai'i for domestic travel.

While about 62 percent of Samoa's electricity is generated with the use of imported fuel, the remainder is generated by a local hydroelectric station. Telephone services extend to most parts of the country, although only about 1 in 4 households has a telephone and public telephones are rare. International telephone service is usually good. In 2000 there was at least 1 Internet service provider.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Samoa	8,000	1,545 (1998)	AM 1; FM 3; shortwave 0	178,000	6	11,000	2	500
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

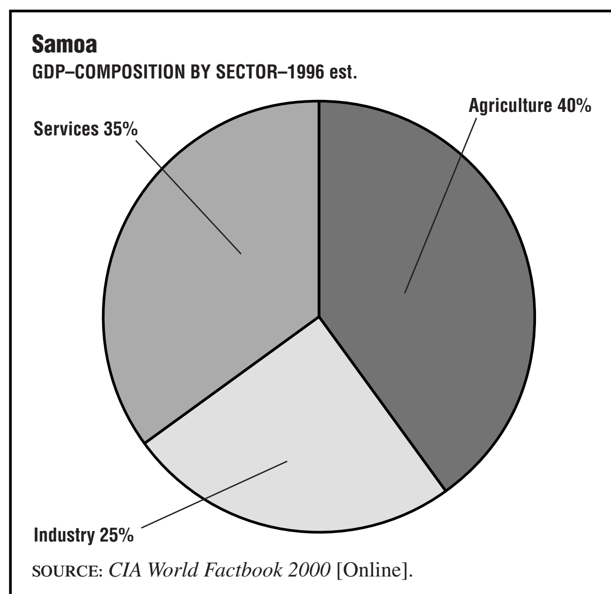
SOURCE: CIA *World Factbook 2001* [Online].

ECONOMIC SECTORS

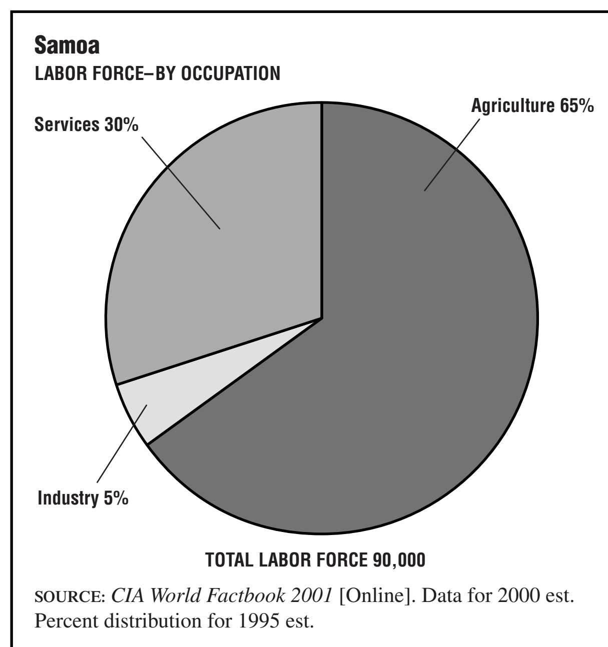
Calculating the size of different economic sectors is very difficult for Samoa's economy because a large proportion of the population works in the informal subsistence sector. In Samoa, there has been a relative decline in subsistence activities during the 1990s dropping as a percentage of GDP from 29.7 percent in 1992 to 17.7 percent in 1998, according to the Asian Development Bank. Over the same period, agriculture declined slightly from 21.2 percent to 19.3 percent of GDP. On the other hand, industry increased considerably from 15.8 to 23.7 percent as did services from 32 to 38.6 percent of GDP. In the **labor force** data, much of the agricultural employment is in unpaid village work—either informal or subsistence—so that it is difficult to compare these data with those from other countries. Official counts, however, show about 23,000 workers in the formal sector out of a total labor force of 42,494.

AGRICULTURE

About two-thirds of all households in Samoa depend on a mixture of **subsistence agriculture** and **cash cropping**. The non-monetary agricultural production of the country was estimated to comprise 17.7 percent of GDP in 1998, falling from 29.7 percent in 1992. This was partly a result of the growth of other parts of the economy, rather than a contraction of the subsistence economy. In 1998 non-subsistence agriculture and fishing



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1995 est.

made up 19.3 percent of GDP. Agriculture contributed about 30 percent of all export revenue in 1999. The main export products, in order of importance in the late 1990s were copra (dried coconut flesh), coconut oil, copra meal, coconut cream, and kava (a mildly narcotic drink traditional to the South Pacific). The importance of coconut products is obvious, but unlike many Pacific countries that only export copra, Samoa has added value to these products. For example, coconut cream canned in Samoa is worth several times its equivalent in copra. The vulnerability of dependence on a crop such as coconuts was illustrated when cyclones in 1990 and 1991 caused considerable damage to tree crops.

During the 1980s, Samoa identified an international niche market for taro, a traditional prestige root crop. The taro exported from Samoa was sold mostly to Samoan and other Pacific communities and, in 1992, made up more than one-half of all agricultural exports by value, surpassing the cyclone-depleted coconut products. In 1993, taro blight destroyed the whole crop, however, and by the late 1990s taro production was only beginning to recover.

In recent years, the government and international aid donors have been promoting agricultural diversification. Although there have been small amounts of other food crops exported (such as bananas), the only crop that has generated significant export income is kava, which has recently gained an international reputation as a soothing and therapeutic substance. In 1998, kava exports were valued at WST5.5 million (US$1.8 million), a sum similar to the copra exports in that year. Other agricultural products currently being promoted include cattle and tropical fruits.

FISHING. The Asian Development Bank estimated that 30 to 40 percent of all households in Samoa fish for their own consumption and that 12 percent of households rely on fishing as their primary source of income. Many subsistence fishers may also sell some of their catch. Larger commercial fishing endeavors have developed, though, mainly resulting from the introduction of long-line tuna boats. Thus, fishing's contribution to GDP rose from 4 percent in 1995 to 8 percent in 1999, with further expansion expected. Most of the catch is processed in the canneries of American Samoa, giving Samoa a competitive advantage because of the proximity of these facilities and because they allow access to the American market.

FORESTRY. In the past, there was relatively large-scale logging on the island of Savai'i, but logging has become small-scale and limited mostly to customary (village owned) land. Exports of timber are small as most production is for the local market. Large-scale establishment of forest plantations began in the 1970s, but most of these forests were destroyed by the cyclones of 1990 and 1991. Recent planting of high-value hardwood species such as mahogany will take about 25 years to mature, so there are few prospects of timber re-establishing itself as an important export before then.

INDUSTRY

Of the formal labor force, about 17 percent worked in industry, with about half of these working in construction and just over one-quarter in manufacturing in 1991. More recent data show that all industrial sectors together accounted for 23.7 percent of GDP in 1998. This percentage has grown through the 1990s.

MANUFACTURING. Much of the manufacturing sector, mostly located in Apia, serves the purpose of **import substitution**. Thus, the most important industries include food processing, beer production, furniture, and construction materials. There are, however, some export-oriented industries. Notable is the production of canned coconut cream, mainly for export. Beer and cigarette factories export some of their product. A small industries center has been established at Vaitele, near Apia. The most uncommon of the new endeavors, in a Pacific sense, is the Yazaki automobile electrical wiring assembly plant, which was transferred from Melbourne in 1991. This plant exports about US$50 million in automotive parts to Australia each year, however, the benefit to Samoa may be low since wages are low and the company pays no taxes or **duties**.

SERVICES

Services accounted for 51 percent of all formal sector employment in 1991, and this proportion has probably risen since then. In 1998 all services accounted for 38.6 percent of GDP, up from 32 percent in 1992. The largest subsector of employment was social and personal services, which accounted for just over half of all employment in the services sector, with many of these being government employees.

TOURISM. Through the 1990s there has been a steady increase in the number of visitors to Samoa, from just over 48,000 in 1990 to about 78,000 in 1998. Only about one-third of these can be considered as tourists, however, since another third are Samoan expatriates visiting friends and relatives while another third are traveling on business. Still, tourism contributed an estimated 15.4 percent of GDP in 1997.

Samoa has considerable potential as a tourist destination. It has a strong and visible culture and many Samoans consider their country *Hawai'iki* (the original home of all Polynesians). On this basis the Samoa Visitors Bureau presents Samoa as "The Cradle of Polynesia" in its international promotions. The visibility of Samoan culture—epitomized by traditional open-sided

houses—the many beautiful beaches, waterfalls, and other features of a "tropical paradise"; and the scale and architectural variety of Samoan churches exceed normal tourist expectations of a country its size. There are several international standard hotels, mostly in Apia and elsewhere on Upolu. Smaller hotels and guesthouses have seen growing competition from village-based tourist operations. Most local accommodations include fales (leaf houses), usually on a beach, with locally cooked food on offer. These are relatively low impact ventures, though, in which most of the profits stay in the village.

FINANCIAL SERVICES. Following the example of Vanuatu and Cook Islands, Samoa established an **offshore banking** center in 1988. About 500 banks and other companies have established themselves in Samoa, although information is not available to identify the costs and benefits of this operation to the Samoan economy. Domestic financial services are provided by Bank of Samoa (owned by ANZ Bank), Pacific Commercial Bank (a **joint venture** between Bank of Hawaii and Westpac) and National Bank.

RETAIL. The **retail** sector is similar to that in other Pacific countries of similar size. Apia has a number of medium-sized shops and small supermarkets that sell food imported from New Zealand and manufactures from Asia as well as local produce. Elsewhere in the country, shops stock mainly basic items necessary for everyday life. The largest market is in Apia, selling fruit, vegetables, fish, basic manufactured goods, and handicrafts. Smaller markets are found in other towns where the range of products is related to the size of the local population.

INTERNATIONAL TRADE

The difference between the level of Samoa's exports and imports is considerable. In the years shown in the table, the trade imbalance ranges from just over 3 to 1 in 1985 to more than 10 to 1 in 1995, and the general trend is an increasing imbalance. The value of exports has not kept pace with the expansion of the economy, which requires increased imports. Also, 2 cyclones in 1990 and 1991 and the taro blight in 1993 had a severe impact on the level of exports in the mid 1990s.

Australia has been the most important destination for exports in recent years, ranging between 50 and 85 percent of all exports between 1995 and 1999. New Zealand is the most important source of imports, but Australia, Japan, Fiji, and the United States are also significant.

The large negative balance of trade is possible because of other international transfers. Tourism contributes some international income. At the household level the most important source of income is remittances from relatives living overseas, particularly in New Zealand, the United States, and Australia. At the government level, international aid helps to counterbalance the **trade deficit**.

MONEY

The Samoan tala has depreciated against the U.S. dollar since 1982. This may be partly attributed to the vulnerable export base of the country, but a range of other factors in the international economy are less easy to identify. In the late 1990s a strong U.S. dollar devalued most currencies of the Pacific region that most influence the Samoan tala, including the New Zealand and Australian dollars.

POVERTY AND WEALTH

A total of 174 countries are ranked in the **United Nations Development Program**'s (UNDP) *Human Development Report 2000* according to the Human Development Indicator (HDI), which measures a country's state of well-being using income, education, and health measures. The HDI rank for Samoa was 95 which puts it in the middle range of countries, similar to other countries in Polynesia but higher than Melanesian countries. **GDP per capita** in 1998 was US$998, about one-thirtieth that of the United States.

There is no adequate information on income distribution in Samoa, but this may be inferred from other

Trade (expressed in billions of US$): Samoa

	Exports	Imports
1975	.007	.037
1980	.017	.062
1985	.016	.051
1990	.009	.080
1995	.009	.095
1998	.015	.097

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Samoa

talas per US$1	
Jan 2001	3.3400
2000	3.2712
1999	3.0120
1998	2.9429
1997	2.5562
1996	2.4618

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Samoa	N/A	974	915	931	998
United States	19,364	21,529	23,200	25,363	29,683
Philippines	974	1,166	967	1,064	1,092
Solomon Islands	419	583	666	784	753

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

information. Another indicator developed by the UNDP is the Human Poverty Index (HPI). It measures conditions for those worst off in a country, such as their educational level, health status, access to health services, access to safe water, and incidence of malnutrition in children. Of 15 Pacific countries measured by the HPI, Samoa falls in the middle, meaning that the people worst off in Samoa are comparatively better off than the worst off in most Melanesian countries. On indicators of education, Samoa boasts 96 percent literacy and a high participation rate in education. School attendance is mandatory up to age 14 and there are no central government fees, although local communities may levy them to cover maintenance of buildings.

In health, the indicators are generally high, with universal access to health services and with most households having access to safe water. Health service is free and available through clinics as well as at 5 public hospitals. There is not a system of universal pensions, but those who have worked in formal employment are likely to have provided for a pension through the National Provident Fund. Most other older people depend on their nuclear or extended families, in Samoa and overseas. Since 1999, migrants returning from working in New Zealand are able to bring their New Zealand pensions with them, and this is expected to be an increasing source of income in Samoa as the number of these migrants increases.

WORKING CONDITIONS

There is a minimum wage in the **private sector** of WST1.40 per hour, which has been readjusted to the cost of living over the last 20 years. This rate makes living in town problematic, although many households will have some people working for wages as well as others undertaking subsistence production. The minimum wage is about 10 percent of the salary that a new senior manager might get in the private sector.

Men make up an estimated 78 percent of the formal workforce. In almost all sectors they predominate. In public service men comprise only 47 percent of the full-time salaried workers but two-thirds of the temporary government workers. The unemployment rate of 13 percent is quite high, but it would be even higher if all those in the rural sector who wanted paid employment were counted. There is no unemployment benefit. Unionization is relatively strong with the Teacher's Association being formed in the 1950s and the Western Samoa Public Service Association starting in 1969. In the private sector, unions have been a recent development with the formation of the Western Samoa National Union of Workers in 1994.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1721. The first European "explorer" visits Samoa. Metal tools and weapons are introduced.

1830s-1890s. A series of governments under Samoan chieftainship and foreign support come and go. German coconut plantations are founded.

1899. Treaties are signed between Britain, Germany, and the United States giving Western Samoa to Germany and American (Eastern) Samoa to the United States.

1914. New Zealand takes control of Western Samoa during World War I.

1920s. The nonviolent Mau movement, formed to oppose taxes and support independence, is suppressed by force; 11 Samoans, including a matai, are killed.

1962. Western Samoa becomes the first independent nation in the Pacific Islands.

1982. Samoa experiences a constitutional crisis with 3 governments in 1 year. Tension continues between parliamentary and traditional matai systems.

1991. Universal voting franchise is introduced for all citizens over age 21; previously only matai could vote.

1997. The country's name changes from Western Samoa to Samoa.

FUTURE TRENDS

During the 1990s Samoa's economy experienced several blows related to natural disaster, but at the turn of the century, there is optimism about future development. The fishing industry has grown rapidly in recent years with further potential apparent. Tourism has grown slowly but steadily, and to some extent the degree to which this expands may depend not only on the government's promotion of it but also on the public's attitude to the desirable scale of the industry. The agricultural sector is likely to continue to be affected by weather, disease, and fluctuating world prices, but probably will continue as an important source of export income, even if the product mix changes. For many years there have been predictions that

migrant remittances will eventually slow down as expatriates become more settled in their countries of residence, but so far this does not seem be the case. Though international aid payments are being reduced in some cases, most small Pacific countries—such as Samoa—have managed to attract high per capita levels of aid, and this ought to continue into the foreseeable future.

DEPENDENCIES

Samoa has no territories or colonies.

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—Wardlow Friesen

SAUDI ARABIA

Kingdom of Sa'udi Arabia
Al-Mamlakah al-'Arabiyah as-Sa'udiyah

CAPITAL: Riyadh (Ar-Riyad).

MONETARY UNIT: Saudi Riyal (SR). One riyal equals 100 halalahs. There are coins of 5, 10, 25, 50, and 100 halalahs, and notes of 1, 5, 10, 50, 100, and 500 riyals. Since July 1986 the Saudi riyal has been pegged to the U.S. dollar at a rate of SR3.745:US$1.

CHIEF EXPORTS: Petroleum and petroleum products (90 percent).

CHIEF IMPORTS: Machinery and equipment, foodstuffs, chemicals, motor vehicles, textiles.

GROSS DOMESTIC PRODUCT: US$191 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$48 billion (f.o.b., 1999). **Imports:** US$28 billion (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Saudi Arabia is located in the Middle East between the Persian Gulf and the Red Sea. It borders Jordan, Iraq, and Kuwait to the north, Yemen to the south, and Oman, the United Arab Emirates (UAE), and Qatar to the east. The country, which is divided into 13 provinces, is composed primarily of desert. Each region has a governor appointed by the king. With a land area of about 1.96 million square kilometers (756,981 square miles), Saudi Arabia is about one-fourth the size of the continental United States. Riyadh, the capital, is located in the central eastern part of the country.

POPULATION. The population of Saudi Arabia was estimated at 22,023,506 in July of 2000, a figure growing at about 3.3 percent a year. Saudi nationals account for close to 75 percent of the population. The remaining residents, nearly 6 million people, are expatriates comprised primarily of foreign workers. About 90 percent of Saudi nationals are Arabs. The rest of the indigenous population, according to CIA statistics, are Afro-Asian.

In 2000, the birth rate stood at 37.47 per 1,000 population, compared with a death rate of 6.02 per 1,000. According to a Saudi census taken in the early 1990s, a little over 50 percent of the population is male. While men make up a majority of the population, due primarily to the high concentration of males among expatriate workers, women are expected to live longer. Women on average live 69 years in Saudi Arabia, while the men live 66.

An overwhelming majority of the Saudi population is young. In 1999, according to the Saudi Ministry of Planning, 46 percent of the population was under 15. Another 38 percent was under 40. Those over 40 accounted for only 16 percent of the population. Efforts to accommodate the rising numbers of young adults entering the **workforce** each year have been only partly successful, and the consequent rise in unemployment has begun to aggravate the underlying tensions between the country's richest and poorest citizens.

Up until the 1960s a majority of the Saudi population were either nomadic or semi-nomadic desert dwellers with no fixed homes. However, after petroleum was discovered in Saudi Arabia in the 1930s, state revenues quickly began to rise. As the oil industry matured, the economy quickly modernized and nomadic herding faded as an economic base. By 2000, 95 percent of the Saudi population was settled.

The Saudi royal family and a majority of the population are Sunni Muslim. About 5 percent of the population, around 1 million people, are Shia Muslim. Tensions between the Sunni majority and the Shia minority have been especially high since the 1979 Iranian Revolution, when Saudi Shiites rioted in parts of the Eastern Province. Shia Muslims routinely suffer from religious discrimination.

OVERVIEW OF ECONOMY

The Saudi Arabian economy is fueled almost entirely by the production and distribution of petroleum and its derivative products. Over the past decade oil sales have generated, on average, 90 percent of the country's yearly export earnings, 35 percent of annual **gross domestic product** (GDP), and 75 percent of all budget revenues. High oil prices in the 1970s led to rapid economic expansion, with GDP growing over the course of the decade by 10 percent per year. As oil prices dropped in the 1980s, GDP growth slowed, averaging just 1.3 percent per year between 1980 and 1998. Rising oil prices beginning in 1999 again boded well for the economy.

Oil was discovered in Saudi Arabia by American geologists in the 1930s, but high level production did not begin until after World War II (1939–45). In the 1960s, the Saudi oil industry began to mature, resulting in a massive accumulation of wealth, fast paced economic growth, and rapid urban development. However, it was not until the 1970s that Saudi Arabia emerged as one of the Middle East's preeminent political and economic powers.

Two events in the 1970s were crucial to Saudi Arabia's economic development. One was the Arab oil **embargo** of 1973, during which time Arab countries withheld oil from the world market, raising world oil prices

dramatically. The other was the 1979 Iranian Revolution, when Shiites overthrew the western-backed monarchy in Iran and assumed control of the country. Both events disrupted oil supplies, causing the commodity's cost to rise. Throughout the 1970s, Saudi Arabia was able to export oil at substantially elevated prices, leading it to become one of the fastest growing economies in the world. The massive inflow of revenue allowed the kingdom to increase import levels and still maintain a favorable **balance of trade**. Spending on defense and **infrastructure** rose, and Saudi Arabia became a benefactor nation to the rest of the Arab world, supplying large amounts of financial aid. (Aid has averaged 4 percent of GDP per year over the past 25 years, making Saudi Arabia's average aid-to-GDP ratio the highest in the world.) In a matter of decades, Saudi Arabia transformed itself from a desert kingdom populated by nomadic tribes to a modern economic entity which controls over a quarter of the world's oil.

While petroleum exports are indeed lucrative, Saudi Arabia's dependence on oil as its primary source of revenue is potentially problematic. In the near term, the Saudi economy is left vulnerable to shifts in the price of oil, lowered demand, or disrupted production due to any number of factors, including regional conflicts and the Organization of Petroleum Exporting Countries (OPEC) shifting oil production quotas. In the long term there is the problem of dwindling supplies. While the Saudis maintain over a quarter of the world's known oil reserves (about 263 billion barrels at the end of 1999), these reserves, at the current rate of production, will last only 87.5 years. If, in that time, Saudi Arabia fails to sufficiently diversify its economy or discover new sources of oil, the country will be faced with a serious shortfall in revenues. And even if the kingdom does discover new reserves (as will likely be the case—some estimates put undiscovered reserves in Saudi Arabia at nearly a trillion barrels) the price of oil will probably steadily drop in the coming years as supplies and production efficiency increase.

The need to begin generating alternative sources of income was recognized as early as 1970, when the government issued the first in an ongoing series of 5 year plans aimed at expanding the non-oil sectors of the economy. While infrastructure expansion and urban development—both natural outgrowths of the oil industry—have proceeded at an impressive pace, attempts to diversify the economy have produced limited results. Similarly, efforts to decentralize the state run economy through broad **privatization** schemes have been largely unsuccessful.

THE FIVE YEAR PLANS. The first 5-year plans, covering the 1970s, focused on developing the national infrastructure (see Infrastructure, Power, and Communications). The third plan (1980–85) focused less on infrastructure and more on education, health, and social services. It also included efforts to expand the productive sectors of the economy, namely industry—a goal which was only partly achieved. While the building of 2 new industrial cities, Jubail and Yanbu, was completed, no broad industrial expansion occurred, leaving primary components of the plan unfulfilled.

The fourth plan, which covered the latter half of the 1980s, remained focused on education and training. It also sought to reduce government spending while generating growth in the **private sector**. **Joint ventures** were encouraged between foreign companies and Saudi state enterprises in the hope of increasing foreign investment. The role of the private sector grew during this time, rising to 70 percent of non-oil GDP by 1987.

Starting in 1990, the fifth 5-year plan concentrated on expanding the infrastructure and strengthening the Saudi national defense. The perceived need for a stronger military was reinforced by the Iraqi invasion of Kuwait, a move which destabilized the region and precipitated the 1991 Persian Gulf War. Between 1990–94 34 percent of Saudi expenditures went toward national defense. The fifth plan also sought to increase private sector employment opportunities for Saudi citizens by limiting the number of foreign workers on Saudi soil. Efforts to "Saudi-ize" the workforce—raise the percentage of Saudi workers—continued through the sixth plan (1995–2000), which also focused on the diversification of economic activity through private sector growth, especially in the areas of industry and agriculture.

The Saudi government will continue in its efforts to create jobs for Saudi citizens over the next 5 years and beyond. Indeed, with 100,000 nationals entering the workforce each year, job creation will remain a priority for the foreseeable future.

GOVERNMENT SPENDING. High petroleum prices in the 1970s boosted Saudi revenues and allowed increased spending. A series of ambitious, high cost initiatives were launched to develop the nation's infrastructure, expand industry and agriculture, overhaul health and education, and modernize the military (as outlined above). These efforts eventually put a strain on the government budget, as spending began to outpace the flow of revenues. In the 1970s, the problem was mitigated by the high price of oil, but in the 1980s, when oil prices declined, revenues fell and the government deficit grew, reaching 19.6 percent of GDP by 1986. Financial resources were further strained in 1990 when Iraq's invasion of Kuwait prompted the Saudis to appropriate US$30 billion in emergency defense spending. Though the value of Saudi exports exceeds that of its imports, the trade surplus has historically been unable to offset the deficit, which is generally financed through domestic borrowing. Eighty percent of the debt is held by autonomous government institutions, such as pension funds and social security. The other 20 percent is held by commercial banks.

Over the past decade, measures have been taken to lower government spending and reduce the fiscal imbalances created in the 1980s. In 1996 and 1997, spending cuts coupled with rising oil prices helped lower domestic debt and ease the pressure on government finances. However, this trend was interrupted in 1998 when oil prices fell, prompting calls for additional austerity measures and general economic reform. In 1999, government spending was reduced by an additional 13 percent. That year, with financial pressure building, the government also implemented new revenue-generating measures, a move it had resisted in the past. It raised domestic gasoline prices by 50 percent, introduced airport taxes, and doubled work permit fees. In 2000, surging oil prices produced the first government surplus in 17 years. However, the surplus may be shortlived, as the Saudi government plans to increase spending in 2001, a decision based primarily on expectations of rising oil prices.

While spending in 2001 is expected to be higher than in 2000, total spending between 2000–04 is actually slated to go down. The seventh 5-year plan (2000–04) calls for spending no more than US$200 billion, down from US$258 billion over the previous 5 years.

The Saudi government has expressed an interest in decentralizing the economy and increasing private sector participation. Although a number of privatization schemes have been considered, the government has yet to relinquish control over most major industries. Plans to privatize telecommunications and electric companies have stalled, as have plans to privatize the state-owned Saudi Arabian airlines.

Privatization efforts will likely be revitalized as Saudi Arabia attempts to gain entry into the World Trade Organization (WTO), an international regulatory body that sets standards for international trading practices and arbitrates disputes between member nations. (The WTO holds that free market, rules-based economies are more transparent than state-run economies and sees them as more fit for membership.) Joining the WTO will force Saudi Arabia to further **liberalize** its economy and would place its economic policies under international scrutiny, depriving Saudi policy makers of a certain degree of freedom. But once Saudi Arabia was admitted to the WTO it would have protection against the arbitrary exclusion of its imports by other members, a trade-off most Saudi officials find favorable. Among the measures the kingdom will have to take to gain entry into the organization are the removal of protectionist trade barriers, the lowering of import **tariffs**, and the opening of key service sectors to foreign participation—all policies which remove protection for local producers from competition. Saudi Arabia will also have to improve its protections for intellectual property rights. These measures will likely improve the investment climate in Saudi Arabia, paving the way for greater inflows of foreign exchange and smaller outflows of **remittances**.

Many workers in Saudi Arabia are from other countries, and send home much of their earnings. These worker remittances amount to approximately US$16 billion a year. Opening the private sector up to greater foreign participation—allowing, for instance, non-Saudis to buy homes and invest in local companies—could provide a means for keeping more capital in local markets.

POLITICS, GOVERNMENT, AND TAXATION

HISTORY OF THE RULING FAMILY. The foundations for a modern Saudi state were laid in 1744 when Muhammad bin Saud, the ruler of a local tribe, joined forces with a religious reformer, Muhammad Abd Al-Wahhab, in an attempt to unify the Arabian peninsula under strict Islamic law. Within 60 years, the Al Saud family, through a mixture of religious proselytizing and military conquest, had taken control of a majority of what is now Saudi Arabia, including the holy cities of Mecca and Medina. (Mecca is where the prophet Mohammed, the founder of Islam, was born in 570 A.D. and Medina is where, in 633, he died.)

The success of the Al Saud attracted the attention of the Ottoman Turks, who held the Arabian peninsula as part of their empire. In 1816, employing an Egyptian force, the Ottomans launched a campaign to recapture areas under Saudi control. The Al Saud, outnumbered and overpowered, were driven back by Egyptian forces and by 1818 had lost a majority of their empire.

Over the course of the 19th century, the Al Saud made numerous attempts to regain their lost territory, but superior Ottoman forces, as well as resistance from rival clans, proved difficult to overcome. By 1890 the Al Saud had been driven into exile in Kuwait.

In 1902, the Saudi prince Abdul Aziz Al Saud (who was to become known internationally as Ibn Saud) was able to recapture Riyadh, his family's ancestral home, from the rival Al Rashid clan. From there, Ibn Saud launched his campaign to reunify the peninsula. By the end of the First World War, in 1918, the Ottoman empire had collapsed, paving the way for Arabian independence. In 1924, having established a foothold in central Arabia, Ibn Saud moved west into the hejaz region where his army of fanatically religious desert dwellers known as the "Ikhwan" (brethren), defeated Sherif Hussein and took possession of the holy cities of Mecca and Medina. By 1932, Ibn Saud, with the support of the Ikhwan, had consolidated control over nearly the entire peninsula. That year he declared the Kingdom of Saudi Arabia with himself as its king.

Over the next 30 years the Al Saud and Al Rashid, vying for control over the peninsula of Arabia, remained at war. In the end, the Saudis emerged victorious, primarily due to Ibn Saud's ability to gain the loyalty of the Ikhwan. Ibn Saud, upon his death in 1953, had 34 surviving sons, who continue to sit at the center of the nation's political apparatus. Ibn Saud was succeeded after his death by his eldest son Saud, who, in his first year of rule, established the Council of Ministers, a body formed to advise the king on state policy and direct the development of the rapidly growing Saudi bureaucracy. Despite ruling for a full 11 years, King Saud was perceived as an ineffective leader. In 1964, under heavy pressure from religious elites and members of the royal family, Saud stepped down in favor of his half brother, Faisal, who had previously served as foreign minister.

As king, Faisal attempted to address issues to which Saud, and even Abdul Aziz, had given little thought, such as how to effectively modernize the country in the face of its emerging wealth. He also struggled with how to maximize the benefits of the kingdom's bountiful petroleum resources. Decisions on oil policy were not always easy to make, especially when matters of Arab solidarity conflicted with the country's drive toward economic prosperity.

When Arab oil producers decided to cut petroleum sales to the United States in 1973, this conflict came into full view. That year, the ever-present tensions between Israel and its neighbors erupted as Israeli and Egyptian forces clashed in the Sinai desert. U.S. aid to Israel during the war led to fierce protests in the Arab world, culminating in an Arab boycott of oil sales to the United States and other western countries. Saudi Arabia, which participated in the boycott, learned a hard lesson as a result: it could not maintain its economy without doing business in the West, for even though the price of oil went up during the boycott due to the cut in supply, the price spikes were insufficient to cover the loss in sales. In 1974, despite opposition from other Arab oil producers, the Saudis froze oil prices and resumed sales to the United States. That year, in a series of negotiations, the United States and Saudi Arabia came to an agreement by which America would provide the kingdom with military support in exchange for an uninterrupted flow of oil. Over the remainder of the decade, Saudi Arabia sold vast quantities of oil at inflated prices, leading it to become one of the fastest growing economies in the world.

King Faisal, who presided over the oil boycott and the subsequent agreement with the United States, was assassinated in 1975 by a member the royal family. The alleged assassin was executed for the crime. Faisal was replaced by his half brother, Crown Prince Khalid. Fahd, another half brother who would later become king, was appointed as the new Crown Prince and first deputy prime minister, where he was given the responsibility of overseeing a wide range of the country's international and domestic affairs.

Economic development was rapid under King Khalid. Saudi Arabia's acquisition of national wealth enhanced its political influence in the Middle East and heightened its role in world economic affairs. At the same time, however, the kingdom's growing relationship with the West began to concern religious hard-liners who feared that Western influence would corrupt the nation's Islamic ideals. In November 1979, about 250 armed followers of Sunni Muslim cleric Juhaiman Ibn Seif al-Oteif took over the Grand Mosque in Mecca. After a standoff, government troops ousted the militants by force. The incident was not without effect, as it alerted the royal family to the extent of the religious opposition it was fostering by failing to display a more overt commitment to the preservation of Islamic ideals. In response, a committee was established, chaired by interior minister Prince Nayef, to establish a set of societal rules based on Islamic principles. Still, opposition from Islamist religious forces continues to pose the greatest single threat to the royal family.

In June 1982, Khalid died and, in a smooth transition, Prince Fahd became king. Prince Abdullah, Fahd's half brother and commander of the Saudi National Guard, was appointed crown prince and deputy prime minister. The role of second deputy prime minister was filled by Fahd's brother, Prince Sultan, who also served as the minister of Defense and Aviation.

King Fahd, despite inheriting a weakening economy, quickly became a central figure in Middle East politics. In 1988, he played a key role in bringing about a cease fire in the Iran-Iraq war. He also helped reorganize and strengthen the Gulf Cooperation Council (GCC), a group of 6 gulf states (Saudi Arabia, Oman, Kuwait, Qatar, the United Arab Emirates, and Bahrain) formed to facilitate regional economic cooperation and peaceful development. Additionally, in the 1990–91 Gulf War, King Fahd used his influence as arbiter over Islam's holiest sites (Mecca and Medina) to help organize and hold together the U.S.-led war coalition that liberated Kuwait from Iraq. King Fahd suffered a stroke in November of 1995. By 1997, Crown Prince Abdullah had taken effective control of the state.

Over the decades, tensions between the royal family and radical religious forces have persisted as various Saudi kings have sought to balance the nation's dependence on the West with efforts to preserve the kingdom's cultural and religious heritage. Currently, opposition from Islamist religious forces poses the greatest single threat to the Saudi government. The royal family tries to maintain close ties with the religious leaders, who, it is hoped, can keep the extremist members of the clergy in

line. However, religious radicals have, especially over the past decade, attracted a growing number of followers. The reasons for this vary. The kingdom's uneven distribution of wealth is partly to blame, as it has led to rising discontent among the nation's poorest citizens. But more importantly, there is deep seeded resentment stemming from the presence of non-Muslim military forces on Saudi soil. U.S. troops and British soldiers have been stationed in Saudi Arabia since the Gulf War, a situation religious fundamentalists fiercely oppose. This opposition on more than one occasion has been expressed through violence. In November 1995, a car bomb exploded near a U.S. military installation, killing 7 people. In June 1996, there was another, more lethal attack in which a bomb blew up outside the Khobar Towers military barracks, killing 19 American servicemen. A Saudi dissident, Osama bin Laden, has been blamed for planning the attack. However, as of 2001, no arrests had been made.

GOVERNMENT STRUCTURE. Saudi Arabia is an absolute monarchy where the king essentially rules by decree. That does not mean, however, that judicial structures are entirely absent, or that the king's powers are limitless. The Basic Law, the closest thing the Saudis have to a written constitution, was introduced in 1992 to be used in conjunction with Islamic Sharia law, whose dictates up to that point had been the sole source of legal guidelines. Neither the Basic Law nor the king's decrees are meant to violate Sharia law.

The Mutawaa'in, or religious police, constitute the Committee to Prevent Vice and Promote Virtue. The semi-autonomous group enforces compliance with Islamic customs. Abuses by the Mutawaa'in are known to occur, especially in its treatment of Saudi Arabia's Shia minority.

The Council of Ministers, established in 1953, holds executive and legislative powers, but any of its decisions can be overruled by the king. The council is appointed by the king and is primarily made up of members of the royal family. There is also a Consultative Council, which was formed in 1993. Its members are also appointed by the king. Originally comprised of 60 members, the council was expanded to 90 members in 1997. Made up of tribal leaders, government officials, and educated elites, the council plays an advisory role to the king and has no governing power. Each of Saudi Arabia's 13 regions has its own council as well as a regional governor who is appointed by the king.

TAXATION. Saudi Arabia has a very limited tax regime, as it relies mostly on oil receipts, customs **duties**, and licensing fees to produce government revenue. Saudi nationals, rather than paying income or property taxes, pay what is called the zakat, an annual 2.5 percent assessment of a person's net personal wealth. Revenue from zakat collection helps pay for social services, such as health care and education. Foreign companies and self-employed foreigners in Saudi Arabia are not obliged to pay the zakat, but are, on the other hand, charged with **income taxes**, which range from 25 percent on income under US$26,667 to 45 percent on income over US$266,667.

Saudi Arabia also charges tariffs on imported goods which range from 12 percent to 20 percent. In order to gain entry into the WTO, the government will have to lower these tariffs to a maximum of 7.5 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

In the 1970s, in order to accommodate its burgeoning oil industry, the Saudi government took extensive measures to expand the kingdom's infrastructure. Roads and railways were built, airports were expanded, and seaports were enhanced to handle heavy volumes of traffic.

By the end of 1999, the kingdom had around 150,000 kilometers (93,210 miles) of roads, about a third of them paved. Major arteries provide passage between urban and industrial centers. Jeddah, Mecca, and Medina in the west are linked to Riyadh and to the Eastern Province oil fields

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Saudi Arabia	57	321	262	N/A	31	N/A	49.8	1.17	300
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Egypt	40	324	122	N/A	1	0.5	9.1	0.28	200
Iran	28	265	157	0.0	6	N/A	31.9	0.05	100

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

by the trans-peninsular highway. The Tapline road provides a link between Damman, on the gulf coast, and the Jordanian border. The Red Sea road runs north-south, the length of the western shore.

Saudi Arabia's rail network is currently limited to a 571-kilometer (355-mile) single track line running between Damman and Riyadh, and a 322-kilometer (200-mile) line between Riyadh and Hufuf. As of 2000, new lines had been proposed to connect cities on the gulf coast in the east, such as Damman and Jubail, to mineral deposits in the northwest. A cross-peninsula line connecting the Red Sea port of Jeddah with the gulf port of Damman had also been proposed.

There are 6 major seaports in Saudi Arabia, along with 14 minor ones, sufficient to handle the country's importing and exporting needs. Four of the major ports—Duba, Yanbu, Jeddah, and Jizan—are on the Red Sea. The other 2, Damman and Jubail, are on the Persian Gulf. Yanbu and Jubail are industrial ports and together account for more than half of the country's import and export handling. As part of a larger effort to decentralize the economy, operation and maintenance of the seaports were turned over to the private sector in 1997.

Saudi Arabia has 3 international airports located at Jeddah, Damman, and Riyadh. These airports also act as the primary hubs for domestic flights. Other domestic airports include Medina, Jizan, Taif, Qassim, Tabuk, and Abha. Saudi Arabian Airlines, the national carrier, is owned and operated by the government. While privatizing the airline has been considered, as of 2000 no concrete moves had been made to that effect.

The expansion of the Saudi infrastructure was rapid in the 1970s, when oil revenues were at their peak. The completion of a number of major projects in the 1980s coincided with a downturn in the price of oil and a subsequent loss of revenues. As a result, spending on infrastructure declined. The growth in the transport sector, which between 1975 and 1979 reached 19.3 percent, had, by the early 1990s, dropped below 2 percent.

In 1998, despite a growth in investment, the telecommunications sector in Saudi Arabia was fairly limited. By 1999, the expansion of the industry had become a priority. The U.S. firm Lucent Technologies won a US$4 billion contract in 1994 to install fixed phone lines throughout the kingdom, but 4 years later the 2.9 million existing lines still represented under 15 lines per 100 inhabitants, according to the International Telecommunication Union. In an effort to bring the system in line with emerging East European economies, the government is seeking to increase the number of lines to at least 30 per 100 residents by 2002. Lucent, on top of its initial contract, was hired in 1998 to expand mobile phone service in a deal worth US$700 million. The government hopes the expansion will enable the kingdom to accommodate 5 million cell phone subscribers by the end of 2001.

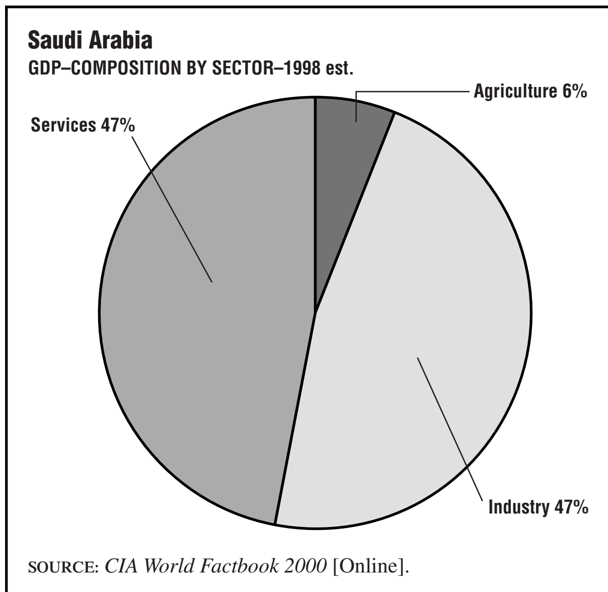
In a bid to privatize the telecommunications industry, the government in April 1998 approved the creation of the Saudi Telecommunications Company, an entity which originally comprised the telecommunications arm of the Post, Telegraphs, and Telephone ministry (PTT). According to the initial plan, shares in the company were to be sold starting at the beginning of 2000, with the government stake in the company being eventually reduced to zero. However, when talks broke down over the transfer of a large bulk of shares to the American firm SBC (Southern Bell Communications), government withdrawal of operations was delayed. By 2001, a deadline for complete privatization had still not been set.

By the end of the 1990s, the demand for energy in Saudi Arabia had reached an all-time high, outstripping supply and, in some cities, causing frequent power outages during periods of high use. Short-term solutions, such as raising prices to curb demand, proved ineffective. For instance, in 2000, price increases totaling almost 78 percent were introduced for electricity. However, after 6 months, vehement public protests were launched in response to high electricity bills. As a result, the price hikes were rescinded before they could have any substantial effect. To meet growing energy needs over the long term, the government has set out to **restructure** the industry and increase investment from both the public and private sectors.

In November of 1998, it was announced that the 10 separate electricity companies in Saudi Arabia would be consolidated into a single company, the Saudi Electric Company. The government has expressed its intention to eventually relinquish its 85 percent stake in the sector. By consolidating the sector, the government hopes to streamline operations and improve efficiency, making the industry more dependable and more profitable, and in turn more attractive to outside investors. By 2020, the government's aim is to increase power generation capacity by over 3 times from where it stood in 1990, from 22,000 megawatts (MW) to 69,000 MW. Saudi Arabia, which imports no energy, is entirely dependent upon oil for the generation of its power.

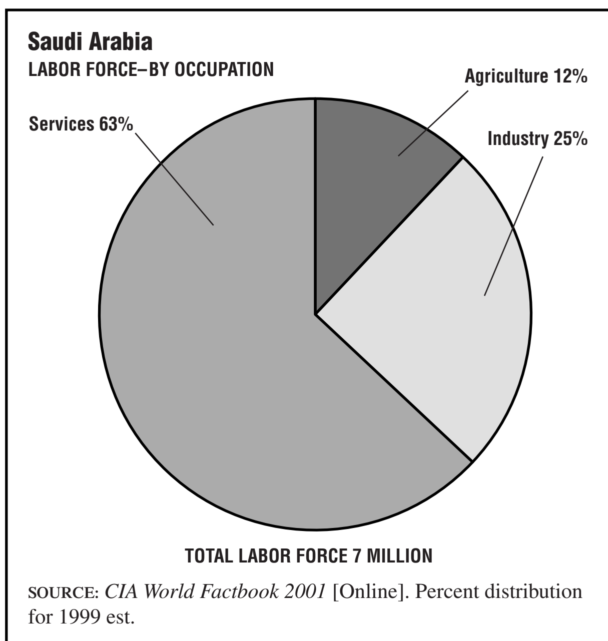
ECONOMIC SECTORS

Saudi Arabia, despite moves to diversify its economy, is still almost entirely dependent upon oil. Petroleum sales provide the kingdom with 90 percent of its export earnings and 75 percent of its annual budget revenues. Saudi Arabia is a founding member of the Organization of Petroleum Exporting Countries (OPEC) which was founded in Baghdad, Iraq, in September of 1960 to unify and coordinate members' petroleum prices.



SOURCE: *CIA World Factbook 2000* [Online].

Iraq, Iran, Venezuela, and Kuwait were OPEC's other founding members. Qatar, Indonesia, Libya, the United Arab Emirates, Algeria, and Nigeria are also current members. OPEC countries are responsible for 40 percent of the world's oil production and 77 percent of its known reserves. Saudi Arabian oil exports make up nearly 30 percent of OPEC's yearly total exports. The government hopes to increase non-oil GDP by 4 percent between 2000 and 2004, with agriculture projected to expand by 3.1 percent per year, industry by 5.1 percent, and utilities (electricity, gas, and water) by 4.6 percent. Construction activity is expected to increase annually by over 6 percent. And non-oil mining had been targeted for an expansion of 8.3 percent per year, which would make it the fastest growing sector of the economy. Despite all such efforts to increase non-petroleum related economic functions, it will be difficult to move the country away from dominance by the petroleum sector.



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1999 est.

In 1998, industry, which included oil production, contributed 47 percent of GDP and employed 25 percent of the total workforce of 7 million. Agriculture contributed just 6 percent of GDP and employed 12 percent of the workforce, while the services sector contributed another 47 percent and employed 63 percent of the workforce.

AGRICULTURE

In the 1980s, in moves to diversify the economy, the Saudi government sought to expand the agricultural sector. It was hoped that eventually the nation would become self sufficient for food. This was an ambitious goal considering a majority of Saudi Arabia is desert where the potential for crop cultivation is limited. Still, the Saudis had some success with their plan. Food cultivation expanded in the 1980s, and as oil revenues fell, agriculture's share of GDP rose, stabilizing in the 1990s between 6 and 7 percent. By 1998, agricultural jobs provided work for 12 percent of the labor force.

Less than 2 percent of Saudi Arabian land is used for cultivation. Crops are grown mainly in the southwest of the kingdom, where there is rainfall sufficient for farming, or in areas where oases provide enough ground water for irrigation. Desalinated sea water, which is used for some purposes in Saudi Arabia, is too saline, even after treatment, to be used for farming.

The Saudi government, in its push to increase food production, had by the mid-1990s turned over 2.8 million hectares of public land to the private sector for agricultural use. About a fifth of the land was turned over to individual farmers, while the rest was designated for **agribusiness** projects or turned over to agricultural companies.

Government involvement in agriculture peaked in the 1980s. With production heavily subsidized, the **value added** in agriculture grew by 70 percent between 1985 and 1991. (Value added is the increase in the market value of a product at a particular stage of production. It is calculated by subtracting the value of all inputs bought from other firms from the value of the firm's output. For example, the value added by the cotton textile industry is the value of the textiles when they leave the factory minus the value of raw cotton and other materials used in their manufacture.) In the 1991–92 crop year, wheat production rose to an all-time high of 4 million tons, with Saudi Arabia becoming the world's sixth largest wheat

exporter. However, earnings from sales were nullified by the high costs of production. The government was spending 5 times the market price to produce a ton of grain.

With the outbreak of the Gulf War (1990–91), agricultural **subsidies** were reduced and, with funds needed for military expenditures, quotas were imposed on government purchases of grain from local farmers. By 1995–96, the land area devoted to grain production had fallen by over 65 percent. The harvest that year fell to 1.2 million tons. Meanwhile, domestic consumption stood at 1.8 million tons. Although the production of barley and grain had markedly declined by the late 1990s, fruit and vegetable production rose.

INDUSTRY

OIL. Due to vast petroleum reserves, low production costs, and high levels of distribution, the oil industry is the most vibrant sector in the Saudi economy, providing the country with the bulk of its capital. Oil revenues account for 35 percent to 40 percent of the Saudi GDP annually.

As of 2001, Saudi Arabia's proven oil reserves amounted to over 263 billion barrels, representing about a quarter of the world's known oil supply. Assuming production rates were to remain what they were in 2000, Saudi Arabia's reserves would last about 87.5 years. It is probable, however, that more reserves will be discovered in the future, extending the industry's viability. As of 2001, Saudi Arabia was the largest producer and exporter of oil in the world.

Sales of Saudi oil are highly profitable due to low production costs. The sheer abundance of oil in Saudi Arabia and its close proximity to the earth's surface makes it easy to find and cheap to extract. According to the kingdom's oil minister, Ali bin Ibrahim al-Nuaimi, the production of a barrel of oil in the kingdom costs about US$1.5 compared with an average cost of US$5/barrel elsewhere in the world. Discovery costs are also low—about 10 U.S. cents per barrel as opposed to the worldwide average of US$4/barrel. Of the 400 billion barrels of recoverable oil discovered in the last 20 years, about a quarter was discovered in Saudi Arabia. The low discovery costs and high yields in Saudi Arabia are very attractive to foreign oil companies, who work in conjunction with the Saudi government to extract and deliver oil to world markets.

A majority of Saudi oil is produced from fields near Riyadh, in the Eastern Province, the largest of which are Ghawar, Safaniyah, Abqaiq, and Berri. Ghawar, with 70 billion barrels, is thought to be the largest oil field in the world. These 4 fields alone account for nearly half of the kingdom's reserves and 85 percent of its production capacity. Oil fields in the "Neutral Zone"—lands shared between Saudi Arabia and Kuwait—contain about 5 billion barrels.

Saudi Arabia exports a majority of its oil by tanker. Tankers loaded daily on the Persian Gulf coast have a full capacity of 14 million barrels a day (b/d). The other primary distribution route is through the 1,200-kilometer (746-mile) Trans-Arabian pipeline linking the Abqaiq oil field, near Riyadh, with Yanbu on the Red Sea. The pipeline has a capacity of 5 million b/d. Most of the oil arriving in Yanbu is loaded onto tankers for transport out of the Red Sea. Some of the oil continues on through the Sumed pipeline to Sidi Krier on Egypt's Mediterranean coast.

As of 2000 the most recently developed field in Saudi Arabia was the Shaybah oil field in the Empty Quarter, which holds reserves of up to 7 billion barrels. The Empty Quarter is the harsh desert region covering the southeastern part of the peninsula. Sand dunes in the Empty Quarter average 600 feet in height. In the summer, daytime temperatures reach 122 degrees Fahrenheit, then plummet to 32 degrees at night. Because of the harsh climate and terrain, much of the Empty Quarter remains unexplored. The field came on line in 1999 after the completion of a 635-kilometer (395-mile) pipeline linking it to distribution points in Abqaiq.

Practically all oil production in Saudi Arabia is controlled by the state-run Saudi Arabian oil company, Saudi Aramco. While foreign companies are contracted to build infrastructure and install equipment, the Saudi government maintains ownership of the facilities.

Saudi Arabia played a lead role in orchestrating the 1973–74 oil embargo against the United States. The resultant rise in oil prices was not enough to offset losses in sales, prompting the Saudis to soften their position and resume business in the West. Over the course of the next 25 years a stable partnership formed between Saudi Arabia and the United States, with the United States guaranteeing Saudi security in return for an uninterrupted flow of oil. Saudi Arabia now generally favors only moderate price increases, realizing it is in the country's long-term interests to keep demand steady by ensuring that oil remains competitive with other forms of energy. Out of a total workforce of 7.12 million people, 127,000 are employed in the oil and mining industry.

The kingdom is also planning to expand the production of natural gas, a venture that will involve the participation of a number of foreign companies. In 1991, natural gas reserves in Saudi Arabia were estimated at 6.1 trillion cubic meters, about 3.9 percent of the world's total. While most of this gas is acquired as a derivative of crude oil production, non-oil associated reservoirs are thought to exist in abundance. It is the mining of gas from

these reservoirs that the government will focus on in the coming years, being that the use of oil-associated gas is constrained due to OPEC production quotas. It has been estimated that new foreign investment under the initiative could total tens of billions of dollars, more than the total level of foreign investment currently in the country.

NON-OIL MINING. Saudi Arabia is a country rich in minerals. Large deposits of gold, silver, iron ore, copper, bauxite, coal, tungsten, phosphates, lead, zinc, and uranium are known to exist, but have yet to be fully exploited. The reasons for this vary. For one, the kingdom's concentration on oil has led it to neglect other forms of mining. Furthermore, the mineral deposits are in remote areas where the lack of roads and water make extraction difficult. Still, the government views non-oil mining as a potentially lucrative industry, one that might help reorient the economy away from its dependence on oil. Thus, despite the difficulties, the government has decided to move forward in its efforts to exploit the country's mineral resources. Working in conjunction with the private sector, the government hopes to see the non-oil mining sector grow, on average, by 8.3 percent per year between 2000–04.

The newly formed Saudi Arabian Mining Company (Maadin) is at the center of the government's plans. The state-owned company, in partnership with privately run firms, has taken over key government mining operations with a goal to improve efficiency and increase production. Maadin is already active at the Mahd al-Dahab mine, from which over 100,000 ounces of gold are produced a year. In 2001, plans were approved to begin operations at Al Hajjar, in Asir province, with an anticipated annual yield of 55,000 ounces of gold. Renewed interest in phosphate mining is also expected to have an impact on the country's economy. If the deposits in the northern and center part of the kingdom can be feasibly removed, a major new processing plant may be constructed in Jubail to refine the high level yields.

Maadin is also involved in zinc mining near Riyadh, where results have been promising. In order to stimulate growth in the industry, the government may move to further **deregulate** mining in the second half of 2001.

MANUFACTURING. The Saudi government, in its bid to diversify the economy and increase employment opportunities, has encouraged growth in the non-oil industrial sector. However, results have been limited. The number of licenses issued and industries established did not grow by a significant margin in the last half of the 1990s. During this time, the sector's contribution to GDP remained steady at around 15 percent.

Although an informal manufacturing base (involving the production of such various items as textiles, soap, and furniture) has existed in Saudi Arabia for centuries, these small-scale private industries contribute relatively little to the GDP, and the government is doing little to promote their development. Primarily the government has focused on the growth of heavy industry—petrochemicals, fertilizer, and steel—in its efforts to stimulate the economy.

CONSTRUCTION. The rapid growth of the Saudi oil industry has led to fast-paced urban development and an ever-expanding infrastructure. As a result, construction is one of the more active sectors of the non-oil economy. It provided jobs for 16 percent of the workforce in 1998 and, in 1999, accounted for almost 9 percent of GDP.

Despite the construction sector's importance to the economy, growth in the industry during the 1990s was slow, averaging just 1.5 percent. This was partly due to the decline in infrastructure work following the completion of a number of major projects in the 1980s. However, industry prospects look good for 2001, with the pace of urban development once again on the rise. In 2000, the government issued over 27,000 work permits, with the number of contracts awarded rising 49 percent in the first 9 months of the year. The heightened activity pushed up the sales of cement by 6 percent.

SERVICES

TOURISM. Hoping to capitalize on its Red Sea coastline, unspoiled desert landscapes, and a slew of archeological sites, the Saudi Arabian government has expressed an interest in expanding the country's tourism sector. However, this task will likely be complicated by the country's rigid social structures and its fear of outside influence. Visitors have little freedom of movement in Saudi Arabia. All tourist activities are controlled by a sponsor, or guide, who is responsible for ferrying tourists to and from points of interest. Outsiders are expected to adhere to Saudi conventions. Western women, for instance, are required to abide by the country's conservative dress codes, covering their heads, arms, and legs whenever they are in public. Pants for women are not permitted, nor are women allowed to drive. Furthermore, unmarried couples may not stay in the same hotel rooms. There have been reports of Saudi citizens harassing or assaulting foreigners who fail to comply with Saudi norms of behavior. These restrictive social rules could be off-putting to some western tourists. Nonetheless, steps are being taken to increase the kingdom's annual number of visitors.

New guidelines were recently approved for issuing tourist visas to foreigners, making it easier for travel companies in Saudi Arabia to arrange group tours. The kingdom's efforts to accommodate non-Muslim, recreational travelers only began in 1998, when a tour group visited the kingdom for the first time. It was an archeological tour limited to married couples and women over the age of 45. Expanding the tourism industry amid the country's

restrictive social environment will not be easy. Still, the government hopes that between 2000 and 2004, it will grant some 3 million tourist visas to foreigners, generating revenues worth approximately US$2.67 billion.

A majority of the kingdom's tourism currently comes from Muslims performing the "haj," the pilgrimage to the country's holy sites. All Muslims are instructed to make the pilgrimage at least once in their lives. In 1999, the government moved to expand the travel rights of foreign Muslims, allowing them to venture beyond Mecca and Medina. In March 2000, it is estimated that over 1 million foreigners and 700,000 Saudis made their way to the western region of Hejaz to visit the holy cities.

FINANCIAL SERVICES. Ten commercial banks operate within Saudi Arabia. Seven of them are joint ventures with foreign banks which operate according to international norms. The other 3 banks—the National Commercial Bank (NCB), the Al Rajhi Banking and Investment Company, and the Riyadh Bank—are state-owned and are run in accordance with Islamic law. This forbids them from charging interest on their loans. Any expansion of the banking system appears unlikely, at least in the near future, as the government considers the current number of banks to be sufficient to serve the economy.

Saudi Arabia has a viable over-the-counter stock market where investors, primarily the domestic commercial banks, trade **equity** in 75 Saudi companies, up from 70 companies in 1996. The number of shares traded and the value of those shares rose dramatically in the last half of the 1990s, gaining 43.6 percent in 1999 alone. In 2000, the market rose another 11 percent, making Saudi Arabia the only Arab country outside of Tunisia whose stock market posted overall gains for the year.

The Saudi Arabian stock market has traditionally been closed to non-Saudi investors. However, laws barring foreign participation were amended in 1997, and foreign nationals are now allowed to trade in the market, although on a limited scale (generally through investment in mutual funds).

INTERNATIONAL TRADE

Saudi Arabia has maintained a trade surplus since 1967 (when its trade statistics were first compiled in their current form). As the kingdom generates a majority of its revenue from petroleum exports, this surplus tends to rise and fall with the price and production of oil. After the oil embargo of 1973, when oil prices were high, the kingdom's trade surplus rose, increasing steadily until 1978. This trend continued after the Iranian revolution of 1979 when oil prices rose to new levels. Between 1978 and 1981 Saudi Arabia's trade surplus doubled, reaching a peak of US$82.5 billion.

Trade (expressed in billions of US$): Saudi Arabia

	Exports	Imports
1975	29.682	4.213
1980	109.083	30.166
1985	27.481	23.622
1990	44.417	24.069
1995	50.040	28.091
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

The surplus declined steadily throughout the 1980s as export volume diminished and oil prices fell. By 1985, the balance of trade had fallen to just US$7 billion. In 1990, Iraq invaded Kuwait, prompting the United Nations to place an embargo on Iraqi oil. The cut in supply sent prices back up, and as Saudi Arabia heightened production to meet world demand (from 5.1 million b/d in 1989 to 8.2 million b/d in 1991), export revenues increased and the trade surplus rose once again. In 1996, export revenues exceeded import expenditures by US$35.3 billion.

In 1998, the world economy slowed. At the same time, oil production by both OPEC and non-OPEC members increased. The higher production levels coupled with lowered demand caused the price of oil to fall by almost US$7/barrel, from US$19.12/barrel in 1997 to US$12.76/barrel in 1998. In Saudi Arabia, oil receipts fell and the trade surplus dropped to US$11.2 billion. In 1999, oil producers worldwide lowered production, and the corresponding rise in prices helped boost Saudi Arabia's export revenues, pushing the trade surplus to US$25 billion. This upward trend continued throughout 2000 when the surplus rose to US$52.4 billion.

Saudi Arabia imported US$28 billion worth of goods in 1999. A majority of that expenditure went toward the purchase of machinery, electrical equipment, chemicals, foodstuffs, and transportation equipment (cars, trucks, buses). Agricultural imports accounted for 17 percent of the total in 1999, up 11 percent since 1992, reflecting cuts in farm subsidies and the consequent decline in domestic food production. Electrical equipment and machinery accounted for 24 percent of the kingdom's total imports in 1999.

Saudi Arabia's exports totaled US$48 billion in 1999. Over 90 percent of those earnings were derived from the export of oil.

A majority of Saudi Arabia's trade is conducted with the United States. U.S. goods in 1998 accounted for 21 percent of Saudi imports, over twice as much as the kingdom's next leading suppliers, the United Kingdom and

Japan, whose imports to Saudi Arabia amounted to 9 percent each. Germany, France, and Italy were other major suppliers of goods.

Japan emerged as the leading buyer of Saudi goods in 1998, purchasing 17 percent of the kingdom's exports. The United States was close behind with 15 percent of Saudi exports. Saudi Arabia provides the United States with approximately 20 percent of its imported crude oil. The kingdom also is a major exporter to South Korea, Singapore, India, and France.

Saudi Arabia and its fellow members of the Gulf Cooperation Council (GCC)—Kuwait, Qatar, the United Arab Emirates, Bahrain, and Oman—have, over the past decade, been trying to promote higher levels of trade between themselves by removing barriers to the free exchange of goods, services, and capital between member states. One of these barriers, the lack of a common external tariff, has continued to complicate moves toward greater economic integration.

Saudi Arabia generally applies a 12 percent tax on imported goods, unless those goods compete with locally produced items, wherein the tax is issued at 20 percent. (Taxing certain imported items at higher rates raises the price at which the items are then sold. This helps keep local manufacturers competitive.) This is the highest import tax in the Middle East and is a point of contention between Saudi Arabia and other GCC members. In order to gain entry into the WTO, Saudi Arabia will be forced to lower tariffs to a maximum of 7.5 percent, bringing import taxes in line with other WTO member states. Imported medical goods, basic foodstuffs, and other items considered essential are exempt from the tax.

Some items, either for religious reasons or purposes of state security, are banned in Saudi Arabia. The import of non-medical drugs and alcohol is forbidden, as is any religious material which might be deemed offensive to the principles of Islam. Furthermore, the import of weapons and electronic equipment is tightly controlled.

MONEY

The Saudi Arabian Monetary Agency (SAMA) regulates the kingdom's money supply. Since June 1986, the Saudi riyal had been informally pegged to the U.S. dollar at SR3.745:US$1. The fixed rate cuts down on revenue volatility, being that a majority of Saudi oil exports are sold to America and denominated in U.S. dollars. Keeping the riyal consistent in its relation to the dollar also helps keep the currency stable, and this, in turn, makes Saudi Arabia a more attractive market for international investment capital. At the same time, the pegged rate provides a stable **exchange rate** with other GCC countries whose currencies are also generally pegged to the dollar.

Exchange rates: Saudi Arabia

Saudi riyals (SR) per US$1	
2001	3.7450
2000	3.7450
1999	3.7450
1998	3.7450
1997	3.7450
1996	3.7450

Note: The rate of Saudi currency has been fixed since June 1986.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Saudi Arabians generally enjoy a decent standard of living, due in large part to government programs designed to minimize poverty. Saudi citizens are given free education (although enrollment is not required and has historically been low, accounting for relatively high illiteracy rates) and health care, and all adult Saudis are entitled to a plot of land and a loan of US$80,000 with which to build a house.

The **GDP per capita** in Saudi Arabia reached its peak in the late 1970s and early 1980s, when elevated oil prices were generating high levels of revenue. In 1981, GDP per head reached US$16,650. Slumping oil prices and declining production in the ensuing years caused the per capita GDP to fall. By the end of the decade the figure dropped to US$5,500. Rising oil prices following the Gulf War coupled with increased Saudi production helped raise the per capita GDP once again. In 1999 the figure stood at US$9,000.

Despite the extensive social safety net in Saudi Arabia, the unequal distribution of wealth in the country is fostering resentment among the country's poorest citizens. In 1999, the National Commercial Bank estimated that out of a population of 20 million, there were 120,000 millionaires controlling a combined fortune of over US$400 billion. Meanwhile, according to the Saudi American Bank, 20 percent of Saudi men between the

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Saudi Arabia	9,658	11,553	7,437	7,100	6,516
United States	19,364	21,529	23,200	25,363	29,683
Egypt	516	731	890	971	1,146
Iran	1,611	1,129	1,208	1,056	1,275

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

ages of 20 and 29 had no paid work. As a result, larger families were increasingly finding themselves under financial strain. The government, in recognition of the problem, began taking steps in 1995 to open more jobs to Saudi citizens. Two successive 5-year plans, from 1995 through 2004, have listed the Saudiization of the workforce as a primary objective. To this end, the government has passed laws requiring that at least 5 percent of the private sector be made up of Saudi citizens. Also, all firms have been ordered to increase the number of Saudi workers by 5 percent a year. At the same time, the government has attempted to limit the employment of foreign nationals by prohibiting the renewal of their work contracts and by raising the visa fees employers must pay to hire them.

Illiteracy rates are high in Saudi Arabia, hovering at around 20 percent in 1999. Consequently, the government in its development plans has placed heavy emphasis on improving education. Outside of defense expenditures, education spending accounts for the largest portion of the government budget (27 percent in 2000). Between 2000 and 2004 the government hopes to build over 1,000 primary schools, 819 middle schools, and over 900 high schools. During this time student enrollment is projected to rise from 3.9 million to 5.1 million. In efforts to create more highly skilled high school graduates, the government is also attempting to increase student enrollment in the kingdom's vocational schools and technical colleges. Efforts thus far have been successful, with vocational enrollment rising by over 20 percent between 1998 and 1999.

Health care also receives a great deal of government attention. Facilities are generally good. According to a 2001 report issued by the Ministry of Health, the 314 private hospitals provide 1 bed for every 461 people. The 2001 budget provided spending for the construction of 30 new hospitals.

WORKING CONDITIONS

The Saudi Arabian labor force is comprised of approximately 7.12 million workers. These workers enjoy few rights. The formation of unions is strictly prohibited, strikes are forbidden, and there is no collective bargaining. In the absence of a minimum wage, employers are free to pay their workers as they see fit.

While forced labor is against the law, abuses do occur, especially in remote areas and in the domestic service industry, where there have been reports of maids being forced to work up to 16 hours a day, 7 days a week. Employees have little freedom of movement, and cannot leave the country or even travel out of the region without their employer's permission.

According to labor regulations, the work week is 48 hours. Employers can require 12 additional hours of overtime at time-and-a-half pay. The law requires workers to be given a rest period of 24 hours, which is generally granted on Fridays, the Muslim sabbath. Labor laws, however, do not apply to domestic servants, who have little redress for any poor treatment they might receive. Those who run away are generally returned to their employers.

The International Labor Organization has cited Saudi Arabia for failing to adhere to conventions on equal pay, for continuing gender segregation in the work place, and for limiting vocational programs for women. Additionally, in 1995 Saudi Arabia was suspended from the U.S. Overseas Private Investment Corporation (OPIC) insurance programs for its failure to guarantee the rights of its workers as recognized by international norms.

According to human rights reports, foreign workers run the risk of being exploited. Workers recruited in foreign countries may be pressured after arriving in Saudi Arabia to sign new contracts with less favorable terms, or they may be pressured to accept lower pay than originally promised. Once in Saudi Arabia, workers may also find their freedom of movement restricted. Employers may refuse to grant them exit visas, making it impossible for them to return home.

Saudi nationals in general receive higher pay than non-nationals, especially in the agricultural sector, where Saudi citizens can make up to 3 times that of their foreign counterparts. The Saudi government has taken steps to introduce minimum wage requirements for foreign workers, making it more costly for employers to hire them. In this way the government hopes to spur more employment opportunities for Saudi citizens.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1745. Muhammad Abd Al-Wahhab, a religious reformer, allies with Muhammad bin Saud, a local ruler, and the 2 begin a religious/military campaign to unite the Arabian Peninsula under a new brand of strict Islamic law. They and their followers are known as Saudis.

1801. Saudi forces capture Mecca, an important religious site.

1805. Saudi forces capture Medina, another important religious site. The Ottoman Turkish government, which rules the region, launches a campaign to drive Saudi forces out of Arabia. By 1818 the Saudis have lost most of the territory previously captured and eventually take up exile in Kuwait.

1902. The Saudis renew their efforts to unify Arabia. King Abdul Aziz Al Saud (later known as Ibn Saud) recaptures Riyadh, the Al Saud ancestral home, from the Al Rashid, who are ruling in Arabia with Turkish support.

1932. Present-day Saudi Arabia is consolidated under Ibn Saud's rule. Ibn Saud declares himself king.

1953. Ibn Saud dies, leaving his kingdom to his surviving sons. His eldest son, Saud, becomes king and establishes the Council of Ministers, an advisory body made up of members of the royal family.

1962. Civil war breaks out in Yemen between Royalists and Republicans. Egypt backs the Republicans while Saudi Arabia backs the Royalists. Tensions between Egypt and Saudi Arabia are high over the next 5 years until 1967, when Egyptian forces withdraw from Yemen.

1964. King Saud steps down in favor of his half brother Faisal bin Abdul Aziz.

1967. War breaks out between Israel and 4 Arab nations, Egypt, Jordan, Syria, and Iraq. Saudi Arabia sits out the war, but later provides economic assistance to Egypt, Jordan, and Syria.

1973. War erupts once again between Israel and its Arab neighbors. Saudi Arabia and other Arab oil producers boycott the sale of oil to the United States to protest American financial aid to Israel. The price of oil rises steeply, but Saudi Arabian earnings still suffer due to loss of sales to the West.

1974. Despite Arab opposition, Saudi Arabia abandons the 1973 boycott, negotiating an economic and military cooperation agreement with the United States whereby the United States provides the kingdom with military protection in return for the guaranteed flow of oil. Saudi wealth begins to grow rapidly, heightening its political and economic influence throughout the world.

1975. King Faisal is assassinated. He is succeeded by his half brother, Crown Prince Khalid. Another half brother, Fahd, is appointed crown prince and first deputy prime minister.

1979. Armed religious militants take over the Grand Mosque in Mecca. The 250 men, followers of the Sunni Muslim cleric Juhaiman Ibn Seif al-Oteibi, are removed by force. The incident alerts the royal family to growing dissatisfaction in the kingdom among religious conservatives. In response, the government establishes a committee to lay out a system of societal laws based on Islamic principles.

1982. King Khalid dies and is succeeded by Crown Prince Fahd. Fahd becomes a key player in Middle East politics.

1988. A Saudi-brokered cease fire is declared in the 8-year-old Iran-Iraq war, bringing stability to the Middle East.

1990. Iraq invades Kuwait, drawing international condemnation and starting the Gulf War. The UN places an embargo on Iraqi oil. The cut in world supply causes oil prices to rise. Saudi Arabia begins to increase production to help meet world demand. King Fahd helps organize and hold together the coalition of Arab military forces which, in conjunction with a large contingent of U.S. forces, drives Iraq from Kuwait.

1995. King Fahd suffers a stroke. Over the next 2 years, Crown Prince Abdullah emerges as the de facto head of state.

1996. A car bomb explodes outside U.S. military housing at the Al Khobar military base in Eastern Province, killing 19 American servicemen. Responsibility is linked to Osama bin Laden, a Saudi dissident claiming to resent the Western presence on Saudi soil.

1999. Saudi Arabia cuts oil production by over 2 million barrels a day to boost prices.

2000. New laws are passed to facilitate foreign investment.

2001. Saudi Arabia and Iran sign a security pact pledging cooperation in combatting terrorism, drug trafficking, and **money laundering**.

FUTURE TRENDS

Barring the discovery of a new energy supply that renders oil obsolete, Saudi Arabia will be able to maintain its economy through the production and distribution of oil for nearly another century. The discovery of new reserves, which appears likely, will extend the viability of the oil-based economy even further. However, as oil supplies rise and efficiency increases, prices will likely go down. To compensate for lower oil revenues, the Saudi government will continue to take steps toward economic diversification, expanding its agricultural, non-oil mining, and tourism sectors. The government will also continue to push for private sector growth as it loosens its grip on the economy.

In the meantime, Saudi Arabia will continue to implement oil policies that are favorable to the West for 2 main reasons. One, Saudi Arabia is dependent on the West, primarily the United States, for trade and military protection. And two, it is in Saudi Arabia's own interests to maintain stable oil prices to keep the commodity competitive with other forms of energy.

Saudi Arabia will also further its efforts to attract foreign investment, especially in heavy industrial sectors where the government is encouraging the creation of public-private partnerships. Although the government has expressed interest in decentralizing the economy, full privatization in most industries has yet to occur.

Cooperation between the United States and Saudi Arabia should continue, at least into the near future. However, relations could become strained if the situation in Israel continues to deteriorate. Historically, U.S. support

for Israel has generated hostility in the Arab world. If the violence in Israel escalates and the Palestinians are perceived as being grossly victimized, the Saudi population, for reasons of Muslim solidarity, may begin pushing for intervention. Any move in that direction would complicate U.S.-Saudi relations.

Young Saudis will continue to enter the labor market in growing numbers. As such, the so-called Saudization of the workforce will remain a government priority for the foreseeable future. Hiring fees will be raised for foreign workers, and those workers with expired visas may be forbidden to renew them. The Saudi infrastructure will also expand in the coming decades as new oil fields are discovered and the non-oil mining sector grows. Saudi Arabia's push to gain entry into the World Trade Organization will accelerate the pace of economic reforms currently underway.

DEPENDENCIES

Saudi Arabia has no territories or colonies.

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—John Mazor

SINGAPORE

Republic of Singapore

CAPITAL: Singapore.

MONETARY UNIT: Singapore dollar (S$). One dollar equals 100 cents. There are coins of 1, 5, 10, 20, 50 cents, and 1 dollar. There are notes of 2, 5, 10, 20, 50, 100, 500, 1,000, and 10,000 dollars.

CHIEF EXPORTS: Machinery and equipment (including electronics), chemicals, and mineral fuels.

CHIEF IMPORTS: Machinery and equipment, mineral fuel, chemicals, and foodstuffs.

GROSS DOMESTIC PRODUCT: US$109.8 billion (2000 est.).

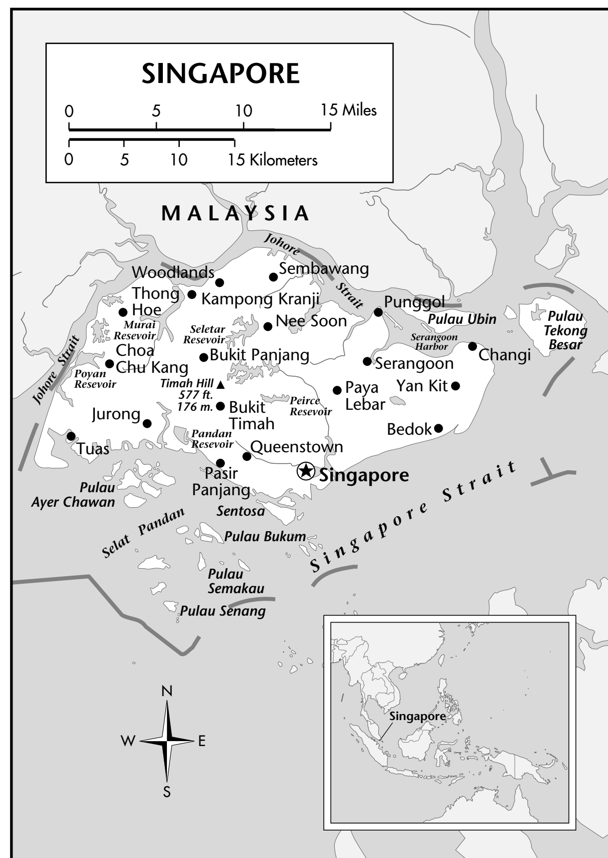
BALANCE OF TRADE: **Exports:** US$137 billion (2000 est.). **Imports:** US$127 billion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Singapore is a city-state in Southeast Asia, located about 137 kilometers (85 miles) north of the Equator. It consists of 1 major island and 59 small islands. Singapore lies at the center of a major sea route connecting the Far East to Asia, Europe, and the Middle East, which gives the country its strategic importance. It is separated from Malaysia to the north by the narrow Johore Strait and from Indonesia to the south by the wider Singapore Strait. The country has a land area of 637.5 square kilometers (247 square miles), but no land boundaries, and its total coastline is 193 kilometers (120 miles). The territory of Singapore covers a slightly smaller area than that of New York City.

POPULATION. The population of Singapore, which is entirely urban, was estimated at 4,151,264 in July 2000. In 2000, the birth rate stood at 12.79 per 1000 people, a low level attributed to urbanization and birth control policies, and the death rate stood at 4.21 per 1000. The estimated population growth rate is 3.54 percent. Such a high rate is due to the high net **immigration** rate, which stood at 26.8 immigrants per 1000 people. These immigrants form a large community of foreign temporary workers estimated at about 10 percent of the total population. Singapore has one of the highest population densities in the world, with about 6,500 people per square kilometer (or 16,800 per square mile).

The Singaporean population is diverse and represents 3 major ethnic groups. Ethnic Chinese make up almost 77 percent of the population, Malays make up 14 percent, Indians 7.6 percent, and other ethnic groups 1.4 percent. Around 18 percent of the population is below



the age of 14, and just 7 percent is older than 65. The current ethnic distribution was formed in the 19th century when the British administration encouraged people to migrate to Singapore from neighboring Malacca, the Indonesian islands, India and especially China.

In 1957, Singapore's population was approximately 1.45 million, and there was a relatively high birth rate. Aware of the country's extremely limited natural resources and small territory, the government introduced birth control policies in the late 1960s. In the late 1990s, the population was aging, with fewer people entering the labor market and a shortage of skilled workers. In a dramatic reversal of policy, the Singapore government now plans to introduce a "baby bonus" scheme in 2001 that will encourage couples to have more children.

Singapore wants to limit the inflow of illegal immigrants. The effect of drugs and drug trafficking is another important issue, since Singapore lies near the "Golden Triangle," an area between Burma, Laos, and Thailand that is the world's largest producer of illicit drugs such as opium. Singapore is among the few countries in the world to have adopted the death penalty for possession and sale of drugs. New chronic diseases like AIDS are also of great concern to the Singaporean government, since the country is a busy tourist destination.

OVERVIEW OF ECONOMY

Manufacturing and services are the 2 main features of the modern Singaporean economy, but the economy's main economic engine is its seaport, one of the world's busiest. Singapore also has one of the largest commercial shipping registers in the world.

In 1819, when the British East India Company leased this territory from the Sultan of Johore to establish a trade and communication post, it was a small settlement in a swampy area. However, the British administration quickly cleared jungles, reclaimed marshes, and established a merchant seaport. This port expanded into a major regional trading post due to its strategic and convenient location along the main sea route connecting the Far East to British India and to Europe. The rise of Singapore as a communication hub would prove a foundation for its future prosperity.

As a free port and a major British naval base in East Asia, Singapore enjoyed a special status within the British protectorate for a long time. In 1959, Singapore achieved full self-governance, and in 1963, it joined the Federation of Malaysia. However, sharp political disagreements arose with the federal government, and in 1965, Singapore left the Federation and became an independent state. Having a small territory and no natural resources, the government staked everything on the transformation of the country's economic base from a trade mediator and regional transport hub to a manufacturing center, specializing in capital-intensive industries, high technologies, and financial services. Singapore's government promoted a free-market economy and export oriented industrialization (EOI), combined with a measure of state intervention, subsidized credits to selected industries, and high public investment in applied research and certain export targets. Export to the international market promoted efficient use of resources and generated **hard currency**, which was necessary for catching up with further development of technologies and industrial innovation. This policy brought unprecedented economic expansion, with an annual average growth rate of 6.4 percent from the 1960s through the 1980s. This development transformed Singapore into one of the "economic tigers" of Asia.

There are different interpretations about the causes of this high performance. A World Bank report argued that this success was because of a mix of private investors and available human resources. Others argue that state initiatives and government economic policies were important. In Singapore's transformation, the Economic Development Board, which is the government agency responsible for the formulation and implementation of economic and industrial development strategies established in 1961, played a crucial role.

The country's major export products are electronic goods, machinery, and equipment produced by major **multinational corporations**. Tourism is important. In 1996, Singapore hosted 4,795 international and regional conventions and received more than 7 million tourists, providing revenues of about 9 percent of **gross domestic product** (GDP). Finance and business services are other important sectors of the economy, accounting for almost 30 percent of GDP in 1996. Transport and communications contributed an estimated 10 percent of GDP in 1996.

The Singapore government is persistent in the promotion of initiatives to keep the country competitive in the international arena. One of these initiatives is IT2000, which depends on a vision of Singapore as an "Intellectual Island" where information technologies penetrate all aspects of life. Another initiative is Jurong Town Corporation, which offers ready-built factories and manages 33 industrial parks housing 7,000 companies. The government supported the selected sectors in manufacturing and other industries through different means. It owns the Government-Linked Companies (GLCs) that operate as commercial entities. Singapore has the second highest number of state-controlled firms (45 percent) in the world, higher than Korea or Japan.

One of the important features of the Singaporean economy is that the financial sector has been guided by conservative **fiscal policies**. In 1998, in response to the 1997 Asian financial crisis, the Singapore government

announced financial reforms to improve the country's international competitiveness, which included further **liberalization** of the financial sector and tax initiatives.

High economic performance and development kept unemployment at a low level during the last decades of the 20th century in all sectors of the economy including manufacturing, tourism, and finance. In 1999 unemployment was just 3.2 percent (by comparison, unemployment in the United States was 4.2 percent in the same year). Because of the speed of its economic expansion, Singapore began to experience shortages of skilled labor in the late 1990s and early 2000s.

POLITICS, GOVERNMENT, AND TAXATION

Singapore is a parliamentary democracy with a president as the constitutional head of state. The president plays a ceremonial role in the political life of the country and until 1991 was elected by the parliament. In 1991, the constitution was amended, allowing citizens to vote for their president in direct popular elections. Current president S. R. Nathan took office for a 6-year term in 1999. Singapore's **unicameral** (one house) parliament has 83 members elected by popular vote. Executive power rests with the cabinet, led by the prime minister who is responsible to the parliament.

Several political parties have been active since Singapore's independence in 1965. Five of these parties have a high profile and influence in the country. These are: People's Action Party (PAP); National Solidarity Party (NSP); Singapore Democratic Party (SDP); Singapore People's Party (SPP); and Worker's Party (WP). Unlike many neighboring countries, the Communist Party does not have mass support in Singapore, and there has been no violent confrontation with communists. The military has never been an influential force in the political arena of the country. Politically, Singapore has remained remarkably stable and nearly untouched by political violence since independence.

Since the end of World War II, the major issues shaping political competition in Singapore have been the promotion of political stability, economic growth, and maintaining a balance among the 3 main ethnic groups. The PAP came to power spreading an ideal of national consolidation, economic growth, and state paternalism. It has remained the country's dominant political force for the past 40 years, controlling parliament in every election since independence. The PAP's strong man, Lee Kuan Yew, became prime minister in 1959 when Singapore acquired self-governance, and retained this position until 1990. After his resignation, Goh Chok Tong, Lee's chosen successor, became the new prime minister. One of the unique features of Singaporean political development is the governing by a single party since gaining independence in 1965. This has led prominent human rights groups to criticize the Singaporean government over its failure to promote and protect the political and civil rights of its citizens.

Since the early 1960s, under the leadership of both Lee Kuan Yew and then Goh Chok Tong, the Singapore government has promoted a free-market and export-oriented economy. This policy has been successful and the country has experienced unprecedented economic growth and prosperity. Leading **technocrats** were able to capture major trends in technological change in the modern world and utilize the benefits of globalization. In 1992, as a member of the Association of South East Asian Nations (ASEAN), Singapore created a regional **free trade zone**, to be known as the ASEAN Free Trade Zone (AFTA). Singapore managed to minimize the negative effects of the oil crisis of 1979 and the Asian financial meltdown in 1997.

The country has continually attracted **foreign direct investment** and technological transfers from developed countries such as Japan and the United States. One of the important tools in the hands of the government has been its taxation policy and its initiatives. With few exceptions, capital gains are not taxed in Singapore. Both resident and non-resident companies are taxed at the same rate as the corporate tax rate, which stays at 25.5 percent. The typical withholding tax rate on interest payable to non-residents stays at 15 percent, but this could be reduced or even exempted by tax treaties in the future. A Goods and Services Tax (GST) was introduced in April 1994 at 3 percent, but was accompanied by compensatory reductions in **direct taxation**. Qualified employees may enjoy tax exemptions of 50 percent for up to S$10 million of stock option gains arising over a period of 10 years for stock options granted after June 2000.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Singapore inherited from the colonial era a superior **infrastructure** and well-developed transport network. After independence, the Singaporean government made many efforts and sizable investments to improve these even further. This small city-state is served by a network of 3,122 kilometers (1,940 miles) of highways, 99 percent of which are paved. In the 1970s and 1980s, there was a steep increase in private car ownership, which led to traffic congestion and rising air pollution. The government reacted swiftly, investing significant sums in public transport, especially the mass transit system. It also restricted private car usage on Singaporean roads, using different measures, including taxes and Certificates of Entitlement. By the 1990s, 83 kilometers (51

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Singapore	360	822	348	49.5	346	31.6	458.4	322.30	950
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Japan	578	955	707	114.8	374	126.8	237.2	163.75	27,060

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

miles) of mass rapid transit system, and 11 kilometers (6 miles) of light rapid transit system had been built, and the country could boast of an excellent public transport system, praised for its safety, quality of service, and punctuality. In 1998, the government launched a S$1.7 billion project to build a new transit line. There were at that time 681,924 registered motor vehicles, including 378,090 cars, 11,410 buses, 133,382 motorcycles and scooters, and other vehicles.

Throughout the colonial era, the port of Singapore was an important military base and commercial seaport. After gaining independence, Singapore maintained its status as an important regional transport hub. Its seaport is believed to be one of the world's busiest ports in tonnage terms, with 140,922 vessels making up a shipping weight of 858 gross tons calling at the port and total container traffic of 15.14 million 20-foot equivalent units. It also has one of the largest commercial shipping registers in the world. Its merchant marine included 891 ships (1,000 gross registered tonnage and over) in 1998. Singapore also houses the third-largest oil refinery in the world with a capacity of 1 million barrels a day (1998). Major petroleum companies, including Shell, ESSO, Caltex, British Petroleum, and Mobil, operate there.

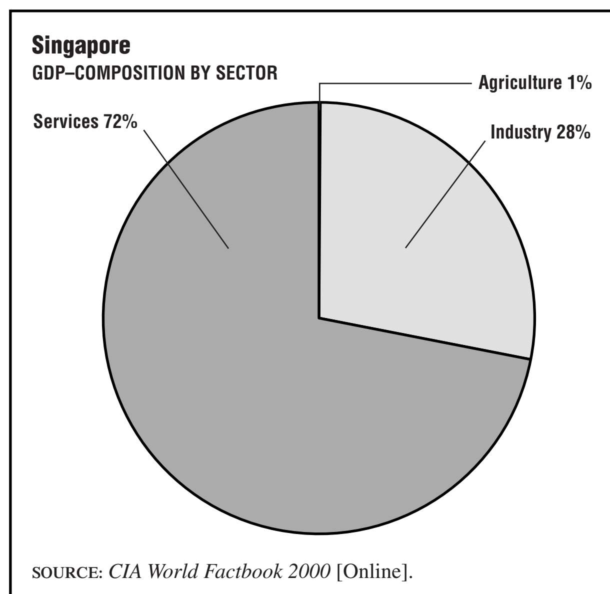
The government has invested heavily in the development of aviation, signing air service agreements with 90 countries, including "open skies" agreements with the United States, New Zealand, and Brunei Darussalam. The Civil Aviation Authority of Singapore (CAAS) oversees and regulates development in this sector. There were 9 airports in Singapore in 1999. The largest is Changi airport (a subsidiary of CAAS), which hosted 61 airlines and handled 23.8 million passengers in 1998 alone, making Singapore one of the major airports in the region. The 47-hectare (116-acre) Changi Airfreight Center handled 1.43 million tons of air freight movement in 1998. The government planned to invest a further S$1.5 billion in upgrading the airport facilities in the first decade of the 21st century. Singapore Airline (SIA) was created in 1972 after the split of Malaysia-Singapore Airline. SIA and its subsidiary, SilkAir, operated 87 aircraft, employed 18,800 people, and carried 12 million passengers a year in 1998. In 1998, SIA was ranked fourth in terms of international freight measured in ton-kilometers, and eighth in international passenger-kilometers.

Singapore is fully reliant on imports of mineral fuel for domestic consumption, and these imports accounted for 9.3 percent of merchandise imports in 1996. This makes the country vulnerable to unfavorable fluctuations in world oil prices. Electric power is produced from fossil fuel at 3 power stations. Electricity production was recorded at 28.586 billion kilowatt-hours (kWh) in 1998.

Telecommunication services in Singapore remain under state control. Telephone service is provided by the state-controlled Singapore Telecom (ST). The country had 54.6 million telephone lines and 1.02 million mobile cellular telephones in 1998. The government has attempted to end ST's **monopoly**. In 1993, it sold about 7 percent of its share to private companies and, in 1997, ST's monopoly on mobile and pager services came to an end. In 1998, there were 8 Internet service providers in the country and 458.4 computers per 1,000 people, which is more than in the United States. In 2000, the Singapore government announced a S$1.5 billion investment over 3 years into the e-Government Action Plan, which should enable Singaporeans to access a wide range of online services.

ECONOMIC SECTORS

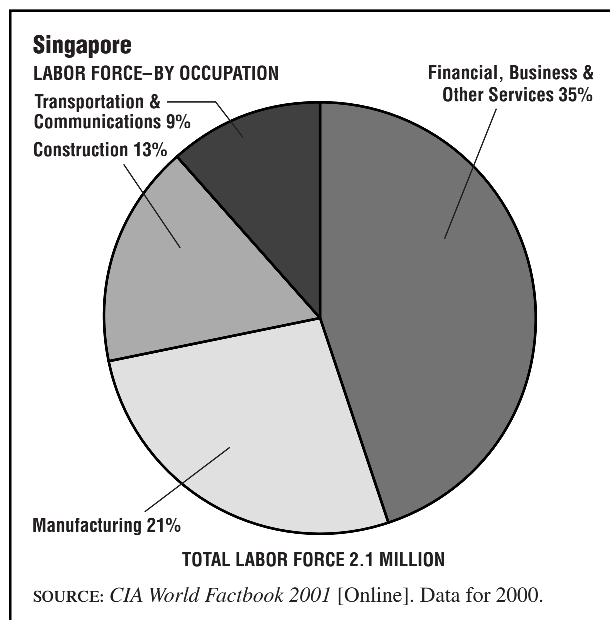
Singapore's separation from the Federation of Malaysia in 1965 had advantages and disadvantages. On the one hand, its economic development has been constrained by its small territory, small population, and extremely limited natural resources, and the country has always been fully reliant on the importation of foodstuffs. Yet Singapore has a huge advantage in its location in a major sea route connecting the Far East to South Asia, Europe and the Middle East. The country has a well-



SOURCE: *CIA World Factbook 2000* [Online].

trained, well-educated, disciplined **labor force** and has attracted major multinational corporations from Europe, Japan, and the United States. Many of them, such as Sony, NEC, Matsushita, Texas Instruments, and others, have established their manufacturing and assembly plants or distribution centers there.

Singapore has fully used the advantage of its superior location, reinventing itself as a major communication hub in Southeast Asia. The policy of encouraging private entrepreneurship, giving priority to the development of an export-oriented economy, and encouraging capital intensive industries combined with selective state intervention, brought Singapore unprecedented economic growth from the 1960s through the 1990s. By 2000, industry and services had become the 2 largest sectors of the modern Singaporean economy, contributing 30 percent and 70 percent of GDP, respectively, in 2000. (Agriculture's contribution was negligible.) Although there was a substantial slowing down in economic growth in all sectors of the economy after the 1997 Asian financial crisis, Singapore managed to avoid economic decline like neighboring Indonesia or Thailand.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000.

AGRICULTURE

Agriculture, including fishery, is an insignificant part of Singapore's economy, accounting for just 0.2 percent of GDP and employing 0.2 percent of the workforce. Since the 19th century Singapore has been fully reliant on the import of foodstuffs, obtained from its neighbors. The country has a small fishing industry consisting of a small fleet and marine fish farms. There has been some interest in the greenhouse production of certain fruits and vegetables for domestic consumption, but it has not developed and remains small. Singapore does cultivate orchids for domestic and export markets.

In the late 1990s, Singapore businessmen expressed interest in biotechnology and genetically modified food production. The public outcry in Europe and the United States over genetically modified food has cooled this interest for the time being. Some private entrepreneurs invested in the agricultural sector in neighboring Malaysia and Thailand, aiming to export the products back to Singapore.

INDUSTRY

Singapore belongs to the "New Industrialized States" (NIS), the countries that underwent rapid industrialization from the 1960s to the 1980s. During these 2 decades, Singapore managed to attract technology transfers from the developed world as well as sizable foreign direct investment (FDI). The island has a small mining industry that is of no importance in the national economy.

MANUFACTURING. Singapore has a diverse, well-established, and economically important manufacturing sector, which contributed 28 percent to GDP and provided employment for 417,300 people, or 21.6 percent of the workforce, in 1999. Since the early 1990s, the manufacturing sector's share in GDP has been slowly declining due to the steady rise in competition from neighboring countries and the expansion of its own service sector. The United States remains the single largest investor in Singapore's economy. In 1999, about 57 percent of FDI commitments came from the United States.

Singapore began its industrial sector in the 1960s, using its superior location and well-trained and educated

labor force. The industrial sector initially consisted of electrical assembly, oil refining, and shipping facilities. The electronic sector became the country's most important manufacturing element. This sector underwent a rapid expansion in the late 1960s when Texas Instruments and other multinational corporations established assembly plants in Singapore.

In the 1990s, there was further growth in the manufacturing of different electronic products and computer components. In the late 1990s, Singapore became the world's largest producer of computer disk drives. In 1999, electronics accounted for 43.4 percent of **value-added** manufacturing in the country, making Singapore vulnerable to downturns in the international market. Most of these goods are produced in foreign-owned plants for export to the United States, Europe, and East Asia. Electronics manufacture was affected by the 1997 Asian financial crisis, although the Singaporean government supported the sector by tax breaks and other initiatives. After 1997, several multinational corporations such as Seagate, Western Digital of the United States, and others laid off staff and began **restructuring** their production capacity. Some considered moving their manufacturing operations to neighboring countries such as Malaysia, Indonesia, and the Philippines, where wages are lower than in Singapore.

Chemical production, petroleum production, and printing are also important contributors to the country's economy. Singapore has a well-developed chemical and chemical production sector. This sector experienced steady growth in the 1980s and 1990s by attracting substantial FDI. Chemical production contributed 18.1 percent of valued-added manufacturing in 1999.

Petroleum production underwent rapid expansion in the 1960s and 1970s, benefiting from the country's large and efficient seaport and modern oil refining facilities. This sector produces 18.8 million metric tons (20.68 million tons) of distillate fuel oils and 15.7 million metric tons (17.27 million tons) of residual fuel oil, and other petroleum-based products. Singapore has the world's third largest oil-refining industry. Petroleum production contributes 4.4 percent of valued-added manufacturing.

Singapore has developed high-quality color printing processes, producing several publications for major clients from the United States and Europe. Printing and publishing contributes 4.0 percent of value-added manufacturing (1999). The other manufacturing sectors produce transport equipment, machinery, and fabricated metal products.

SERVICES

TOURISM. Tourism is an important sector of Singapore's economy, providing employment for 118,900 people. Although Singapore was long known as a tourist destination for sailors, business people, and adventurers, mass tourism began in earnest in the 1970s and 1980s with the increase in international air travel. The number of tourists visiting the country rose steadily throughout the 1980s and 1990s, reaching 7.29 million in 1996. There was a decline of about 1.3 percent in 1997 and 13.3 percent in 1998, due to economic turmoil in the region. In response to this decline, the Singapore Tourism Board started "Tourism Unlimited," a program promoting regional tourism and developing tourist projects near Singapore. In 1999, about 6.96 million tourists visited the country, contributing S$11.2 billion dollars to the national economy.

Singapore promotes itself as a "dream destination," offering excellent service, a multicultural environment, local hospitality, exotic festivals, and tax-free shopping. To boost its competitiveness it has also signed visa-free agreements with most countries in Asia, Europe, and the Americas. According to the national authorities, in 1998 Singapore had 108 hotels with total room capacity of 32,000. Most visitors come from the ASEAN countries, Japan, Taiwan, Australia, the United Kingdom, and the United States. In the 1990s, Singapore reinvented itself as Asia's convention city. In 1996, the capital hosted 4,795 international and regional conventions with 426,000 foreign participants. According to the Union des Associations Internationales, Singapore ranks seventh among the world's major convention cities.

FINANCIAL SERVICES. The financial and business services sector is one of the most important sectors to the Singapore economy and provides employment for 266,000 people. Finance rests on the traditional foundations of the banking system, investments, insurance, and foreign exchange. There were 154 commercial banks in 1997, although banking was dominated by the "Big Four": the DBS Bank, the United Overseas Bank (UOB), the Overseas Union Bank (OUB), and the Overseas-Chinese Banking Corporation (OCBS). According to the IMF, Singapore is the world's fourth-largest global exchange center. The financial sector, particularly its banking component, has been tightly regulated by the Monetary Authority of Singapore (MAS), prompting sharp criticism from the United States and the World Trade Organization (WTO).

Although the 1997 Asian financial crisis affected the financial sector, there were no major bank collapses or bankruptcies. In 1997, Singapore's benchmark Strait Times Industrial Index (STII) fell 30 percent, leading to the STII being replaced by the simplified Straits Times Index (STI) in August of 1997. In 1999, the STI experienced some recovery due to an upturn in the manufacturing sector. The MAS reinforced its strict policy against internationalizing the Singapore dollar by limiting overseas lending and borrowing by non-residents. This policy restricts use of the currency outside the country for

activities unrelated to the domestic economic development. However, economic recovery has improved the Singapore government's fiscal position, and it intends to **deregulate** and gradually liberalize the financial sector.

The business services sector (including property services, accountancy, and information technology), the fourth-most important economic sector in 1999, experienced difficult times in the late 1990s. During this period, economic **recession** and declining investments in neighboring countries led to less demand for financial and business services and brought a sharp decline in spending in the property market.

RETAIL. Singapore's well-developed **retail** sector provides excellent service to the local population and to foreign tourists. Large, state-of-the-art supermarkets are complemented by thousands of small retail shops where tourists and local consumers can buy different products. Singapore has long been recognized as a major tourist shopping destination offering, among other things, the latest electronic products free of tax. In 1998, there were 281,200 people employed in the wholesale and retail trades. After the decline of 1997 and 1998 this sector recovered, with the value of retail sales up by 12.1 percent and their volume up by 14.1 percent.

INTERNATIONAL TRADE

Since the 1960s, Singapore has adopted a policy of export-oriented industrialization, promoting the export of goods and services in the international markets. It has few barriers against the import of goods and services, although the government's well-known interventionist policy in the regulation and ownership of many Singapore companies has been widely criticized. Singapore more than doubled its exports, from US$52.752 billion in 1990 to US$118.268 billion, in 1995. Exports dipped after 1997, but recovered to reach US$137 billion in 2000. The United States is Singapore's single largest trading partner, accounting for 19 percent of all exports in 1999, primarily from the sale of manufactured electronics and computer peripherals. A large part of these exports originates from U.S.-owned companies, which are traditionally the largest investors in the Singapore economy. Neighboring Malaysia is the second largest export market, accounting for 17 percent of total exports. Hong Kong and Japan are also important export destinations, accounting for 8 percent and 7 percent of exports respectively. Other important partners include Taiwan, Thailand, the United Kingdom, the Netherlands, China, South Korea, and Germany.

The United States and Japan are the largest suppliers of imports to Singapore, with both countries supplying 17 percent of imports. Malaysia remained one of the traditional sources of imports, accounting for 16 percent of the total. Major imports from Malaysia include **consumer goods** like foodstuffs and raw materials. China (5 percent), Thailand (5 percent), Taiwan (4.0 percent), Saudi Arabia (3 percent), and Germany (3 percent) are other major sources of imports. In 2000, the value of imports totaled US$127 billion.

Trade (expressed in billions of US$): Singapore

	Exports	Imports
1975	5.375	8.133
1980	19.376	24.007
1985	22.812	26.285
1990	52.752	60.899
1995	118.268	124.507
1998	109.895	104.719

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Singapore's government considers the development of free trade as an important factor for the country's future economic growth. Singapore strongly supported free trade negotiations between the members of the Asia Pacific Economic Cooperation organization (APEC), which tried to remove trade barriers between member countries, including the United States, Canada, Japan, Australia, and others. Singapore also strongly supported the creation of a regional free trade zone for the Association of South East Asian Nations (ASEAN), to be known as the ASEAN Free Trade Zone (AFTA). In 2001, Singapore announced its intention to discuss bilateral free-trade arrangements with Australia, Canada, Japan, and the United States.

Singapore's international trade rose during the last 3 decades of the 20th century, when the country managed its trade balance to achieve a **trade surplus** of US$10 billion by 2000. Singapore demonstrated its immunity to the sharp oil price rises in 2000 and 2001; however, it faces increasing competition from neighboring countries and has become vulnerable to changes in global market demands for electronic products. Nevertheless, political and economic uncertainty in neighboring Indonesia, the Philippines, and Thailand have strengthened Singapore's position, confirming its image as one of the most stable and business-friendly countries in the region.

MONEY

Over the last 2 decades, the value of the Singapore dollar showed remarkable stability because of the country's steady economic growth. During this period of unprecedented growth, Singapore managed to avoid high **inflation** or economic recession. The Asian financial crisis

Exchange rates: Singapore

Singapore dollars (S$) per US$1	
Jan 2001	1.7365
2000	1.7240
1999	1.6950
1998	1.6736
1997	1.4848
1996	1.4100

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Singapore	8,722	11,709	14,532	19,967	31,139
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Japan	23,296	27,672	31,588	38,713	42,081

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

of 1997 did affect Singapore's economy, but the country was able to avoid the political and economic calamities that brought high inflation and sizable recession to neighboring Indonesia and Thailand. There was slowdown of the Singapore economy in 1997 and 1998, affecting all sectors and bringing a small rise in inflation. In 1999 and 2000, the country overcame the difficulties and produced significant growth. Inflation stabilized at about 0.4 percent and GDP growth at about 5.5 percent in 1999.

According to the IMF classification, the Singapore dollar is a freely floating currency determined by the foreign exchange market. The Monetary Authority of Singapore (MAS), which acts as the central bank, closely monitors the **exchange rate** and ensures the stability of the currency against international currency speculators. Due to the regional economic downturn, the value of the Singapore dollar declined slightly against the U.S. dollar, from 1.4174 in 1995 to 1.6733 in January 2000. This stability was supported by Singapore's huge stocks of foreign reserves, the world's largest in per capita terms (US$23,864 per head against US$14,070 per head in Hong Kong). These foreign reserves are even larger than those of the United States. Singapore is also the world's fourth-largest global exchange center after London, New York, and Tokyo, with Chase Manhattan Bank, Citibank, Deutsche Bank, Morgan Guaranty, and others, operating in this market.

Singapore has a single stock market, which until 1997 was known as the Strait Times Industrial Index (STII). In August 1997, it was replaced by the Straits Times Index (STI). In 1997 and 1998 the STI was affected by the regional recession, recovering in 1999 and 2000. According to the Singapore Exchange (SGX) statistics, 388 companies, representing total capitalization of S$389.5 billion (US$236 billion), were listed in the SGX main board in December 2000.

POVERTY AND WEALTH

Extraordinary economic growth during the past 3 decades brought wealth and prosperity to Singapore. This growth was impressive during the 1980s and 1990s. In 1959, when Singapore gained self-governance, its per capita GDP was just US$400. In 2000, Singapore was ranked fifth in the world in terms of per capita GDP, ahead of the United States, Canada, and the United Kingdom. In 2000, the per capita GDP, figured at **purchasing power parity**, was US$26,500. A Central Provident Fund, to which employers and employees pay compulsory contributions, provides benefits in case of work injury, old age, and disability. Most people live in small apartments in high-rise buildings.

Social polarization is visible in education. The social prestige of a good education is traditionally very high in Singapore society. Private schools are very expensive and those who can spend a considerable part of their income on providing the best education for their children. Although the government is trying to encourage the development of a "knowledge society," education is not compulsory, and the poorer members of Singaporean society are disadvantaged, while the wealthy send their children to leading British, Australian, and North American universities.

In Singapore's society, as elsewhere, some people acquire wealth while others need to work hard merely to maintain a decent life. There are no statistics on the distribution of income, and therefore it is difficult to assess socio-economic and social division in the country. Traditionally, recent immigrants, both legal and illegal, have been the most disadvantaged members of the society. There is evidence, too, that social polarization exists along ethnic lines, with the ethnic Chinese community considered better off than the Malay community. In formulating social policy, the government has to take the importance of ethnic issues into consideration. The Singapore government supports such traditional values as a strong work ethic and the importance of family, promoting them as "Asian values" in opposition to the perceived "individualism" of Western societies. The National Council of Social Services, with the help of 150 voluntary bodies, provides most of the welfare services to individuals and families in need. The government also provides services for families in distress, with mandatory

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Singapore	15	7	5	3	14	7	48
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Japan	12	7	7	2	22	13	37

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

counseling in cases of family violence, monthly **subsidies** for working mothers with children in child-care centers, and financial assistance to low-income families. All residents, regardless of social status, are eligible for low-cost medical care.

WORKING CONDITIONS

In 1998, Singapore's labor force was 1.932 million people, with the unemployment rate about 3.2 percent, or 61,700 people. Over the last 3 decades of the 20th century, unemployment has never been high, thanks to the country's robust economic performance across almost all sectors of the economy. Singapore's economy experienced 2 difficult years in 1997 and 1998, when unemployment rose, but since the beginning of economic recovery in 1999 and 2000 there has been strong demand in the labor market. The Employment Act established a 44-hour working week, although there is no official minimum wage or unemployment compensation.

Singapore's economy demands a highly trained and flexible workforce. The government strongly promotes the acquisition of different skills, supporting several higher education centers, and vocational and technical institutes. Facing shortages in the workforce, the government encourages women to work by providing different initiatives and support for working mothers. Women made up about 40 percent of the workforce in 1999. Due to the nature of the labor market and the nation's growing prosperity, there is no child labor problem. The law prohibits employment of children under age 12. Due to labor shortages, there is a growing number of foreign workers in Singapore, unskilled and concentrated in the service and construction sectors.

The activities of trade unions are allowed in the country within the framework of the Societies Act, labor laws, and other regulations. According to the U.S. State Department, in the late 1990s there were 255,020 union members, organized into 83 unions. Most of them are affiliated with the National Trades Union Congress (NTUC), which is closely associated with the ruling People's Action Party. Strikes, slow-downs, and other workers' protests are rare in Singapore. Collective bargaining is common in management-labor relations, but most disagreements are solved through informal consultations and, in disputed cases, through the Industrial Arbitration Court.

The rise of the "new economy" caused a surge in demand for information technology (IT) workers. It is expected that, with annual growth of 10 percent in the IT sector, manpower in this area will need to more than double from 95,000 in 2000 to 220,000 in 2008. The government intends to develop the existing workforce rather than rely on immigration for the acquisition of skilled personnel in the sector. To facilitate retraining, in April 2000 the Ministry of Manpower and the Infocomm Development Authority jointly launched the Strategic Manpower Conversion Program, emphasizing information technologies and "technopreneurship."

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1819. Sir Thomas Stamford Raffles of the British East India Company leases a small territory from the Sultan of Johore and founds Singapore.

1821. First large group of Chinese migrants arrive from Xiamen.

1826. Singapore is incorporated into the Straits Settlements, a British colony.

1860. First census indicates a population of 80,792 in Singapore.

1858. Straits Settlements become a British Crown colony under the jurisdiction of the Colonial Office in London.

1914. Indentured labor system abolished.

1921. Singapore becomes a principal naval base for the British Navy in East Asia.

1942. The country is occupied by Japan during World War II.

1945. Allied forces liberate Singapore from Japanese occupation.

1946. Singapore becomes a Crown colony separate from Malaysia.

1955. A new constitution is adopted, introducing a measure of self-government.

1959. Singapore gains full self-governance under Prime Minister Lee Kuan Yew.

1961. Establishment of the Economic Development Board, a government agency responsible for the formulation and implementation of economic and industrial development strategies.

1963. Singapore joins the Federation of Malaysia.

1965. Singapore withdraws from the Federation of Malaysia and becomes independent.

1965. Singapore joins the United Nations.

1967. Singapore becomes a founding member of the Association of South East Asian Nations (ASEAN).

1970. Independent Monetary Authority of Singapore is established.

1971. Final withdrawal of British troops from Singapore.

1973. Last major ties with Malaysia renounced.

1979. Government begins a program of economic restructuring in response to the shock of the oil crisis.

1987. English is made the language of instruction in schools.

1990. Lee Kuan Yew resigns.

1991. The constitution is amended to allow Singapore citizens to directly elect their president.

1995. Huge losses made by a Singapore-based derivatives trader causes the collapse of Barings, the oldest British banking group.

1997. The ruling People's Action Party wins parliamentary elections, capturing 81 of 83 parliamentary seats.

1998. In response to the 1997 Asian financial crisis, the government announces financial reforms to improve the country's international competitiveness.

1999. The "Industry 21" Program, a new economic blueprint for the development of Singapore in the 21st century, is launched.

FUTURE TRENDS

Singapore has benefited from the globalization of the world economy and experienced 3 decades of extraordinary economic growth, which has brought prosperity and confidence to the people of this small city-state. Able to withstand economic turmoil such as the 1997 Asian financial crisis and the surge in world oil prices at the beginning of the 21st century, Singapore has proved that its economy has grown on a sustainable and strong basis. Inflation remains under control and the Singaporean exchange rate is stable. The quality of life has improved steadily and society has benefited from rising prosperity. The government's policies aim to maintain political and social stability by promoting economic growth from capital- and skill-intensive technologies, although it has been criticized for restricting freedom of press and associations, and for its interventionist economic policies.

In the long term, Singapore needs to maintain its international edge against growing competition from neighboring countries. It is also exposed to economic, political, and environmental developments in the neighboring countries of Indonesia and Malaysia. Continuous political turmoil and social unrest in Indonesia might threaten Singapore by causing an influx of refugees and regional instability. Recent forest fires in the Indonesian part of Borneo brought air pollution to dangerous levels, affecting tourism and the health of the Singapore population.

DEPENDENCIES

Singapore has no territories or colonies.

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—Rafis Abazov

SOLOMON ISLANDS

CAPITAL: Honiara.

MONETARY UNIT: Solomon Islands dollar (SI$). 100 cents equals 1 dollar. Coin denominations include 1, 2, 5, 10, 20, and 50 cents, and 1 dollar. Paper notes include 2, 5, 10, 20, and 50 dollars.

CHIEF EXPORTS: Timber, fish, coconut products, cocoa.

CHIEF IMPORTS: Machinery and transport equipment, manufactured goods, food, mineral fuels, chemicals.

GROSS DOMESTIC PRODUCT: US$1.21 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$142 million (f.o.b., 1998 est.). **Imports:** US$160 million (c.i.f., 1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Solomon Islands is an archipelago (a group of islands) in the South Pacific Ocean, about 485 kilometers (300 miles) east of Papua New Guinea, and about 1,900 kilometers (1,200 miles) northeast of Australia. Solomon Islands has a land area of 27,540 square kilometers (10,633 square miles) and a total coastline of 5,313 kilometers (3,301 miles). The land area of Solomon Islands is slightly less than that of the state of Maryland. Guadalcanal is the largest island, about 5,300 square kilometers (2,047 square miles). Other islands include Makira, San Cristobal, Vella Lavella Rennell, and Santa Cruz. Honiara, the capital, is located on the north coast of the island of Guadalcanal.

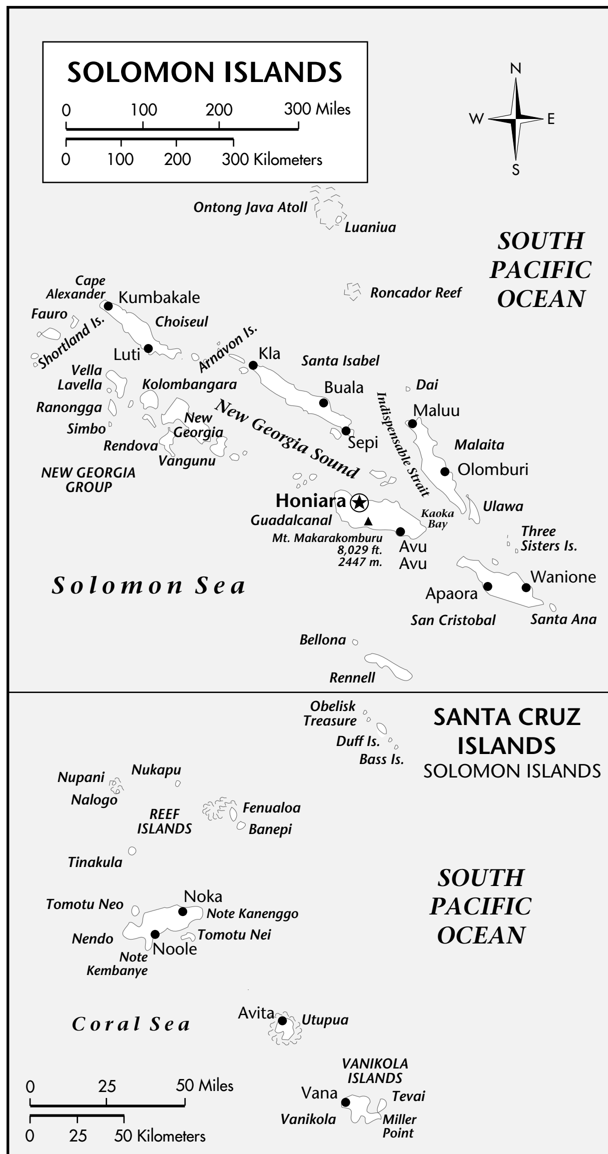
POPULATION. The population of Solomon Islands was estimated to be 466,194 in July 2000, based on a census taken in November 1999, the first since 1986. Over that period, the population increased by 43 percent, corresponding to an average annual increase of 2.8 percent. This was a substantial decline from the average rate of 3.5 percent per year between 1976 and 1986, but the current rate is still high by world standards. The birth rate was estimated at 40.9 per 1,000 population in 2000, one of the highest in the Pacific, and the death rate was 6.8 per 1,000 population. The projected population by the year 2010 is 620,500.

The great majority (93 percent) of the population is of Melanesian ethnicity, with about 70 different language groups, mostly located on the larger islands of the archipelago. A minority (4 percent) is of Polynesian descent comprising about 8 different languages; these people mainly originate on the small outlying islands, although many are now settled elsewhere. An even smaller minority (about 1.5 percent) is of Micronesian ethnicity, mainly descendants of those resettled from the Gilbert Islands (now Kiribati) during the colonial period. The rest of the population is mainly of European or Chinese ethnicity. Of the major countries of the Pacific, Solomon Islands is the least urbanized, with only 13 percent living in urban areas. The only significant urban center is the capital Honiara, with about 50,000 people; in recent years Honiara has been growing about 35 percent faster than the rest of the country.

Despite high birth rates, Solomon Islands governments have not aggressively promoted family planning. For several years, there has been a low-key population planning policy, which promotes smaller family sizes and infant and maternal well-being. According to the 2000 census, birth rates have declined considerably, perhaps due to improvements in infant health and greater availability of contraceptives.

OVERVIEW OF ECONOMY

The Solomon Islands' economy is largely dependent on agriculture, forestry, and fishing. For a high proportion of the population (mainly village-based), the Solomon economy involves the production of subsistence foods and other items for personal consumption. The main item of production for cash at the village level is copra (the dried flesh of coconut), but also significant in some areas is cocoa, market vegetables, and marine products including fish and shells.



The agricultural cash economy is a legacy from the British colonial period. After the establishment of the British Solomon Islands Protectorate in 1893, the colonial administration facilitated the establishment of plantations, usually run by British settlers, and the recruitment of local labor. While there were some attempts to introduce new crops into the subsistence economy, the colonial administration took few initiatives to diversify the economy before independence in 1978.

During the 1970s the logging, fishing, and rice industries increased production as a result of new private investments and international aid programs. Through the 1980s and 1990s the 2 most significant items of production for export were timber and fish. Ethnic tensions on Guadalcanal in 1999 and 2000 caused some disruptions, but a peace settlement was reached in October 2000, and these economic activities are projected to reach previous levels. Large-scale mining started in 1998, and this sector is expected to expand if political stability is maintained.

Various small-scale manufacturing enterprises in recent decades have resulted in some **import substitution** (replacing imports of some food, furniture, and similar items with locally made products) and limited exports of food, beverages, construction materials, and furniture. Local processing within the fishing industry is also important.

Services have been mainly confined to the **public sector**, particularly in civil administration and education. Tourism has remained a small-scale activity, partly because the government did not actively promote tourism as an economic alternative until the mid-1990s. An 18-month civil war disrupted economic activity in the country, but by 2001 the economy was rebounding even though tourists were warned to steer clear of Guadalcanal, where most of the fighting had occurred.

POLITICS, GOVERNMENT, AND TAXATION

Since independence in 1978, Solomon Islands has modeled the Westminster (British-style) system of government. The British monarch serves as head of state, and there is a **unicameral** parliament made up of 50 members (MPs) elected by voters over 21 years of age at least every 4 years. Each electoral constituency is represented by the MP who gains the most votes. The prime minister is elected by majority vote in parliament.

There is considerable fluidity in the party system, and parties have formed and reformed both during and between elections. Since independence in 1978, most governments have been coalitions, with the prime minister representing the party that gained the most votes in an election.

There are 9 provinces (Choiseul, Western, Isabel, Central, Rennell-Bellona, Guadalcanal, Malaita, Makira, and Temotu) and 1 Town Council (Honiara). Each has its own elected members and has authority over various aspects of development, including parts of the education, health, and transport systems. In response to ethnic tensions in 1999 and 2000, the central government has worked to increase the powers of the provincial governments.

Since the Solomon Islands has about 80 distinctive language groups, political parties have usually attempted to attract members and appoint cabinet ministers from various parts of the country in the interests of ethnic diversity. However, some degree of ethnic tension has persisted, and there have been calls for regional independence. In 1999 these tensions came to a head when the Guadalcanal Revolutionary Army attacked settlers from the neighboring island of Malaita who had settled on Guadalcanal, amid fears that Malaitans were beginning

to dominate the government and parts of the economy. In early 2000, the Malaitan Eagle Force took over the capital, forced out most Guadalcanalese and essentially overthrew the government. In October 2000 a peace settlement was signed, and international monitors arrived, mainly from Australia and New Zealand. By early 2001, there had been only minor breaches of the agreement.

Before the ethnic tension, the government had embarked on a modest **restructuring** program that involved some cutbacks in government expenditure, especially by reducing the number of civil servants. This was partly a response to high levels of government debt, and major fluctuations in revenue as a result of varying levels of exports and commodity prices. During the tension, the government approached insolvency (an inability to pay its debts), but was rescued by international aid, especially from the Republic of China (Taiwan). During this period, aid from Australia and New Zealand was channeled into peacekeeping activities.

The major sources of government tax revenue are customs revenue and inland (internal) revenue, which in 1997 accounted for about equal amounts of the total. Customs revenue is also equally divided between import taxes and export taxes, particularly on logs. Inland revenue originates from personal taxes, business taxes, and from other sources. A relatively small proportion of inland revenue is derived from individual **income tax** since only a small proportion of the population works in the paid **labor force**.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The nation's numerous islands make its transportation **infrastructure** heavily dependent on maritime transport. Until the 1970s inter-island transport consisted mainly of canoes, mission ships, copra trading boats, and the occasional government boat. Regular passenger transport is now handled by government boats and increasingly by private companies.

The country is served by 1,360 kilometers (845 miles) of roads, but well over half of these are private plantation roads. Only about 34 kilometers (21 miles) of these roads are paved, mainly in Honiara. Most outlying islands have few or no roads, with a transportation infrastructure consisting of walking trails or outboard motor canoes.

Solomon Islands is served by 1 international airport, Henderson Field near Honiara, built by the U.S. military during World War II and since upgraded by aid from Japan and other sources. Another airport, at Munda in the Western Province, can also accommodate international (usually charter) flights. It was also built during World War II and has runways paved with coral. There are 31 other airports with unpaved runways throughout the islands, mostly for smaller aircraft operated by Solomon Airlines, but domestic airfares are high. During the ethnic conflicts in 2000, international and domestic flights were interrupted. By early 2001, Solomon Airlines was again flying to Brisbane and Nadi and operating most domestic flights, but other international airlines were still weighing the risks of resuming service.

Most households in Solomon Islands do not have access to electricity. In Honiara and in other provincial centers, power is generated by diesel generators operating on imported fuel. During the 1990s attempts were made to develop hydroelectric power for Honiara, but these plans were delayed due to problems related to land and compensation.

Telephone service is available only in Honiara and some towns. Domestic and international connections,

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Micronesia	11,000 (2001)	N/A	AM 5; FM 1; shortwave 0	N/A	2	N/A	1	2,000

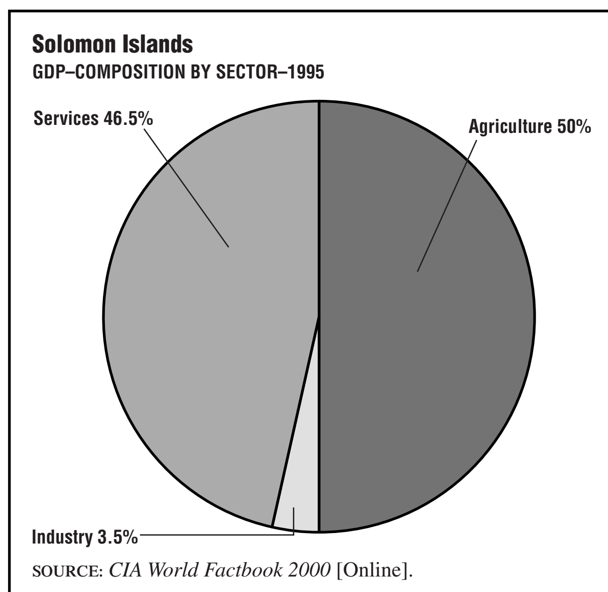
[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

including Internet access, are usually good. These connections are provided via satellite by Solomons Telekom, a **joint venture** between the government and Cable and Wireless, Limited, and which holds a **monopoly** on telephone services. In 1997, Solomon Islands had 3 radio but no television stations, although there are about 3,000 television sets in the country. The civil war in 2000 destroyed many telecommunications buildings and equipment. All expansion was temporarily postponed during the conflict.

ECONOMIC SECTORS

While a very high proportion of the population lives in rural areas, agriculture, fishing, and hunting have contributed only about one-third of GDP in recent years, and this proportion has declined slightly since the early 1980s. In terms of formal employment, agriculture made up only 21.8 percent of the 34,000-strong labor force in 1998, although the subsistence and village **cash cropping** sector employs large numbers who are not enumerated in these surveys. Industry has shown slight growth in recent years, and made up 17.4 percent of the formal labor force in 1998. The service economy, which includes everything from domestic labor to work by skilled professionals, is the dominant sector, contributing about 40 percent of GDP, and supplying 60.8 percent of the formal labor force in 1998. The economy was devastated by the civil conflict that lasted between June and October of 2000. In the wake of the war, many major companies closed and farmers had difficulties moving their products to market. Foreign aid has helped the country weather the economic difficulties.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

AGRICULTURE. Through much of the 20th century, under British colonial rule, Solomon Islands represented a classic example of a plantation economy, with coconut production being the primary activity of both village **smallholders** (individual farmers) and large-scale expatriate (foreign) plantation owners. For village producers, the production of copra (dried flesh of coconuts) is still an important source of cash, and several large coconut plantations are still operating. As a source of export income, coconut products have steadily declined since the 1960s. During the 1990s, a number of coconut oil presses were installed in various parts of the country, and this has increased the value of this product.

For many years, government and international aid donors have sponsored initiatives to diversify the agricultural base of both smallholder and large-scale farmers by promoting the production of cocoa as a new crop. In 1998, cocoa comprised about 5 percent of export income. Also moderately successful has been the production of chilies, mostly at the village level.

In the late 1970s, large-scale rice production was established by an American company on the Guadalcanal Plains, leading to a small export trade. The industry collapsed in the next decade due to flagging domestic demand and the destruction of much of the crop in 1986 by Cyclone Namu. Production resumed in the mid-1990s on large plantations on Guadalcanal and on a smaller scale in many villages. The UN Food and Agricultural Organization estimated that 4,500 metric tons of rice were produced in 2000, up from 1,300 metric tons in 1998.

FORESTRY. Most timber exports have been of whole logs, with only about 10 percent of total production in the 1990s being milled within the country. Logging began during the British colonial period and escalated considerably after independence in 1978. It is estimated that accessible timber resources may be exhausted by about 2010 if present levels of logging continue. The rate of exploitation was a major political issue during the 1990s and into the 21st century.

FISHING. Fishing is an important activity at 3 different levels: subsistence production (production that only meets the immediate needs of the producer), small-scale cash fishing, and the large-scale offshore fishing industry. Small-scale cash fishing is most successful near urban markets, especially Honiara. Since the early 1980s, 31 fishery centers providing refrigeration and marketing services have been established throughout the country, although many of these have since failed. In the late 1990s, some centers were being renovated amidst attempts to facilitate the marketing of fish to Honiara and to Australia.

There were 2 major local fishing companies in 1999: Solomon Taiyo Ltd. (STL) and National Fisheries Development (NFD). STL has a large cannery at Noro in Western Province which produced nearly a million cases of canned tuna in 1999, about one-quarter of which was sold domestically. While domestic prices for fish remained high during the year, the world price of tuna plummeted, causing NFD to cease operations late in the year. STL closed during the period of ethnic tension, but is expected to open again.

INDUSTRY

MINING. Small-scale mining during the 20th century consisted mainly of gold-panning operations on Guadalcanal; the Gold Ridge mine in the central part of the island did not begin production until 1998. Developed by Ross Mining, this operation was expected to produce gold for about 10 years. The mine was closed down in June 2000 as ethnic tensions reached a peak. As of early 2001, the mine had not reopened, although negotiations were underway with landowners and the government about issues of compensation and security.

MANUFACTURING. Except for the production of traditional handicrafts, manufacturing has never been a major industry in Solomon Islands. In the late 1990s it contributed about 5 percent of the country's GDP. The most important manufacturing enterprises cater to the local market in such sectors as food processing, beer, furniture, construction materials, and construction of outboard canoes. Traditional handicrafts such as woodcarvings, weavings, and shell ornaments are sold to tourists or exported on a small scale.

SERVICES

TOURISM. Despite its beautiful beaches and calm lagoons, Solomon Islands has always had a relatively small tourist industry. About 12,000 people visited the islands each year, with relatively little increase until 1997–98. Although official figures are not available, the numbers of visitors dramatically fell in 1999 and 2000 as a result of ethnic tensions and the interruption of air services into the country.

Guadalcanal and the nearby islands were major battlegrounds during World War II, and in the decades after the war most tourists were returning veterans or their families, both American and Japanese. Following the end of the war, the landscape was strewn with downed airplanes, tanks, and other war material, and the beaches of Guadalcanal and some of the other islands were littered with landing craft. Much of this material has since been exported as scrap, but even in 2001 there are remnants. Both the Japanese and the Americans have constructed hilltop monuments for the many thousands of troops killed during the war. More recently the country has become a center for scuba diving and snorkeling; along with spectacular coral reefs, there are many sunken warships still intact for divers to explore. Many tourists are attracted by the great cultural diversity of the country and its traditional villages.

Tourist infrastructure is limited, with only a few international standard hotels, mostly in Honiara, although there are guesthouses in most areas. Since the mid-1990s, efforts have been made to develop **ecotourism** (nature holidays), mostly village-based but in many cases supported through international aid programs. Unlike neighboring countries such as Papua New Guinea, Vanuatu, and Fiji, the Solomon Islands has no flight and accommodation packages available to international travelers.

FINANCIAL SERVICES. The financial services sector is small and mainly serves the local market. International banks such as Westpac and ANZ are located in Honiara and 2 provincial centers. The National Bank of Solomon Islands (a joint venture between Bank of Hawaii and the local National Provident Fund) is the only commercial bank with branches in smaller towns. The Central Bank of Solomon Islands (CBSI) regulates money supply and is responsible for general economic monitoring, and the Development Bank of Solomon Islands (DBSI) offers small-scale lending for development projects.

RETAIL. The **retail** sector is not well developed. Most retail operations are in Honiara and other towns, but the range of goods is limited. Villages are served by small locally-run shops selling basics such as soap, kerosene, rice, tea, sugar, biscuits, and fishhooks, or by copra trading boats that also serve as retail outlets.

INTERNATIONAL TRADE

According to the International Monetary Fund and other sources, Solomon Islands' exports in 1999 were valued at US$116 million (a drop from US$168 million in 1995) and imports at US$110 million (a drop from US$154 million in 1995). The drop can be attributed in part to the economic crisis in Asia, which lowered demand for the logging exports of the Solomon Islands. Despite the drop in overall trade activity, Solomon Islands has had a positive **balance of trade** in recent years, a situation rare among Pacific countries. This may be attributed to high volumes of log exports during the 1990s and, to a lesser extent, the steady export of fish products.

Japan is by far the largest destination for exports, taking about one-third of all exports by value in 1999. It is also an important destination for timber products, even though companies operating in this industry are mainly Korean. The largest fishing enterprise in Solomon Islands

Trade (expressed in billions of US$): Solomon Islands

	Exports	Imports
1975	.015	.033
1980	.074	.089
1985	.070	.083
1990	.070	.091
1995	.168	.154
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Solomon Islands	419	583	666	784	753
United States	19,364	21,529	23,200	25,363	29,683
Philippines	974	1,166	967	1,064	1,092
Fiji	2,086	2,319	2,102	2,356	2,416

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

is a subsidiary of the Japanese Taiyo Company, and many of the fish products are destined for the Japanese market. Other important export destinations for its timber and fish are Thailand and the Philippines.

Imports from Australia account for 37 percent of the total imports to Solomon Islands, making it the single largest source. The next largest import sources are Singapore, Japan, and New Zealand, which provide a variety of foodstuffs, fuels, and machinery.

MONEY

Since independence in 1978 the Solomon Islands dollar has floated freely. In 1982, its dollar was worth slightly more than the U.S. dollar (SI$.9711 to US$1), but fell to about one-fifth of the U.S. dollar by 2001 (SI$5.0745 to US$1). In the 1980s, this was partly a result of a negative trade balance, but this does not seem to have been a factor in recent years, when exports have tended to be of greater value than imports. During the 1990s, the rate of **inflation** has averaged 10.7 percent per year.

POVERTY AND WEALTH

The **United Nations Development Program**'s Human Development Indicator (HDI), which measures a country's welfare using income, education, and health statistics, ranks Solomon Islands 121st out of 174 countries. Although it ranks as the second poorest nation in the Pacific, it is better off than many African countries. Per capita GDP in 1998 was only US$753, about one-fortieth that of the United States. This is a decline from the peak figure of US$784 in 1990. Still, in most parts of Solomon Islands there is little evidence of the desperate poverty found in some parts of the Third World. Most households have sufficient food, although nutrition surveys have found some cases of malnutrition, particularly in urban areas where food is expensive.

Exchange rates: Solomon Islands

Solomon Islands dollars (SI$) per US$1	
Nov 2000	5.0968
2000	5.0864
1999	4.8381
1998	4.8156
1997	3.7169
1996	3.5664

SOURCE: CIA *World Factbook 2001* [ONLINE].

Other indicators show that Solomon Islands is a poor country. Seventy percent of adults are illiterate, and only 41 percent of boys and 36 percent of girls aged 5 to 14 were enrolled in primary school in 1999. Health services have improved in recent years, but infant mortality is relatively high at 38 per 1,000, and there is only 1 doctor for every 7,292 persons.

WORKING CONDITIONS

Only about 16 percent of the working-age population participate in wage and salary employment, much of this centered in Honiara. There is far more demand for employment than there are jobs, especially for the unskilled. Wages for unskilled work are low, at SI$1.20 in agriculture and fishing and SI$1.50 in other sectors. Since many products consumed in urban areas are imported, these wages are inadequate for living well in town.

There are 2 major unions: The Solomon Islands National Union of Workers (SINUW), representing workers in the **private sector**, and Solomon Islands Public Employees Union (SIPEU), for government workers. Unions in the private sector have become weaker in recent years, possibly as a result of the surplus of potential labor; the public-sector union has been more successful in promoting the interests of its members.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1000 B.C. Evidence of human settlement on some islands.

140–670 A.D. Evidence of Lapita pottery culture on some islands.

1568. Spanish explorer Alvaro de Mendaña visits several islands in search of the fabled mines of King Solomon. Islands given Spanish names include Guadalcanal, Santa Isabel, San Cristobal.

1600–1700s. Explorers visit from Spain, the Netherlands, England, and France.

1800s. Regular contact between Solomon Islanders and whalers, missionaries, and traders. Labor recruitment ("blackbirding") for plantations in Fiji and Queensland. Lever's Pacific Plantations begins establishing large-scale plantations.

1893. British Solomon Islands Protectorate (BSIP) declared.

1942. Japanese invade Solomons; Allied forces counterattack.

1943. Allied forces occupy Guadalcanal in February; Japanese evacuate in December.

1940s. Rise of "Marching Rule," an indigenous movement on Malaita that advocates independence, non-payment of taxes, and return to tradition; leaders are jailed in 1948.

1978. On 7 July, Solomon Islands becomes independent; first prime minister is Peter Kenilorea.

1986. Cyclone Namu strikes; many people on Guadalcanal buried by landslides, plantations destroyed.

1990s. Escalation of ethnic tensions as vigilante groups (Guadalcanal Revolutionary Army, then Isatabu Freedom Movement) begin to drive Malaitan settlers off the land.

2000. Malaitan group (Malaita Eagle Force) takes control of Honiara in June; Townsville Peace agreement, with international monitoring, is signed in October, allowing full access to Honiara by all groups. It guarantees compensation to offended parties and mandates confiscation of weapons.

FUTURE TRENDS

There was much optimism about the economic future of Solomon Islands in the 1990s because of its wealth of timber, fish, minerals, and other resources. At the same time, there was a recognition that the timber resource was being exploited at an unsustainable rate, and that it would be only about a decade before the accessible forests were logged out. There was also some apprehension late in the 1990s about the oversupply of the global fishing infrastructure and the increasingly competitive nature of the industry in the Pacific. By 2000, ethnic tension between groups on Guadalcanal and Malaita raised fears about the survival of the nation-state. By early 2001 there was some optimism that the peace agreement of October 2000 would hold, and that the economy would eventually return to normal. However, many critical industries were still closed awaiting assurances of ongoing security. The future of the Islands' forests remains uncertain, but some efforts to improve the effects of over-fishing included sustainable harvesting of black pearls.

DEPENDENCIES

Solomon Islands has no territories or colonies.

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—Wardlow Friesen

SRI LANKA

Democratic Socialist Republic of Sri Lanka
Sri Lanka Prajathanthrika Samajavadi Janarajaya

CAPITAL: Colombo.

MONETARY UNIT: Sri Lanka rupee (R). One rupee equals 100 cents. There are coins of 1, 2, 5, 10, 25, and 50 cents, and 1, 2, 5, and 10 rupees. There are bills of 10, 20, 50, 100, 200, 500, and 1,000 rupees.

CHIEF EXPORTS: Textile and apparel, tea, gems and jewelry, coconut products, rubber and rubber-based products, and spices.

CHIEF IMPORTS: Machinery and equipment, textiles, petroleum, foodstuffs.

GROSS DOMESTIC PRODUCT: US$62.7 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$5.2 billion (f.o.b., 2000). **Imports:** US$6.1 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Sri Lanka is an island nation-state in the Indian Ocean. It is located 880 kilometers (547 miles) north of the equator, off the southern tip of India, and has a maximum length of 432 kilometers (268 miles) and a maximum width of 224 kilometers (139 miles). The island has an area of 65,610 square kilometers (25,332 square miles) and a total coastline of 1,700 kilometers (1,056 miles). Sri Lanka is slightly larger than West Virginia. Its capital, Colombo, lies on the country's western coast.

POPULATION. Sri Lanka's population was estimated at 19.24 million in 2000, indicating growth of 11.5 percent compared with the 1991 population of 17.25 million. Sri Lanka has the slowest-growing population in southern Asia—estimated at 0.9 percent yearly—and its population is projected to increase to 23.55 million by the year 2025. The density of Sri Lanka's population is fairly high, at 280 persons per square kilometer (725 per square mile). In 2000 the birth rate was estimated at 16.8 per 1,000 people and the death rate at 6.4 per 1,000 people. The majority of Sri Lanka's people live in the rural sector (67 percent), in urban areas (22 percent), and on plantation estates (11 percent). The infant mortality rate (16.5 per 1,000) and overall death rate are low for a developing country, and the average life expectancy (69 years for men and 73 years for women) is the highest in southern Asia. The low fertility rate and high life expectancy has led to a larger increase in the older population than the younger population. It took most western countries 45 to 135 years for their elderly population to double, while in Sri Lanka this process is expected to take only 2 decades. Sri Lanka is expected to have the third oldest population in Asia in 2025. The rising burden of maintaining an aged population could exert considerable restraints on the government's fiscal resources, and the need to provide retirement support income and health care will have serious consequences on the economy as a whole during the next 2 decades.

An important characteristic of the Sri Lankan population is its ethnic and cultural diversity. Approximately 74 percent of the population are Sinhalese, 12.6 percent are Sri Lankan Tamils, 5.5 percent Indian Tamils, 5 percent Muslims, and the remainder consists of Burghers, Malays, and others (2.9 percent). Among the ethnic groups, the Sinhalese were the earliest inhabitants of Sri Lanka and are descendants of the first colonists who occupied the island during the 5th century B.C. Most of them are Buddhist, and speak a language called Sinhala, derived from several Indo-Aryan languages. The Sri Lankan Tamils are the descendants of the early Dravidian invaders from southern India. They are predominantly Hindu and speak Tamil, one of the major Dravidian languages of southern India. Indian Tamils are the descendants of laborers brought by the British planters in the 19th century to work on plantations. The Muslims are the descendants of early Arab traders who settled in Sri

Lanka during the 10th century. The Burghers are the descendants of the Portuguese, Dutch, and British who occupied the island from the 16th to the mid-20th century. The Burghers are predominantly Christian and speak English as their first language.

OVERVIEW OF ECONOMY

Sri Lanka is a developing economy based largely on agriculture, services, and light industry. Agriculture accounts for approximately 21 percent of the **gross domestic product** (GDP) and employs 38 percent of the workforce. Agricultural output is divided between **cash crops** from plantation agriculture and food crops from subsistence agriculture. Cash crops—namely tea, rubber, and coconuts—are largely grown on plantations. Rice is the principal food crop and the main livelihood for over 70 percent of Sri Lanka's rural population. Manufacturing industries account for approximately 19 percent of the gross domestic product and employ about 17 percent of the workforce. Chief manufactures include textiles, ceramics, petroleum products, vegetable oils, fertilizers, and cement. The service sector is the largest of the Sri Lanka economy, employing 45 percent of the workforce and contributing roughly 60 percent of GDP. Tourism, banking, finance, and **retail** trade are the major components of the service sector.

The country is endowed with many natural resources. It has an equatorial climate with a high average rainfall. The land is fertile and suitable for growing a variety of crops, and one-third of the land is arable. Rivers cascading from the central hill country provide energy to generate hydropower, the major source of electricity in Sri Lanka. The country also has rich fishing resources. Sri Lanka's mineral resources include titanium ore, graphite, kaolin, and gemstones. It also has large deposits of unexploited iron ore.

Foreign trade is an important segment of the Sri Lankan economy. Major imports include petroleum, consumables, machinery and capital equipment, motor vehicles, and various manufactured goods. Major exports include garments, tea, rubber, coconut products, foodstuffs, gems, and jewelry. Sri Lanka is the largest exporter of black tea in the world and the third largest producer of natural rubber. A variety of gemstones, for which Sri Lanka is world famous, are also exported. Significant quantities of high-grade graphite, for which Sri Lanka is a world leader, are also exported. The industrialized countries taken together as a group accounted for 75 percent of Sri Lanka's total exports in 1999 and the United States is the largest single buyer of Sri Lanka's exports, with 39 percent in 1999. Other major export markets are the United Kingdom, Germany, Japan, Russia (tea), China (rubber), India, and the Middle East. In terms of imports, Japan is the single largest exporter to Sri Lanka. Motor vehicles, spare parts, and woven fabrics are the major items imported from Japan. India is the second largest exporter, followed by Singapore, South Korea, Taiwan, the United Kingdom, and the United States.

Sri Lanka is a mixed economy, in which both the **private sector** and the state sector engage in the production process. Foreign investments are encouraged and several **free zones** have been established. The country's banking system is well developed, so that both foreign and local banks function in the economy. Sri Lanka is committed to a free market ideology and has one of the most liberal foreign trade regimes in the world. This contrasts greatly to what the Sri Lankan economy looked like during the first 3 decades after the country gained independence from

Great Britain in 1948. The economy that evolved in Sri Lanka under British rule was predominantly oriented towards agriculture, with plantation agriculture being the major contributor to the nation's growth. The 3 plantation crops—tea, rubber, and coconuts—accounted for 30 percent of the gross domestic product in 1948 and the bulk of the output was exported. Manufacturing was an insignificant activity in the economy. Banking and commerce were, for the most part, only used to support plantation agriculture. Nearly all foreign exchange earnings were derived from the plantations. The country depended on imports for nearly three-fourths of its food requirements and almost all of its manufactured goods.

The Sri Lankan economy has since become highly diversified; it has rapidly growing manufacturing and service sectors, agricultural activities have been modernized, and the country is nearly self-sufficient in rice production. The significance of the 3 major export crops (tea, rubber, and coconuts) as the main source of export earnings has fallen (from 90 percent in the 1950s to 16 percent in 1999) and the significance of manufacturing has risen (from 1 percent of exports in 1950 to 60 percent in 1999). These changes in the structure of the Sri Lankan economy are a result of varying economic policy measures adopted by the government since independence. Development strategies that shaped the Sri Lankan economy over the last 5 decades may be distinguished under 2 eras: the first era covering the period between 1948–76, and the second era during the post-1977 period.

During the first era, development policy focused on achieving the objectives of **equity** and economic growth. The instruments adopted to achieve economic growth were aimed at **import substitution** industrialization, both in manufacturing and foodstuffs. The key measures used to achieve this growth strategy were the imposition of various restrictions on imports, and the encouragement of domestic production. Extensive social welfare programs such as price **subsidies** on food, statutory **price controls** on **consumer goods**, and the provision of free education and health services were the instruments used to achieve greater equity. The welfare programs achieved significant improvements in the area of human development, including lower mortality rates, increased life expectancy, and high literacy rates. However, high welfare expenditures restrained the nation's capital growth and ability to invest, slowing economic growth and causing high unemployment and low wages. During the 1951–1976 period, per capita gross domestic product grew only at an average of 0.2 percent per year. The achievements of the import substitution policies were even less noticeable, except in the production of rice and subsidiary food crops. With a worsening trade balance crisis, most newly established industries operated well below capacity due to a shortage of imported goods. This, coupled with increased government participation in industrial development, hindered industrial growth and the ability to remain commercially viable. The continued government intervention in all spheres of economic life reached its climax at the end of the first policy era.

The second era of Sri Lankan economic development (post-1977) marked a shift towards a free market economy. The strategy aimed at **liberalizing** the economy from excessive government controls and it chose the private sector as the engine of growth. Policies were designed to accelerate economic growth by stimulating private investment through various incentives and also to increase the country's foreign earnings by promoting export-oriented economic activities. The liberalization policies, pursued under the watchful eye and participation of the International Monetary Fund and the World Bank, met with success at the beginning. Stimulated by enhanced levels of foreign aid and investment, the economy was successful, recording real growth rates of about 6 percent per year until 1986. During the following 5 years, however, there was a marked deceleration of growth caused mainly by the disruptive effects of the ethnic conflict on economic activities. Gross domestic product grew at an annual average of 2.7 percent between 1986–1989, and at an annual average of 5 percent between 1990–2000. During the second era, the level of income in the economy grew significantly with per capita gross domestic product more than doubling (from US$382 in 1975 to US$802 by 2000).

The transition to a free market economy based on a liberalized trade and **exchange rate** regime has brought benefits to the Sri Lankan economy. Unemployment, a problem for decades, has reduced significantly, and remains at historically low levels (8 percent in 2000). Nonetheless, the high levels of **inflation**, fueled by the sharp deterioration of the Sri Lankan currency, combined with the mounting cost of civil war has raised the cost of living to very high levels. The soaring cost of living has made many Sri Lankans struggle to satisfy their basic needs. Over 45 percent of the population depends on benefits under the income supplement programs initiated by the government. The **balance of payments** problem remains unresolved. The persistent **trade deficit** has led to increased reliance on foreign aid to meet the country's import requirements, leading to an inevitably mounting **foreign debt**. Foreign debt as a percentage of the gross domestic product, which accounted for 21 percent in 1975, grew to 75 percent in 1994, and amounted to 59 percent in 1999.

POLITICS, GOVERNMENT, AND TAXATION

When Sri Lanka obtained its independence from Britain in 1948 it had an educated electorate conscious

of its voting rights and the concept of majority rule. The judiciary was respected and the rule of law was well established. The political party system was also established with the United National Party (UNP) as the foremost party of the time. Sri Lanka also had a written constitution incorporating some of the principles of the British Westminster system of government. There is a **unicameral** Parliament with 225 members elected to 6-year terms. The president is popularly elected to a 6-year term and is the chief executive.

The UNP was in power for 8 years until it lost the 1956 election to Sirimavo Bandaranaike. His Sri Lanka Freedom Party (SLFP)-led coalition swept into power on the promise to make Sinhala the national language. This created disquiet among minorities, especially among Tamils. Tamil leaders opposed the introduction of Sinhala as the official language because they wanted to speak Tamil; their opposition soon led to violence. The seeds of the separatist war in Sri Lanka can be traced to incidents that occurred in 1958. But the conflict grew into a large-scale military confrontation only after 1983, when a group of Liberation Tigers of Tamil Elam (LTTE) followers ambushed Sinhalese troops. The LTTE, who are the Tamil protagonists of the war, have used terrorist methods to finance and promote their cause. They have assassinated moderate Tamil leaders, including President Premadasa, and several Sri Lankan ministers and party leaders. They also killed Indian prime minister Rajiv Gandhi because he withdrew his support of the LTTE.

Another serious problem was the emergence of a Sinhalese youth revolutionary party called the JVP, which staged an armed insurrection in 1971, lasting for 2 years and followed by 3 years of sporadic outbursts. The JVP resurrected itself in the late 1980s with a subtle form of urban terrorism, but it was brought under control by a ruthless program of suppression by the government. Both the LTTE and the JVP have been serious impediments to steady economic growth in Sri Lanka. However, Sri Lanka has been endowed with a very strong democratic tradition which has managed to survive these major conflicts, even during periods of poor economic management.

The 2 dominant parties during 50 years of independence have been the UNP (conservative) and the SLFP (**socialist**-left, and more recently center-left). The 2 political parties have alternated in positions of power for half a century, with the UNP heading the government from 1948 to 1956, 1965 to 1970, and 1977 to 1994. An SLFP-led coalition government was in power from 1956 to 1965, 1970 to 1977, and since 1994 as a coalition called the Peoples Alliance (PA).

The Sri Lankan government epitomizes a classic democratic 2-party political system in operation. The UNP regimes during the period 1948 to 1970 placed emphasis on private sector participation with several ongoing subsidized programs such as free education, free health care, village land settlement, and colonization. The SLFP regimes continued the welfare programs and moved increasingly to public ownership and **nationalization** with limited private sector participation. In the early and the mid-1970s, they placed strict restrictions on imports and currency movement.

In 1977 the UNP government came into power and decided to run an open economy with few restrictions. The private sector became the main engine of growth. The rupee was devalued by 46 percent from its former artificial value. This immediately stimulated growth and received the backing and financial support of the World Bank. This UNP government lasted for 17 years. When the SLFP-led coalition known as the Peoples Alliance was elected to government in 1994, it accepted the importance of this open market economy as a positive growth strategy for the country.

A short time before the end of the first term of the Peoples Alliance in 2000, the LTTE attempted to assassinate the president of Sri Lanka, Chandrika Bandaranaike Kumarathunga. The bomb caused damage to one eye but she survived, and her party was elected for a second term. The PA has had a very difficult period in government because of the financial and political pressures generated by the escalation of the armed conflict with the LTTE. The election itself generated a degree of conflict never experienced before in Sri Lankan politics, but democracy survived as it had in every one of the elections held after 1948.

TAXATION AND REVENUE. The major source of government revenue in Sri Lanka is taxes (86 percent). However, unlike the United States, the contribution of **income taxes** to government revenue is negligible, at 13 percent, while **indirect taxes** dominate government revenue. There are 3 major sources of indirect taxes: the goods and services tax (GST), **excise tax**, and the national security **levy** (NSL). The GST is a recent addition to the tax system (introduced in April 1998), replacing the business **turnover** tax. The GST is levied on a **value-added** basis at a uniform rate of 12.5 percent with full credit given to all inputs. GST revenue accounted for 26 percent of the total tax revenues in 2000. An excise tax, which contributed 23 percent of the total tax revenue during the same period, is levied mainly on liquor, tobacco, petroleum, and motor vehicles. The third important source of government revenue, the NSL, was initially introduced as an interim measure to finance the rising cost of war in the north and the east. It has become an important contributor to national tax revenue, contributing 17.5 percent. The NSL is levied at a rate of 6.5 percent. Taxes on international trade account for 16 percent of the total tax revenue. With the liberalization of trade and **restructur-**

ing of the **tariff** regime, which began in the late 1980s, revenue from taxes on foreign trade has been declining.

The personal income tax (PIT) rate in Sri Lanka has 4 brackets, ranging from 10 percent to 35 percent. The PIT's contribution to the government tax revenue is small (about 1 percent of gross domestic product) and is lower than most other countries. The economy's high dependence on subsistence agriculture, low levels of income and tax compliance, and inefficient tax administration are the key contributors to low levels of PIT revenue. The corporate income tax (CIT) in Sri Lanka of 35 percent (flat rate) is relatively modest and is similar to the rates in other Asian economies. However, the CIT tax yield in Sri Lanka is quite low, as many firms are offered tax incentives to encourage investment.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Sri Lanka has a well-developed transport system, including a road network of approximately 100,000 kilometers (62,140 miles). A rail network consisting of about 1,944 kilometers (1,208 miles) of tracks links Colombo with the rest of the country. Road networks are under severe strain due to the rapid increase in the number of vehicles since the 1980s. The number of registered vehicles nearly tripled from 478,000 in the mid-1980s to 1.38 million in 2000, generating severe traffic congestion. With a rising number of vehicles, and the need for a more efficient road network to facilitate the movements of goods and services, the government is actively engaged in improving, rehabilitating, and extending the existing network.

Sri Lanka has 14 airfields, the largest of which is the Katunayake International Airport, the principal gateway to Sri Lanka. The country is serviced by 32 airlines, both domestic and foreign, and the national carrier, SriLankan Airlines, handles about 56 percent of international passengers to and from Sri Lanka. It has scheduled operations to 35 destinations in 26 countries covering Australia, the Indian subcontinent, the Far East, Europe, and the Middle East. The Sri Lanka Ports Authority (SLPA) is responsible for operating the ports. The SLPA operates 4 major ports in Colombo, Galle (in the south), Trincomalee (in the east), and Kankasanturai (in the north). In addition, limited shipping facilities are provided by the Ceylon Shipping Corporation and by several private sector shipping companies. A major restructuring of the cargo handling facilities in Colombo port is now taking place in conjunction with the British PNO company.

Hydropower is the major source of electricity, accounting for 66 percent of the nation's electricity supply. One of the main sources of hydropower is the gigantic Mahaweli Scheme, which has harnessed the flow of Sri Lanka's longest river in several stages. The remainder is generated through thermal power (34 percent) and most recently, wind power. Electricity generation and distribution has traditionally been a government **monopoly**. However, the private sector has become much more involved in power generation during the past decades.

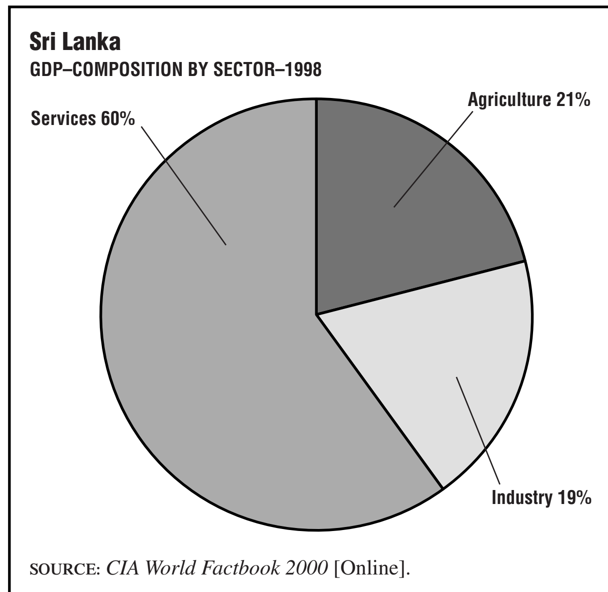
Telecommunications is the fastest growing sector in the country. During the first half of 2000, the telecommunications sector grew by 11 percent. Sri Lanka Telecom Ltd. (SLT) is the major supplier; its network provided 44,228 new telephone connections during the first half of 2000, with total network subscriptions of 621,394. The demand for telephones is growing much faster than supply: at the end of June 2000, there were 246,560 applicants on the waiting list. To meet rising demand the SLT is expanding its capacity with assistance from international donors. In addition to the SLT subscriber network, there are 4 cellular phone operators with a subscription of 307,027. Other service providers include wireless local loop telephones (2 operators with 101,093 subscribers), data communication services such as Internet and e-mail (15 operators with 32,633 subscribers), and public phones (6 operators with 7,491 public phone booths).

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Sri Lanka	29	209	92	0.0	9	N/A	4.1	0.52	65
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
India	N/A	121	69	18.8	1	0.2	2.7	0.18	2,800
Bangladesh	9	50	6	N/A	1	N/A	N/A	0.00	50

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

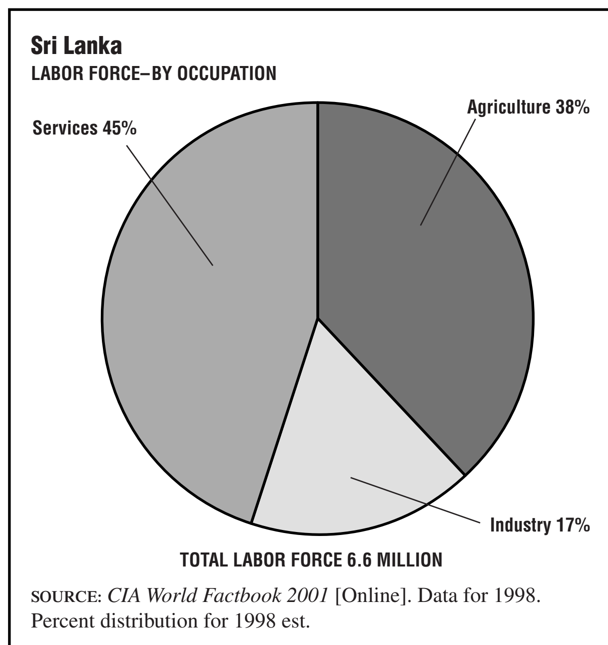
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

The changing structure of the economy mirrored in the relative contribution of the key industrial sectors reflect the country's potential to realize substantial growth. It also reflects the transition of the agriculture-dominated economy to a more diversified one with growing industrial and modern service sectors. In 1950, agriculture accounted for half the gross domestic product and by the year 2000, its significance was reduced to one-fifth of the gross domestic product. The contribution of industry more than doubled from about 11 percent to 19 percent while the service sector expanded significantly from 39 percent to 60 percent during the same period. Sri Lanka is rich in resources, both natural and human. It has several unexploited mineral resources (such as iron ore) and underexploited mineral and fisheries resources with substantial potential for future growth. Another area with substantial growth potential is tourism, which is interrupted by the prolonged civil unrest in the economy.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998. Percent distribution for 1998 est.

AGRICULTURE

Agriculture is the most important sector of the Sri Lankan economy. Even though its contribution to the gross domestic product declined substantially during the past 3 decades (from 30 percent in 1970 to 21 percent in 2000), it is the most important source of employment for the majority of the Sri Lankan workforce. Approximately 38 percent of the total **labor force** was engaged in agriculture in 1999. In the subsistence sector, rice is the main crop and farming rice is the most important economic activity for the majority of the people living in rural areas. During the last 5 decades the rice sector grew rapidly and output more than tripled, reaching the highest ever output of 2.9 million metric tons in 1999. Increases in the area under cultivation, and improved productivity due to the modernization of agriculture are the main reasons for an increase in production. The rehabilitation of Sri Lanka's extensive ancient irrigation network and massive new investment in construction and maintenance of irrigation **infrastructure** led to a large increase in the area under rice cultivation. Between 1960–2000, the area used to grow rice increased 6 times to 546,249 hectares. The modernization of farming methods, such as the use of high-yielding seeds, tractors, and chemical fertilizers also led to increased productivity in the rice sector. Between 1960–1999, rice yield per hectare doubled from 1,877 kilograms to 3,672 kilograms. In addition to rice, various other food crops are produced for local consumption. They include yams, pulses, grains, vegetables, and fruits. Most of these crops are cultivated in family gardens, except for potatoes and sugar. Sugar cane is cultivated in the dry zone, and Sri Lanka produces only 15 percent of what it consumes domestically.

The major plantation crops of tea, rubber, and coconuts continue to figure prominently in the economy of Sri Lanka; however, the contribution of these commercial crops to gross domestic product declined from 11.5 percent in 1970 to 5 percent in 2000. Tea, the prominent crop of the plantation sector, grows in many parts of the wet zone, and in particular in the central hill country. Sri Lanka is famous for its high quality black tea, and is the largest supplier in the world. In 1999, 269.3 million kilograms of tea (95 percent of total tea production) was exported, earning US$621 million in foreign exchange. The

United Kingdom, Russia, and the Middle East are the major export markets.

The second major commercial crop is rubber, growing in the ridge and valley country of the wet zone interior. Of 159,000 hectares under cultivation, about 80 percent was being tapped (harvested) and in 1999, 96.6 million kilograms of rubber were produced. A sizable proportion of rubber production is used in the domestic manufacturing sector (56 percent in 1999) and the remainder is exported. In 1999 export earnings amounted to US$33 million. China is traditionally the major buyer of Sri Lankan rubber. The performance of this sector has been subject to instability due to unfavorable movements in world prices. Competition from synthetic rubber producers has caused rubber prices to drop. However, with rising petroleum prices (the major ingredient for synthetic rubber) there is a chance for world rubber prices to improve.

The third commercial crop, coconuts, is grown mainly in the hinterland of the western seaboard. Production in 1999 accounted for 2,828 million nuts, the highest output since 1986. Coconut (mainly coconut milk) is a major ingredient used in food preparation in Sri Lanka, and nearly 65 percent of the output is consumed locally. The remainder is exported in the form of kernel products (desiccated coconut, coconut oil, copra), coconut cream, and coconut milk powder. In 1999, kernel products generated US$129 million in foreign exchange.

Forestry and fishing are less important components of the economy. Forests in the dry zone were cleared for settlement and agriculture early on. Unsustainable agricultural practices such as chena cultivation and logging resulted in land degradation and a reduction in the size of forest reserves. The country has abundant fishing resources, with an **exclusive economic zone** covering over 500,000 square kilometers (193,050 miles), a coastline of about 1,700 kilometers (1,056 miles), and a massive network of inland water reservoirs suitable for fish farming. However, this potential has not yet been exploited. Most marine fishing is concentrated in coastal areas, which account for about 12 percent of the exclusive economic zone. Total fish production in 1999 was estimated at 280 thousand metric tons, and the contribution of this activity to gross domestic product was about 3 percent in 1999. Fishing is a traditional livelihood for people living in coastal areas: in 1999 about 145,000 people were employed in fishing activities. A slow-growing sector, fish production increased at an annual average of only about 3 percent between 1992 and 1999. Poor production is mainly due to a lack of technical knowledge and equipment.

The livestock sector in Sri Lanka is small, consisting mainly of the dairy and the poultry subsections. Unlike in the United States, where dairy production takes place on large farms, in Sri Lanka dairy farming is a small-scale domestic activity. Total milk production in 1999 accounted for 342 million liters, sufficient only to meet about one-fourth of local needs. The remainder is imported in the form of powdered milk (in 1999, 54,000 metric tons of milk powder was imported). An important development in the livestock sector was the rapid increase in the poultry production. In 1999 approximately 57 million metric tons of poultry meat was produced, increasingly becoming a common source of animal protein in Sri Lanka.

INDUSTRY

INDUSTRY. Manufacturing accounts for 16 percent of the gross domestic product and employs nearly 400,000 people. The textile industry is the largest of Sri Lanka's industries, contributing 63 percent to industrial sector growth (1999). Other major manufacturing industries include processed diamonds, food and beverages, light engineering, chemicals, petroleum, rubber and plastics, and machinery and equipment. The manufacturing sector that evolved under the import substitution development strategy in the 1960s to cater mainly to the domestic market has transformed into a sector catering to the foreign market. Much of the industrial output is exported and it is the single major export earner in the economy (in 1999, industrial exports accounted for 54 percent of total export earnings). This remarkable achievement is attributable to the policy reforms introduced during the post-1977 period. Under the reforms, the private sector was encouraged to participate in export-oriented industries through various incentives, and several free zones were established. This resulted in a significant inflow of foreign investment; the private sector emerged as the major contributor to industrial output. Overall, market-oriented policy reforms introduced during the post-1977 period have led to far-reaching changes in the structure and performance of the manufacturing sector.

MINING. Mining is a minor economic activity contributing about 2 percent of the gross domestic product (1999). The country's mineral extraction industries include the mining of gemstones and graphite; excavation of beach sands containing ilmenite and monazite; and quarrying quartz sand, clay, and salt. Gem mining is traditionally the most important activity, producing high value gemstones such as sapphire, ruby, and topaz, and a variety of semiprecious stones, most of which are exported. Sri Lanka leads the world in high-grade graphite mining.

SERVICES

TRADE. Wholesale and retail trade, the largest subcategory in the service sector, accounts for about 21 percent of the gross domestic product (1999) and employs about 22 percent of the workforce (2000). With the lift-

ing of import controls and the government monopoly in the importation and distribution of essential consumer goods during the post-1977 period, the trade sector expanded rapidly. Domestic trade accounts for half the value of the trade sector. Increased participation by foreign firms in domestic trade in Sri Lanka is a relatively recent phenomenon, with international food franchises such as McDonald's and Pizza Hut in operation. Numerous small outlets including street stalls serve the retail trade, and in the major cities there are large shopping centers and supermarkets.

FINANCIAL SERVICES. Banking, insurance, and real estate accounted for 8 percent of gross domestic product in 2000. This sector expanded rapidly following the 1977 policy reforms that dismantled the virtual government monopoly in the insurance industry and lifted the restrictions in the banking industry. The increased incentives for the private sector led to the emergence of several new insurance companies and banks. A total of 6 new local banks were established and 11 foreign banks opened branches. The banking system consists of 11 local and 16 foreign banks. Two development finance institutions and several merchant and investment banks are also active participants in the financial markets in Sri Lanka. In addition, 22 financial institutions providing credit facilities are in operation. The Sri Lankan financial system comes under the regulation of the Central Bank of Sri Lanka, which is the monetary authority of the country.

TOURISM. Tourism is an important activity with potential for growth. The country known as the paradise in the Indian Ocean offers a diversity of environments and tourist attractions, from tropical beaches and arid lands to lush forests, tea plantations, and a rich archaeological heritage. Promotion of tourism in Sri Lanka began in the late 1960s with the establishment of the Ceylon Tourist Board. Between 1976 and 1982, the number of tourist arrivals grew rapidly at an annual average rate of almost 24 percent, reaching a peak of 407,230 before declining to 337,342 in 1983 as a result of the civil unrest in the country. As the political violence in the country intensified, international tourist arrivals continued to fluctuate with a general trend of decline. Tourist arrivals increased to 436,440 in 1999. Tourism generates US$275 million in foreign exchange annually and employs approximately 87,600 workers. The majority of tourists to Sri Lanka come from Western Europe (65 percent), Asia (26 percent), and North America (5 percent).

INTERNATIONAL TRADE

One feature of the Sri Lankan economy, both in the past and present, is the high dependency on foreign trade. The country's dependency on trade, measured by the Trade Dependency Ratio (TDR), defined as the ratio of the sum of exports and imports to gross domestic product, stood at 66 in 1999 compared with a TDR of 33 for the period 1970–1977. In 2000 exports stood at US$5.2 billion while imports stood at US$6.1 billion. The changing degree of trade dependency evident in the post-liberalization era has been accompanied by significant changes in the structure of Sri Lankan foreign trade. The dominance of tea, rubber, and coconuts, which accounted for 74 percent of the total exports in 1977, had fallen to 21 percent in 1999. Industrial exports have become the major contributor to export earnings with their share rising from 14 percent to 76 percent during the same period. Of industrial exports, textiles and garments are the leading sub-category, contributing 68 percent to total industrial exports in 1999. The balance consisted of machinery and equipment (6 percent), rubber-based products (5 percent), travel goods and processed diamonds (4 percent each), petroleum products and footwear (2 percent each), crustaceans and mollusks and ceramic products (1 percent each), and other industrial products (7 percent). Despite the changes in the structure of exports, tea continues to be the leading export with a share of 65 percent of total agricultural exports while textiles dominate the industrial exports with a share of 67 percent of the total industrial exports.

Trade (expressed in billions of US$): Sri Lanka

	Exports	Imports
1975	.603	.816
1980	1.067	2.037
1985	1.293	1.843
1990	1.983	2.685
1995	3.798	5.185
1998	4.732	5.917

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Intermediate goods dominate Sri Lanka's imports (51 percent of total imports), followed by investment goods (27 percent), and consumer goods (21 percent). This is in contrast to the composition of imports in the pre-liberalization era, which was dominated by consumer goods (50 percent of total imports in 1977), followed by intermediate goods (36 percent), and investment goods (12 percent). Rice, flour, and sugar dominated consumer goods in the past, accounting for 80 percent of total consumer goods imported. Their significance, however, fell to 21 percent in 1999. This changing structure of imports reflects the new economic environment resulting from the economic reforms introduced in 1977. The improvement in the domestic supply of rice and other food items helped to limit food imports. The expansion in the in-

dustrial sector resulted in higher imports of intermediate goods. Developments in infrastructure facilities, construction and the transport sector, combined with increased use of advanced technology, increased the import of investment goods.

The destination of Sri Lankan foreign trade also has changed. The United States has become the single most important trading partner, and has continued to be the largest single buyer of Sri Lanka's exports (accounting for 39 percent of exports in 1999). Garment exports accounted for 74 percent of total exports in 1999. The United Kingdom accounted for 13 percent, while Germany accounted for 5 percent of Sri Lanka's exports. On average, one-third of the Sri Lankan imports come from the industrial countries. Japan is the largest source of imports to Sri Lanka, with 10 percent in 1999. Motor vehicles, spare parts, and woven fabrics are the major items imported from Japan. India is the second largest exporter (with 9 percent), followed by Hong Kong and Singapore (8 percent each), South Korea (6 percent), Taiwan, the United Kingdom, and the United States. Wheat, gold, agricultural equipment, and textiles are among the major items imported from the United Kingdom, while wheat accounted for 31 percent of imports from the United States. Textiles, tools and accessories for the garment industry, and fruits are the other major items imported from the United States.

Sri Lanka's trade with the rest of the world has changed in terms of composition, direction, and volume. However, the country has not been able to solve its fundamental problem, the unfavorable trade balance. As exports continued to grow, so did imports. Despite the persistent unfavorable trade balance, the country has managed to maintain its import levels with foreign assistance, capital flows, and an important and growing source of foreign exchange: **remittances** by Sri Lankan migrant workers in the Middle East. Prior to 1977 policy reforms, the fortunes of Sri Lankan exports depended primarily on the movements of world prices for the 3 major export commodities. While the export sector has diversified, the dependence on trade has also increased markedly. As the country's trade relations with industrialized countries rises, the Sri Lankan economy is vulnerable not only to changes in price levels of the major exports, but also to fluctuations in the levels of economic activity in industrialized countries.

MONEY

With the liberalization of the foreign **exchange rate regime** in 1977, which changed from a **fixed exchange rate** regime to a flexible one, the value of the Sri Lankan currency has continued to fall against major currencies. The Sri Lanka rupee (R) which was 16.5 per U.S. dollar in 1980 fell to R40 per dollar by 1990, and collapsed to R85 in 2001. With the high dependence on imports, the falling value of the currency means that the prices of imports continue to rise, pushing up domestic inflation.

Exchange rates: Sri Lanka

Sri Lankan rupees per US$1	
Jan 2001	83.506
2000	77.005
1999	70.635
1998	64.450
1997	58.995
1996	55.271

SOURCE: CIA *World Factbook 2001* [ONLINE].

Sri Lanka has an active stock market, the Colombo Stock Exchange (CSE), the origin of which dates back to the 19th century. Share trading in Sri Lanka began in 1886 when the Colombo Brokers Association commenced the trading of shares in limited liability companies. Share trading grew since then and Colombo had a very active share market throughout the 20th century except during the 1960s and 1970s where a spate of nationalization, including the insurance companies and plantations, effectively reduced the trading to insignificant proportions. This decline was short lived, and the stock market recovered quickly following the policy reforms introduced in the latter part of 1970s, which created free and open market ideals where the private sector was given the key role in economic activities. Today the exchange has 238 companies listed with a **market capitalization** of approximately 10 percent of gross domestic product.

POVERTY AND WEALTH

The wealthy, representing those engaged in commerce and industry, are largely concentrated in urban areas, while the poorest live on plantations and in rural areas. While the rich live in luxury, many urban poor live

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Sri Lanka	382	452	536	590	802
United States	19,364	21,529	23,200	25,363	29,683
India	222	231	270	331	444
Bangladesh	203	220	253	274	348

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Sri Lanka

Lowest 10%	3.5
Lowest 20%	8.0
Second 20%	11.8
Third 20%	15.8
Fourth 20%	21.5
Highest 20%	42.8
Highest 10%	28.0

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

in shanty houses with no sanitary facilities. The urban poor in Sri Lanka are found mainly in the capital, Colombo. The majority of the Sri Lankan population live in rural areas, and the major source of wealth among them is land. Landlessness and unequal distribution of land are key determinants of rural poverty. Those living on plantations are laborers with no access to land ownership or alternative employment opportunities. They live in substandard houses supplied by the owners of plantations. A fourth group of poor, those displaced by the continuing war in the north and east, live in various refugee camps with no access to any amenity or opportunities.

The overall degree of disparity in wealth is reflected in the distribution of incomes. The wealthiest 20 percent of the population account for over 52 percent of the nation's income while the poorest 10 percent account for only 2 percent. Disparities in wealth have risen steadily during the post-1977 period, a result of policy reforms that paved the way for more wealth generation through the increased participation of the private sector. An important byproduct of the policy reforms was the soaring inflation induced by the falling value of Sri Lankan currency, raising the cost of living of the poor disproportionately. Meeting basic needs is a struggle to the poor, because average Sri Lankans spend over 40 percent of their income on food alone. Rising poverty has led to considerable social unrest; strikes in work places and protest rallies are common occurrences. The government maintains several subsidy programs to improve the position of the poor. Over 45 percent of the population benefits from one such income supplementary program called Samurdhi. Another, the dry ration program, is aimed at helping displaced families of the north and east due to the continuing civil war. International agencies such as the World Bank and Asian Development Bank have sought to help Sri Lanka reduce poverty. Several funded projects have directly targeted the poorest segments of the population. Despite low per capita income levels, and high levels of the incidence of poverty, the quality of life in Sri Lanka is relatively high when compared with its neighbor, India.

WORKING CONDITIONS

According to the Department of Census and Statistics, the labor force in Sri Lanka is about 7 million and the total number of employed persons is 6.5 million. The unemployment rate is at around 8 percent (2000). While the overall unemployment rate is lower than in the past (which was about 15 percent in 1992), unemployment among youth is relatively high. Around 22.5 percent of the youth of age between 15 and 19 were unemployed and 15 percent in the age group 20 to 29. Of the total workforce, 66.5 percent are males and 33.5 percent are females. Women play an important role in the economic life of Sri Lanka. The largest concentration of women in professions is in the areas of teaching, nursing, and clerical work. In the plantation industry, women make up 68 percent of the workforce and, in the garment industry, about 90 percent of the workforce.

The basic minimum age for employment in Sri Lanka is 15 years, and the government has enforced laws to prevent child labor. The forced or bonded labor of children is prohibited. Despite the laws governing child labor, underage children work as street vendors and hold menial jobs in tile factories, coir-making operations,

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Sri Lanka	43	0	7	4	8	4	33
United States	13	9	9	4	6	8	51
India	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bangladesh	49	4	18	8	9	4	8

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

fishing, and in domestic service. Poverty leads most of these children to work. According to a government study, about 60 percent of the employed children are secondary income earners, contributing as much as 30–40 percent of household income.

The constitution of Sri Lanka guarantees the right of workers to organize and establish labor or trade unions, except those employed by the security forces and members of the judiciary. All public and private sector employees possess the right to bargain collectively. The Department of Labor provides conciliation and arbitration services to resolve labor disputes. Although trade union freedom is substantial, it has been subject to periodic modification or curtailment during times of political strife. In Sri Lanka, there is no universal basic minimum wage, and the minimum wages differ from industry to industry. Sector-specific minimum wages are set by wage boards. There are about 39 wage boards, which set minimum wages for more than 100 occupations in industry, commerce, services, and agriculture. Remuneration tribunals also set minimum wages in some cases.

In Sri Lanka, working conditions and workers' rights are well protected by legislation. However, disruptions in the workplace are common. In recent years there were a number of labor actions such as strikes and protests. The rising cost of living has driven many workers to demand higher wages. There are instances where even those in the medical profession have gone on strike for higher wages. Because of the inability of most workers to make ends meet, many Sri Lankans seek employment abroad. The total number of Sri Lankan workers abroad was estimated to be around 788,000 in 1999, of whom nearly 90 percent are employed in the Middle East.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

427 B.C. The legendary Sinhalese Prince Vijaya colonizes the north-central part of Sri Lanka.

250 B.C. The king of Anuradhapura, Devanpiya Tissa, embraces Buddhism.

210 B.C. Sinhala kingdom is invaded by Cholas from southern India and Elara becomes king.

161 B.C. King Dutthagamini defeats Elara and reestablishes Sinhala rule.

1055. Sinhala kingdom moves its capital to Polonnaruwa under King Vijayabahu I.

1232–1815. Sinhala kingdom moves south.

1371–1408. Dambadeniyan, Gampolan, and Kotten kingdoms.

1469–1815. Kandyan kingdom.

1521–1581. Sitawakan kingdom.

1505. The Portuguese capture the coastal belt and rule it until the Dutch oust them.

1658. The Dutch capture coastal areas.

1659. The British regain the coastal areas, displacing the Dutch.

1660. The British are invited by the Kandyan chiefs to usurp the king, gaining control. They maintain a colony in Sri Lanka until the 20th century.

1948. Sri Lanka gains political independence from the British on 4th February.

1948. The UNP is elected in Ceylon under the leadership of D. S. Senanayake.

1956. A coalition of parties (MEP) led by S. W. R. D. Bandaranaike is elected.

1959. The SLFP leader is assassinated and his widow becomes prime minister in 1960.

1965. The UNP regains power under the leadership of Dudley Senanayake.

1971. Sri Lanka becomes a republic, but retains membership in the British Commonwealth.

1977. The UNP, under the leadership of J. R. Jayawardane, comes to power.

1978. Jayawardane becomes the first president of Sri Lanka. Liberalization reforms begin.

1979. Riots in response to the ambush and killing of 13 Singhalese soldiers by Tamil Tigers.

1980. Military action launched against the Tamil Tigers, with help from India.

1981. R. Premadasa becomes the second president of Sri Lanka.

1993. Premadasa's authoritarian rule ends as he becomes a victim of the LTTE.

1994. Chandrika Bandaranaike Kumaratunga and the Peoples Alliance gain political power.

2000. Kumaratunga wins a second term as president.

FUTURE TRENDS

Since independence, despite low levels of per capita income, Sri Lanka has achieved an impressive human development record, with many of Sri Lanka's social indicators comparing favorably to those of more advanced economies. The country has broken away from a **public-sector**-dominated, highly regulated economic system and has laid the foundation for dynamic growth based on a

free market, liberalized trade and exchange rates, and **deregulated** foreign investment. This transition has led to rapid economic growth, a significant reduction in the level of unemployment, and a rise in the level of per capita income. However, the impressive growth of the economy evident during the 1977–1982 period has generated increasing economic inequality. The soaring inflation fueled by the deterioration of the value of the Sri Lankan currency has worsened the relative position of the poor. Despite the reduced levels of unemployment and the increased opportunities, nearly half of the population depends on government subsidies to meet their basic needs. The balance of payments, a fundamental problem of the economy that has persisted since the 1950s, has continued to worsen. Mounting foreign debt and the **debt servicing** obligations has added further burden to the already critical balance of payments.

The slowdown in the pace of economic growth over the last 2 decades, coupled with the rising costs of the civil war, seriously threatens the economy's ability to meet the challenges and changing socioeconomic needs of its population. With a rapidly aging population, the need for more resources to provide health care and income support will exert considerable pressure on the government's fiscal resources and the tax system during the coming decades. The solutions to most of the burning problems, and those bound to emerge in the near future, lie in the country's ability to achieve sustained levels of long-term economic growth. The continuing civil conflict poses the biggest obstacle to the country's growth prospects. The need for an immediate solution to the 18-year-old civil war is imperative. Given that the Sri Lankan economy managed to realize an average growth rate of about 5 percent during the last decade in spite of severe interruptions caused by the civil war, lasting peace would undoubtedly bring prosperity to the nation.

DEPENDENCIES

Sri Lanka has no territories or colonies.

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—Sarath Divisekera

SYRIA

Syrian Arab Republic
Al-Jumhuriyah al-'Arabiyah as-Suriyah

CAPITAL: Damascus.

MONETARY UNIT: Syrian Pound (S£). One Syrian pound equals 100 piasters. There are coins of 25 and 50 piasters and 1 Syrian pound. There are notes of 1, 5, 10, 25, 50, 100, and 500 Syrian pounds.

CHIEF EXPORTS: Petroleum, textiles, manufactured goods, fruits and vegetables, raw cotton, live sheep, phosphates.

CHIEF IMPORTS: Machinery and equipment, foodstuffs/animals, metal and metal products, textiles, chemicals.

GROSS DOMESTIC PRODUCT: US$50.9 billion (2000 est.).

BALANCE OF TRADE: **Exports:** US$4.8 billion (f.o.b., 2000). **Imports:** US$3.5 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Syria, a Middle Eastern country, is located on the east coast of the Mediterranean Sea. It is bounded by Turkey to the north, by Iraq to the east and southeast, by Jordan to the south, and by Lebanon and Israel to the southwest. Syria has an area of 185,180 square kilometers (71,500 square miles), including 1,295 square kilometers (500 square miles) of territory in the Golan Heights captured by Israel in the Six Day War of 1967. There are 2,253 kilometers (1,400 miles) of boundary length, with a coastline of 193 kilometers (120 miles). The area occupied by Syria is slightly larger than the state of North Dakota. The capital city, Damascus, is located on the Barada River in southwest Syria. Other major cities, Latakia and Aleppo, are situated on the Mediterranean coast in the west and in northern Syria, respectively.

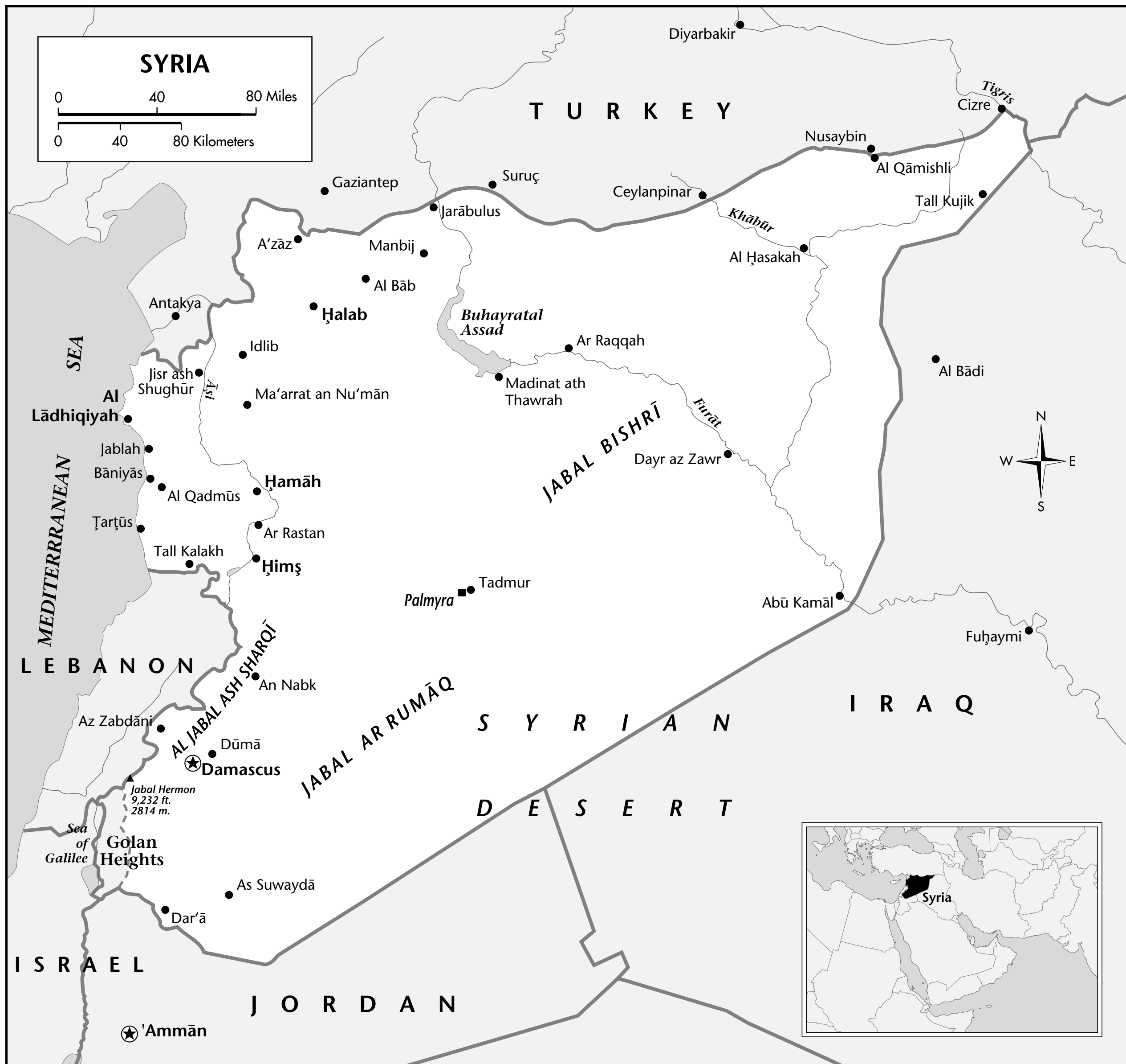
POPULATION. The population of Syria was estimated at 16,305,659 in July 2000, an increase of 3.4 percent from the 1990 population of 12,116,000. In addition, there are about 38,200 people living in the Israeli-controlled Golan Heights (excluding nearly 20,000 Israeli settlers). Syria has one of the highest population growth rates in the world. Over the last decade, however, Syria's population growth rate has gradually decreased from 3.30 percent in 1990 to approximately 2.58 percent in 2000. Despite the steady decline in its growth rate, the population is expected to reach 20.9 million by the year 2010.

Syrians are divided along profound ethnic and sectarian (groups divided by politics, language, and religion) cleavages. Arabs constitute the major ethnic group with 90.3 percent, while other minority groups such as Kurds, Armenians, Turcomans, and Assyrians make up the remaining 9.7 percent of the population. Sectarian divisions include Sunni Muslims (about 74 percent), Alawites (an extreme Shi'ite subsect), Druze (a secret Middle-Eastern sect and doctrine combining different Islamic, Jewish, and Christian elements), and other Muslim sects (about 16 percent). The Christian population in Syria is small (about 10 percent), and Jews number only a few thousand.

Syria's population is overwhelmingly young, with 41 percent below the age of 15 and only 3 percent older than 65. The urban-rural population ratio has been reversed over the last decade in favor of the urban population, which increased at a rate of 4.1 percent from 49.4 percent in 1988 to 53.5 in 1998. Because of this trend, major cities like Damascus, Latakia, and Aleppo have become the main venue of rural **emigration** within the country.

OVERVIEW OF ECONOMY

According to the World Bank, in 2000 the Syrian economy was classified as a low middle-income economy with a **gross national product** (GNP) per capita of about US$1,000. Although it does not possess the extensive natural resources of its richer neighbors, Syria was able to sustain one of the most integrated and productive economies in the region for several decades after gaining



its independence in 1946. Following unification with Gamal Abdel Nasser's Egypt under the United Arab Republic and the rise of the Ba'ath Party, however, **socialism** became the official economic policy in 1958. Although Syria left the United Arab Republic in 1961, government-sponsored land reforms and the **nationalization** of major industries and foreign investments had confirmed the new socialist direction of Syria's economic policy by the mid-1960s.

During the 1970s, Syria achieved high rates of economic growth. The dramatic rise of world oil prices from 1973 to 1974 led to increased production in domestic refineries. Moreover, higher prices for agricultural and oil exports, as well as the state's limited economic **liberalization** policy, encouraged growth. The October War in 1973 and later ostracism of Egypt from the Arab League due to its peace agreement with Israel put Syria, as a front-line state, in a position of leadership in the Arab-Israeli conflict. Because of this, Syria began to receive substantial quantities of foreign aid from the oil-rich Gulf states. Besides these higher levels of aid, Syria's economic boom was furthered by increased **remittances** from Syrians working in the oil-rich Arab states. By the end of the decade, the Syrian economy had shifted from its traditional agrarian base to an economy dominated by the service, industrial, and commercial sectors. Massive expenditures for development of irrigation, electricity, water, road building projects, and the expansion of health services and education to rural areas contributed to prosperity.

By the mid-1980s, the country's economic climate had shifted from prosperity to austerity. Syria's economic boom collapsed for a variety of reasons: a reduction in worker remittances, declining world oil prices, lower export revenues, agricultural devastation due to drought, and costly military involvement with Lebanon. A drastic decline in Arab aid, due to Syria's support for Iran against Iraq in the Iran-Iraq War (1980–88), also contributed to the country's economic woes.

The final collapse of Soviet Russia after 1989 left Syria without the generous Soviet economic and military aid on which it had depended. Syria did receive aid through substantial financial rewards—in the form of large injections of credits from Saudi Arabia, the Gulf states, the United States, the European Community, and Japan—for its decision to support the coalition forces in the Gulf War of 1991 against Iraq.

Agriculture remains the dominant sector in Syria, yet only 20 percent of arable land is irrigated. Although Syria has sufficient water supplies, the great distance between major water supplies and population centers poses serious distribution problems. The water problem is exacerbated by rapid population growth, industrial expansion, and increased water pollution. Oil production is leveling off, and the efforts of the non-oil sector to penetrate international markets have fallen short. A vibrant **black market**, smugglers, corruption, cumbersome bureaucracy, and inefficient state-owned enterprises are huge barriers to growth and development.

Besides these economic burdens, Syria suffers from a substantial **external debt**, which was estimated about US$22 billion in 1999, including US$10 to 12 billion owed to the former Soviet Union and US$900 million to the former East Germany which many observers doubt will ever be repaid. Much of the US$22 billion owed dates back to the Cold War (a period in history, lasting from approximately 1945–89, characterized by the arms race between the United States and former Soviet Union), stemming from arms transfers. Russia and Germany argue that the debt should be paid, but Syria claims that the debt is no longer valid because the predecessor states no longer exist.

POLITICS, GOVERNMENT, AND TAXATION

Syria is a socialist republic ruled by the Ba'ath Socialist Party dictatorship. According to the Syrian Constitution of 1973, the president governs with the assistance of an appointed Council of Ministers, headed by a prime minister. The president also functions as commander-in-chief of the armed forces and secretary-general of the Syrian Ba'ath Party. Since 1970, Syria has been under the patrimonial rule of the Assad family. During the reign of Hafez Assad, the Ba'ath Party became the major instrument in implementing economic and **fiscal policies**. Assad's takeover in 1970 gave new momentum to the Syrian economy. He relaxed many socialist restrictions and measures by previous Ba'ath leaders and adopted a moderate foreign policy toward the conservative oil-rich Arab states to accumulate their oil money in Syria.

A second phase of economic reform in 1986 and 1987 added to Assad's economic reform and relaxation policies of the early 1970s. In this second phase, the government largely surrendered its control over foreign exchange to the market. The state-owned banking sector, instead of being an instrument of control over private exports and imports, was gradually reduced to the role of an intermediary. It passed a new investment law in May 1991 (Investment Law #10), lengthening the list of goods that the **private sector** can either produce or import. Apart from foreign trade and currency regulations, this second phase involved a substantial liberalization of Syria's agricultural economy (pricing, production, and marketing of fruits and vegetables have been placed in private hands by the government). Although these limited liberalization schemes served their purposes well, they were not enough for a complete transformation from a socialist to a market economy. Throughout the 1990s, Syria's economy suffered from instability, **recession**, unemployment, rising external debts, and capital shortages.

Thanks to the liberalization schemes of the 1970s and the 1980s, by 2001 Syria developed a mixed economy based on agriculture, trade, mining, and manufacturing. The government controls the most vital sectors of the country's economy and regulates private businesses. The economy, where the public and private sectors have an almost equal share, is managed through a central planning system. The **public sector** (composed of enterprises wholly or partly owned by the state and controlled through a public authority which does focus entirely on commercial profit) is dominant in oil, banking, construction, electricity, chemicals, and much of the textile and food processing industries. The private sector (composed of enterprises owned by individuals in pursuit of profit) is dominant in agriculture, tourism, domestic trade, and certain light industries. State control in commerce is restricted to foreign exchange operations.

The Syrian government depends heavily on oil revenue, foreign aid, remittances from Syrian workers abroad, tourism, and tax revenues. In 1997, tax revenue constituted 16.4 percent of the GDP. For the same year, taxes levied on goods and services made up 20.72 percent of the current government revenue whereas **income taxes** and taxes levied on international trade accounted for 30.15 percent and 10.58 percent, respectively. Income taxes are levied on 3 main categories of income: 1) profits from an industrial, commercial, or noncommercial activity; 2)

wages; and 3) income derived from moveable capital assets. All businesses are charged a "profits tax" based on net profits derived from professional, industrial, commercial, and non-commercial activities. The business profit tax is applied in progressive rates (between 10 percent and 45 percent) depending on the amount of taxable income. Shareholding companies and industrial limited liability companies are taxed at a flat rate of 32 percent and 42 percent, respectively. An individual is liable for the same taxes as a company on his business income, income from movable capital, and real property. Individuals are also subject to a wage and salary tax; the rate varies from 5 percent to 12.5 percent. Tax on movable capital incomes, which is levied at a flat rate of 7.5 percent, applies to interest, royalties, and foreign source dividends.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Syria has an inadequate and outdated **infrastructure** and transport system that is mainly controlled by state-run agencies. The highways, which provide the chief means of transporting goods and passengers, run about 36,377 kilometers (22,604 miles), nearly 10,000 kilometers (6,214 miles) of which are unpaved. The major Syrian cities are linked by the 2,750-kilometer (1,709-mile) long railway network all around the country, but the service is slow because of the obsolete trains.

Syria has 104 airports, including military airports, 24 of which have paved runways. The international airlines are in the capital of Damascus and Aleppo, where facilities can handle jet aircrafts. Syrian Airlines connects Syria with other Arab, Asian, and major European countries. Although Syria has a short coastline, which stretches for about 193 kilometers (120 miles) along the Mediterranean Sea between Turkey and Lebanon, it has a commercial fleet composed of 137 ships and 4 major ports and harbors in Baniyas, Jablah, Latakia, and Tartus.

Syria's electrical power is handled by the Public Establishment of Electricity for Generation and Transmission and the Public Establishment for Distribution and Exploitation of Electrical Energy. Syria's annual electricity production was 17.5 billion kilowatt hours (kWh) in 1998, 42.8 percent of which was generated from fossil fuel, whereas the remaining 57.2 percent was produced from hydroelectric resources. The main problems in the Syrian electricity sector are inefficiency and technical power losses that lead to periodic power outages.

The Syrian telecommunication system is undergoing a number of significant improvements and digital upgrades, including fiber-optic technology. The government-owned Syrian Telecommunication Establishment provides all services in this sector. The country had 1.4 million telephone lines in 1998. In addition, a pilot global system for mobile communications (GSM) cellular telephone network was launched in Syria in February 2000, with capacity for 60,000 subscribers in the Damascus and Aleppo areas. A permanent GSM telephone system to replace the pilot scheme was expected to launch in February 2001, according to an *EIU Country Report* of October 2000. Recently, the Syrian government approved the Syrian Computer Society (SCS) as the country's first Internet service provider. Only SCS members (Syrian scholars, university professors, engineers, computer specialists, public sector professionals, and some private entrepreneurs) are allowed access to the Internet. Their activities are subject to strict government control and monitoring. Most Internet services remain blocked, including most web mail and voice/telephony services.

ECONOMIC SECTORS

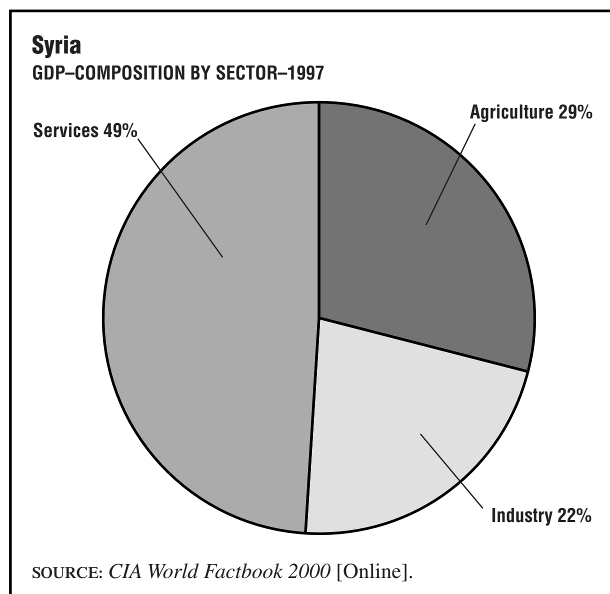
Since the 1970s, the Syrian economy underwent several sectoral changes not common in developing countries. Industry, especially service, has developed a great deal. Agriculture remains vital to the economy despite its diminishing contribution to GDP. In 1996 agriculture employed about 40 percent of the **labor force** and supplied

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Syria	20	278	70	N/A	0	1.4	1.7	0.00	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Turkey	111	180	286	9.2	53	1.7	23.2	8.06	1,500
Israel	290	520	318	184.0	359	24.9	217.2	187.41	800

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

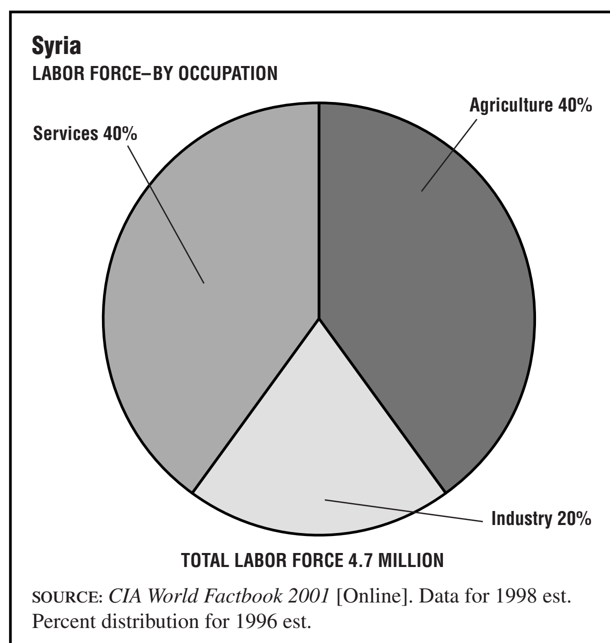
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

necessary products to the industrial sector. The oil sector is a driving force behind Syrian industry. Crude oil exports of US$1.342 billion accounted for nearly 43 percent of Syria's total exports in 1998. The Syrian services sector also made up 49 percent of its GDP in 1997 and employed about another 40 percent of the labor force.

Since the second half of the 1990s, the Syrian economy has been undergoing a recession. According to the 2000 *EIU Country Profile,* the Syrian agricultural sector has suffered in the last 3 years because of rapid climate changes and severe droughts in the region. The continuing rise of crude oil prices in international markets may promise an increase in Syria's export earnings, while service sectors such as construction, transport, and telecommunications have been steadily growing since the Gulf War in 1991.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est. Percent distribution for 1996 est.

AGRICULTURE

The agricultural sector in Syria accounted for 29 percent of the GDP in 1997 and employed an estimated 40 percent of labor in 1996, including a significant proportion of townspeople. The primary agricultural products are cotton, olives, wheat, barley, lentils, chickpeas, sugar beets, beef, mutton, eggs, poultry, and milk. Cotton, grown on irrigated land, is Syria's premier **cash crop**. Besides providing employment and income for a significant amount of the population, it also has provided Syria with much needed **hard currency**. Until 1974, when it was superseded by oil as the largest Syrian export, cotton accounted for about one-third of Syria's total exports. By the late 1990s, cotton accounted for almost 50 percent of the agricultural sector's contribution to GDP. Nearly half of the cotton produced is used for local consumption by the largely export-oriented clothing and textile industry. Syria is also the second largest olive exporter in the Arab world after Tunisia and is sixth in the world after Spain, Greece, Tunisia, Italy, and Turkey. According to the *EIU Country Report,* the total value of agricultural exports in 1998 was about 24 percent of total exports, while the share of agricultural imports in 1998 was nearly 16 percent of total imports.

The average farmer's reliance on outdated and inefficient irrigation methods is a major obstacle to improving agricultural outputs. The introduction of drip, sprinkler, and subsurface irrigation methods is handicapped because of the limited amount of money available to the common farmer. Because of these shortcomings, Syria is susceptible to food shortages during long droughts.

Because of the government's revitalization efforts during the 1980s and 1990s, the agricultural sector recorded a 10 percent increase in its share of GDP in 1998. This kind of liberalization effort has been essential to increased agricultural production. The enactment of Decree #10 in 1986 allowed **joint sector** companies to be established with a minimum 25 percent stake to be held by the public sector. Pricing, production, and marketing of fruits and vegetables have also been placed in private hands. Liberalization measures since 1991 include the lifting of **subsidies** for seeds and pesticides, and the reduction of the fertilizer subsidy.

Because of geographic and topographic conditions, Syria has no forestry sector. Fishing is also quite limited, with a few small and medium-sized boats fishing off the Mediterranean coast.

INDUSTRY

The Syrian industrial sector contributed 22 percent of the GDP in 1997 and 20 percent of the labor force in 1996. State-owned organizations dominate heavy industry. Mining and quarrying (mostly oil) generates about 28 percent of gross industrial output, followed by the agro-food and chemical industries. The textiles and clothing industry comes next, and accounts for about 12 percent of industrial output.

MINING. Petroleum is Syria's chief mineral product. Most of the petroleum comes from fields in the northeastern part of the country. Phosphate rock is another important source of income. Phosphate, which is used to make fertilizer, is mined in the Palmyra area of central Syria. The principal limestone quarries are located north and west of Damascus, near the city of Aleppo. Marl is used in the cement industry with quarries near Damascus, Aleppo, and Rastan. Sandstone suitable for glass manufacture is mined in the Palmyra Mountains. The country's other mineral products include asphalt, gypsum, natural gas, and table salt.

OIL. Most of Syria's oil fields are located on the Euphrates Graben, which runs across the northeastern region of the country. The discovery of large crude fields in the mid-1980s boosted the role that oil plays in the Syrian economy. Since this time, output has expanded rapidly and reached a peak of 604,000 barrels per day in 1996. Production has been falling in recent years, because many fields discovered in the 1960s reached maturity. According to the International Energy Agency (IEA), as of 2000, Syria's production was about 520,000 barrels per day, of which some 325,000 barrels per day have been exported, accounting for some 65 percent of export revenue. Because of Syria's old, small, and dispersed oil fields, the *EIU Country Report* claims that the decline in Syrian oil production will continue in 2001, and most observers agree that the decline will continue for years to come.

Intense exploitation in the late 1980s and early 1990s saw oil production rise rapidly, fuelling economic growth, but at a cost. Fields were damaged as groundwater seeped into reservoirs and reservoir pressure fell, requiring injection projects to maintain pressure. Additionally, harsh government terms caused many foreign oil firms to leave the country. Investors have complained about the restrictive terms for exploration and development in the Syrian oil sector. In fact, international observers have forecasted that Syria will revert to being a net importer of oil within a few years as production declines and domestic consumption rises, unless new, substantial, and financially viable reserves are soon found. Syria exports Syrian Light, a blend of light and sweet crude oils produced from the Deir ez-Zour and Ash Sham fields. The country also exports fuel oil and other products. Syria is a member of OAPEC (Organization of Arab Petroleum Exporting Countries), but not OPEC (Organization of Petroleum Exporting Countries).

The oil exploitation of the 1980s attracted international interest to the Syrian oil sector, and several consortiums (companies formed to undertake an enterprise beyond the resources of any one member) were formed. Companies such as Agip, Bay Oil, Chevron, Conoco, Marc Rich, Shell, Elf, Total, and Veba are the most prominent involved in the sector. The largest of these is the Shell consortium made up of Pecten, Shell, and Deminex. In 1985 the Shell consortium entered a **joint venture** with the Syrian Petroleum Company (SPC) to create the Al-Furat Petroleum Company. This joint venture produces about two-thirds of Syria's oil output. All Syrian oil, including that produced by foreign companies, is sold on a monthly basis by the state-owned marketing company Sytrol. Since January 1994, Sytrol has had a clause in its term contracts prohibiting customers from re-selling Syrian crudes without written permission from Sytrol. This is intended to curb spot trading in Syrian crudes, especially sales to Israel. The unfavorable contract terms for exploration, development, and poor exploration results have only left 3 (Elf, Shell, and Deminex) out of the 14 companies that were operating in the country in 1991.

Syria's 2 oil refineries are located at Banias and Homs. Total production from these refineries was 242,140 barrels per day in 2001. Syria is planning to construct a third refinery, with an initial capacity of 60,000 barrels per day, at Deir ez-Zour to supply products to the eastern part of the country. The country's major oil export terminals are at Banias and Tartous on the Mediterranean, with a small tanker terminal at Latakia. Tartous is connected through a pipeline to the Banias terminal. The Syrian Company for Oil Transport (SCOT) operates all 3 terminals and is in charge of Syria's pipelines.

GAS. Syria's proven natural gas reserves are estimated at 8.5 trillion cubic feet (Tcf). Most (73 percent) of these reserves are owned by SPC, including about 3.6 Tcf in the Palmyra area, 1.6 Tcf at the al-Furat fields, 1.2 Tcf at Suwaidiyah, 0.8 Tcf at Jibsah, 0.7 Tcf at Deir ez-Zour, and the remainder at al-Hol, al-Ghona, and Marqada. In 1998, Syria produced about 208 billion cubic feet of natural gas, a 5-fold increase over the previous decade. As part of a strategy to substitute natural gas for oil in power generation to free up as much oil as possible for export, Syria plans to increase this production even further in the coming years. According to the *EIU Country Report* of 2000, Syria produced about 460 million cubic feet per day of gas, but this will nearly double by 2005 to 850 million cubic feet per day, as new gas sources are extracted.

SPC has been working to increase Syria's gas production through several projects. The Palmyra area in central Syria is the site of much of this activity, including the development of the Al Arak gas field, which came on stream at the end of 1995. In October 1997 the Syrian government announced the discovery of a large new gas field in the Abi Rabah area of the Palmyra region. One of the main problems for the gas sector is the location of gas in the northeast regions of the country, while the population centers are in the southwest. According to EIU reports, in July 2000 a step to ease the disparity was taken with the announcement that a Dutch company, A Halk Pijpleidingen, had been awarded a contract to construct a US$46 million pipeline from newly developed gas fields in the Palmyra area to the city of Aleppo. The 124-mile pipeline will be used to supply gas to a 1,000 megawatt power station in the city, constructed by Mitsubishi Heavy Industries of Japan. Bids are being measured to build a gas pipeline from Homs to the Mediterranean port of Banias.

Given the small size of Syria's gas fields, most of the large oil companies have shown little interest in the market, given the complex government bureaucracy that they must navigate. One of the exceptions is Conoco, the only U.S. oil company operating in Syria. Another is Elf of France, with whom Syria Petroleum Company signed a US$430 million service agreement in November 1998 to utilize associated gas in the Deir ez-Zour oil fields. Elf and Conoco each hold a 50 percent interest in the project, with Conoco as the lead operator. In March 2000 the 2 companies awarded Houston-based Kvaerner ENC a US$160-million contract to engineer, procure, and construct the infrastructure for the project. The Deir ez-Zour gas development work will include the construction of a gas gathering system and processing plant, and a 155-mile pipeline that will connect the system to the national grid near Palmyra that serves western Syria. When completed in late 2001, gas output from 22 fields should be about 280 million cubic feet per day. According to the *EIU Country Report,* Syria is planning to supply 3 million cubic meters per day of gas to Lebanon via a 107-mile pipeline that will run from the Syrian city of Homs to northern Lebanon. Elf announced that it is also considering joining the US$175-million pipeline project that would supply power stations in Lebanon with natural gas from Syria.

MANUFACTURING. Manufacturing accounts for about 6 percent of the value of Syria's production. The main industries are cement, glass, food processing, iron and steel, leather goods, brassware, fertilizers, and textiles. Cotton fabrics, wool, and nylon are Syria's most important manufactures. The textile industry is in Aleppo, Damascus, Homs, and Hamah. Natural silk is produced at Latakia. Technical engineering industries, most of which are in Damascus, are active in producing cement, glass panes, bottles, utensils, pharmaceuticals, plywood, and batteries. The food processing industry produces salt, vegetable oils, cotton cake, canned fruit and vegetables, tobacco, and a variety of dairy products. While manufactured goods made up 10 percent of total Syrian exports in 1998, the well-established textile industry contributed another 10 percent of export earnings and employed one-third of the industrial workforce.

Syrian manufacturing industries grew substantially in the 1960s. The government encouraged industrialization by raising **tariffs** on imported **consumer goods** and providing tax exemptions and credit for domestic industries. Therefore, most of the traditional handmade manufactures (damask steel, swords and blades, brass and copper work, wood engravings, gold and silver ornaments, mother-of-pearl inlays, silk brocades) have dramatically decreased since the introduction of industrial processing. Private sector participation in manufacturing has taken off in the 1990s, with the total capital investment in the industrial private sector growing from US$273 million in 1991 to US$735 million in 1995. Of the 1.1 million workers in manufacturing, more than 75 percent are now employed in the private or mixed sectors. While private sector involvement has been limited to the textile, food processing, leather, paper, and chemical industries, the government started to open heavy industry to private investment in areas where the public sector is unable to meet increasing demand.

SERVICES

TOURISM. Syria's rich history attracts large numbers of tourists. Artifacts from the ancient Mesopotamian civilization, castles from the crusaders, and many other diverse historical sites appeal to world travelers. The United Nations Educational, Scientific, and Cultural Organization has declared Damascus and Aleppo world heritage sites because these date to the early development of civilization, well before the Greek and Roman empires.

With such a rich cultural heritage and a Mediterranean coastline, Syria's tourism sector shows great potential, and the number of tourists who visit the country each year is on the rise. Since the Gulf War in 1990–91, an average of about 900,000 visitors have visited Syria each year. But regional instability after 1996 has hindered the tourist sector, evidenced by the drop in tourists to 400,000 in 1999 from 2.5 million in 1998. In the same time span, tourism revenue declined from US$1.3 billion in 1998 to US$712 million in 1999. Arab tourists continue to visit Syria in increasing numbers, enjoying the improved luxuries offered by the sector. According to the *EIU Country Report,* capacity at the luxury end of the market is about 8,000 beds in the five-star hotels, with occupancy estimated at 80 percent during the summer season of 2000.

There are a number of problems in the tourism sector, including a lack of marketing activities on an international level, the low number of airline carriers to Syria, and the lack of a nationally coordinated policy for the development of tourism. The hazy divisions between public and private sectors and the non-existence of large centers for tourist entertainment and cultural activities are other major weaknesses inhibiting growth. The most important challenge that the tourism industry faces is the lack of big investments in this vital economic sector. To encourage private sector and foreign investment in Syrian tourism projects, the government has made several aggressive decisions since 1986. Incentives include tax exemptions on all tourism-based projects. All imports needed to build tourism installations, if these imports do not exceed 50 percent of total investment, are tax exempt. There is also a 7-year corporate tax exemption, after which taxes are paid at 50 percent of the normal rate.

FINANCIAL SERVICES. The Syrian financial system has been run by the state since nationalization in the 1960s. The banking functions have been designed to cater to the financial requirements of the public sector. Because loans to the private sector are unknown, private businesses must finance projects with cash or through external loans. The Central Bank of Syria and the Commercial Bank of Syria are 2 of the 5 government-owned banks that deal in hard currency. Although previously only foreigners were allowed to open accounts with foreign currency in the Commercial Bank of Syria, beginning in September 1996 the government allowed Syrians to deposit foreign currency at government banks without disclosing the source of such currency, and plans to allow citizens to possess foreign currency. The new decision eliminates provisions in an old currency law that prevented Syrians from dealing in hard currency. The new decree allows hard currency to be transferred abroad provided it is used for education expenses, payments of books, medical treatment, newspaper subscriptions, and other non-commercial transactions. Changing money at rates other than official rates remains illegal and all transfers in and out of the country must be declared.

The EIU reports that the current banking system is in urgent need of reform. The system is criticized by business leaders for being inefficient and offering only basic services. There are, for example, no ATMs, checks, or credit cards in Syria. Commercial loans are hard to obtain without using political party or government connections or traditional patronage relations (a system of relations in which government or any other sectarian, tribal domineering authority distributes the sources at its expense to its supporters as rewards). The new Syrian government has acknowledged the need for reform of the financial system and these new moves show that progress is being made. Some modernization efforts have been initiated with the computerization of the Central Bank and other commercial banks.

The government has also announced that foreign banks will be allowed to open branches in Syria for the first time. Banks with at least US$11 million in capital will be permitted to operate in the country's **free zones** (an area where goods may be landed, handled, manufactured, reconfigured, and **re-exported** without the intervention of the customs authorities) to finance commercial and industrial activity. In August 2000 3 Lebanese banks were issued licenses while some non-Arab international banks expressed their wishes to enter the full international market rather than be restricted to the small free zones. The United Nations Industrial Development Organization (UNIDO) has estimated that Syria would gain US$8 billion in foreign investment if it allowed the establishment of private banks, opened a stock market, and unified **exchange rates**.

INTERNATIONAL TRADE

According to International Monetary Fund sources, because of the discovery of large oil fields, Syria's foreign trade volume has immensely increased over the last 3 decades. During this period, exports have grown from US$203 million in 1970 to US$4.8 billion in 2000, while imports have risen from US$360 million in 1970 to US$3.5 billion in 2000. Syria's foreign trade is highly dependent on its oil revenues and oil prices on the international markets. For the year 2000, the EIU reported that increasing oil prices have continued to boost export revenue and Syria recorded a surplus of more than US$1 billion for the first time since the Gulf War.

Syria's chief exports are petroleum, textiles, food, live animals, and manufactured goods which are exported to Germany (which received 21 percent of exports in 1999), Italy (12 percent), France (10 percent), Saudi Arabia (9 percent), and Turkey (8 percent). Syria's main import products are machinery, food and live animals, transport equipment, and chemicals. The country's main import partners include France (which purchased 11 percent of imports in 1999), Italy (8 percent), Germany (7 percent), Turkey (5 percent), and China (4 percent). Additionally, a large amount of trade (nearly US$200 million) with Lebanon, Turkey, and Iraq goes unrecorded. It is estimated that these invisible flows favor Syria, as evidenced by the use of its military and political influence on Lebanon to create a common market between the 2 countries, from which Syria will benefit.

As of 2001, there were about 200 state-owned trading companies that enjoyed prohibitive tariff protection, overvalued exchange rates, and restrictions on private-sector competition. These state-run companies regulated most of Syria's exports. According to the Syrian Min-

Trade (expressed in billions of US$): Syria

	Exports	Imports
1975	.930	1.685
1980	2.108	4.124
1985	1.637	3.967
1990	4.212	2.400
1995	3.563	4.709
1998	2.890	3.895

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Syria	907	1,071	1,036	956	1,209
United States	19,364	21,529	23,200	25,363	29,683
Turkey	1,898	1,959	2,197	2,589	3,167
Israel	10,620	11,412	12,093	13,566	15,978

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

istry of Economic and Foreign Trade statistics, in 1998 72 percent of exports were made by the public sector.

MONEY

Syria maintains a multiple **fixed exchange rate** system that pegs the value of currency to the U.S. dollar. All the official rates overvalue the Syrian pound to varying degrees. Two principal exchange rates are used: the Official Rate that devalued the national currency in 1988 from S£3.925 to S£11.225 per U.S. dollar, and the Neighboring Countries Rate (NCR) that was introduced in 1990 and is periodically adjusted. The NCR was S£46.50 per U.S. dollar, according to EIU estimates in 2000. Tourist hotels use the Official Rate. Most local transactions are carried out at the NCR rate. A blended rate applies provisionally to certain public sector transactions, including sales of oil and gas. The black market rate has hovered between S£46 and S£54 per U.S. dollar since the early 1990s.

Over the last decade, the Syrian government has contracted the **inflation rate** from 34 percent in 1988 to minus 0.5 in 1999. The EIU forecasts that weak Syrian growth and the current low level of economic productivity in the local economy will further help the government keep **inflation** in check. The potential increase in government spending due to public sector wages and a steady growth in global non-oil commodity and raw material prices might threaten to reverse this trend over the forecast period.

Exchange rates: Syria

Syrian pounds per US$1	
2001	N/A
2000	46
1999	N/A
1998	46
Jan 1997	41.9
1996	N/A

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Besides existing ethnic and sectarian cleavages, Syrian society is also stratified along tense social and economic class divisions. The class structure is characterized by a high degree of maldistribution of wealth, meaning that much of the wealth is concentrated in the hands of the few, while large numbers of people live in poverty. Moreover, there is a high correlation between wealth and sectarian-ethnic background. The upper income group is composed of Alawite high-ranking officials, military officers, Sunni landowners, small industrial business owners, and important merchants. The middle-income group comprises most Alawite and Sunni government officials, shopkeepers, professionals, and farmers. The lower income group is made up of Alawite workers, peasants (farmers who do not own all the land they cultivate), and employees.

Although the Ba'athist Syrian government has directed its welfare policies—such as land reform—at easing social problems, an estimated 20 percent of the Syrian population lives under the poverty line. In the last 30 years, the pace of change from an agricultural to an industrial economy and the accompanying migration of people to the cities has worsened income distribution and caused the mushrooming of high-poverty shantytowns (poorly constructed temporary housing) on the edge of populous cities. To compensate for disparities in the distribution of wealth, the Ministry of Municipal and Rural Affairs has constructed blocks of low-income flats in these areas. Meanwhile, the Ministry of Social Welfare and Labor has been empowered to find work for and distribute cash allowances to the unemployed. The Ministry also encourages such youth activities as athletics, scouting, literacy campaigns, and the organization of cooperatives. The government gives substantial grants to private welfare societies in solving poverty problems. According to World Bank sources, however, the share of GDP allocated to the social security and

welfare policies was barely 0.7 percent a year between 1992 and 1997.

WORKING CONDITIONS

The Syrian labor force was estimated at about 4.8 million by the International Labor Organization in 1998. The service and agriculture sectors employ the majority of the labor force, each accounting for about a 40 percent stake. Although government figures put unemployment at below 10 percent, unofficial estimates more than double this figure, with under-employment accounting for another 25 percent. Syria has one of the highest population growth rates in the world, with an annual increase of 2.58 percent. Because of the high growth rate, an extra 200,000 new workers enter the labor market every year. According to the *EIU Country Report,* the unemployment rate among 15 to 29-year-olds is unofficially reported to be as high as 85 percent. As a part of an emergency plan in its 2000 budget, the government has allocated S£80 billion for the creation of 92,322 new jobs, but this falls far short of the number entering the labor market each year.

Due to these harsh conditions in the labor market, many Syrians go to Lebanon and the Gulf States to work. For that reason, in recent years, Syria has become economically dependent on Lebanon. Sources in Lebanon estimate that about 500,000 to 1 million Syrians work in the country. In Beirut, Syrian workers can earn twice what they make in their own country. Jobs in Lebanon reduce unemployment in Syria and the remittances of these workers to their families back home are estimated at US$1–3 billion dollars per year. The condition exacerbates economic deprivation in Lebanon, however. Lebanese Shiites and Palestinian refugees are hard hit by the influx of Syrian workers.

The 1973 Syrian constitution provides for the right of the "popular sectors" (workers, peasants, and state employees) of society to form trade unions. The government insists that there is in practice trade union pluralism (a condition in which a multiple number of unions with different particular interests can freely exist). Despite this, workers are not free to form labor unions independent of the government-prescribed structure. The General Federation of Trade Unions (GFTU) is the major independent popular organization. The government uses it as a framework for controlling nearly all aspects of union activity. The GFTU is charged with providing opinions on legislation, devising rules for workers, and organizing labor. In the private sector, unions are active in monitoring compliance with the laws and ensuring workers' health and safety. Strikes are not prohibited (except in the agricultural sector), but in practice they are discouraged.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1250. Mamluks take control of most of Syria.

1516. Syria is incorporated into the Ottoman Empire.

1869. The opening of the Suez Canal leads to a decline in Syria's economic importance.

1916. The Sykes-Picot agreement between Great Britain and France, made during World War I, places Syria and Lebanon under French "influence."

1922. The League of Nations approves the French Mandate for Syria and Lebanon.

1945. Syria becomes a member of the United Nations.

1946. Syria and Lebanon declare their independence from France.

1948. In the Arab-Israeli war, Syria joins the joint Arab forces fighting against Israel.

1958. Establishment of the United Arab Republic (UAR), a union of Syria and Egypt. Egyptian Gamal Abdel Nasser becomes president of the union and dissolves all political parties in Syria. He also introduces regulations on the size of land property.

1961. Opposition to the UAR grows in Syria, particularly against the socialist economic policies implemented by Nasser. The army takes control of Damascus, and declares a new independence for Syria.

1963. The Ba'athist party takes control of the country.

1967. In the Six Day War, Israel seizes the Golan Heights from Syria.

1970. Hafez Assad seizes power in a "corrective coup."

1971. Assad is elected president for a 7-year term in a plebiscite (a vote of the people).

1973. Syria and Egypt go to war with Israel to retake the Golan Heights.

1976. The Syrian army intervenes in the Lebanese civil war.

1981. Israel formally annexes the Golan Heights.

1982. An Islamic extremist uprising in Hama is crushed and thousands are killed. Israel invades Lebanon.

1987. Assad sends troops into Lebanon for a second time to enforce a cease-fire in Beirut.

1990. Following the Iraqi invasion of Kuwait, Syria joins the U.S.-led coalition against Iraq. This leads to improved relations with Egypt and the United States.

1991. Syria participates in the Middle East peace conference in Madrid, and holds bilateral talks with Israel. The Damascus Declaration aid and defense pact is signed with Egypt, Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman.

2000. Assad dies and is succeeded by his son, Bashar, soon afterwards.

FUTURE TRENDS

In order to overcome its existing economic problems, Syria will need to attract major international investors. This does not seem likely in the near future due to domestic and international problems. In the domestic arena, the 34-year-old Bashar Assad, son of the late Hafez Assad, tried to cement his position while launching his liberal political and economic agenda. Bashar and his reformist elite tried to bring a new openness to the country, but efforts were thwarted by the "old guard" of military and political veterans who remained loyal to the legacy of Hafez Assad.

With regard to regional politics, it is clear that Bashar Assad must strengthen his domestic political standing before entering into peace talks with Israel. Syria's other main foreign policy concern, Lebanon, has become akin to a domestic policy issue. Syria has politically dominated Lebanon for a decade, making foreign and defense policy decisions for the country, and approving all senior politicians. Under the elder Assad, no opposition was allowed to Syria's dominant position in Lebanon. After Israel withdrew from Lebanon in May 2000, many Lebanese continue to resent the presence of Syria and call for the removal of its troops. Bashar Assad might be forced to make a vital decision regarding his policy towards Lebanon. Most likely, the Syrian government will ask Lebanon for some concessions because of the economic advantages they gain from about 500,000 to 1 million Syrian workers in Lebanon.

Syria has long sheltered revolutionaries and terrorists to get leverage in regional politics. If the government wants to attract foreign investors, it must reconsider its support for international terrorism. Depending on policy options embraced by the new president, the outcomes of these domestic and international policy decisions will shape Syria's economic performance in the next decade. Because of population and unemployment problems, Syria's reliance on oil revenue puts it in an unstable situation. Decreasing production in the sector might have a negative impact on the economy in the end, while increasing oil prices on the international markets seems to continue boosting export revenues in the short-run.

DEPENDENCIES

Syria has no territories or colonies.

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—Yüksel Sezgin

TAIWAN

Republic of China
Chung Hwa Min Kuo

CAPITAL: Taipei.

MONETARY UNIT: New Taiwan dollar (NT$). One dollar equals 100 cents. There are notes of 50, 100, 500, and 1,000 dollars. There are coins of 50 cents, and 1, 5, and 10 dollars.

CHIEF EXPORTS: Machinery and electrical equipment (51 percent), metals, textiles, plastics, chemicals.

CHIEF IMPORTS: Machinery and electrical equipment (51 percent), minerals, precision equipment.

GROSS DOMESTIC PRODUCT: US$386 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$148.38 billion (f.o.b., 2000). **Imports:** US$140.01 billion (c.i.f., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. The island of Taiwan, in Eastern Asia, is about 161 kilometers (100 miles) away from the southeast part of mainland China, and about 483 kilometers (300 miles) north of the Philippine island of Luzon. The East China Sea forms the northern border of Taiwan, the Taiwan Straits are to the west, the Philippine Sea to the south, and the Pacific Ocean on the east coast. The territory is slightly smaller than the combined area of Maryland and Delaware in the United States. Taiwan occupies a total area of 35,980 square kilometers (13,892 square miles). Its capital city, Taipei, is in the northeast, and is the most densely populated area in the territory.

POPULATION. As of November 2000, the population of Taiwan was estimated at 22,257,000. People aged 14 years and under comprise 22 percent of the total population, while 70 percent belong in the 15 to 64 age bracket. The earliest government census records, dated 1905, set the island's population at 3.12 million, which doubled to 6.02 million by 1945. Subsequently, the Taiwanese population increased at an average of 3.84 percent, prompting the government to implement strict population control measures such as family planning. By 1997, the population growth rate had dropped to 1 percent.

Besides government family planning programs, the decline in population growth can be linked to the change of attitude in the younger generation who, due to better education and career opportunities, now tend to marry later. There has been a decrease in potential mothers between the ages of 20 and 34. Of the 326,002 births registered in Taiwan in 1997, the ratio was 109.04 boys for every 100 girls. The greater male-to-female ratio on the island is in keeping with Chinese culture, which traditionally values sons above daughters.

The population distribution curve measured by age groups indicates an aging population. In 1990 people aged 65 and over comprised about 6.1 percent of Taiwan's population. This figure increased to 8 percent in 2000 and, with average life expectancy at 76.35 years, the government estimates that the percentage of its elderly population will increase to 19.1 percent by 2030. In an attempt to encourage a moderate *increase* in population, the government modified its former population reduction slogan from, "One [child] is not too few; two are just right," to "Two are just right."

Because of the increasing industrialization of Taiwan, people are flocking to the urban-metropolitan areas of the island, which absorb 67.8 percent of the total population. In 1997 the population density of Taiwan was the second highest in the world next to Bangladesh, with 601 people per square kilometer (1,557 per square mile). The capital city, Taipei, which covers 272 square kilometers (105 square miles), is the most densely populated area with 9,560 persons per square kilometer (24,760 per square mile). Second to Taipei is Kaohsiung City with an area of 154 square kilometers (59 square miles), which is home to 9,350 persons per square kilometer (24,216

per square mile), while Taichung City, with an area of 163 square kilometers (63 square miles), has 5,519 inhabitants per square kilometer (14,294 per square mile).

OVERVIEW OF ECONOMY

The economic development of Taiwan can be broken down into 5 stages. In the 1950s, the main goal of the government was to stabilize the economy and ensure an adequate and regular food supply for the population. Hand in hand with agricultural production, the government encouraged the development of labor-intensive industries to provide much-needed employment to a growing **labor force**, and to ease the need for imported products by manufacturing substitute products locally.

In the 1960s, the government continued to promote the same labor-intensive industries, but this time the focus was on manufacturing products for export. By the end of the decade, the export industry was thriving and had stimulated local demand for the machinery needed to produce export goods. This export-led strategy had several positive results. Employment opportunities increased and a greater variety of manufactured products were developed. Expansion advanced local knowledge of management skills and the development of industrial technology. Moreover, receipts of foreign currency greatly enhanced the financial standing and stability of the government.

Supported by these developments, in the 1970s the government shifted its strategy to the encouragement of basic and heavy industries. These industries were designed to produce and promote domestic substitutes for imported products, and to develop those industries that would require heavy capital expenditures. By thus reducing Taiwan's reliance on foreign suppliers for components, government expenditure decreased.

By the 1980s, Taiwan's foreign trade was posting huge surpluses. The government directed these funds to building **infrastructure** such as roads, bridges, airports, and seaports, and to improve the quality of life on the island. The surplus was also able to finance the further development of capital-intensive and high-technology industries such as electronics, information, and machinery. At the turn of the decade, the government focused on building a world-class infrastructure and 1994 saw the approval of a plan known as the Twelve Major Construction Projects. The scope of the plan included transportation, culture, and education, improvement of living standards, development of water resources, and environmental protection.

In just 50 years, Taiwan had achieved rapid economic growth, characterized by stable prices and equitable distribution of income. Its rapid industrial advancement between 1980 and 2000 has earned the island recognition as one of the "tiger" economies of Asia.

One of the most important events that set the stage for Taiwan's economic development was its implementation of genuine land reform. Under this program, rents were reduced, public lands were distributed to the landless, and farmers were given the opportunity to own the land they had been tilling for many years. In 1953, 60 percent of the rural population became owner-farmers, and owner-cultivated land increased to more than 75 percent of the total land tilled. In the meantime, those land owners who were compelled to sell their property under the land reform program were compensated in government bonds. Dissatisfied with the government's action and highly suspicious of the value of the bonds, many of the landowners immediately sold them. At the same time, land prices went down in anticipation of the effects of

land reform. Taken together, these events contributed to eradicating the land-owning class and the landlord-tenant relationship, a transformation that saved Taiwan from the fate of other societies where huge income disparity between landowners and their workers set the stage for social and economic injustice.

Land reform also led to the reorganization of rural Chinese society. It brought the end of patriarchy, whereby authority was vested only in men, and saw the loosening of family ties. As agricultural processes were modernized, production became more efficient, allowing younger people to leave the farms and pursue other careers in the urban areas. This migration triggered urbanization which, in turn, fostered job specialization, lowered class barriers, promoted social equality, and increased cultural and social interaction.

As social interaction increased, people no longer confined close relationships to the family circle but made outside friends, thus further contributing to social stability and harmony. Under government guidance, the Taiwanese found themselves sharing a common vision and working toward a common goal. Besides economic policies, the government implemented policies that extended compulsory education to 9 years and established schools for vocational and technical training. By encouraging young people to acquire new ideas and skills, Taiwan created a well-trained and industrious labor force, which has served as the backbone of the nation's economic development.

The major economic sectors in Taiwan are composed of services, manufacturing, and agriculture. Since 1985, the service sector has contributed greatly to economic development by generating more than half the **gross domestic product** (GDP), increasing to 64 percent in 1999, while industry and agriculture accounted for 33 percent and 3 percent of GDP, respectively.

Small and medium enterprises (SMEs) in Taiwan are engaged in the manufacturing of products from toys and textiles to personal computers. SMEs can also be found in the construction industry, and in the service sector, particularly in financial, social, and personal services. According to the Ministry of Finance, 97.76 percent of the businesses in Taiwan can be classified as SMEs. In 1998, SMEs provided employment for 4 out of 5 workers in Taiwan, or 7.27 million out of 9.55 million workers.

The government of Taiwan is optimistic about the island's continued economic growth. Its optimism is based on past economic performance. Even at the height of the 1997 Asian financial crisis, which had a negative impact on the leading economies of Asia, Taiwan's gross domestic product still amounted to US$283.4 billion.

Taiwan's government is continually drawing up plans to create more businesses on the island to provide more employment and to strengthen its position against the re-occurrence of a regional or global economic crisis. For the 21st century, the government is working hard to secure the next step of that process. In his inaugural speech of May 2000, President Chen declared that Taiwan must respond to international developments by moving toward a knowledge-based economy in which high-tech industries constantly innovate, while traditional industries progressively transform and upgrade.

POLITICS, GOVERNMENT, AND TAXATION

In the early stages of its development, in the 1950s, Taiwan's economy was closely managed and controlled by the government. After the economy showed signs of rapid growth and continued development, government gradually exerted less control to give the economy free rein.

Government control during the early stages of Taiwan's economy was crucial to the provision of much-needed direction, guidance, and motivation of the population. The government's role included the maintenance of a stable and law-abiding society, strict implementation of their policies, and the formulation of programs to spur national development.

From the 1950s to the 1960s, the government assumed the role of an economic caretaker, exercising control and influence. The government gave support to emerging industries and acted to protect them against external competition. In the 1950s, foreign aid from the United States assisted the development of the textile and milling industries, while export industries tapped the country's limited foreign reserves. During this period, the government also encouraged the growth of Taiwan's domestic automobile industry by shielding it from foreign competition. Citizens wanting to buy foreign-made cars were penalized by a tax equivalent to the price of the imported car itself.

At this stage of Taiwan's economic development, the government demonstrated creativity in its plans to advance economic development. First, it maximized the contribution of state-run enterprises to the national coffers by taking a part of the profits in **indirect tax**. Second, the government provided incentives for private enterprise to thrive, lowering the price of electricity for industrial use, while increasing the price for commercial use. As intended, this ploy encouraged business into the manufacturing rather than the **retail** sector.

In the 1970s, the government took the initiative in building necessary infrastructure such as roads, bridges, airports, new cities, highways, and railways. It launched large-scale public investment projects, since dubbed the Ten, Twelve, and Fourteen Major Construction Projects;

the Six-Year National Development Plan; and the Twelve Economic Construction Projects.

Because of the government's protection and economic intervention, Taiwan's economy grew by leaps and bounds in just 4 decades. By the 1990s, private enterprise had grown strong and steady and needed little state assistance, although the expectation remains that government will continue to foster a healthy investment environment and move with the times in implementing new regulations. The role of the government, in short, has shifted from that of caretaker to that of teacher. As teacher, it has provided private enterprise with information on economic growth and technology, as well as assistance in training personnel.

Over the years, the government and people of Taiwan have attempted to uphold democratic principles and strengthen the island's political institutions. Political activities, especially elections which appear tainted by corrupt practices (buying votes, peddling influence, or provoking violence) are greeted with outrage. Beginning in the mid-1990s, certain reform-minded politicians campaigned for electoral reform. They tried to strengthen the role of political parties, improve their image, and highlight the importance of issues in elections. They aimed, too, to attract political candidates of a higher caliber, reduce the influence of personal connections and, finally, to combat factionalism (the breaking into smaller, differing factions or groups within a political party).

Taiwan's government is a multi-party democracy based on a constitution created in 1947 and amended in 1992, 1994, 1997, and 1999. The president and vice president are elected on the same ticket by popular vote and serve a 4-year term. The legislative branch consists of a **unicameral** (single-house) Legislative Yuan with a total of 225 members serving 3-year terms, 168 of whom are elected by popular vote, 41 of whom are elected by proportional vote by party, 8 elected from overseas constituencies based on proportional vote, and 8 elected by popular vote from among the country's aboriginal population, which constitutes 2 percent of the population. There is also a unicameral National Assembly of 300 members, all of whom are elected by **proportional representation** based on election of the Legislative Yuan and serve 4-year terms.

The year 2000 marked a significant political event in Taiwan when the candidates of the Kuomintang (KMT), Taiwan's ruling party for over 50 years, were defeated by the candidates of the leading opposition party, the 14-year-old Democratic Progressive Party (DPP). Taiwan's highest political office, the presidency, went to the DPP's Chen Shui-bian, the country's tenth president. His running mate, Hsiu-lien Annette Lu, became vice president, marking a victory not only for the DPP but also for the women's movement. Vice President Lu is known to have championed gender equality and women's rights since the beginning of her political career.

In the 2000 national elections, there were 3 major issues aside from the economy on which candidates had to make their attitudes clear to win votes. These were mainland policy, national defense, and foreign relations. Mainland policy dictates whether Taiwan should pursue its independence from mainland China or maintain the status quo. Currently, Taiwan upholds the principle of "one China, two political entities." Under the constitution, Taiwan is referred to as the Republic of China and regards itself as the national government of China, while the People's Republic of China is a political entity that controls mainland China. The issue is a cause of political tension not only for the 2 territories but also for other countries. Mainland China continues to use the threat of political and economic **sanctions** against those countries willing to recognize Taiwan as a separate country. Due to the scale of China's economic resources, its huge population, and its military capability, the threats are not taken lightly.

The KMT, or Nationalist Party, has the longest running political record in Taiwan. Founded by Dr. Sun Yatsen in 1894, the KMT celebrated its one hundredth anniversary on 24 November 1994. The party is of major significance in Taiwan's history, and was involved in the war against Japanese invaders, struggles against **communist** rebellion, implementation of the constitution, and the economic development of the island. The KMT enjoys wide support, with a membership of approximately 2.1 million. At the lowest level, members are organized into cells. Moving upwards, there are district, county, and provincial congresses and committees. The highest level includes the National Congress and the Central Committee. With its historic defeat in 2000, KMT's leadership began an evaluation of the party platform, direction, and standing, compared with the other political parties.

The Democratic Progressive Party (DPP) was long the leading opposition party to the KMT. It was established on 28 September 1986 and has approximately 200,000 members. Its main policy is in direct opposition to the KMT because it calls for Taiwan's complete independence from mainland China. In recent elections, the more senior officers of DPP have tended to attach less importance to the party's stance on independence in an attempt to attract more voter support. The lack of consensus on this issue has caused some dissent within the party and has resulted in the breaking away of members who are passionate advocates of Taiwanese independence. Several of these dissatisfied DPP members have left the party and, with new recruits, have formed the Taiwan Independence Party and the New Nation Association.

In the 2000 elections, the economic platform espoused by the DPP included the introduction of a **pro-**

gressive tax system, elimination of unemployment, the promotion of balanced development in every sector of the economy, the opening of state-run enterprise to private investment, and protection of the environment against further destruction.

Another opposition party that has emerged is the New Party (NP), formed in August 1993 by a KMT breakaway group composed of 6 Legislative Yuan (a branch of government) members and 1 former lawmaker. Their official statement of resignation from the KMT, as documented in Taiwan's 1999 Yearbook, gave as their reason the "undemocratic practices of the KMT" as well as ideological differences. The New Party has been led by such prominent political personalities as the former finance minister, Wang Chien-shien, and former head of the Environmental Protection Administration, Jaw Shau-kong. The party champions 2 major issues: anti-corruption and social justice. The goal of the NP is to attract those voters who were dissatisfied with the performance of the ruling KMT, but who are opposed to the DPP's support for independence. The NP now claims a registered membership of nearly 68,500.

One of the newest parties to emerge because of Taiwan's ongoing democratization is the People First Party (PFP), established on 31 March 2000 by former Taiwan governor James Soong. The PFP is distinct from the other parties in allowing eligibility for membership at age 16, 2 years younger than the minimum age required by the other parties. James Soong, who was elected as the party's first chairman, ran as an independent in the 2000 presidential elections, but was defeated. The PFP is still in the process of establishing its structure and political base.

GOVERNMENT EXPENDITURES AND TAXATION. Data generated by the Directorate General of Budget, Accounting and Statistics (DGBAS) shows that the government spent NT$1.164 trillion in 1999. A big percentage of the budget went to national defense (22.6 percent); followed by education, science, and culture (17.4 percent); economic programs (14.8 percent); social welfare (13.5 percent); general administration (11.6 percent); and pension and survivor's benefits (11.1 percent). In the same year, the government posted a **budget surplus** amounting to NT$64.6 billion, while **external debt** amounted to US$35 billion.

Taiwan's government collects 18 different categories of taxation, which provide the revenue for national expenditures. Nine of these categories are classified as **direct taxes**: corporate **income tax**, individual income tax, rural land tax, land value tax, land value increment tax, estate and gift tax, mining-lot tax, house tax, and deed tax. The other 9 taxes are indirect and include customs **duty**, business tax, commodity tax, stamp duty, vehicle license tax, securities transaction tax, amusement tax, slaughter tax, and harbor dues.

Taxes are collected by the National Tax Administration, which administers different tax collection offices in the different provinces and municipalities. In 1999 tax revenue alone accounted for 62.7 percent of the government's total revenues. In the same period, the government was able to collect a little over NT$770 billion in taxes according to DGBAS statistics.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

One of the key factors in Taiwan's rapid economic development is its well-planned and efficient transport network. As an export-oriented economy, its many businesses are heavily dependent on shipping, by air and sea, for the transport of their goods to overseas markets.

On 5 January 1995, Taiwan approved the Asia-Pacific Regional Operations Center (APROC) Plan, an

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Taiwan	12.49 M (2000)	16 M (2000)	AM 218; FM 333; shortwave 50 (1999)	16 M (1994)	29	8.8 M (1998)	8	6.4 M
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
China	135 M (2000)	65 M (2001)	AM 369; FM 259; shortwave 45	417 M	3,240	400 M	3	22 M (2001)
Singapore	1.928 M (2000)	2.333 M (2000)	AM 0; FM 16; shortwave 2	2.6 M (2000)	6 (2000)	1.33 M	9	1.74 M

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

ambitious project that will transform the island into a center of business and investment in the Asia-Pacific region. With APROC, Taiwan plans to attract the establishment of new local, as well as foreign, companies on the island. Taiwan's world-class and well-organized facilities would see such companies conveniently placed to take advantage of opportunities in the flourishing Southeast Asian markets, and the much coveted market of mainland China.

There are a total of 34,901 kilometers (21,687 miles) of roads in Taiwan, 90 percent of which are paved. Taiwan has a modern railway system that provides frequent and convenient passenger service between major cities on the island. As of 1999, Taiwan's railway network totaled 2,481 kilometers (1,542 miles). Railways in Taiwan are operated by the Taiwan Railway Administration (TRA), the Taiwan Sugar Corporation, and the Taiwan Forestry Bureau. The TRA provides passenger and freight services to the general public, while the Taiwan Sugar Corporation and the Taiwan Forestry Bureau haul their own products and offer only limited passenger service.

The government has already begun the development of a high-speed railway (HSR) that is expected to begin operating in June 2003. The planned HSR route, 340 kilometers (212 miles) long, will pass through the west corridor of the island. Ten stations will be located from Taipei to Kaohsiung to serve about 22 million residents in the region. The estimated construction cost of the project is US$13.05 billion, and the HSR will cut the present travel time from north to south by train or highway vehicles from 4 hours to 90 minutes.

As of December 1997, Taiwan's shipping industry had a fleet of 255 vessels weighing over 100 gross tons. Taiwan claims to have one of the largest fleets of cargo container ships in the world. Taiwan has 6 international harbors: Chilung, Suao, Taichung, Hualien, Anping, and Kaohsiung. Waterborne imports and exports handled by these ports amounted to 166.1 million tons in 1997.

As of 1997 51 airlines have been providing flight services to destinations in Taiwan. There are 34 foreign carriers, and 5 domestic-based airlines: EVA Airways, Mandarin Airlines, China Airlines, Transasia Airways, and Far Eastern Air Transport Corporation. Three Taiwan-based carriers offer international charter services: UNI Airways Corporation, Great China Airlines, and U-Land Airlines.

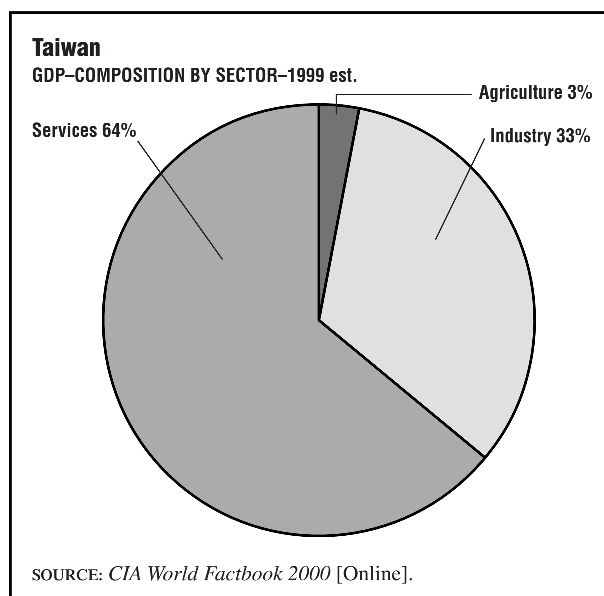
Taiwan has 2 international airports: Chiang Kai-shek International Airport at Taoyuan in northern Taiwan and Kaohsiung International Airport in the south. In addition, there are several domestic airports.

COMMUNICATIONS. The government is laying the foundation for a national information infrastructure through 30 different projects designed to make the country into a competitive and knowledge-based society. The different projects are focused on enhancing broadband access, improving the quality of Internet service, improving and diversifying the content of local web sites, and promoting electronic commerce and other Internet-based applications. As of 1 July 1999, Taiwan had 15 Internet service providers and 4.13 million Internet users. Based on official estimates, there are at least 52,000 locally authored web sites in Taiwan, 89.6 percent of which are dot-coms (Internet-based companies offering different types of conventional and innovative goods and services). Most of these web sites are written in Chinese, although many provide English versions.

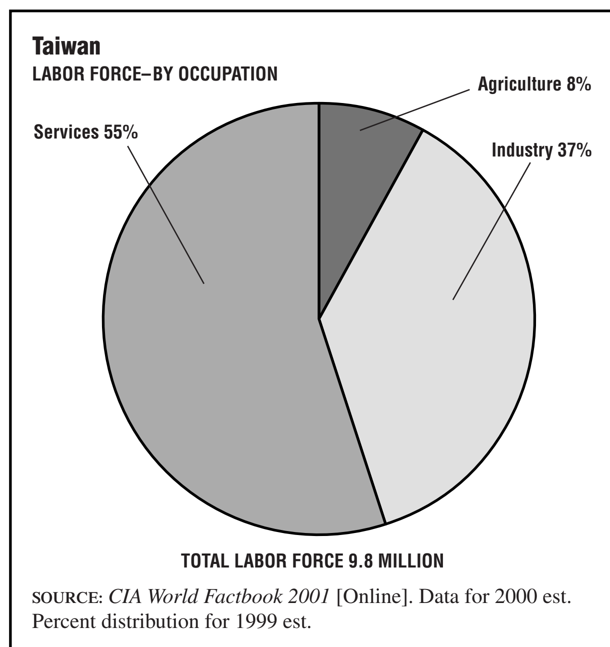
As of April 2000, the Directorate General of Telecommunications estimated the mobile phone subscribers at 13.78 million, a number that was higher than the estimated 12.49 million telephone main lines. In July 2000, Taiwan reduced its international direct dialing (IDD) fees by an average of 15 percent. Earlier, charges on local and mobile phones, leased lines and Internet service had seen reductions of between 2 percent and 5 percent. Further reductions are expected once a separate accounting system has been established and an evaluation of the state-run telecom company carried out.

ECONOMIC SECTORS

According to a study by the Nomura Research Center of Japan, the competitive advantage of Taiwan's manufacturing industry lies in information, telecommunications, and other high technology industries. Correspondingly, the government has identified and appropriated funding for the development of 10 high technology industries that will be the foundation of Taiwan's economic success in the first few decades of the 21st cen-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1999 est.

tury. The 10 industries are: (1) communications, (2) information, (3) consumer electronics, (4) semiconductors, (5) precision machinery and automation, (6) aerospace, (7) advanced materials, (8) specialty chemicals and pharmaceuticals, (9) medical and health care equipment, and (10) pollution control and treatment.

Labor-intensive industries such as processed foods, leather products, and wood and bamboo products have gradually been replaced by capital- and technology-intensive industries. Examples of these industries are chemicals, petrochemicals, information technology, electrical equipment, and electronics. Electronics and information technology are the biggest players in the manufacturing sector, which employs 26 percent of the national workforce.

The service sector is thriving and shows promise of further growth as the spending power of the population increases. By the end of 1995, the growth of the service sector exceeded that of the agricultural and manufacturing sectors by more than 60 percent and has continued to do so. The different businesses that fall under the service sector in Taiwan are: finance, insurance, and real estate; commerce, including wholesale and retail business, food and beverages, and international trade; social and individual services; transport, storage, and telecommunications; commercial services, including legal, accounting, civil engineering, information, advertising, designing, and leasing; governmental services, and miscellaneous others. Among these businesses, finance, insurance, and real estate are the most dominant. The service sector creates the largest competitive employment opportunities and employs the bulk of Taiwan's labor force.

Meanwhile, the contribution of the agricultural sector to GDP has been steadily declining since the 1980s when Taiwan's government shifted the focus of its economic strategy to industrialization. Few of the younger generation are willing to work in the agricultural sector, preferring to pursue better opportunities in the other sectors. Farmers make up only 8 percent of the labor force and produce less than 3 percent of the island's total GDP according to 1999 statistics. Consequently, the sector diminished in importance while the manufacturing sector has risen to the forefront. The agricultural sector will face even more problems when the country is finally accepted as a member of the World Trade Organization (WTO). To comply with the WTO's requirements, the government has been systematically reducing the trade barriers on its traditionally well-protected agricultural goods, leaving local produce to face increased competition from the foreign agricultural products that will flood the domestic market when Taiwan becomes a full-fledged member in the WTO.

Manufacturing has long been overtaken by the service sector in terms of contribution to GDP. In 1999, the service sector contributed the biggest slice of GDP at 64 percent, with industry accounting for 33 percent, and agriculture 3 percent.

AGRICULTURE

In the 1950s, 90 percent of Taiwan's residents lived in farming communities growing rice, sugar, tea, camphor, and other crops. Two decades later, the government aggressively pursued industrialization, causing agricultural exports to fall behind agricultural imports. By 1999, agriculture constituted only 3 percent of Taiwan's GDP compared with 32.2 percent in 1952. Although the total area under cultivation decreased by one-third between the 1960s and the 1990s, the value of agricultural output to the national economy has increased by half because of improvements in overall productivity. Taiwan's biggest export markets are Japan, Hong Kong, and the United States.

In 1998, rice was Taiwan's most valuable crop, followed by betel nuts, corn, sugar cane, mangos, watermelons, tea, pineapples, pears, and grapes. In the 2 crop seasons of 1998, Taiwan harvested 1.49 million tons of brown rice. According to the Taiwan Provincial Department of Food (TPDF), this was more than was needed to meet local demand. The oversupply of rice is expected to peak as Taiwan braces itself for intensive competition from foreign rice imports as the country moves toward membership in the WTO.

Next to hogs, rice, and chickens, betel nuts rank as Taiwan's fourth most valuable farm product according to TPDF. Demand steadily increased in the 1990s, resulting in the expansion of areas cultivated for betel nuts. In 1997,

56,300 hectares of land were planted with betel nuts and produced almost 156,000 metric tons. Farmers were keen to plant betel nuts because, in a good year, the income can be 10 times higher than that from growing rice.

In 1998, 178,000 hectares of land were devoted to vegetable cultivation, which yielded 2,872,571 metric tons of produce. More than 100 kinds of vegetables are grown in Taiwan. The primary vegetables grown in planted areas are bamboo shoots, watermelon, leafy vegetables, vegetable soybeans, cabbage, cantaloupe, garlic, scallions, celery cabbage, Chinese cabbage, and radishes.

Taiwan produces 30 varieties of fruit, including apples, pears, peaches, citrus fruits, bananas, pineapples, lychees, longans, mangos, papayas, persimmons, loquats, and guavas. The main crops are citrus, mangos, lychees, bananas, pineapples, wax apples, and Asian pears. Pineapples and lychees are canned to satisfy domestic and international demand, while other fruits are processed into juice for local consumption.

FLORICULTURE. From 1986 to 1998, Taiwan's floriculture (flower-growing industry) underwent huge and profitable expansion, and its export value increased from US$3.7 million to US$41.5 million. As demand and sales increased, Taiwan's floral nurseries were expanded from 3,500 hectares to 10,000 hectares. The major export markets for flowers are Japan, Hong Kong, and the United States. Most flower farms allocate half of their planting area to producing cut flowers, that is, flowers sold as single stems for vases and floral arrangements, while the other half is used for nursery production. Annual production of cut flowers is 1.4 billion stems and 25 million potted plants.

FISHING. In 1998, the Taiwanese fishing industry harvested fish worth US$2.9 billion, of which 62 percent came from deep-sea fishing, 20 percent from aquaculture, 15 percent from offshore fishing, and 3 percent from coastal fishing. Skipjack and eel are Taiwan's biggest water-based export items. The export value of eel, most of which goes to Japan, exceeded US$400 million in 1998.

To protect natural resources and further develop the island's fishing industry, Taiwan's government invested in the construction of fishing harbors, wholesale markets, modern equipment, and other infrastructure during the 1980s. During the 1990s, the government complemented this initiative with renewed efforts to raise public awareness of environmental and conservation issues. Several environmental laws were passed, such as the Water Pollution Control Act in 1991 and the Environmental Impact Assessment Act in 1994.

Taiwan's mountainous terrain serves as a natural hazard to its thriving fishing industry, especially in the rainy season when mud and silt are deposited in the island's wide and shallow river beds. The government, therefore, set aside and developed areas especially suited to aquaculture (the production of scientifically farmed fish), and Taiwan has become a world leader in aquacultural development. The industry flourished in the 1980s, but received a setback when the grass shrimp industry was hit by an epidemic in 1987. During the 1990s, government further boosted production by promoting automation, encouraging the use of biotechnology, and improving its marketing strategy.

LIVESTOCK. In the 1950s, the farming of livestock in Taiwan was a backyard enterprise. In just 4 decades since, livestock grew into a multi-billion dollar industry and has become a major export product. In 1998, livestock production was valued at more than US$3.6 billion, accounting for 41.56 percent of the total value of agricultural production. Hog farming still ranks first in the livestock industry, followed by broiler chickens, eggs, and milk. However, an outbreak of foot and mouth disease in March 1997 caused a temporary decline in export sales. The official estimate of hog farms stricken by the disease is 6,147 across 20 cities. To control the spread of the disease, the government ordered the extermination of all affected animals and the immediate vaccination of those unaffected. Roughly 21 million doses of vaccines were used to bring the disease under control. Since then, the hog industry has recovered and export sales have returned to the normal level.

Taiwan attributes the growth of its agricultural industry to the dedication of its farmers, the development of a farmers' organization, continual improvements in techniques and infrastructure, and the implementation of a beneficial land reform program. The government continues to support its farmers with price guarantees, low-interest loans, economic incentives, and other helpful measures.

Through technological improvements such as new cultivars, growth regulators, and mechanization, crop yields per hectare of land jumped from 8,600 kilos in 1945 to 16,384 kilos in 1998. Taiwanese fruit growers have applied advanced horticultural technology to modernize their operations. Through the effective control of plant diseases, adjustments to fruit maturation periods, the cultivation of improved fruit strains, and the implementation of multiple annual harvests, the fruit sector has witnessed profitable growth.

Taiwan has used information technology to create the National Agricultural Information Service, an integrated agricultural information database that includes planning, production, and marketing information related to domestic farming, forestry, fishing, and animal husbandry. This database provides rapid access to information and communication, and allows players in the agricultural sector to exchange ideas at an international level.

Taiwan's agricultural sector faces several challenges. Efficient farming is hindered by the rapidly aging agrarian workforce and a severe shortage of new young workers, who have abandoned the rural life for more profitable careers in the cities. Farmers are having to confront falling incomes, rising costs, and increased foreign competition, and as Taiwan's entry into the WTO approaches, the farmers' predicament will worsen before it gets better.

Another factor that serves to hinder agricultural growth is the island's mountainous topography, which restricts farming to the arable western slopes and alluvial plains. To make matters worse, plots are small with most farmers having less than 1 hectare of cultivable land. This restricts the application of advanced agricultural methods such as mechanization, since these depend on economies of scale (large output) to be cost-effective. Promotion of efficiency in the farming industry has not kept pace with other sectors. About 10 percent of Taiwan's total farmland has been neglected because farming has ceased to be profitable.

The development of aquaculture is seriously threatened by environmental degradation. Freshwater aquaculture uses huge amounts of ground water, sometimes causing land to shift or cave in. Two of Taiwan's government agencies, the Ministry of Economic Affairs and the Council of Agriculture, have jointly promoted recycling systems that use fresh water more efficiently, and have encouraged aquaculturists to switch to marine ranching.

Taiwan's fishing and aquaculture industries are endangered by the pollution of its rivers and coastal waters caused primarily by the expansion of urban communities. There are 21 primary, 29 secondary, and 79 ordinary rivers in Taiwan. According to the Environmental Protection Administration (EPA), 33.8 percent of primary and secondary rivers are polluted to different degrees. Most industrial, agricultural, and residential wastewater drains directly into rivers, seriously polluting the water downstream. By April 1998 only 240,000 households (33.25 percent) were connected to the sewage system.

INDUSTRY

INFORMATION TECHNOLOGY. According to the Institute for Information Industry, Taiwan's software market will have reached up to NT$150 billion in production value by 2001 due to rising global demand for software. Continued investment and a steady supply of competent human resources are 2 major factors behind the sharp growth of Taiwan's software industry in recent years. The industry will have the opportunity to upgrade its production value further in the future, especially as **e-commerce** becomes increasingly popular among domestic enterprises in Taiwan.

In 1998 Taiwan's hardware information technology industry registered a total production value of US$33.8 billion, up by 11.9 percent from US$30 billion of the previous year, making it Taiwan's most important foreign exchange earner. Since 1995, Taiwan has been the world's third-largest computer hardware supplier after the United States and Japan. Taiwan has about 900 computer hardware manufacturers employing close to 100,000 workers. These companies manufacture laptop computers, monitors, desktop PCs, and motherboards which, in 1998, accounted for about 80 percent of the production value of the information technology industry. To secure a lion's share of the world market, Taiwan's manufacturers strive to maintain high quality and competitive prices. According to statistics released by the Institute for Information Industry, Taiwan has already replaced Singapore as Japan's second largest supplier of information products after the United States. In March 2000, Taiwan earned the distinction of becoming the world's leading manufacturer of CD-ROM drives, a feat made possible by Japan's withdrawal from the CD-ROM market in 1998. In 1999 Taiwan also claimed to be the world's largest supplier of notebook PCs, with an estimated world market share of 49 percent.

AUTOMOBILES. Thirteen automobile manufacturers have plants in Taiwan. Most of these are working in partnership with foreign carmakers, mostly Japanese. These companies produce and import automobiles. In 1998, roughly 402,000 automobiles were produced in Taiwan, and the value of the automotive industry reached US$9.93 billion.

However, limited parking space and the efficient mass transit systems in urban districts have resulted in the decline of the domestic car market. From a high of 542,000 units sold in 1995, only 476,000 were purchased in 1998, with 80 percent of the demand being for sedans. In recent years, competition between locally made and imported vehicles has gradually decreased. In 1998 the domestic automobile industry, although threatened by imports from Japan and the United States, still managed to capture about 84 percent of the market, with over 70 percent of the 292,000 domestically made sedans supplied by 3 companies: Ford Lio Ho Motor Co., Ltd. (20.3 percent), Yulon Motor Co., Ltd. (28.6 percent), and Kuozui Motors, Ltd. (22.4 percent). In the commercial vehicle market, China Motor Corporation maintained its traditional top position, producing over half of the 115,700 commercial vehicles sold.

To strengthen the industry, automobile manufacturers need to invest in research and design (R&D), and to improve their own technology in engines, computerized gearing systems, and several other components, to enhance their design capability. One of the industry's weaknesses is its dependence on foreign engines and its inability to produce other key parts such as airbags, which

has curtailed its plans to export vehicles. Since 1999, the Ministry of Economic Affairs has allocated funding to encourage R&D and thus alleviate the automobile industry's dependence on imports from Japan and elsewhere.

TEXTILES. The Taiwanese textile industry produces synthetic fibers, yarns, fabrics, clothing, and clothes accessories. In the last few years, local manufacturers have attempted to develop man-made fibers and fabrics to compensate for Taiwan's inability to produce cotton or wool, and its limited production of silk and linen. In 1998, Taiwan produced 3.25 million metric tons of man-made fiber, the third highest volume in the world. The country's output of polyester fiber, at 2.68 million tons, occupied second place globally. Nylon production was the world's highest at 301,000 tons. Taiwan has also started mass-producing carbon, spandex, and viscose fibers. The chief export markets for Taiwan's textile exports are the United States, Hong Kong, and other Southeast Asian countries.

SERVICES

FINANCIAL SERVICES. As in the past, Taiwan's banking system is dominated by state-run institutions. Despite pressure from foreign investors, the financial sector has not been **liberalized** and remains under government control. Consequently, the financial services sector is underdeveloped. In 1995, the combined factors of the Mexican peso crisis, the flight of foreign capital from Taiwan, and the collapse of several savings institutions brought even more restrictive government controls, the severity of which caused an increase in **black market** activities. In 1991, the Bureau of Investigation launched a campaign against unlicensed investment houses and underground futures brokers that resulted in prosecutions of certain companies charged with stock manipulation. Despite such moves, the sector continued to draw criticism for its perceived dubious and risky practices.

RETAIL. One of the biggest retailers in Taiwan is the 7–11 chain of convenience stores. In terms of store-to-population density, Taiwan has the highest ratio in the world with one 7–11 outlet for every 10,000 people. Owned by the President Chain Store Group, the company's revenues amounted to US$1.29 billion in 1998. The President Group is a household name in Taiwan, where almost everybody has used its products or services at one time or another. Moreover, it is the largest Taiwanese investor in mainland China. In October 1999, the Ministry of Economic Affairs approved a US$328 million mainland-bound investment project proposed by the President Group. The company is diversifying its operations by reinvesting in the Starbucks coffee shop chain and the Conforama home furniture and appliance chain.

Aside from food and beverages, an emerging retail market in Taiwan is the home improvement and furniture market. With the population's increased spending power, ever-increasing numbers of people are renovating their homes and surroundings. In 1992, internationally renowned companies like Ethan Allen, ID-design, Ikea, and B&Q entered the Taiwanese market. In an interview with the *Free China Journal* in 1999, an Ikea official estimated the annual value of the furniture sector in Taiwan at US$203 million. This estimate did not include the home improvement sector.

In 1998, Ikea's international chain of stores posted earnings worth US$7.02 billion. According to the Taiwan Furniture Manufacturers' Association, the huge potential of the sector evidenced by the earnings of the foreign companies has attracted Taiwan-based furniture exporters to offer their products to the domestic market as well.

INTERNATIONAL TRADE

The phenomenal growth of Taiwan's economy can be credited to its brisk foreign trade. From 1970 until 1990, the country amassed huge surpluses from its earnings in international trade, which peaked in 1987 when the **trade surplus** reached US$18.7 billion. However, several other countries became alarmed at Taiwan's huge surpluses and the corresponding economic power it might exert on other economies. The United States demanded that Taiwan remove trade restrictions and allow more foreign products into the country. Since then, Taiwan has reduced or removed a significant number of trade barriers, thus allowing foreign products to compete with local products in the domestic market. From 1992 to 1996, Taiwan's trade surplus declined by nearly 30 percent. However, from 1998, trade figures have once more shown a steady rise and, according to the Central Bank of China, Taiwan's **foreign exchange reserves** in 1999 amounted to US$106.2 billion, one of the highest in the world. In 2000, Taiwanese exports reached US$148.38 billion against imports of US$140.01 billion, producing a trade surplus of US$8.37 billion.

Taiwan is a major exporter of industrial products ranging from mechanical appliances and accessories, electronics, electrical appliances, personal computers and peripherals, metal products and transport equipment, to furniture and clothing. The United States has been Taiwan's most important trading partner over decades. However, as Taiwan pursued the expansion of its economy, it began seeking out other trading partners, which resulted in a decrease in trade with the United States. In the 1980s, 40 percent of Taiwan's total exports were U.S.-bound; by 2000 only 23.5 percent of the island's total exports were destined for the American market.

Trade (expressed in billions of US$): Taiwan

	Exports	Imports
1975	5.302	5.959
1980	19.785	19.764
1985	30.704	20.124
1990	67.142	54.830
1995	111.585	103.698
1998	110.454	104.946

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Until 1999, Japan was Taiwan's biggest export destination after the United States. However, since 1999, Hong Kong has replaced Japan as the second leading export partner, since Taiwan uses it as an indirect link to send goods to mainland China. Major items exported to Hong Kong include electrical and electronic equipment and peripherals, machinery, accessories, raw plastic materials, and textiles. In 2000, exports to Hong Kong amounted to 21.1 percent of Taiwan's total exports, while those to Japan, due also to the slowdown of the Japanese economy, only accounted for 11.2 percent.

Southeast Asia has become an attractive trading partner for Taiwan. Many Taiwanese businesses have set up in Southeast Asian countries such as Thailand and the Philippines to take advantage of abundant skilled labor, availability of raw materials, and lower land prices. In 1986, only 5 percent of Taiwan's exports were bound for countries in the Association of South-East Asian Nations (ASEAN), but by 2000 the figure had climbed to 12.2 percent.

Taiwan has also set its sights on the large and economically strong European market. In 2000, Taiwan recorded exports to Europe at 16 percent of its total. The country's top 4 European trading partners are Germany, France, the United Kingdom, and the Netherlands, which, together, account for more than 60 percent of exports to the continent.

With huge exports fueling the economy, the spending capacity of the government and the population has multiplied. In the past, the government aggressively discouraged the entrance of imported products to the island by trade barriers and restrictive laws. However, with the new economy, the government has liberalized the situation and, in 2000, Taiwan's total imports amounted to roughly US$110 billion. More than a quarter, or 27.5 percent, of these imports came from Japan. Taiwan's industries, especially the information and automobile industries, rely heavily on the supply of parts and the transfer of technology from Japan. Most of the items imported from Japan are machinery, auto parts, electrical appliances, electronics, chemicals, and metal products. Other imports come from the United States (17.9 percent) and Europe (13.6 percent).

Despite the absence of direct transport links to mainland China, Taiwan's economic ties with the country are strengthening through the substantial Taiwanese investment being poured into China. Taiwanese businesses are eager to invest in mainland China, one of the most sought-after markets in the world. With a population approximately a billion strong, China is not only a huge market for any country's products, but also has one of the biggest manpower resources in the whole world. Trade relations between the 2 economies are so intertwined that breaking them off would bring major repercussions. Mainland China is a big contributor to Taiwan's overall trade surplus. In 1987, Taiwan had a trade surplus of just over US$1 billion with mainland China, and by 1998, this had grown to US$15.7 billion.

Based on data from Taiwan's Mainland Affairs Council, the value of 2-way trade between Taiwan and mainland China amounted to US$23.95 billion in 1998. More than 82 percent of the indirect trade consisted of exports from Taiwan, which totaled US$19.84 billion. Some major items exported to mainland China are industrial machinery and equipment, electronic parts, plastics, man-made fibers, and industrial textiles. Meanwhile, imports from China climbed to 4.1 percent in 1999 from 3.9 percent in 1998. Agricultural and industrial raw materials accounted for a huge percentage of these imported goods. However, in view of the uneasy political relations that prevail between the 2 territories, Taiwan does not concentrate too great a part of its investments in China. Taiwan is mindful that political upheaval in its dealings with China would jeopardize its own economic development.

Taiwan is gearing itself for membership in the WTO and is setting the proper economic policies in motion to ensure its acceptance. One of the long-standing trade issues for which Taiwan is criticized is its violation of agreements on the protection of intellectual property. Piracy in different forms—such as copying and reselling the contents of entertainment and software CDs—remains a serious matter. To its credit, Taiwan's government is addressing the problem through a combination of rules and regulations to control piracy, and efforts to raise awareness of the issues involved with it.

MONEY

The financial industry in Taiwan operates within 3 important legal frameworks: the Banking Law, the Securities and Exchange Law, and the Insurance Law. Three government agencies oversee financial operations: the Ministry of Finance (MOF), the Central Bank of China

Exchange rates: Taiwan

New Taiwan dollars per US$1	
2001	N/A
2000	33.082
1999	31.395
1998	32.216
1997	32.052
1996	27.5

SOURCE: CIA *World Factbook 2001* [ONLINE].

(CBC), and the Departments of Finance of each municipal or provincial government.

The MOF is in charge of supervising the financial markets and allied financial institutions in Taiwan through its subordinate agencies: the Bureau of Monetary Affairs, the Securities and Exchange Commission, and the Department of Insurance. In addition, it formulates policies that contribute to the development and efficiency of Taiwan's financial service sector. The CBC controls the strict implementation of the **monetary policies** of Taiwan as outlined in the provisions of the Banking Law and the Law Governing the CBC.

Each of the provincial or municipal governments has its own Department of Finance. Collectively, these departments direct and control community financial institutions such as credit cooperatives and the credit of farming and fishing associations.

The several agencies and institutions that comprise the structure of Taiwan's financial sector offer a wide variety of financial services, designed to cater to clients from big business to individual account holders.

Banks fall into several categories such as commercial banks, specialized banks, local branches of foreign banks, and others, established under Taiwan's banking laws, which undertake savings and trust business and deal in securities. In the past, the sector was dominated by government-owned banks, but, as a result of increasing competition and government **privatization** policies, 15 new private commercial banks were established in 1991. These new arrivals now dominate the market.

Credit cooperatives provide banking services in regional communities where the customer base is small and it is not economically viable to establish commercial banks. Grassroots organizations such as farming and fishing associations usually have credit departments to take charge of promoting economic development in their particular areas. Investment and trust companies act as fund managers of trust funds and trust properties.

The Postal Savings System of Taiwan has more than 1,600 post offices throughout the island where people can remit or deposit money. Money may be withdrawn and re-deposited into banks, or reinvested in different financial instruments.

The insurance industry offers life and other insurance. Life insurance includes simple life insurance, health insurance, and accident insurance. Other policies offer fire insurance, marine insurance, land and air transportation insurance, liability insurance, and other non-life insurance.

In 1960 the Securities and Exchange Commission was founded in Taiwan, based on American and Japanese models. In 1961, the Taiwan Stock Exchange (TSE) was established and began operating in 1967, and the Securities and Exchange Law was passed in 1968.

The first securities traded in Taiwan were issued by the Taiwanese government in 1949, and were called "Patriot bonds." Trading in stocks began on an informal basis in 1953 when the government launched its "Land to the Tillers" program. The objective of the program was for government to buy land from large landowners and distribute it equitably among farmers with no land of their own. Rather than money, landlords were issued government shares in previously **nationalized** enterprises. Since the landowners were not interested in holding these stocks, an informal market developed to trade these shares.

POVERTY AND WEALTH

Poverty in Taiwan has almost been eradicated, with less than 1 percent of the population (129,968 people or 56,720 households) considered as poor or belonging to the low-income bracket. This means that more than 99 percent of the population enjoys the benefits of Taiwan's economic prosperity and greatly improved quality of life.

Families are classified as belonging to the low-income bracket if their average monthly income does not reach the estimated monthly minimum set by each city or province. To meet the family's basic needs (food, shelter, clothing, and education) in Taipei City, one would need to earn at least US$337 monthly. This amount changes depending on the city's standard of living; for example, one would only need to earn US$171 monthly to live in Kinmen County.

In 1999, the government spent US$5.08 billion on social welfare programs, and offers many kinds of assistance to individuals and families from low-income groups. In addition to cash, job-placement assistance is provided to the wage earners in families, along with educational aid for school-age children and health programs for mothers and children. There are also civic organizations, academic institutions, and private foundations that

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Taiwan	920	14,200	16,500	16,100	17,400
United States	28,600	30,200	31,500	33,900	36,200
China	2,800	3,460	3,600	3,800	3,600
Singapore	21,200	24,600	26,300	27,800	26,500

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

coordinate with government agencies in assisting displaced or disadvantaged citizens.

Aside from low-income families, the government gives support to people, such as the elderly and the handicapped, who are unable to work. In July 1993, the government began providing a monthly **subsidy** to the low-income elderly. Citizens over the age of 65 whose average family income is less than, or equal to, 1.5 times the minimum monthly expenses are qualified to receive a monthly subsidy of US$174. Elderly people whose average family income is between 1.5 and 2.5 times the minimum expense are eligible for a monthly relief subsidy of US$87. In addition, the government pays the health insurance premium in full for low-income households and emergency aid where needed.

WORKING CONDITIONS

A well-trained labor force is the backbone of a developing economy, and Taiwan's economic growth over the past 50 years has been bolstered by a diversified and skilled workforce of about 9.7 million people. Approximately 6.6 million of these are employees, while the rest are either self-employed or have some other working status. The unemployment rate in 2000 was at a very low 3 percent.

Taiwan protects the rights of workers by law, while other important labor issues such as workers' welfare, gender equality, labor-management relations, safety and health, and appropriate quotas for foreign workers, are also clarified by legislation.

The Labor Insurance Act, which was passed into law in 1958, mandates the provision of insurance coverage to employees in the **private sector**, including industrial workers, journalists, fishermen, persons receiving vocational training in institutes registered with the government, union members, and those working in non-profit organizations. Teachers and employees working in government agencies who are not eligible for teachers' or civil servants' insurance are also covered under this law.

One of the most important labor laws in Taiwan is the 1984 Labor Standards Law. It supplies the basic legal definitions of worker, employer, wages, and contract, and outlines the rights and obligations of workers and employers. The law prescribes the minimum requirements for labor contracts, and makes provisions for working hours, work leave, and the employment of women and children. Furthermore, the law offers protections against unreasonable work hours and forced labor, and grants workers the right to receive compensation for occupational injuries and layoffs, as well as a retirement pension.

On the initiative of the Employment and Vocational Training Administration of the Council of Labor Affairs (EVTA), the Employment Promotion Measures law was formulated in 1985. This law aims to assist target groups such as women, people aged 45 and above, the disabled, aborigines (people from local indigenous groups), low-income households, and dispossessed workers to find decent employment. Under this program, the government assists women by promoting job equality between the sexes, providing women with vocational training, and surveying the demand for part-time and freelance opportunities to enlarge the employment market for women. The government also provides daycare centers for preschool children, after-school classes for elementary students, and day care for the elderly to relieve the pressure on women to stay at home.

In 1991 the Labor Safety and Health Law was amended to include many new requirements for the installation of safety and health equipment in work places such as dockyards and fireworks factories. The law covers almost all major industries in the industrial, agricultural, commercial, and service sectors, and specifically prohibits women and employees under the age of 16 from working in dangerous or harmful environments.

Passed into law on 8 May 1992, the Employment Services Act is a comprehensive law that seeks to ensure equal job opportunities and access to employment services for all. Specifically, the act calls for a balance of manpower supply and demand, efficient use of human resources, and the establishment of an employment information network. Further, the act requires the central government to encourage management, labor unions, and workers to negotiate reductions in working hours, wage adjustments, and in-service training to avoid layoffs, and for government to protect workers' rights during times of economic slowdown. The Employment Services Act also regulates public and private employment service agencies.

The Labor Inspection Law replaces the old Factory Law. It empowers the Council of Labor Affairs and local governments to inspect conditions in the workplace to ensure the safety and health of workers. The scope of

inspections carried out under the law covers health and safety, labor insurance, employee welfare funds, and the hiring of foreign workers. Employment at potentially dangerous sites requires approval from labor inspectors before employees can begin work on the project. Labor laws ensure the rights of workers to organize unions for the protection of their collective interests.

Under the revised Collective Agreement Law, labor unions are designated as the sole labor representative in the signing of collective agreements. Such agreements promote labor-management cooperation and cover working conditions such as wages, work hours, layoffs, pensions, compensation for occupational injuries, and the handling of labor complaints and disputes.

In Taiwan, women have been traditionally considered inferior to men and are expected to stay at home and submit to the decisions of fathers or husbands. However, new attitudes have slowly developed with the lobbying of women's groups for equal opportunities, and as Taiwan's society has become exposed to modern ideas. Over the last decade, society's expectations of women have changed as more women complete higher education, compete with men in the workplace, become financially independent, and postpone marriage to pursue a career. On average, first-time brides were 28.1 years old in 1998 compared to 25.8 in 1990. Almost half of Taiwan's women are regular wage earners and help support their families financially.

In 1998, the Ministry of Education reported that 56 percent of junior college graduates, 51 percent of university and college graduates, and 26 percent of graduate school graduates were women. This was a significantly large change from the figures of 20 years earlier, and marked the first time that female graduates outnumbered male graduates.

As in any country with a bustling economy, Taiwan cannot depend on its domestic labor force because the demand for workers exceeds available supply. In the high-tech industries, Taiwan produces 20,000 new workers annually, but 30,000 workers are needed. A sample survey of 302 Taiwan-based high-tech industries conducted by the Taipei Computer Association revealed that 80 percent of companies experience difficulty in finding suitable employees, particularly software specialists. Situations such as these call for the hiring of foreign workers to meet the labor shortage and, in August 2000, there were 316,078 foreigners working in Taiwan. Most of these workers come from Thailand, followed by the Philippines and Indonesia.

Aside from the large demand for labor, foreign workers are attracted to Taiwan by the range of job opportunities. The Taiwanese are now reluctant to take low-paying jobs or work in fields that demand heavy physical labor, and the agricultural sector is suffering shortages. An aging population and a low birth rate add to the problem. More workers are retiring than are entering the workforce, and the influx of foreigners is growing. The presence of a foreign workforce has created a degree of tension in Taiwan. Locals have expressed apprehension that their indigenous culture might be destroyed by foreign influences and, in practical terms, there is a possibility that wages will decrease because foreign workers are willing to accept less pay than the Taiwanese.

In July 2000, the unemployment rate of Taiwanese workers increased to 3.06 percent (300,000 workers) from 2.9 percent for the years 1999 and 1998. The main cause of unemployment is the layoffs in traditional manufacturing businesses, which are **re-structuring** or downsizing (cutting down the number of employees). The availability of sophisticated technology that can do the work of 2 or more people is one reason for downsizing, especially since the government is encouraging industries to shift from labor-intensive operations to high-tech manufacturing and services.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1206. The Island of Taiwan is declared a protectorate of the Chinese Empire.

1622. The Dutch establish a trading post and control much of the Republic of China (ROC) until 1662 when the Chinese expel them.

1887. Taiwan is granted provincial status by the Chinese mainland government.

1895–1945. Taiwan is declared a Japanese colony after the Sino-Japanese war in 1895, and remains a Japanese colony until the end of World War II in 1945.

1947. The Constitution of Taiwan is adopted.

1949. Chinese nationalist forces under Chiang Kai-Shek retreat from the Communist armies on the mainland to Taiwan and take power in Taiwan.

1949–91. Taiwan is officially in a state of war with the Peoples' Republic of China (PRC).

1951–64. The United States injects US$100 million annually into Taiwan's economy, supplying needed capital to Taiwan's industries, which grow rapidly during this period.

1953. The Taiwanese government begins a series of 4-year plans, setting goals and guidelines for economic development.

1961. The Securities and Exchange Commission (SEC) is established.

1969. For the first time, a popular national election is held and a handful of national politicians are elected with tenure for life.

1973–74. Taiwan's economic growth suffers a temporary setback due to the world oil crisis.

1975. President Chiang Kai-shek dies. For the next 3 years, the vast powers of the presidency rest in the hands of Premier Chiang Ching-kuo, chairman of the Kuomintang (KMT), the country's sole political party.

1978. Chiang Ching-kuo is elected president. The United States announces its decision to end recognition of the government of Taiwan and to transfer recognition and the United States embassy to the Peoples' Republic of China.

1983. The government opens the stock market to foreign investment.

1987. A vocal opposition, the Democratic Progressive Party (DPP), is established, thereby challenging the long-running dominance of the Kuomintang (KMT).

1988. The government lifts restrictions on the publication of new daily newspapers.

1989–93. Elections are described by foreign observers as progressively freer, leaving the KMT in power but facing a strong parliamentary opposition.

1993. The Ministry of Finance and the Central Bank of China allow the establishment of foreign exchange brokerage businesses and foreign insurance companies.

1994. The government assigns top priority to the implementation of the Twelve Major Construction Projects. A Comprehensive Physical Development Plan is initiated with a view to rationalizing land use, improving the investment climate, and upgrading the quality of life.

1994. President Lee and Premier Lien initiate the White Paper on China, which redefines Taiwan's one-China principle. The leaders of China bitterly oppose Taiwan's new one-China principle and accuse it of trying to establish an independent Taiwan.

1996. Conduct of the first presidential election results in victory for the KMT, with President Lee Teng Hui garnering 54 percent of the vote.

1996. Foreign mutual fund companies are allowed to invest in the stock market.

1997. The Plan for National Development into the Next Century is introduced. Aimed at accelerating Taiwan's transformation into a modern industrialized society, this plan is centered on the achievement of 3 goals: strengthening national competitiveness, improving the quality of life, and promoting sustainable development.

1999. President Lee provokes Beijing's fury in July when he declares that, in the future, Taiwan and China should conduct relations on a "special state-to-state basis," a move away from the official formula that they constituted one temporarily divided country.

2000. The opposition party, DPP, captures the top national positions as Chen Shui-bian and running mate Annette Lu are elected as president and vice-president respectively, breaking 55 years of uninterrupted rule by the KMT.

FUTURE TRENDS

Despite the current instability caused by the political realignment in the new administration of President Chen Shui-bian, Taiwan's future remains optimistic. Economic forecasts made by the Taipei-based World Economics Society point to continued growth, estimating that GDP growth over the next 10 years will not fall below 5.5 percent annually. The figure approximates the fluctuations of Taiwan's GDP annual growth performance in recent years: 8.2 percent in 1989, 6.68 percent in 1997, 4.57 percent in 1998, and 5.7 percent in 1999. This means that Taiwan's economy will continue to display stability and expansion, propelled by exemplary performance in the service and manufacturing sectors. Both sectors are expected to perform even better because of technological innovations and improved productivity. Moreover, employment levels and living costs are expected to remain manageable. Taiwan is also likely to benefit from its strategic position in the information technology industry. It aims to be known as the "Silicon Island of East Asia." This goal is not far-fetched since, in 2000, Taiwan ranked third in the world in the production of computer hardware and software, next to the United States and Japan. With its aggressive implementation of its growth plans, Taiwan is likely to attract more foreign businesses to the island and thus become a major international **procurement** and logistics base. The International Monetary Fund has recognized Taiwan's consistent economic performance by affiliating it with the rest of the world's advanced economies.

Politically, Taiwan's relationship with mainland China is still of major concern. To protect its economic achievement, Taiwan must tread slowly and wisely in setting the direction of its relations with mainland China. It must make sure that the relationship between the 2 territories is based on mutual respect and benefit. With regard to domestic politics, the government must continue to strengthen its democratic institutions.

The government is also taking steps to check the social and environmental impact of its economic programs

and policies. Environmental programs focusing on protection and conservation are being implemented across the island in line with President Chen Shui-bian's electoral promises, and research into green technologies is also promised.

Meanwhile, the newfound affluence of Taiwanese society has, inevitably, produced certain social problems that need to be nipped in the bud. The government has realized that the younger generation must be encouraged to retain the work ethic of their elders. This is crucial to the health of the country's economic future. The "nouveau riche" mentality that characterizes the poor who suddenly acquire wealth can result in people opening themselves to financial profligacy, profiteering, corrupt practices, and other social ills that accompany irresponsible wealth. Other emerging social concerns involve the rise in crime and criminal gangs, the breakdown of the family, and the neglect of children as parents become too involved with their careers.

DEPENDENCIES

Taiwan has no territories or colonies.

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—Maria Cecilia T. Ubarra

TAJIKISTAN

Republic of Tajikistan
Jumhurii Tojikiston

CAPITAL: Dushanbe.

MONETARY UNIT: Somoni (SM). Introduced in 2000 to replace the Tajik ruble. SM1 equals 1,000 Tajik rubles. Somoni are issued as notes of SM1, 5, 10, 20, 50, and 100. Also 1, 4, 20, and 50 diram notes (100 dirams in SM1).

CHIEF EXPORTS: Aluminum, electricity, cotton, gold, fruits, and textiles.

CHIEF IMPORTS: Electricity, petroleum products, natural gas, aluminum oxide, machinery and equipment, and foodstuffs.

GROSS DOMESTIC PRODUCT: US$7.3 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$761 million (2000 est.). **Imports:** US$782 million (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Tajikistan is a landlocked country situated in Central Asia. Slightly smaller than the state of Wisconsin, Tajikistan's territory is measured at 143,100 square kilometers (55,251 square miles). It shares borders with Uzbekistan (1,161 kilometers) to the west, China (414 kilometers) to the east, Afghanistan (1,206 kilometers) to the south, and Kyrgyzstan (870 kilometers) to the north. The capital, Dushanbe, is in the west, near the Uzbekistan border.

POPULATION. The U.S. Central Intelligence Agency's estimated July 2001 population for Tajikistan was almost 6.6 million. The country's population density of 143 people per square kilometer is low except that 93 percent of the country is mountainous, resulting in a more real population density of 488 people per square kilometer; this figure is one of the highest in the world. Tajikistan's growth rate is about 2.12 percent. It also has a high infant mortality rate, estimated at 117.4 deaths per every 1,000 live births. Compared to many other countries, life expectancy at birth in Tajikistan is low, estimated at 64 years. Unlike many other countries, Tajikistan's rural population is rising due to a higher fertility rate in the countryside and reduced opportunities for employment in urban centers.

Tajiks comprise approximately 65 percent, Uzbeks about 25 percent, and Russians—due to economic and political reasons—less than 3.5 percent of the population. The autonomous (self-governing) Badakhshan province is primarily inhabited by Pamiri Tajiks whose various dialects can be considered separate languages from other Tajik dialects spoken in Tajikistan. Furthermore, whereas Tajiks and Uzbeks are mostly Sunni Muslims, the far majority of the people of Badakhshan are Shia Muslims. Other ethnic groups, such as Turkmen, Kyrgyz, and Tatars live in Tajikistan. While Tajik is the official language of the country, Russian and Uzbek are widely used, especially in business circles.

OVERVIEW OF ECONOMY

Civil conflict from 1992 to 1997 weakened Tajikistan's economy. It is estimated to have shrunk by 60 percent since 1991, when the Soviet Union broke up and its 14 former republics, including Tajikistan, declared their independence. Despite some economic gains in the past several years, Tajikistan still has one of the lowest **gross domestic products (GDP) per capita** among the former Soviet republics and Soviet bloc countries of eastern Europe. The country's primary source of foreign currency is the export of aluminum.

As in many other former **socialist** countries, Tajikistan has been implementing a **privatization** program. Since privatization began in 1991, the state has sold nearly 5,500 of its smaller properties. In 1999, nearly 300 auctions were held, resulting in more than 1,400 sales and generating the equivalent of US$14.4 million for the state treasury. One of the relatively larger privatized industries was most of the 26 factories for converting raw

cotton to cotton fiber. The government hopes that continued privatization in the agricultural and industrial sectors will lead to higher economic output.

POLITICS, GOVERNMENT, AND TAXATION

Soon after declaring its independence from the Soviet Union in 1991, the country was engulfed in a bloody civil war (1992–1997) fought along ideological and regional lines. That violent conflict took approximately 35,000 lives and led to massive amounts of **internally displaced persons** and refugees fleeing to other countries. The former communists, who had controlled the government, fought against a coalition of opposition parties dominated by the Islamic Renaissance Party and mostly composed of people with Gharm/Qarateguine regional origin. In June 1997, the opponents signed a peace accord, pledged to cease all hostilities, and promised to form a government of national unity.

The constitution, adopted in 1994 and amended in 2000, replaced the Soviet-era version. It established executive, legislative and judicial branches of government. The president of Tajikistan is considered the head of state, elected every 7 years for a maximum of 2 terms. The president appoints cabinet members, the prime minister, and the justices within the court systems, all subject to approval by the legislature. The ruling party in 2001 was the People’s Democratic Party of Tajikistan, associated with President Imomali Rahmonov. He has been in power since 1994 but his final term will expire in 2006. The prime minister acts as the head of government and directs the cabinet. In February 2000, elections were held to create a **bicameral** parliament.

The government generates most of its revenue from taxes. During 1996 and 1997, it maintained large **budget deficits**. There was a significant reduction of the deficit in 1999 to 3.2 percent of GDP and 3.8 percent in 1998. The government broadened the tax base and boosted revenue through the introduction of a new tax code in January 1999. The new code cut the number of tax categories from 45 to 17 and reduced the top rate of **income tax**. The government's budget deficit fell to a low of 2.2 percent of GDP in 2000. This was based mainly on the increased efficiency in tax collection and the revenue generated from privatization. The change was thought to increase tax revenue by as much as 1 percent of GDP.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Tajikistan's **infrastructure** is relatively well developed. For example, a network of 13,000 kilometers (8,100 miles) of roads, mostly paved—though not in the best of conditions—covers large parts of the country. Despite the extensive road system, however, there is only 1 road linking Dushanbe with Khudzhand, the second biggest city in the country, which is located in the northern Leninabad region. Because climatic conditions often make this land route unusable, plans are underway to build the 13-kilometer (8.1-mile) Anzob Tunnel. The total cost for the project will likely surpass US$300 million.

The railway system is only 480 kilometers (298 miles) long and connects a few main towns to the Uzbekistan railway network. A major project nearing completion by end of 2001 is the construction of a railway from Qurghonteppa to Kulob, the 2 largest towns in the south. The country has 59 airports, 14 having paved concourses, though not all are operational due to lack of maintenance. The largest airports are in Dushanbe, Khudzhand, and Kulob. International destinations are limited and travelling on Tajikistan Airlines's dilapidated fleet is considered dangerous. Travel to Tajikistan from other parts of the world is time consuming, expensive, and cumbersome.

Access to information and communication tools are limited, with only an estimated 38 people out of every 1,000 having private access to a telephone. Moreover, the existing telecommunications system is prone to breakdowns and is in dire need of upgrading. Tajikistan was the last country among the former East European countries and the **Commonwealth of Independent States** (CIS) that was connected to the Internet. At least 2 Internet service providers and several cellular telephone companies of limited range operate in the country.

The 4 most important types of household fuel in Tajikistan are firewood, electricity, cow dung, and natural gas. Households and industry rely heavily on imported petroleum, natural gas, and—to a lesser extent—electricity, primarily from Uzbekistan. Tajikistan has an estimated 5.6 billion cubic meters of recoverable natural gas reserves, but due to financial barriers, it has been unable to increase its production. The government is attempting to encourage foreign companies to invest in **joint ventures** in the extraction of natural gas. The country's own oil production is about 3,000 barrels per day, while the consumption need of the country is more than 29,000 barrels per day. Tajikistan could be one of the world's leading per capita producers of energy if it were to expand its system of dams and hydroelectric plants. As it stands, due to the east-west configuration of its electricity grids, the country imports and exports electric energy without satisfying or affording its electricity needs. Large parts of the country, especially small towns and villages, face frequent and long periods of blackouts.

ECONOMIC SECTORS

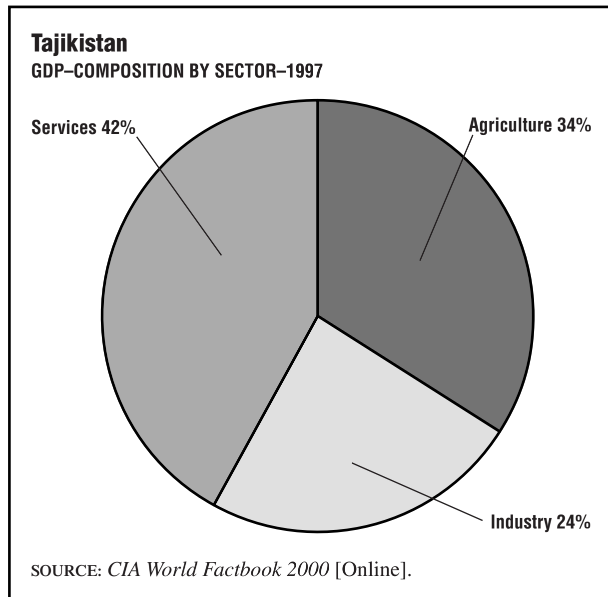
In 2000, according to the Economist Intelligence Unit, Tajikistan registered a **real GDP** of US$1.1 billion. To find an estimate of its per capita income, GDP is divided by the estimated population of 6.6 million, arriving at a per capita GDP of a mere US$167 per year—

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Tajikistan	20	142	285	N/A	0	0.3	N/A	0.24	2
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Kyrgyzstan	15	112	45	N/A	0	N/A	N/A	4.13	10

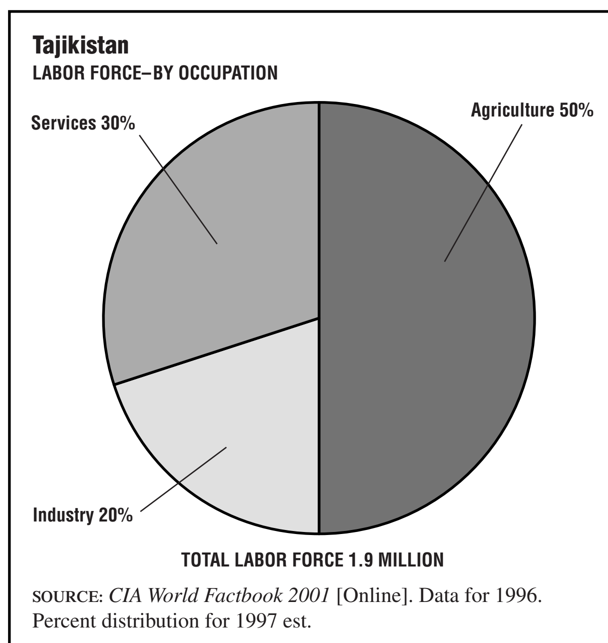
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

one of the lowest among East European and former Soviet republics. The economy of Tajikistan is heavily reliant on the export of 2 commodities—aluminum and cotton—and is highly susceptible to trade fluctuations. Trials of independence, a destructive civil war, and deteriorating terms of trade have combined to significantly reduce the capacity of the country to produce cotton and aluminum at levels comparable to pre-independence times. Furthermore, in 1998, due to stagnating world prices of both resources, a wide **trade deficit** of US$145 million and an equally large negative **current account balance** of US$107 million were incurred. Donor inflows, primarily from the United States and the European Union, and loans from the World Bank and International Monetary Fund (IMF), have helped moderate the current account deficit. However, **foreign direct investment** (FDI) in Tajikistan has been low, averaging only US$22 million per year between 1994 and 1998.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1996. Percent distribution for 1997 est.

AGRICULTURE

Tajikistan is primarily an agricultural country, with as much as 70 percent of its population living in rural areas and 65 percent of the workforce being employed in the agricultural sector, especially the cultivation and production of cotton. The Soviet Union had designated much of Central Asia's agriculture, including Tajkistan's, as a cotton monoculture (production of one type of crop). Before independence, production of raw cotton averaged more than 800,000 metric tons per year. In 1999, by contrast, raw cotton production was only 316,000 metric tons. Cotton still accounts for two-thirds of total agricultural output, however. Export of cotton fiber in 1999 accounted for a relatively low figure of US$92 million or 13 percent of GDP. The main reasons for a decline of cotton production are the substantial reduction in state **subsidies** to farms, the consequent inability of farms to purchase sufficient inputs such as fertilizers and other agronomic goods, and the deterioration of the irrigation system and agricultural machinery.

The primary food crops are wheat, barley, maize, potatoes, and rice. There are more than 800,000 hectares (2 million acres) of arable land in Tajikistan, which is equivalent to merely 6 percent of the country's land mass. The far majority of the arable land is located in the flood plains of the Kofarnihon, Vakhsh, Yakhsu, and Ghizilsu Rivers, all of which flow toward the Amudarya and Syrdarya rivers. In addition to the cropland, there are an estimated 3.5 million hectares (13,500 square miles) of permanent pastures. With its fast-growing population, Tajikistan has a comparatively and increasingly low per capita cropland. Wise use of agricultural lands, therefore, is an extremely important issue for Tajikistan. Since 1995, with the encouragement of semi-private farming and the distribution of more than 50,000 hectares (125,000 acres) of land to mostly rural households, there has been a significant increase in the production of grain, however, inclement weather since 1999 has severely affected overall agricultural production, including grain and cotton. The effects of floods have been exacerbated by the lack of proper land and water management by local governments, as in not maintaining riverbeds and allowing for the overgrazing of hills and valleys. The combined natural and human effects, have, among other things, led to a lowering of grain harvests, which had been an abundant 550,000 metric tons in 1997. This total fell by 57 percent to a low of 236,000 metric tons in 2000.

INDUSTRY

ALUMINUM. Following years of sharp decline, the end of the civil war in 1997 permitted relatively strong industrial sector growth, including real increases of 8 percent in 1998 and 5 percent in 1999. The mainstay of the industrial sector of Tajikistan is the production of aluminum, which requires alumina and large amounts of electrical energy. Even though Tajikistan does not have its own source of alumina, due to its potential for excess electrical energy, the Soviet Union built the Tursonzoda smelter, one of the world's largest aluminum smelters, near Dushanbe. The factory can produce as much as 500,000 metric tons of aluminum annually. Due to similar economic problems as the agricultural sector, however, since independence, aluminum production has declined. More than 90 percent of the aluminum produced is exported. Whereas the production of aluminum in 1990 was at a peak of 450,000 metric tons, by 1997, it had reached a low of 189,000 metric tons. Recently, however, the government has attempted to provide for the necessary inputs to increase aluminum production. Consequently, aluminum production in 2000 was estimated at about 300,000 metric tons.

MINING. Tajikistan has significant, largely unexplored, mineral deposits, such as gold, silver, antimony, and coal. Physical access to the sites—in remote areas with limited infrastructure—has been difficult and costly. A joint venture between British-owned Nelson Gold Company and the Tajik government, Zeravshan Gold Company, has been a success. In 1999, gold production in Tajikistan totalled 2.7 metric tons. In addition to gold, Tajikistan contains one of the world's largest silver deposits, Adrasmanskoye, which the country hopes to develop with the aid of foreign investors. Nine of the former Soviet Union's 34 antimony deposits are in Tajikistan. In 1997, 800 metric tons of lead was produced.

ENERGY. Tajikistan is a net importer of energy. In 1999, it consumed about 29,000 barrels of oil per day. The country has some petroleum deposits, and as much as 3,500 barrels of crude oil are extracted daily. There is no oil refinery, however, so all oil is imported—nearly 70 percent from Uzbekistan. Tajikistan has small natural gas reserves of about 200 billion cubic feet, and only minor domestic production. About 3 billion cubic feet of natural gas per year is produced domestically. In 1998, 37 billion cubic feet of gas was consumed, the majority imported from Uzbekistan and Turkmenistan. Gas pipelines run from Uzbekistan to Dushanbe, and from Uzbekistan to northern Tajikistan. Tajik authorities supply gas to Uzbekistan in exchange for Uzbekistan's free use of a rail transport corridor, a gas pipeline across northern Tajikistan (for **re-export** to Kyrgyzstan), and other incentives.

Due to the country's terrain and plentiful water, the major domestic energy resource is hydroelectric power: in 1998, Tajikistan produced 13.1 billion kilowatt hours (kWh). The southern and the northern power grids are linked to Uzbekistan. Over the past decade, depending on rainfall and domestic needs, Tajikistan has been both a net exporter and net importer of electricity. Due to a regional drought, begun in 2000, the country has experienced serious electricity shortages. It has imported more electricity and imposed increased power cuts on residential customers. Electricity prices were raised in April 2000 to limit demand. The Tursonzoda aluminum plant consumes 40 percent of the country's generated electric power. A new hydroelectric power dam, Sangtuda, is under construction with Russian and Iranian financing. It is expected to eliminate Tajikistan's need for power imports in the north and leave sufficient surpluses for export. A link between the northern and southern power grids is also planned. A study on improvements to the Tajik power grid, funded by the Kuwaiti government has been underway since 2001.

SERVICES

Services is the largest sector of the economy in Tajikistan. It constituted more than 60 percent of the country's GDP in 1998 and employs a significant part of the **labor force**. Much of the service economy is in the form of **retail** trade through micro- and small-enterprises scattered throughout mostly urban markets or bazaars. According to estimates from the state statistical agency of Tajikistan, the northern province of Leninabad sees more than one-third of retail trade, Dushanbe another third, and the southern province of Khatlon one-fifth. Despite the size of Badakhshan province—nearly half the territory of Tajikistan—its heavily mountainous geography limits its population to around 3 percent and its share of retail trade to even less. The primary products sold by small- and micro-businesses are domestically-produced agricultural goods and imported consumer items. Most of the consumer items sold by businesses are imported from Uzbekistan, Kyrgyzstan, and Kazakhstan. Increasingly, however, Tajik entrepreneurs—especially larger businesses—travel to Iran and Dubai to secure consumer items for import and sale. According to a 1998 survey of small- and micro-businesses throughout the country, the top 3 constraints facing them are racketeers demanding illegal fees, political instability, and taxation (the tax police).

FINANCIAL SERVICES. There were 17 registered banks in 1999. Four major commercial banks—Agroinvestbank, Orion Bank, Vnesheconombank, and Savings Bank—account for nearly three-quarters of all deposits and loans in the country. The banking sector, however, is marred by mismanagement and a history of extending **bad loans**. There are also few programs specializing in small loans to the agricultural and small business sectors, which are a crucial part of the economy. One study esti-

mated that owners of micro- and small businesses pay as much as 130 percent interest rates on loans.

INTERNATIONAL TRADE

International trade plays a significant role in the country's economy. Total trade in 2000 reached an estimated US$1.5 billion, equally split between imports and exports. In 2000, the country registered a small trade surplus of US$17 million. Main export items were aluminum (constituting roughly 40 percent of export earnings), electricity (19 percent), and cotton fiber (18 percent). From 1929 to 1991, Tajikistan was able to trade freely with the other Soviet republics. During that time, Tajikistan exported its minerals, cotton, and aluminum (starting in 1974) to the rest of the Soviet Union in return for **consumer goods**, grain, fuel, and technology. During the Soviet period, however, Tajikistan consistently registered a trade deficit and regularly received union budgetary transfers from the central government. Such budgetary assistance during the Soviet era constituted as much as 23 percent of Tajikistan's GDP.

Independence in 1991 broke much of the trade and government ties with the former USSR. Since then, most exports have gone to countries outside of the CIS. Exports to the CIS countries have been primarily electricity to Uzbekistan and vegetables and raw tobacco to Russia. The major destinations of exports with their corresponding percentage of the total value of exports are: Uzbekistan 37 percent, Liechtenstein 26 percent, Russia 16 percent, and Kazakhstan 6 percent (1997 data). The origin of most imports, however, is still the CIS. For example, the vast majority of imported electricity, natural gas, and oil are from Uzbekistan and Russia. Most grain imports are still from Kazakhstan, though as much as 100,000 tons/year of wheat and other foodstuffs are imported from western Europe and the United States as food aid. Tajikistan also has imported large amounts of alumina, the raw component needed for the production of aluminum, from Ukraine. The major sources of imports with their corresponding percentage of total value of imports are: Netherlands 32 percent, Uzbekistan 29 percent, Switzerland 20 percent, and Russia 9 percent (1997 data). Government **tariffs** stand at around 8 percent. Based on international standards, this is considered a liberal trade regime.

MONEY

Tajikistan's choice of currency has normally been according to the will of Moscow. Even after independence in 1991, for example, it began to use the new Russian ruble. In May 1995, however, it finally created its own legal tender, the Tajik ruble (TR). At that time, the National Bank of Tajikistan set the **exchange rate** as TR100 to US$1. Between 1995 to 1999, consumer price **inflation** increased by a rate of 1,680 percent, or an average annual compound rate of 420 percent. In 1999, however, the **inflation rate** was 28 percent. The depreciation of the Tajik ruble throughout the years is attributable to internal and external factors that diminished confidence in the local currency. Civil unrest and political instability, continued lack of economic opportunities for the average citizen, and the government's loose monetary and **fiscal policies** were among internal factors. External factors include Russia's 1998 economic woes, rise of petroleum prices, fluctuations of world cotton and aluminum prices, and a region-wide drought. By January 2001, the exchange rate reached TR2,200 to US$1.

Meanwhile, the government embarked on a new currency called the somoni in October 2000 to take into account several years of high inflation. Hence, cash transactions no longer require large wads of currency. The name change "ruble" to "somoni" was also a tactical move by the government to use the currency as a symbol for Tajik nationalism. As of April 2001, the somoni was to have been the sole legal tender of the republic. At its introduction SM1 was equivalent to TR1,000. The exchange rate of the somoni is expected to reach SM2.5 to US$1 by the end of 2001.

Trade (expressed in millions of US$): Tajikistan

	Exports	Imports
1994	482	577
1995	748	809
1996	651	763
1997	745	750
1998	601	771
1999	N/A	N/A

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

Exchange rates: Tajikistan

Tajikistani somoni per US$	
Jan 2001	2.2
Jan 2000	1550
Jan 1999	998
Jan 1998	N/A
Jan 1997	350
Jan 1996	284

Note: The new unit of exchange was introduced on October 30, 2000, with one somoni equal to 1,000 of the old Tajikistani rubles.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Tajikistan	N/A	N/A	N/A	718	345
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Kyrgyzstan	N/A	N/A	N/A	1,562	863

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

Tajikistan is the poorest country among the East European and CIS nations. It had the lowest per capita income among the same groups during the Soviet era. In earlier years, though, the Tajikistan economy was much more robust, with industry and agriculture being doubly productive than today. Furthermore, the central government of the Soviet Union used to provide Tajikistan with a significant amount of its national budgetary requirements. Despite its relatively low ranking during the **communist** era, Tajikistan was not poor. The population was healthy, wages were paid, and public services were fully functional. In 2001, on the other hand, due to independence and civil war related issues, Tajikistan *is* poor. There are limited employment opportunities, wages are low—particularly in the agricultural sector—and a variety of financial and material input necessary for proper agricultural and industrial activities is sorely lacking. Poverty in Tajikistan is also evident in the decreasing access to basic public services such as education, health care, and clean water.

Income generated from employment remains the most important source of revenue for households. Other sources of income, however, such as revenue from micro- and small businesses and the sale of food and household goods, cover equally large shares of overall household incomes. The well-to-do and poor segments of the population—and between some urban folk and the mostly rural population—exhibit clear economic divergence. Expenditures at the richest households are 4 times those of the poorest. The poorest households spend 79 percent of their budget on food. They cover most of this need through **subsistence farming**, some **remittances** from abroad, and humanitarian aid. More female-headed households are considered poor than male-headed, partially due to the facts that Tajik women tend to be less educated, have fewer opportunities for business, and work in the public health and education spheres, where pay levels are significantly lower. Due to the continuing economic crisis, at best, the government can only provide minimal real provisions for social welfare to the needy. This is difficult for a population that still remembers the Soviet-era's generally good provision of health, education, and welfare services. A 1998 survey of households and small businesses throughout the country found that when asked what type of economy they hope Tajikistan to resemble in the future, 53 percent chose the USSR.

WORKING CONDITIONS

The fall of the Soviet Union, the civil war of 1992–1997 that resulted in several billions of dollars of damages, and the continued economic slump have led to a drop in the standard of living for the majority. **Public-sector** wages are among the lowest in the world. According to the World Bank, about two-thirds of the population of Tajikistan subsists on less than US$2 a day. Though the official unemployment rate was 3 percent at the end of 2000, it did not include more than 220,000 government employees not receiving their salaries. These figures would yield an unemployment rate higher than 16 percent. The average wages per month among the CIS countries is highest in Kazakhstan at US$101 and lowest in Tajikistan at US$8.8. The highest average monthly salaries in Tajikistan belong to people working in the sectors of finance and banking, where they earn about US$40; the lowest belong to those in education (US$6), health care (US$4), and agriculture (US$3).

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Tajikistan	48	7	10	0	14	5	16
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Kyrgyzstan	33	11	11	3	22	6	14

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Some sector-specific labor organizations exist, but they cannot be considered unions. They are remnants of the communist past, when labor rights were ingrained in the system. Due to the widespread economic slump and high unemployment rate, few workers dare to organize against their employers, who can replace protesting workers with any of the thousands of unemployed. Many people are not engaged in their learned professions, due to paltry government salaries. Some use a self-owned micro-business to supplement their government salaries. The **informal economy** consists of thousands of micro-businesses in the various bazaars around the country, where one can find doctors, accountants and engineers selling anything from potatoes to baby clothing.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

875. Samanid dynasty, with its Persian speaking court, begins a 175-year reign over territory that includes much of today's Uzbekistan and Tajikistan.

1895. A treaty signed by Russia and Britain determines the southern borders and what becomes Eastern Turkestan, a Russian protectorate, which covers the territory of today's Central Asian republics and some parts of eastern China. The 1895 treaty considers Amudarya as the border between Russian and British influence.

1920. The Bolshevik army occupies Bukhara, forcing the emir to flee to Afghanistan.

1924. Tajikistan becomes an autonomous republic within the Soviet Socialist Republic of Uzbekistan.

1926. The first Tajik language newspaper in Soviet Tajikistan begins publication.

1929. Territory is annexed from Uzbekistan by orders of Stalin, and included as part of Tajikistan. Tajikistan is then declared an independent Soviet Socialist republic.

1930. Aggressive collectivization of agriculture is imposed on Tajikistan by Soviet planners, with an eye on expansion of cotton monoculture (the cultivation of a single crop).

1937. The Great Terror of Stalin purges much of the local communist elite, replacing them in favor of ethnic Russians and Europeans.

1991. Tajikistan declares independence from the Soviet Union. A coalition government is formed involving elements of the Islamic opposition as well as former communists. By June, civil war breaks out between supporters of the former communist incumbent president, Rahmon Nabiyev, and the Islamic and secular opposition groups. Shortly after, parliament appoints Imomali Rahmonov as head of state after Nabiyev's resignation in September. Civil war between government supporters and the Islamic and democratic forces begins.

1993. UTO, the Islamic opposition, which is based in Afghansitan and partly in Iran, forms an effective guerrilla force that carries out cross-border raids and eventually captures much of east-central Tajikistan.

1994. Rahmonov defeats a candidate from northern Tajikistan in a controversial election with 58 percent of the vote.

1995. Parliamentary elections are held; no opposition parties are allowed to take part.

1997. A peace accord brokered by the UN, Iran, and Russia is signed in Moscow between the government and the UTO. Refugees begin to return from Afghanistan.

1999. Voters re-elect Rahmonov as president. The UN's Organization for Security and Co-operation in Europe (OSCE) and Human Rights Watch accuse the government of vote rigging, manipulation of the media, intimidation of opponents and illegal disqualification of several political parties.

2000. The pro-government People's Democratic Party takes the majority of seats in elections to the new bicameral parliament.

2001. Despite relative calm in the country, assassinations occur sporadically and the drug trade is on the rise.

FUTURE TRENDS

Tajikistan is still in a nation-building stage. Because its territory is cut off from the centers of Tajik civilization—the cities of Bukhara and Samarqand, which are part of Uzbekistan—any central government in Tajikistan faces political and social maneuvering and challenges to unite an ethnically mixed and geographically dispersed population. In addition, recent government propaganda on the "Tajik" nature of the country, despite ethnic Tajiks comprising only 65 percent of the population, may not easily be accepted by an ethnically diverse population. Therefore, in addition to economic woes, which continue to cause barriers to the well-being of the country, the lack of democracy and security also wreak havoc. The presidential and parliamentary elections of 1999 and 2000, for example, were thought to be mired with improper intervention and influence by the ruling elite. Furthermore, although some level of banditry may have diminished due to the government's incorporation of many former opposition forces, other problems of insecurity are on the rise. Two of the most critical are the increase in the drug trafficking from Afghanistan and armed guerillas of the Islamic Movement of Uzbekistan (IMU) using Tajikistan as a base to invade neighboring Uzbekistan and Kyrgyzstan.

The future well-being of Tajikistan depends on a variety of factors, among which are whether the armed conflicts of Afghanistan and the sporadic guerrilla warfare of the IMU will eventually come to peaceful resolutions. Other factors are the will of the government to extend more democracy, human rights, and freedom of expression. The allowance of an independent media and encouragement of a strong civil society will be steps in the right direction. Provision of loans and logistics for small farmers and small businesses could truly alleviate the economic pains of the people. A plan to protect the natural environment in the form of establishing large parts of the country as national parks and creating accommodations for tourists via the creation of small locally-owned hotels throughout the country could encourage the establishment of a potentially lucrative **ecotourism** industry. This could simultaneously generate income for the local population, provide foreign capital for the central government, and preserve the natural environment. Finally, moves toward economic and cultural integration with other Central Asian republics and easing of travel throughout the region will be highly beneficial for the future of Tajikistan and the region as a whole.

DEPENDENCIES

Tajikistan has no territories or colonies.

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—Payam Foroughi and Raissa Muhutdinova-Foroughi

THAILAND

Kingdom of Thailand

CAPITAL: Bangkok.

MONETARY UNIT: Thai baht (B). One baht equals 100 satangs. There are notes of 50 satang and 1, 5, 10, 20, 50, 60, 100, 500, and 1,000 baht, and coins of 1, 5, 10, 25, and 50 satangs and 1, 5, and 10 baht.

CHIEF EXPORTS: Computers and parts, textiles, rice.

CHIEF IMPORTS: Capital goods, intermediate goods and raw materials, consumer goods, fuels.

GROSS DOMESTIC PRODUCT: US$388.7 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$58.5 billion (f.o.b., 1999). **Imports:** US$45 billion (f.o.b., 1999). [*International Financial Statistics 1999* reports 1998 exports of US$54.46 billion and imports of US$42.97 billion.]

COUNTRY OVERVIEW

LOCATION AND SIZE. Situated in Southeast Asia, Thailand is adjoined to Laos and Burma (Myanmar) to the north, Cambodia and the Gulf of Thailand to the east, Burma and the Andaman Sea to the west, and Malaysia to the south. Its total area, which is about twice the size of Wyoming, measures 514,000 square kilometers (198,455 square miles). The length of its coastline measures 3,219 kilometers (2,000 miles). Its capital city, Bangkok, is the most populated city in Thailand. Located in the central region, Bangkok is the center of Thailand's economic and political activities. Major cities in the north are Chiang Mai and Chiang Rai, Nakhon Ratchasima, Khon Kaen, Udon Thani, Phitsanulok, Nakhon Sawan, and Ubon Ratchathani. Meanwhile, major cities in the south are Nakhon Si Thammarat, Songkhla, Surat Thani, and Hat Yai.

POPULATION. The country's population in 2000 stood at 61.2 million, compared to 55.2 million in 1989, according to the *CIA World Factbook.* The country's population growth rate from 1988 to 1998 has been estimated at an average of 1.05 percent, according to the *Asian Economic Survey*. The population is expected to increase by 0.93 percent by 2010. The population is predominantly composed of young people, with 70 percent between the ages of 15 and 64, 24 percent below 15 years old, and only 6 percent older than 64 years.

The majority of the population still resides in rural areas. In 2000, the World Bank reported that approximately 40 percent of the country's population, or 25 million Thais, lived in urban areas and estimates that this will increase to 53 percent by 2010. Bangkok hosts about 12 million Thais.

The majority of the Thai population—75 percent—is of the Thai ethnic group, while 14 percent are Chinese and 11 percent are other ethnic groups. Fully 95 percent of the population is Buddhist, while 3.8 percent are Muslims and the remainder represent a variety of religions.

OVERVIEW OF ECONOMY

The Thai economy is one of the most robust in Asia. In the 1960s it was a predominantly agricultural economy largely dependent on its rich produce of crops such as rice, cassava, maize, rubber, and sugar cane, along with its seafood production, primarily of shrimp. Its strategic location and bountiful natural resources has enabled the country to maximize trade opportunities. The 1980s to mid-1990s marked its boom years and its emergence as a diverse, modern, and industrialized economy.

The economy's growth can be attributed to several factors. First, Thailand has pursued a rational approach to industrialization. Prior to its attempt at industrialization, Thailand already had a stable agricultural sector which became the springboard for industrialization. In the 1960s, its first attempt at industrialization was characterized by the strategy of **import substitution** which centered mainly on food processing. Hence, Thailand used the produce of its agricultural sector to initiate a

shift into industrialization. The availability of local laborers, combined with abundant natural produce, enabled the country to increase production and shift to manufacturing or processing products for export purposes. This led to the rapid expansion of the manufacturing sector and a marked increase in exports. This approach enabled Thailand to avoid the usual path taken by newly industrialized economies (NIEs) of pursuing industrialization at the expense of the agricultural sector. The strategy was to gradually build upon existing resources in order to facilitate the development of the economy.

A second important factor was Thailand's diversification of its economy. This is a pervasive trend in the development of the economy, which is rooted in the innate flexibility of the Thai people. This is exemplified by the stages of growth of the industrial sector which began with simple agri-based manufacturing, and steadily progressed to more sophisticated industries through the use of available resources such as rich natural resources and cheap labor. Diversification was also aided by huge inflows of **foreign direct investment** geared towards a wide range of products, namely electronics, chemicals, property, and processed food. In the 1980s, foreign direct investment totaled US$8 billion, with US$2.5 billion coming from Japan and the rest from Chinese, Korean, and American investors. In fact, 50 percent of the country's industrial output and 20 percent of its industrial workforce are attributable to foreign investors who are attracted by lower manufacturing costs, according to *Thailand's Turn.*

A third factor in Thailand's growth is government stability. The administration of Prime Minister Prem Tinsulanonda, which lasted from 1980 to 1988, developed a continuity in policies and programs that inspired the confidence of the **private sector** in both the government and the economy. This translated to a greater willingness to invest in the growing manufacturing industry and support further expansion of export activities.

Fourth, the dynamism of the private sector propelled export production. In 1981, a landmark policy was implemented which facilitated the formation of the Joint Public-Private Consultative Committee on Economic Problems that enabled businesspersons to influence public policy through their associations. This, in turn, led to an increased participation of the private sector in the development of state enterprises. Economic development in the country was largely propelled by the private sector, which invested heavily in industrial growth; the government had a limited role in determining the direction of the economy.

These factors have contributed greatly to the growth of the country's major economic sectors, namely agriculture and fishing, manufacturing and industry, and services, particularly tourism. In 1991, 98.6 percent of all Thai business enterprises were mainly small and medium enterprises, accounting for 90.7 percent and 7.6 percent, respectively. The Ministry of Industry defines small-scale enterprises as those with a maximum of 50 employees with an **equity** of 10 million baht, while medium-scale

enterprises employ 50–200 personnel and have an equity of 10–100 million baht.

The country's inability to produce oil has negatively impacted its growth, particularly during periods of oil crisis such as the world oil crisis between 1970 and 1979. The country's dependence on oil has been reduced with the discovery of its first natural gas field in the Gulf of Thailand in 1981. The country also taps alternative domestic sources of energy such as hydropower, liquefied natural gas, and coal. It is also in the process of studying the use of nuclear power.

At the end of 1990, the country's long-term **external debt** stood at about US$16 billion. However, annual **debt service** payments were only equivalent to 10 percent of the total earnings from exports, which means that the debt payments were manageable. The 1997 Asian financial crisis reversed this situation as the combination of US$90.5 billion in debt in 1996–97 and high levels of **non-performing loans** caused the near collapse of Thailand's financial sector. The troubles of the financial sector spilled over to the other sectors of the economy which were dependent on the financial sector for credit. Banks had to set aside finances to cover loans which creditors were not able to pay, so they no longer had any money to lend borrowers who were capable of paying. This forced the government to increase its allocation for **foreign debt** payments to take the pressure away from the financial sector. This resulted in a significant increase in **public sector** debt, which was only equivalent to 4 percent of GDP in 1996 but rose to 18 percent of GDP by mid-1999.

To alleviate the effects of the crisis, the International Monetary Fund (IMF) gave Thailand a US$17.2 billion assistance package in August 1997. With the help of these funds, reforms in the financial sector were implemented along with the **restructuring** of the industrial and agricultural sector to increase productivity. Policy reforms to increase accountability and transparency, as well as social reforms to improve education, social services, and human resource development are also being implemented by the government with assistance from the IMF, the Asian Development Bank (ADB), the Overseas Economic Co-Operation and Development (OECD) Fund, and the World Bank.

POLITICS, GOVERNMENT, AND TAXATION

On 24 June 1932, Thailand's political system changed from an absolute monarchy to a constitutional monarchy. The king is the head of state and is very much revered by the Thais. Presently, the monarch is King Bhumibol Adulyadej, who ascended the throne in 1946. King Bhumibol Adulyadej has been specially recognized for bringing the Thai monarchy closer to the people. In 1955, he visited the poorest regions of Thailand in order to see for himself the living conditions of the people. Since then, the king and his family have spent 7 months of every year visiting each of the 76 provinces of Thailand. As a result, the king is very well informed of the distinct needs of each region.

To date, the king has implemented over a thousand projects to improve the living conditions in the remotest rural areas, including the introduction of new crops, water conservation, irrigation, swamp drainage, preservation of national forests, and crop substitution. One of the king's most publicized projects is the Royal Rainmaking Project, wherein after years of careful experimentation, 14 different formulae were invented to address the problem of dry spells in Thailand.

The Thai Constitution mandates that the government should be placed under the administrative power of a prime minister, a cabinet, and a **bicameral** legislature composed of a 253-member appointed Senate and a 500-member, popularly-elected House of Representatives. The prime minister is selected from the majority party in the ruling coalition in the House of Representatives. Since 1932, Thailand has promulgated 16 constitutions, the latest of which was adopted in 1997.

The cabinet is composed of 13 ministries together with the Office of the Prime Minister and the Office of State Universities. Each ministry is led by a minister who is assisted by one or more deputy ministers. In addition, there are ministers holding the portfolio of "Minister Attached to the Prime Minister's Office." These ministers take charge of the sectors assigned to them and assist the government in the formulation and implementation of national programs. The National Economic and Social Development Board (NESDB) is the agency in charge of longer term development planning, which is implemented in 5-year periods. Aside from the NESDB, other important government agencies for economic planning are the Board of Investment (BOI), which provides incentives for investment, the Office of the Technical and Economic Cooperation Department, and the Office of the National Education Commission.

The Ministry of Industry is crucial in assisting the government in all industry and manufacturing-related activities such as formulating policies, licensing of factories, issuing mineral leases, formulating and supervising industrial standards, providing technical assistance to industries, and supervising the Small Industries Finance Office. Meanwhile, the Ministry of Commerce oversees external and internal trade. Specifically, it controls or supervises prices of certain strategic commodities such as rice and provides export promotion services to export companies.

The Thai government believes that the private sector should lead the country in its quest for progress and

development. In this endeavor, the government's major contribution to economic growth was to provide economic and social services; provide financial resources for the construction of physical **infrastructure** like highways, irrigation, and power facilities; and to formulate and offer various incentives and financial assistance to promote private investments, export businesses, and agricultural enterprises.

Since the 1950s, the government followed a clear direction towards private enterprise. International organizations like the World Bank and the United States Agency for International Development as well as the United States have strongly encouraged Thailand towards adopting that strategy.

Presently, the Thai government is at the forefront, alongside the business sector, in implementing a wide range of economic reforms to promote Thailand's economic recovery from the 1997 **recession**. Improvements have also been made in the implementation of economic and social welfare programs. This effort is guided by the new constitution, which promotes a stronger, more accountable, decentralized, and transparent government.

POLITICAL PARTIES. As of 1998, Thailand had at least 11 registered political parties, the biggest of which are the Democratic Party (Prachathipat Party) and Thai Nation Party (Chat Thai Party). The other political parties are the Liberal Democratic Party, Mass Party, National Development Party, New Aspiration Party, Phalang Dharma Party, Social Action Party, Solidarity Party, Thai Citizen's Party, and the Thai Rak Thai Party.

Political parties in Thailand serve as the breeding ground for future leaders and bureaucrats. They provide the venue by which those with political ambitions are able to familiarize themselves with the country's democratic structure and processes and obtain a certain measure of political leadership training. However, the political party system in Thailand is still in a state of evolution and can be best described as fragmented, structurally weak, and vulnerable to corruption. The cost of staging a national campaign is very high and the funds needed to finance such an endeavor are generally only available to those in the business world. Hence, businesspeople dominate most of the political parties in Thailand. Moreover, political parties in Thailand are not mass-based, have no distinct ideological differences, and lack full-time, dedicated, and qualified personnel to formulate and implement the party's programs. Since one Thai political party cannot really be differentiated from the other, switching party loyalties is not unusual in Thailand.

REVENUES. A huge percentage of government revenue comes from taxes which are collected at the national and local level. At the national level, the central government collects an **income tax** and a profit remittance tax, while the most important **indirect tax** is the **value-added tax** (VAT). In September 1997, the government announced an increase in the VAT from 7 percent to 10 percent in order to raise revenue and to meet the conditions of the US$17.2 billion loan extended by the IMF to Thailand. However, businesses making less than US$24,000 per annum were still exempted. The government levies taxes on all personal incomes including income from business, commerce, agriculture, industry, transport, construction, or contracting work. The corporate tax rate is currently 30 percent of net profits for all firms. Other taxes imposed by the central government are customs and **excise taxes**, and stamp **duty**. Local governments are authorized to collect different types of taxes such as property and land tax. Tourism and its allied services are the biggest source of revenue of the government, especially in terms of foreign currency earnings.

THE ROLE OF THE MILITARY. The military has played a large role in Thailand's political history and national development. In less than 3 decades, from 1932 to 1958, Thailand underwent 12 coups d'etat. Since 1958 there have been 6 more coups, half of which were successful in overthrowing the government. Since the transition from an absolute monarchy to a constitutional monarchy in 1932, the country has been led mostly by military leaders.

Against this scenario, it is important to analyze the contribution of military leaders to Thailand's current economic development since they had a hand in crafting most of Thailand's economic strategies. For instance, the rule of Field Marshal Sarit Thanarat after a coup in 1957 laid the foundation for Thailand's economic development. One of the most important contributions of his regime was the formulation of a national economic development policy, the first of its kind, which was implemented beginning in 1961. Numerous **technocrats** were tapped in the crafting of Thailand's economic strategy for development. His other achievements include the establishment of universities in the north, northeast, and southern regions, the enticement of foreign investors to invest in Thailand by offering incentives such as **tax holidays**, and hastening the completion of infrastructure projects such as dams, roads, and bridges. Succeeding regimes followed Sarit's example and crafted their respective development strategies after his, a key factor in Thailand's present economic progress.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

In the late 1980s, Thailand's infrastructure failed to cope with the rapid expansion of the economy. In fact, many experts believe that the country's economy could have grown more were it not for hindrances caused by inadequate infrastructure, a problem that is more pro-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Thailand	63	232	236	10.1	32	2.5	21.6	4.49	800
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Vietnam	4	107	47	N/A	2	0.3	6.4	0.00	100

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

nounced in the rural areas. Thailand's problem with inadequate transportation infrastructure is so severe that the Bangkok Metropolitan Region has become internationally notorious for its legendary traffic jams. Infrastructure for water, sewerage, and energy are also lagging behind the rate of urbanization and development. Secondary cities and rural areas are suffering because of their inability to attract investors due to poor infrastructure.

To address these problems, the Thai government has formulated a long-term infrastructure plan to meet the demands and requirements of a newly industrialized country. The government has prioritized the improvement of existing infrastructure and construction of new projects to alleviate the problem. Building on the goals of the previous economic plans, the Eighth National Economic Plan (1997–2001) allocated US$7.5 billion for infrastructure development, which is 47 percent more funds than the previous plan. The government also identified priority projects such as expressways, rapid mass transportation, port development, water supply, and telecommunications. At the same time, legal reforms are being instituted to enable the private sector to participate in infrastructure development.

However, the immediate implementation of the projects was stalled due to various reasons, the foremost of which was the onset of the Asian Financial Crisis in July 1997, which caused a serious economic recession. The immediate effect was a lack of adequate funds to continue on-going projects or to start construction of planned projects. Other obstacles were disputes with foreign builders and negotiations with potential operators of toll roads as well as last-minute changes in contract specifications and bureaucratic requirements like land-use permits.

Beginning in 1999 Thailand has slowly recovered from the debilitating effects of the recession. Combining funds from different sources like annual budgets, independent development loans, borrowings, and the private sector, a total of US$78 billion was allotted for infrastructure projects. The government is utilizing different strategies such as the Build-Operate-Transfer (BOT) scheme to fund construction of expressways and Mass Rapid Transfer (MRT) systems in Bangkok, to the installation of more telephone lines and the construction of privately-owned and operated power generating plants.

LAND TRANSPORTATION. Thailand's road networks cover over 170,000 kilometers (105,638 miles). To help alleviate the traffic in Bangkok, an elevated train system was opened in December 1999. An underground subway system is also under construction and is expected to be operational by 2003. A total of US$700 million was allotted for these mass transportation projects. Originating from Bangkok, Thailand's rail network spans 3,981 kilometers (2,474 miles) and transports people to the major regions, namely Chiang Mai, Nong Khai, Ubon Ratchathani, Padang Besar, and Sungai Kolok. The State Railway of Thailand expressed its plans to spend US$4.2 billion between 1997 and 2001 to improve and expand its rail network.

AIR TRANSPORTATION. Thailand is working on its goal to become the aviation hub of Southeast Asia. It is expanding its existing international airport to accommodate 36 million people by 2003. At the same time, a second international airport, 30 kilometers east of Bangkok, is currently under construction. Presently, Thailand has a total of 106 airports. Of these, 6 are international airports while 29 are domestic airports, with several more provincial airports in the offing.

WATER TRANSPORTATION. There are 8 international deep seaports in different parts of Thailand, with the major ports in Bangkok, Laem Chabang, Phuket, and Songkhla. In order to reduce the traffic in the over-utilized main port in Bangkok's Klong Toey district, the government is upgrading and constructing additional ports, particularly in the Eastern Seaboard and southern region, along the Gulf of Thailand and the Andaman Sea.

The importance of the Eastern Seaboard is increasing due to the establishment of industrial parks and export processing zones around the sea port in Laem Chabang. The

government foresees that the port areas in the south will grow in importance to equal existing main ports.

COMMUNICATIONS. As of 1998, there were 5.4 million land lines and 2.3 million mobile phone subscribers in the country. As incorporated in the Telecommunications Master Plan for 1997–2006, Thai authorities have set a goal of increasing the number of telephones per 100 people from 4 in 1993 to 18.2 by 2001. In 1999, the government completed the Rural Long Distance Telephone project and is currently operating a total of 20,732 lines or 47 percent of its target. A number of projects are currently underway, including the Fibre Optic Submarine Cable Network Development and the Telecommunication Satellite Network Development.

As of 1999, Thailand had 204 AM stations, 334 FM stations, and 6 short wave facilities servicing about 13.96 million radios. In addition, 5 television broadcast stations provide service to 15.19 million television sets in all of Thailand as of 1997.

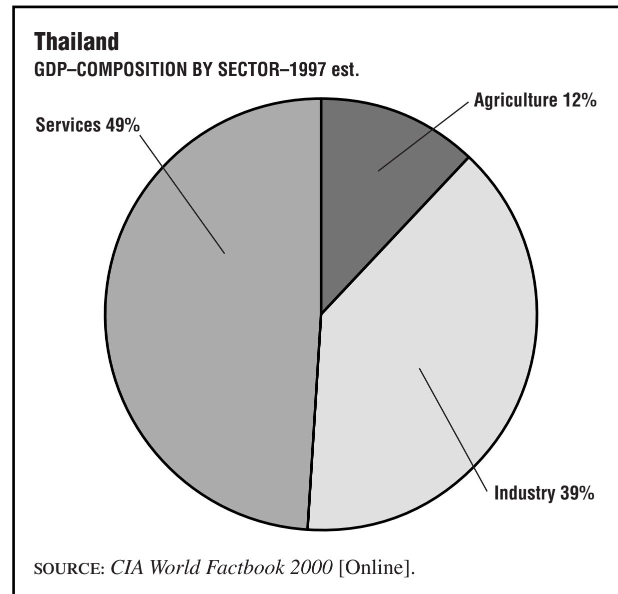
POWER. In the past, Thailand was heavily dependent on imported crude oil. After the world oil crisis in the 1970s, however, Thailand began to explore indigenous sources of energy and was rewarded with the discovery of a natural gas field in the Gulf of Thailand in 1981. As of 1996, 20 fields are in operation with daily oil production reaching 2,500 barrels per day, and of gas reaching 1,200 million cubic feet per day.

Due to the continued expansion of industries, the future demand for energy has been forecasted to increase by 7 percent in the period between 2002 and 2006. Demand for petroleum will still lead this increase at 49 percent, followed by imported coal at 12.4 percent. Demand for electricity has been forecasted to double from 10,203 megawatts in 1996 to 20,400 megawatts in 2006, according to the *Asia Pacific Economic Compendium* (1996).

Thailand continues to explore other sources of energy within its territory and from neighboring countries. In addition, it continues to construct different projects to meet its energy requirements. Among these are the Greater Bangkok Area Transmission System, the Yadana-Ratchaburi Gas Pipeline, the Ratchaburi Power Plant, and the Eighth Power Distribution System Improvement and Expansion Plan.

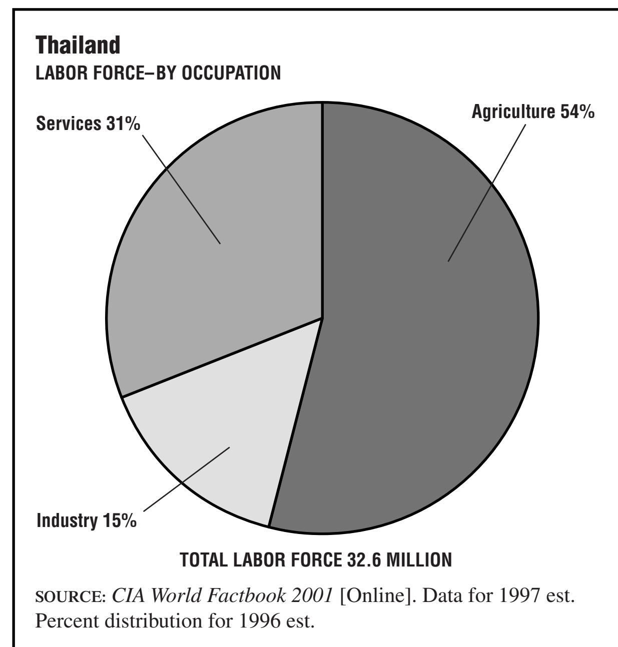
ECONOMIC SECTORS

Thailand's economy has grown steadily by an average of 8 percent for the past decade. There is a wide base for growth, with each sector contributing to the development of the economy. Starting out as an agrarian economy, Thailand's bid for industrialization strengthened its industry sector, while the boom in the tourism industry strengthened the service sector. In the 1990s, manufacturing and tourism are the 2 largest contributors to GDP.



SOURCE: *CIA World Factbook 2000* [Online].

Agriculture has been the traditional backbone of the economy, with Thailand being ranked among the top 5 producers of food in the world. In the 1970s, the country supplied 30 percent to 40 percent of rice in the world market. In the 1990s, it continued to be the leading exporter of rice, tapioca, and frozen shrimp. It is also the world's largest producer of rubber, the demand for which has increased due to the AIDS epidemic, which has increased the demand for condoms. Thailand is also one of



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997 est. Percent distribution for 1996 est.

the world's biggest suppliers of flowers, particularly orchids, which it exports mainly to Japan and Europe. Despite its output, the agricultural sector is on the decline, and is slowly being overtaken by the industry and service sectors in terms of contribution to GDP.

With the re-orientation of production from import substitution to producing for export, and the drive towards industrialization, the manufacturing industry grew steadily until it exceeded agriculture in terms of contribution to GDP. According to Bank of Thailand statistics reflected in the 2000 Business Monitor International Annual Report, the manufacturing industry accounted for 86.8 percent of the country's total exports in 1999. The country's first step into manufacturing was food processing, effectively building on its strong agricultural sector. Today, it is the world's largest exporter of canned pineapple, with one-third of all the canned pineapple sold in the United States coming from Thailand. It is also Asia's biggest exporter of tuna after Unicord, a local company, purchased Bumble Bee Seafoods, the third largest tuna canner in the United States. It now supplies 20 percent of the world market for canned tuna.

The country's service sector is experiencing steady growth, with the boom in the tourism industry. In 1992, tourism accounted for 10 percent of the GDP, with 600 tourists arriving every hour, or 5,256,000 tourists for the year, spending an average of US$1,000 each, equivalent to about US$5 billion a year. This amount is equal to 50 percent of the country's total exports. In 2000, revenues from tourism were expected to hit 343 billion baht or US$6.86 billion, with a total of 9,438,000 tourists expected to visit the country throughout the year.

Strong local corporations—such as Charoen Pokphand, which earns revenue of US$2.5 billion annually; Thai Union Frozen Products, the largest canned seafood exporter; and Boonrawd Brewery—work together with various **multinational corporations** to energize the manufacturing industry. Forecasts for the year 2000 predicted that multinational corporations which have set up shop in the country—such as Mitsubishi, Isuzu, and Honda for automobiles; Fujitsu, Seagate, IBM, Sony, and Matsushita Electronic for electronics; Heineken and Carlsberg breweries, and Nestle and Kellogg for food processing; and Exxon, Montell, and Bayer for petrochemicals—will expand their operations in the country and pump in more investment.

AGRICULTURE

Traditionally an agrarian economy with rice as its main product, the country's agricultural sector has since expanded to cope with the demands of its newly industrialized state. Thai agriculture has a clear advantage over other newly industrializing economies, namely the large portion of land allocated for cultivation, a climate suited to the growth of a wide variety of crops, and high quality strains of agricultural products.

In 1960, agriculture contributed over 40 percent of the national income. This contribution steadily declined due to the intense and rapid growth of the manufacturing sector. By the end of the 1980s, agriculture merely accounted for 17 percent of GDP, which declined even further to 12 percent until the late 1990s, to below 10 percent in 1999. The same pattern exists in terms of its contribution to exports, which stood at 46.9 percent in 1980 and plummeted to 9 percent by 1998.

However, these figures do not indicate a weakening of the sector's significance to the Thai economy, but more a strengthening of the industry and service sectors. Agriculture still accounts for 4 of the country's top exports—rice, canned fish, frozen or chilled shrimp, and rubber—and continues to serve as the foundation of booming manufacturing ventures such as food processing. Processed food such as canned fruits, vegetables, seafoods, and ready-to-eat meals, also enjoy a healthy domestic market, along with sugar and flour.

The agricultural sector has consistently employed about 50 percent of Thailand's 30 million-strong workforce. In 1993, farm population accounted for about 57 percent of the total workforce. If those indirectly engaged in **agribusiness** industries were included, the estimate would be even higher. Economists predicted that the 1 to 4 million people left unemployed by the 1997 financial crisis in the late 1990s would be absorbed by the agricultural sector.

FIELD CROPS. Agricultural production is focused on 7 major crops—namely rice, tapioca, rubber, maize, sugarcane, mung beans, and tobacco leaves—which are grown mostly for export purposes. Fifty percent of the country's cultivated land is devoted to planting rice; Thailand continues to be the world's top exporter of rice, exporting 6.8 million tons of its total production of 23.3 million tons in 1999, worth 7.1 billion baht. Based on Bank of Thailand statistics, exports of rubber amounted to 2 million tons worth 43.9 billion baht, while maize amounted to 80.7 thousand tons worth 528 million baht, according to *Business Monitor International.* Crop production is expected to increase as genetic research on plants improves yields and as cultivated areas are expanded. However, falling global prices and adverse weather conditions are likely to reduce farm incomes.

LIVESTOCK. The second largest component of agriculture is livestock production, which accounted for 1.3 percent of GDP in 1993. The decline in the prices of field crops and the reduced productivity of land have caused farmers to turn to contract farming of broiler chickens, cows, and pigs. A single broiler contract growing project

employs about 145 families who earn an equivalent of US$350 monthly, after paying for the bank loans needed to buy broiler houses and equipment. Research to improve egg production and feed conversion has also been successfully undertaken, making Thailand a leading producer and exporter of frozen chicken. The government also helps this sector by facilitating the improvement of beef and dairy production through cross-breeding and artificial insemination using high-grade breeds imported from the United States, Switzerland, Germany, Denmark, and Australia. Thai beef is exported to Singapore and Hong Kong, and the sector is angling to gain entrance to the Japanese market.

FORESTRY. The wood industry relies on the wide variety of hard and softwood available in the country's forests. Among these are tropical evergreens, hill evergreens, mangroves, and other trees which are processed to produce firewood, stick lac, gum benzoin, rattan, and bamboo. Rattan is then manufactured into furniture, while bamboo is used for furniture and paper. Dyes, tanning bark, and medicinal herbs are also harvested. The growth of the output from forestry fell from 2.6 percent in the period between 1967–71 to 0.25 percent in the 1982–86 period due to the massive depletion of the country's forest resources. The devastation is caused mainly by the destructive practice of slash-and-burn agriculture by villagers as well as illegal logging. Uncontrolled logging resulted in the felling of 1.5 percent of the country's total forest acreage every year. After heavy floods in 1988 washed away entire villages, the government banned logging and conducted reforestation efforts. Currently, 23 percent of the country is covered with forests following legislation in the early 1990s which called for the maintenance of a proper percentage of forestland.

FISHING. The country's 3,000-kilometer (1,864-mile) coastline produces an average of over 3 million metric tons of marine products annually, which amounts to about US$2 million. Its fishing industry, which is one of the largest in Asia, exports frozen shrimp, tuna, squid, and cuttlefish. There is also an abundance of freshwater fish in rivers, lakes, and streams as well as flooded paddy fields where farmers purposely raise them. The Fisheries Department also promotes freshwater aquaculture by farmers in large ponds. Forty-five freshwater fishery stations have been set up by the government to promote freshwater aquaculture. In 1999, fishery products accounted for 3.6 percent of total exports. However, its total contribution to GDP has diminished due to the exhaustion of resources in Thailand's coastal waters.

INDUSTRY

The country's industry and agriculture sectors were traditionally intertwined. Today, however, industry has eclipsed agriculture in terms of contribution to GDP, contributing 39 percent in 1997. The rapid growth of this sector can be attributed to free market forces, limited government assistance, and the private sector's quick response to shifting market demands. However, the Asian financial crisis from 1997 to 1998 heavily impacted industries and caused the closure of 8,000 businesses. The increasing cost of labor has also led to a departure from labor-intensive ventures. To date, only the manufacturing industry contributes substantially to national income, particularly the 4 sub-sectors of food processing, automobiles, electronics, and petrochemicals.

The initial move into industrialization in the 1960s was characterized by import substitution, which mainly involved the processing of its bountiful agricultural produce. In 1972, a new Industrial Promotion Act signaled the shift in government policy to an export-oriented economy. This new emphasis began the rapid diversification of the industry sector which saw the rise of several industries, including petrochemicals, textiles, transportation equipment, electronics, iron and steel, and minerals.

The manufacturing sector constitutes Thailand's main industry, producing a wide variety of goods such as textiles and garments, plastics, footwear, electronics, integrated circuits, computers and components, automobiles and parts, and cement. Manufacturing facilities are mostly located in Bangkok and on the Eastern Seaboard, which was launched in 1977 as the long-term site for large-scale small, medium, and heavy industries. In 1993, the manufacturing sector employed 10 percent of the entire **labor force**. By 1998, however, the sector already employed approximately 20 percent of the Thai workforce, who are among the highest paid workers in the country along with those working in the service industry, according to the *Ministry of Foreign Affairs Handbook.*

The manufacturing sector expanded its contribution to GDP from 16 percent in 1960 to 37 percent in 1993 to 39 percent in 1997. Given that manufactured goods are produced largely for export purposes, its share of export earnings grew steadily from 32 percent in 1980 to 74.7 percent in 1990 to 84.5 percent in 1999. Presently, its top export markets are the United States, Japan, the European Union, Singapore, Malaysia, Hong Kong, Taiwan, and China, with the United States and Japan jointly absorbing 36 percent of the country's exports.

FOOD PROCESSING. Canned foods constitute the main export earner of this sector, and Thailand is the world's leading exporter of canned pineapple and tuna. Its export growth rate increased by 6.8 percent between 1998 and 1999. This sector has shifted from basic refining to **value-adding** (increasing the value of a good in the process of production), hence, the biggest growth segments include ready-to-eat meals like canned traditional Thai dishes,

processed seafood, and snacks. Though still largely patronized by the domestic market, 2 rice dishes—namely *khaolam*, a rice dessert baked in bamboo trunks, and *krayasart*, a sticky rice dessert—are already being sold in China and Japan. Production of ready-to-eat halal food is another avenue to be explored, to tap the regional Islamic market.

The government has thrown its support behind agro-processing by promoting the establishment of industrial estates that are located near prime sources of raw material. Several multinational companies have also established their presence in the country, namely the Heineken and Carlsberg breweries; Nestle, whose 8 plants are producing a wide range of products from ice cream to mineral water; and Kellogg, which uses local rice as raw material for its ready-to-eat cereals.

MOTOR INDUSTRIES AND AUTOMOBILE ASSEMBLY. The country is currently the regional center for vehicle assembly and the manufacturing of motor parts, and is the second leading manufacturer of pick-up trucks in addition to the long-established motorcycle industry. Between 1991 and 1996, vehicle assembly peaked at 560,000 per year, in addition to 1.5 million units of motorcycles. The financial crisis debilitated this sector in 1997 and 1998, but it managed to rebound and produced 327,233 units of vehicles following a sharp increase in export orders in 1999, along with 725,425 units of motorcycles. Shipments in motor vehicles and parts in 1999 amounted to US$1.6 billion. Among the auto companies who have established factories in the Eastern Seaboard are Ford, GM, Mazda, Honda, and Toyota.

ELECTRONICS. This sub-sector produces a wide range of products from low-tech **consumer goods**, such as TV tubes and computer monitors, to advanced microchips. In 1999, total electronic exports amounted to US$21.4 billion. The government has encouraged its growth by offering official investment incentives to foreign investors. Among the multinational corporations that have been attracted by these incentives are Fujitsu, Seagate, IBM, Sony, and Matsushita Electronics, which produces the National Panasonic brand. However, the sector is undermined by lack of skilled scientific and professional workers and heavy reliance on foreign technology.

PETROCHEMICALS. Natural gas discovered in the Gulf of Thailand is being tapped for the raw materials upon which to develop a globally competitive petrochemical industry. This sub-sector was greatly affected by the financial crisis due to the massive debts that it accumulated during its development in the early 1990s. However, its performance is picking up with an increase of 2.1 percent in output in 1999, due to higher export demands. Foreign investment is expected to fuel its resurgence with Germany's Phenolchemie, Chevron, Bayer, and Montell pumping in fresh investments.

SERVICES

The services sector is Thailand's fastest growing sector, largely fueled by the boom in tourism. In 1997, services accounted for over 49 percent of GDP and employed over 4.1 million, or 31 percent of, Thai workers.

TOURISM. The beauty of the country attracts millions of tourists annually. Thailand boasts beautiful beaches, cultural attractions such as Buddhist temples, bountiful food, affordable high-quality goods such as textiles, and hospitable people. Beckoned by these attractions, tourists have steadily generated income for the country since 1982, with tourism posting a growth rate of 16 percent per year. In 1994, 6.16 million tourists visited Thailand. In 1998, 7.76 million tourists spent nearly US$8 billion. This was exceeded by the 1999 figure, which posted the arrival of 8.5 million tourists. In 1992, tourism employed 1,693,005 workers (5.1 percent of the total labor force), with 923,822 employed directly and 769,183 employed indirectly. The boom in tourism spurred the growth of related service industries which generated employment. Of the total number of workers in the tourism industry, 37 percent were hired by hotels, 26 percent by restaurants and food shops, 11 percent by leisure and entertainment, and 26 percent by the souvenir industry, travel agencies, and other related enterprises. In recognition of the importance of this industry, the Tourism Authority of Thailand works closely with other agencies to develop tourism resources efficiently by promoting investment in tourist-related facilities.

BUSINESS SERVICES. The continuous expansion of the Thai economy led to the increase in the need for business services including legal, advertising, employment, and general management. In 1997, legal and accounting firms reported the highest revenue while advertising bore the brunt of the financial crisis. The demand for financial restructuring services including merger, acquisitions, and debt collection remained high in 1998, which led to an increase in the sector's employment. To illustrate, one accounting company expanded its debt restructuring division from 2 to 20 people in 1997. Top international consulting firms have offices in Thailand, including Baker & McKenzie and Tilleke & Gibbins for law; Andersen Consulting and Boston Consulting Group for management consulting; Arthur Andersen and Price Waterhouse for accounting; and J. Walter Thompson and AC Neilsen for advertising and media.

RETAIL. The **retail** sector is composed of department stores, hypermarkets, supermarkets, and convenience stores, most of which are local companies. Among the international retailer stores are Carrefour, 7-Eleven, Marks & Spencer, and Makro.

FOOD. As of 1999, Thailand had 639 international restaurants and 328 local restaurants, and about 15,000

fast food, mid-level family style restaurants, coffee shops, noodle shops, specialty food shops, and delivery shops to fuel the food services sector. It also had 2,350 hotels, 364 resorts, and 784 bungalows which account for higher food sales than restaurants. In 1998, total food sales amounted to US$5.385 million. In 1992, restaurants and food shops employed approximately 440,000 workers. Even though the dollar value of food service sales decreased due to the **devaluation** of the baht during the 1997 Asian financial crisis, the sector grew by 7 percent based on actual sales.

FINANCIAL SERVICES. Thailand has 34 commercial banks, of which 13 are domestic and 21 are foreign. Among the foreign banks are Bank of America, Chase Manhattan, and Citibank. Leading local banks include Krung Thai Bank, with 646 local branches and 10 overseas branches; Bangkok Bank PCL, with 526 local branches and 21 overseas branches; and Thai Farmers Bank, with 497 local branches and 12 overseas branches. As a result of the financial crisis, some local banks have been taken over by the government and are in the process of reorganization and eventual **privatization**. The public financial sector includes banks geared for specific purposes including 1) the Government Savings Bank for small savings deposits; 2) the Bank for Agriculture and Agricultural Cooperatives for farm credit; 3) the Government Housing Bank for middle- and low-income housing mortgages; 4) the Industrial Finance Corporation of Thailand for industrial development projects; and 5) the Export Import bank for importers and exporters. Other financial services include finance companies, mortgage lenders, life and non-life insurance companies, and financial cooperatives.

INTERNATIONAL TRADE

Thailand has a long history of international trade. Beginning in the 15th to 18th centuries, during the reign of the Ayutthaya monarchy, foreign merchants who lived near the kingdom's capital conducted trade with foreigners. The country's first significant trade treaty was the Bowring Treaty in 1855 with Britain. Shortly after that, it also signed treaties with 14 other countries including the United States, France, Russia, Sweden, Spain, and Japan.

Today, the United States, Japan, and the European Union continue to be its top trading partners, absorbing 52.6 percent of all exports in 1999 and supplying 48.8 percent of total imports in the same period. Its other partners are Hong Kong, China, and the Association of South-East Asian Nations (ASEAN) countries, the most significant of which are Singapore and Malaysia. Other countries apart from those mentioned accounted for 18.4 percent of exports and 21.6 percent of imports in the same period.

Thailand's major exports are rice, tapioca products, cane sugar and molasses, and rubber for agriculture; chemicals, polymers, and plastics for the manufacturing industry; and gypsum, natural gas, and feldspar for the mining industry. Bank of Thailand statistics as reflected in the Asian Economic Survey of 2000 identified the country's major export products as machine parts, circuits, frozen shrimp, prawns, sundry items, computer parts, garments, vehicle parts, and plastic products. On the other hand, its major imports are petroleum, integrated circuit parts, and chemicals.

The **balance of trade** was consistently negative until 1998, which means that the value of the country's imports was bigger than the value of its exports. The discrepancy was minimal in 1970, with import value exceeding export value by only US$541 million. In 1975, imports exceeded exports by US$1.072 billion, which doubled in 1980 to US$2.709 billion. In 1985, imports still exceeded exports by US$2.21 billion, which had quadrupled by 1990 to US$10.309 billion. In 1995, the balance still stood in favor of imports by US$14.337 billion. In a considerable reversal, imports in 1997 exceeded exports by US$5.319 billion but the following year, exports exceeded imports by US$11.485 billion.

Despite the uneven balance of trade, the Thai economy continued to grow by an average of 6.8 percent in the 1970s, 7.5 percent in the 1980s, and 8 percent in the early 1990s before the Asian financial crisis. This growth can be attributed to 2 factors, namely the boom of the tourism industry and the inflow of foreign direct investment. According to *International Historical Statistics,* in 1970, the services sector contributed 44.1 percent of GDP, which increased in 1980 to 49.7 percent. Though this contribution fell to 46.9 percent in 1999, it is safe to say that the dollar earnings from the tourism industry generated a substantial amount, enough to offset the trade imbalance.

Foreign direct investment (FDI) is another major factor in the growth of the economy since the mid-1980s. In 1988, FDI infused US$1.25 billion into the economy,

Trade (expressed in billions of US$): Thailand

	Exports	Imports
1975	2.208	3.280
1980	6.505	9.214
1985	7.121	9.242
1990	23.070	33.379
1995	56.439	70.776
1998	54.456	42.971

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

partly explaining the 7.5 percent growth despite a US$4.332 billion discrepancy in balance of trade in favor of imports. Foreign direct investment doubled to US$2.5 billion in 1990.

Thailand is a member of several international trade organizations including the ASEAN Free Trade Area (AFTA), the Asia Pacific Economic Cooperation (APEC), and the World Trade Organization (WTO).

MONEY

The Thai economy grew with the formulation of the first 5-year National Economic Development Plan in 1958. During the 1960s, the country grew by an average of 8 percent annually. In the 1970s the fluctuation of commodity prices, a rise in interest rates, and the 150 percent increase in world oil prices slowed the economy, although it continued to grow at the rate of 6.8 percent annually. Political instabilit—including student uprisings in 1973, 2 military coups, and increased **communist** insurgency—hindered the government in its adjustment of economic plans and structures to meet the challenges of the next decade. Surprisingly however, the economy continued to perform well in the 1980s with a 7.5 percent GNP growth rate. The year 1986 is significant because of the fall of the excess value of imports over exports to a mere US$301 million compared to the previous year's deficit of US$2.121 billion, indicating a substantial growth of the value of Thailand's exports. This can be attributed to economic adjustments launched by the government.

The first half of the 1990s was marked by similar growth until the Asian financial crisis hit the region. In 1996, **real GDP** growth rate fell sharply from 8.8 percent in 1995 to 5.2 percent and during the period of the crisis between 1997 and 1998, real GDP growth dropped to –0.43 percent and –10.18 percent, respectively, according to the *International Financial Statistics Yearbook.* The government spent much of the country's foreign reserves to stabilize the value of the baht, causing the further devaluation of the currency. The crisis led to a temporary increase in poverty levels in the city and unemployment due to massive lay-offs specifically in the construction and service industries. These unemployed city-dwellers went back to rural areas hoping to find employment, which led to a rise in poverty levels in the south, central, and northeast regions. Thailand's recession also started a domino effect that led to the fall of the economies of its South East Asian neighbors.

There has been a remarkable resurgence in the economy since then, fueled by the US$17.2 billion assistance package given by the World Bank, reforms in the financial sector, and increased foreign investment. For the first time since 1969, the economy posted a positive balance of trade with the value of exports exceeding imports by US$11.485 billion in 1999, according to the *International Financial Statistics Yearbook.*

The average **exchange rate** of the Thai baht from 1984 to 1997 was B25 to US$1. However, the baht was devalued by the administration of Prime Minister Prem Tinsulanonda by 8.7 percent in 1981, and again in November 1984 by 14.9 percent, as part of its austerity measures. This devaluation led to the decline in the cost of production, which resulted in increased revenue from exports.

With the onset of the financial crisis, the baht fell from its B25 to US$1 average to B31.36 to US$1 in 1997, and to an all-time low of B41.36 in 1998. The infusion of direct foreign investment in 1998 led to the recovery of the economy and the increase in the value of the baht to B37.81 against the dollar in 1999, which went even higher to B37.349 in January 2000. By 12 October 2000, however, the baht had devalued once more to a 27-month low of B43.27, which threatened to increase **inflation**. The depreciation was caused by external factors, including weak regional currencies such as the Philippine peso and the Indonesian rupiah, the strong showing of the dollar compared to currencies such as the Euro, and increase in world oil prices which used up the country's surpluses. Internal factors that were identified include weak economic policies and practices and the country's unstable political situation.

The Stock Exchange of Thailand (SET) was established through the passage of the SET Act in May 1974, and began operation on 30 April 1975. The second revision of the SET Act in 1992 produced the Securities and Exchange Act (SEA) which established a Securities and Exchange Commission to serve as the only supervisor of the securities business.

Exchange rates: Thailand

baht (B) per US$1	
Jan 2001	43.078
2000	40.112
1999	37.814
1998	41.359
1997	31.364
1996	25.343

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

In Thailand, the incidence of poverty or wealth is dependent on a person's occupation, location of residence or work, and level of educational attainment. From the 1970s until the early 1990s the poor were mostly agricultural workers in the rural areas, particularly in the

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Thailand	863	1,121	1,335	2,006	2,593
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Vietnam	N/A	N/A	183	206	331

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Thailand

Lowest 10%	2.8
Lowest 20%	6.4
Second 20%	9.8
Third 20%	14.2
Fourth 20%	21.2
Highest 20%	48.4
Highest 10%	32.4

Survey year: 1998

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

north, northeast, or southern regions, whose highest level of education was 6 years of primary schooling. Meanwhile, those working in the manufacturing or service sectors in the major cities or in the central region—specifically in the Bangkok metropolitan region—who completed at least 12 years of formal education, were more likely to be economically well-off. Due to the concentration of economic activities in the capital, such as construction of physical infrastructure and job creation, the regional disparities in income and wealth slowly began to widen. As Thailand slowly shifted from an agrarian economy to an industrialized economy, economic resources were shifted to the industrial sector and huge demand for factory workers created huge differences in wage rates between farmers and factory workers. As the contribution of the agricultural sector to the economy decreased so did the demand for farm workers. In the latter years of the 1980s, 80 percent of the people living below the poverty line worked in the agricultural sector.

Poverty in Thailand is not so much a problem of an increasing number of families being unable to provide for their most basic needs, as it is a problem of the huge difference in income between the upper 30 percent and the rest of the population. Thailand's impressive economic growth in the 1980s and 1990s has improved overall living conditions, but the benefits of this national affluence have not been distributed equitably. Those belonging to the lower 30 percent of the population are merely surviving while the upper 30 percent are enjoying the fruits of the country's affluence with brand new houses and cars, overseas education for their children, and increased savings for emergencies. Despite the fact that more and more Thai families are climbing out of the poverty pit, their earning capacity remains low compared to that of the upper 30 percent.

The government has addressed the increasing incidence of poverty in the different national development plans that are formulated every 5 years. From the second to the seventh National Economic Development Plan, the government formulated different strategies in order to achieve a fairer distribution of income and social services, to create more employment opportunities in the rural areas, to assist parents in their children's education, and to provide credit facilities for small-time business ventures.

Before the Asian financial crisis hit Thailand in 1997, government efforts to alleviate poverty were slowly gaining ground with poverty levels falling from 33 percent in 1988 to 11.4 percent in 1996, according to the World Bank. However, the income distribution remained inequitable with the top 20 percent earning 12.2 times more than the bottom 20 percent in 1988. The disparity

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Thailand	23	8	5	3	13	11	37
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Vietnam	49	7	15	4	18	6	2

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

worsened further in 1993 with the top 20 percent earning 15.8 times more than the lowest 20 percent of the population. Average income in the most impoverished region in the northeast was 11.9 times lower compared to Bangkok in 1994. Consequently, rural workers tried to find work in the urban areas, especially in the Bangkok metropolitan area, causing the proliferation of slum areas in the urban cities.

In July 1997, as the Asian financial crisis ravaged the Thai economy, hundreds of workers in the construction and service industries in Bangkok were laid off. These newly unemployed workers moved back to the rural areas to find work in the agricultural sector which was performing strongly in those times. This migration caused the incidence of poverty to increase in the agricultural regions because not all of the unemployed could be absorbed in the agricultural sector. The northeast region experienced the largest increase in poverty during this period, rising from 19.4 percent in 1996 to 30.8 percent in 1999. Overall poverty incidence in Thailand rose from 11.4 percent in 1996 to 13 percent in 1998 as an additional 1.1 million people fell below the poverty line.

Poverty in Thailand can be attributed to several factors. First is the concentration of economic activities in Bangkok and a number of other urban areas. Investment, goods and services, government programs, and well-paying jobs are still largely concentrated in the capital and nearby urban areas despite government efforts to decentralize economic development. The concentration of resources and investment in Bangkok is evidenced by the fact that it contributes over 50 percent of the country's GDP despite hosting only about 10 percent of the population. In contrast, other regions, especially rural areas, suffer from inadequate investment and employment opportunities.

Another reason stems from the failure of the Thai government to provide social safety nets amid the country's rapid growth and industrialization. The government over-prioritized the implementation of financial and industrial reforms and neglected to formulate and implement a comprehensive social service program to protect the most unprepared sectors from the ill effects of rapid industrialization. Moreover, experts have expressed that, had Thai authorities given the same attention to the social sector, it might have even surpassed its current development and would have ensured its future development with a steady source of well-educated and multi-skilled labor as it shifts to technologically sophisticated industries.

A third problem is the weak educational system in the country. Inferior and inadequate education is the root of the growing income gap between city dwellers and villagers. As poverty in the rural areas worsened, many rural folk could not afford to send their children beyond the 6 years of compulsory schooling, making them unqualified for the higher paying jobs in the manufacturing and service sectors. As a consequence, these families were trapped in the vicious cycle of poverty where living conditions of the succeeding generations do not improve due to lack of education.

Another problem is the failure of the government to implement agricultural land reform policies. This failure has resulted in insecure land ownership and increasing tenancy, or production on rented land. As the population increased, people in the rural areas encroached into the forest areas to settle and plant. After several years of residence in these areas, they claim illegal ownership of the land which results in periodic conflicts with government authorities. Due to the government's refusal to issue land titles to legalize the ownership of the land to the farmers who are tilling it, rural workers lack the proper legal documents to secure agricultural support such as credit facilities and technical support and have no security of ownership over the land. This leads to low productivity from the land. Another problem is the increase in the number of farm tenants who till other peoples' land because they either have no land of their own or because they had to sell their own land to pay off accumulated debts.

In 2000, the World Bank reported that Thailand has not fully recovered from its economic recession in 1997. The most recent data revealed that the number of poor increased from 11.4 percent in 1996 to 15.9 percent in 1999. Just like in the past, Bangkok remains affluent while other regions suffer. According to the World Bank's country report for 2000, poverty incidence in 1999 increased from 5.8 percent to 8.8 percent at the outskirts of the urban areas and 14.9 percent to 21.5 percent in the rural areas. At the same time, Thailand continues to suffer from unequal income distribution with the richest 30 percent accounting for some 80 percent of the aggregate national income while the other 70 percent account for roughly 20 percent of the aggregate national income.

According to the World Bank, during the 1990s the Thai government became more aggressive in addressing the root problems of poverty and the ever-widening income disparity. In 1993, the Ministry of Interior launched the Poverty Alleviation project which provides interest-free loans to poor rural households who want to engage in micro-enterprise. Meanwhile, the Ministry of Education is implementing the Educational Loans Program, which provides loans to students from low-income households to encourage them to continue their studies beyond the 6 years of compulsory schooling. The Thai government has likewise launched programs to create jobs in the rural areas by hiring villagers for the construction of rural infrastructure, such as in the case of the Tambon Development Program.

WORKING CONDITIONS

In 1999, more than 50 percent of the 362,683 establishments in Thailand were located in Bangkok and nearby provinces. Based on 1999 labor statistics, Thailand's total labor force was 8,134,644, with males (4,253,327) edging out females (3,881,317). About 4.4 million are working in the **informal sector**—which involves domestic work, traditional handicraft production, and manufacturing of export goods—and small-scale enterprises with less than 10 workers.

During the 1997 recession, it was estimated that about 8,000 businesses closed down while those that continued to operate had to lay off staff, reduce wages, and cut bonuses in order to stay afloat. Women were the first to be laid off in most of the industries except in printing and advertising, retail and wholesale, and furniture and wood products.

The unemployment rate fluctuated from 2.2 percent in February 1997 to 4.6 percent in February 1998 and 5.2 percent in February 1999 before dropping to 4.3 percent in February 2000. In the first 2 quarters of 1999, the total number of unemployed persons peaked at about 1.7 million. The recession has caused **real wages** to fall, with agriculture being the hardest hit sector. Between August 1997 and August 1999, overall real wages fell by 6.1 percent, with real wages falling by 15 percent in agriculture, 8 percent in manufacturing, and 7 percent in construction.

LABOR UNIONS AND ISSUES. In 1999, Thailand had a total of 1,087 private enterprise labor unions, 44 state enterprise labor unions, 19 labor union federations, 8 labor union councils, 226 employer associations, 3 employer association federations, and 10 employer councils, according to the Department of Labor Protection and Welfare. Membership in these voluntary organizations may vary from 250 to 8,000 workers. In specific industries such as textile, doll, and artificial flower making, it can be expected that the majority of the union members will be female. Female union leaders, however, are a rarity in Thailand.

One of the effects of the recession in 1997 was a marked increase in labor disputes compared to figures in the past 17 years. Approximately 80 percent of these cases involved the collection of severance pay.

Different government agencies, led by the Ministry of Labor and Social Welfare, ensure that working conditions, especially in the factories, conform to legally-established standards. However, despite periodic inspections, working conditions in the factories still need improvement. One study reports that over 20,000 Thai workers suffer occupational afflictions every year. In 1993, the Committee for Workers' Health and Safety was established after a tragic blaze that killed 188 Kader workers.

In general, Thai workers complain about low pay, excessive working hours, and inadequate medical benefits. The textile industry has been specifically cited in many studies as having some of the most dismal working conditions characterized by deafening noise, poor lighting, inadequate medical facilities, and improper ventilation. Each year about 30 percent of the industry's female workers suffer from byssinosis or "cotton sickness" from cotton dust particles. Meanwhile, women in other industries likewise suffer from other occupational hazards.

Based on 1998 labor statistics, of the total 186,498 cases covered by the workers' compensation fund, 67.8 percent involved temporary disability requiring less than 3 days of leave, 29.7 percent involved temporary disability requiring more than 3 days of leave, 2 percent involved permanent partial disability, while 0.4 percent involved death.

Thailand's 1997 constitution mandates equal rights and protection for men and women. However, the results of various surveys reveal that there is still some discrimination against Thai women in terms of professional advancement and wages. Most employers in the private sector hire women only when there is a difference in wage rates. Commonly, firms would rather not hire women or promote them to more important jobs because of traditional attitudes against women working outside the home. Likewise, women are not prioritized for skills training and upgrading since it is unlikely that they will be promoted to higher positions anyway. Women are commonly employed in labor-intensive industries, service and entertainment jobs, and the informal sector.

One of the negative consequences of Thailand's tourism industry is the prostitution of its women and children, especially those who have no formal schooling or only finished the first 6 years of schooling. The law prohibits women under 18 from working in nightclubs, dance halls, schools for dancing, bath and massage houses, and hotels, however, there are not enough government personnel to conduct inspections.

Thailand has been severely criticized by the international community for the proliferation of child domestic workers in its factories and brothels, or houses of prostitution. Child labor involves not only Thai children but also children of migrant workers of neighboring countries. Determining the exact number of child laborers in Thailand is difficult since parents or companies do not want to cooperate with authorities for fear of prosecution or loss of income. Different agencies have conflicting estimates of number of prostituted children in Thailand. The estimates range from 40,000 (1997) by the Thai government, to 200,000 (1997) by the international organization End Child Prostitution, and 400,000 (1998) by the BBC News. Based on the provisions of the Labor Protection Act (1998), persons between the ages of 15 to 18

can only work in non-hazardous jobs and must secure permission from the Department of Labor. Moreover, they cannot work at night or during holidays.

In the mid-1990s, only 40 percent of the Thai labor force had completed secondary or post-secondary education. Enrollment in secondary education is slowly increasing, although it is still low compared to other countries in the region. The gross enrollment ratio of formal secondary education increased from 64.8 percent in 1997 to 70.6 percent in 1999. The New Education Act of 1999, as provided for in the 1997 constitution, has mandated the extension of compulsory schooling to 9 years from the current term of 6 years and the implementation of a 12-year free education program by 2004. Moreover, the act has reduced the power of the central ministry in favor of new school districts within the next 3 years.

In its early years of development, Thailand placed too much priority on developing the primary level of education to the detriment of the quality of secondary and tertiary education. As a consequence, Thailand lagged behind other countries in terms of research and development in science and technology, which meant that its workforce was ill-equipped to handle the emerging opportunities in high technology industries. As a result, the companies that were engaged in these industries chose to set up the center of their operations in other Asian countries. It was only after the 1997 financial crisis that Thailand started paying attention to the improvement of its educational system.

Over the years, the Thai government has formulated different strategies to improve the skill level of its workforce (World Bank, 2000). Among these programs are the Vocational Training Promotion Act (1994), the Training Tax Exemption Decree (1995), and the Skills Development Fund (1997), which grants low-interest short-term loans for approved training courses that would provide skills certification.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1300s TO 1500s. Thailand's very first kingdom, Sukhothai, is established. It is remembered for its contribution to Thailand's art, architecture, and politics.

1378. King Borommaracha I of Ayutthaya conquers Sukhothai's frontier city of Chakangrao. The Kingdom of Ayutthaya becomes the dominant power in the Chao Phraya Basin, site of the present capital, Bangkok. This period, which ends in 1767, marks Thailand's earliest achievements in the area of international trade.

1767–82. General Phraya Taksin, former governor of Tak, defeats the Burmese invaders that destroyed the Ayutthaya kingdom and establishes his kingdom at Thon Buri, across the river from what is presently Bangkok.

1782–1809. Rama I, ancestor of the present monarch, establishes Bangkok as the capital of Thailand and rebuilds the Thai state. Some of Thailand's greatest structures are built during King Rama I's reign, including the Grand Palace and the Temple of the Emerald Buddha.

1821–68. The Thai Kingdom faces the challenge of avoiding Western imperialism during the consecutive reigns of the monarchs Rama II and his 2 sons, Rama III and Rama IV. Under the reign of King Rama IV, Thailand signs a significant trade treaty with Britain in 1855 called the Bowring Treaty which paves the way for greater Thai presence in the world market.

1868–1910. Under King Chulalongkorn's reign, Thailand's communication system is modernized with the introduction of post and telegraph services. Mass transportation is also introduced with the construction of a railway network. Under his reign, a more centralized and bureaucratic political structure is established, the slave system is abolished, and Thailand becomes more outward looking.

1910–32. The reigns of Rama VI and VIII are marked by their contributions to Thailand's educational system. In 1917, Thailand's first university, Chulalongkorn University, is founded. In 1921, Rama VI issues a law on compulsory primary education. Upon his brother's death, Rama VIII accedes the throne. He works on establishing Thailand in the international community.

1932. Thailand becomes a constitutional monarchy after a bloodless coup d'etat on 24 June. A formal constitution is promulgated and a National Assembly is established with the monarch as Head of State. In the same year, the first formal comprehensive education plan is implemented.

1942. The Bank of Thailand Act establishes the country's central bank. The Bank of Thailand holds the main accounts of the Thai government including those of government enterprises.

1946. On 9 June, King Bhumibol Adulyadej ascends to the throne. In the same year, Thailand becomes a member of the United Nations.

1949. Thailand becomes a member of the World Bank.

1955. King Bhumibol Adulyadej becomes the first Thai ruler to travel to the poorest provinces of Thailand, in the northeast region, to check for himself the living conditions of the people. This begins the implementation of more than a thousand social projects.

1957. The premiership transfers from Field Marshal Pibul to Field Marshal Sarit Thanarat. The policies of

his administration are focused on economic development and national security. Under his administration, the first national economic development plan is formulated.

1959. Thailand's Board of Investment is established. Its main tasks are to promote investment of both foreign and local capital in the private sector.

1962. The automobile industry is established as part of the government's import substitution policy.

1967. Through the primary initiative of Thailand, the Association of South-East Asian Nations (ASEAN) is established in accordance with the Bangkok Declaration.

1972. In December, Field Marshall Thanom Kittikachorn announces a new interim constitution that provides for a totally appointed legislative assembly, two-thirds of the members of which would be drawn from the military and police.

1973. In May and June, students and workers rally in the streets to demand a more democratic constitution and genuine parliamentary elections. On 14 October the military government of Field Marshal Thanom Kittikachorn and Field Marshal Prapass Charusathien is overthrown by student-led mass demonstrations which culminate in shoot-outs with almost 100 people killed.

1974. The Stock Exchange of Thailand is established and placed under the supervision of the Ministry of Finance and the Bank of Thailand.

1975. The pullout of 27,000 United States military personnel based in Thailand as part of the Vietnam War effort begins in March and is completed in mid-1976.

1976. A bloody coup d'etat is staged at the Thammasat University on 6 October.

1977. Another violent coup d'etat brings to an end the 1-year civilian regime of Thanin Kraivichien. General Kriengsak Chamanand becomes the prime minister. Under his administration, Thailand achieves some kind of political stability, thereby attracting foreign investors who establish businesses in the country.

1978. A new constitution is promulgated in December.

1980. In February, the government's decision to increase the prices of oil, gas, and electricity provokes opposition from elected politicians and demonstrations by students and workers, reminiscent of the 1973 demonstrations. As opposition grows, Prime Minister Kriangsak resigns and is replaced in March by General Prem Tinsulanonda.

1984. The Thai baht is devalued after much pressure from the International Monetary Fund and as part of the government's austerity measures.

1987. The manufacturing sector surpasses the performance of the agricultural sector in exports by a wide margin, marking the beginning of Thailand's industry-led economic development.

1989. Thailand becomes a founding member of the Asia Pacific Economic Cooperation (APEC).

1991. In February, a coup d'etat establishes yet another military government led by General Suchinda Kraprayoon.

1992. The Office of the Securities and Exchange Commission is established to closely monitor and supervise the operations of Thailand's stock exchange.

1995. Thailand joins the World Trade Organization as one of its founding members.

1997. A financial crisis hits the East Asian region, causing the Thai economy to nosedive with GDP growth falling to –0.14 percent from the previous year's 5.52 percent.

1998. Thailand's economy makes an impressive recovery. For the first time, the country registers a positive trade balance caused by an influx of foreign direct investment.

2000. National elections are conducted and culminate in the election of Thaksin Shinawatra, a successful Thai businessman and leader of the Thai Rak Thai Party.

FUTURE TRENDS

The success of the country's economic programs rely on the effective implementation of reforms that the government is presently putting in place after the financial crisis revealed the weaknesses and gaps in Thailand's economy. The Thai economy is poised for greater involvement in heavy industries, including automobile assembly, petrochemicals, electronics, and a more diversified food processing sector focused on value-added products such as ready-to-eat meals and canned foods. The economy has rebounded from the Asian financial crisis of 1997–98, although the World Bank believes that it has yet to fully recover. Challenges facing the economy include weak infrastructure, labor skills that do not match the needs of an increasingly industrialized economy, and the need to re-organize the financial sector to ensure that loans are paid in order to avoid a crisis similar to that of 1997.

Thailand has greatly benefitted from the US$17.2 billion World Bank assistance package in terms of recovering from the crisis. However, due credit must also be given to the strong inflow of foreign direct investment and the robust performance of the tourism industry that enabled the economy to rebound and pose the first positive balance of trade since the 1960s.

Efforts at decentralizing political power to local governments and communities must be stepped up in order to ensure that the rest of the country progresses along with Bangkok. Another important factor is the development of physical infrastructure in the rest of the country to promote the growth of rural communities and increase their contribution to Thailand's economic development. To achieve this, the government's proposed strategy to actively partner with non-government organizations in assisting rural communities must be implemented effectively since using this approach would also ease the disparity in income among the regions and within the different economic classes. Furthermore, the government must actively pursue the stamping out of corruption in order to bring about an even higher rate of economic growth.

Among the other concerns that government must address in the years ahead is the pending maturation of HIV-infected citizens into full-blown AIDS carriers. As of 1999, 700,000 Thai people are infected with HIV. The World Bank predicted that in the year 2000, 55,000 Thais will have developed AIDS and 29,000 more will have become infected with HIV. This will negatively affect the productivity of the country's labor force since those who are afflicted with the disease are mostly women in their prime productive years.

Thailand's industrialization has taken a toll on its environment, as its resources were depleted of raw materials that were needed to support the growing industries. Having realized the impact of environmental degradation, the government is stepping up efforts to rehabilitate its denuded forests and heavily polluted and over-fished coastal resources. In agriculture, research and technology has produced strains of crops that are high yielding and suitable to rotation which enables the land to recover from the effects of monoculture (the cultivation of a single type of crop). However, the continuous use of pesticides and herbicides still inflict considerable environmental damage.

DEPENDENCIES

Thailand has no territories or colonies.

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—Maria Cecilia T. Ubarra

TONGA

Kingdom of Tonga
Pule'anga Tonga

CAPITAL: Nuku'alofa.

MONETARY UNIT: Pa'anga (T$ or TOP). There are coins of 1, 2, 5, 20, 50 seniti and 1 and 2 pa'anga, and notes of 1, 2, 5, 20, and 50 pa'anga. One pa'anga equals 100 seniti.

CHIEF EXPORTS: Squash, fish, vanilla beans.

CHIEF IMPORTS: Food, machinery and transport equipment, fuels, chemicals.

GROSS DOMESTIC PRODUCT: US$238 million.

BALANCE OF TRADE: **Exports:** US$8 million (1998 est.). **Imports:** US$69 million (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Tonga archipelago (group of islands) is in the Pacific Ocean about 4,000 kilometers (2,500 miles) southwest of Hawaii and about 1,600 kilometers (1,000 miles) northeast of New Zealand. The country consists of a series of islands, clustered into 3 main groups: Tongatapu, Ha'apai, and Vava'u; these were formerly known as the Friendly Islands. The total land area is 748 square kilometers (289 square miles), about 4 times the size of Washington, D.C. The coastline is 419 kilometers (260 miles). The capital is located on Tongatapu island.

POPULATION. The population of Tonga was estimated at 102,321 in mid-2000, a slight increase over the 1996 census population of 97,784. In 2000 the birth rate stood at 27.2 per 1,000 while the death rate stood at 6.1 per 1,000. With a projected annual population growth rate of 0.6 percent in the decade beginning with 2001, the population is expected to reach 104,100 by 2010. This relatively slow rate of growth is a result of an annual net migration rate of 15.1 per 1,000 population. Much of this migration is to New Zealand, but Tongans have also settled in Australia, the United States, and Europe.

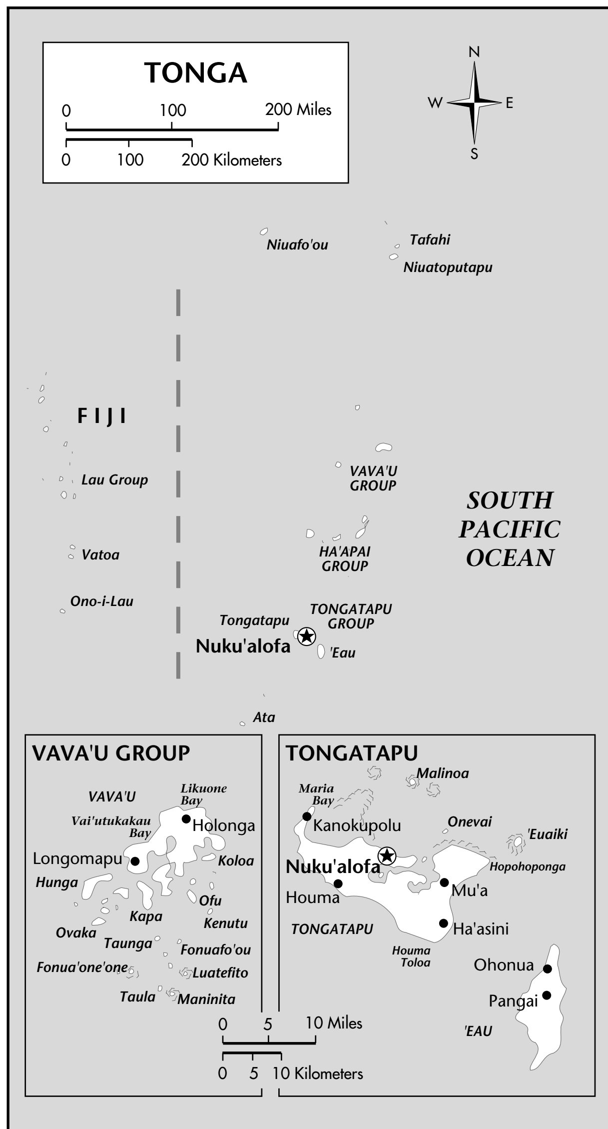
The population is predominantly of Tongan (Polynesian) ethnic origin, although there are small numbers of Europeans and Chinese. Only 32 percent of the population live in urban areas, mainly the capital, Nuku'alofa. The urban growth rate is only slightly higher than the total growth rate, which was estimated at 1.91 percent in 2000. The Tongan population is very young, with nearly 42 percent under 15 years of age. Those between the ages of 15 and 64 make up 54 percent of the population, with the remaining 4 percent 65 years old and over. Various branches of Christianity, including Roman Catholicism, the Tokaikolo Church of Christ, and Free Wesleyan, are among those practiced on Tonga.

OVERVIEW OF ECONOMY

On a chain of small islands in the South Pacific, Tonga's economy relies on several basic elements, including subsistence production (making enough to survive), agricultural exports, the **remittances** (money sent home by former citizens working abroad) of Tongan migrants, and international aid. In the villages of Tonga, there is a great reliance on subsistence production of food and other items. There is no reliable survey of the number of people working in subsistence activities, but if it is assumed that most of the adult population not formally employed are primarily subsistence producers, then about 28,000 are in this category. In 1996, about 29,400 persons were engaged in wage and salary employment, with a further 4,500 listed as unemployed.

Agricultural products and fish have always been the mainstays of the export economy. Tourism is relatively small-scale, employing only about 1,400 people in the mid-1990s, but it showed some growth in the decade up to 1997, with the number of visitors increasing by about 5 percent per year.

The Tongan economy also remains heavily dependent on 2 types of transfers from overseas, which together account for 27 percent of GDP. The private remittances



of Tongan migrants in other countries are an important source of income for many families in Tonga. Government expenditure is supported by international aid, mainly originating from Australia, Japan, New Zealand, the Asian Development Bank, and the European Union.

POLITICS, GOVERNMENT, AND TAXATION

Tonga is the only surviving kingdom in the Pacific. Its 1875 constitution is the oldest one in the Pacific islands, and although Tonga was a "protected state" of Great Britain from 1900 to 1970, most Tongans maintain that their country was never a colony. The current system of government is a hereditary constitutional monarchy, with King Taufa'ahau Tupou IV ruling since 1965. Beneath the monarch, there are 33 nobles, who control most of the land in the country. The nobility was established in the constitution of 1875 and is based on inheritance. The prime minister, deputy prime minister, and cabinet are appointed by the king from this group. The **unicameral** (single house) Legislative Assembly (Fale Alea) is made up of 30 seats, 12 of which are reserved for the cabinet appointed by the monarch, 9 are selected by the nobles, and another 9 are elected by popular vote of all citizens over the age of 21 years.

The most important political development in recent years has been the formation of a party called the Human Rights and Democracy Movement (HRDM). In 1994 the HRDM was formed under the leadership of 'Akilisi Pohiva; in the 1999 elections this party won 5 of the 9 "commoner" seats in the Assembly. The HRDM has advocated a broader democratic base and land reforms that would reduce the power of the nobles; for these activities, Pohiva and others have been jailed for short periods for "contempt of Parliament."

About 20 percent of GDP in 1994–95 was raised by taxation, and this accounts for nearly 70 percent of government revenue. Trade taxes are the most important, making up 68 percent of tax revenues, and this is almost equally split between customs **duties** and port and services taxes. Direct and **indirect taxes** each make up a further 14 percent of tax revenue. Personal **income tax** is set at 10 percent and corporate tax is typically around 30 percent. In each case there are many possible exemptions, so these taxes raise less revenue than they might.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Transport needs within Tonga are served by roads, shipping services, and air. There are about 680 kilometers (423 miles) of roads, with 184 kilometers (114 miles) paved. These serve most areas within the main islands, with transport provided by private vehicles and bus services. Shipping among the 3 main island groups is provided by the government-owned Shipping Corporation of Polynesia and the private Uata Shipping Lines. These offer regular passenger, cargo, and car ferry services throughout the country.

Royal Tongan Airlines provides international air services from Fua'amotu Airport, the only of the country's 5 airports that has a paved runway. It also links the 3 island groups with regular domestic flights.

Parts of Tonga's telecommunications network are old. Domestic phone services link most of the country via the government-owned Tonga Telecommunications Commission, but there has been little upgrading since the 1950s. International communications via satellite are provided by Cable and Wireless Limited. Electricity is widespread and is generated completely by imported fuels. Tonga had 1 Internet service provider as of 1999.

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Tonga	8,000 (1996)	302 (1996)	AM 1; FM 2; shortwave 1 (2001)	61,000	1 (2001)	2,000	2	1,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

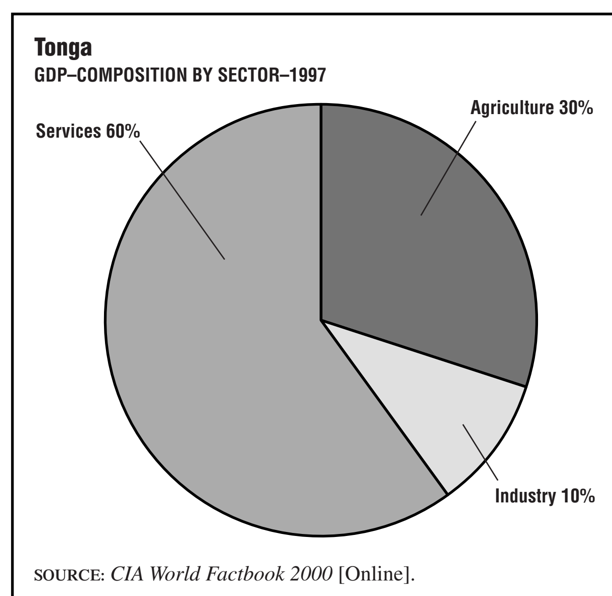
ECONOMIC SECTORS

According to the Asian Development Bank, Tonga's economic sectors contributed to total GDP in 1999 in the following proportion: agriculture, fishing, and hunting, 29.9 percent; industry, 10.7 percent; services, 43.8 percent; other, 15.7 percent. In 1996, the same source reported that the total **labor force** of 33,900 was distributed in these sectors as follows: agriculture, 34 percent; industry, 22.8 percent; services, 43.2 percent.

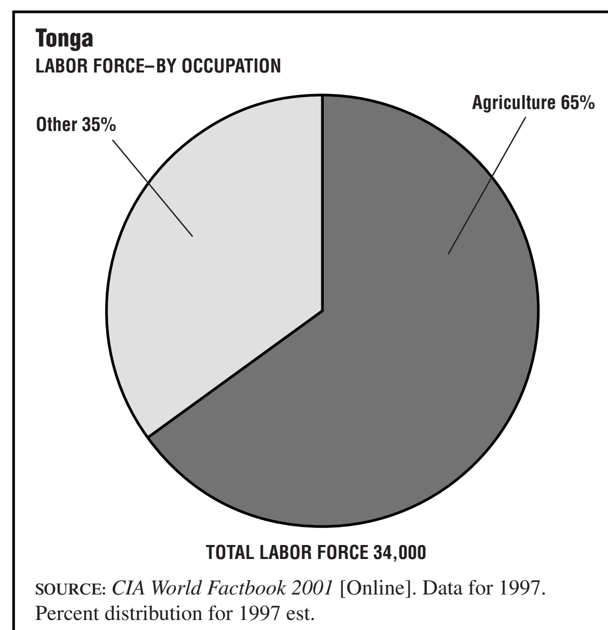
The agriculture sector's contribution to GDP has been fairly consistent, dropping slightly from 31.6 percent in 1984 to 29.9 percent in 1999. Between 1994 and 1996, Tonga experienced a downturn in agricultural performance, along with declining price competitiveness internationally, and a weakening level of remittances from overseas migrants. This caused high unemployment in 1996. Industry, which contributed 10.7 percent of GDP in 1999, is made up of relatively small-scale processing of food and timber products for the local market, as well as small factories making products for export, including woolen goods. The service sector is the largest, made up mostly of the government subsector, and a smaller tourism one.

AGRICULTURE

Agriculture contributed 29.9 percent of GDP in 1999, and in 1996 employed 34 percent of the labor force. In terms of GDP this proportion has been fairly consistent through the 1980s and 1990s, despite fluctuations



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997. Percent distribution for 1997 est.

due to weather and unstable world market prices for agricultural products.

As in most Pacific countries, subsistence production for domestic use is an important part of the economy, although not well recorded. The export of agricultural products has been highly unpredictable over time. Through most of the 20th century, Tonga's main export was coconut products, mainly copra (dried coconut meat yielding coconut oil), but at various times other products have been exported in sizeable quantities, particularly bananas.

A specialized market for squash was established in the 1980s when Tonga secured a quota to supply the vegetable to Japan during several months of the year when other sources, especially New Zealand, were not producing. In the early 1990s, this source of export income grew, but in the second half of that decade, production fluctuated considerably as a result of disease, weather, and oversupply. Other squash producers from Vanuatu and Mexico have also offered competition by entering the same market.

Other agricultural products, such as bananas and market vegetables, are significant in the domestic market but have contributed very little to export income in recent years. Even vanilla beans, which were significant exports in the early 1990s, have declined in importance because of international competition. There has been a small but steady export of root crops, mostly to supply Tongan and other Pacific communities, especially in New Zealand. Kava (a mild legal narcotic) production has increased recently, and this has considerable export potential as illustrated by the success of this industry in Vanuatu.

Fish was the second most important export during the 1990s, mainly high-grade tuna and snapper. The potential sustainable harvest of tuna is about 30,000 tons a year, which is several times higher than the existing harvest. Most fish is exported unprocessed to the United States, Fiji, and American Samoa. A cannery in Tonga is under consideration, but a restraining factor is government legislation requiring that 90 percent of sales from such a venture would have to be to overseas buyers.

INDUSTRY

Industry contributed 10.7 percent of GDP in 1999, a slight decline from 1984, when it contributed 13.8 percent of GDP. The importance of industry to employment is somewhat greater than this, however, since 22.8 percent of the labor force is industrial. Construction was the biggest single sector, followed by manufacturing. The contribution of construction is variable, depending on the expansion of tourism **infrastructure** (especially hotels) and new businesses in any one year.

The most important manufacturing activities are related to food and timber processing, mainly for the local market. Under a trade agreement with Australia and New Zealand (SPARTECA), Tonga is allowed to export manufactured goods duty-free, and at times has been successful in establishing a market for woolen goods and other products produced in small factories or from home. The advantages of this trade agreement have declined with trade **liberalization**, which has opened up the Australian and New Zealand markets to cheaper Asian products.

SERVICES

The largest sector in terms of GDP and employment is services, making up 43.8 percent of GDP in 1999 and providing 43.2 percent of jobs in 1996. Within this sector, the largest employer is the government, in the areas of public administration and education. In terms of GDP the next largest subsector is trade (including hotels and restaurants), followed by transport, communications, and finance. It is not possible to separate tourism out from these data since it makes contributions to several of these subsectors.

TOURISM. Tourism's contribution to GDP is rather minimal (about 2 to 3 percent), and it employs about 1,400 people. The industry began expanding in the late 1980s, when it welcomed 20,000 visitors per year, to 1995, when it welcomed 29,000, though there have been some fluctuations since then. Improvements in domestic and international air services have contributed to this growth, especially after the **restructuring** of Royal Air Tonga, the national airline. This carrier has flights to and from Australia, New Zealand, Fiji, Samoa, and Niue. Other airlines serving Tonga include Air New Zealand, Air Pacific, Polynesian Airlines, and Samoa Air. Tourists visit Tonga for beaches, sun, and diving, but also to explore sites unique to the region, such as the 19th century royal palace and the Ha'amonga-a-Maui, a large trilithon (stone archway) built by a Tongan king sometime before the 13th century. Also on the island of Tongatapu are trees full of sacred bats, which only the monarch is allowed to kill, although presumably does not because of their tourist value.

FINANCIAL SERVICES. International financial services are limited in Tonga. The domestic market is mostly served by the Bank of Tonga, ANZ (Australia New Zealand) Bank, and MBF (Malaysian Borneo Finance).

RETAIL. **Retail** services are typical of those available in a small Pacific nation. In the capital, Nuku'alofa, shops provide a reasonable range of products, mainly food goods from New Zealand and manufactured goods from Asia. In other parts of the country, small village shops supply only the most basic goods. Many Tongans also rely on goods packages from relatives living overseas, which are consumed within the family or sold to others.

INTERNATIONAL TRADE

According to statistics from the International Monetary Fund (IMF), Tonga has had a negative trade balance since 1975. In 1975, Tonga's imports totaled $17 million and its exports $6 million. By 1998, according to the *CIA World Factbook 2000*, imports had risen to $69 million and exports to $8 million. This illustrates Tonga's very narrow export base, as it relies mainly on squash and fish, with small contributions from other agricultural and manufacturing products. Since squash is the most valuable export and the total production goes to Japan to be used in soups and various food products, that country accounts for more than 40 percent of Tonga's exports. The United States and New Zealand are the other significant export destinations, importing fish and small agricultural and manufacturing products respectively.

The most important imports into Tonga are foodstuffs, machines, and transport equipment. New Zealand is the most important source of foodstuffs and of some manufactures and is the source of about 35 percent of all imports. The next most important import sources are Australia, the United States, and Fiji.

The large negative trade balance is offset by other international transfers. Tourism contributes some international income, and there is potential for expansion in this sector. At the household level, the most important source of income is remittances from relatives living overseas, particularly in New Zealand, the United States and Australia. At the government level, international aid helps to counterbalance the large imbalance in trade.

Trade (expressed in billions of US$): Tonga

	Exports	Imports
1975	.006	.017
1980	.007	.038
1985	.005	.041
1990	.011	.062
1995	.014	.077
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

MONEY

The value of the pa'anga against the U.S. dollar has halved over the past 2 decades, from 0.9859 to the U.S. dollar in 1982 to 1.997 in February 2001. Much of this **devaluation** took place during the early 1980s, and then again in the late 1990s. During the 1980s, the export value of coconut products and vanilla declined, and remittance income fluctuated, causing an impact on the currency. In the late 1990s and early 2000s a further serious devaluation occurred, and this may be partly attributed to the strong American dollar against the currencies of the Pacific region, including the New Zealand and Australian dollars, which are part of a number of currencies to which the pa'anga is linked.

Exchange rates: Tonga

pa'anga (T$) per US$1	
Jan 2001	1.9885
2000	1.7585
1999	1.5991
1998	1.4920
1997	1.2635
1996	1.2323

SOURCE: CIA *World Factbook 2001* [ONLINE].

The National Reserve Bank of Tonga (NRBT) has several functions. One of these is to stabilize the Tongan currency. This is only possible, though, within the network of the other currencies to which the pa'anga is linked. The NRBT also monitors the economy by maintaining databases and providing advice on government spending and revenue, the supply of money, interest rates, and the trade balance.

POVERTY AND WEALTH

GDP per capita rose from $1,300 in 1975 to $1,868 in 1998, according to the Asian Development Bank. The *CIA World Factbook 2000* reports a slightly higher figure, which it estimated at US$2,200 for 1998. Although the Human Development Indicator (HDI) for Tonga does not appear among the 174 countries which are ranked in the UNDP's *Human Development Report 2000*, it does appear in the UNDP's *Pacific Human*

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Tonga	2,250	2,100	2,200	N/A	2,200
United States	28,600	30,200	31,500	33,900	36,200
Philippines	2,600	3,200	3,500	3,600	3,800
Solomon Islands	3,000	3,000	2,600	2,650	2,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

Development Report 1999. In that report, Tonga has the sixth highest HDI of the 15 Pacific countries considered. Its GDP per capita is only the eighth highest of these countries, but it makes up for this with high indicators of education and health. Adult literacy for both men and women is reported to be near 99 percent, the highest of any Pacific country. Infant mortality, at 19 per 1,000, is one of the lowest in the Pacific, and this is illustrative of a good system of health delivery and a safe water system. Primary education is free and compulsory, and participation at secondary school is also high, resulting in a combined enrollment rate of 83 percent.

Still, there is some evidence of inequalities within the country. No calculated measures of the distribution of income or consumption are available, but there is some inequality of income between urban and rural areas. Squatter (one who lives somewhere without paying rent) settlements around the capital, Nuku'alofa, have a poor standard of housing and inadequate water and sanitation systems. In some rural areas, land access is inequitably distributed, despite the fact that all adult males on reaching their sixteenth birthday are supposed to be granted a plot of land by the local noble.

WORKING CONDITIONS

According to official statistics, about one-third of the workforce is not "economically active." These people are mainly village-based subsistence workers, a disproportionate number of whom are women, who are producing goods and services that are not exchanged for cash. Many of these aspire to become part of the country's formal sector. The situation for those who want wage employment does not appear good. It is estimated that of the 2,000 school graduates each year, only about 500 will find work in the formal sector. The rest must either return to the subsistence economy, continue job searching and become officially unemployed, or migrate. It is the latter option that many choose, and this partly explains why there are an estimated 50,000 Tongans living in other countries.

In the formal sector, about 37 percent of the workforce is female. While it is difficult to calculate, about 12 percent of the labor force is said to be unemployed. There is no comprehensive system of unemployment compensation, nor is there a general pension scheme. The country does not have a minimum wage law; workers did have some amount of protection in that they could live without a monetary income with the support of extended families and **subsistence farming**, if needed. There is no legal provision for labor unions in Tonga, although 2 associations that represent working groups are the Tonga Nurses' Association and the Friendly Islands Teachers' Association.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1140 B.C. Evidence of human habitation and Lapita pottery.

950 A.D. Tuíi Tonga is the dominant leader.

1643. First European (Dutch) sighting of Tonga by Schouten and Le Maire.

1643–1800s. Many European contacts include visits by "explorers" from the Netherlands, Great Britain, France, and Spain, who introduce many new trade goods and diseases.

1777. British Captain James Cook explores what he calls the "Friendly Isles."

1822. First Christian conversions, by Wesleyan missionaries; Tonga becomes nominally Christian over the next 20 years.

1845. After civil wars, King Taufa'ahau Tupou I (George Tupou I) of the Ha'apai group becomes first ruler of a united Tonga.

1875. New constitution proclaims Tonga an independent constitutional monarchy.

1900. Great Britain declares Tonga a "protected state" but does not impose full colonial rule.

1918. Queen Salote Tupou III is crowned, and rules until 1965.

1960s. Large-scale migrations to New Zealand and elsewhere begin.

1965. King Taufa'ahau Tupou IV, the current monarch, is crowned.

1990s. Rise of republican movement proposing full democracy and end of monarchy; squash becomes primary export, to Japanese market.

FUTURE TRENDS

The late 1990s was a period of economic stagnation by some indicators. Primary exports in agriculture, forestry, and fishing had declined as a result of drought, hurricane damage and unstable world prices. However, the **balance of payments** was still positive as a result of some growth in services and a steady flow of remittances. Both the private and **public sectors** have been making an ongoing attempt to identify niche markets for Tongan enterprise, ranging from the export of new agricultural products such as the vaguely narcotic but reputedly therapeutic kava, to the acquisition of a number of satellite television bands, which Tonga has successfully leased. Despite a relative lack of resources, there is some optimism for the future based on the high educational levels of Tonga's pop-

ulation and the international networks established by Tongan migrants. At the same time, there will be ongoing pressure to further democratize Tonga's political system. In the long term, the monarchy may survive, accompanied by a more democratic Parliament, although such a change is not likely to have a significant economic impact, other than perhaps allowing a more equitable distribution of wealth.

DEPENDENCIES

Tonga has no territories or colonies.

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—Wardlow Friesen

TURKEY

Republic of Turkey
Türkiye Cumhuriyeti

CAPITAL: Ankara.

MONETARY UNIT: Turkish lira (TL). One Turkish lira equals 100 kurus (pronounced kouroush). However, because of the high inflation rates Turkey has faced in the past 20 years, kurus are no longer used due to the low purchasing power. As of the end of 2000, there are coins of 10,000, 25,000, 50,000, and 100,000 liras. The 10,000 and 25,000-lira coins were expected to be phased out by 2001, and probably replaced with new coins of 500,000 and 1 million liras.

CHIEF EXPORTS: Clothing, foodstuffs, textiles, metal manufactures.

CHIEF IMPORTS: Machinery, semi-finished goods, chemicals, transport equipment, fuels.

GROSS DOMESTIC PRODUCT: US$444 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$26.9 billion (f.o.b., 2000 est.). **Imports:** US$55.7 billion (c.i.f., 2000 est.).

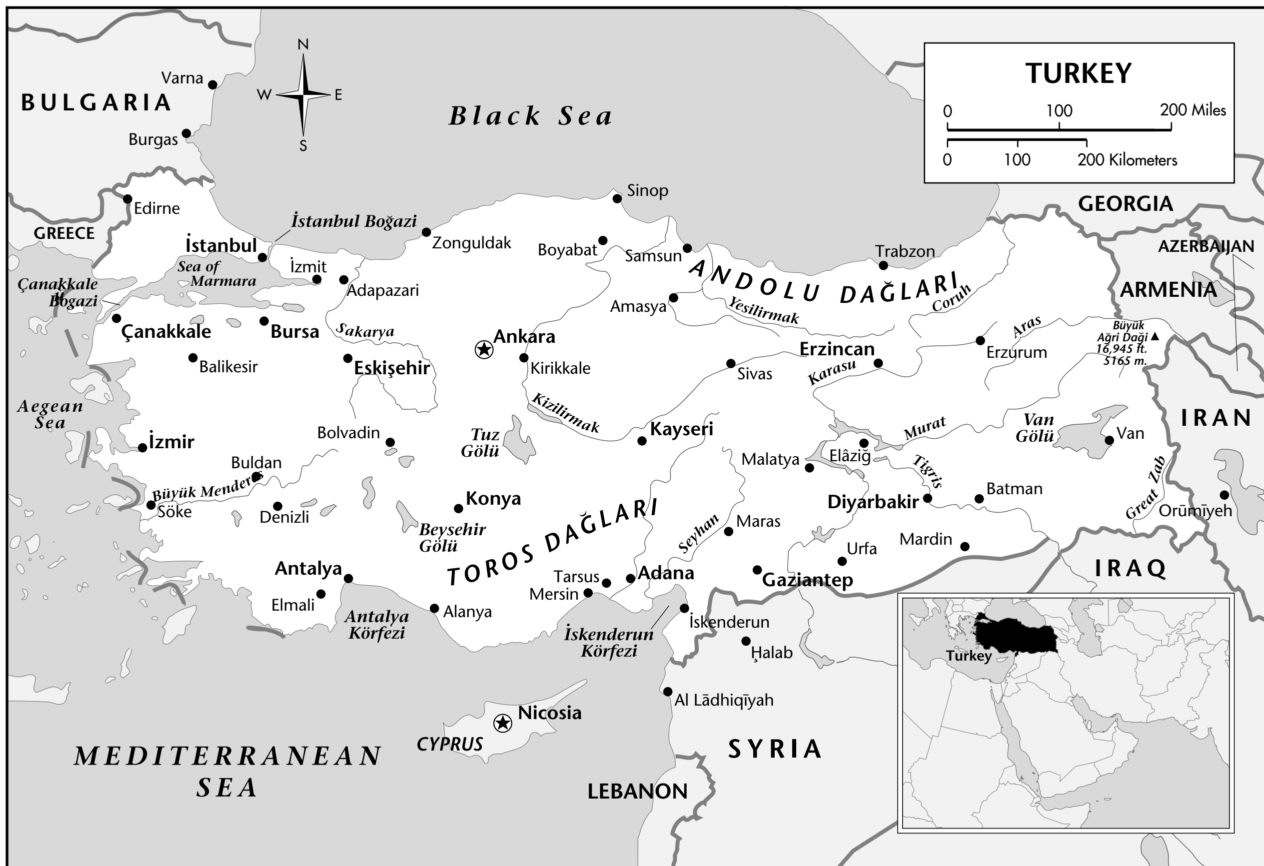
COUNTRY OVERVIEW

LOCATION AND SIZE. Turkey is a peninsula that, uniquely, straddles 2 continents. Located in southeastern Europe and southwestern Asia, 97 percent of its area occupies Anatolia, the peninsula of land that lies between the Black Sea on the northern coast of the country, and the Mediterranean to the south, where the continents of Asia and Europe meet. The remaining 3 percent of the country is in Thrace, a region in the southeastern Balkan peninsula, north of the Aegean Sea. Turkey has an area of 780,580 square kilometers (301,382 square miles) with a total coastline of 8,430 kilometers (5,238 miles), and shares its land borders with Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Iran, Iraq, and Syria. The country is strategically situated since it controls the Turkish Straits, comprised of the Bosphorus, the Sea of Marmara, and the Dardanelles, which connect the Black Sea to the Aegean on the west coast. Comparatively, Turkey is slightly larger than the state of Texas. The capital city, Ankara, is located in the northwest center of Anatolia.

POPULATION. In July of 2000, Turkey's current population was estimated at 65,666,677. Between 1990 and 2000, the average annual growth rate of the population was 1.27 percent, with a total fertility rate of 2.16 children born per woman. The World Bank expects Turkey's population to reach 91 million by 2025. Since 1986, the state has actively promoted population control but, ironically, for about 40 years following the establishment of the republic in 1923 the government actually encouraged population growth.

The Turkish population is very young with only 6 percent aged 65 and over, and 65 percent between the ages of 15 and 65. In 1995, approximately 67 percent of the population lived in urban areas. As of 1999, urban dwellers increased to 75.3 percent of the total population. Approximately 20 percent of them live in Istanbul, making it the most heavily populated city in the country.

Turks constitute almost 80 percent of population and Kurds 20 percent. The rest of the population is made up of small minorities of Arabs, people from the Caucasus, Greeks, Armenians, and Jews. The ethnic Turks are a diverse people who differ from one another in dialect, customs, and outlook. The 3 major groups are the Anatolian Turks, who have lived in the Central Anatolian Plateau for centuries; the Rumelian Turks, who were originally mainly immigrants from the Ottoman territories in the Balkans; and the Central Asian Turks, descended from Turkic-speaking immigrants from the Caucasus region, southern Russia, and Central Asia. Turkey is the only country with a Muslim majority population (99.8 percent) that operates under a secular constitution and a democratic government.



OVERVIEW OF ECONOMY

Modern Turkey is a free market economy oriented to Western markets. While the **private sector** continues to be the country's powerful engine of rapid economic growth, the state has a significant involvement in essential sectors such as communication, transport, and banking. Modern industry and commerce play the majority role in the economy, although traditional village agriculture and crafts are still nurtured.

By the end of World War I, the long, drawn-out collapse of the Ottoman Empire was complete. Having lost the war, Turkey was not left with much in the way of an economy. The few factories that remained were in foreign hands, agricultural output had dropped significantly, and, with the loss of the Ottoman territories, many traditional markets disappeared. The country's technology was out-dated and there was a shortage of skilled labor. The several years of struggle for independence following World War I offered little opportunity for recovery.

With the establishment of the republic in 1923, the government was faced with the formidable task of rebuilding the country's economy. Initially, the focus was on returning agricultural production to pre-war levels while building a transport **infrastructure**, particularly railroads. Meanwhile, steady encouragement of private enterprise was evident in various government policies and measures. The economy exhibited impressive growth levels until 1930, when the Great Depression caused the collapse of external markets for Turkey's agricultural products. This prompted the state to take a more active role in the economy, adopting a policy of etatism (an economic doctrine where individual enterprise retains its fundamental role in the economy, but active government intervention is considered necessary. It applies particularly to basic industries and public services).

The economic role of the state continued until the early 1980s, when Turkey's policy makers embarked on a new course of **liberalization**, abandoning **protectionist policies** and initiating several reforms aimed at opening up the Turkish economy to foreign trade and investment. These new policies brought an annual growth rate averaging 5 percent over the last 2 decades of the twentieth century, giving Turkey the highest growth rate of any OECD (Organisation for Economic Co-operation and Development) country. By 2001, Turkey was one of the 20 largest economies in the world.

The path to economic growth in Turkey, however, has not been smooth. Since the 1950s, the country has

suffered serious disruption to its economy every 10 years. At times, this has been due to poor political leadership, at other times, the cause has been structural inadequacies and **balance of payment** problems. In 1994, the country faced one of its worst **recessions**, bringing an end to 13 straight years of growth, but the economy bounced back strongly over the next 3 years, growing by over 8 percent. In 1998, slowdown returned as a result of the Asian and Russian financial crises; in 1999, disaster struck in the form of 2 deadly earthquakes, measuring 7.4 and 7.2 on the Richter scale, which hit northwestern Turkey right in the middle of its industrial heartland. The World Bank estimated the economic loss at approximately US$10 billion, and Turkey suffered its worst contraction since World War II. That the country has survived this miserable period is seen as a positive sign for its economic future. A larger problem is that of persistent **inflation**, which has been over 60 percent annually for 5 years, and remained in the double digits in 2001. The expectation of inflation has become a way of life in Turkey, bringing an inertia that has made it extremely difficult to tackle the situation.

Despite these problems, several factors have allowed Turkey to remain attractive to foreign investors. A population of 64 million with significant purchasing power represents a big and fast-growing market, with strong potential for further development. Also, Turkey lies in the middle of the rich oil-producing area of the Caspian Sea and the consumer markets in Europe, while its strategic geopolitical position at the crossroads of Europe, Asia, and the Middle East makes it a prime gateway. In addition, Turkey has close relations with the Central Asian Republics, forged by ethnic and linguistic ties, and is the leading investor in many of these countries. Last, but certainly not least, Turkey entered a customs union agreement with the European Union (EU) in 1996, thus enabling the free flow of goods to and from other European markets. All these factors make Turkey an attractive destination for trade as well as for cost-effective export industries.

Turkey's economic profile is multi-dimensional in nature. Tourism is a significant economic sector, while textiles and clothing are the most important manufacturing industries, supplying the largest percentage of goods for export. Other important industries include iron, steel, cement, chemicals, and the automotive industry. The Turkish private sector is dominated by a number of large **holding companies**, whose senior management is controlled by prominent families. The best known and strongest of these are the Sabanci Holding and Koc Holding companies, both of which have a significant presence in most sectors of the economy. In order to limit outside interference in company management, most large businesses only float a small portion of company shares in the public market.

POLITICS, GOVERNMENT, AND TAXATION

The Turkish political system is a secular parliamentary democracy that recognizes the separation of executive, legislative, and judicial powers. The executive branch of government includes the president, the prime minister, and the cabinet (council of ministers responsible for a variety of governmental tasks). The president is elected by parliament for a period of 7 years. He serves as the head of state, has broad powers of appointment and supervision, and is non-partisan. The prime minister is the head of the government and is responsible for appointing the cabinet. The Turkish Grand National Assembly (TBMM), or parliament, is the legislative branch of government and consists of 550 elected representatives voted for by the citizens of Turkey. The judicial system consists of a constitutional court, a series of state courts, a council of state, and a high council of judges and prosecutors.

Modern Turkey has suffered several periods of instability and authoritarian rule. When the Turkish Republic was established in 1923, Turkey was governed under 1-party rule by the Republican People's Party (CHP) established by Kemal Ataturk, who founded the modern republic. This situation lasted until 1945, when the multi-party era commenced. The first change of power took place in 1950 when the Democrat Party won the national elections. They ruled until 1960, when power was seized in a military coup intended to end internal political tensions and growing economic problems. Democracy returned in 1961 as soon as a new constitution was written, but only lasted until 1971 when, after a 3-year period of political strife and resultant domestic violence, another coup was staged, replacing the civilian government with a succession of semi-military, non-partisan governments. In 1973, general elections were held once again in an effort to re-start the democratic process but, by 1980, a military coup was again necessary to restore order and stop political violence that was claiming more than 20 victims daily.

Another new constitution was drafted in 1982. It was approved in a national referendum, and elections were held 1983. The Motherland Party, formed by Turgut Ozal, won an absolute majority, formed a government, and won a second election in 1987, making for 6 years of stable rule until, in 1989, Turgut Ozal left the Motherland Party to become Turkey's new president. Many of the structural and economic reforms that have led to liberal trade policies and reduced the government's role in the economy were initiated during this period in the 1980s. Since then, however, no single party has been able to capture a majority in elections, and the Turkish political scene has witnessed one coalition after another failing in attempts to bring stability back to government.

In the 55 years since the beginning of the multi-party era, Turkey has had 43 governments (in addition to the 14 different governments in the single-party era). In 1999, the country witnessed the fall of yet another government, the establishment of an interim government, and the election of a third. With each government averaging just over 15 months in power, it is not surprising that the country has found it difficult to develop and execute a stable, long-term economic plan. The fundamental problem lies with the fact that there are too many political parties in operation (21 parties participated in the 1999 elections), many of them following similar pro-reform, centrist policies, offering little difference of choice other than between the distinctive personalities of their various leaders.

The last elections were held in April 1999. The Democratic Left Party (DSP), led by Bulent Ecevit, received 22 percent of the votes and won the most seats in parliament. This was not enough to secure a majority and, in June 1999, DSP formed a coalition with the National Action Party (MHP) and the Motherland Party (ANAP). If this coalition proves stable, the next elections will be held in 2004. There are grounds for optimism, since the 3-party coalition has a strong parliamentary majority, and has been aggressive in pushing an ambitious reform program, well supported both domestically and externally.

Of the 21 parties that participated in the 1999 elections, 6 are prominent. Two of these are center-left parties: the Democratic Left Party (DSP), who is the majority partner in the current coalition government, and the Republican People's Party (CHP). Bulent Ecevit, the current prime minister, leads the DSP, a social democratic party with a strong free-market economic agenda. Ecevit has had decades of experience in Turkish politics (he was prime minister 3 times during the 1970s). The CHP tries to carry on the tradition of the party's early days as the first political party in Turkey, but in the last elections it failed to get the 10 percent of the vote necessary to enter parliament. Thus excluded from parliament for the first time in its history, the CHP has embarked on a process of rebuilding itself.

On the opposite side of the political spectrum are 2 center-right parties: the Motherland Party (ANAP), a junior coalition partner in the current government, and the True Path Party (DYP), which holds 85 parliamentary seats. Both are parties of the conservative mass, have similar ideologies (social and political beliefs), and, in common with the center-left, support free trade and growth led by the private sector. However, such slight policy differences as there are have favored ANAP popularity in urban areas, while the DYP has more visibility in smaller towns and villages.

The Nationalist Movement Party (MHP) was the big surprise of the 1999 elections, capturing second place with 18 percent of the national vote and a partnership in the coalition government. It has a strong nationalist agenda, and has been historically connected to right-wing organizations partly responsible for the violence preceding the military coup in 1980. Despite retaining hard-line attitudes on certain issues, the MHP seems, overall, to have softened somewhat. It has strongly supported the economic reforms and has co-operated in maintaining the stability and continuity of the coalition government.

The Virtue Party (FP) is the successor to the Welfare Party, which was in government in 1996–97 but was shut down in 1998 for undermining the principles of Ataturk and secular Turkey. FP has a religious agenda, and rejects the secular principles on which the republic is based in favor of Islam. It won 15 percent of the vote in the 1999 elections, making it the main opposition party to the 3-party coalition government.

In Turkey, the military has traditionally exerted significant pressure on ruling parties, and military intervention in government has been frequent. Since the first coup in 1960, representatives of the army, air force, and navy join the president, the prime minister, several key ministers, and the Chief of the Turkish General Staff on the National Security Council (NSC), an advisory body that oversees the president and the cabinet. At times, the NSC has had a marked effect on the political agenda. The military played a major role in the resignation of the Welfare Party government by publicly supporting a popular opposition movement comprised of businesses, labor, and community groups. The influence of the military (which has closer ties with the center-right parties) seems to have diminished in the new government, although its stance on several sensitive issues is well known to the public.

The Ecevit government restarted structural reform, trying to make up for the time lost during the political uncertainties of the 1990s. In addition to social security reforms, one of the primary tasks of the new government was the reduction of the national deficit through accelerated **privatization**. A series of legislative measures have been designed to allow for the process to be as smooth as possible. These privatization projects will make Turkish industry more efficient and globally competitive, and will bring increased revenue to the government. The government is also trying to tighten its fiscal discipline by cutting expenditures and tightening up on tax collection. This latter measure is important, since Turkey has a large unregistered economy that could account for an increase in the official GNP by up to 50 percent. Indeed, although Turkey's population has grown by 30 percent over the last 15 years, its taxpayer base has remained static, indicating the seriousness of the problem. If the government can succeed in reducing this unregistered economy, the tax base will broaden and bring some much-needed relief to the country's finances.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

As an **emerging market** Turkey has a competitive commercial infrastructure. However, the government faces a continual challenge to meet the demands of a rapidly growing economy, and gives special priority to major infrastructure projects, particularly in the transport and energy sectors.

By the end of 1999, Turkey had 118 airports, 22 of which were open to international traffic. However, a large majority of international traffic targets 3 main airports: Ataturk International Airport in Istanbul, Adnan Menderes Airport in Izmir, and Esenboga Airport in the capital, Ankara. The new international passenger terminal in Istanbul, which opened in January 2000, is one of the largest in Europe. Several more new airports are under construction, including one on the Asian side of Istanbul. Over 300 foreign airlines serve Turkey, in addition to Turkish Airlines (THY). THY, with its fleet of 73 passenger planes, operates to both domestic and international destinations. There are 15 additional public and private domestic airlines operating on a smaller scale.

Shipping plays an important role in the Turkish economy. This is no surprise, since over 70 percent of Turkey's boundaries consist of 4 seas: the Black Sea in the north, the Marmara in the northwest, the Aegean in the west, and the Mediterranean in the south-southwest. The country's 8,430-kilometer coastline is covered with large and small ports, 21 of them international. Five ports, all state-owned, handle most of the country's sea freight: Istanbul and Kocaeli on the Sea of Marmara, Izmir on the Aegean, and Mersin and Iskenderun on the Mediterranean. Seaports on the Black Sea coast mainly handle export cargo of steel products, tea, and hazelnuts, and import cargo of coal, iron ore, raw minerals, fertilizers, and bulk construction materials. The area around the Marmara Sea is the country's industrial heartland and these ports serve a vital function in Turkey's economy, handling cargo carrying raw industrial materials, semi-finished materials, chemicals, steel, and petroleum. The Marmara Sea is also the only connection between the Black Sea and the Mediterranean through 2 straits, and is therefore one of the busiest maritime routes in the world. The Mediterranean ports also handle domestic and international cargo traffic. Iskenderun handles 75 percent of Turkey's steel exports, while a nearby port serves both the domestic and the Iraqi oil pipeline. Mersin, one of the main ports of the eastern Mediterranean, acts as an export hub for southeast Anatolia's products.

The railway system is one of the weakest modes of transportation in Turkey. Although the country has 10,933 kilometers (6,778 miles) of railways running between its western and eastern borders, only 2,133 kilometers (1,322 miles) are electrified. The railroads are state-owned and operated, but rail expansion has not been politically popular for the last several decades and has lacked funding. Most commercial and public transportation, therefore, must rely on other means while the aging rail system, badly in need of renovation, is primarily used to carry minerals and bulk commodities over long distances. The government has, however, begun engaging in plans for both the modernization of existing lines and the addition of up to 2,000 kilometers (1,240 miles) of railway.

The highway transport system carries over 95 percent of passenger transport and over 90 percent of the surface transport of goods in Turkey. The country's road network is extensive, with over 382,000 kilometers (nearly 237,000 miles) of roads. By the end of 1999, 1,726 kilometers (1,070 miles) of this network consisted of motorways, and a total of 96,000 kilometers (59,520 miles) was tarred. The government has made strenuous efforts to extend and improve its road network, especially in the building of additional motorways. The economic crisis of 1998 and the earthquakes of 1999 caused some of these projects to be postponed, but they, and others, are expected to go ahead.

Turkish telecommunications services are undergoing rapid modernization and expansion. As of 1999, Turkey

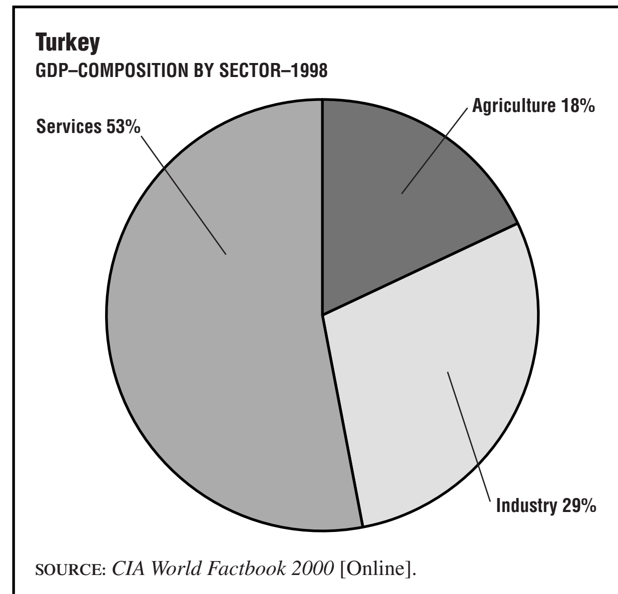
Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Turkey	111	180	286	9.2	53	1.7	23.2	8.06	1,500
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
United Kingdom	329	1,436	645	45.9	252	33.9	263.0	270.60	12,500
Greece	153	477	466	1.2	194	3.8	51.9	59.57	750

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

had more than 19 million telephone lines, exceeding a density of 25 percent. The target density for 2005 is 40 percent. Turk Telekom, a state-owned enterprise, provides basic telephone services in the country, utilizing a variety of communication systems including satellite, submarine cable, and fiber-optic cable. The government has announced plans to privatize up to 49 percent of the company in the near future. The country is also seeing a rapid expansion in cellular telephone services, with many licenses sold to private companies. The current cellular density is estimated at 15 percent and is expected to reach 30 percent by 2010. Cellular phones have received widespread acceptance in the large cities, where they have become a part of daily life among both business executives and teenagers. The Internet is also a well-accepted communication/information medium in Turkey, again primarily in the urban areas. At the end of 1999, Turkey had 1.7 million Internet users, 70 Internet service providers, and 8.06 Internet hosts per 10,000 people. Internet usage is seeing rapid growth, primarily due to cutting-edge Internet banking operations.

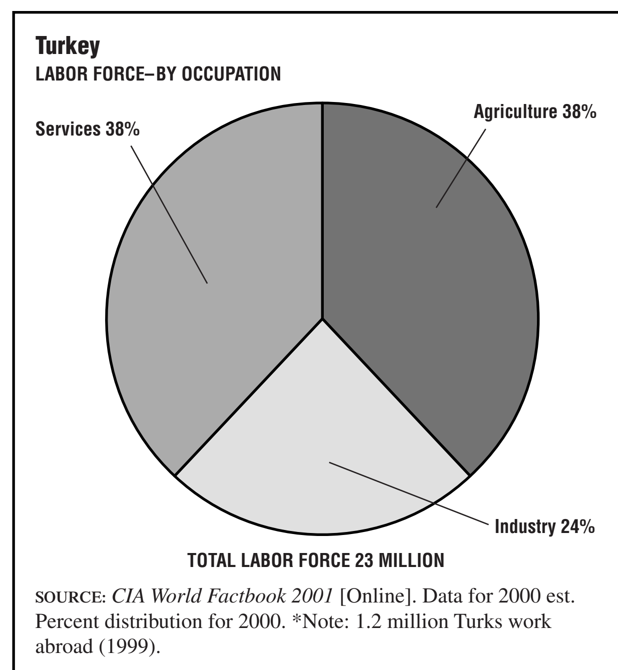


SOURCE: *CIA World Factbook 2000* [Online].

Turkey faces one of its biggest challenges in the energy sector. Rapid urbanization and strong economic growth have led to one of the fastest growing power markets in the world. It is no secret that Turkey is facing a major hurdle in trying to meet the demands of such growth. In 1999, imported energy supplied 60 percent of the country's primary energy consumption, and energy imports are expected to reach 75 percent by 2020. Turkey has an installed electric capacity of 26,500 megawatts, of which about 11,000 megawatts is hydroelectric and the balance is thermal power. This capacity not only cannot meet the 8–10 percent projected annual increase in demand, but is also insufficient for present needs. The Turkish government has been actively seeking investments and developing projects to triple energy production by 2010. The Southeastern Anatolia Project (GAP) is expected to be completed in 2005, and is the most crucial public project in Turkey. When complete, the 22 dams and 19 hydroelectric power plants that are a part of this project will produce 22 percent of Turkey's projected electricity requirements. Due to the current shortage of electric capacity, the 220-volt power system has suffered from occasional blackouts.

ECONOMIC SECTORS

Turkey's economy has been able to supply a broad range of goods and services since the early 1950s. Since then, the mix of domestic production has seen a shift from agriculture to manufacturing, and then to services. In the early 1950s, agriculture made up a little under 50 percent of **gross domestic product** (GDP), while the manufacturing sector's share was about 20 percent. In the 1970s, with the government's continued emphasis on industrialization, manufacturing caught up with agriculture for the first time and surpassed it. This trend continued until the 1980s. With the economic reforms of the 1980s, the economic shift accelerated as all sectors exhibited strong growth, though both manufacturing and services grew much more rapidly. By the late 1990s, the services sector began to dominate the domestic economy: in 1999, the services sector made up 56 percent of GDP, while manufacturing was at 29 percent and agriculture at 15 percent. However, all 3 remain vital to the Turkish economy.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 2000. *Note: 1.2 million Turks work abroad (1999).

AGRICULTURE

Historically, the agriculture sector has been Turkey's largest employer and a major contributor to the country's GDP, although its share of the economy has fallen consistently over several decades. In 1999, it accounted for 15 percent of GDP, while employing about half of the **labor force**. Although the sector has grown over time, the growth has been only about 1 percent faster than the country's population, and much slower than that of the industrial and services sectors. Farmers have been slow to adopt modern techniques, and much of the potential land and water resources are inefficiently managed.

Nevertheless, Turkey is one of the few countries in the world that is self-sufficient in terms of food. The country's fertile soil, access to sufficient water, a suitable climate, and hard-working farmers, all make for a successful agricultural sector. In addition, a broad range of crops can be raised because of the variety of different climates throughout the land. This has allowed Turkey to become the largest producer and exporter of agricultural products in the Near East and North African regions. In fact, according to *The Economist*'s world rankings, Turkey is one of the top 10 producers of fruit, wheat, and cotton in the world. More impressively, it ranks among the top 5 producers of vegetables, tea, and raw wool. As a result of this massive production base, Turkey enjoys a comparative advantage in many agricultural products, and a positive trade balance in agriculture that contributes significant relief to an overall **trade deficit**. The country's main export markets are the EU and the United States, to which Turkey exports dried fruit and nuts, cotton, and tobacco. Another major export market is the Middle East, which buys fresh fruit, vegetables, and meats from Turkey. By 1999, the value of agricultural exports had risen to US$2.4 billion and accounted for 9 percent of Turkey's export earnings (down from 60 percent in 1980). However, these figures could be misleading insofar as almost 50 percent of the manufactured exports also originate in the agricultural sector (primarily textiles and clothing). Therefore, the agricultural sector's direct and indirect total contribution would still account for 50 percent of total exports. Of Turkey's agricultural sector, crops account for 55 percent of the gross value, livestock represents 34 percent, and forestry and fishing make up the rest.

The vegetal (of, or relating to, plants and vegetables) production is primarily made up of cereals, pulses (edible seeds of various pod-bearing plants such as peas, beans, or lentils), industrial crops, and perishables. Of these, cereal crops occupy more than half of the cultivated land. The main species of cereal crops produced in Turkey are wheat, barley, oats, rye, maize, millet, and rice. These crops are produced in most parts of the country, with a heavier concentration in the central regions. Of all these, wheat has a special place in the Turkish economy. Turkey is both a top 10 producer and a top 10 consumer of wheat in the world. It is the essential food element in the Turkish diet, generally eaten in the form of bread. Production increases in the late 1970s enabled the country to become a wheat exporter and, although the output slowed down in the early 1980s, renewed efforts have seen wheat production continue to expand. In 1998, the total wheat production was 21 million tons.

Turkey is also the main pulse producer in the Middle East and one of the leading producers in the world. The pulse output increased from 617,000 tons in the early 1970s to 1.1 million tons in the 1980s and 1.6 million tons in 1998. Since the mid-1990s, over 60 countries import Turkish pulses, primarily chickpeas and lentils.

The major industrial crops produced in Turkey are cotton, tobacco, and sugar beets. Cotton is crucial to the wider economy since it provides the fiber for textiles, the leading category of Turkish exports. Cotton is primarily grown on the coastal plains of the Mediterranean and Aegean seas, in the south and southwest. Cotton production in 1999 was 855,000 tons. Only 10 percent of cotton is exported in raw form, while the rest feeds the domestic textile industry. The Southeastern Anatolian Project is Turkey's largest development project. It seeks improvements in energy production, tourism, mining, gasoline, education, health, communications, industry and transport, and in active farming by means of extensive irrigation systems. When the project is completed, it is estimated that Turkey's cotton production will expand to twice the level of production in the year 2000. Another industrial crop, sugar beets, saw a dramatic increase in production in the 1980s and 1990s. In the 1970s, annual production was around 650,000 tons, meeting only domestic needs. In the 1980s, this increased to 1.5 million tons, and in 1998 the total production of sugar beets was 22 million tons.

Tobacco has been grown in Turkey for many centuries, and the tobacco industry is a major player in the Turkish economy, contributing 18 percent of total agricultural exports. Turkey ranks as the fifth largest tobacco-producing country in the world, and its number-one producer of Oriental tobacco, of which it grows over half of the world's supply. The country is also the world's fourth largest tobacco exporter. The crops are primarily concentrated on the Aegean coast and Black Sea regions, but eastern Anatolia also contributes to the output. The crop yield varies considerably from year to year due to climatic changes, but averages around 200,000 to 300,000 tons annually. On average, 30 percent of this output is exported to the United States and another 20 percent to the EU.

Perishable fruit and vegetables are also important to the Turkish economy. Out of the 140 perishables grown in the world, the country produces 80 varieties of fresh

fruits and vegetables and exports 30 kinds of vegetable and 20 kinds of fruit. These include grapes, citrus fruit, melons, potatoes, onions, tomatoes, olives, and cucumbers. These exports are worth over US$1 billion annually to Turkey.

Turkey is prominent, too, in the world trade of edible nuts and dried fruits. In this category of agricultural products, hazelnuts, pistachios, sultanas, dried apricots, and dried figs are important exports. Records indicate that hazelnuts have been grown along the Black Sea coast since 300 B.C. and Turkey is a major producer, competing with Spain, Italy, and the United States in the international markets. In 1998, Turkish hazelnut production reached 580,000 tons. Turkey also leads the world in figs, producing 36 percent of the world's total production and accounting for 70–75 percent of total world exports.

Animal husbandry is also significant in the agricultural sector. Turkey has traditionally been an important supplier of live sheep, lamb, and mutton to the Middle East, especially Iran and Iraq, but the United Nations (UN) **embargo** on Iraq, following the Gulf War, adversely affected domestic meat exporters and led to a significant decline in exports in the 1990s. Sheep constitute 59 percent of the existing animal total in Turkey, followed by cattle (22 percent) and goats, both the common goat and the Angora breed (16 percent). Most livestock is grazed in the central and eastern Anatolian plains, as well as in the western Anatolian region. Turkey is self-sufficient in milk products, supplying around 10 million tons per year.

Turkey's basic agricultural resources are vast and offer considerable potential for expansion. However, to maximize this potential and increase efficiency, the agricultural sector needs government involvement in structural reforms and development projects. One of the several aims of the Southeastern Anatolian Project (GAP) is to strengthen and expand the agricultural resource base for one of the most underdeveloped parts of the country. Indeed, GAP is possibly one of the most crucial projects for Turkey, since the large economic disparity between urban and rural areas has created social tension, and contributed to damaging levels of migration from the countryside to the cities, primarily in the southeast. This situation poses a serious threat to future agricultural development and to the general economic health of Turkey.

INDUSTRY

The industrial sector in Turkey has been the primary focus of government policies since the early 1950s. Industrial policy until 1980 was based on an **import-substitution** strategy. This protectionist approach was very successful for several decades, and the sector grew at an average rate of 8.6 percent annually until the late 1970s. The first factories built in the country processed food and non-durable **consumer goods**, and remain among Turkey's most competitive manufactures. The next phase of development was in industries such as iron and steel, chemicals, and cement. By the end of the 1970s, **capital goods** and high-technology products had become the primary focus, but the rapid industrialization was taking its toll on the sector. Efficiency problems and energy shortages began to slow down growth, and prevented industry from becoming competitive in the international markets. The **liberal economic** policies introduced in 1980 were designed to address these issues by establishing a less protectionist, more outward-looking industrial policy. The idea was to use market signals to identify uncompetitive industries, transfer their resources to those industries where Turkey enjoys a comparative advantage, and thus compete in world markets. This strategy necessitated a greater emphasis on private sector-led growth. Accordingly, policies and reforms were designed to facilitate rapid expansion of the private sector.

While much progress has been made in the industrial sector since 1980, the process is still not complete. **Public sector** companies continue to dominate a number of critical industries, particularly those such as energy and steel whose products are crucial to private sector companies. Still, the industrial sector has achieved an average growth rate of 6 percent since 1990, and Turkey competes successfully in several areas of the international market. The country's abundance of natural resources, its geographical proximity to export markets, and the existence of a large domestic market give Turkey competitive strength in a diversity of industrial sectors. In 1999, the industrial sector in Turkey contributed to 29 percent of GDP and employed 27 percent of the labor force. More remarkably, industry accounts for 89.4 percent of Turkey's total export earnings. The key industries in Turkey are textiles, iron and steel, chemicals, cement, food processing, motor vehicles, construction, glass and ceramics, and mining.

TEXTILES AND CLOTHING. Industrial expansion in the 1960s and 1970s gave birth to the modern textile industry in Turkey. Currently, it is one of the most important sectors in the Turkish economy, accounting for 10 percent of GDP, 20 percent of the labor force, and 40 percent of total manufacturing output. This sector is the largest in the country and it is the largest supplier of exports as well. Today, Turkey is extremely competitive in international markets and was ranked sixth in world exports of clothing in 1998.

The fact that Turkey is a major grower of cotton is a great advantage for the textile and clothing sector. Thanks to the easy availability of the raw materials, Turkish spinning and weaving industries have developed significantly, creating integrated and diversified production

in all sub-sectors of the textile industry. In terms of cotton spinning, the installed capacity in Turkey is equivalent to around 33 percent of that of the EU as a whole. The export value of cotton and cotton textile products was US$777 million in 1999 and the main destinations were the EU countries and the United States.

In addition to the cotton-based textile industry, Turkey makes a strong showing in both woolen textiles and man-made fibers. It is the third largest mohair producer and has the sixth largest synthetics capacity in the world. In 1999, the export value of wool or woolen textile products was US$107 million, while the man-made fibers industry accounted for US$1.1 billion.

The Turkish home textile industry has also been a strong competitor in world markets. Turkish towels and bathrobes, produced primarily around the western cities of Denizli and Bursa, enjoy a worldwide reputation for quality, and the home textiles sector accounted for 3.2 percent of Turkey's total exports in 1999, bringing in US$859 million.

The clothing industry has shown stable growth over the years and is today one of the most important manufacturing sectors. In 1999, the production volume of clothing equaled 223,000 tons, and its export revenues reached US$6.2 billion, giving it a 23 percent share of Turkey's total exports. The major markets for clothing exports are again the EU and the United States. The EU accounts for 71 percent of all clothing exports, and Germany leads all European countries with 38 percent of total exports. The clothing manufacturers are spread through the west and south of the country, with the majority based in Istanbul.

IRON AND STEEL. The foundations of the iron and steel industry were laid in the late 1930s with the establishment of the first integrated steel mill (a steel mill that takes raw materials in the form of iron ore and coke to produce molten iron, which is further processed to produce finished steel products) in 1939. At present, there are 3 integrated steel mills: the recently privatized KDCI (Karabuk, Black Sea region) plant and the 2 public-sector plants, Erdemir (Eregli, Black Sea region) and Isdemir (Iskenderun, East Mediterranean region). With the 1980 reforms, private sector investments accelerated, and several private electric arc furnaces (lower capacity minimills that produce steel from iron-bearing scrap) were established. Today, there are 17 electric arc furnaces (EAFs), only one of which is state-owned. The total steel production capacity of these 20 plants is 19.9 million tons, of which over 70 percent comes from EAFs.

Since 1980, the Turkish iron and steel industry has been one of the fastest growing in the world. In 1999, Turkey's raw steel production rose to 14.3 million tons, with a 1.9 percent share of the total world production. Turkey currently ranks seventeenth among the 66 steel-making countries in the world and fifth in Europe. In 1999 steel products were exported to 149 countries, with the top 6 buyers being Italy, Israel, the United Kingdom (UK), the United States, the United Arab Emirates, and Greece. With a total export value of US$2.1 billion in 1999, the steel industry is the second most important export sector in the country, after textiles and clothing.

CHEMICALS. Turkey has been manufacturing chemicals since the very early years of the republic. Although it has not been a high-flying sector, it has shown slow but steady improvement over time. Currently, it is one of the country's largest industries in terms of value, and is the fourth major export sector, accounting for 6.6 percent of Turkey's total exports and worth US$1.7 billion. The major chemical exports are plastic raw materials and plastic products, followed by rubber and rubber products. There are 6,000 companies manufacturing chemicals in Turkey, the most prominent being Petkim, a state-owned petrochemical company established in 1965, which supplies around 40 percent of the domestic market. Petkim's 2 major complexes are located at Kocaeli (Marmara Region) and Izmir (Aegean Region). Aside from Izmir and Kocaeli, most of the private sector companies are located in Istanbul, Ankara, and Adana. Primary chemicals produced in Turkey include boron products, caustic soda, chlorine, industrial chemicals, and sodium phosphates.

CEMENT. In comparison with the rest of Europe, Turkey was a latecomer to the cement industry. However, with accelerated investments and a number of structural reforms such as the elimination of government price-setting practices in 1984 and privatization of the industry from 1989, Turkey has become self-sufficient in this sector. Today, there are 51 cement plants in Turkey, all of which are private companies. By 2001, the country was the eighth largest cement producer in the world with a 2.5 percent share of the world market, and the largest producer in Europe. In 1999, Turkey produced 38.1 million tons of cement. While 34.7 million tons of it went to the domestic market, the balance was exported. The chief markets for Turkish cement are the United States, Spain, Israel, Egypt, and France.

CONSTRUCTION. A domestic construction sector did not exist in the founding days of the Turkish Republic, with almost all building done by foreign companies. The sector developed steadily over 50 years following the establishment of the Republic. The 1970s and early 1980s saw a period of international expansion for Turkey's construction sector, and Turkish firms became quite successful in the oil-producing states of the Middle East. The industry contracted with the Iran-Iraq war, but large domestic infrastructure projects enabled it to survive the difficult period. The break-up of the Soviet Union marked the beginning of a new era in the Turkish construction

sector, and led to the diffusion of Turkish construction firms throughout Russia and Central Asia. Today, the construction sector makes up about 6 percent of the **gross national product** (GNP), and Turkey's share in international global contracting services is about 2–3 percent. (Since most construction is offered outside the country, the industry contributes only to GNP, and not to GDP.) During the 1990s, 34 percent of construction services performed were located in the Russian Federation, while Libya accounted for another 15 percent, followed by Kazakhstan, Pakistan, Turkmenistan, Uzbekistan, and Saudi Arabia.

MINING. Geologically complex, Turkey possesses some of the richest and most diverse mineral deposits in the world numbering 4,400, excluding petroleum and coal. Today, 53 minerals are produced in the Turkish mining sector, with 85 percent of production belonging to the state-owned enterprises that predominate in the production of mineral fuels and metallic ore. The 15 percent that belongs to the private sector is concentrated in industrial minerals. Turkey is a major producer of boron, chromite, marble, barites, magnesite, pumice, feldspar, celestite, and emery. Two-thirds of boron reserves and 40 percent of marble reserves in the world are located in Turkey, and the country provides 80 percent of the world demand of emery. In 1999, mining products accounted for 1.4 percent of total exports, worth US$353 million—down from 1998, when mining exports accounted for a 1.9 percent share of total exports, worth US$531.6 million.

SERVICES

The services sector accounted for 64 percent of GDP in 1999, while employing over one-third of the total labor force. Tourism and banking are the 2 primary service industries in Turkey.

TOURISM. With a share of nearly 26 percent of GDP, the tourism industry in Turkey is strategically important to the Turkish economy. The industry entered the 1980s with 1.5 million tourists annually and a global market share of 0.3 percent. However, the sector took off between 1983 and 1993, growing at an average annual rate of 18 percent, the highest tourism growth rate in the world for the period. In 1998, the number of foreign visitors reached 9.7 million, bringing revenues estimated at US$7.1 billion. As such, Turkey is currently in the world's top 20 tourist destinations, both in terms of visitor numbers and earnings.

Despite these statistics, Turkey remains a relatively undiscovered land for tourists. The country's long and gorgeous coastline, high mountains and lakes, and wealth of historical, religious, and archaeological sites offer opportunities for massive development of tourism. However, the growth of the sector has been plagued with problems, chief among them the fallout from the nuclear disaster at Chernobyl in the Soviet Union, Kurdish terrorist campaigns, and economic problems in neighboring regions. In addition, access to natural and historical wonders is difficult in most parts of the country, and much investment in transportation, waste management, and infrastructure is required to remedy this problem. Since the 1980s, the government has identified tourism as a high-priority industry and has been steadily developing the sector, encouraging both private and foreign investment through new laws and incentive programs.

Today tourism is considered to be one of the leading industries in the Turkish economy. It creates jobs for at least 10 million Turkish citizens and offers a capacity of 563,000 beds. Further capacity of nearly 8,500 beds is available on some 990 yachts that cruise the Aegean and Mediterranean coasts. These are operated by over 100 yacht agencies. The largest number of tourists are from Germany, the **Commonwealth of Independent States** (CIS, formerly the USSR), the United Kingdom, the United States, and France.

FINANCIAL SERVICES. The Turkish financial system is based upon a universal banking system that legally enables commercial banks to operate in all financial markets. As such, banks carry out nearly all of the activities in the money and capital markets in Turkey, and the banking sector has become almost synonymous with the Turkish financial system. The only 2 areas prohibited to commercial banks are leasing and the trading of goods for commercial purposes. On the other hand, development and investment banks may not accept deposits, but can engage in the 2 activities prohibited to the commercial banks. Excluding the Central Bank of Turkey, there were 80 banks operating in Turkey by the end of 1999. Of these, 61 are commercial banks and 19 are development and investment banks. Seven of the banks are state-owned. Much like their counterparts in Germany and Japan, the major private banks have ownership linkages with large non-financial conglomerates. Most state banks are located in Ankara, while many of the private banks are centered in Istanbul.

The banking system has undergone a rapid technological transformation in the last decade. According to the U.S. Department of Commerce, in terms of trade finance, treasury operations, electronic banking, and information management, the dozen leading Turkish banks are as sophisticated as their counterparts in developed countries. Certainly, Turkish banks are among the most profitable in Europe, but this statistic could prove misleading in the long term. Given the high **budget deficit** and high inflation, operations have a short-term focus and profits come primarily from banking investment in short-term government securities and short-term loans with high real interest rates. Therefore, profitability has not

been loan-based (contrary to their counterparts in developed countries) and banks lack a lending culture and risk-asset management systems. Therefore, as inflation responds to recent measures and begins to fall, banks will begin losing their highly profitable short-term operations, and will have to focus more on core banking operations with low margins.

The Central Bank of Turkey is responsible for the supervision of the banking sector in order to guarantee that banks meet **liquidity** requirements and operate responsibly. However, banking has suffered in the past from weak supervision and inconsistent accounting practices. The banking sector passed through a crisis in 1999 when 3 small banks failed. The same year, a new law was passed calling for the creation of an independent regulatory agency, toughening operating conditions, and giving weight to regulatory and sanctioning powers. It is expected that, under stricter supervision, the financial sector will grow considerably stronger.

INTERNATIONAL TRADE

Trade played a minor role in the Turkish economy before 1980, but grew rapidly after economic reforms promoted liberalization of foreign trade. These reforms were designed to remove **price controls**, decrease **subsidies**, reduce **tariffs**, and promote exports. In addition to rapid growth in both exports and imports, the reforms brought a change in the structure of foreign trade, and the predominant role of agricultural products came to an end with the emergence of a greater emphasis on industrial products.

In addition to being a World Trade Organization (WTO) member, Turkey has also entered a number of multilateral trade relationships to increase its presence in the world trade arena. It signed a free trade agreement with the European Free Trade Association (EFTA) in 1991. In 1992, Turkey and 10 other nations in the Black Sea region formed the Black Sea Economic Cooperation Organization. Turkey is also a member of the Organization for Economic Cooperation (covering Central Asian countries) and the Organization of the Islamic Conference. Separately, Turkey has entered into free trade agreements with Israel, and with several Central and Eastern European countries.

On 1 January 1996 the EU and Turkey entered into a customs union, covering industrial products and processed agricultural goods, but excluding traditional agricultural products from the agreement. Turkey's adoption of the EU's Common External Tariff has resulted in lower **duty** rates for third-party countries, including the United States.

In 1980, Turkey's total merchandise exports yielded US$2.9 billion. The share of agricultural products was 56.7 percent, while industrial products made up only 36.3 percent. Another 6.5 percent consisted of mineral products. In 1999, Turkish exports reached US$26.6 billion, a figure actually 1.4 percent lower than in 1998. The drop was primarily due to the difficult economic conditions that prevailed in Turkey as a result of the Asian financial crisis and the 2 earthquakes. The share of agricultural products in 1999 was only 9 percent, and mineral products 1.4 percent. By contrast, the share of manufactured products, on the other hand, made up 89.4 percent of total exports in 1999.

The 1991 Gulf war between the U.S.-led coalition and Iraq, and its resultant economic embargo against Iraq, have had adverse effects on Turkish exporters. While exports to Iraq were US$986 million in 1988, this figure had fallen to US$124.1 million by 1995. As a result, Iraq's share in Turkey's exports dropped from 8.4 percent (which would have been enough to rank Iraq as the third largest export market) to 0.56 percent in 1995. The 1992–95 war in Bosnia also took a toll on Turkish exports. Since most of Turkey's exports are to the European markets, the main method of transportation is surface freight. The Bosnian war brought a significant increase in freight costs, as well as causing numerous administrative difficulties. The 1997 Asian financial crisis also had a large impact on Turkey's exports, since the Asian countries are important competitors for Turkish products in overseas markets. The **devaluation** in Asian countries lowered their export prices and gave them a clear advantage over Turkey.

Edible fruits constitute a majority of Turkey's agricultural exports, and this trend continued in 1999. Among industrial products, textiles and ready-to-wear industries remained the major contributor. Other important industrial export sectors were iron and steel, electrical machinery, and motor vehicles and equipment. While Turkey's export markets are highly diversified, OECD countries make up a majority of the trade and took 67.8 percent of exports for 1999. Germany is the largest single export market for Turkey. In 2000, Germany took up 18.7 percent of Turkey's exports. The United States is the second largest

Trade (expressed in billions of US$): Turkey

	Exports	Imports
1975	1.401	4.739
1980	2.910	7.910
1985	7.958	11.343
1990	12.959	22.302
1995	21.637	35.709
1998	25.938	45.369

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

export market, with a share of 11.4 percent, and the United Kingdom the third largest, with 7.4 percent. Italy and France take up the remaining 12.3 percent.

Turkish imports exhibit similar patterns of growth to their exports. In 1980, total imports amounted to US$7.9 billion. The figure grew to US$45.9 billion by 1998 and, by 1999, with economic difficulties affecting domestic demand, imports decreased by 11.4 percent to US$40.7 billion. In 2000, imports totaled US$55.7 billion. In 1999, 28.3 percent of Turkey's imports were made up of machinery, while chemicals made up 15.2 percent, semi-finished goods made up 14.5 percent, fuels made up 11 percent, and transport equipment made up another 9.5 percent.

Looking at the suppliers of the Turkish market, the patterns are very similar to the Turkish exports. OECD countries have taken the largest share of imports, a fact unchanged by 1999 when OECD countries constituted 69.6 percent of total supplies. Imports from the EU countries have the largest share within the OECD group, and 52.6 percent of total imports in 1999. Germany is the first import source for Turkey with a share of 14.5 percent. Italy ranks second with 7.8 percent, and France is third with 7.7 percent. The United States was the fourth most important source of Turkish imports, with a share of 7.6 percent.

MONEY

Inflation remains Turkey's principal economic problem. During the 1970s, inflation averaged about 20 percent, rising to 40 percent during 1981–87, 65 percent during 1989–93 and 85 percent during 1994–95. In late 1997, inflation reached 100 percent before the government launched another attempt at deflating the economy in mid-1998.

The extensive role of the government in the Turkish economy, coupled with weak political leadership, is the primary reason behind the country's chronic inflation. While the program of structural change and liberalization in the 1980s proved successful in promoting economic growth, the government remained hesitant in relinquishing the economic power it held through the strong public sector. However, inefficiencies in the public sector—primarily the expenditure on state economic enterprises—resulted in large, ever-increasing budget deficits. The situation was made worse by political uncertainty as the lack of a stable majority government led to frequent elections. Prior to each election, governments have tended to boost spending in an effort to gain short-term popularity, a ploy that results in even larger **national debt**. Such serious deficits naturally lead to very high rates of inflation.

In 1994, high inflation, coupled with government attempts to manipulate interest rates and an overvalued currency, brought financial crisis and economic recession. Things picked up in 1995, and financial expansion continued until 1998, when the economic difficulties of Russia impacted Turkey. This led to an 18-month program of **deflationary** measures, which was followed up by an IMF-backed 3-year program initiated in December 1999. This aggressive program rested on 3 pillars: an up-front fiscal adjustment to decrease the public deficit in the short-term, structural reforms to ensure long-term stability and a balanced fiscal budget, and a firm **exchange rate** commitment to control external factors. Based on the first 6 months' performance, it seems that the budget deficits have largely been brought under control. Several steps have been taken, and the rate of inflation has been visibly declining. However, more structural reforms need to be completed if this long-term problem is to find a permanent solution.

The Turkish lira (TL) has been a **fully convertible currency** since 1990. With the major economic reforms of the early 1980s, the financial policies were also revamped. For the first 5 years following these reforms, the Central Bank determined the foreign exchange rates on a daily basis, targeting a 5–10 percent per year real depreciation of the Turkish lira as an incentive to exports. After the first 5 years, the foreign exchange rates were completely freed. In 1994, the financial crisis led to a major depreciation of the lira against the U.S. dollar. From 1994 until the end of 1999, the Central Bank allowed the lira to depreciate against a trade-weighted dollar/Euro basket. In 1995, 1 U.S. dollar was worth 45,845 Turkish liras. In January 2000, the same U.S. dollar was worth 545,584 liras. Since the end of 1999, with the initiation of the 3-year deflationary program, the TL is allowed to depreciate based on a targeted **inflation rate**. By 2003, it is expected that the currency will be allowed to float freely, assuming that the deflationary goals are met. However, the uncertainty caused by the high inflation rate has led to the "dollarization" of the economy, where most business transactions and major consumer transactions are usually denominated in U.S. dollars or German marks.

Exchange rates: Turkey

Turkish liras (TL) per US$1	
Dec 2000	677,621
2000	625,219
1999	418,783
1998	260,724
1997	151,865
1996	81,405

SOURCE: CIA *World Factbook 2001* [ONLINE].

This limits the Central Bank's ability to maintain price stability and control inflation.

The Istanbul Stock Exchange (ISE) is the only securities exchange in Turkey. It allow the trading of a wide variety of instruments including stocks, depository receipts, government bonds, **treasury bills**, and real estate certificates. The exchange only began its operations in 1986, but it grew quickly to become one of the top emerging market exchanges of the world. In 1993, the ISE was the best performing stock market in the world, and foreign investment accounted for 25 percent of daily trading volume. By mid-1999 there were 268 companies listed on the exchange. In comparison, the New York Stock Exchange has 3,025 companies listed. The main indicator of the market is the ISE National-100 Index, comprising 100 companies with high **market capitalization** that are also representative of the major economic sectors.

POVERTY AND WEALTH

Using per capita income statistics, Turkey is ranked internationally in the low to medium income group. When compared to countries that were once at the same level but have gone on to make dramatic improvements in their income distribution, it is easy to see that Turkish efforts have been largely unsuccessful. In fact, the renewed and accelerated effort toward economic development and industrialization that began in the early 1980s has had the effect of sharpening the extreme income divide in Turkey. Between 1987 and 1994 the share of the national income earned by the bottom 20 percent of the population dropped by 7.25 percent, and in 1994 the richest 20 percent of the population controlled 47.7 percent of the wealth, while the poorest 20 percent controlled only 5.8 percent.

In addition to their primary residence, a wealthy family in Turkey typically owns several homes around the country. These usually include a second establishment for renting out, and one or more summer homes, mostly in the coastal regions of the Mediterranean or Aegean. Family ties are quite strong in Turkey; therefore most families invest in real estate and rent those homes out until their children grow up and move into them. The children of such families thus have the advantage of starting out in life as well-educated homeowners.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Turkey	1,898	1,959	2,197	2,589	3,167
United States	19,364	21,529	23,200	25,363	29,683
United Kingdom	13,015	14,205	15,546	18,032	20,237
Greece	8,302	9,645	10,005	10,735	12,069

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Turkey

Lowest 10%	2.3
Lowest 20%	5.8
Second 20%	10.2
Third 20%	14.8
Fourth 20%	21.6
Highest 20%	47.7
Highest 10%	32.3

Survey year: 1994

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

A poor family in Turkey might own a home. This could be a farming shelter in a rural area or a makeshift home on the outskirts of urban areas. Some poor families rent low-level apartments, or move into their parents' homes. Where numerous people share one dwelling, unsafe conditions can result from the overcrowding. The children of these families get some education through the public school system, and might occasionally even make it to college, but in rural areas where the nearest school is miles away, the family might choose not to send their children to school. As in the rest of the world, for those in poverty, life in general is hard.

The fostering of industrialization by Turkish governments has had a negative effect on the farming communities. Even though the agricultural sector has, historically, been Turkey's largest employer, it has declined in importance relative to the rapidly developing industrial sector. As a result, the disparity in income between the rural and urban parts of the country has also widened, and has been the cause of significant migration from rural to urban areas. Primarily due to economic instability, **emigration** to other countries has also been a factor since the 1970s.

High inflation and the constantly decreasing purchasing power of the Turkish lira create additional problems. Typically, wages and salaries have failed to keep pace with the increasing prices of consumer goods and services. The average consumer **price index** inflation in 1999 was 65 percent, reflecting a monthly increase in the prices of goods and services of approximately 5 percent. Even when earnings are adjusted for inflation, the adjustments are generally made at the end of the year, forcing consumers to absorb the mid-year price increases until the year-end.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Turkey	45	7	18	6	5	2	16
United States	13	9	9	4	6	8	51
United Kingdom	14	7	9	3	3	6	58
Greece	32	11	14	5	14	8	16

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

The structure of social classes in Turkey is similar in all large cities where the population exceeds 100,000 and evolved with urbanization and industrialization. The urban upper class is mainly made up of government officials, wealthy business people, and professionals, and is primarily determined by political power and/or education. The urban upper class is smaller than the urban middle class and less diverse. Education, particularly a college degree, is the passport to joining the urban middle class. Even though the middle class was expanding steadily during the early 1980s, persistently high inflation rates impeded its stability and growth. The biggest social class to influence the growth of cities since the 1950s is the rural working class. Large numbers of rural poor migrated to the cities, and the movement continues. Prior to the 1950s, more than 80 percent of Turkish residents lived in rural areas, and most of the migrants who came to the cities were unable to find affordable housing. They built shelters on the outskirts of the cities without official permission or approval and, by 1980, up to 60 percent of the inhabitants of big cities were living in these primitive settlements, with no electricity, plumbing, or paved roads. Eventually, some of these neighborhoods were incorporated into the cities and provided with those amenities. About 65 percent of the poor classes depend on unskilled work for their livelihood.

The Turkish government subsidizes education at all levels, from pre-school to university, for all citizens. The law enforces attendance at primary and secondary schools, which accounts for 8 years of education and takes pupils to age 14 or 15. However, due to the insufficient number of higher education institutions, only a select few candidates for college actually get to attend. The selection process is conducted through a nationwide examination held every year, from which students with the highest scores are placed in accordance with their choices. There are also a limited number of private universities for those who can afford to pay.

The Ministry of Health is legally empowered to provide medical and preventive health care services. It establishes and operates hospitals and other health care centers, trains health personnel, and supervises private health facilities. The ministry also supervises the medical and health care personnel who work for the public sector. The pay for state-employed physicians is considerably lower than the earnings of private-practice doctors, and medical facilities are still concentrated in urban areas. Consequently, although steadily improving, access to medical and health care in most rural areas is inadequate.

WORKING CONDITIONS

Statistics for 1995 declared that the Turkish workforce is comprised of approximately 36 percent of the population, or 23.8 million people, 1.5 million of whom work abroad. The agricultural sector employs 46 percent of this workforce. Even though the number of female workers has increased considerably, the Turkish workforce is still male-dominated, with men making up 71 percent of the workforce.

The unemployment rate for 1999 was 7.3 percent, though the U.S. Department of State's *Country Commercial Guide* notes that it could be considerably higher, especially in urban areas, due to discouraged workers leaving the labor force. Even though Turkey has large numbers of unskilled and semi-skilled workers, there is a relative shortage of skilled labor, but the *Country Commercial Guide* also reports that the Turkish labor force is hardworking, productive, and dependable. In addition, labor-management relations have been generally good in recent years.

Labor laws in Turkey support a nominal 45-hour workweek, and the amount of overtime that employers may request is limited. Non-wage benefits that most workers receive include transportation and meals, and some jobs include housing and subsidized vacations. In recent years, fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sec-

tor. Even though the law mandates occupational safety and health regulations and procedures, limited resources and lack of safety awareness often result in inadequate enforcement.

With the exception of the police and the armed forces, Turkish workers have the right to unionize or join existing labor unions. The right to strike exists for most workers except those employed in the public utilities, education, and the petroleum, sanitation, and national defense industries, as well as those who are responsible for life and property protection. The law requires collective bargaining to have taken place before a strike. In order for a union to become a bargaining agent, the law requires that it must represent "50 percent plus one" of the employees at a particular work place and 10 percent of all workers in the particular branch of industry nationwide. However, since 1980 Turkey has been criticized by the International Labor Organization (ILO) for some of the above restrictions. The government has passed constitutional amendments to allow civil servants, who include central government employees such as teachers, to form unions, but it is still illegal for them to strike or bargain collectively.

Under the labor laws and constitution of Turkey, workers must be at least 15 years of age to qualify for full-time employment. Children of ages 13 and 14 can work in jobs that are not physically demanding or part-time if they are enrolled in school or in vocational training. Children are also prohibited from working at night or in physically demanding jobs such as mining. However, in practice, many under-age children continue to work in order to provide badly needed supplementary income for their families. In farming communities for example, the whole family can be seen at work during harvest times. The Turkish government has identified the child labor problem and is working with the ILO to find a solution.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

2000 B.C. Hittites begin migrating to the Anatolian (Asia Minor) area of Turkey. Phrygians, Persians, Greeks, and Romans follow this migratory pattern.

1000–1100 A.D. Immigrants from Russia and Mongolia arrive in the area.

1100–1200. Islam becomes entrenched in Turkey and the residents are involved in the Crusade battles.

1300–1400. The Ottoman Empire is established and prevails as a vast trans-continental empire for several centuries. At the peak of its powers, the empire rules vast areas of northern Africa, southeastern Europe, and western Asia. However, it is unable to keep up socio-logically and technologically with developments in Europe. The influence of nationalism causes the diverse ethnic groups within the empire to seek independence, which leads to the fragmentation of the 600-year-old empire.

1923. After World War I and the collapse of the Ottoman Empire, Mustafa Kemal Ataturk founds the Republic of Turkey. Under Ataturk's leadership, the new republic focuses on reform—political, linguistic, economic, and social. Ataturk forms the Republican People's Party, which stays in control until 1950. A republic based on secular governance replaces the once religious and monarchist rule of the Ottoman Empire.

1938. Ataturk dies, having established the ideological base of Turkey as secular, nationalistic, and modern. Since then, the Turkish military has assumed the guardianship of Ataturk's vision.

1945. Turkey joins the United Nations (UN). The Democratic Party is founded and the multi-party era begins in Turkish politics.

1949. Turkey becomes a member of the North Atlantic Treaty Organization (NATO).

1950. The Republican People's Party loses the elections to the Democratic Party.

1960. Growing economic and internal political problems under the Democratic Party government result in a military takeover.

1961. The civilian government is reinstated and a new constitution written, which enshrines the formation of a National Security Council, composed of the president, the prime minister and other key ministers, and representatives of the army, air force, and navy.

1968. Political disturbance erupts between political extremists of the left and right, bringing domestic instability.

1971. The military interferes in order to deal with domestic disturbance, and calls for a replacement government.

1973. General elections result in a coalition government, which falters a year later.

1974. Turkey occupies Northern Cyprus in order to prevent a Greek takeover of the island.

1975. Until 1980, political and social instability increases under the coalition governments of Suleyman Demirel and Bulent Ecevit.

1980. Under the direction of General Kenan Evren, the National Security Council moves to restore public order and remains in control of the government for 2

years. During this time, a national referendum appoints General Evren as president for a 7-year term. A temporary law bans former political party leaders from political involvement for 10 years.

1983. New elections bring in the Motherland Party under Prime Minister Turgut Ozal. Under Ozal's leadership, the country sees the introduction of liberalizing economic reform.

1987. The 10-year ban on former politicians is lifted by a referendum and the government calls a national election. Turgut Ozal wins a second 5-year appointment as prime minister.

1989. Parliament elects Ozal as president of Turkey.

1991. Early elections are held and result in former prime minister Suleyman Demirel's new True Path Party forming a coalition government with the Social Democratic Populist Party.

1993. Demirel is elected president after Ozal's death and Tansu Ciller becomes the country's first female prime minister.

1994. Turkey suffers its worst recession since World War II after government attempts to influence interest rates. In local elections, the Welfare Party wins local elections.

1995. After much political turbulence during a very short period of time, the True Path Party, Welfare Party, and Motherland Party each emerge with a similar number of electoral seats. The coalition collapses in a year and the True Path Party forms a coalition with the Welfare Party, making Necmettin Erbakan the first Islamic prime minister of Turkey.

1996. Turkey enters into a customs union with the European Union.

1997. The coalition government is as unsuccessful as the previous one. The military's political role is challenged by Erbakan's anti-secular efforts, and the military supports business and community groups calling for the government's resignation. In order to ensure compliance with the secular state, the military takes measures that include banning Erbakan from government participation.

1999. The country experiences 2 devastating earthquakes and 3 changes of government. The economy holds up despite expectations of an economic downturn. The 57th government of Turkey, like its predecessors a coalition, is elected. The new government restarts structural reforms to bring stability back to the Turkish economy. In December, the European Union declares Turkey a candidate for full membership.

FUTURE TRENDS

Turkey entered the new millennium with renewed hopes of economic, political, and social development and reform. The 3-party coalition that came into power in April 1999 has shown signs of stability, and many international sources are hopeful that the government will achieve its aims in the next 3–5 years. Its aggressive reform program addresses most of the country's outstanding critical issues, including the often appalling human rights record, undisciplined **fiscal policy**, and state interference in the economy. These financial measures should help to reduce inflation, and speed up privatization of public sector enterprises. There is also a program for structural reform in the social security and taxation systems. With the completion of the Southeastern Anatolian Project (GAP) within the next few years, the Turkish economy should receive a boost. In addition, the project could accomplish much in terms of reducing the disparities in income in different regions of the country, and between rural and urban areas. The possibility of joining the EU in due course should act as a major incentive for the nation to continue on a path of democratization, industrialization, and modernization.

DEPENDENCIES

Turkey has no territories or colonies.

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—Tunga Kiyak

TURKMENISTAN

CAPITAL: Ashgabat.

MONETARY UNIT: Turkmen manat (TMM). One manat equals 100 tenge. There are notes of TMM1, 5, 10, 50, 100, 500, and 1,000. Coins come in denominations of 1, 5, 10, 20, and 50 tenge.

CHIEF EXPORTS: Natural gas, petroleum, cotton, chemicals, processed food, minerals.

CHIEF IMPORTS: Machinery and transportation equipment, chemicals, fuel, food and dairy products, sugar, textiles.

GROSS DOMESTIC PRODUCT: US$19.6 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$2.4 billion (f.o.b., 2000 est.). **Imports:** US$1.65 billion (c.i.f., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Turkmenistan is located in central Asia, bordered by Iran (992 kilometers/616 miles) to the south, Uzbekistan (1,621 kilometers/1,007 miles) to the northeast, Kazakhstan (379 kilometers/235 miles) to the north, Afghanistan (744 kilometers/462 miles) to the southeast, and the Caspian Sea (1,786 kilometers/1,110 miles) to the west. Turkmenistan has an area of 488,100 square kilometers (188,455 square miles), slightly larger than the state of California. The capital, Ashgabat, is located in the south-central part of the country, near the border with Iran.

POPULATION. The Turkmenistan population is smaller than in other central Asian states. According to the last Soviet census in 1989, 2.54 million Turkmens lived in the republic. In 1989 Turkmens comprised 68.4 percent of the population, Russians 9.5 percent, Uzbeks 9 percent, and Kazakhs 2 percent. Due to the **emigration** of Russians, in 1998 Turkmens made up 77 percent of the population, and Russians only 6.7 percent. Of all the former Soviet Republics, Turkmenistan had the highest infant mortality rate—73.25 per 1,000 in 1997—and the shortest life expectancy, 61 years in 2001 (both figures estimated). During the next decade, population growth is expected to slow considerably as infant mortality rates increase and health care deteriorates.

Only 3 percent of Turkmenistan's land is arable. The Kara Kum, or Black Sand Desert, occupies almost 75 percent of Turkmenistan's territory. The 16 urban areas along its borders and coastline account for 45 percent of the population. Almost 50 percent of the population lives around the capital, Ashgabat, and only 2 other cities have populations with more than 100,000 inhabitants.

OVERVIEW OF ECONOMY

Turkmenistan is one of the most politically conservative and impoverished of the former Soviet republics. It has made little progress toward **restructuring** its economic foundation. Between 1991 and 1998, Turkmenistan's economic activity plummeted 45 percent. Its economy is agricultural, accounting for almost half of the **gross domestic product** (GDP), primarily marked by livestock raising and cotton production. Prior to independence in 1991, Turkmenistan was the second-largest cotton producer in the Soviet Union (behind Uzbekistan) and tenth largest in the world. It produces more cotton per capita than any other country in the world. Turkmenistan has the world's fifth largest reserves of natural gas and considerable oil resources. Turkmenistan is also known for subtropical fruits, melons, and nuts, especially pomegranates, figs, olives, and almonds.

Since gaining independence in 1991, Turkmenistan's government has emphasized grain production to increase its self-sufficiency and to limit Russian influence. The government has taken a cautious approach to economic reform, though. In 1992 the government of President Saparmurat Niyazov introduced his Ten Years of Prosperity program, which provided for Soviet-style **subsidies** for natural gas, electricity, and drinking water to all households in the republic. The program was afterwards modified to Ten Years of Stability, yet continues to subsidize for social needs, accounting for almost 60 percent of the state budgetary expenditures.

In the 1970s the Soviets made major investments in oil and gas production in Turkmenistan. By 1992 gas

production accounted for almost 60 percent of GDP. Combined with the failure of trading partners to make payments, Russia's refusal to allow Turkmenistan gas transportation through its territory resulted in reduced output by more than 40 percent, mounting debts, and a sharp decline in overall industrial production. Turkmenistan continues to rely upon its abundant natural resources and cotton production to sustain its inefficient and declining economy.

Sources differ greatly on Turkmenistan's **macroeconomic** indicators since 1991. Government figures are often inflated to provide a more positive picture. Unemployment statistics for Turkmenistan are unreliable, but according to government sources in 1997 it was 5 percent. **Real wages** have declined by 25 percent since 1997 and **inflation**, which peaked in 1993 at more than 3,000 percent, dropped to 30 percent in 1999. The chief reason for the economic collapse was the failure of Russia, Ukraine, and other central Asian republics to pay for goods. In addition, the decline in energy prices hurt the economy.

POLITICS, GOVERNMENT, AND TAXATION

Turkmenistan was the first central Asian republic to create a new constitution, which proclaimed the country a presidential republic. It is dominated by Saparmurat Niyazov, who won election in June 1992. In January 1994 a referendum extended his rule from a 5-year term to a ten-year term; in December 1999 he was made president for life. He is the leader of the state and supreme commander of the armed forces. In accordance with the Turkmenistan constitution, he also appoints all cabinet ministers. Presidential powers extend to all facets of the country's economic and political life, even including the right to issue edicts that have the force of law.

The 1992 Turkmenistan constitution established a national assembly with 50 members elected to 5-year terms. Its primary duties are to enact and approve criminal legislation and ratify presidential decrees. In practice, however, international observers have criticized this body for its failure to limit the expansion of presidential powers

over domestic and foreign affairs. In addition, there are the national council and a council of elders, both of which wield little power or influence in political affairs.

In December 1991 the Communist Party of Turkmenistan was renamed the Democratic Party of Turkmenistan (DPT). It controls all political activity in Turkmenistan, though ostensibly allowing political opposition. In 1992, under an initiative proposed by Niyazov, a party called the Peasant Justice Party was formed, consisting of regional secretaries of the DPT. A small opposition party, independent of government sanction, was formed in 1989 but was banned in 1990. The Agzybirlik (Unity) Party operates mostly in exile from Moscow.

Since 1991 Turkmenistan has attempted to establish relations with neighboring countries and potential trading partners in order to exploit its natural resources. Internal reform, however, has hampered economic development. In 1992 and 1993 the government passed laws on foreign investment, banking, property ownership, and intellectual property rights designed to attract foreign investment. The laws allow 100 percent ownership by foreign investors, but in practice the government restricts this right and prefers **joint ventures** rather than the full purchase of plants, factories, and other facilities by foreigners.

In 1993 the government began an ambitious 10-year plan that was designed to double per capita income, which was less than US$3,000 per year in **purchasing power parity** terms. The government freed the population from certain fees, such as for heating and electricity, and initiated in December 1992 the Ten Years of Prosperity program, which envisioned a transition to a free market economy, the dismantling of Soviet-style planned management, and extensive social welfare services. Soon thereafter, however, the government changed the slogan to Ten Years of Stability when anticipated investments and profits failed to materialize. Nevertheless, the government took great strides to attract investment for the plan, as Turkmenistan struggled to upgrade its basic **infrastructure**. The government started a national airline and built a new airport, along with new roads, buildings, and hotels in Ashgabat. Emphasis later shifted to constructing new pipelines, or expanding capacity in old ones, to diversify its markets and avoid further dependency upon Russia to export its natural gas.

In 1994 Turkmenistan was in the midst of a severe economic crisis. The government was forced to ration food, GDP fell more than 20 percent, and inflation was growing at 1,100 percent. In 1995, the government fixed the minimum wage at TMM1,000, which, according to some sources, corresponded to roughly 4 kilograms (8.8 pounds) of meat or potatoes.

Roughly two-thirds of Turkmenistan's revenues come directly from gas exports. The decline in international energy prices forced the government to broaden the tax base to lessen the impact of revenue shortfalls. No information is available on tax compliance, but it has been estimated that it is quite limited. Corporate and **income tax** rates range from 25 percent to 35 percent, although collection procedures, liability, and individual rates are often complicated, contradictory, subject to abuse, and arbitrarily applied.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Turkmenistan inherited an aging infrastructure from the Soviet Union, with 13,000 seriously depreciated railway cars, insufficient signaling and communication equipment, and inadequate staffing. The Turkmenistan government has ambitious plans for a highly extended transport infrastructure, with priorities devoted to railroad and pipelines development. Turkmenistan's transport system carries freight chiefly via rail, roads, internal waterways, and pipelines. Air transport accounted for less than 1 percent of transportation in the early 1990s. Turkmenistan still uses the Turkmenbashi-Ashgabat-Chardzhou Line as its primary railroad, which links Turkmenistan with Russia and Europe through Uzbekistan. Construction of this

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Turkmenistan	N/A	276	201	N/A	1	N/A	N/A	0.56	2
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Iran	28	265	157	0.0	6	N/A	31.9	0.05	100

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

railroad began in the 1880s to connect Turkestan with the Russian Empire. In recent years, construction has begun on a line expected to link Turkmenistan with Iran, although most observers do not expect it to develop as a primary trade route. Plans are being made to build 1,000 kilometers (621 miles) of new railroads, but this requires substantial foreign investment which is lacking. Another plan has called for a railroad that would connect Istanbul with Beijing, running through Turkmenistan, but this too has failed to materialize.

Turkmenistan has focused considerable attention on expanding its present pipeline capacity and building new pipelines. In April 1993, Niyazov announced that an agreement had been reached with Iran to construct a new pipeline to transport natural gas from Turkmenistan through Iran to the Persian Gulf. These plans were met with serious international opposition, particularly from the United States and Russia. The Russians profit from the Turkmenistan dependence upon old Soviet transport routes; however, aging pipelines and insufficient capacity subject Turkmenistan to the whims of Moscow and the inability of former Soviet consumers to make payment. The United States encouraged Ashgabat to construct a line under the Caspian Sea to Turkey, or increase merchant fleet trade, in order to export its most valuable commodity.

Roads in Turkmenistan vary considerably in quality, with 2 major highways that crisscross the country. In 1990, there were nearly 23,000 kilometers (14,292 miles) of roads, of which a little more than 15,000 kilometers (9,321 miles) were paved. Poor maintenance and increased freight and passenger traffic have severely strained the system.

Turkmenistan has 64 airports of varying sizes and capacities, with only 22 having permanently surfaced runways. The main airport, in Ashgabat, includes a new international complex connecting the country to China, Russia, Iran, Pakistan, Turkey, and European locations. There are plans to upgrade Turkmenistan Airlines with Boeing airplanes, replacing some of the aging Aeroflot aircraft.

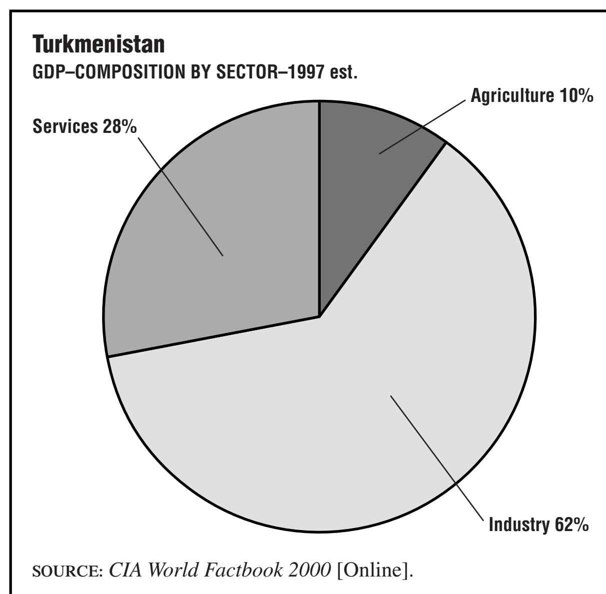
Telecommunications is provided exclusively by the Turkmenistan Ministry of Communications, which also manages the country's postal services. There are 2 state-controlled broadcasting centers, the Orbita station in the capital and another in Nebitdag. The telephone network is inadequately maintained and insufficiently developed. Less than 30 percent of households have a telephone, and those are principally in the capital. The government has been upgrading the system, including signing agreements with Turkey to install electronic exchanges and international circuit capacity designed to improve local, long distance, and international communications.

Electrical power is one resource that Turkmenistan exports. Approximately 99.94 percent is supplied by fossil fuel, particularly natural gas, and 0.06 percent is hydraulically produced. In 1998, 8.745 billion kilowatt-hours (kwh) of electricity was produced, of which 2.7 billion kwh were exported. In May 1998, a new line was developed to export electricity to Iran. Plans to export electricity to Afghanistan and Turkey are also being negotiated.

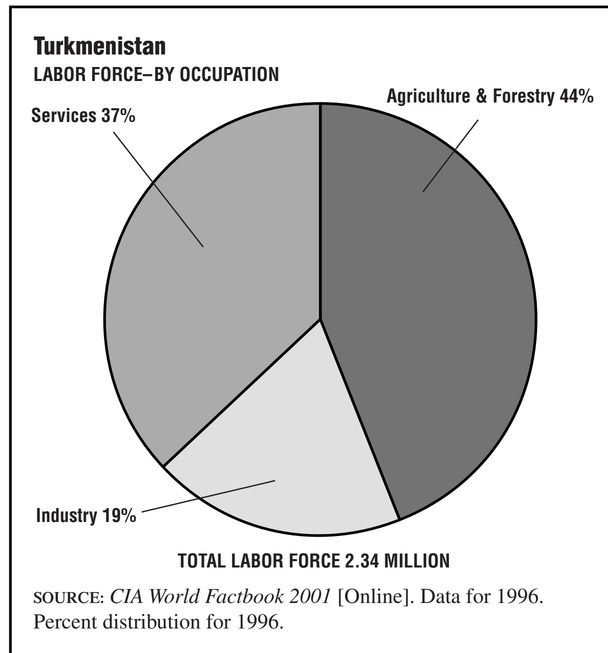
ECONOMIC SECTORS

Turkmenistan's economy is dominated by state control of agriculture and industry, legacies of Soviet economic developments and regional links. The CIA *World Factbook* indicated that agriculture accounted for 25 percent of GDP and industry for 43 percent in 1999. Given that about 44 percent of the population is involved in agriculture, Turkmenistan has attempted **privatization** schemes, but with little success. Moreover, Turkmenistan, which has never opted for a market economy, continues Soviet-like systems with multiple **exchange rates**, state orders, and regulated prices, making expanded trade with neighboring states extremely difficult.

The best option for Turkmenistan to restructure its economy, and to develop some sort of sustainable growth, appears to be its ability to market and sell its natural resources, in particular natural gas. The absence of infrastructure, however, raises doubts about Turkmenistan's ability to do so at the pace necessary for economic expansion. Since transportation and export problems have caused problems throughout Turkmenistan's entire economy, especially for the international trade of its energy resources, establishing new markets and routes for trade



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1996. Percent distribution for 1996.

is of crucial importance. Foreign investment in Turkmenistan has been substantial, although due to the political environment it has decreased almost 70 percent since 1995. In 1992 investment was US$11 million, peaking in 1995 at US$233 million, but falling to only US$62 million in 1998.

AGRICULTURE

Since 1991, Turkmenistan has attempted to restructure the agricultural sector to reduce its dependency upon other former Soviet republics. Agricultural policy has focused upon grain production, which has resulted in significant increases in non-cotton production, but the new crops are unlikely to thrive unless changes are also made to the **procurement** and transportation sectors. Due to the distance between farms and processing plants, less than 10 percent of fruits, vegetables, and cereals are processed in the country. Livestock raising remains an important part of Turkmenistan's agricultural sector, primarily in meat products such as beef, mutton, and chicken. In 1997 agricultural exports, chiefly cotton, amounted to US$364.5 million, whereas the value of agricultural imports was US$271.7 million.

To understand Turkmenistan's agriculture, it is necessary to understand Soviet practices and collectivization schemes. Roughly 50 percent of arable land is planted in cotton. Due to Soviet planning and economic specialization, Turkmenistan has few textile factories and manufactures less than 1 percent of the cotton grown. It must continue to import cotton fabrics and clothing from Russia and other states in the region. Turkmenistan has made little progress in restructuring the agricultural economy, with only limited privatization and expanded diversification of crop production. Moreover, Turkmenistan is heavily dependent upon irrigation for agriculture. Dilapidated canals and inefficient water management, however, result in only half of the water being delivered to the fields.

The Soviets practiced surface level irrigation, in which water is provided along furrows rather than direct application. Consequently, watering sometimes took days instead of hours, even with around-the-clock irrigation. In addition, the Soviets abandoned nighttime irrigation in favor of daytime irrigation, increasing water usage substantially. Almost no mechanism was in place to determine optimal application, or if there was adequate monitoring equipment, it was in disrepair. The result was endemic over-watering and a casual disregard for resource management.

Management and maintenance of the country's irrigation network is expensive. The budget allocated for maintaining the existing irrigation canals has fallen from US$3.2 million to only US$20,000. In addition, the government has failed to reduce sediment in the canal, due to failing equipment and insufficient financial resources, cutting annual clearance requirements by more than 50 percent. Staffing for the irrigation network has also become a critical problem for Turkmenistan, falling from 1,700 personnel in 1987 to only 640 in 1999. Relatively few young people are employed in irrigation and water management, so Turkmenistan could be facing a severe crisis unless newly-skilled replacement personnel are found.

INDUSTRY

Soviet industrialization left a legacy of ecological devastation, uneven development, and an obsolete, rapidly deteriorating infrastructure. Furthermore, Soviet industrialization often ignored local conditions, conflicting with a traditional society hesitant to embrace new technology. Thus, the Soviets proceeded to emphasize heavy industry that was more and more based upon imported labor from the European regions of the Soviet Union. Local labor has not materialized to replace this technically skilled workforce. Turkmenistan has a strong resource base but inadequate training and financial resources to expand its domestic industry in the near future. Nevertheless, the government is taking steps to lessen its dependency upon industrial trade.

Turkmenistan has a critical shortage of industrial capacity to process its agricultural products and natural resources, a situation that has deteriorated considerably since 1991. Most industrial development in Turkmenistan under Soviet rule was oriented toward heavy industry, especially in chemicals and petrochemicals such as sulfuric acid, ammonia, detergents, and fertilizers. Small-scale steel production was used to manufacture water pumps

and construction. Since independence, Turkmenistan has invested in the development of cement production and farm machinery; however, these form a very limited part of Turkmenistan industry. Turkmenistan has also begun to develop local leather works and foodstuffs industries, which remain underdeveloped due to low mechanization and an insufficiently trained workforce. Turkmenistan has no textile factories, only spinning and clothing; however, the Turkmenistan carpet industry remains vibrant and has an international reputation for excellent quality. The Turkmenistan Carpet Production Association manages 10 factories, although household production accounts for a considerable share of overall production.

Turkmenistan has developed numerous joint ventures with international companies in order to update its industrial capacities, increase productivity, and lower pollution levels, which remain high. In addition, it has increased investment in light industry, particularly in consumer and durable goods, but Turkmenistan relies on trade for most products.

SERVICES

The service sector in Turkmenistan accounted for roughly 32 percent of GDP in 1999 and employed an estimated 37 percent of the workforce in 1996. Transportation, energy, and health care are particularly important. Tourism is relatively small, although in 1997 more than 250,000 tourists traveled to Turkmenistan, an increase of more than 400 percent from 1993.

Financial services are strictly controlled by the government, particularly currency exchanges and lending. Loans are provided to finance projects in the republic, with particular emphasize given to agriculture. The **retail** sector is rather primitive, with few major retail centers, as most citizens buy products at local bazaars and through state-run stores.

Health care in Turkmenistan continues to be free to all citizens, although the system lacks modern technology. Basic medicines are in critically short supply and treatment is crude at best. Medical training has also deteriorated since 1991. According to one study, in Dashhowez Province half of the patients treated died because physicians lacked proper training and surgical supplies. Moreover, most facilities do not have running water and central heating. In addition, pharmaceuticals must be purchased with **hard currency**, which is scarce and costly. In rural areas, many Turkmens must rely solely upon traditional healers, who use prayer and herbs.

INTERNATIONAL TRADE

Since independence, Turkmenistan has sought to advance its sovereignty by entering only bilateral trade agreements. The country's potential prosperity is dependent upon its ability to maintain peace and stability in a possibly volatile region. Thus, its international relations and trade are focused within former Soviet territories of central Asia, Russia, and the Caucasus, while seeking to cultivate new relations with Asia, Europe, and America. Since transportation and export problems have caused problems for Turkmenistan's economy, especially for the international trade of its energy resources, establishing new markets and routes is of crucial importance. Foreign investors are, however, hesitant to work in Turkmenistan, usually because the socioeconomic infrastructure has deteriorated or laws necessary to protect their investments can be violated by presidential decree.

Russia continues to be the most important partner for Turkmenistan's international trade. Russia dominates 50 percent of all trade within the **Commonwealth of Independent States** (CIS), particularly among natural resources, and appears unlikely to relinquish control in the near future because it commands the transportation grid built during the Soviet era. Thus, for example, with oil and gas, the pipelines run through Russia, which has often punitively regulated the amount of central Asian goods allowed to traverse its territory.

Russia was the only CIS country to export natural gas to the outside world until Turkmenistan signed an agreement with Iran in 1997. A pricing feud over supplies to Ukraine with Russia's state-run petroleum and natural gas company Gazprom severely disrupted Turkmenistan's ability to export any gas. Shipments were halted with the concomitant effect of handicapping all Turkmenistan trade, causing its exports to fall 61 percent in 1997 and GDP tumble 26 percent. Opening an export route through Iran eased some of Turkmenistan's economic woes. A resolution with Gazprom was reached, but the prices were so high that Turkmenistan will realize minimal profits.

Turkmenistan's trade with CIS states hovered around 50 percent in 1997. This was a slight decrease from previous years and represented Turkmenistan's somewhat successful efforts to reduce its dependency on Russia. Nevertheless, its export-import income has fallen significantly since independence. Export trade in 1992 was roughly US$1.5 billion and US$751 million in 1997. Exports have increased slightly since then, but the low volume reflects the country's continuing struggle to sell its natural gas. Imports, however, rose dramatically from the 1992 figure of US$446 million, jumping the next year to US$2.1 billion, but decreasing to US$1.2 billion by 1997. Because trade with the CIS consists mostly of energy resources, rather than manufactured goods, Turkmenistan has generally maintained a positive trade balance, but it has fluctuated widely since 1992. It is the only former Soviet republic to have a consistently positive trade balance since the collapse of the Soviet Union.

Efforts have been made by central Asian leaders to increase trade, but these have generally been rebuffed by Turkmenistan, which prefers bilateral trade agreements. Turkmenistan rejected Kazakhstan's attempt to create a Euroasiatic Union, but Niyazov agreed to join the Economic Cooperation Organization (ECO), which was founded by Turkey, Iran, and Pakistan in 1960. The ECO was designed to coordinate economic policies between these states and was given new life by the inclusion of the 5 central Asian republics. The move strengthened relations between Turkmenistan and Iran, a feature that disturbed Russia. Russia's demand that they choose between membership in the CIS or the ECO was hardly acknowledged.

Outside of the CIS, Turkey is Turkmenistan's most important trading partner and continues to be Turkmenistan's most vital supplier of technical and financial support. In 1993, for example, it provided the Turkmenistan government with credits worth US$92 million. Turkey further regards Turkmenistan as a country of transit to central Asian markets. Moreover, Turkmenistan is valued by Turkey essentially as a seller of natural gas. In a basic accord signed in October 1994, Turkey agreed to purchase natural gas from Turkmenistan for the next 30 years.

Turkmenistan has signed natural gas export agreements with Iran, believing its southern neighbor to be the most logical conveyor of Turkmenistan resources, even though the United States opposes the arrangement and central Asian leaders have strongly criticized Niyazov's attempts to enhance this relationship. In 1993 Turkmenistan and Iran signed a 25-year accord with the objective of delivering 28 billion cubic meters of natural gas. Delivery will be through a pipeline, jointly built but principally financed by Iran. In order to accelerate the process, in 1995 the countries agreed to transfer 8 billion cubic meters of natural gas annually.

MONEY

Turkmenistan maintains an official exchange rate (US$1=TMM5,200), but currency exchanges on the **black market** are often 3 times the official rate. The government has not significantly intervened to artificially support the national currency, although in January and again in April 1995 the Central Bank attempted unsuccessfully to unify the 2 exchange rates. Subsequently, the government decided to limit foreign exchange sites, which resulted in greater disparities between the official and black-market rates. Most banks in Turkmenistan are government owned and the principle lending task is to channel foreign loans into designated state-run enterprises. In 1998, prudent steps taken by the government required businesses to have minimum capital equal to US$1 million; however, audits to determine **solvency** and adherence to banking laws have been sporadic. In December 1998, the government suspended free convertibility of hard currency to limit **capital flight**.

Turkmenistan has a single stock market, with 300 joint-stock companies. In 1993, the Law on Securities and Stock exchanges was adopted, although companies have not been allowed to issue stock freely. The success of Turkmenistan's stock market will depend upon further privatization projects and a more transparent legal and accounting system, which remain the same from Soviet times and are not likely to be changed in the near future.

POVERTY AND WEALTH

By most accounts, living standards in Turkmenistan have not dropped as dramatically since 1991 as they have in other former Soviet republics, although conditions are worsening. During the Soviet era, Turkmenistan was considered one of the poorest republics, with roughly 45 percent of the population living below the official poverty line in 1989. The CIA *World Factbook* reported that, by 1999, 58 percent of the population lived below the poverty line. Since the collapse of the Soviet Union, uneven economic developments have served to create a tiny stratum of the population in Turkmenistan that holds most of the wealth. For the average Turkmenistan citizen, the availability of food and **consumer goods** has declined while prices have risen. Most people continue to receive their income from state employment. Wages are based upon the old Soviet method, with people working in in-

Exchange rates: Turkmenistan

Turkmen manats per US$1	
Jan 2001	5,200
Jan 2000	5,200
Jan 1999	5,350
Jan 1998	N/A
Jan 1997	4,070
Jan 1996	2,400

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Turkmenistan	N/A	N/A	N/A	1,154	486
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Iran	1,611	1,129	1,208	1,056	1,275

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Turkmenistan

Lowest 10%	2.6
Lowest 20%	6.1
Second 20%	10.2
Third 20%	14.7
Fourth 20%	21.5
Highest 20%	47.5
Highest 10%	31.7

Survey year: 1998

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

dustry, transportation, and science faring better than individuals employed in health, education, and services. By 1995, real wages had dropped nearly 48 percent since independence. Conditions in rural areas are often much worse than in urban, where unemployment is as high as 60 percent, although this is difficult to determine with any precision. It was estimated in 1997 that households in Turkmenistan spent 63 percent of income on food, which will likely increase as prices continue to rise and real wages decline.

Since independence, Turkmenistan has experienced significant increases in the rural population. This growth is expected to aggravate economic conditions in rural areas. Worsening economic conditions might force many to leave the rural areas to find work in the country's urban centers. Turkmenistan's cities are not able to accommodate rural migrants seeking employment in urban industries, however, thereby keeping wages below subsistence levels.

WORKING CONDITIONS

Working conditions in Turkmenistan have declined since independence, chiefly because the government has made almost no progress toward economic reform. Most Turkmens are employed in state enterprises and guaranteed a minimum wage. The CIA *World Factbook* reported that the **labor force** consisted of 2.34 million people (roughly 50 percent of the population) in 1996. Some sources indicate that the labor force is declining due to emigration and relative population stagnation. The majority of the population works in agriculture and decreased productivity and failing infrastructure means growing impoverishment for most Turkmens. Extremely limited privatization in rural areas also will lead to distressing economic and social conditions in the near future.

A Soviet-style trade union, the Federation of Trade Unions, is the only labor union in Turkmenistan. The government does not permit collective bargaining. The political environment acts as a sufficient obstacle to independent union formation and activity, however. Child labor laws are comprehensive, although children in rural areas often must work. Moreover, high school students are often deployed in the fields during intensive harvest periods, particularly in cotton fields. Women make up a significant percentage of the workforce, although they face discrimination. Labor disputes often go unresolved because the judiciary serves at the pleasure of the president, who appoints and can dismiss them at will.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1881. Russians defeat Turkmenistan tribes and annex Turkmenistan into the Governorship of Turkestan.

1888. Russians start construction of railway from Krasnovodsk (now Turkmenbashi) to Ashgabat.

1916. Widespread revolt in central Asia against the tsarist government's use of local troops during World War I.

1917. Russian Revolution and Civil War begin.

1920. Soviet General Frunze captures Ashgabat, ending the anti-Soviet government in Turkmenistan.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Turkmenistan	32	6	14	6	18	11	14
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Iran	20	10	32	12	8	9	10

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

1921. New Economic Policy begins in Soviet Union.

1924. The Turkmenistan Soviet Socialist Republic is established.

1929. Collectivization begins in central Asia, widespread famine as Turkmens resist.

1930s. Pastoral nomadism ends in Turkmenistan; cotton production increases.

1959. Construction begins on the Karakum Main Canal.

1990. Turkmenistan declares its autonomy from the Soviet Union in August.

1990. Saparmurat Niyazov is elected president in October.

1991. Turkmenistan declares its independence from the Soviet Union.

1991. The Communist Party is renamed the Democratic Party of Turkmenistan in December.

1992. Niyazov introduces the Ten Years of Prosperity economic reforms.

1992. Turkmenistan joins the Economic Cooperation Organization (ECO), designed to coordinate economic policies among Iran, Turkey, and Pakistan and given new life by the inclusion of the 5 Central Asian Soviet republics.

1993. New Turkmenistan currency, the manat, is introduced.

1998. The financial collapse in Russia affects Turkmenistan's energy trade.

1999. Niyazov is named president for life.

FUTURE TRENDS

Turkmenistan is regarded by most observers as the most restrictive state in the region. Human rights organizations have consistently criticized the political and economic environment in Turkmenistan. President Niyazov has promoted a political system that rigorously opposes any **liberalization** or reform programs. Many specialists believe that Turkmenistan has the natural resources necessary to make an effective economic recovery; however, the political environment is considered by most to be a major impediment to future prosperity. For instance, the investments made by major transnational petroleum companies have thus far ended up in the bank accounts of political elite.

The best option for Turkmenistan to restructure its economy and develop some sort of sustainable growth appears to be its ability to market and sell its natural resources, in particular its natural gas. The absence of infrastructural preconditions, economic reforms, and political liberalization raises doubts about Turkmenistan's ability to do so quickly enough for expansion. The most serious non-political obstacle to Turkmenistan's economic future is its lack of access to markets with clients capable of paying for Turkmenistan's trade resources.

DEPENDENCIES

Turkmenistan has no territories or colonies.

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—Steven Sabol

TUVALU

CAPITAL: Funafuti.

MONETARY UNIT: Tuvaluan dollar (T$). There are coins of 1, 5, 10, 25, 50 cents, and 1 dollar. One Tuvaluan dollar equals 100 cents. The currency is tied to the Australian dollar at an exchange rate of 1 Tuvaluan dollar per 1 Australian dollar.

CHIEF EXPORTS: Copra, clothing, footwear.

CHIEF IMPORTS: Food, animals, mineral fuels, machinery, manufactured goods.

GROSS DOMESTIC PRODUCT: US$7.8 million (1995 est.).

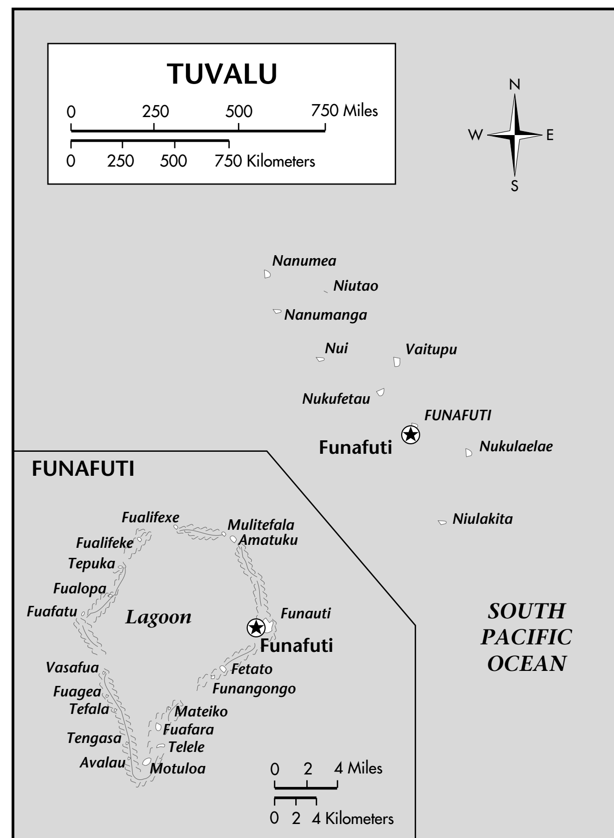
BALANCE OF TRADE: **Exports:** US$165,000 (f.o.b., 1989). **Imports:** US$4.4 million (c.i.f., 1989).

COUNTRY OVERVIEW

LOCATION AND SIZE. Tuvalu is an island group of 5 atolls (coral islands consisting of a reef surrounding a lagoon) and 4 islands in the South Pacific Ocean. It is located midway between Australia and Hawaii. The island chain stretches some 676 kilometers (420 miles) from the southern island of Niulakita to the northern-most island of Nanumea and covers 757,000 square kilometers (292,278 square miles) of ocean, but it has a total land area of only 26 square kilometers (10 square miles), including 24 kilometers (15 miles) of coastline. Tuvalu's land area is one-tenth the size of the city of Washington, D.C., making it one of the smallest nations in the world. Funafuti, the capital and largest city, is located on the islet of Fongafale in the Funafuti Atoll. The nation's largest island is Vaitupu at 4.9 square kilometers (1.89 square miles) and the smallest is Niulakita at 0.41 square kilometers (0.16 square miles). All of Tuvalu is less than 4.5 meters (15 feet) above sea-level. Due to environmental factors such as rising ocean levels and soil erosion, Tuvalu is slowly shrinking in land mass at a rate of 2 millimeters per year. It is expected that some time in the future Tuvalu will be entirely underwater.

POPULATION. The population of Tuvalu was estimated at 10,838 in July of 2000, up from 8,229 in 1985 and 9,043 in 1991. The current annual population growth rate is 1.41 percent, which would result in a population of 12,600 by 2010. However, the loss of island territory has spurred many Tuvaluans to abandon their homes to start over in New Zealand, a population shift that is certain to become more pronounced as the islands gradually disappear underwater. New Zealand has agreed to take in the entire Tuvaluan population as "environmental refugees" at a rate of 60 people per year. The birth rate is 21.78 births per 1,000 population or 3.11 children born per woman. The death rate is 7.66 deaths per 1,000 population.

Most Tuvaluans are young. Some 34 percent of the population is younger than age 15, while just 5 percent is over age 65. Most Tuvaluans are ethnically Polynesian



(96 percent), but the inhabitants of the island of Nui are Micronesian. The population is mainly urban and more than half live on the islet of Fongafale. This has led to a high population density in the area. Partially because of sanitation problems caused by the lack of fresh water, Tuvalu has a high infant mortality rate (23.3 deaths per 1,000 live births).

OVERVIEW OF ECONOMY

A tiny nation with a tiny economy, Tuvalu spent much of its history under the control of foreign powers. The islands were originally populated by immigrants from other South Pacific islands nearly 2,000 years ago. Later, Europeans seized many of the islands' inhabitants to serve as slaves; during the 19th century, slave traders from South America reduced Tuvalu's population by nearly 80 percent. Efforts to harvest copra (dried coconut meat which produces coconut oil) and mine guano (seafowl excrement used as fertilizer) led the United States to claim the 4 southern islands in 1856 and the British to claim the northern territory in 1892 as part of its Gilbert Islands Protectorate. Many Tuvaluans **emigrated** to the larger Gilbert Islands to find employment, especially after World War II. In 1974, Tuvaluans voted for independence from the other Gilbert Islands (now Kiribati). Tuvalu became independent from the British Commonwealth in 1978, but the new nation possessed few economic resources. In 1979, the United States relinquished its claim to the 4 southern islands.

Even among the developing nations of the South Pacific, Tuvalu's economy is relatively undeveloped. The bulk of the nation's economy is based on **subsistence farming** and fishing. However, the soil is poor and there are no natural sources of fresh water. This has created pressure for the limited arable land. The only significant cash export is copra, although the government derives funds from the overseas sale of stamps and coins to collectors and there is limited export of garments. There is little unemployment in the nation because of the prevalence of subsistence farming (unemployment hovers around 4 percent). The nation's main port is located in Funafuti and a major harbor dredging in 1980 made the port accessible to deep-draft ocean vessels.

During the latter part of the twentieth century, some 1,000 Tuvaluans worked in the phosphate mines in the island nation of Nauru and their **remittances** (money sent home to family or friends) contributed substantially to the nation's economy. However, by the turn of the century, the phosphate industry was in decline in Nauru and the government began **repatriating** (returning to their homeland) Tuvaluans. Many Tuvaluans are employed as sailors on foreign-based ships and also contribute remittances.

Until the year 2000, the principal source of foreign revenue for Tuvalu was international aid. In 1987, Australia, New Zealand, and the United Kingdom established a US$17 million trust fund for the territory. Later, Japan and South Korea also made contributions. Tuvaluan governments have only cautiously made withdrawals from the fund and generally adopted a conservative investment strategy which has substantially grown the fund. By 1999, the fund was valued at US$35 million. In addition, the United States makes payments to Tuvalu for fishing rights under the terms of a 1988 treaty between the 2 nations. In 1999, these payments totaled US$9 million.

The government has traditionally played a major role in the economy and controls many of the main economic sectors. In an effort to improve the economy, the government has undertaken a variety of reforms, including the **privatization** of many functions and personnel cuts of 7 percent. These reforms are especially significant in light of the fact that almost 20 percent of the Tuvaluan workforce is employed by the government. To raise revenue, the government began licensing Tuvalu's area code of 688 to international companies to use for "900" number calls in 1998. The arrangement has generated US$1.2 million per year. After it was discovered that a Hong Kong company was using the number for adult businesses, the overwhelmingly Protestant population of Tuvalu forced the government to revoke the licenses. In 1998, the government negotiated a contract to lease its Internet domain name ".tv" to companies in exchange for an estimated US$50 million over the next decade. Under the terms of the agreement, Tuvalu will receive a minimum of US$4 million annually for 10 years. These new sources of income could triple Tuvalu's GDP.

POLITICS, GOVERNMENT, AND TAXATION

The first parliamentary elections in the independent nation of Tuvalu were held in 1981, and the nation is now governed by a revised constitution which was adopted in 1986. Under the terms of the new constitution, the British monarch is the nation's head of state and is represented by a governor-general chosen from among the Tuvaluans by the prime minister. Tuvalu does not have formal political parties, but the 12 members of the **unicameral** (single-chamber) parliament often align themselves in factions. In 1999, Ionatana Ionatana was elected prime minister on a platform devoted to governmental reform to **liberalize** the economy and to bolster Tuvalu's international standing.

From independence onward, the government has been a major actor in the national economy. For instance, the only hotel in the nation is government-owned as is the islands' only radio station. In addition, the govern-

ment owns about one-fourth of the land on the islands (most of these lands are leased to clans to be farmed on a communal basis), and almost one-quarter of the nation's population works for the government. Until his death in December 2000, Ionatana sought to divest the government from these publicly-held ventures and encourage private enterprise. The main policy used to encourage new business and to attract foreign companies is the designation of "pioneer status" for certain new businesses (including tourism) which gives them tax-exempt status.

The government has also endeavored to lessen its reliance on foreign aid. The arrangement to lease its Internet domain name, ".tv," to the Canadian company dotTV is a major part of this effort. In order to assure input into the marketing of the domain name, the government is a significant minority shareholder in dotTV and has a seat on the company's board. The government merged the operations of the nation's 2 main banks in order to improve efficiency and reduce redundancy. In addition, the government has sought to improve the economies of the outer islands through a US$4 million program underwritten by the Asian Development Bank and through the construction of airfields on all of the nation's islands. A central goal of this effort is to direct power away from the central government and into the hands of localities. As the national government lessens its reliance on foreign aid to conduct day-to-day operations, it plans to shift the bulk of the funds it receives into programs to improve the health and living conditions on the outer islands where some two-thirds of the population live below the national poverty line with incomes of less than US$1,000 per year.

There is a fixed **income tax** of 30 percent on all income above US$1,900, and all corporate profits are also taxed at the flat rate of 30 percent. There are also sales taxes on certain goods and services. The government also taxes stamp sales, copra, and fishing licenses. The government maintains price limits on fuel and basic food items.

Under Ionatana, Tuvalu became the 189th member of the United Nations and a full member of the Commonwealth of Nations. The government also supports the establishment of a **free-trade zone** in the region. One of the major political issues is the status of the islands, as an increasing number of Tuvaluans support the removal of Queen Elizabeth II as their head of state and the establishment of a full republic. Tuvalu has likewise been a vocal supporter of international efforts to stop global warming, believed to be a factor in the rising ocean levels that are reducing the nation's land.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The **infrastructure** of Tuvalu is rudimentary. Only the island of Funafuti has a network of paved roads (the government owns only 1 paving tractor to maintain the roadways). The other islands have either no or only limited paved roads. In fact, there are only 8 kilometers (5 miles) of paved roads in the entire nation. There are a few privately-owned vehicles and some government-owned ones. The most prevalent methods of transportation are bicycle and small motorcycle. The only airport is located on Funafuti. Government plans to build an airfield on each island have long been opposed for environmental and economic reasons. Estimates are that 3,000–4,000 palm trees would have to be cut down to make a serviceable landing strip. Since there is little arable land on any of the islands, such palm depletion would seriously undermine the local economies.

Inter-island shipping on small craft remains the main form of transport between the islands. The capital island and the island of Nui have navigable harbors in their la-

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Tuvalu	1,000	0 (1994)	AM 1; FM 0; shortwave 0	4,000	0	800	1	N/A
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

goons, but only Funafuti is capable of servicing deep-draft ships after a harbor dredging was completed in 1980.

There is a satellite dish in the capital and the government has put receivers on each of the islands so that transmissions are available to those with electricity and televisions. There is telephone service on Funafuti with about 700 subscribers in 1999 and radiophone communications exist between all of the inhabited islands. Electricity is available in the capital and in a limited fashion on some of the islands. While there are no broadcast stations, there is 1 Internet service provider and 1 local radio station. The government publishes the only newspaper, *Tuvalu Echoes*. Funafuti has a hospital, and each island has a dispensary (an office to dispense medical supplies). With the proceeds from the licensing of ".tv," the government expects to engage in several major infrastructure programs, although the main concern is the development of measures to protect the islands from flooding caused by storms.

ECONOMIC SECTORS

Tuvalu's economy is limited due to its small size and narrow range of natural resources. The nation's economic base is divided into 2 main sectors: agriculture and revenues from external licensing. Agriculture remains based on subsistence farming, with minor exports of copra. Concurrently, licensing of fishing, the nation's phone prefix, and the ".tv" domain name provide the majority of revenue for both the government and the national economy.

The government's main economic priority is to develop the economy to such an extent that foreign aid is no longer required. In addition, the government is endeavoring to support international efforts to stop global warming and pollution in general in order to protect both the islands themselves and the agricultural sector on the lands. For instance, in the spring of 2000, floods of 3.2 meters (11 feet) left most of the islands underwater. The government subsequently entered into agreements which would allow those Tuvaluans permanently displaced by global warming to **immigrate** to Australia or New Zealand. Finally, although substantial revenues are expected from the ".tv" licenses, the government is attempting to protect the local way of life from overt commercialism.

AGRICULTURE

As much as 75 percent of the population of Tuvalu is involved in agricultural production of some sort. Subsistence farming is the main source of both food and income for many Tuvaluans. Agriculture, in the form of the production of copra, also provides the nation's only true export. Total agricultural exports in 1998 amounted to US$400,000, and agriculture accounted for 25 percent of the nation's total GDP.

The main crops include copra, taro (a large tuber), bananas, and sugarcane. There is little or no livestock production, although many families keep small numbers of pigs and chickens for personal consumption. While copra is harvested from coconut trees, the other crops are planted according to traditional practices. The islands receive about 2,500 millimeters (100 inches) of rainfall per year, but the porous, volcanic nature of the soil means that islanders have to use cisterns to collect rainwater as the water rapidly soaks through the ground and there are no natural springs or wells on any of the islands. Because there is little fresh water, islanders often use coconut milk in place of drinking water. Water constraints have also led to the evolution of a distinctive form of planting. Crops are planted in trenches that are 3 to 6 meters (10 to 20 feet) wide and dug down to the water table (usually a depth of between 2 to 4 meters or 6 to 12 feet). In order to compensate for the nation's poor soil, these trenches are filled with leaves and natural fertilizers to produce a mulch capable of sustaining the crops. Indigenous foodstuffs such as breadfruit (a round seedless fruit from the mulberry family the texture of which resembles bread when cooked) are often cultivated on the banks and edges of the trenches for local consumption.

Most farms are small (less than an acre in size) and communally owned. The Agriculture Division has been implementing programs designed to join together communal lands into larger farms in order to increase efficiency with the ultimate goal of ensuring that no land capable of agriculture remains unproductive. As the communal farms are joined together, profits from production would be divided into 3 parts: one-third for the original land owners; one-third for the agricultural workers; and the final third would be deposited in a communal fund in a bank. This group fund would serve as a resource for future land improvements or to offset periods of underproduction or price declines.

Fishing is done extensively throughout the islands, but the majority of the catch is used for local consumption. Tuvalu allows other nations, including South Korea, Taiwan, and the United States, to fish for tuna in its territorial waters in exchange for license fees that totaled US$5.5 million in 1998. In addition, small quantities of sea cucumbers are harvested by Tuvaluans for export to China.

INDUSTRY

Industry in Tuvalu is quite limited. Copra production is the main industry and provides the nation with its main export. In addition, about 600 Tuvaluans are employed by foreign firms on merchant ships and 750 are employed in the phosphate mines of Nauru. Many fam-

ilies are supported by the remittances from these 2 groups. There is some local manufacture of handcrafts, clothing, and footwear for tourists and for export.

SERVICES

There is a small, but steady, tourist sector which generates some US$300,000 per year. The nation receives about 1,000 tourists per year. In addition to the 16-room hotel in Funafuti, there are about 12 guest houses on the islands. Because of the relative isolation of the islands, many indigenous Polynesian customs and traditions have survived. Tourists are exposed to dancing, singing, and variety of local crafts. There is also extensive diving, snorkeling, and fishing. Efforts to encourage tourism have resulted in government policies that give new tourist businesses tax-exempt status.

The subsistence nature of most of the population and strong cultural influences have combined to prevent the development of any significant **retail** trade. Instead local markets and home production of products is the norm. Each island has a cooperative store (Fusi) to sell local crops and products. All stores are closed on Sunday.

INTERNATIONAL TRADE

Tuvalu has an import-driven economy and relies upon products produced elsewhere. Though import and export statistics are outdated, they give a sense of the reliance upon imports: in 1989, the country imported US$4.4 million in goods and services while exporting just US$165,000 worth of goods and services. The main export of Tuvalu is copra, while the nation's main imports include food, animals, mineral fuels, machinery, and manufactured goods. Tuvalu's main trading partners are Australia, Fiji, New Zealand, and the United States.

MONEY

The Australian dollar is legal currency in Tuvalu, but the nation mints its own coins. Since Tuvalu's currency is tied to that of Australia, it is relatively stable and its value is determined by supply and demand in international exchange markets. The government-owned National Bank of Tuvalu is responsible for most financial services; however, the limited capital of the institution means that funds for development must come from abroad. In 1995, 1 U.S. dollar equaled 1.35 Australian dollars and in 2000, 1 U.S. dollar equaled 1.52 Australian dollars.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Tuvalu	N/A	N/A	N/A	1,100	N/A
United States	28,600	30,200	31,500	33,900	36,200
Philippines	2,600	3,200	3,500	3,600	3,800
Solomon Islands	3,000	3,000	2,600	2,650	2,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

Exchange rates: Tuvalu

Tuvaluan dollars (T$) per US$1	
Jan 2001	1.7995
2000	1.7173
1999	1.5497
1998	1.5888
1997	1.3439
1996	1.2773

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Of the nation's inhabitants (not including persons employed outside of Tuvalu), only about 1,500 are formally employed. The average per capita income is only about US$1,000 per year, making Tuvalu one of the poorest nations on earth. However, education is free and compulsory for children between the ages of 6 and 13. Health care is also free, though limited by access (each of the main islands has a dispensary, but the only hospital is on Funafuti).

The society is egalitarian and democratic. Low income levels are mitigated by the strong social and village support networks. In 1998, Tuvalu was judged to be the only nation in the world above reproach for human rights violations.

WORKING CONDITIONS

Forced or compulsory labor is prohibited. Labor laws set a minimum wage and 8-hour work day, but the market determines most wage scales in Tuvalu. Average hourly wages in Tuvalu for unskilled workers are between 40 and 92 U.S. cents an hour with 47 cents per hour being the average. The current minimum wage is US$81.25 biweekly, regardless of age or gender. Managerial or technical wages range from US$3,000 to US$9,000 per year. Although workers may organize and have the right of collective bargaining, there has never been a strike in the nation's history. The only registered trade union is the Tuvalu Seamen's Union which is af-

filiated with the International Transportation Workers' Federation. However, government workers belong to associations that have some features of unions.

Children under the age of 14 are prohibited from working, and children under the age of 15 are prohibited from working on ships or in industry. Employers are required to provide adequate potable water, sanitary facilities, and medical care. The Ministry of Labor, Works, and Communications is responsible for overseeing labor practices and law.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

0–100 A.D. Polynesians colonize Tuvalu; Samoans settle in the southern atolls, while Tongans settle in the north; Micronesians from Kiribati conquer Nui.

1861. Elekana, a Cook Islander castaway, brings Christianity to Tuvalu.

1863. Slave traders take 450 Tuvaluans as slaves to work in the guano mines of Peru.

1865. Elekana returns to islands with a Congregationalist missionary, A. W. Murray.

1877. Tuvalu comes under British control.

1880s. European traders establish a post on Tuvalu in order to acquire copra.

1892. In an effort to forestall American expansion in the area, Great Britain declares a protectorate over the northern islands.

1916. Tuvalu becomes a formal British colony.

1942–45. The United States lands military troops in the region during World War II and builds the nation's current airfield at Funafuti.

1974. The United Kingdom grants Tuvalu self-governing status; Tuvaluans vote for independence.

1976. Tuvalu is formally separated from the Gilbert Islands.

1978. Tuvalu becomes an independent nation and a special member of the Commonwealth of Nations (a voluntary association of nations giving symbolic or actual allegiance to the British crown).

1997. Three cyclones devastate the islands.

1998. Tuvalu signs a 10-year deal worth at least US$50 million to license the nation's Internet domain name, ".tv."

2000. Tuvalu becomes a member of the United Nations and a full member of the Commonwealth of Nations.

FUTURE TRENDS

With its Internet deal, Tuvalu entered the 21st century with prospects for dramatic economic growth. Royalties from the first year provided over US$20 million or US$2,272 for every Tuvaluan. These funds formed the core of a new government trust fund. If the royalties are as much as expected, the standard of living on Tuvalu will rise considerably. The government indicated that some of the revenues would be spent on communication links with the outer islands and the rest of the world. Some observers are concerned that the newfound wealth of the nation may destroy the traditional society and lifestyles of the islands. In addition, continued global warming, with the subsequent rise in ocean levels, and population increases have exerted considerable land pressure on the tiny nation.

DEPENDENCIES

Tuvalu has no territories or colonies.

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—Tom Lansford

UNITED ARAB EMIRATES

CAPITAL: Abu Dhabi.

MONETARY UNIT: Emirian dirham (Dh). One Emirian dirham equals 100 fils. There are coins of 1, 5, 10, 25, and 50 fils and 1 and 5 dirhams. Paper notes include 5, 10, 50, 100, 200, 500, and 1,000 dirhams.

CHIEF EXPORTS: Crude oil, natural gas, re-exports, dried fish, and dates.

CHIEF IMPORTS: Machinery, transport equipment, chemicals, and food.

GROSS DOMESTIC PRODUCT: US$54 billion (2000 est.).

BALANCE OF TRADE: **Exports:** US$46 billion (f.o.b., 2000 est.). **Imports:** US$34 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The United Arab Emirates (UAE) controls the southeastern portion of the Arabian peninsula south of the states of Bahrain and Qatar. The federation covers 82,820 square kilometers (31,976 square miles) and is bordered on the north by the Persian Gulf and Iran, on the east by Oman, and on the south and west by Saudi Arabia. The UAE separates Oman from the Musandam peninsula and extends 90 kilometers (145 miles) along the Gulf of Oman, an area known as the al-Batinah coast. The UAE is slightly smaller than the U.S. state of Maine.

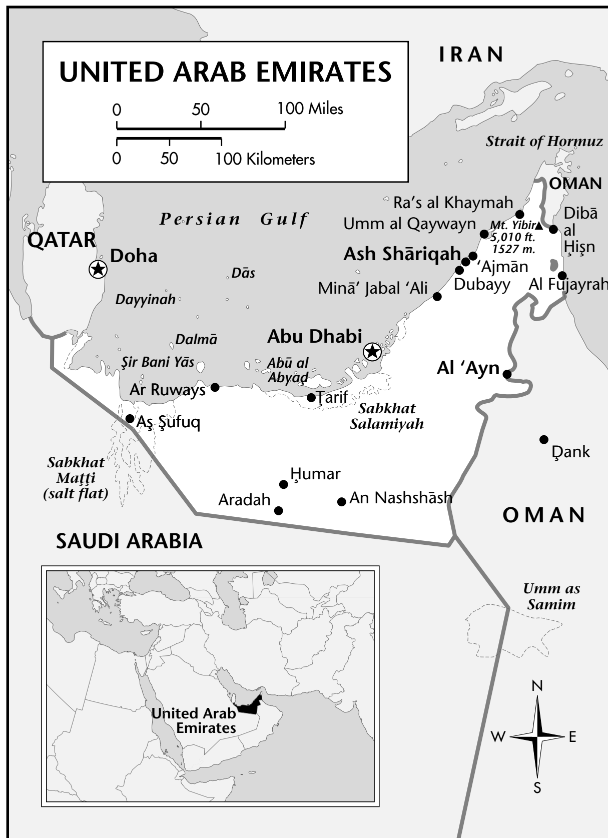
POPULATION. The population of the UAE is between 2.8 million and 3 million. About 85 percent of them live in cities that straddle the country's Arabian/Persian Gulf coastline. UAE cities tend to be ethnically heterogeneous and male, while there are more women and UAE nationals in rural areas. The 3 largest emirates—Abu Dhabi, Dubai, and Sharjah—collectively govern 84.3 percent of the population. Close to 80 percent of the population is comprised of expatriate nationals and nearly 63 percent of the population is male. Nearly 96 percent of Emiratis are Muslim. South Asians, mainly Indians and Pakistanis, make up 50 percent of the population. The next 3 largest expatriate ethnic groups are Iranians (2.5 percent), Arabs from other parts of the Middle East (13 percent), and Westerners (1 percent).

By all accounts the population is growing very rapidly. According to the UAE's Central Bank, the UAE's population grew by 5.5 percent between 1993 and 1997. The UAE government expects population to double by 2010, whereas Dubai projects the emirate's population to double by 2005. The World Bank projected a 37 percent increase in population, but with 30 percent of the current population under the age of 15, this still represents an important demographic shift. By contrast, the United Nations anticipates the UAE's population to double by 2029.

The principal causes of this rapid population growth are the federation's booming economy and the government's encouragement of UAE nationals to have large families. The UAE government provides substantial financial incentives for UAE nationals to marry each other and to raise large families. The UAE government hopes that this would help to balance the federation's population, which is overwhelmingly composed of expatriates.

OVERVIEW OF ECONOMY

The UAE is a tribal federation of 7 emirates occupying a portion of the southeastern Arabian peninsula. It is one of the most economically secure states in the world. The UAE controls 98 billion barrels of oil—10 percent of the world's proven oil reserves—as well as 212 trillion cubic feet of gas, the fourth largest amount in the world after Russia, Iran, and Qatar. The UAE has employed its natural resources and its strategic location to become one of the most modern and wealthiest states in the world. It boasts both large petroleum and non-petroleum sectors. Economic growth in large part has hinged on the price of oil and the ability of UAE governments, whose proceeds come almost entirely from oil sales, to invest in large **infrastructure** projects.



For much of the last 2 centuries, the inhabitants of the UAE depended on pearling, fishing, commerce, and, allegedly, piracy of commerce in the Indian Ocean. To protect its trade routes to India, Great Britain attacked many communities along the UAE's Arabian/Persian Gulf coast in 1819 and 1820 and for the next 50 years extended an informal protectorate (protection and partial control of one region or dependent country by another country) over the region, which became known as the "Trucial Coast" because of the non-aggression pacts (or truces) that Great Britain forced regional emirates to sign with each other and Britain.

The region "entered" the 20th century in the 1950s with the discovery of oil in Abu Dhabi and subsequent discoveries of oil in Dubai and Sharjah in the 1960s. Following Britain's withdrawal from the Trucial Coast in 1971, the UAE became an independent state composed of 7 of the original 9 emirates. The other 2 emirates, Bahrain and Qatar, became separate independent states. Abu Dhabi, Dubai, and to a lesser extent, Sharjah, used the proceeds from oil sales to build modern, urban societies. Dubai, with substantially smaller oil supplies than Abu Dhabi, sought to build commercial institutions, leisure industries, manufacturing, port and transportation facilities, and other service industries that were not dependent on oil proceeds. The crown jewel of this project is the Jebel Ali **Free Zone**, which opened in 1985 and now boasts 1,600 international companies from over 70 different nations. Sharjah too has sought to broaden its economy by investing in manufacturing. Since the early 1980s, Abu Dhabi has invested billions of dollars in non-oil industries, including manufacturing, services, and agriculture. After the Gulf War, the UAE used the **glut** in the world arms industry to mandate an "offsets" program requiring all firms selling weapons to the federation to invest in its non-oil related industries.

Because the UAE had a relatively poor and unskilled population when oil was discovered there, the federation has depended on expatriate laborers and managers to meet close to 90 percent of its labor demands. The vast majority of these expatriate workers are South Asian, though there are large numbers of Arab and Western expatriate workers. Expatriates earn half as much as UAE nationals but present 3 significant problems. First, expatriate workers may undermine the UAE by promoting their own governments' interests or that of organized crime within the federation. Second, expatriate workers often require high payments for social services and send virtually all of their salary home rather than spending it in the UAE. Third, expatriate workers intensify preexisting social divisions within the UAE since they tend to be the principal workers in non-oil UAE industries, while UAE nationals generally prefer to work for the government.

The federation cannot regularly feed itself or meet its water and electrical needs without significant imports or technological assistance. The UAE's hot and arid climate has few regions hospitable to large-scale farming. While the UAE has invested heavily in new technologies and irrigation systems, the federation's agricultural production cannot produce adequate amounts of the most basic commodities. Nor can the UAE meet the water needs of the federation for much longer due to the gradual poisoning through salinization (to become concentrated with salt) of the federation's extensive underground network of wells. Similarly, the demand for electricity is quickly outpacing supply and forcing the UAE to turn to desalinization plants as a way to provide adequate water and power resources for the federation since they generate energy as a byproduct of turning salt water into fresh water. These problems are particularly acute in the northern emirates, which lack the resources to meet the demand of their population for either water or electricity.

Still, the UAE has the financial and institutional resources to solve these problems. The UAE can depend on the proceeds from the sale of its petroleum and natural gas. Abu Dhabi has US$150 billion in overseas assets that can either cover budget shortfalls due to excessive spending or a sharp decline in oil prices. Equally importantly, the UAE's **free market system** and open economy has fostered the creation of numerous medium

and large corporations that produce highly competitive goods for the regional and world markets.

POLITICS, GOVERNMENT, AND TAXATION

The UAE is a federation of 7 tribally-based emirates (Arab royal houses): Abu Dhabi, Dubai, Sharjah, Ras al-Khaimah, Ajman, Fujairah, and Umm al-Qawain. Even though it has a central government based in Abu Dhabi, each emirate controls its own economy and retains broad autonomy. The federation's highest constitutional authority, the UAE Supreme Council of Ministers, is composed of the 7 emirate rulers; it establishes federal policies and sanctions legislation. Most council decisions are reached through a consensus of the emirates' rulers and leading families. Since the council meets 4 times a year, the UAE cabinet runs the day-to-day affairs of the federation. Through an informal agreement, the ruler of Abu Dhabi serves as president, and the ruler of Dubai serves as vice president and prime minister. The president chooses the cabinet and members of the federal judiciary. The Federal National Council, composed of representatives appointed by the ruler of each emirate, can comment on legislation proposed by the UAE cabinet. There is also a UAE Supreme Court composed of 5 judges that carries out 3 functions: it settles disputes between different emirates, settles disputes between individual emirates and the federal government, and decides on the constitutionality of federal laws.

Throughout the UAE's 3 decades of existence, the Ruler of Abu Dhabi, Shaykh Zayid al-Nahyan, has served as the federation's president and worked to unite the emirates, which had previously been virtual protectorates of Britain (the so-called Trucial States) from the 1820s until the 1970s. Zayid has used his political skills and Abu Dhabi's oil wealth to keep the federation together through times of crisis which strained the sometimes tenuous ties of the 7 emirates. Zayid has been most successful in mediating Abu Dhabi's rivalry with Dubai and convincing Dubai's ruling family to take on key positions in the UAE federal government. In recent years, however, Zayid's advanced age and poor health have forced him to delegate greater responsibility to his eldest son, Shaykh Khalifa. While it is certain that Khalifa will succeed Zayid as UAE president and ruler of Abu Dhabi, it is not clear how strong of a ruler he will be because of his fierce rivalry with his half brother, Shaykh Muhammad, the chief of staff of the UAE army.

Though the UAE's permanent constitution stipulates that each emirate provide half of its revenues to the federal government, Abu Dhabi annually uses the proceeds from its oil sales to provide between 60 percent to 90 percent of the UAE's federal budget. Dubai and revenues from the UAE ministries generally have covered the remainder. These revenues come from the 20 percent surcharge foreign banks pay on their profits, taxes and royalties from the proceeds on foreign oil companies, and a 4 percent customs **duty** on all imported products except tobacco and alcoholic beverages. Another key problem is the fact that there is little transparency in UAE budgets, and it is estimated that as much as a third of UAE's oil revenues do not appear on national accounts. Over the last 4 years, the UAE budget has been US$7 to US$8 billion in deficit, but this is not considered a great problem because the income from Abu Dhabi's US$150 billion in overseas investments more than covers **budget deficits** of that size. In addition, the UAE government maintains an extensive cradle-to-grave **social welfare system**. There are no income or consumption taxes within the UAE.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The UAE has a modern infrastructure that has made it a regional transportation center. According to government statistics, the UAE has 1,088 kilometers of roads (676 miles) as of 1998, all of which are paved. The Abu Dhabi-Dubai highway has been upgraded several times, and the links from Dubai to the northern emirates are in

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
United Arab Emirates	156	345	294	N/A	210	21.0	106.2	39.44	400
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Saudi Arabia	57	321	262	N/A	31	N/A	49.6	1.17	300
Iran	28	265	157	0.0	6	N/A	31.9	0.05	100

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

good repair as well. Rashid and Jebel Ali in Dubai are the largest of the UAE's 15 ports; together they handled 2.84 billion 20-foot container equivalent units of cargo in 1999, among the largest volumes in the world. Dubai has also won port and free zone management contracts in Djibouti, Sudan, Saudi Arabia, and Beirut since 1998. Dubai's airport is the largest of the UAE's 40 airports and, following the completion of the Shaykh Rashid terminal in March 2000, is now widely considered a first-class international airport. A significant expansion of the Abu Dhabi airport is expected to be completed in 2005. There are no railroads in the UAE, nor is there any domestic air transportation network.

Average annual rainfall in the UAE is very low (generally 42 millimeters) and there are few fertile areas except in the north (where annual rainfall is 150 mm per year) and among the oases. The U.S. State Department expects the UAE demand for water to increase by 50 percent by 2015 and warns that the demand will soon outstrip supply. The UAE has addressed this problem through the development of underground wells—which have rapidly depleted the water table—and desalinization. Many underground wells have gone dry or were rendered unusable because of increased salinity from salt leaching into ground reservoirs. Today, 82 desalinization plants, many of which are also power plants, meet 75 percent of the UAE's total non-agricultural water needs. Due to the depletion of renewable resources through farming and excessive urbanization, there is no alternative to desalinization. Other options, such as importing water from Turkey via pipeline, are not considered viable because of security considerations.

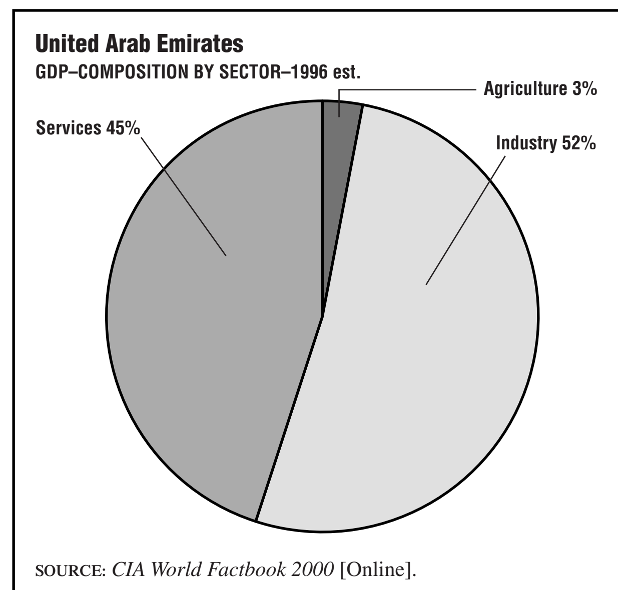
The UAE's desalinization plants are key components of an electrical network that witnessed phenomenal growth in recent decades from 5.5 billion kilowatt-hours (kWh) in 1980 to 19 billion kWh in 1998. Installed generating capability is 7,466 megawatts, with Abu Dhabi accounting for 45 percent of the total and Dubai 26 percent. Especially acute is the demand for gas; in Abu Dhabi and Dubai, demand doubled from 1996 to 2000. The UAE expects to spend $3.5 billion on new projects over the next 4 years to meet increased demand for electricity, which is expected to be 10 percent annually between 2000–2001. Among the most important of these projects is the $10 billion Dolphin Gas Project which aims to ship gas from Qatar's North Field to Abu Dhabi, Dubai, Oman, and Pakistan. A federation-wide electrical network is also being planned and will most likely be connected to the Omani electric grid. This would be the first step towards creating an electrical network throughout all Gulf Cooperation Council (GCC) countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. In addition, the UAE federal government and the largest emirates have **privatized** most of the power system along with the water system.

Telecommunications services in the UAE are among the most advanced in the world. They are managed by Etisalat, which is 60 percent owned by the UAE government. According to the *CIA World Factbook,* there are 915,223 main phone lines in use in the UAE and nearly 1 million mobile cellular phones. In 2000, the country had 1 Internet provider but there should be many more by 2005 as the UAE **deregulates** its telecommunications industry to comply with World Trade Organization guidelines. The management of Dubai Internet City has also confirmed that independent Internet service providers will be allowed to operate in Dubai.

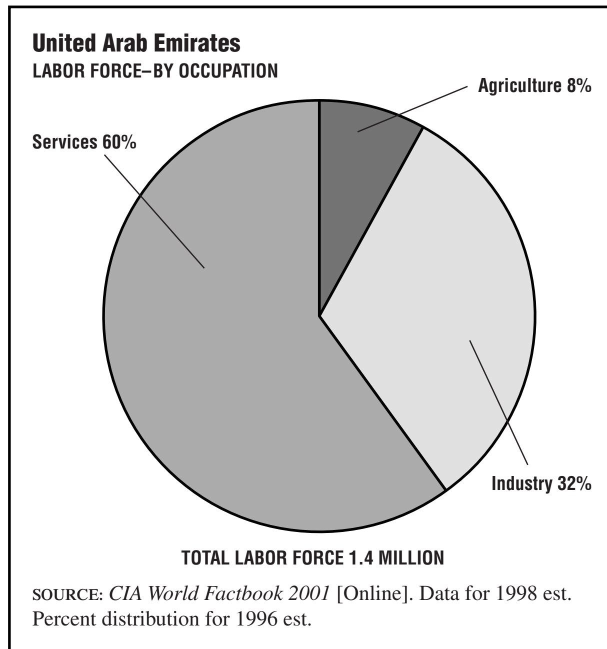
ECONOMIC SECTORS

The UAE is a mixed free-market economy based on oil and natural gas production, and these industries combined take up more than a quarter of UAE **gross domestic product** (GDP). Over the past 2 decades, the UAE's economic diversification program has led to the rise of several non-oil sectors that now make up a significant percentage of the UAE's GDP: manufacturing (12.6 percent), commerce and hotels (11.4 percent), real estate (9.1 percent), construction (8.6 percent), transportation (7.3 percent), and finance and insurance (6.4 percent). The UAE also has a strong **re-export** sector. Government services account for nearly 11 percent of GDP. Industrial growth has been assisted by free trade zones, including Jebel Ali in Dubai, which have been magnets for international firms. In recent years Dubai has succeeded in attracting high-profile technology firms to the emirate's "Internet City," including Microsoft, Oracle, Hewlett Packard, and Cisco Systems.

Nonetheless, the health of the UAE's economy as a whole continues to fluctuate with the world price of hy-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est. Percent distribution for 1996 est.

drocarbons and the economic vitality of its largest trading partners, particularly Japan, which accounts for close to a third of UAE petroleum exports. In part this is due to the large percentage of GDP taken up by petroleum and in part to the fact that government revenues—70 to 80 percent of which come from oil—and spending are closely linked to oil prices. These links have meant that different sectors of the economy have risen rapidly in recent years as oil prices increased sharply after oil prices hit historic lows in 1998. One exception to this trend is the demand for electricity and power: demand for power grew by nearly 400 percent between 1980 and 1998.

Among the most important corporations based in the UAE is the Abu Dhabi National Oil Company (ADNOC). It manages the petroleum and gas extraction operations in Abu Dhabi along with the 2 major petroleum refineries in the UAE. Other key corporations are: Dubai state-owned Dubai Aluminum, a leading supplier of aluminum to the states of the Gulf Cooperation Council; Etisalat, the Abu Dhabi state-owned telecommunications firm; and Emirates Airlines, Dubai's state-owned airline. The airline has won a plethora of international "Best Airline" awards and maintains one of the most modern airline fleets in the world. It has outclassed "Gulf Air" (a consortium owned by Abu Dhabi, Qatar, Bahrain, and Oman), which remains one of the leading airlines in the Arabian/Persian Gulf region despite experiencing steep losses in the 1990s.

AGRICULTURE

Agriculture accounts for only 3 percent of the UAE's GDP due to the federation's severe climatic conditions, although it accounts for 20 percent of all water consumed, much from rapidly-depleting natural water supplies or desalinization projects. The UAE's agricultural sector annually produces about 600,000 tons of produce. The federation's chief crops are cereals. The UAE produces enough poultry and salad to meet its needs for most of the year. Some crops, such as tomatoes, are grown in quantities greater than what the UAE consumes in a whole year. The agriculture sector also produces watermelons, eggs, cucumbers, gherkins, aubergines (eggplants), green chilies, peppers, and dates.

For much of the 19th and 20th centuries, fishing and pearl diving were mainstays of UAE commerce. Today the government works to conserve fish stocks and protect the economic livelihood of the remaining fishing communities. The annual fish catch—96,000 tons—slightly exceeds domestic consumption.

Because a high proportion of UAE nationals are employed in fishing and agriculture, these 2 sectors receive a disproportionate amount of federal and local funding. For political reasons, the UAE government will continue to encourage agricultural self-sufficiency but it is aware that this goal is unattainable in either the short- or long-term.

INDUSTRY

MINING. Oil is the foundation of the UAE's economy and will be so for many years to come. Current estimates suggest that the federation has more than a century of oil supplies. Oil production represented more than a third of GDP in 1999 and virtually all of the government's revenues. These revenues are also important to government spending, on which most non-oil UAE industries are dependent. Abu Dhabi, Dubai, Sharjah, and Ras al-Khaimah all have some level of oil production, but Abu Dhabi dominates both the UAE's production and reserves. According to the U.S. Energy Information Agency (EIA), Abu Dhabi has crude reserves of 92.2 billion barrels, or slightly less than 10 percent of the world's total, and 92 percent of UAE reserves. The EIA also reported that total UAE oil production for 2000 reached 2.29 million barrels of oil a day but that Abu Dhabi's recent investments could push production closer to 2.7 to 2.9 million barrels. Generally Abu Dhabi has reduced its production to ensure that the UAE stays within OPEC (Organization of the Petroleum Exporting Countries) production guidelines.

The UAE is also blessed with the fourth largest gas reserves in the world: 212 trillion cubic feet, which is about 4 percent of the world's total. These reserves are expected to last for about 150 to 170 years. Abu Dhabi controls 92 percent of the UAE total, while Dubai, Sharjah, and Ras al-Khaimah control the rest. The UAE has soaring domestic demands for gas production. Abu Dhabi

has initiated a multi-billion-dollar program to address this need. The most ambitious part is the Dolphin gas project, which proposes to ship gas from Qatar's North Field to the UAE (principally Abu Dhabi and Dubai), Oman, and eventually to Pakistan. Significant funding is still needed for the project, but the *Economist* expected managers will be able to find the necessary funding because the project involves 4 national governments.

Finally, there is copper in Fujairah and Ras al-Khaimah, talc in Fujairah, and manganese in all of the northern emirates. It not clear whether there is enough of any of these minerals to justify commercial mining.

MANUFACTURING. The *Economist* estimated that the UAE has invested $6.8 billion in industrial development over the last 30 years, spurring the creation of 1,000 factories with more than US$20 billion in direct investment. The dominant industries have been chemicals and plastics (closely connected to UAE crude oil supplies) along with aluminum. Dubai Aluminum is a leading supplier of aluminum to the GCC states and accounts for 60 percent of Dubai's non-oil exports. The UAE government also has made significant investments in petrochemicals and other "downstream" hydrocarbon industries—"downstream" meaning those that involve refining petroleum. In addition, the government is encouraging local-foreign ventures to invest in manufacturing and offering low-interest loans through the Emirates Industrial Bank to private financiers willing to invest in manufacturing in the UAE. Fifty percent of all manufacturing centers are in Abu Dhabi, while Abu Dhabi, Dubai, and Sharjah collectively controlled 93 percent of the UAE's industrial production in 1998.

OFFSETS PROGRAM. A key source of local-foreign investment in manufacturing is the "offsets" program, launched in 1991. It requires arms manufacturing and military aerospace firms to invest 60 percent of the value of their sales to the UAE in non-oil UAE industries. It is designed to take advantage of the current glut on the world arms market and to escape the traditional dilemma of choosing between spending on guns or food. By law, a UAE citizen must retain 51 percent of the capital in the partnership. Virtually all offset projects must be completed within 7 years. If the obligations are not met by the target dates, the company is penalized 8.5 percent of the unfulfilled portion of the obligation.

FREE TRADE ZONES. Another key contributor to UAE industry has been free trade zones. The most important free trade zone is Jebel Ali Free Trade Zone in Dubai. Jebel Ali in 1999 boasted 1,600 corporations and nearly $2.5 billion in investments. The zone's principal advantage was that it allowed companies investing more than Dh1 million (US$272,479) to be 100 percent foreign owned. It also boasts some of the best transportation facilities in the world and has become a regional transportation center, servicing the U.S. Navy, among others. Since the founding of Jebel Ali in 1985, the other UAE emirates established their own free trade zones, which have sought to replicate Jebel Ali's success.

SERVICES

BANKING. According to the *CIA World Factbook,* nearly 60 percent of the UAE workforce is involved in the service sector of the economy. The most important of these industries is banking, which has grown far too large. The National U.S.-Arab Chamber of Commerce estimated that there were 20 UAE-owned banks with more than 200 branches and 28 foreign banks with 119 branches in the UAE. Much of the industry is controlled by the "big five" commercial banks—Abu Dhabi Commercial Bank, Emirates Bank International, National Bank of Dubai, MashreqBank, and National Bank of Abu Dhabi. The UAE Central Bank is responsible for regulating the UAE banking industry and preventing fraud, a continuing problem in the UAE banking system in the 1990s. The UAE was closely involved in the 1991 Bank of Commerce and Credit International scandal and eventually paid nearly US$2 billion in compensation. In 1998 it was revealed that the Dubai Islamic Bank lost US$200 million due to the actions of a corrupt employee. A year later, Madhav Bhagubhai Pater, an Indian businessman, fled from Sharjah, leaving behind debts of US$130.5 million to UAE and foreign creditors.

TOURISM AND RETAIL. The UAE has a thriving tourist industry centered in Dubai, which has 70 percent of the country's hotels. Dubai features horse races, desert safaris, golf courses, and a number of five- and four-star hotels. The emirate also has shopping festivals, such as the Dubai Shopping Festival, where goods are heavily discounted. The purpose of these festivals is to attract visitors. According to the festivals' organizers, nearly 2.5 million people vacationed in the emirates in 2000: they came mostly from Britain, from surrounding states, and from the states of the former Soviet Union. Fujairah, which faces the Indian Ocean, has witnessed a considerable upsurge in vacationers in recent years. **Retail** has generally benefited from this upsurge except when a strong yen increases the price of imported Japanese **consumer goods**.

CONSTRUCTION AND REAL ESTATE. For much of the 1980s and 1990s, the UAE underwent a building boom with new office buildings rising daily in the UAE's major cities, particularly Dubai and Abu Dhabi. In recent years, there have been reports that the boom is slowing, that UAE developers are taking a more reasoned/scientific approach to building, and that there is even a sign of a glut of office space in Dubai. Still, Dubai continues to build new hotels. The Saadiyat project in Abu Dhabi

promises 28,000 new homes, a bridge valued at US$220 million, and a new trade center valued at US$95 million.

RE-EXPORT. Finally, a rapidly emerging sector in the UAE economy is re-export, whose value, according to UAE government statistics, almost doubled between 1990 and 1998. At that time, foreign trade hit US$10.6 billion. The center of UAE re-export trade is Dubai, which accounted for 40 percent of the federation's re-export trade in the late 1990s. Among the most important markets for Dubai's re-export trade are Iran and the southern countries of the former Soviet Union. Reportedly Dubai also served as an entryway for smugglers attempting to circumvent U.S. **sanctions** against Iran imposed in the mid-1990s.

INTERNATIONAL TRADE

Since independence, the UAE has maintained an open, free market system with close links to the international economy. Historically the UAE's prime industries were pearling and fishing. Since the discovery of oil in the 1960s, the federation's closest trading partners have been industrialized nations in Europe and Asia, primarily France, Germany, Great Britain, Italy, Japan, India, and South Korea. The UAE exchanged crude oil for machinery, cars, transportation equipment, and food. Japan is critical since it usually accounts for a third of UAE petroleum exports: the EIA estimated that 80 percent of the UAE's crude oil exports in 1999 went to Japan and other east Asian countries. The UAE's modern infrastructure and port facilities also have allowed it to serve as an important re-export and transportation hub, particularly for Iran through Dubai.

Generally the health of the UAE's economy has depended on the price of oil and the economic vitality of its leading trading partners. At the same time, the federation's economy also has been impacted adversely by the politics of the Arabian/Persian Gulf region. Because of the UAE's perceived support for Iraq in the Iran-Iraq war, Iran attacked UAE oil tankers in the Arabian/Persian Gulf and compelled the UAE government to seek the protection of the U.S. Navy through a reflagging operation (UAE ships hoisted the U.S. flag and carried U.S. servicemen). The UAE and Iran also continue to dispute ownership over 3 islands in the Arabian/Persian Gulf: Abu Musa and the Greater and Lesser Tunbs. During the Gulf War, the UAE sought a close relationship with the United States as a way to protect the federation's economic assets from Iraqi threats. The UAE also benefited from the relocation of a number of businesses from Kuwait to the federation, especially to Dubai. Still, it is important to remember that the UAE's dependence on desalination plants for power and water ensures that the state's economy is especially vulnerable because economies of scale dictate that desalination plants should be large and located on the coast.

Since the Gulf War and the collapse of the Soviet Union, the UAE has faced new competitors and steadily increased its trade with China, the United States, and the former Soviet republics. Throughout the first two-thirds of the 1990s, large numbers of Russians traveled to the UAE and purchased products for sale at home, often using small transport planes or traveling through the emirate of Sharjah. U.S. firms also have made steady inroads into the UAE, helping the United States overtake Japan in 1996 as the leading exporter to the federation. U.S. exports to the UAE increased by 14.5 percent alone in 1999. Finally, erstwhile GCC-ally Saudi Arabia fought hard—but ultimately failed—to steal the UAE's share of the Japanese petroleum market throughout the late 1990s.

MONEY

Since 1981, the UAE's currency, the Emirian dirham, has been linked directly to the U.S. dollar at a rate of Dh3.67 to $1. The connection reflects the fact that crude oil—the UAE's chief export and the driving force in its economy—is denominated and sold in U.S. dollars. It also reflects the desire of the UAE government to ensure that domestic interest rates will move in sequence with those prevailing in the United States.

Trade (expressed in billions of US$): United Arab Emirates

	Exports	Imports
1975	7.262	2.685
1980	20.676	8.746
1985	14.043	6.549
1990	23.544	11.199
1995	N/A	20.984
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: United Arab Emirates

Emirian dirhams (Dh) per US$1	
2001	3.6725
2000	N/A
1999	N/A
1998	N/A
1997	3.6711
1996	3.6710

Note: Central bank mid-point rate of 3.6725 has been in effect since 1998.

SOURCE: CIA *World Factbook 2001* [ONLINE].

The UAE has achieved this stability through a tight **monetary policy** that regulates domestic **liquidity** under an open exchange and payments system: there are no prohibitions on the import or export of currencies into the UAE except for Israeli currency and countries subject to United Nations sanctions. The UAE Central Bank also adjusts the stock of domestic liquidity through the issuance of certificates of deposit (CDs) to the federation's commercial banks. The UAE is currently considering introducing an auction system for these CDs. The UAE government has no **external debt**, and its private debt-to-service ratio has been improving steadily since the 1980s.

Generally the dirham linkage has helped the UAE maintain **macroeconomic** stability and relatively low rates of **inflation**, generally between 4 percent and 5 percent annually. The principal problem for the system occurred in the late 1980s and again in the mid-1990s as the U.S. dollar dropped in value against the Japanese yen. This process created **balance of payments** concerns for the UAE since its principal trading partner at the time was Japan. There have been periodic discussions over the last decade of linking the dirham to a "basket" of currencies, including the U.S. dollar, the Japanese yen, and leading European currencies.

Dubai Financial Market (DFM), the UAE's first fully-regulated stock exchange, and its sister exchange, the Abu Dhabi Financial Market, both opened in 2000. Although initial interest in the stock exchanges was light, the UAE Central Bank expects that investors will flock to the 2 markets over the next decade. There have been discussions between representatives of DFM and the U.S. NASDAQ about a possible link up of the bourses (stock exchanges). The UAE Central Bank also has encouraged the development of a local bond market but has been hindered by several high-profile fraud cases involving large UAE investors.

POVERTY AND WEALTH

The United Arab Emirates is one of the wealthiest nations in the world and its citizens enjoy the highest standard of living in the Middle East: per capita income was estimated at US$17,700 in 1999. Although illiteracy was relatively high for wealthy nations at 25.4 percent in 1998, more than 90 percent of the UAE population has access to safe water, health services, and sanitation. In comparison, nearly 57 percent of the population was illiterate in 1975. The UAE government spends close to 16 percent of its annual budget on schools and has produced one of the lowest student-to-teacher ratios in the world, 12 pupils per teacher. Generous spending on health care has produced similar results in a number of key health indicators that are far better than the world average: life expectancy, infant mortality rates, births attended by trained physicians, and numbers of doctors per 100,000 people in the population. Overall, UAE citizens can depend on a cradle-to-grave **welfare state** that has few peers in the world.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
United Arab Emirates	37,520	37,841	24,971	20,989	16,666
United States	19,364	21,529	23,200	25,363	29,683
Saudi Arabia	9,658	11,553	7,437	7,100	6,516
Iran	1,611	1,129	1,208	1,056	1,275

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

There are enormous socio-economic cleavages in the UAE, however, as wealth is not distributed evenly. Collectively, Abu Dhabi and Dubai control 83.2 percent of the UAE's GDP in large part because of Abu Dhabi's large oil production and Dubai's oil supply and commercial base. Sharjah has built its economy on trade and oil but has also depended on manufacturing. It is held back by large loans taken out in the 1970s and 1980s, reportedly receiving annual **subsidies** from Saudi Arabia. All 3 emirates feature modern cities that are as advanced as any in the major industrialized nations.

The other 4 emirates have little oil. In 1999 together they accounted for only 6.9 percent of GDP. They depend heavily on subsidies from the UAE central government. The economic future of these poorer emirates may revolve mostly around who emerges as the dominant figure in UAE affairs after Zayid's death. The *Economist* reported that Abu Dhabi Crown Prince Shaykh Khalifa wants to limit Abu Dhabi's assistance to the poorer emirates and accelerate privatization programs of large state industries. Army Chief of Staff Shaykh Muhammad favors a more federal system in which Abu Dhabi would help develop the economy of the entire federation.

Within individual emirates, there are also clear economic distinctions based on nationality and gender. While many basic social services are provided to expatriates at reduced rates, UAE citizens command salaries roughly double those of expatriates in similar jobs and have access to numerous subsidies, grants, loans, free services, and pensions unavailable to expatriate workers. UAE citizens also receive preferential treatment for many government jobs. Women are routinely discriminated against in hiring decisions. Very infrequently, they are sent abroad for post-secondary education in the United States or Europe. Increasingly, members of the UAE elite are educated in foreign universities rather than in the UAE.

WORKING CONDITIONS

One of the most striking features of the UAE is the demographic composition of its workforce and the striking differences between the working conditions. Nearly 70 percent of the UAE government's workforce is comprised of Emirati nationals, while expatriates overwhelmingly dominate the **private sector**. There is no minimum wage. All workers are prohibited from organizing unions, bargaining collectively, and going on strike. In 1995 the United States suspended the UAE from the U.S. Overseas Private Investment Corporation Insurance Program because of the government's failure to comply with internationally recognized worker rights and standards.

The UAE, however, does regulate workplace health and safety standards rigorously, and injured workers are entitled to fair compensation by law. Forced and compulsory labor is illegal and rare. Children under the age of 15 are not permitted to work, and there are special regulations for workers between the ages of 15 and 18. Most UAE workers work 8 hours a day, 6 days a week, and are not required to work outside when the temperature exceeds 44 degrees Celsius (112 degrees Fahrenheit)—a key consideration in a climate as hot as that of the UAE. The UAE Ministry of Labor and Social Affairs (MLSA) generally rejects contracts that provide excessively low wages and attempts to investigate all complaints made by workers. Workers also may seek redress in courts, including special labor courts established by the MLSA. Unemployment rates are believed to be very low.

Still, these labor regulations do not cover government employees, domestic servants, agricultural workers, and women. Such groups are at times obliged to work longer than mandatory hours, and domestic servants are often victims of abuse or work conditions approaching indentured servitude. Even expatriate workers, who are covered by labor laws, frequently are not protected because the costs of seeking redress in the courts can be prohibitively high and because the MLSA is understaffed. Expatriate workers also face the threat of immediate deportation because many are in the UAE on temporary work visas. Though not officially sanctioned, discrimination is often practiced against women. As a result, unemployment for female university graduates is far higher than that of their male counterparts.

Child laborers perhaps are in the greatest danger. There have been consistent reports for at least a decade of underage boys—sometimes as young as 5- or 8-years old—working as camel jockeys. Although the government in 1993 prohibited children younger than 15 serving as camel jockeys, the State Department's *1999 Human Rights Report for the UAE* speculated that the employers of underage camel jockeys are from powerful Emirati families considered to be above the law. Equally vulnerable are the large number of women from the former Soviet Union, Africa, and Asia who engage in prostitution and other acts associated with organized crime.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1820. Britain imposes a non-aggression pact on the rulers of the UAE for disrupting Indian-bound trade.

1892. Britain and the local rulers agree to transform the region into a British protectorate.

1958. Large quantities of oil are discovered in Abu Dhabi.

1971. Iran seizes 3 UAE administered islands: Abu Musa and the Tunb islands.

1971. Britain withdraws. The UAE is formed with all of the current emirates except Ras al-Khaimah.

1971. The UAE joins the United Nations and the Arab League.

1972. Ras al-Khaimah joins the UAE.

1973. OPEC raises the price, and cuts the supply, of oil. UAE GDP growth is 10 percent annually in the 1970s.

1981. Iran-Iraq war begins. The UAE financially supports Iraq. The UAE joins the Gulf Cooperation Council and pegs the dirham to the U.S. dollar.

1985. Dubai launches the Jebel Ali Free Zone.

1991. Gulf War begins. The UAE pays US$10 billion to support the anti-Iraq coalition.

1996. The UAE constitution becomes permanent. Abu Dhabi city is recognized as the UAE capital.

1996. The UAE agrees to a defense pact with the United States.

1999. Dubai Internet City and the Dolphin Gas Project are both unveiled.

2000. The first regulated UAE stock market, Dubai Financial Markets, opens for trading.

FUTURE TRENDS

There appears to be little doubt that the UAE has a bright economic future. The UAE controls nearly a century of oil reserves, maintains a modern infrastructure and a stable political system, lacks significant overseas debt, and has the financial resources necessary to address the economic, environmental, and social challenges of demographics, the dominance of oil in the state, and the paucity of water supplies before they become overwhelming. At the same time, the UAE's economic and

social problems are very real and will intensify if they are not addressed.

Most of the UAE's proposed solutions to these problems have exacerbated certain aspects of them. The gap in wealth between the poorer and richer emirates could exacerbate tensions in the future. Abu Dhabi has combined its privatization programs with deep cuts in subsidies to the northern emirates, a move that has only enlarged this gap. This issue will be paramount if Shaykh Khalifa emerges as the dominant figure in the UAE government after the death of Shaykh Zayid. Privatization also favors the UAE's service sector, which is dominated by expatriates. This, too, could cause very serious social tensions. In addition, the offset program is contingent upon the UAE's spending billions on arms for decades, an expenditure that is likely to become a great burden. Thus, the UAE's principal challenge in the next century will be to build a viable society whose economic success does not undermine its economic and political stability.

DEPENDENCIES

United Arab Emirates has no territories or colonies.

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—Sean Foley

UZBEKISTAN

Republic of Uzbekistan
Uzbekiston Respublikasi

CAPITAL: Tashkent (Toshkent).

MONETARY UNIT: Uzbekistani sum (UZS). One sum equals 100 tyyn. Notes come in denominations of 100, 50, 25, 5, and 1 sum. Coins include 1, 5, 10, 20, and 50 tyyn.

CHIEF EXPORTS: Cotton, gold, natural gas, mineral fertilizers, ferrous metals, textiles, food products, and automobiles.

CHIEF IMPORTS: Machinery and equipment, chemicals, metals, and foodstuffs.

GROSS DOMESTIC PRODUCT: US$60 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$2.9 billion (f.o.b., 2000 est.). **Imports:** US$2.6 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Uzbekistan is located in central Asia, bounded on the north and west by Kazakhstan (2,203 kilometers/1,369 miles), on the east by Kyrgyzstan (1,099 kilometers/683 miles) and Tajikistan (1,161 kilometers/721 miles), on the south by Afghanistan (137 kilometers/85 miles), and on the southwest by Turkmenistan (1,621 kilometers/1,007 miles). Uzbekistan has an area of 447,400 square kilometers (172,741 square miles), which is slightly smaller than California. Uzbekistan's area includes 22,000 square kilometers (8,494 square miles) of inland water, mainly the Aral Sea. It is one of only two countries in the world bounded only by other landlocked countries. The capital, Tashkent, is located in the eastern arm of the country, near the Kazakhstan border.

POPULATION. The population of Uzbekistan was estimated at 25.1 million in July 2001 and it was youthful, with 36.3 percent aged 14 years or younger, and only 4.6 percent 65 or older. The birth rate was 26.1 births per 1,000 and the death rate was 8 per 1,000 people. The population growth rate was 1.6 percent in 2001, and the fertility rate was approximately 3 children per woman. Life expectancy was lower than in industrialized countries, 63.81 years total; 60.24 for men, and 67.56 for women. The average population density was 51.2 people per square kilometer (132.6 per square mile), but 1995 figures show that most of the population was concentrated in the fertile Fergana Valley at 474.5 persons per square kilometer (1,229 per square mile). The central and western desert areas were sparsely populated, at only 6.6 persons per square kilometer in the region of Navoi, and 8.5 in the region of Karakalpakstan in 1995. In Tashkent, the largest city in central Asia with a population of 2.1 million in 2000, the population density reached higher than 7,000 persons per square kilometer (18,130 per square mile). About 35 percent of the population in 2000 was urban, down from 41 percent in 1995.

Uzbeks, a Turkic people, comprised 80 percent of the population in 1996, while Russians (5.5 percent), Tajiks (5 percent), Kazakhs (3 percent), Karakalpaks (2.5 percent), Tatars (1.5 percent), and Koreans (1 percent) made up the rest. Religious groups include mostly Muslims (88 percent, mostly Sunni), and Orthodox Christians (9 percent). The official language is Uzbek, spoken by 74.3 percent of the population. Russian is spoken by 14.2 percent and is still predominant in business and science, while Tajik is spoken by 4.4 percent of the population.

OVERVIEW OF ECONOMY

Although rich in natural resources, particularly natural gas and gold, Uzbekistan was among the poorest republics of the Soviet Union before its independence in 1991. The Soviet regime stressed the development of heavy industry, particularly mining, machines, and chemicals, while neglecting **consumer goods** production and the country's **infrastructure**. Although it developed as a major producer and exporter of natural gas

and gold and a sizable regional manufacturer of automobiles, aircraft, machinery, textiles, and chemicals, Uzbekistan remained predominantly rural. Nearly two-thirds of its population was concentrated in the heavily farmed river valleys where cotton production was the top priority of the central government. Uzbekistan was the principal cotton supplier to the Soviet Union and became the third largest cotton exporter worldwide in 2000. Monocultural (production of a single crop) agriculture and extensive irrigation in the arid Uzbek plains, however, caused severe environmental problems during the 1970s and 1980s. Poor land management resulted in the depletion of water supplies, the partial drying of the Amu Darya and Sir Darya rivers and the Aral Sea, heavy water and soil contamination, and newly formed patches of desert.

Following the collapse of the Soviet Union, Uzbek manufacturing experienced some decline in demand from its former Soviet markets, but the industrial sector protected the economy from the massive contraction seen in other former Soviet republics. The government of **communist** leader Islam Karimov, who stayed in office as president throughout the 1990s, subsidized state-owned, loss-making companies to keep them open. Karimov adopted **protectionist policies** in order to boost domestic industry, leading to expensive and inefficient industrial **import substitutions**. Industrialization was achieved but with the accumulation of a large **external debt** (US$3.3 billion in 1999) that was to be repaid with cotton and gold exports. In the late 1990s, however, the world prices of these key exports dropped, and the lack of competitiveness of the new Uzbeki industrial sector produced a **hard currency** shortage. The situation was aggravated by the government's reluctance to introduce current-account convertibility of the sum. The sum is not freely convertible to foreign currencies, and **exchange rates** for different purposes are set by the administration. The financial crises in Asia and Russia in the late 1990s and the lack of sufficient foreign investment caused economic stagnation and additionally-tightened import controls, fueling **inflation** and a deficit of goods in the domestic consumer market. Poor cotton harvests in the 1990s added to the growing **budget deficit**, and by 1995, Uzbekistan had received US$276.6 million in foreign aid to help meet its financial obligations.

To counter the negative trend towards debt, by the mid-1990s, the government introduced tighter monetary controls, launched a **privatization** program, and tried to lure foreign investors. However, its legal regimes still lacked transparency and many foreign partners complained about slow decision-making and persistent bureaucratic control complicated by red tape. Before 2000 there were several designated **strategic industries** that were not subject to privatization, such as mining of precious metals and gems, oil and gas drilling and processing, defense, aerospace, and communications. But by 2000, about 20 enterprises with foreign capital were expected to manufacture a wide variety of consumer and other goods, from tomato paste to electrodes to marble and granite. Unfortunately, a large South Korean investor, Daewoo Motors, went bankrupt in late 2000, threatening the future of its automotive plant in Uzbekistan.

By 1995 the country had returned to the level of industrial production that it had reached before the collapse of the Soviet Union. By the late 1990s, however, reforms had not been able to **restructure** the economy. The International Monetary Fund (IMF) suspended a US$185 million loan due to the failure of Uzbekistan to meet its **structural adjustment program** requirements. Without IMF aid and without hard currency, external debt default (suspension of all debt repayments) became likely. However, the IMF insisted that Uzbekistan adopt a stabilization program requiring a radical change in economic policy, including further privatization, an end to import substitutions, and a shift to the convertibility of the sum.

In early 2001 a 2-year government program was launched, envisaging the privatization of 1,244 enterprises. Thirty-eight of these, including several strategic enterprises and banks, were to be turned into joint-stock companies with the participation of foreign investors who would be offered between 39 percent and 70 percent of the shares. Approximately 49 enterprises were to be sold directly to foreign investors on the understanding that they would renovate their production processes, introducing modern technology and management. The number of firms with shares placed on the securities market and the off-exchange market to foreign investors in early 2001 reached 535, covering practically all sectors of the economy. Convertibility of the sum, however, was not yet on the government's agenda in 2001.

POLITICS, GOVERNMENT, AND TAXATION

Uzbekistan declared its independence from the Soviet Union in 1991 and a new constitution was adopted in 1992, declaring a multiparty democracy and a presidential republic. Since reelection in 2000, President Karimov has consolidated the government's power to run more like a dictatorship than a democracy. The 250-seat **unicameral** Ali Majlis (supreme council/parliament) has very little political clout. Although there has been universal suffrage since early Soviet times, members of parliament are nominated by local governors or selected from the People's Democratic Party (the former communist party) and other pro-government groups. The cabinet is headed by a prime minister who is nominated by the president, exerting total control on all other high-ranking national- and local-level officials. Other pro-government parties include the Homeland Progress, the National Revival, and the People's Unity Movement. Opposition groups, such as Birlik (Unity) and Erk (Will), were either silenced or banned in the early 1990s, and their leaders were banished. Only 2 human rights groups have survived under the strict government control. None of them has any large political role or represents any particular social group, and no opposition party at all existed legally in 2000. Adolat (Justice), an Islamic movement, was disbanded in 1992 and most of its members were incarcerated.

President Karimov considers Islamic fundamentalism and terrorism a major threat to the country, repeatedly citing it to justify his authoritarian rule to the public and the international community. Tajikistan is seen as a potential source of Islamic fundamentalist terrorism against Uzbekistan, as was Afghanistan prior to the toppling of that country's ruling fundamentalist Taliban regime in 2001. In many cases, the government's overreaction to real or imagined terrorist threats had the unintended effect of arousing sympathy from Uzbekistani citizens and pushing devout Muslims towards fundamentalism. Economic hardship also became a fertile ground for religious dissent during the 1990s. During the pre-1990 Soviet atheist regime, knowledge of Islam was minimal in central Asia. Even in early 2001, an attempt to overthrow the secular government and to establish Islamic rule was hardly thinkable. But in the late 1990s, tens of thousands of people were arrested by the government for their fundamentalism and put on trial to discourage the possibility of an Islamic fundamentalist revolution.

The key to understanding Uzbekistan politics lies in the domestic society's traditional clan structure, based on both kinship and territorial proximity. This society has survived the cultural impositions of both the czarist and the communist Russian regimes. Uzbekistan is ruled by representatives of the renowned Samarkand-Bukhoro clan. The clan's leader, President Karimov, took office in 1989 as a result of a compromise between the country's major clans, but he was resented by the powerful Fergana and Tashkent clans. In 1992 Vice President Shukrullo Mirsaidov, the chieftain of the Tashkent clan, along with the Birlik and Erk opposition groups tried to uproot Karimov but failed. The weakness of the opposition groups was mostly due to their inability to agree on one leader. In the early 1990s several independent organizations were

created by young **technocrats** and businessmen, forming an important talent pool that the president was able to draw on for technical and political support for his policies. The importance of traditional clans is expected to shrink with the modernization of the country.

After the breakup of the Soviet Union, Turkey was regarded as the bridge between Europe and the central Asian states, including the ethnically Turkic Uzbekistan. By 2000 Turkey's importance as a mediator declined considerably because Uzbekistan turned eastward to its former trading partners for political and economic support. Post-Soviet integration was more active than western European integration, and Uzbekistan was still dependent on Russia for its security and for more than half of its trade. Since the mid-1990s, the United States has also boosted its presence in Uzbekistan and considers it as an important ally against the spreading of Islamic fundamentalism and terrorism in central Asia.

Taxation in Uzbekistan is considered rather restrictive, although the actual collection rate is quite low. In 2001, the government proposed a reduction of the **income tax** rate from 31 percent to 26 percent to boost investment. **Foreign debt** service problems are very serious given the country's lack of foreign exchange revenues and shrinking exports. The government plans to pay off its official debt, which is owed to other governments, before paying back its debt to private creditors. In this manner, Uzbekistan hopes to stay in the good graces of multilateral lenders such as the IMF, from which it receives debt assistance.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Uzbekistan's infrastructure is extensive, but badly needs modernization. In 1993 there were 3,380 kilometers (2,113 miles) of railroads, 300 kilometers (187.5 miles) of which were electrified, and 81,600 kilometers (51,000 miles) of highways, 71,237 kilometers (44,523 miles) of which were paved, including gravel. The construction of a 2,300 kilometer (1,437.5 miles) long high-speed highway is expected to start in 2002. An international tender will be announced for implementing the project, and credits from international organizations and local budget resources are to be mobilized. The system of inland waterways included 1,100 kilometers (687.5 miles) in 1990: crude oil pipelines 250 kilometers (156 miles), petroleum products pipelines 40 kilometers (25 miles), and natural gas pipelines 810 kilometers (506 miles) in 1992. There was 1 port at Termiz on the Amu Darya River and 3 airports with paved runways in 1997.

The policy of import substitution has made Uzbekistan self-sufficient in energy. Since independence, oil production increased by 189 percent to 8.1 million tons in 1998, thereby eliminating oil imports. This self-sufficiency was not achieved with foreign investment, but through the compulsory allocation of national credit and large amounts of government-guaranteed foreign debt. Natural gas production rose from 41.9 billion cubic meters in 1991 to 54.8 billion cubic meters in 1998, but most natural gas is exported to former Soviet markets that pay late, if at all. Relations with neighboring Kyrgyzstan deteriorated in 2000 when the Uzbekistan government demanded that Kyrgyzstan hand over part of its land as payment for natural gas.

The Uzbeki energy sector has lost efficiency since 1991 because of government-controlled energy prices favoring individuals over industries. According to the IMF, industrial gas users payed 812.5 percent more than private families in 1997, though this disparity fell to 203 percent in 1998. Smuggling oil out of Uzbekistan is a widespread occurrence since the domestic price is very low when converted at the free market exchange rate. Despite self-sufficiency in fuel production, fuel is in short supply, encouraging drivers to buy smuggled imported gasoline from private traders at a premium of more than 45 percent above the official price. Electricity production generally meets the needs of the country, standing at 43.47

Communications

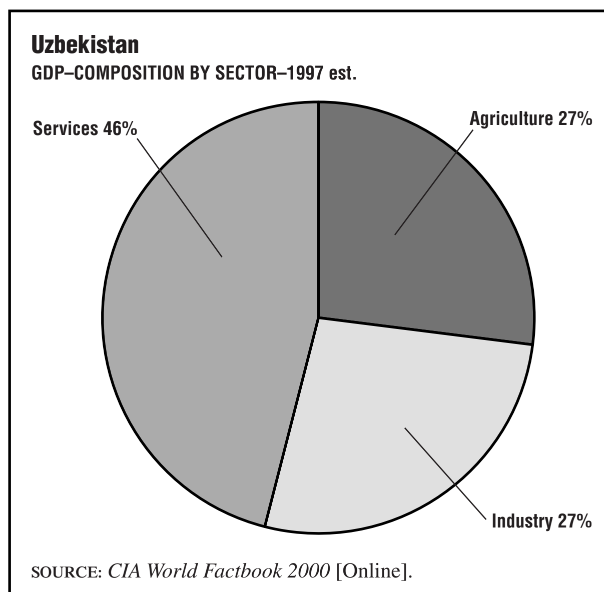
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Uzbekistan	3	465	275	N/A	1	N/A	N/A	0.05	8
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Turkmenistan	N/A	276	201	N/A	1	N/A	N/A	0.56	2

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

billion kilowatt hours in 1998. Approximately 85.2 percent of Uzbekistan's electricity is generated in thermal plants, and 14.2 percent is generated at hydropower stations in the mountains. In 2000, the government launched a US$113 million import substitution program for power-sector machinery. It also planned to increase local coal production at the Angren mine from 3 million tons in 1999 to 5 million tons by 2007. Elimination of energy imports has come at the heavy price of high foreign debt, which Uzbekistan is finding difficult to service.

The Uzbekistan telephone system is outdated, with only 1.976 million main lines in 1999, and 26,000 cellular phones in 1998. In the late 1990s, the telephone system was expanded and improved under contracts with foreign companies, particularly in and around Tashkent and Samarkand. By 1998, 6 cellular networks were in operation, 4 of them of the European GSM type (Groupe Spéciale Mobile; or Global System for Mobile Communications). Uzbekistan communications are linked with other post-Soviet republics and other countries by a leased connection via the Moscow international switch. With the opening of a link to the Trans-Asia-Europe (TAE) fiber-optic cable, the country will become independent of Russia for its international communications. There was only 1 Internet service provider in 1999 and computer usage was low. In 2000 a shortage of hard currency made the state-owned telecommunications company Uzbektelekom repay its US$1.2 million debt to Kazakhstan's Kazakhtelekom in supplies of Uzbek telephone boxes and natural gas. Kazakhtelekom cut off calls coming from Uzbekistan in August 2000, claiming that the debt was in fact US$4.4 million.



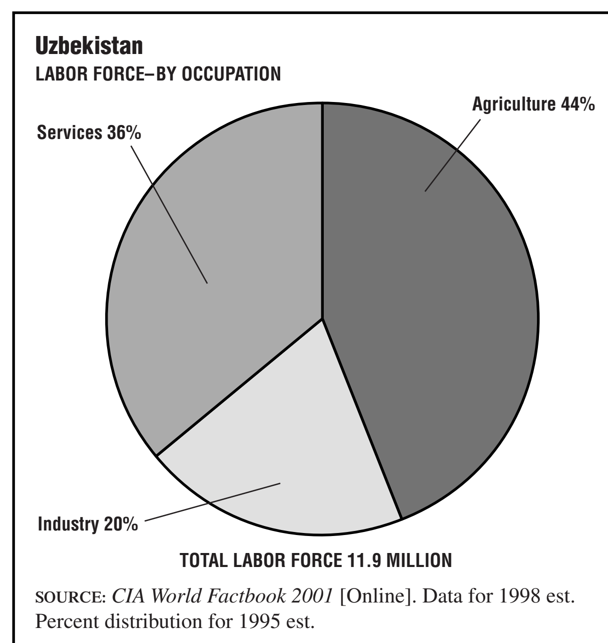
SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

Agriculture contributed 28 percent of **gross domestic product** (GDP) in 1999 and employed 44 percent of the workforce in 1995. Most agricultural and light industry output is related to cotton, accounting for 30.8 percent of total exports in 1999. Lack of environmental and management reform has plagued the agricultural sector. The cotton crop failed twice, in 1996 and 1998, and remained below the government's target of 4 million tons in 1999. The government's pursuit of self-sufficiency in food production led to some land reserved for cotton being reassigned for food growing.

Industry produced 21 percent of GDP in 1999, employing 20 percent of the workforce in 1995. Manufacturing made up the greatest part of the industrial sector and accounted for 13.9 percent of GDP and 12.8 percent of the workforce in 1999. A car factory in Andijan assembled Daewoo cars from imported components, while an aircraft factory assembled Russian aircraft. The rest of the industrial sector was comprised of truck and bus assembly, electrical engineering, textiles, agricultural machinery, and agricultural processing. Gold mining and refining is the country's next largest industrial endeavor, accounting for 10.4 percent of GDP in 1999. Most gold is mined at Muruntau in Navoi, where annual output is about 80 tons per year. Gold brings in less money than it did during Soviet times due to a drop in its price in the late 1990s.

Approximately 51 percent of GDP came from services in 1999; the sector employed 36 percent of the workforce in 1995. Economic volatility and isolation, the lack of consumer credit, and government controls have



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est. Percent distribution for 1995 est.

inhibited the development of a modern services sector. Outside of education and health, there were 398,000 employees in the services sector in 2000, or just 4.5 percent of the total workforce.

AGRICULTURE

Agriculture in arid central Asia is heavily dependent on irrigation. Arable land comprises only 9 percent of the territory because much of the land is desert. Only 1 percent is covered by permanent crops, about 3 percent is occupied by forests, and 46 percent is permanent pastures used by sheep and other livestock. Under the Soviet regime vast formerly-deserted terrain has been reclaimed for cotton growing, and agriculture was collectivized into large state-controlled farms. These lands remain under the control of the Uzbekistani government. The cotton sector is still the most important employer and export producer, characterized by the extensive use of machines and chemicals. The drying up of the Aral Sea due to excessive irrigation in the cotton fields has resulted in growing concentrations of pesticides and salts blown from the exposed bed of the lake. Mismanaged irrigation has contributed to soil contamination, **desertification**, water pollution, and many health disorders.

Apart from cotton, leading products include vegetables, fruits, grain, livestock, and animal products, including the world-famous karakul sheep. In 1998, President Karimov threatened to impose criminal penalties on local leaders who anticipated food shortages and restricted the sale of food at market in order to stockpile food locally. In 2000 the grain and cotton harvests were low due to persistent drought and mismanagement of water resources. The government would not raise water prices to encourage farmers to use it more efficiently, because allowing the sale of water at market prices defies the communist ideal of a state-run economy. To ensure that water shortages would not happen again in 2001, the government reached an agreement with Tajikistan (where its rivers originate) to cooperate on water use. Another pricing problem exists in the cotton industry: the domestic cotton fiber price was just 43 percent of the world price in 2000. In order to achieve self-sufficiency in grain production, the government is still shifting land from cotton to grain production, which deprives the economy of export revenue. A ton of cotton on the world market in 2000 was worth around US$1,100 in export revenue, while a ton of grain was worth approximately US$200.

INDUSTRY

Manufacturing in Uzbekistan is based on its wealth of natural resources including natural gas, petroleum, coal, gold, uranium, silver, copper, lead, zinc, tungsten, and molybdenum. Mining and metallurgy are the most important areas, but textiles, food processing, machine building, and electrical engineering are also well developed. Due to self-sufficiency policies, the industrial production growth rate was 6 percent in 1999, but the sector was performing poorly financially.

OIL AND GAS. Uzbekistan has failed so far to promote oil and gas exports due to its isolationist economic policy. The prices that Uzbekistan gets for its oil and gas exports in post-Soviet markets are low, and payments are insecure. Approximately 41.5 billion cubic meters of gas was produced in the first 9 months of 2000, up by 1 percent from 1999. Most gas is consumed locally by enterprises at prices above the cost of production, and by households at subsidized prices. Officially recorded crude oil production fell in the first 9 months of 2000 to 5.7 million tons, down by 6.2 percent from 1999. Refined oil production was rising though. It is likely that oil is illicitly exported to Kazakhstan. Fuel oil production, at 1.3 million tons, increased slightly during 2000, and the kerosene output of 300,000 tons rose by 17.1 percent in 2000. The government intended to increase investment in the state-owned oil and gas giant Uzbekneftegaz by taking on further external debts, expanding exploration and production in 2001. Free-market domestic prices were seen as a more efficient method to generate the capital for industrial investment domestically, without increasing the large external debt burden. The government also planned to sell 49 percent of Uzbekneftegaz to foreign investors in 2001. The subsidiaries of Uzbekneftegaz also were scheduled for partial sale to foreign investors, including 44 percent in Uzneftegazdobycha (exploration and development), and 39 percent in each of Uzneftepererabotka (oil refineries), Uzburneftegaz (drilling), and Uzneftegazstroi (oil and gas construction).

GOLD. Uzbekistan is the world's eighth largest producer of gold. The gold mine is owned by the Navoi Mining and Metallurgical Combine (NGMK), a Soviet-era, state-owned firm that the government refuses to privatize or reform. The estimated output in 1999 was 80 tons but there was no independent confirmation. Gold accounts for 10 to 20 percent of export earnings and the drop in its price since 1997 has discouraged foreign companies from investing. Yet, Newmont Mining of the United States has entered a **joint venture** with NGMK to extract gold from a 242 million-ton pile of tailings left beside the mine from the Soviet era. The project, with European Bank for Reconstruction and Development (EBRD) funding, should produce almost 143 million grams (5 million ounces) over 17 years.

MOTOR VEHICLES. As a result of the policy of import substitution, most industrial production supplies the domestic market and is not export-oriented. Even Uzdaemotors, a joint venture between Daewoo Motors and state-owned Uzavtosanaot that assembles motor vehicles,

produces cars primarily for the Russian and domestic market. Production started in 1996 when investment was expected to reach US$658 million. Supplies were ordered from Russia and South Korea. Uzbekistan was to provide the labor; however, Russia's economic problems in 1998 damaged export prospects, and few locals could afford to buy Daewoo cars. As a result, production in 2000 was even less than the 1997 target of 125,000 units and the 1998 target of 80,000 units. Although Daewoo's stake reached 70 percent in 1998, the Uzbekistan government kept the venture operational after the bankruptcy of Daewoo in 2000, switching it from a foreign investment into another government asset backed with foreign debt.

FOOD PROCESSING. In 1997 Jahn International of Denmark joined Intertrade from the United States and local Tashkent Sud to form Sun Juice, a fruit juice company. Nestle of Switzerland plans to invest US$30 million for the construction of a chocolate factory in Namangan, while British companies have invested in the Uzbek tobacco industry.

SERVICES

FINANCIAL SERVICES. Due to excessive government restrictions and controls, financial services are poorly developed. The central bank is not independent and acts as a money printing press for the finance ministry. Banks do not act as financial intermediaries for their clients, rather they pay negative interest rates on deposits, confiscate savings, and funnel government credit and foreign loans to enterprises and sectors selected by the government. The government refuses to push insolvent state-owned enterprises into bankruptcy, allowing them to stay in business. Banks fund their operations by refusing to pay back creditors, suppliers, and workers, eroding the banking sector. Of the 31 banks in Uzbekistan in 2000, just 4 small ones were private. Most banks were considered insolvent by international lenders, relying on further foreign debt inflows for survival. The largest bank was the state-owned National Bank of Uzbekistan (NBU), with 70 percent of the total loan portfolio and around 66 percent of the foreign exchange **turnover** in the country. The NBU is 1 of 4 banks allowed to deal in foreign exchange and makes a good profit by borrowing from the EBRD, nearly doubling the interest rate when lending to Uzbekistan firms. The government planned—but failed—to sell a 40 percent stake in the NBU in 1999. The main foreign-owned bank is ABN-AMRO (Netherlands), which operates in a joint venture with NBU.

RETAIL. Trading in domestically produced food and imported consumer goods in the vibrant traditional oriental bazaars is a major economic activity and important income source. Many government and other employees add to their income as small traders, and the vast majority of Uzbekistan people shop at the local bazaar. The largely unregulated bazaars have so far survived the government's restrictions, with illegal currency traders providing the dollars that fund the smuggling of consumer items into the country. Outside of the bazaars, Tashkent is the fourth most expensive city in the world, and its modern **retail** complexes are reserved for the rich and for foreigners. Levi Strauss (United States) and Benetton (Italy) have outlets in both, and Sony (Japan) and Daewoo have large consumer electronics stores. Several other international retailers entered the market in the late 1990s, including Jahn International, and Nestle. Uzbekistan may have a future in imported consumer goods trade since it shares a border with all central Asian states and has the largest domestic population, making it a natural distribution center. Yet in 2000, most consumer goods were flowing into Uzbekistan illegally from its neighbors.

TOURISM. Uzbekistan has many important historic and cultural monuments in the medieval capitals of Samarkand, Bukhoro, and elsewhere. The lack of adequate facilities and high prices for western goods have prevented the development of any significant international tourism. No particular government plans in the area have been revealed.

INTERNATIONAL TRADE

The Uzbeki policy of self-sufficiency prevents active international trade. The country exports cotton, gold, natural gas, mineral fertilizers, ferrous metals, textiles, foods, and automobiles; it imports machinery and equipment, chemicals, metals, and foods. Russia is Uzbekistan's principal trade partner, responsible for 53 percent of volume (1999). Russian imports include machinery and tools, metals, chemicals, pharmaceuticals, paper and lumber, and grains; exports to Russia include raw cotton (70 percent of all Russian imports in 1999), metals, chemicals, and farm products. There were about 250 Russo-Uzbekistani joint ventures in 2000. Other major export destinations included Switzerland (10 percent), the United Kingdom (10 percent), Belgium (4 percent),

Trade (expressed in millions of US$): Uzbekistan

	Exports	Imports
1994	3044	2478
1995	3100	2900
1996	4590	4721
1997	4387	4522
1998	3528	3288
1999	N/A	N/A

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

Kazakhstan (4 percent), and Tajikistan (4 percent) in 1998. Imports to Uzbekistan originated from South Korea (11 percent), Germany (8 percent), the United States (7 percent), Turkey (6 percent), and Kazakhstan (5 percent) in 1998. Uzbekistan has a large current-account deficit and the ratio of external debt to exports in 1999 was 96 percent. With a more precise account of exchange rates, however, it might be as high as 137 percent.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Uzbekistan	N/A	N/A	N/A	1,338	1,007
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Turkmenistan	N/A	N/A	N/A	1,154	486

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

MONEY

Despite government pledges that in 2000 the sum would be convertible (freely exchangeable for foreign currencies at market rates), Uzbekistan continued to operate a system of administratively-set multiple exchange rates in 2001. These were used to protect import substitution industrialization, including a set commercial bank rate and an administratively set commercial exchange rate, which kept the sum at around 50 percent of the commercial bank rate. The **black market** is widely used. In December 2000 President Karimov said that convertibility would take 3 to 5 years, but he was pushed to take action when a default on the country's external debt was imminent because of a threatened halt to IMF funding. Uzbekistan is plagued by a hard currency shortage and has serious problems with servicing its debt. It was scheduled to make US$900 million of repayments in 2000.

The Tashkent Stock Exchange is 26 percent government-owned, and most of the stocks in companies that are listed are owned by the employees of those companies. Trade at the Tashkent Stock Exchange is predominantly conducted through **treasury bills** because they are considered a liquid and safe asset, despite the fact that yields are negative and the market is extremely small.

POVERTY AND WEALTH

Under the Soviet regime, Uzbekistan was arguably a land of economic equality, although among the poorest republics of the Soviet Union. The vast majority of the population was state-employed, no private initiative was allowed, and central funds were allocated comparatively equitably as free health care, higher education, pensions, and other benefits. The only exceptions of the modest standard of living were the *nomenklatura* (the communist party elite) and the organized crime and black market economy players. The market reforms in the 1990s generated new wealth for a limited number of entrepreneurs who were well connected to the government yet understood the economic hardships of everyday Uzbeki life. In 1995 the country's **Gini index** was 33.3, lower than that of the United States and the United Kingdom but higher than in most former communist countries. Due to the government's policies of protectionism and import substitution, unemployment is still a minor problem, but the loss-making state industries and struggling agricultural sector are no longer able to sustain the living standards of the 1980s. Monthly salaries in the state manufacturing sector reached as low as US$34 in 1994, and had increased only slightly by 2001. Inflation, at 29 percent in 1999, is also a concern. Many Uzbekistanis suffer from problems other than financial insolvency such as a poor health system, the lack of safe water, epidemics, and excessive soil pollution and desertification. These problems are most apparent in the intensely farmed river valleys, where almost two-thirds of the population are concentrated. On many occasions throughout the 1990s, the government has appealed to international organizations for aid in dealing with severe droughts. In particu-

Exchange rates: Uzbekistan

Uzbekistani soms per US$1	
Jan 2001	325.0
2000	141.4
1999	111.9
1998	110.95
1997	75.8
1996	41.1

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Uzbekistan

Lowest 10%	3.1
Lowest 20%	7.4
Second 20%	12.0
Third 20%	16.7
Fourth 20%	23.0
Highest 20%	40.9
Highest 10%	25.2

Survey year: 1993

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Uzbekistan	34	3	13	4	7	9	30
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Turkmenistan	32	6	14	6	18	11	14

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

lar, Karakalpakstan has been an environmental disaster area plagued by the drying up of the Aral Sea and unprecedented scarcity of water.

WORKING CONDITIONS

Uzbekistan is party to all major universal legal instruments on economic and social rights, the rights of the child, the right to equal compensation and collective bargaining, and the elimination of employment discrimination. Its **labor force** numbered 12 million in 1999, and official unemployment was low at 2.2 percent in 1995, but no data have been released since. The hidden unemployment figure, made up of workers who receive no pay from cash-stripped companies or who are put on mandatory leave, affected about 1 million people in the agricultural sector in 2000. State employees' wages increased by 36 percent in 1996 (from a US$34 monthly average in 1994) but remained among the lowest of the former Soviet republics. The government has tried to hold wages in check to prevent inflation, setting the minimum wage to 75 percent of a typical consumer's spending. Pay raises in both the state and **private sector** are limited to a maximum of 70 percent of the sector's increase in output and are subject to government approval. Labor unions are government controlled. Many labor practices are inefficient due to obsolete technology, lack of management skills, and import substitutions.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

100s B.C. The territory that is now Uzbekistan becomes a part of the Silk Road, linking China with the Middle East and Europe.

600s A.D. Arab invaders conquer Uzbekistan and introduce Islam.

1300s. The land is ruled by the empire of Tamerlane. Samarqand becomes the capital in 1369. Nomadic Turkic tribes form the Uzbek confederation and start moving south into Uzbekistan.

1700s. The Kokand principality emerges in the Fergana Valley. The Turkic-speaking Karakalpaks in the Amu Darya delta are subjugated by the new khanate of Khiva. Feudal agricultural economy develops.

1850. Russian forces march on Kokand, Tashkent, Bukhoro, and Khiva and take them over by 1876. A modern commodity economy starts developing but many locals resent the non-Muslim administration and colonists.

1916. Burdened with Russian demands to aid in its World War I effort, the locals revolt against a military draft but are suppressed.

1917. The Bolsheviks seize power in Russia and establish new political divisions in central Asia ruled by local soviets (councils), which are opposed by guerrillas of the Action for National Liberation party (called *Basmachi* by the Russians).

1918. Southern central Asia, including part of Uzbekistan, is organized into the Turkistan Autonomous Soviet Socialist Republic (ASSR) within the Russian Soviet Federated Socialist Republic.

1919. The Uzbek Soviet Socialist Republic is carved out from Turkestan (with the Bukharan and the Khorezmian republics), officially becoming a republic of the Soviet Union in 1922.

1928. Land is collectivized into state farms.

1931. The Uzbek S.S.R. is enlarged with the addition of the Karakalpak ASSR.

1941. In World War II, many industries are relocated to Uzbekistan from the western regions of the Soviet Union. Many non-Uzbek nationals **immigrate** to the republic.

1960s. Excessive irrigation brings an ecological disaster in the Aral Sea basin.

1991. Uzbekistan declares independence from the Soviet Union and joins the new **Commonwealth of Independent States** (CIS). Presidential elections, in which most opposition groups are not allowed to participate, leave Islam Karimov—the incumbent president and former communist leader—in office. Karimov establishes an authoritarian regime, banning opposition parties and claiming that more democracy would render the country vulnerable to Islamic fundamentalism.

FUTURE TRENDS

With President Karimov firmly in office, Uzbekistan will likely be characterized by political stability, but the policy of import substitution and the lack of sufficient structural reform may further aggravate economic problems. Poor cotton crops and recurrent droughts may add to the crisis. If accompanied by economic crisis, the president's exaggerated security threats—particularly about Islamic groups—could contribute to the authoritarian character of the regime and lead towards further political violence.

Particularly troublesome will be the persistent inconvertibility of the sum, the lack of hard currency, and the growing external debt. The country will not be able to serve its financial obligations in the 21st century without IMF help, but the IMF requires the closure of many loss-making industrial enterprises that would be particularly difficult for the government to effect. Significant reforms were promised in 2000, and there were hints that some harmful old policies would be abandoned.

Growth in the former Soviet area, Uzbekistan's main export market, is expected to be robust, but a weakening global economy in 2001 will restrain growth because of its impact on key commodity prices, especially of cotton and gold. Due to its natural wealth and strategic location, Uzbekistan has significant growth prospects once it implements market reforms and controls environmental hazards.

DEPENDENCIES

Uzbekistan has no territories or colonies.

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—Valentin Hadjiyski

VANUATU

Republic of Vanuatu
République de Vanuatu
Ripablik blong Vanuatu

CAPITAL: Port Vila.

MONETARY UNIT: Vatu (VT). There are coins of 1, 2, 5, 10, 20, 50 and 100 vatu and notes of 500, 1,000 and 5,000 vatu. One vatu equals 100 centimes, although there are no centime coins still in circulation.

CHIEF EXPORTS: Copra, beef, cocoa, coffee, timber, kava, squash.

CHIEF IMPORTS: Food, machinery and equipment, fuels.

GROSS DOMESTIC PRODUCT: US$245 million (1999 est.).

BALANCE OF TRADE: **Exports:** US$33.8 million (1998 est.). **Imports:** US$76.2 million (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Vanuatu is located in Oceania, about 2,000 kilometers (1,243 miles) to the northeast of Australia, to the south of Solomon Islands, and north of New Caledonia. It consists of a group of more than 80 islands with a land area of 14,760 square kilometers (5,699 square miles) (slightly larger than the state of Connecticut) and a coastline of 2,528 kilometers (1,570 miles).

POPULATION. The population of Vanuatu was estimated at 199,800 in mid-2000, an increase of 3.4 percent from the 1999 census population of 193,219. In 2000, the birth rate was 36.0 per 1,000 while the death rate stood at 6.2 per 1,000. With a projected annual population growth rate of 3.0 percent between 2000 and 2010, the population is expected to reach 267,600 by 2010 and to double in 23 years.

About 94 percent of the population are Melanesian by origin, made up of about 100 different cultural groups. A further 4 percent is French, and there are small but significant populations of Vietnamese and Chinese.

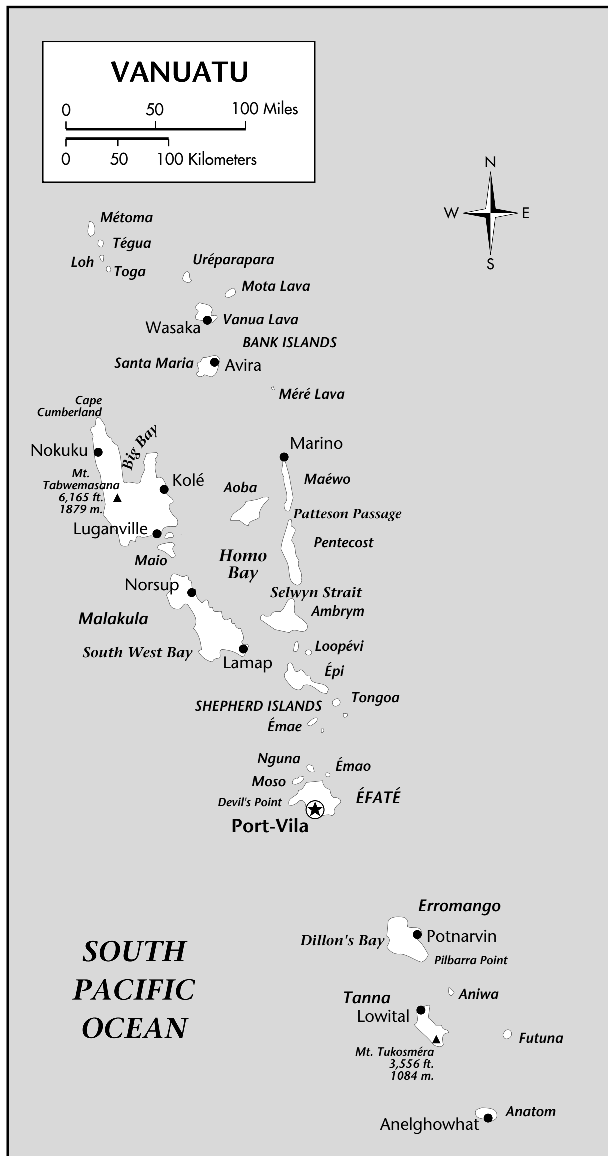
With a high total fertility rate of 5.3, the population is very young, with about 37 percent under the age of 15 and only about 3 percent over 65 years. This is a result of both the high birth rate and a relatively low life expectancy. The majority of the population is rural, with only 21 percent of the people living in urban areas. However, the urban growth rate is about 50 percent higher than the total growth rate, and this growth is mainly centered on the 2 largest urban centers, Port Vila and Luganville.

OVERVIEW OF ECONOMY

Lying in the Western Pacific Ocean, Vanuatu is made up of a chain of islands with diverse physical characteristics and economic potential. The islands range from small coral atolls to relatively large islands of volcanic origin. Nearly 80 percent of the population of Vanuatu live in villages, so subsistence production of food, housing, and other items is the mainstay of the household economy. Most households also participate in some cash production, mainly of agricultural products such as copra (dried coconut flesh), cocoa, and coffee. Recently, new items that have entered the village cash economy, and which are of relatively high value, are kava and squash.

The formal economy of Vanuatu is based mainly on agricultural products and services. Copra and coconut oil are produced on large-scale plantations as well as in the villages. Coconut plantations often have cattle as well. Other products common to the village economy are also produced in plantations, in particular cocoa and coffee. Fishing supplies the internal market and is also a source of export income.

Vanuatu regularly has a negative **balance of trade**, and this is balanced by the services sector. Tourism has been growing steadily in recent years, partly because of heavy promotion in nearby countries such as Australia



and New Zealand. Another significant source of employment and government revenues is the Offshore Financial Centre (OFC), which provides a **tax haven** for **offshore banks**, trust companies, insurance companies, and shipping companies.

International aid accounts for about 35 percent of GDP and development expenditure since independence in 1980 has been mainly financed by aid. Australia is the largest aid donor, followed by Asian Development Bank, France, Japan, and New Zealand.

POLITICS, GOVERNMENT, AND TAXATION

During the colonial period from 1906 to 1980, Vanuatu, then known as the New Hebrides, had the distinction of being ruled by 2 colonial powers, Great Britain and France. This "condominium" arrangement has sometimes been termed "pandemonium" since there were 2 systems of administration, education, and courts. Furthermore, in addition to the 2 colonial languages of English and French, inhabitants spoke one or more of about 100 indigenous languages. For most ni-Vanuatu (people of Vanuatu) the only effective language of communication was, and is, Bislama (a kind of Pidgin which has strong elements of English vocabulary and Melanesian grammar).

After obtaining independence from Great Britain and France in 1980, dual systems continued to operate in some contexts, especially education. Systems of administration, courts, etc. were combined, but still operated in at least 2 languages. The country adopted a republican system, with a president as head of state (elected by an electoral college of parliament and regional council presidents), and a prime minister selected by a parliament of 52 members elected by universal suffrage of all citizens aged 18 and over. A considerable number of political parties have formed and reformed since independence, but in most cases they are based on the colonial language split, either being Anglophone (English-speaking) or Francophone (French-speaking) parties.

The primarily Anglophone Vanua'aku Party, with Father Walter Lini as prime minister, held power from 1980 to 1991, when parliament voted him out in a no-confidence motion. Subsequently, Francophone parties, usually in coalition, have tended to form the governments. In the late 1990s, there was a great deal of political turmoil as governments changed and various political leaders were accused of corruption. In early 2001, Barak Sope, an English speaker, was selected as prime minister of a coalition government. Following much political turmoil in the late 1990s, the English-French divide appeared to be less important, as coalitions were sometimes forged across languages.

Local government is administered by 6 regional councils, and there are municipal councils in the 2 urban areas of Port Vila and Luganville. Authority over matters of tradition is held by *malvatumauri* (national council of chiefs) who are elected by district councils. These chiefs usually represent land-holding groups. As in many parts of Melanesia, they do not necessarily gain their position by inheritance but rather through skill in achieving economic and political power at the local level.

There is no corporate or personal **income tax** in Vanuatu. Import taxes accounted for 66 percent of all tax revenues in the country in 1997. There are also export **tariffs** that account for most of the other tax revenues. Application for membership in the World Trade Organization (WTO) means that in the future, these trade taxes will have to be progressively reduced. This means other types of tax may have to be imposed, according to David Ambrose and Savenaca Siwatibau in the *Pacific Economic Bulletin.*

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Vanuatu	4,000 (1996)	154 (1996)	AM 2; FM 2; shortwave 1	62,000	1	2,000	1	3,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Philippines	1.9 M	1.959 M (1998)	AM 366; FM 290; shortwave 3 (1999)	11.5 M	31	3.7 M	33	500,000
Solomon Islands	8,000	658	AM 3; FM 0; shortwave 0	57,000	0	3,000	1	3,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

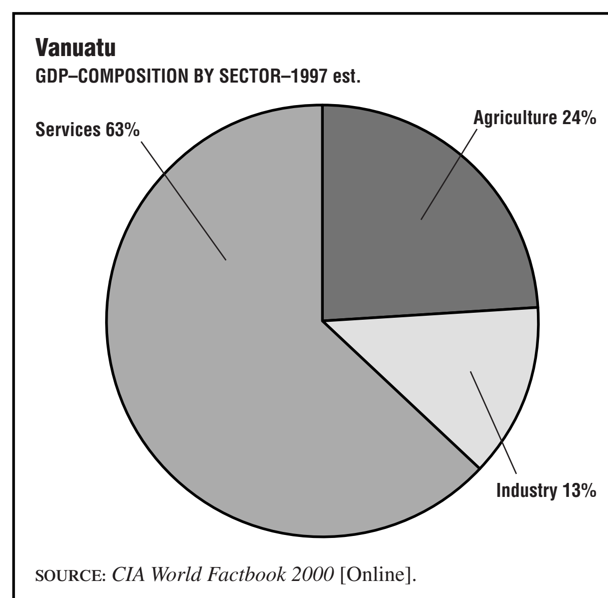
Because of the numerous islands in the country, the main internal transport linkages are by sea and air. The islands are served by a number of government and private passenger and cargo ships, although they do not usually run on a schedule and are not much cheaper than flying. International sea linkages are well served by shipping lines from Australia, New Zealand, and Asia. However, because Vanuatu is a flag of convenience registry, there were 78 vessels (some very large) from 15 different countries registered in Vanuatu in 1998. Most of these are not seen in Vanuatu waters.

Internal air services are provided by the government-owned Vanair, which flies to 29 destinations within the country. International air services link neighboring Pacific states including Fiji, New Caledonia, and Solomon Islands and most longer distance air linkages are routed through Brisbane, Australia, and Nadi, Fiji. The national airline Air Vanuatu flies to Sydney, Brisbane, Melbourne, Auckland, and Nadi. Within the country there are 32 airports, 2 of which have paved runways, but nearly all international traffic is channeled through Port Vila.

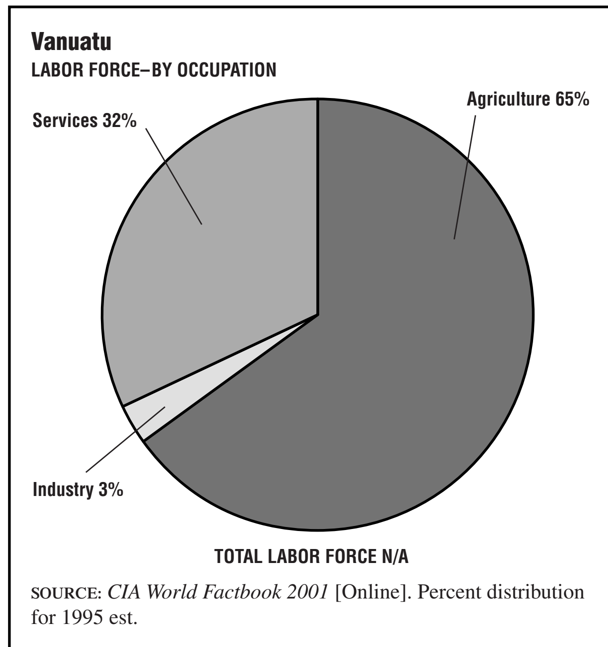
Electricity is mainly concentrated in the towns and is generated exclusively using imported fuels. Similarly, telephone services are mainly available in towns, and communication with rural areas is generally by 2-way radio or radio bulletins on the government-owned radio station.

ECONOMIC SECTORS

In 1999, agriculture contributed 25.7 percent of Vanuatu's **gross domestic product** (GDP), while industry made up 14.0 percent and services contributed 60.4 percent of GDP. Some value is attributed to subsistence agriculture in the statistics for agriculture, and other significant contributors are copra production and beef production. Industry is mostly made up of small-scale manufacturing and construction. The large proportion of GDP that derives from services can be attributed to government employment, especially in education, as well as the tourism industry and offshore banking facilities. The only data available about the **labor force** in Vanuatu are from the 1989 census, and these are quite different from the GDP data (and 10 years older). Since the subsistence sector is such an important element in the economy, it was decided by Vanuatu's statistics department that "labor force" should include all workers, whether they were working for cash or not. Thus, the statistics show that about 75 percent of the labor force in 1989 was in agriculture, and this percent-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1995 est.

age includes all of those growing their own food for consumption as well as those selling crops and those working for wages on a plantation. Industry accounted for only 1.3 percent of the labor force, and services 23.9 percent; however, nearly all of those in industry and services were in the formal sector. Also, it is likely that these proportions will have increased during the 1990s, even when the subsistence component is included.

AGRICULTURE

The most recent economic data available show that agriculture, forestry and fishing contributed 25.7 percent of Vanuatu's GDP in 1999. Although a further breakdown is not available from that year, data from 1995 shows that subsistence agriculture made up about a third of this sector, forestry and logging another third, and the rest made up of commercial agriculture, particularly copra production and beef production.

According to the Asian Development Bank, agriculture is more important to the Vanuatu economy than it is to any other Pacific economy, since it does not have the mineral and forestry resources of Papua New Guinea or Solomon Islands, the manufacturing base of Fiji, the marine resources of Micronesia, or the **remittances** of Polynesia. Throughout Vanuatu, subsistence agriculture is the mainstay of the village economy, since 80 percent of the population lives in villages. Food crops produced include taro, yams, kumara (sweet potato), bananas, coconut, and a great range of fruit and vegetables.

The most important agricultural product, in terms of cash production in the villages and in terms of export, is copra. This is the dried flesh of coconuts, produced by individual households and on large-scale plantations. Production of copra is highly variable year to year depending on weather conditions and world prices, although a general downward trend in production is noticeable since the early 1980s. One explanation is that the price in real terms paid to producers has declined over this period.

In recent decades there has been an attempt to diversify the rural economy away from coconuts to a variety of crops. Much effort went into the promotion of cocoa during the 1980s, but this was not very successful. By the late 1990s, cocoa exports were still only a small fraction of the value of exported coconut products. There has also been considerable promotion of coffee, but this too has not been very successful.

After copra, the second most important agricultural product by value is beef. Vanuatu is the only significant beef exporter in the Pacific, and this accounted for about 10 percent of all exports by value in the late 1990s. Cattle are often raised under coconut trees and serve both as a source of income and as a means of keeping plantations clear of weeds. The main export markets for beef have been Japan and the neighboring countries of Melanesia.

Two other crops that have increased in value recently are kava and squash. Kava, which is made into a drink that induces relaxation and mild euphoria, is a traditional crop that has recently been commercialized. The establishment of kava bars in the towns has accelerated since the 1980s, and in the 1990s kava was being exported around the world, where it can often be found in drugstores. The success of Tonga in securing a niche in the Japanese squash market caused other Pacific nations to look at this as a potential new crop. Vanuatu was one of the first to start squash production, but it is too early to determine whether this will be a successful case of agricultural diversification.

Logging in Vanuatu has never been on the scale seen in the neighboring countries of Solomon Islands or Papua New Guinea. Nevertheless, in 1997 and 1998, timber was the second most important export by value, after copra. The logging industry has maintained a relatively small but steady rate of production for many years, and involves both foreign companies and village-based sawmills. A ban on the exports of whole logs was implemented in 1989. Although temporarily lifted in 1993, the ban has been quite successful in adding value to the industry within the country by generating jobs in sawmilling and related activities.

Fish are an important food source in most parts of Vanuatu. However, commercial exploitation of fish is much less than in neighboring countries, considering the large area of ocean within Vanuatu's **Exclusive Eco-**

nomic Zone (EEZ). Fishing fleets based in the country in the 1960s and 1970s ceased operations in the 1980s after considerable losses. Thus, fish are not a significant source of export income. Vanuatu does, however, receive some income from royalties paid by offshore fleets fishing within its EEZ, especially Taiwanese and American. The catches of these offshore fleets are landed mainly in Fiji and American Samoa, so relatively little employment is generated within Vanuatu from these activities.

INDUSTRY

In 1999, industry made up 14 percent of GDP. Data from 4 years earlier showed that construction contributed about 48 percent of this sector. This contribution, however, varies considerably from year to year depending on new developments in the tourist sector and in private industry. Manufacturing made up 39 percent of the industry sector, and its contribution has been steady and slowly growing.

There was a manganese mine operating on the island of Efate in the 1960s and 1970s, but currently there is no significant mineral production. Nevertheless, there is much interest in the mineral possibilities of the country, since Vanuatu is similar geologically to Papua New Guinea and Solomon Islands, where gold and other minerals are currently being mined. In the mid-1990s, Australian aid allowed a countrywide survey of mineral potential, and following this, a number of exploration licenses were taken out by private companies.

Manufacturing is a relatively minor industry in Vanuatu, although in the late 1990s it contributed just over 5 percent of GDP. The most important manufacturing enterprises cater for the local market in areas such as food processing (especially meat), wood processing and construction materials. Most of the manufacturing is located in the capital, Port Vila, although small operations such as production of soap from coconut oil take place elsewhere. The growth of tourism has encouraged the production of traditional handicrafts.

SERVICES

The services sector is the largest broad economic sector in the Vanuatu economy, contributing 60.4 percent of GDP in 1999. The makeup of this sector is suggested by data from 1995, which showed that the most important service subsectors, in order, were wholesale and **retail** trade, government services, transport, storage and communication, finance and insurance, real estate, and hotels and restaurants. Although the last of these subsectors is mostly generated by tourism, a considerable amount of the income generated in other subsectors also relates to tourism. Specific amounts were not available.

The sector that is often thought to have the greater future potential in the Pacific is tourism, and it has been heavily promoted in Vanuatu in recent years. Visitor arrivals have doubled in the 2 decades since independence in 1980, rising from about 25,000 per year at that time to about 50,000 in the late 1990s. Tourism in Vanuatu is still a small industry compared to Fiji, but larger than neighboring Solomon Islands. The majority of tourists (about 60 percent) come from Australia, with smaller numbers from New Zealand and New Caledonia. So far, relatively few have come from the largest potential markets of Japan, North America, and Europe.

Tourism is largely focussed on the capital, Port Vila, on the island of Efate. There are several international standard hotels in Port Vila, but in the rest of the country tourist facilities are rare, despite the great potential of some islands. With over 100 indigenous cultural groups, one of the main attractions of Vanuatu is its cultural diversity, represented in different housing styles, dances, and artforms, especially carvings. There are also the typical Pacific attractions of beaches, diving and a tropical climate.

The national airline Air Vanuatu links Port Vila to Noumea, Brisbane, Sydney, Auckland, Nadi and Honiara, and other airlines serve the capital as well, including Air Pacific, Aircalin (New Caledonia) and Solomon Airlines.

Vanuatu is one of several tax havens in the South Pacific. The Offshore Financial Centre (OFC) was established in 1971 and has been maintained since independence. This provides a tax haven for offshore banks, trust companies, insurance companies, and shipping companies. It has been estimated that the OFC employs about 400 people. OFC pays registration fees to the government, which contribute about 2.5 percent of the overall gross domestic product, according to Ambrose and Siwatibau. Local banking services are provided by the National Bank of Vanuatu, ANZ (Australia New Zealand) Bank, Bank of Hawaii, and Westpac.

Like many Pacific countries, retail services are somewhat limited. In Port Vila there are medium-sized shops and supermarkets, but in most of the country there are only small shops with a very limited range of goods.

INTERNATIONAL TRADE

Vanuatu has a large imbalance in trade, with imports exceeding exports by 3 or 4 times. This imbalance is made up for by income from tourism, tax haven revenue, and international aid.

Copra has dominated Vanuatu's exports for many years; it made up 45 percent of all exports in the years 1995 to 1998. In those years, beef and timber were almost as equally important as each other, making up about

Trade (expressed in billions of US$): Vanuatu

	Exports	Imports
1975	.012	.040
1980	.036	.073
1985	.031	.070
1990	.019	.096
1995	.028	.095
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

12 percent each, while cocoa made up about 5 percent of all exports. For copra, timber, and cocoa, the processing countries of these products are significant; the 3 most important export destinations were Japan, Belgium, and Germany. Beef was mostly exported to the nearby countries of New Caledonia, Solomon Islands, and Fiji, and to more distant Japan.

The most important imports into Vanuatu are machines and transport equipment, foodstuffs, basic manufactures, and fuels. Japan is the most important source of imports, accounting for about half of these in value. Australia is the next major source of imports, especially for food and certain types of manufactures, followed by United States, Singapore, and New Zealand.

MONEY

In the period since 1982, the vatu has declined in value against the American dollar by about 40 percent. However, this is not as great a relative decline as experienced in many other Pacific countries. This may be because, despite a negative balance of trade, Vanuatu has a reasonably consistent source of foreign revenue coming from tourism and its tax haven activities. Also, the vatu is pegged against a group of currencies, and although these currencies are secret, it is believed that the most important are the Australian and U.S. dollars, with smaller weight given to the Japanese yen and French franc, according to the Asian Development Bank.

The Reserve Bank of Vanuatu has the usual functions of a central bank, including regulating the money supply, providing economic advice to the government, and general economic monitoring.

POVERTY AND WEALTH

A total of 174 countries are ranked in the United Nations Development Programme's (UNDP) *Human Development Report 2000* according to the Human Development Indicator (HDI), which measures a country's state of well-being using income, education, and health measures. The HDI rank for Vanuatu was 118, meaning that it was better off than many African countries, but was the third poorest country in the Pacific. **GDP per capita** in 1998 was US$1403, nearly twice as much as neighboring Solomon Islands but only about one-twentieth that of the United States.

While there is no adequate information on income distribution, partly because subsistence income is hard to measure, there is evidence that there are varying levels of well-being within the country. Another indicator developed by UNDP is the Human Poverty Index (HPI). It measures conditions for those worst off in a country, such as their health status, education level, access to health services, access to safe water, and malnutrition in children. While to a traveler in Vanuatu there appears to be a kind of "subsistence affluence" in most areas, the HPI suggests that Vanuatu is still a poor country, with the third lowest HPI in the Pacific, at a level similar to that of many of the poorest African countries. For example, illiteracy is estimated at 66 percent, about 23 percent of children under 5 are underweight, and about 20 percent of the population does not have access to adequate health services, according to the UNDP. However, since there is no poverty index in Vanuatu, it is not possible to determine how many people or households can be considered to be poor. The government has many different programs underway to try to overcome some of these problems, and often these are funded by international aid, especially in the areas of education and health.

Exchange rates: Vanuatu

vatu (VT) per US$1	
Dec 2000	143.95
2000	137.82
1999	129.08
1998	127.52
1997	115.87
1996	111.72

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Vanuatu	N/A	1,426	1,672	1,596	1,403
United States	19,364	21,529	23,200	25,363	29,683
Philippines	974	1,166	967	1,064	1,092
Solomon Islands	419	583	666	784	753

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

WORKING CONDITIONS

The situation of the labor force is difficult to determine, due to a lack of recent data. Using Vanuatu's definition of labor force, the bulk of the adult population is said to be in the labor force, with most of these being involved in village agriculture. Most of those working in the wage and salary economy are located in Port Vila or Luganville, the 2 largest urban centers. At the time of the last census, the unemployment rate was calculated to be only 1 percent, although there appeared to be a great deal of **underemployment** involving people who were working only part time. As in most Pacific island nations, there is no unemployment benefit. The minimum wage was set at 16,000 vatu (US$140) per month in 1995, and this applied to both rural and urban employment. Earlier minimum wage levels had been lower in the rural sector, and it was felt by some that the rural minimum was above market rates and would inhibit job creation, according to the Asian Development Bank.

Workers in the formal sector are represented by at least 16 trade unions, generally organized according to industrial sector, but coordinated by the Vanuatu Council of Trade Unions.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1000 B.C. Evidence of human settlement on many islands.

1606 A.D. First European sighting of Vanuatu by Pedro Fernandez de Quiros, who founded an unsuccessful settlement on Espiritu Santo, the largest island in the Vanuatu group, and claimed the islands for Spain.

1768–89. Various European explorers—most commonly British and French—visit islands and introduce metal tools and weapons and new trade goods.

1825. Sandalwood trade starts, which accelerated trade even though the sandalwood resource was exhausted quickly.

1839. First Christian missionaries land; progress in conversion is slow, and some areas resist Christianity to the present day.

1864–1911. Labor recruitment for plantations in Fiji and Queensland, sometimes called "blackbirding."

1887. Condominium of New Hebrides established by French and British.

1940–41. New Hebrides joins Free French in WWII; Vila and Santo become American bases; Jon Frum movement starts proposing that Americans can deliver followers from missionaries and other Europeans.

1960s. Nagriamel, first political party, forms and demands independence and the return of some land.

1971. Tax haven established.

1980. Vanuatu granted independence; islands of Espiritu Santo and Tanna declare themselves independent under Nagriamel and Jon Frum movements; Britain and France refuse to take military action, so troops from Papua New Guinea defeat rebels and secure country for first prime minister, Walter Lini, leader of the Vanua'aku Party.

1982. Vanuatu declares itself nuclear free.

1991–2001. Series of coalition governments, often involving French-English party coalitions.

FUTURE TRENDS

In the late 1990s, much attention was being paid to the political struggles pitting one party against another. However, the party disputes tended to be based on regional and language interests rather than fundamental differences of opinion on economic policy. There was not much dynamism in the economy, with agricultural production and tourist numbers being relatively stable. In the future, the greatest hope appears to be held for tourism, since the country has many undeveloped possibilities. There is some potential for expansion in other sectors; for example, some localization in the fishing industry is possible, although these possibilities will depend to a great extent on a higher degree of political stability than has been seen recently. In terms of the development of human resources, especially in education and health, there will be an ongoing dependence on international aid.

DEPENDENCIES

Vanuatu has no territories or colonies.

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—Wardlow Friesen

VIETNAM

Socialist Republic of Vietnam
Cong Hoa Xa Hoi Chu Nghia Viet Nam

CAPITAL: Hanoi.

MONETARY UNIT: Vietnamese dong. One dong equals 10 hao and 100 xu. There are no coins in Vietnam. Only banknotes are used, and there are notes of 5,000, 10,000, 50,000, and 100,000 dong. While U.S. dollars are commonly accepted in Vietnam, the government policy is to foster the use of the local dong currency.

CHIEF EXPORTS: Crude oil, marine products, rice, coffee, rubber, tea, garments, and shoes.

CHIEF IMPORTS: Machinery and equipment, petroleum products, fertilizer, steel products, raw cotton, grain, cement, and motorcycles.

GROSS DOMESTIC PRODUCT: US$154.4 billion (2000 est.).

BALANCE OF TRADE: **Exports:** US$14.3 billion (2000 est.). **Imports:** US$15.2 billion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Vietnam is bordered on the north by China and to the west by Laos and Cambodia. To the east is the South China Sea (called "Eastern Sea" by the Vietnamese). The country's shape and size is often compared to a bamboo pole with loads at the end (north and south). In the central part of the country Vietnam is only 40 kilometers (25 miles) across. The total land area of Vietnam is 329,569 square kilometers (127,247 square miles), making it slightly larger than New Mexico. It has a long coast of 3,444 kilometers (2,140 miles). Its 2 major cities are the capital Hanoi in the north and Ho Chi Minh City (formerly Saigon) in the south. Other major cities are the ancient capital of Hue in central Vietnam, the coastal cities of Danang and Haiphong, and Dalat in the central highlands.

POPULATION. Vietnam, in terms of population, is the second largest country in Southeast Asia after Indonesia. Its current population was estimated to be 79,939,014 in July 2001, making it the 13th largest country in the world. This compares with a population of 52,741,766 in 1979, 64,411,713 in 1989, and 75,355,200 in 1996. It has one of the higher population densities in the world, at 242.6 persons per square kilometer (628 per square mile). Vietnam has a little less than one-third of the population of the United States in an area that is only 3.5 percent as large.

The current population growth rate is estimated to be 1.45 percent (2001). If this growth rate were to persist into the future, the Vietnamese population would double to approximately 160 million by the year 2051. The Vietnamese woman on average currently has 2.49 children. In recent years, Vietnam has had considerable success in lowering both its population growth rate and fertility rate. Vietnam has a relatively young population with 32 percent of the population under 15.

The population of Vietnam has considerable diversity, with 54 ethnic nationalities. However, 85 to 90 percent of the population are Vietnamese. The second largest ethnic group is Sino-Vietnamese, concentrated in the Ho Chi Minh City area. Among the most numerous of other ethnic nationalities are the Tay-Thai Group (1,200,000), Khmer (1,000,000), Hmong (558,000), and the Cham (99,000).

OVERVIEW OF ECONOMY

Vietnam is one of the world's poorest countries, having suffered from years of war (1940–89) that damaged its economy and basic **infrastructure**. Thus, economic development is the nation's highest priority. It is still largely an agricultural economy, with 72 percent of its workforce engaged in that sector. Much of the country is made up of mountains and forests, with only 17 percent of its land arable.

Vietnam has a long history dating back to around 2879 B.C. when the first Viet state called Vān Lang was

founded. Later there was a state called Âu Lạc (257 B.C.-208 B.C.) and then a subsequent state called Nam Viêt (207 B.C.-39 A.D.). Almost 1,000 years of Chinese domination followed, until 939 A.D. when an independent Ngô Dynasty was established.

In terms of Vietnamese economic history, 5 themes are important. The first is the continual Vietnamese struggle to free itself from foreign domination, starting with roughly 1,000 years of Chinese rule, threats from the Mongols, and then external domination by the French, Japanese, and the United States. The second theme is the struggle against natural disasters such as floods and typhoons. Reflective of this struggle are the huge dikes protecting the capital, Hanoi, from possible flooding by the Red River. A third theme is *nam tiên* (expansion to the south), the need for additional land and territory, given the high population density of Vietnam. Through this process the Vietnamese moved south over time and took over lands which were once part of the Kingdom of Champa (1471) and the area of what is now southern Vietnam was once part of the Khmer Empire. Thus, the Vietnamese came to control both the rich Red River delta in the north and the Mekong River Delta in the south.

A fourth theme relates to Chinese cultural and intellectual influences, particularly in the cities. Close to 1,000 years of Chinese domination left an indelible influence on Vietnam, its culture, customs, and language. This influence has direct relevance to Vietnamese education and potential for human resource development. Unlike its Southeast Asian neighbors such as Thailand, Cambodia, and Laos, Vietnam is part of the Confucian world, as are Japan, Korea, and Singapore. Part of this cultural heritage is the great importance attached to learning and special respect for teachers, scholars, and mentors. A fifth theme is the importance of village life as the heart of Vietnamese culture and related wet rice cooperative culture. It is impossible to understand Vietnam without understanding its villages and their rich cultural traditions.

Vietnam historically had a royal system with imperial dynasties. The imperial capital of Vietnam was in central Vietnam in Hue. In 1858, France invaded Vietnam, capturing Saigon in 1861. By 1884 France controlled all of Vietnam, occupying 3 areas of the country known as Cochin-China (in the south), Annam (in the central region), and Tonkin (in the north). In 1887, France established the colony of Indochina, which included Vietnam, Cambodia, and Laos. Vietnam was the power center of the colony and the French trained the Vietnamese to help them administer the colony "backwaters" in Laos and Cambodia. The local populations in Laos and Cambodia both resented this practice. As in Cambodia, the French co-opted the imperial leaders and used them in their colonization process.

France's interest in Vietnam was economically motivated and the French thought that the Mekong River could be a gateway to the huge China market. Unfortunately, the Mekong turned out not to be a navigable river. To generate profits to run its Indochinese colony, the French introduced a plantation economy to facilitate rubber extraction and exports. Land alienation (transferring ownership to another) was the cornerstone of economic exploitation under the colonial government. The French also introduced **consumer goods** such as opium, alcohol, and cigarettes to generate revenues to support the running of their Vietnamese colony. The French film *Indochine* provides dramatic visual images of life (economic and social) during the French colonial period. Various rebellious movements against the French emerged and the

French were extremely harsh in punishing those Vietnamese for their disloyalty.

During the Second World War, Vietnamese nationalists and revolutionaries cooperated with the West in fighting against Japanese occupation. On December 2, 1945, nationalist leader Ho Chi Minh declared an independent Democratic Republic of Vietnam and was hoping for U.S. support of the new regime. Instead, the French decided to reassert their colonial authority in Vietnam, resulting in the first Indochina War from 1946 to 1954, which eventually led to the French defeat at Dien Bien Phu in May, 1954. The Geneva Accords of 1954 then resulted in Vietnam being temporarily divided into North and South Vietnam at the 17th parallel. The United States opposed 1956 national elections called for by the Geneva Accords, which could have led to the peaceful unification of Vietnam under the leadership of Ho Chi Minh. Instead the south-north division persisted and eventually the U.S. war in Vietnam ensued (1959–75) with tremendous destruction and loss of life in many areas of Vietnam. Vietnam was eventually unified with the "fall of Saigon" on April 30, 1975.

For its first eleven years after unification, Vietnam became a fully **socialist**, state-planned economy with agricultural collectivization. Its international economic relations were almost entirely with the Eastern bloc countries such as the USSR, which provided most of its economic assistance. In December 1979, the Vietnamese army invaded Cambodia to remove the hated Khmer Rouge regime, led by Pol Pot. For the next 10 years, the Vietnamese army became bogged down in Cambodia fighting the Khmer Rouge insurgents who retreated to the remote jungles of west and northwestern Cambodia. Vietnam's Cambodian adventure proved an adverse economic drag on the economy as well. Finally, Vietnam agreed to remove its troops from Cambodia in 1989 as part of a Cambodian peace process. Thus, the modern Vietnamese economy has really known only 12 years of peace, coming since the end of the Cambodian conflict in 1989.

In December 1986, at the Sixth National Party Congress, a new policy of *doi moi* (economic renovation) was introduced. This was a Vietnamese version of what the Soviets called *perestroika*. It basically used free-market mechanisms as a strategy to improve the economy and its productivity, and, in particular, to provide greater incentives for economic effort and performance. Prior to the introduction of this new economic policy, the economy was plagued by economic stagnation and excessive, triple-digit **inflation**. Vietnam's war-torn economy had multiple and extensive economic problems that required a fundamental rethinking of the economic system. Central to the economic renovation was also a commitment to reduce the large size of the state sector and state-owned-enterprises (SEOs). In 1988, the socialist cooperative method of agriculture was abandoned. While under the current economic system all land is still owned by the state, individuals can have long-term leases on land for their and their descendants' use.

With the new *doi moi* policy, the Vietnamese economy began to demonstrate impressive **macroeconomic** (economic system as a whole) performance in the 1990s. With the collapse of the USSR in 1991, Vietnam also opened its economy internationally, with dramatic increases in both international investments in Vietnam and international economic assistance. Still, a major stumbling block was the U.S. trade **embargo**, which was finally lifted in 1994. That was followed by Vietnam's joining the Association of Southeast Asian Nations (ASEAN) in 1995, and later the Asia-Pacific Economic Cooperation forum (APEC).

While the 1997 Asian economic crisis hurt the Vietnamese economy, the Vietnamese economy had much more immunity to this crisis than many neighboring economies, primarily because Vietnam did not have a stock market, nor an internationally traded currency. Also, rather than being part of the "Baht Zone" (areas with close economic interconnections with Thailand), Vietnam was partially a dollarized economy with strong economic links to greater China, an area showing greater currency stability during the Asian economic crisis.

Also, the 2001 global slump in the high technology sector has had minimal impact on Vietnam since it is producing more basic manufacturing/industrial products at the lower end of the technology scale, such as garments and footwear. Thus, Vietnam in 2001 had one of the highest economic growth rates (7.1 percent) in the world. In October 2001, the U.S. Congress finally approved the bilateral trade bill with Vietnam. This provides an important new opening for Vietnam to export to the large U.S. market and eventually to join the World Trade Organization (WTO). Vietnam has suggested the goal of becoming an industrialized country by the year 2020.

POLITICS, GOVERNMENT, AND TAXATION

Vietnam remains a one-party state with complete domination by the **Communist** Party of Vietnam (CPV). Vietnam has a **unicameral** National Assembly whose 450 members are elected every 5 years. As in neighboring Laos, non-party members may compete for seats in the National Assembly. In the last election for the National Assembly in 1997, 92 percent of those elected were CPV members. Economic policies are primarily determined by the Party Politburo, Central Committee of the Party, Party Congresses (every 5 years), and the National Assembly. Some argue that debates within these bodies represent a diverse spectrum of views and perspectives

that may even be broader than within the United States' own two-party Congress, where both parties are often fairly close in terms of basic ideology. With Vietnam trying to maintain a socialist political system and an increasingly capitalistic economic system, there is considerable space for divergence of policy perspectives, particularly with respect to how fast economic reforms should proceed.

As an example of an area in which government policy has changed in accord with the *doi moi* policy in the 1990s, the government opened the door for **privatization** in the higher education sector. The government realized that it did not have the economic resources to meet the growing social demand for higher education. The result was the emergence of a number of private universities. As of 2001, 82,902 students (approximately 8.9 percent of all Vietnamese college students) were studying in private universities or colleges.

Most of the government's tax revenues come from the following: sales tax (60 percent), taxes on profits (20 percent), license fees (10 percent), and property taxes (6.5 percent). Tax collection among non-state enterprises tends to be rather small. In Vietnam, local governments lack the capability to raise revenue through taxes. The customs department collects import-export taxes and the General Taxation Department (GTD) collects other taxes through its branches in the various provinces and districts of the country. Local governments are allowed to keep taxes collected in excess of specified targets. This provides an excellent incentive for local authorities to enforce tax collections.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

As the result of years of war, Vietnam's infrastructure is weak, but steadily improving. In the French colonial period, a 1,730-kilometer (1,075-mile) rail system was developed which connected Saigon to Hanoi, and the port city of Haiphong to Yunnan, China. Later in the 1950s, the Chinese assisted with the development of a rail link between Hanoi and Guangxi Province in China. All of these lines were badly damaged during the wars. Total railway length is 2,652 kilometers (1,650 miles), and many tracks need renovation. In 1999, it took 32 hours to travel by rail from Hanoi to Ho Chi Minh City. Vietnam has 93,300 kilometers (57,977 miles) of highways, 25 percent of which are paved. However, many of the paved roads are in poor condition. Notable improvements have occurred in recent years. For example, there is now an excellent highway from Hanoi to the International Airport and the road from Hanoi to Haiphong and Ha Long Bay is being steadily improved, as is Highway Number One, which links Hanoi and Ho Chi Minh City. A considerable amount of international economic assistance is being used to upgrade Vietnam's weak road infrastructure.

Vietnam's major ports are Haiphong (in the north), Da Nang (central region) and Ho Chi Minh City (in the south). To supplement these, additional ports have been developed at Cua Lo, Quy Nhon, and Nha Trang. Vietnam has 2 international airports (Hanoi and Ho Chi Minh City) and 32 local airports. Travel to distant remote provinces is often done by air.

With Vietnam's rapid economic development in the 1990s, energy demand has been increasing at about 20 percent per year, frequently outstripping supplies of electricity. In 1999, Vietnam generated 22.985 billion kilowatt-hours (kWh) of electricity, of which 47.1 percent was from fossil fuels and 52.3 percent from hydroelectric power. In the future, Vietnam could import electricity from Laos, which has great hydroelectric potential.

While Vietnam's telecommunications system has steadily improved, it remains inadequate. There were only 2.6 million conventional phone lines in 2000 and 730,155 cellular phones for a population of approximately 80 million. Vietnam has 101 radio stations, 7 television stations, and 5 Internet service providers. It is estimated that there

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Vietnam	4	107	47	N/A	2	0.3	6.4	0.00	100
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Thailand	63	232	236	10.1	32	2.5	21.6	4.49	800

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

are 8.2 million radios, 3.57 million televisions, and 121,000 Internet users in Vietnam in 2000. Internet service in Vietnam tends to be slow and expensive.

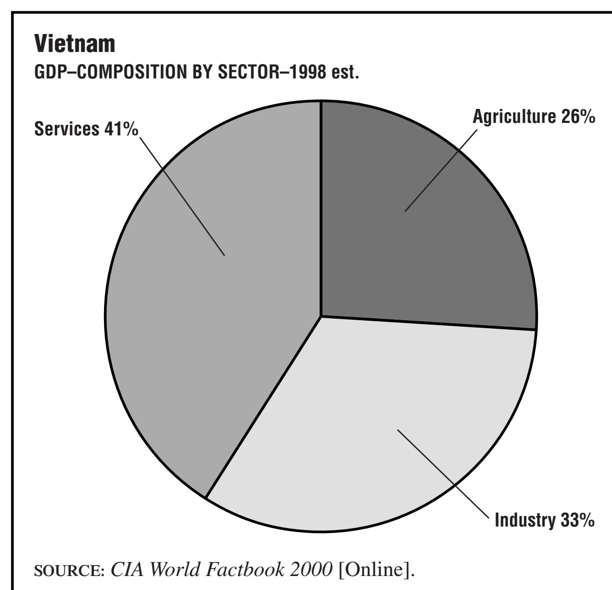
ECONOMIC SECTORS

The economic structure of Vietnam has changed a great deal since the end of warfare in the country in 1989, with agriculture declining in importance from 40.8 percent of GDP in 1989 to 27.1 percent in 1999. Industry has gained proportionally in importance, growing from a percentage contribution of GDP in 1989 of 22.9 percent to 36.7 percent in 1999. During this period, the contribution of the services sector remained virtually unchanged at 36 percent. The annual growth rates of these sectors show similar trends, with agricultural growth rates averaging 3.9 percent since 1995, while industrial sector growth rates averaged 11.4 percent over the same period. These changes reflect the impact of the *doi moi* economic renovation policy.

Despite these structural changes, Vietnam remains an agricultural economy in terms of employment. Around 72 percent of Vietnam's **labor force**, or approximately 28 million individuals, is engaged in agriculture.

With its *doi moi* reform policy and the goal of reducing the size of the **public sector**, as of the late 1990s the state sector employed only 9 percent of Vietnam's labor force of 39 million. In the industrial sector, about 25 percent of all employees were working in the state sector. In the commercial service sector, state employment consisted of only 13 percent of employment in 1997.

The Vietnamese service sector is comprised primarily of those in government work (including teachers), a growing modern **retail** trade sector, small-scale retail shops, a growing tourist industry, and an expanding finance/banking sector.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Despite its limited amount of arable land, Vietnam's agricultural economy has demonstrated impressive success, particularly in the 15 years since the introduction of *doi moi.* The shift to the use of market mechanisms and price incentives contributed significantly to this success. Vietnam has not only achieved self-sufficiency in rice production, but is now a major global food exporter and is the world's third leading exporter of rice, competing actively with Thailand and the United States in this global market. Between 1988 and 1997, total food production in Vietnam increased 50 percent. This extraordinary agricultural success not only contributed positively to Vietnam's foreign exchange earnings, but also contributed to a reduction in the incidence of poverty.

In addition to rice, Vietnam has had success with other agricultural **cash crops**. In recent years Vietnam has become a major exporter of both groundnuts and cashew nuts. The export of cashew nuts in 1997 brought in US$125 million. Also, Vietnam has become Asia's second largest producer of robusta coffee, and coffee is now Vietnam's second leading agricultural export. Other important export crops are rubber and tea.

FISHING. With its long coastline, Vietnam has an active fishing sector. Most of its catch is marine fish (94 percent). Many of Vietnam's marine products are being exported to countries such as Japan, and marine products now represent 9.2 percent of Vietnam's total exports (in terms of value).

FORESTRY. Deforestation remains a major problem in Vietnam. In 1943, 44 percent of Vietnam was forests. By 1995, the forest area of Vietnam had declined to 23 percent. During the U.S. war in Vietnam, 5 percent of the forest was destroyed, and 50 percent was damaged. Deforestation has also been caused by uncontrolled logging, agricultural expansion caused by population growth, slash-and-burn agriculture, and the use of forest wood for firewood. To reverse this pattern of deforestation, the government has introduced 18 forest farming projects and a system of designated national parks.

INDUSTRY

During the colonial period, the French did not promote the development of Vietnamese industry in order to keep it from competing with their own industries. In the period following 1954, socialist northern Vietnam used a Soviet-type economic system emphasizing the development of Vietnamese heavy industry by the state sec-

tor. In the capitalist south, the emphasis was on the development of light industry such as the assembly of small-scale consumer goods. By the 1980s, a unified Vietnam was shifting to an emphasis on greater light industry to meet the basic needs of the population.

MANUFACTURING. The 1990s saw the emergence of Vietnam as a major player in 5 key manufacturing sectors: textiles, footwear and garments, agro-processing, electric and electronic industries, and automobile and motorcycle assembly. For example, Nike is now sourcing significant production of both footwear and apparel in Vietnam, and this has caused controversy related to alleged sweatshop conditions. On the improved road from Hanoi to Haiphong, there is a new Ford Motor Assembly plant; 45 different models of cars are now being assembled in Vietnam. Among the companies investing in car assembly production, in addition to Ford, are Mercedes-Benz, Toyota, Isuzu, Daihatsu, Suzuki, and several Korean auto companies. There are a total of 14 **joint ventures** in the emerging Vietnamese automobile industry. In Vietnam, there is a huge domestic market for motorcycles, the major mode of transportation for Vietnamese living in urban areas. Twenty percent of this huge demand is now being met by the local assembly. Vietnam's electronics assembly manufacturing sector also grew rapidly in the 1990s. Among the major international investors were Daewoo, Hitachi, and Phillips. The assembly of television sets almost tripled to a level of 364,000 in 1998.

Steel and cement production were also given high priority, primarily as a strategy for reducing or eliminating steel and cement imports. Another important new manufacturing area is plastics. Given its impressive oil and gas resources, this is a natural industry for Vietnam to develop.

ELECTRICITY. With Vietnam's rapid industrialization and urbanization, there has been a dramatic increase in energy needs. To respond to this need and to avoid frequent power shortages, Vietnam has completed a number of hydroelectric power projects to generate increased electricity. Among the new power stations and plants are Ba Ria-Vung Tau, Da Nhim, Tri An, Hoa Binh, YALY, and Thamco. Many of these are in the south, to serve the growing manufacturing sector in the Ho Chi Minh/Saigon area. The goal of the government is to achieve a generating capacity of 33 billion kWh by 2002. The government also has a goal of providing electricity to 80 percent of rural households by the year 2005.

MINING. Mineral resources were a major factor attracting the French to Vietnam. Vietnam has commercially viable reserves of coal, iron ore, bauxite, chromite, copper, titanium, zinc, gold, apatite, and gemstones. However, other than coal many are underexploited. In 1996, Vietnamese coal exports were worth US$115 million. Vietnam also mines unrefined salt and phosphate rock.

OIL AND NATURAL GAS. Vietnam has now become a player in the international petroleum industry. In 1998, its petroleum exports were worth US$2.1 billion. It has potentially huge offshore oil and natural gas deposits in the South China Sea (known in Vietnam as the Eastern Sea), many of which remain unexplored. Though the international Law of the Sea has articulated elaborate rules for determining claims to the natural resources of the oceans, numerous disputed island groups in the South China Sea (such as the Spratlys) have led to considerable controversy. Nations such as Vietnam, China, Brunei, the Philippines, and Taiwan claim rights to these vast reserves of oil and natural gas. Several international oil companies are active in Vietnam, trying to profit from the nation's oil wealth. The Russians are active in this arena as well, in a joint venture with Vietnam, Vietsovpetro. Vietnam also plans to build oil refineries.

CONSTRUCTION. The 1990s has seen a construction boom in Vietnam in areas such as infrastructure (highway and bridge construction and renovation), hotel construction for the emerging tourist industry, office and apartment buildings for Vietnam's growing modern service sector, factory construction for the emerging manufacturing sector, and improved residential dwellings for occupancy or rent. Ho Chi Minh City now has many impressive, modern new high-rises. Also visible are many renovated and/or new Buddhist pagodas and Catholic churches, especially in the south. Funding for such religious projects has often come from **remittances** from overseas Vietnamese.

SERVICES

BANKING. Subsequent to the introduction of the doi moi economic reform in 1986, in 1988 financial reforms began. Spun off from the State Bank of Vietnam (the country's central bank) were 2 new commercial banks: the Agricultural Bank of Vietnam (VBA) and the Industrial and Commercial Bank of Vietnam. Prior to the economic reforms, most bank lending in Vietnam was to state-owned enterprises (SOEs). However, by 1995 38 percent of credit went to the non-state sector. The newly created Agricultural Bank took an active role in expanding credit to farm households, reaching approximately 7 million households in 1995. The government subsidized lending rates. The central bank also continues to subsidize state commercial banks. Technically, the central bank is responsible for monitoring all financial sector organizations, though its implementation of this mandate has been weak.

GOVERNMENT AND STATE ENTERPRISE EMPLOYMENT. Integral to the *doi moi* economic reforms was a downsizing of the government sector of the economy.

There has been, for example, considerable demobilization of the Vietnamese army, especially after the end of the Cambodian conflict. By 1991, state enterprise employment represented only 6.2 percent of all employment. After initially reducing the size of the state sector in terms of employment, this sector has leveled off, and this part of the economy no longer is an engine to generate new employment.

TOURISM. Vietnam has considerable tourism potential and in 1998 it had 1,520,100 visitors. The country features multiple attractions, including the historical sites related to the war, majestic Ha Long Bay in the north, the ancient imperial capital of Hue, the former seaport of Hoi-an, attractive beach resorts, adventure tourism in the remote northwest, and the delightful central highlands. A Vietnam-U.S. joint venture in Dalat has produced a world-class golf course and club in the center of Dalat. Vietnam's tourism infrastructure has improved significantly in recent years, with the building of many new hotels and the remodeling of others, such as the famous Continental Hotel in Saigon. The new roads to the International Airport in Hanoi and to Ha Long Bay also reflect the commitment to improve the tourism infrastructure.

Vietnam's tourism, however, is constrained by cumbersome visa requirements and an emphasis on the building of expensive up-scale hotels in both Hanoi and Ho Chi Minh City. Tourist development in the Vung Tau beach area near Saigon will work well for domestic tourism, but will not attract international tourists, since it is competing with destinations such as Bali and Phuket. An area of considerable potential is Vietnam's possible collaboration with Cambodia, Thailand, Laos, and Burma in promoting joint tourism. Visitors to majestic Angkor Wat in Cambodia, for example, could also include Vietnam in their itinerary, or visitors to the world heritage site at Ha Long Bay, could include Luang Prabang, Laos, in their itinerary.

RETAIL AND INFORMAL ECONOMY. In Vietnamese urban areas there has been a rapidly growing small-scale retail sector and large **informal economy**. Much of this sector involves the retail sale of a wide variety of consumer products and services. They range, for example, from the large and formal Saigon Bowl to vendors selling fruits and vegetables on the streets. It is common to even find barbers setting up shop on a sidewalk using a wall to hang their mirrors. Unfortunately, exact data are not available on the exact size and scope of the informal sector, but it is substantial and largely unmeasured.

INTERNATIONAL TRADE

Prior to the collapse of the Soviet Union, most of Vietnam's trade was with the former Soviet Union and Eastern European countries. Since 1991, the country's trade has diversified significantly. It has also expanded dramatically, reflecting an internationalization of the Vietnamese economy. In 1999, exports plus imports divided by GDP reached the level of 84.5 percent, a useful indicator for the level of internationalization of an economy.

Trade (expressed in millions of US$): Vietnam

	Exports	Imports
1994	4054	5825
1995	5448	8155
1996	7255	11144
1997	9184	11592
1998	9360	11494
1999	N/A	N/A

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

Though Vietnam has consistently had **trade deficits**, the amount has narrowed with the boom in Vietnamese exports. For example, in 1989 exports were only 73.7 percent of imports. In 1999, exports had risen to be 98.9 percent of imports. With the passage of the bilateral trade law with the United States in October 2001, and the granting of most-favored nation status to Vietnam, there is potential for Vietnam soon to become a net exporter with a positive trade balance.

In terms of value (stated in US$), Vietnam's leading exports from January to September 2000 were: crude oil (2,471.8 million); textiles and garments (1,355.4 million); marine products (1,017.7 million); rice (531.5 million); computers and computer parts (460 million); coffee (384.1 million); handicrafts (185.4 million); fruits and vegetables (149.4 million); pepper (137 million); and diverse other products (2,603.5 million). Leading imports for the same period were: machinery, equipment, and other small parts (1,793.6 million); petroleum products (1,472.4 million); textiles and leather materials (941.3 million); iron and steel (577.1 million); electronic parts (520.3 million); motorcycles and parts (478.3 million); fertilizers of all kinds (373 million); plastic products (359.8 million); fabrics (234.4 million); chemical products (225.1 million); and miscellaneous other imports (4,004.8 million).

In terms of trading partners, based on data for the same period Vietnam's leading export markets were: Japan (18 percent), China (9.7 percent), Australia (8 percent), Singapore (6.5 percent), the United States (5.3 percent), Taiwan (5.2 percent), Germany (5.0 percent), the Philippines (4.0 percent), the United Kingdom (3.4 percent), and the Netherlands (2.8 percent). These data clearly indicate how successful Vietnam has been in di-

versifying its export markets, which tends to minimize risk. In terms of imports, Vietnam purchased the most from the following countries: Singapore (18.8 percent), Japan (14.5 percent), Taiwan (12.4 percent), South Korea (11.6 percent), China (8.2 percent), Thailand (4.9 percent), Hong Kong (4.8 percent), the United States (2.6 percent), Malaysia (2.5 percent), and Indonesia (2.3 percent). Thus, in terms of trade deficit, Vietnam has the most important trade imbalances with Singapore, South Korea, Taiwan, Thailand, and Hong Kong. In terms of favorable trade balances, Vietnam is doing well with the United States, Germany, and the Philippines. Trade with Japan and China appears fairly balanced.

Despite Vietnam's trade expansion and its membership in ASEAN, the ASEAN Free Trade Area (AFTFA), and APEC, its trade regime remains restrictive by international standards. This policy is obviously a legacy of the system of central planning. With the final conclusion of the bilateral trade law with the United States in October, 2001, Vietnam is obliged to relax various economic restrictions and obstacles which should pave the way for Vietnam's entry to the World Trade Organization.

Related to Vietnam's **balance of payments**, the country was extremely fortunate to have Russia agree to forgive 85 percent of its US$11 billion debt, accumulated during the Soviet period. It is only necessary for Vietnam to pay Russia US$1.7 billion over the next 23 years with only 10 percent in **hard currency**, and the rest being commodities or other products. In 1999, Vietnam's total **external debt** was US$11.142 billion, according to the World Bank. Its **debt service** payments as a percent of its export earnings was a manageable 13.7 percent.

MONEY

The central bank is responsible for **monetary policy**. During recent years, its performance in terms of keeping inflation low and the currency relatively stable has been impressively successful. For example, the inflation rate for the year 2001 is estimated to be 0.6 percent. Inflation in Vietnam since 1996 has normally been around 5 percent or less and has not exceeded 10 percent. While the Vietnamese dong has dropped in value in recent years, the decreases have been much less than in other Southeast Asian countries such as Thailand, Laos, the Philippines, and Indonesia. In the last 7 years, the dong has declined by only a total of 32 percent, from 11,000 dong to the dollar in 1994 to 14,530 dong to the dollar in January 2001.

POVERTY AND WEALTH

In 1999, average GNP per capita in Vietnam was only US$370, giving Vietnam the rank of 170th in the world on this indicator. This statistic, however, is quite misleading, since it does not reflect differential costs of living in different countries and societies. It is much more meaningful to think in terms of GNP per capita being 5,365,000 dong and then to assess what can be purchased locally with that amount of income. The World Bank has made such adjustments and the estimated **GDP per capita** (in terms of **purchasing power parity**) is a much higher $1,950. In 1998, it was estimated that 37 percent of the population was living below the poverty line, though this estimate seems too high and may not adequately reflect local purchasing power.

Rapid economic development in Vietnam has not been accompanied by worsening income distribution, as is common in many other countries at this stage of development. One reason for this outcome is the commitment of the government of Vietnam to target basic and key services to alleviate poverty, spread literacy, and improve health for individuals in all provinces in all areas of the country. A significant portion of revenues generated in the richer provinces are redistributed to poorer, more disadvantaged provinces. Such a policy reflects the government's commitment to prevent large regional disparities and social injustices. However, some researchers have found increasing gender inequality.

A major economic problem facing the Vietnamese economy is the large number of individuals who are unemployed or **underemployed**. This problem is exacerbated (made worse) by several factors: the improvement of agricultural productivity and limited land for expansion has driven farmers off the land; the reduction in the

Exchange rates: Vietnam

new dong (D) per US$1	
Jan 2001	14,530
Jan 2000	14,020
Dec 1998	13,900
Dec 1996	11,100
1995	11,193
Oct 1994	11,000

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Vietnam	N/A	N/A	183	206	331
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Thailand	863	1,121	1,335	2,006	2,593

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Vietnam

Lowest 10%	3.6
Lowest 20%	8.0
Second 20%	11.4
Third 20%	15.2
Fourth 20%	20.9
Highest 20%	44.5
Highest 10%	29.9

Survey year: 1998

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

size of the state sector; and Vietnam's historically rapid population growth rate and young population. Despite the excellent macroeconomic success of the economy in the 1990s, it is insufficient to generate adequate numbers of jobs for new entrants to the labor force. Also, over the next several years state-owned enterprises are expected to reduce employees as part of Vietnam's continuing economic reform process. In July 2001, a freeze on the establishment of new state companies was announced. The unemployment rate in 1995 was estimated to be an extremely high 25 percent. In 1996, an estimated 2 million rural residents migrated to the cities in search of employment (approximately 7 percent of the nation's workforce). The National Assembly has set a strategic target to create 1.4 million new jobs. The major source of new jobs will be from **private sector** development.

WORKING CONDITIONS

Vietnam has in place an extremely progressive national labor law which is designed to regulate working conditions. The major challenge is to ensure that the labor law is being properly and appropriately implemented. The high visibility of Nike, Inc., which decided to add Vietnam as an important site to source its production of footwear and apparel, generated considerable controversy in the United States, especially among activist labor rights groups such as the Workers' Rights Consortium. Accusations of sweatshop conditions and negligible pay were made by a number of journalists.

Actually, Nike's dynamic and creative marketing strategy has enabled the company to expand its production to a country that desperately needs expanded job opportunities. Unfortunately, the subcontractors (Korean and Taiwanese) producing for Nike in Vietnam were without question guilty in some instances of certain abuses and violated Vietnam's labor law. Managers found guilty of such abuses were deported. Though salaries in the Vietnamese garment, textile, and footwear factories are extremely low by U.S. standards, this additional income is often pooled in an extended family context and contributes importantly to families' economic welfare. With companies such as Nike active in Vietnam, in 1998 Vietnam was able to export US$1.4 billion worth of footwear overseas.

Those unable to find formal employment in the Vietnamese economy must seek income-generating activities in the informal economy. Conditions in the informal economy vary rather dramatically, depending on the activity involved. Some informal sector jobs provide individuals with far more freedom and independence than if they were working in a formal factory setting. In other instances, work in the informal economy can be rather humiliating, such as those involved in "begging" tourists to buy their souvenirs, for example. Unfortunately, an illegal commercial sex industry has emerged in Vietnam, especially in the Ho Chi Minh City area. Undereducated, unemployed women can be vulnerable to such an industry. Primarily as the result of the growth of this industry, it is estimated that approximately 100,000 Vietnamese have HIV/AIDS.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

2879 B.C. Vān Lang becomes the first emperor of Vietnam, known as the Vān Lang Kingdom.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Vietnam	49	7	15	4	18	6	2
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Thailand	23	8	5	3	13	11	37

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

111 B.C. TO 939 A.D. Vietnam is under Chinese rule.

939. Vietnam becomes independent of China.

13TH CENTURY. Vietnam repels Mongol forces of Kublai Khan 3 times.

15TH CENTURY. Vietnam repels Ming China's attempt to control the country.

1801. The beginning of the unified reign of Emperor Gia Long, and the beginning of the Nguyen Dynasty.

1858. France begins its invasion of Vietnam, capturing Saigon in 1861. Eventually French control extends beyond Vietnam to all of Indochina.

1924. Vietnamese revolutionary Ho Chi Minh leaves for southern China where he establishes the first **Marxist** organization to promote revolution in Indochina.

1930. Formation of Indochinese Communist Party in Hong Kong.

1941. Ho, after extensive overseas travel, returns to Vietnam to establish the Viet Minh, a revolutionary organization.

1945. On 2 September, Ho announces the birth of Vietnam as an independent, unified nation.

1946–1954. Vietnam fights a war against the French, while the United States provides military and financial aid to the French. In 1954, the French are defeated at Dien Bien Phu by the Viet Minh. Vietnam is later divided at the 17th parallel into North and South Vietnam, with the United States providing aid to the pro-capitalist South Vietnam and opposing the communist North Vietnam.

1959–73. The American war in Vietnam begins, with the United States siding with South Vietnam against North Vietnam. The United States finally leaves the country in 1973.

1975. Following the fall/liberation of the South Vietnamese city of Saigon, the 2 Vietnams are united as the Socialist Republic of Viet Nam on 30 April.

1977. The Socialist Republic of Vietnam is admitted to the United Nations.

1978. Vietnam invades Cambodia and overthrows the Pol Pot regime, which leads to prolonged civil war in Cambodia between Pol Pot's Khmer Rouge forces and the Vietnamese-installed government in Phnom Penh, the capital of Cambodia.

1986. New *doi moi* economic policy calls for economic **liberalization** and the use of market forces and mechanisms.

1989. Vietnam withdraws its troops from Cambodia.

1994. The United States lifts its economic embargo against Vietnam.

1995. Vietnam is accepted as the 7th member of ASEAN.

1995. U.S. president Bill Clinton announces the normalization of relations with Vietnam. Clinton visits Vietnam in 2000.

2001. In October, a Bilateral Trade Agreement between the United States and Vietnam is approved by the U.S. Congress.

FUTURE TRENDS

There is considerable debate about the economic future of Vietnam. Pessimists focus on the country's inadequate physical infrastructure and its powerful state bureaucracy which makes doing business in Vietnam complex and difficult. They also point to persisting ambiguities in Vietnam's evolving legal structure and issues of corruption. These obstacles are normally more of an obstacle for those from the West than those from other Asian countries such as China, Taiwan, and Thailand.

In contrast, there are many reasons to be optimistic about Vietnam and its economic future. First, Vietnam has the good fortune of having access to Pacific ports and being strategically and centrally located near China, India, and Indonesia, all among the world's largest countries. These are potentially huge markets for possible Vietnamese exports.

Second, with its Confucian traditions, Vietnam has demonstrated a strong commitment to education and human resource development. The country's overall literacy rate is an impressively high 93.7 percent. Already, Vietnamese students are performing well in the Scientific Olympics in areas such as math and science. On several key educational indicators, Vietnam has equaled or surpassed Thailand, despite having a much weaker educational infrastructure. Vietnam may have the highest quality labor relative to cost of any country in the world.

Third, Vietnam shares a number of common characteristics with Japan and now seems in a number of ways similar to Japan during its post-war phase of development, though, of course, Vietnam does not have the industrial pre-war base that Japan had. Both countries had their infrastructures destroyed in war, and both were highly motivated to rebuild their societies and economies after suffering from war. The demographics of Japan and Vietnam are similar, with high population density and a relatively small portion of arable land, necessitating the ability to use limited space productively and creatively. Eventually Vietnam's population will be larger than that of Japan. Thus, like Japan it has important economies of scale and related people resources.

Fourth, Vietnam has excellent tourism potential which can be a valuable source of foreign exchange. It also benefits from substantial and increasing international remittances of overseas Vietnamese. Fifth, in fighting the Chinese, the French, and then the United States, the Vietnamese demonstrated impressive courage, determination, flexibility, and creativity. These traits bode well for the entrepreneurial potential of Vietnam.

Finally, the October 2001 approval by the U.S. Congress of a trade agreement between the 2 countries will provide Vietnam with greatly improved export access to the large U.S. market for a wide variety of products. Here there is also a parallel with the earlier economic history of Japan.

DEPENDENCIES

Vietnam has no territories or colonies.

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—Gerald Fry

YEMEN

Republic of Yemen
Al-Jumhuriyah al-Yamaniyah

CAPITAL: Sanaa.

MONETARY UNIT: Yemeni riyal (YR). One riyal equals 100 fils. There are coins of 1, 5, 10, 25, and 50 fils riyals, and notes of 1, 5, 10, 20, 50, and 100 riyals.

CHIEF EXPORTS: Crude oil, cotton, coffee, and dried and salted fish.

CHIEF IMPORTS: Food, live animals, machinery and equipment, and manufactured goods.

GROSS DOMESTIC PRODUCT: US$14.4 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$4.2 billion (f.o.b., 2000). **Imports:** US$2.7 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Yemen is located in the Middle East at the southern end of the Arabian Peninsula. The Arabian Sea, the Gulf of Aden, and the Red Sea bound its south and west. It is also bordered by Saudi Arabia to the north and Oman to the east. Yemen also includes the island of Socotra in the Indian Ocean, and the Kamaran group in the Red Sea. With an area of 527,970 square kilometers (203,849 square miles) and a coastline of 1,906 kilometers (1,184 miles), Yemen is slightly larger than twice the size of Wyoming. The capital city, Sanaa, is located in the west. Other major cities include Aden in the south and al-Hudaydah on the Red Sea coast.

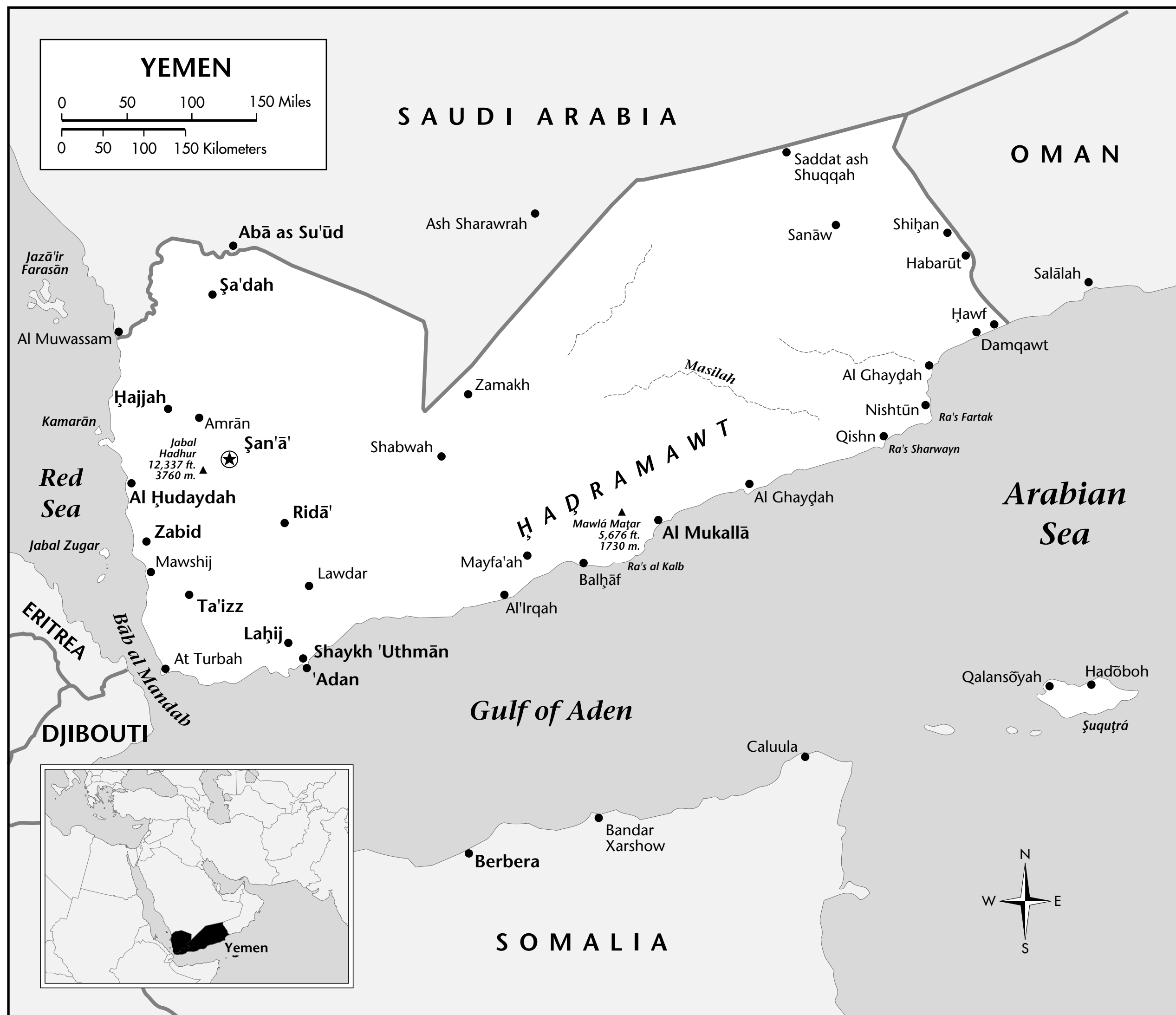
POPULATION. With a population of 18,078,035 (est. July 2001), Yemen is one of the most populous countries on the Arabian Peninsula. The 1990 population estimate was only 11.88 million. The population growth rate in 2000 was estimated at 3.36 percent, but is expected to drop significantly in the coming decade. With a projected growth rate of 2.8 percent between 2000 and 2015, the population is expected to reach 36 million by the year 2029. The majority of the population are Muslims of the Sunni Shaf'i and the Shi'ite Zaydi traditions. There is also a small minority of Jews and Christians.

Yemen's population growth is very high by world standards, and the highest in the Middle East. The population is generally young, with some 50 percent below the age of 15. About 25 percent of the population live below the poverty line, up from 19 percent in 1992, and the average annual income is less than US$400. Widespread malnutrition and diseases make the infant mortality rate in Yemen one of the highest in the region. An estimated 38 percent of Yemenis age 15 or older could read and write in 1990. Among women, the rate was only 26 percent.

OVERVIEW OF ECONOMY

Yemen's domestic economy is largely dependent on oil, which accounts for about 85 percent of export earnings and 75 percent of government revenue. Yemen's oil reserves, however, are small in comparison to its larger oil-producing neighbors, such as Saudi Arabia. Oil reserves are concentrated in the north and south, with the southern field of Masila being the largest, followed by the Ma'rib field, also in the south. Agriculture, the second largest sector, accounts for 20 percent of **real gross domestic product** (GDP) and employs over half of the **labor force**. Higher oil prices fueled GDP growth of 2.8 percent in 1999 and 6.0 percent in 2000, and that upward trend is expected to continue in the coming years, barring a drop in oil prices.

Yemen entered the 20th century as part of the Ottoman Empire, administered by officials appointed by the Ottoman sultan based in Istanbul. For most of the 20th century Yemen was divided into 2 separate states: South Yemen and North Yemen. South Yemen was carved out by the British, who had established a protectorate area



around the southern port of Aden in the 19th century. The British withdrew their forces from Aden in 1967. In 1970, when the government declared a **Marxist** state in the south, hundreds of thousands of Yemenis relocated to northern Yemen. North Yemen became an independent state in 1918, after the collapse of the Ottoman Empire.

In 1990, after years of hostilities and occasional conflict, north and south Yemen formally united to form the Republic of Yemen. Since unification, the country has struggled to overcome the legacy of the civil war that broke out between the north and the south in 1994, and to reform the economy. In 1995, Yemen launched an economic reform program in coordination with the International Monetary Fund (IMF). By the end of the 20th century, however, Yemen still had not created a vibrant economy or diversified its sources of income. As a result, Yemen remains dependent on oil revenue and on international lending agencies for financial assistance.

Yemen's economy is an underdeveloped free market economy with limited state control. Despite political violence, it has a fairly stable multiparty system and enjoys the support of the United States and the European Union. The economy's main exports are cotton, coffee, and dried and salted fish, but oil remains by far the largest single contributor to the national economy. Agricultural products account for one-fifth of GDP. Industry and mining, which are concentrated in Masila in the north and Ma'rib in the south, account for approximately one-fifth of GDP. Limited manufacturing, **retail** trade, and services are centered in the urban centers of Sanaa and Aden. Because of its limited productive capacity and industrial base, the country is heavily dependent on imported goods and on **foreign debt** relief and assistance to sustain its struggling economy.

Neither the agricultural sector nor the oil sector is capable of providing enough jobs to counteract long-stand-

ing problems with unemployment, which is exacerbated by rapid population growth. Unemployment reached 35 percent in Yemen during 1998, while the unemployment rate in the United States was just 4.2 percent in 1999. Despite the government's efforts to address the problem, unemployment will continue to present a serious challenge to the government for a long time to come.

Yemen's economic difficulties—sluggish GDP growth and high unemployment—have traditionally been offset by **remittances** from Yemeni workers abroad, and foreign aid from neighboring countries, especially Saudi Arabia. The Saudi government, however, both expelled Yemeni workers and cut off aid in 1990, due to Yemen's support for the Iraqi invasion of Kuwait that started the Gulf War. The country has also sustained a heavy foreign debt as a result of the 1990 unification, which, at its peak in 1990, was valued at almost twice the **gross national product**. Unable to make its debt payments, Yemen was forced to reschedule its debt to the Paris Club (a grouping of country creditors that extends loans to poor developing countries) in 1996. However, foreign assistance in the form of grants and loans, mainly from the United States and Europe, has alleviated the country's debt burden.

Corruption is a major problem in Yemen, and is especially so in the overstaffed and underpaid government bureaucracy. Chief illicit practices include soliciting bribes, evading taxes, and nepotism (favoring relatives, especially in hiring). The government has taken a tough stand against corruption, but with little success.

POLITICS, GOVERNMENT, AND TAXATION

Since independence, Yemen has been ruled by one party, the General People's Congress (GPC), which holds an absolute majority in parliament. The party is liberal and committed to reform. The emerging multiparty political system coexists with a feudal tribal system, and suffers from a legacy of deeply embedded rivalry between the north and the south. Until its unification with North Yemen, a Marxist-oriented government dominated South Yemen, and its economy was in ruins at the time of unification. For the first 3 years after unification in 1990, the country was governed by a transitional legal code under which the government was a hybrid of the pre-unification cabinets and parliaments of North and South Yemen. Before the 1994 civil war, the Marxist Yemeni Socialist Party ruled South Yemen. Its role diminished greatly after its leaders were sent into exile by the northern government as a pre-condition for peace.

Following the marginalization of the Socialist Party, the government was able to launch an economic reform program in 1995, which was formally endorsed by the IMF in 1997. The program stipulated deep spending cuts and the **privatization** of numerous state-owned facilities, including the National Bank of Yemen, the Yemen Cement Company, and Yemenia airlines, among other state-owned enterprises. It also aimed at keeping **inflation** levels low and encouraging foreign investment in the country. Although some progress has been achieved in the areas of cost-cutting and expanding the government's revenue base, the overall performance of the economy has been rather weak.

Taxes are an insignificant source of government revenue. As a result of the reform program, however, the government has attempted to improve its tax revenue collection system by computerizing its customs clearance at ports and airports. The government, however, has been largely reluctant to reform the **income tax** system in line with the IMF's recommendations. These efforts have been complicated by economic and political uncertainties, such as high unemployment rates, widespread poverty, and a high incidence of political violence. As a result, dependence on the oil sector for revenue is likely to persist.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Yemen's **infrastructure** is relatively poor and underdeveloped. The country is serviced by a network of over 67,000 kilometers (41,634 miles) of primary and secondary roads, only 7,700 kilometers (4,785 miles) of which are paved. Southern Yemen's road system is in especially bad condition, as parts of many roads are washed away by flash floods and heavy rains. As a result, the country's road system constitutes a serious obstacle to economic development. There is no railway system.

Yemen has 5 major airports: the Sanaa, Aden, Rayyan, Taiz, and Hodeida airports. Renovation of the Sanaa and Aden airports began in 2000. Yemenia airline is the country's official airline and is largely protected against foreign competition. The carrier is slated for privatization, but the government has been reluctant to sell its 51 percent share in the airline. Yemen has 6 ports. With the exception of the Port of Aden, all ports experience delays in loading and unloading. Most domestic activity is concentrated at the Port of Hodeidah. Aden Container Terminal, which opened in March 1999 and is still being expanded, is gradually taking over as the country's main port.

Electrical power is supplied to Yemenis by the Public Electricity Corporation, which has a capacity of 400 Megawatts of power. The company can barely meet local demand; electricity reaches only 30 percent of the population. As a result of repeated blackouts and severe shortages—especially in Mukalla and Hadramawt, both

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Yemen	15	64	29	N/A	1	N/A	1.2	0.02	10
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Saudi Arabia	57	321	262	N/A	31	N/A	49.6	1.17	300
Oman	29	598	595	0.0	43	2.7	21.0	2.87	50

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

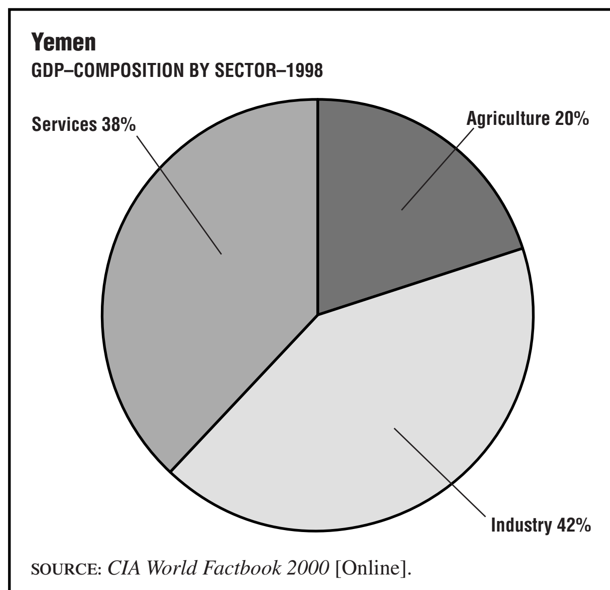
SOURCE: World Bank. *World Development Indicators 2000.*

of which are not connected to the national grid—several factories and residences either have their own generators, or are forced to operate only one shift a day. The situation is worse in rural areas, where an estimated 60 percent of households have no electricity. The government has launched a program to upgrade and extend power supplies, largely with the help of the World Bank.

Telecommunications services in Yemen are unreliable. The country had 249,515 working lines in 1998, with a capacity of 296,129 lines. Telephone service, mobile included, is often interrupted for security reasons. Internet service is available, but is both costly and unreliable. In 2000, the country had just 1 Internet service provider for its 12,000 Internet users.

ECONOMIC SECTORS

Yemen's economic sectors reflect the small size of the economy. The 2 largest economic sectors are agriculture and oil. Agriculture accounted for 20 percent of GDP in 1998, industry (including oil) for 42 percent, and services for 38 percent. Oil accounts for 85 percent of export earnings and is the largest source of government revenue. Two of the greatest obstacles to growth in all of Yemen's economic sectors are overstaffing in all of the state institutions and the sensitivity of the oil sector to changes in world oil prices. Since 1995, the government has targeted certain areas of economic growth—especially the manufacturing and construction sectors—to fuel growth and to diversify the sources of revenue by investing in both the oil and non-oil sectors. Growth in these sectors, however, has been rather sluggish.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agricultural production is the single most important contributor to Yemen's economy, accounting for 20 percent of GDP. The agricultural sector provides approximately 58 percent of the country's employment. The labor-intensive sector is largely underdeveloped and inefficient, as a result of soil erosion, the high cost of credit and land, a lack of investment, and the scarcity of water. Most of the cultivated land is irrigated and dependent on groundwater, but high demand could exhaust water supplies by 2008. Although agricultural output has increased steadily in the past few years, crop yields remain low relative to those produced by comparable countries.

Major agricultural products include fruits, vegetables, and cereals, but production is rarely sufficient to meet domestic demand. As a result, Yemen continues to import most of its food. Yemen also cultivates qat, a mildly narcotic plant indigenous to Africa. Although legal, the government has recently moved to ban its consumption in public offices and on army duty due to economic and social costs associated with those under the influence. It continues to be widely consumed, and future efforts to ban it are unlikely.

FISHING. Though Yemen's location would suggest a booming fishing industry, actual fishing production re-

mains low, largely due to under-exploitation. Most fishing activity continues to center around small boats and family-owned businesses. The sector employs some 41,000 people and produced over 127,000 tons of fish catch in 1998. Yemeni fishing would likely benefit from regulation and effective enforcement to avoid the overfishing of some species.

INDUSTRY

MINING. Oil is a significant source of revenue for the government and of export earnings. Yemen's oil reserves, however, are small by regional standards. Oil reserves, proven and unproven, are estimated to be about 4 billion barrels, in comparison to Saudi Arabia, which has over 260 billion barrels of proven and unproven reserves. Most of the oil production is concentrated in the country's 2 largest fields at Ma'rib and Masila. There are also significant oil fields in Jannah, East Shabwa, and Iyad. Unlike neighboring Arab oil producing states, oil production is dominated by foreign companies. Several foreign companies, such as Hunt Oil Company (U.S.) and Canadian Occidental, enjoy production-sharing agreements, but Yemen's uncertain political atmosphere and dim oil prospects have limited the number of foreign companies interested in the oil sector. The sector's future lies in the successful exploration of new fields.

In addition to oil, Yemen's Ma'rib region is home to natural gas reserves estimated at 16.9 trillion cubic feet. Although small by regional standards, the gas is produced in commercial quantities, but competition and the lack of potential clients have thus far hindered the development of this endeavor. Other minerals include gypsum, salt, and gold.

MANUFACTURING. The manufacturing sector is an important and growing contributor to the Yemeni economy, accounting for about 12 percent of GDP in 1998. The sector has grown steadily in the last decade, but its growth is hindered by competition from imported goods and the lack of funding. Oil refining accounts for half of manufacturing activity. Refining activities are mostly concentrated in Aden and Ma'rib.

Yemen's small industrial base is built around small-sized, family-owned enterprises. Yemen has some 33,284 industrial establishments employing 1 to 4 workers. All large- and medium-sized establishments account for 5 percent of the total number of industrial enterprises. The bulk of Yemen's industrial base is centered on food processing and beverages, but production of cooking oil and flour has increased in recent years. The production of mixed metal products, such as water storage tanks, doors, and windows is the second largest industry, followed by the production of non-metallic products.

SERVICES

TOURISM. Tourism is not a significant contributor to Yemen's economy, despite the government's continuous effort to promote the country as a tourist destination. The sector suffers from a number of problems, foremost among which are political instability and the absence of modern facilities and infrastructure. Furthermore, at least 100 foreigners were reported kidnapped in 1999. Western countries have been advising their nationals against travel to Yemen since the 1998 abduction and killing of 18 foreigners. The number of tourists visiting the country dropped significantly after the 1998 incident, from 87,000 in 1987 to 45,000 in 1999.

FINANCIAL SERVICES. Yemen's banking system is poor and suffers from a number of problems, including a poor loan collection record, low bank monetary assets, and questionable policies regarding the extension of loans to clients. Despite government efforts to reform the financial sector by setting new standards for local banks in 1997, the sector continues to suffer from poor enforcement and compliance, a weak judicial system to ensure collection, and a general lack of public trust in the banking system as a whole. Furthermore, the government's efforts to sell its 2 major commercial banks have been rather slow, mainly due to the long preparation time required to bring these banks up to standard for sale.

Both public and private banks operate in Yemen. Both state-owned commercial banks and 3 of the 12 private banks follow Islamic banking practices, which includes not charging interest on loans. There are also 4 foreign-operated banks. Banking facilities are virtually absent in rural areas, and most loans are extended to well-known businessmen or on the basis of personal connections, making it hard for independent entrepreneurs to access funding.

RETAIL. Yemen lacks well-developed commercial centers—even in the larger coastal cities—and, therefore, has a poorly developed retail sector. The majority of shops in major cities are small and family-owned and run. Small family shops and temporary road stands characterize this sector in the majority of inland towns.

INTERNATIONAL TRADE

Over the past several decades, Yemen has relied more and more on imports, but, despite periodic peaks in the amount of imports, Yemen's oil exports have kept its trade balance positive. In 2000, exports stood at US$4.2 billion, while imports were worth US$2.7 billion. In addition to legitimate trade, the smuggling of firearms, alcohol, and **consumer goods** to and from Saudi Arabia is rampant on the Red Sea. Yemen im-

ports a wide variety of goods, except oil and oil products. Neighboring Gulf countries, mainly Saudi Arabia and the United Arab Emirates, supply the majority of Yemen's imports, followed by France, the United States, and Italy.

Oil accounts for over 85 percent of total sales abroad. Non-oil exports include semi-processed agricultural products, mostly foods. Given its weak industrial base, oil is expected to remain the country's major export. Sales of liquefied natural gas are expected to surge, but the prospects for that eventuality are far from certain. Yemen exports the majority of its oil to Asia, especially Thailand, China, South Korea, and Singapore.

MONEY

Since 1996, the government has allowed the value of the Yemeni riyal to float—meaning its value is determined by supply and demand, not by the government. Before 1996, the government officially set the price, which led to it being widely sold on the **black market**. The riyal was devalued in 1996 from YR12 per US$1 to YR50 per US$1. Since 1996, the value has fluctuated sharply. Between 1996 and 1997, the value of the riyal remained stable, selling for an average of YR125 per US$1 for most of that period. Since 1998, however, the value of the riyal has declined steadily, mainly due to rising fears about Yemen's increasing foreign debt and **budget deficit**. As a result, the riyal traded at YR170 per US$1 in mid-1999. The Central Bank's efforts to keep the value at a stable rate since then have been largely successful. Since late 1999, it has been trading at an average of YR160 per US$1.

POVERTY AND WEALTH

With a per capita income of US$254 annually, Yemen is by far the poorest country in the region. Living standards in the country have fallen sharply since 1990 as a result of high inflation, which in 1995 peaked at 56.3 percent. Although inflation dropped to 10 percent in 2000, the value of wages also decreased, forcing Yemenis to spend more than half their income on food and beverages and limiting their ability to purchase imported goods. An estimated 25 percent of the population lived below the poverty line in 1997, up from 19 percent in 1992.

Exchange rates: Yemen

Yemeni rials per US$1	
Oct 2000	164.590
2000	160.683
1999	155.718
1998	135.882
1997	129.281
1996	94.157

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Yemen	N/A	N/A	N/A	266	254
United States	19,364	21,529	23,200	25,363	29,683
Saudi Arabia	9,658	11,553	7,437	7,100	6,516
Oman	3,516	3,509	5,607	5,581	N/A

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Yemen

Lowest 10%	2.3
Lowest 20%	6.1
Second 20%	10.9
Third 20%	15.3
Fourth 20%	21.6
Highest 20%	46.1
Highest 10%	30.8

Survey year: 1992

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

WORKING CONDITIONS

Yemen's poor education system has meant that the majority of Yemen's labor force is unskilled. About 62 percent of Yemeni adults are unable to read and write. This problem is aggravated by the fact that the majority of Yemen's labor force is concentrated in the agricultural sector, in jobs that do not require advanced skills. The unemployment rate in the country is quite high by regional and international standards, reaching 35 percent in 1998. Local training programs are also poor by regional standards, and job opportunities for graduates of local universities are limited. As a result, thousands of skilled and semi-skilled laborers are forced to seek employment opportunities in neighboring Arab countries. Child labor has been prohibited since 1999, but it remains widespread, especially in the agricultural sector. Government work hours are from 8:00 AM to 2:00 PM. Private businesses maintain a different work schedule, which runs in 2 shifts: from 8:00 AM to 1:00 PM, and from 4:00 PM to 8:00 PM.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Yemen	25	5	26	3	5	5	31
United States	13	9	9	4	6	8	51
Saudi Arabia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Oman	22	8	25	13	21	5	7

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1538. Yemen falls under Ottoman rule.

1839. The British occupy Aden in southern Yemen.

1918. North Yemen gains independence from the Ottoman Empire at the end of World War I (1914–1918), calling itself the Yemen Arab Republic.

1935. The British create the Aden Protectorates.

1962. A group of nationalist officers revolt against the British and proclaim the Yemen Arab Republic (YAR) under the leadership of Abdullah al-Sallal.

1967. South Yemen gains independence from the United Kingdom.

1970. South Yemen, renamed the People's Democratic Republic of Yemen, **nationalizes** foreign-owned properties and establishes close ties with the Soviet Union.

1974–1978. A series of military coups in North Yemen leads to the ascendancy of President Ali Abdullah Saleh, who rules until the 1990 unification.

1986. A 12-day civil war erupts within the government of South Yemen. Former premier Haydar Bakr al-Attas is elected president in October.

1990. The Republic of Yemen is established peacefully on 22 May.

1993. Fair, multi-party, universal-suffrage elections are won by the General People's Congress.

1994. The south rebels against northern domination. The north wins, and the constitution is amended to establish a multiparty democracy.

1995. The government launches an economic reform program.

1999. In the first direct presidential election, Saleh returns to office.

2001. First municipal elections in country's history. The ruling General People's Congress wins the majority of seats. The constitution is amended to extend the term of the president from 5 to 7 years and parliamentary terms from 4 to 6.

FUTURE TRENDS

Yemen entered the 20th century under a cloud of economic decline. For much of the century, the rivalry between northern Yemen and the Marxist-led government of the south sapped the country's resources. The legacy of **socialism** left the southern economy in ruins. The reunification of the countries in 1990 and the subsequent civil war in 1994 further contributed to Yemen's economic decline. Government policies to stabilize the economy enacted in the mid-1990s have significantly improved the country's **macroeconomic** and structural conditions.

Yemen will likely address the unemployment problem, attempt to curb population growth, and implement the privatization policy in hopes of achieving long-term economic growth. The government has yet to lift **subsidies** on diesel fuel completely, cut military spending, downsize the public bureaucracy, or quash corruption in its public institutions and ministries. Much work will need to be done on the political front to achieve social and political stability, particularly to soothe the tensions between the current government and rural tribal groups and southern Marxists.

DEPENDENCIES

Yemen has no territories or colonies.

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—Reem Nuseibeh

GLOSSARY

Advance Tax: A percentage of the previous year's tax bill which is paid at the beginning of the new fiscal year and later credited back at its end.

Agribusiness: Agricultural and livestock production on a large scale, often engaged in by large, multinational companies; also used to refer to the companies themselves.

Arrear: Usually plural, **arrears**. Unpaid, overdue debt.

Bad Loan: An unrecoverable loan; the amount cannot be reclaimed by the lender.

Balance of Payments: The measure of all the money coming into a country and all the money leaving the country in a given period, usually a year. The balance of payments includes merchandise exports and imports, the measure of which is called the **balance of trade**, as well as several other factors.

Balance of Trade: A measure of the value of exports and imports, not including services. When imports exceed exports, there is a trade deficit. When exports exceed imports, there is a trade surplus.

Bank of Issue: The bank that is given the right to issue and circulate currency in a country.

Barter System: An exchange of goods and/or services for other goods and/or services, rather than for money.

Bear Market: A sustained period of negative growth in the stock market.

Bicameral: A legislative body consisting of two houses or chambers.

Black Market: An informal market in which buyers and sellers can negotiate and exchange prohibited or illegal goods (such as exchanging local money for foreign currency). Black markets often exist to avoid government controls. *See also* **Informal Sector.**

Budget Deficit: A government budget deficit occurs when a government spends more money on government programs than it generates in revenues. Governments must borrow money or print currency to pay for this excess spending, thus creating potential financial difficulties. *See also* **Budget Surplus.**

Budget Surplus: A government budget surplus occurs when a government generates more revenues than it spends on government programs. Governments can adjust to surpluses by lowering tax rates, paying down the national debt, or stockpiling the money. *See also* **Budget Deficit.**

Cadre: A group of important and influential members of political parties who direct the actions of that party.

Capital Adequacy: The state of a bank having enough capital to maintain its loans and operating costs.

Capital Flight; also called **Capital Outflow:** Money sent abroad because investors fear that economic conditions within a country are too risky.

Capital Good: A manufactured good used in the production of other goods. For example, factories or machinery used to produce goods are considered capital goods.

Capitalism: An economic system based on the private ownership of the means of production and on an open system of competitive markets. It is assumed that producers in a capitalist system can use their skills and capital in the pursuit of profit.

Capital Outflow: *See* **Capital Flight.**

Cash Crop: An agricultural good produced for direct sale on the market.

Centrally-planned Economy: An economy in which the government exerts a great deal of control over economic planning, including the control of production, the allocation of goods, distribution, and prices. Common in **socialist** countries.

c.i.f.: Abbreviation of **cost, insurance, and freight**; a method of determining the value of imports or exports that includes cost, insurance, and freight in determining the total amount.

Commonwealth of Independent States (CIS): A loose union of 12 of the former republics of the Soviet Union, excluding Estonia, Latvia, and Lithuania.

Communism: An economic system in which the means of production and distribution are held in common by all

members of the society, and in which the rewards are distributed based on need. In actual communist countries, the state usually controls all the capital and land, and the economy is centrally planned. *See also* **Centrally-planned Economy.**

Consumer Good: A product sold directly to the end user, or consumer, such as food and clothing.

Crawling Peg: A fixed **exchange rate** between two currencies which is adjusted incrementally based on the movement of an economic indicator such as inflation.

Currency Board: An arrangement whereby a currency's value is fixed in some proportion to a strong foreign currency and such an exchange rate is guaranteed by the country's foreign exchange reserves.

Current Account Balance: The portion of the **balance of payments** that includes merchandise imports and exports (known as the **balance of trade**) plus imports and exports of services.

Debt Relief: Partial or full forgiveness of debts, offered to impoverished countries by lenders, usually after it becomes clear that continued payment on such debt is likely to ruin the country's economy.

Debt Service: Payment of interest on a loan or other debt. Debt servicing can be very expensive and debilitating for developing countries.

Deflation: Falling prices across an economy, expressed as a percentage per year. *See also* **Inflation.**

Dependency Ratio: The ratio of **pensioners** to the number of people employed.

Deregulation: A lessening of government restrictions on the economy.

Desertification: The progressive drying of the land.

Devaluation: An act by the government or central bank which decreases the official price of a nation's currency. When a currency is devalued, it can result in the country's exports becoming cheaper and more attractive.

Direct Tax: A tax levied directly on individuals or companies, such as income and property taxes. *See also* **Indirect Tax.**

Disposable Income: Those parts of a household income not needed for essentials such as food, healthcare, or housing costs. Disposable income may be saved, invested, or spent on non-essential goods.

Duty: A tax imposed on imported goods. *See also* **Indirect Tax.**

E-commerce: Economic activity conducted on the Internet.

Ecotourism: Tourism to natural and cultural areas which tries to minimize environmental impacts.

Embargo: A prohibition by a government against some or all trade with a foreign nation. *See also* **Sanctions.**

Emerging Market: A country with still evolving economic, social, and political structures that shows evidence of moving toward an open market system.

Emigration: To leave one's country to live elsewhere.

Enterprise Entry: The creation of new, predominantly small and medium size enterprises.

Enterprise Exit: The removal of businesses from an economy, either through bankruptcy or downsizing.

Equity: The value of all the shares in a company.

Estate Tax: A tax on inherited property and wealth.

Exchange Rate: The rate at which one country's currency is exchanged for that of another country.

Exchange Rate Mechanism (ERM): A mechanism set up in 1978 to handle fluctuations in the **exchange rates** of various European currencies. Each currency in the ERM may fluctuate only within agreed limits against any other currency.

Exchange Rate Regime: The mode of determining the **exchange rate** between the national currency and other major foreign currencies. In a fixed exchange rate regime, a currency is fixed or "pegged" to the currency of another, usually very stable currency, such as that of the United States. In a **floating** or flexible exchange rate regime, governments allow the value of their currency to be determined by supply and demand in the foreign exchange market.

Excise Tax: A tax on the sale or use of certain products or transactions, sometimes luxury or non-essential items.

Exclusive Economic Zone (EEZ): The area extending from a country's coastline over which that country has exclusive control of its resources.

External Debt: The total amount of money in a country's economy owed to enterprises and financial institutions outside the country.

Fiduciary: Related to a trust or trusteeship.

Fiscal Policy: The programs of a national government relating to spending on goods, services, **transfer payments**, and the tax system.

Fiscal Year: Any period of 12 consecutive months for which a company or a government calculates earnings, profits, and losses.

Fixed Exchange Rate: *See* **Exchange Rate Regime.**

Floating Exchange Rate: *See* **Exchange Rate Regime.**

Floor Price: The minimum price for a good or service which normally cannot be further reduced due to political, economic, or trade considerations.

f.o.b.: Abbreviation of **Free on board**; a method of determining the value of exports or imports that considers the value of goods excluding the cost of insurance and freight charges.

Foreign Debt: *See* **External Debt.**

Foreign Direct Investment (FDI): The total value of investment by foreign entities in a country, usually expressed on an annual or cumulative basis.

Foreign Exchange Reserves: The amount of money a country has in its treasury consisting of currency from foreign countries.

Free Market System: An economic system based on little government intervention and the freedom of private association and control of goods. *See also* **Capitalism.**

Free Trade Zone: Also called **Free Zone.** An industrial area where foreign companies may import, store, and sometimes export goods without paying taxes.

Full Employment: The level of employment at which a minimal amount of involuntary unemployment exists. It is considered the maximum level of employment in an economy.

Fully Convertible Currency: A currency that can be freely traded in international foreign exchanges for units of another currency.

GDP per Capita: Gross domestic product divided by the number of people in a country. GDP per capita is a convenient way to measure comparative international wealth.

Gini Index: An index used to measure the extent to which the distribution of income within an economy deviates from perfectly equal distribution. A score of 0 would mean perfect equality (with everyone having the same level of wealth) and 100 would signify perfect inequality (with a few extraordinarily wealthy people and the large majority living in dire poverty).

Glut: An excess of goods in a particular market, which typically causes the price of that good to fall.

Grey Economy: Economic activity that takes place in both the formal and **informal economy,** meaning that some but not all economic activity is reported to authorities such as tax collectors.

Gross Domestic Product (GDP): The total market value of all goods and services produced inside a country in a given year, which excludes money made by citizens or companies working abroad.

Gross National Product (GNP): The total market value of all goods and services produced in a year by a nation, including those goods produced by citizens or companies working abroad.

Guarantor: An institution or individual that guarantees to pay the debts of another institution or individual in the case of bankruptcy.

Guest Worker: Persons from a foreign country who are allowed to live in a host country so long as they are employed. Many guest workers send **remittances** to their native country.

Hard Currency: Money that can be exchanged on the foreign market and is stable enough to purchase goods from other countries.

Hawking: Selling wares, often pirated goods, in the **informal sector.**

Holding Company: A company that owns or controls several other companies.

Immigration: To move into a country that is not one's native country.

Import Substitution: A policy which calls for the local production of goods that have traditionally been imported. The goal of import substitution is to lessen a country's dependence on foreign suppliers.

Income Tax: A **direct tax** on an individual's earned income.

Indirect Tax: A tax which is not paid directly, but is passed on as part of the cost of an item or service. For instance, **tariffs** and **value-added taxes** are passed on to the consumer and included in the final price of the product. *See also* **Direct Tax.**

Inflation: A persistent increase in the average price of goods in an economy, usually accompanied by declining purchasing power of the national currency.

Inflation Rate: The rate at which prices rise from one period to the next.

Informal Sector: Also called **Informal Economy**. The part of an economy that lies outside government regulations and tax systems. It usually consists of small-scale and usually labor-intensive activities; it often includes illegal activities. *See also* **Black Market.**

Infrastructure: The system of public facilities, services, and resources in a country, including roads, railways, airports, power generation, and communication systems.

Intermediate Good: A good used as an ingredient or component in the production of other goods. For instance, wood pulp is used to produce paper.

Internally Displaced Person: A person fleeing danger (such as war or persecution) who has not crossed international boundaries. Those who relocate to another country are called "refugees."

Joint Sector: An economic sector in which private enterprise and the government invest jointly.

Joint Venture: A special economic initiative or company formed by a foreign firm and a domestic company, usually in a developing state. The domestic partner often holds a majority interest, thus allowing the host country to control the amount and kind of foreign economic activity. Can also be a simple joint operation by two or more companies.

Labor Force: Also called **Workforce**. The total number of people employed in a country plus the number of people unemployed and looking for a job.

Labor Mobility: The ability and readiness of workers to move to regions or sectors of higher growth within a country or economy.

Levy: A tax based on the assessed value of personal property and/or income.

Liberal Economy: An economy in which markets operate with minimal government interference and in which individual choice and private ownership are the guiding forces.

Liberalization: The opening of an economy to free competition and a self-regulating market, with minimal government-imposed regulations or limitations.

Liquidity: Generally, the amount of money on hand. When related to government, it refers to the amount of money in circulation.

Macroeconomics: Economic issues large enough to impact the nation as a whole.

Market Capitalization: The total market value of a company, expressed by multiplying the value of a company's outstanding shares by the current price of the stock.

Marxism: A set of economic and political theories based on the work of 19th century theorists Karl Marx and Friedrich Engels that holds that human history is a struggle between classes, especially those who own property and those who do not (the workers). Marxism provided the theoretical basis for the economic systems of modern **communism** and **socialism.**

Microcredit: The lending of small amounts of startup capital to the very poor as a way of helping them out of poverty. The World Bank and other aid agencies often make mircrocredit loans to small-scale entrepreneurs in the developing world.

Monetary Policy: A government policy designed to regulate the money supply and interest rates in an economy. These policies are usually determined by the central bank or treasury in order to react to or to anticipate inflationary trends and other factors that affect an economy. They are said to be "tight" when interest rates are raised and other measures are implemented in an effort to control inflation and stabilize currency values.

Monetized Economy: An economy based on money as opposed to barter.

Money Laundering: A method used by criminal organizations to hide income gained from illicit activities, such as drug smuggling, by manipulating banks to provide a legitimate explanation for the source of money.

Monopoly: A company or corporation that has exclusive control over the distribution and availability of a product or service.

Multinational Corporation (MNC): A corporation which has economic ties to or operations in two or more countries.

National Debt: The amount of money owed to lenders by a government. The debt occurs when a government spends more each year than it has raised through taxes. Thus, to spend more than it has, the government must borrow money from banks or through the issuance of bonds.

Nationalization: The movement of privately-owned (and usually foreign-owned) companies into government ownership. Companies have often been nationalized by the developing countries whose government argued that the foreign firms involved did not pay their fair share of the profits to the host country and unfairly exploited it in other ways.

Nomenklatura: The elite members of the Communist Party in communist nations, who were often given privileges not extended to ordinary citizens.

Nomenklatura Privatization: A system of **privatization** in communist nations that openly or covertly transferred ownership of state assets to the **nomenklatura.**

Non-performing Loan: A delinquent loan or one in danger of going into default.

Offshore Banking: Banking operations that offer financial services to people and companies from other countries, usually with associated tax benefits. Offshore banking operations are often suspected as a cover for **money laundering** or other illegal financial activities.

Overheated Economy: An economy that is growing at a very high annual rate, which leads to low interest rates, a high borrowing rate, and an abundance of money in the economy—all of which can lead to **inflation.**

Parastatal: A partly or wholly government-owned enterprise.

Participation Rate: The ratio between the labor force and the total population, which indicates how many people are either working or actively seeking work.

Pensioner: A retired person who lives off a government pension.

Price Control: Artificial limitation on the prices of goods set by the government, usually in a **centrally-planned economy.**

Price Index: An index that shows how the average price of a commodity or bundle of goods has changed over a period of time, usually by comparing their value in constant dollars.

Primary Commodity: A commodity, such as a particular crop or mineral, which is a natural rather than manufactured resource.

Private Sector: The part of an economy that is not directly controlled by the government, including businesses and households.

Privatization: The transition of a company or companies from state ownership or control to private ownership. Privatization often takes place in societies that are making a transition from a **socialist** or mixed-socialist economy to a **capitalist** economy.

Procurement: The purchase of goods or services by the government.

Progressive Taxation: An income taxation system in which tax rates rise in accordance with income levels. Thus, a person making a large salary will be taxed at a higher rate than someone who makes less money.

Proportional Representation: An electoral system whereby the number of legislative seats allocated to a particular political party is decided in proportion to the number of votes that party won in an election.

Protectionist Policy: A government policy used to protect local producers from competition from imported foreign goods. Countries may erect various trade barriers such as **tariffs** or quotas in an effort to protect domestic firms or products.

Public Sector: The part of the economy that is owned and operated by the government.

Purchasing Power Parity (PPP): The purchasing power parity method attempts to determine that relative purchasing power of different currencies over equivalent goods and services. For example, if it costs someone in the United States US$300 to buy a month's worth of groceries, but it costs someone in Ghana only US$100 to buy the same amount of groceries, then the person in Ghana can purchase three times as much for the same amount of money. This means that though the average citizen of Ghana may earn less money than the average citizen of the United States, that money buys more because goods and services cost less in Ghana. The PPP calculation attempts to account for these differences in prices and is used to calculate **GDP** and **GDP per capita** figures that are comparable across nations. Note: GDP figured at purchasing power parity may be three or more times as large as GDP figured at **exchange rate** parity.

Pyramid Scheme: Fraudulent investment strategy involving a series of buying and selling transactions that generate a paper profit, which, in turn, is used to buy more stocks. They were prevalent in Eastern Europe following the fall of the Soviet Union, and preyed on the average citizen's lack of understanding of **free-market** investment transactions.

Real GDP: The **gross domestic product** of a country expressed in constant prices which are determined by a baseline year. Real GDP thus ignores the effects of inflation and deflation and allows for comparisons over time.

Real Wage: Income measured in constant dollars, and thus corrected to account for the effects of inflation.

Recession: A period of negative growth in an economy, usually defined as two consecutive quarters of negative **GDP** growth. A recession is characterized by factors such as low consumer spending, low output, and high unemployment.

Re-export: An imported good that does not undergo any changes (e.g., not turned into a new product) before being exported.

Relative Income Poverty: This is a measure of the overall equality in income among employed workers. Relative income poverty is high when a high percentage of the sum of total income is concentrated in the hands of a small percentage of the working population, and it is low when income is more equally spread among all workers.

Remittance: Money that is sent back to people, usually relatives, living in the home country of a national working abroad.

Repatriation: Taking money out of a foreign country in which it had been invested and reinvesting it in the country where it originated.

Reserve Ratio: The percentage of a bank's assets in reserve against the possibility of customers withdrawing their deposited funds. Some governments impose a minimum percentage, usually enforced by a central bank in proportion to the total amount of currency in circulation.

Restructuring: A catch-all phrase for turning around a company, involving cutting costs, restoring finances, and improving products.

Retail: The sale of goods and services to individuals in small amounts.

Sanction: A penalty, often in the form of a trade restriction, placed on one country by one or several other countries as a penalty for an action by the country under sanctions. Sanctions are designed to force the country

experiencing them to change a policy, such as its human rights practices.

Shadow Economy: Economic interactions that are invisible to standard accounting and taxing procedures. See **Informal Economy.**

Sharecropper: A farmer who works someone else's land in exchange for a share of the crops they produce.

Smallholder: A farmer who has only a very small farm or plot of land.

Social Security Tax: A **direct tax** levied partly on the worker and partly on the employer in order to provide funds for a nation's **social welfare system.**

Social Welfare System: A set of government programs that provides for the needs of the unemployed, aged, disabled, or other groups deemed in need of government assistance.

Socialism: An economic system in which means of production and distribution are owned by the community, and profits are shared among the community. Countries with socialist economies put a premium on centralized control over an economy rather than allowing market forces to operate, and tend to have a relatively equal distribution of income.

Solvency: Financial stability.

Statist Economic Policy: A policy in **capitalist** or quasi-capitalist countries that favor state control or guidance of companies or sectors of the economy that are thought to be vital.

Strategic Industry: An industry considered extremely important to the well being of a country.

Structural Adjustment Program (SAP): A set of economic programs and policies aimed at stabilizing the overall structure of a troubled economy. Structural adjustment programs are often required by international lending agencies such as the World Bank and the International Monetary Fund. These programs often involve devaluing the currency, reducing government spending, and increasing exports.

Structural Unemployment: Unemployment caused by a mismatch between the needs of employers and the skills and training of the labor force.

Subsidy: A payment made by a government to an individual or company that produces a specific good or commodity. Some countries subsidize the production of certain agricultural crops, while others may subsidize mass transit or public art.

Subsistence Farming: Farming which generates only enough produce to feed the farmer's family, with little or nothing left over to sell.

Tariff: An **indirect tax** that is applied to an imported product or class of products.

Tax Haven: A place where investors shield their money from the national taxes of their own country. *See also* **Offshore Banking.**

Tax Holiday: A period of time in which businesses or investors enjoy exemptions from paying taxes. Tax holidays are offered as a lure to investment or business development.

Technocrat: Government official who is expert in specialized—usually technological—areas.

Trade Deficit: *See* **Balance of Trade.**

Trade Surplus: *See* **Balance of Trade.**

Transfer Payment: Cash paid directly to individuals by a government, usually as part of a **social welfare system.**

Transfer Pricing: A method used by foreign firms to overprice their overseas costs and thereby reduce their local tax liabilities.

Treasury Bill: Also called a **T-bill**. A guaranteed government investment bond sold to the public. They usually reach maturity after short periods, for example, three months or six months.

Trickle Down: An economic theory that contends that tax relief and other governmental incentives should be given primarily to the highest income earners in a society, on the assumption that their increased economic investment and other activity will provide benefits that "trickle down" to the lower- and middle-income wage-earners.

Turnover: The measure of trade activity in terms of the aggregated prices of all goods and services sold in the country during a year.

Two-tier Economy: An economy where skilled or educated workers enjoy a high standard of living, but unskilled workers are trapped in poverty.

Underemployment: A situation in which people are not reaching their economic potential because they are employed in low-paying or part-time jobs. For example, an engineer who is working in a fast food restaurant would be said to be experiencing underemployment.

Underground Economy: Economic transactions that are not reported to government, and therefore not taxable. **Informal sectors** and **black markets** are examples of underground economic activity.

Unicameral: A legislative body consisting of a single house or chamber.

United Nations Development Program (UNDP): The United Nations' principal provider of development advice, advocacy, and grant support.

Value Added: The increase in the value of a good at each stage in the production process. When a company adds value to its products it is able to gain a higher price for them, but it may be liable for a **value-added tax.**

Value-added Tax (VAT): A tax levied on the amount of **value added** to a total product at each stage of its manufacture.

Vertical Integration: Control over all stages of the production and distribution of a certain product. For example, if one company owns the mines, the steel plant, the transportation network, the factories, and the dealerships involved in making and selling automobiles, it is vertically integrated.

Voucher Privatization: A system for selling off state-owned companies in which citizens are given "vouchers" which they may invest in such companies. This system was devised to allow all citizens the opportunity to invest in formerly state-owned businesses; however, in practice many citizens invest their vouchers in voucher funds, which are professionally managed investment groups who amass vouchers in order to exert control over the direction of companies.

Welfare State: A government that assumes the responsibility for the well-being of its citizens by providing institutions and organizations that contribute to their care. *See also* **Social Welfare System.**

Workforce: *See* **Labor Force.**

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  Cambodia, **III:**89
  Cameroon, **I:**60
  Central African Republic, **I:**79
  Chile, **II:**99
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  Congo, Republic of the, **I:**112
  Côte d'Ivoire, **I:**122
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  Denmark, **IV:**111
  Equatorial Guinea, **I:**154
  Fiji, **III:**130–131
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  Gabon, **I:**183
  Germany, **IV:**171
  Ghana, **I:**200
  Guinea-Bissau, **I:**219
  Hungary, **IV:**200
  Indonesia, **III:**179
  Ireland, **IV:**220
  Japan, **III:**231–232
  Korea, South, **III:**287–288
  Laos, **III:**319–320
  Latvia, **IV:**250
  Liberia, **I:**247
  Lithuania, **IV:**269
  Luxembourg, **IV:**280
  Malaysia, **III:**349–350
  New Zealand, **III:**413–414
  Nicaragua, **II:**274
  Pakistan, **III:**437
  Panama, **II:**284
  Papua New Guinea, **III:**456
  Peru, **II:**309
  Samoa, **III:**486
  São Tomé and Príncipe, **I:**376
  Solomon Islands, **III:**522
  South Africa, **I:**422
  Suriname, **II:**350
  Swaziland, **I:**444
  Thailand, **III:**584
  United Kingdom, **IV:**494
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  Suriname, **II:**350
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- Afghanistan, **III:**5*f,* 8*t*
- Albania, **IV:**4*f,* 6*t*
- Algeria, **I:**6*f,* 9*t*
- Andorra, **IV:**14*t*
- Angola, **I:**16*f,* 19*t*
- Antigua and Barbuda, **II:**4*f,* 6*t*
- Argentina, **II:**14*f,* 20*t*
- Armenia, **IV:**19*f,* 22*t*
- Australia, **III:**15*f,* 20*t*
- Austria, **IV:**30*f,* 34*t*
- Azerbaijan, **III:**28*f,* 30*t*
- The Bahamas, **II:**28*f,* 30*t*
- Bahrain, **III:**36*f,* 37*t*
- Bangladesh, **III:**46*f,* 51*t*
- Barbados, **II:**36*f,* 38*t*
- Belarus, **IV:**40*f,* 43*t*
- Belgium, **IV:**52*f,* 58*t*
- Belize, **II:**44*f,* 46*t*
- Benin, **I:**24*f,* 26*t*
- Bhutan, **III:**60*f,* 62*t*
- Bolivia, **II:**54*f,* 57*t*
- Bosnia and Herzegovina, **IV:**66*f,* 68*t*
- Botswana, **I:**32*f,* 33*t*
- Brazil, **II:**67*f,* 72*t*
- Brunei Darussalam, **III:**68*f,* 71*t*
- Bulgaria, **IV:**75*f,* 78*t*
- Burkina Faso, **I:**41*f,* 44*t*
- Burma, **III:**77*f,* 81*t*
- Burundi, **I:**50*f,* 52*t*
- Cambodia, **III:**89*f,* 91*t*
- Cameroon, **I:**59*f,* 64*t*
- Canada, **II:**82*f,* 88*t*
- Cape Verde, **I:**70*f,* 72*t*
- Central African Republic, **I:**78*f,* 80*t*
- Chad, **I:**86*f,* 88*t*
- Chile, **II:**98*f,* 104*t*
- China, **III:**100*f,* 107*t*
- Colombia, **II:**112*f,* 116*t*
- Comoros, **I:**94*f,* 95*t*
- Congo, Democratic Republic of the, **I:**103*f,* 105*t*
- Congo, Republic of the, **I:**112*f,* 114*t*
- Costa Rica, **II:**124*f,* 129*t*
- Côte d'Ivoire, **I:**121*f,* 124*t*
- Croatia, **IV:**87*f,* 90*t*
- Cuba, **II:**137*f,* 139*t*
- Cyprus, **III:**118*f,* 119*f,* 123*t*
- Czech Republic, **IV:**98*f,* 101*t*
- Denmark, **IV:**110*f,* 114*t*
- Djibouti, **I:**130*t,* 133*t*
- Dominica, **II:**146*f,* 148*t*
- Dominican Republic, **II:**154*f,* 157*t*
- Ecuador, **II:**164*f,* 167*t*
- Egypt, **I:**140*f,* 145*t*
- El Salvador, **II:**175*f,* 178*t*
- Equatorial Guinea, **I:**154*f,* 156*t*
- Eritrea, **I:**162*f,* 164*t*
- Estonia, **IV:**122*f,* 123*t*
- Ethiopia, **I:**171*f,* 176*t*
- Fiji, **III:**130*f,* 132*t*
- Finland, **IV:**131*f,* 137*t*
- France, **IV:**146*f,* 152*t*
- French Polynesia, **III:**138*f,* 140*t*
- Gabon, **I:**182*f,* 184*t*
- The Gambia, **I:**190*f,* 192*t*
- Georgia, **IV:**158*f,* 161*t*
- Germany, **IV:**170*f,* 176*t*
- Ghana, **I:**199*f,* 201*t*
- Greece, **IV:**184*f,* 189*t*
- Grenada, **II:**194*f,* 196*t*
- Guatemala, **II:**203*f,* 205*t*
- Guinea, **I:**209*f,* 211*t*
- Guinea-Bissau, **I:**219*f,* 220*t*
- Guyana, **II:**212*f,* 214*t*
- Haiti, **II:**220*f,* 222*t*
- Honduras, **II:**228*f,* 232*t*
- Hong Kong, **III:**149*f,* 154*t*
- Hungary, **IV:**199*f,* 202*t*
- Iceland, **IV:**209*f,* 211*t*
- India, **III:**164*f,* 168*t*
- Indonesia, **III:**178*f,* 182*t*
- Iran, **III:**194*f,* 199*t*
- Iraq, **III:**207*f,* 210*t*
- Ireland, **IV:**219*f,* 223*t*
- Israel, **III:**217*f,* 220*t*
- Italy, **IV:**234*f,* 240*t*
- Jamaica, **II:**238*f,* 242*t*
- Japan, **III:**231*f,* 236*t*
- Jordan, **III:**244*f,* 247*t*
- Kazakhstan, **III:**255*f,* 260*t*
- Kenya, **I:**227*f,* 231*t*
- Kiribati, **III:**268*f,* 269*t*
- Korea, North, **III:**276*f,* 278*t*
- Korea, South, **III:**287*f,* 292*t*
- Kuwait, **III:**299*f,* 301*t*
- Kyrgyzstan, **III:**308*f,* 311*t*
- Laos, **III:**318*f,* 322*t*
- Latvia, **IV:**249*f,* 251*t*
- Lebanon, **III:**329*f,* 332*t*
- Lesotho, **I:**238*f,* 240*t*
- Liberia, **I:**246*f,* 249*t*
- Libya, **I:**254*f,* 257*t*
- Liechtenstein, **IV:**260*t*
- Lithuania, **IV:**267*f,* 271*t*
- Luxembourg, **IV:**279*f,* 282*t*
- Macau, **III:**338*f,* 340*t*
- Macedonia, **IV:**288*f,* 290*t*
- Madagascar, **I:**264*f,* 266*t*
- Malawi, **I:**272*f,* 274*t*
- Malaysia, **III:**348*f,* 354*t*
- Maldives, **III:**362*f,* 365*t*
- Mali, **I:**280*f,* 282*t*
- Malta, **IV:**296*f,* 298*t*
- Marshall Islands, **III:**370*f,* 372*t*
- Mauritania, **I:**288*f,* 290*t*
- Mauritius, **I:**296*f,* 299*t*
- Mexico, **II:**250*f,* 255*t*
- Micronesia, **III:**378*f,* 380*t*
- Moldova, **IV:**304*f,* 306*t*
- Monaco, **IV:**314*t*
- Mongolia, **III:**386*f,* 388*t*
- Morocco, **I:**307*f,* 310*t*
- Mozambique, **I:**317*f,* 322*t*
- Namibia, **I:**331*f,* 333*t*
- Nauru, **III:**394*t*
- Nepal, **III:**401*f,* 405*t*
- Netherlands, **IV:**320*f,* 326*t*
- Netherlands Antilles and Aruba, **II:**265*f,* 269*t*
- New Zealand, **III:**412*f,* 416*t*
- Nicaragua, **II:**274*f,* 276*t*
- Niger, **I:**341*f,* 343*t*
- Nigeria, **I:**355*f,* 360*t*
- Norway, **IV:**336*f,* 339*t*
- Oman, **III:**422*f,* 425*t*
- Pakistan, **III:**435*f,* 441*t*
- Palau, **III:**449*t*
- Panama, **II:**283*f,* 286*t*
- Papua New Guinea, **III:**456*f,* 458*t*
- Paraguay, **II:**295*f,* 300*t*
- Peru, **II:**308*f,* 312*t*
- Philippines, **III:**465*f,* 469*t*
- Poland, **IV:**348*f,* 354*t*
- Portugal, **IV:**365*f,* 369*t*
- Puerto Rico, **II:**317*t*
- Qatar, **III:**478*f,* 480*t*
- Romania, **IV:**379*f,* 383*t*
- Russia, **IV:**393*f,* 399*t*
- Rwanda, **I:**368*f,* 369*t*
- St. Kitts and Nevis, **II:**325*f,* 328*t*
- St. Lucia, **II:**334*f,* 336*t*
- St. Vincent and the Grenadines, **II:**342*f,* 344*t*
- Samoa, **III:**485*f,* 488*t*
- San Marino, **IV:**409*t*
- São Tomé and Príncipe, **I:**376*f,* 378*t*
- Saudi Arabia, **III:**498*f,* 502*t*
- Senegal, **I:**385*f,* 388*t*
- Seychelles, **I:**396*f,* 398*t*
- Sierra Leone, **I:**404*f,* 406*t*
- Singapore, **III:**511*f,* 514*t*
- Slovakia, **IV:**414*f,* 418*t*
- Slovenia, **IV:**424*f,* 427*t*
- Solomon Islands, **III:**522*f,* 524*t*
- Somalia, **I:**413*f,* 415*t*
- South Africa, **I:**421*f,* 427*t*
- Spain, **IV:**438*f,* 442*t*

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Sri Lanka, **III:**532*f,* 535*t*
Sudan, **I:**436*f,* 439*t*
Suriname, **II:**350*f,* 352*t*
Swaziland, **I:**443*f,* 445*t*
Sweden, **IV:**451*f,* 455*t*
Switzerland, **IV:**465*f,* 470*t*
Syria, **III:**543*f,* 547*t*
Taiwan, **III:**556*f,* 563*t*
Tajikistan, **III:**570*f,* 573*t*
Tanzania, **I:**453*f,* 457*t*
Thailand, **III:**582*f,* 588*t*
Togo, **I:**467*f,* 469*t*
Tonga, **III:**597*f,* 599*t*
Trinidad and Tobago, **II:**358*f,* 360*t*
Tunisia, **I:**476*f,* 479*t*
Turkey, **III:**608*f,* 615*t*
Turkmenistan, **III:**624*f,* 627*t*
Tuvalu, **III:**635*t*
Uganda, **I:**487*f,* 491*t*
Ukraine, **IV:**479*f,* 483*t*
United Arab Emirates, **III:**640*f,* 644*t*
United Kingdom, **IV:**493*f,* 498*t*
United States, **II:**368*f,* 374*t*
Uruguay, **II:**385*f,* 387*t*
Uzbekistan, **III:**651*f,* 654*t*
Vanuatu, **III:**659*f,* 662*t*
Venezuela, **II:**394*f,* 399*t*
Vietnam, **III:**669*f,* 672*t*
Yemen, **III:**680*f,* 682*t*
Yugoslavia, **IV:**514*f,* 517*t*
Zambia, **I:**499*f,* 502*t*
Zimbabwe, **I:**509*f,* 512*t*
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Chile, **II:**104
Costa Rica, **II:**129
Croatia, **IV:**91
Denmark, **IV:**108–109
Ecuador, **II:**167
El Salvador, **II:**178
Finland, **IV:**138–139
Georgia, **IV:**162
Germany, **IV:**165–166, 176–177
Greece, **IV:**189
Hong Kong, **III:**154
Ireland, **IV:**224
Japan, **III:**236
Jordan, **III:**247–248
Kazakhstan, **III:**261–262
Malaysia, **III:**354
Oman, **III:**425
Pakistan, **III:**442
Peru, **II:**312
Philippines, **III:**470
Poland, **IV:**354–355
Romania, **IV:**383
Spain, **IV:**443
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Turkey, **III:**616
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House of Lords, United Kingdom, **IV:**490
Household consumption
Albania, **IV:**6*t*
Antigua and Barbuda, **II:**7*t*
Argentina, **II:**20*t*
Armenia, **IV:**22*t*
Australia, **III:**21*t*
Austria, **IV:**35*t*
Azerbaijan, **III:**30*t*
The Bahamas, **II:**30*t*
Bahrain, **III:**38*t*
Bangladesh, **III:**52*t*
Belarus, **IV:**44*t*
Belgium, **IV:**58*t*
Belize, **II:**47*t*
Benin, **I:**26*t*
Bolivia, **II:**58*t*
Botswana, **I:**34*t*
Brazil, **II:**73*t*
Bulgaria, **IV:**79*t*
Cameroon, **I:**64*t*
Canada, **II:**88*t*
Chile, **II:**104*t*
Congo, Republic of the, **I:**114*t*
Côte d'Ivoire, **I:**125*t*
Croatia, **IV:**91*t*
Czech Republic, **IV:**102*t*
Denmark, **IV:**115*t*
Dominica, **II:**149*t*
Ecuador, **II:**168*t*
Egypt, **I:**146*t*
Estonia, **IV:**124*t*
Fiji, **III:**133*t*
Finland, **IV:**137*t*
France, **IV:**152*t*
Gabon, **I:**184*t*
Georgia, **IV:**161*t*
Germany, **IV:**176*t*
Greece, **IV:**190*t*
Grenada, **II:**197*t*
Guinea, **I:**212*t*
Hong Kong, **III:**154*t*
Hungary, **IV:**202*t*
Iceland, **IV:**212*t*
Indonesia, **III:**183*t*
Ireland, **IV:**224*t*
Israel, **III:**221*t*
Italy, **IV:**241*t*

Jamaica, **II:**243*t*
Japan, **III:**237*t*
Jordan, **III:**248*t*
Kazakhstan, **III:**261*t*
Kenya, **I:**232*t*
Korea, South, **III:**292*t*
Kyrgyzstan, **III:**312*t*
Latvia, **IV:**252*t*
Lebanon, **III:**333*t*
Lithuania, **IV:**272*t*
Luxembourg, **IV:**283*t*
Macedonia, **IV:**290*t*
Madagascar, **I:**267*t*
Malawi, **I:**275*t*
Mali, **I:**283*t*
Mauritius, **I:**299*t*
Mexico, **II:**256*t*
Moldova, **IV:**307*t*
Mongolia, **III:**389*t*
Morocco, **I:**311*t*
Nepal, **III:**406*t*
Netherlands, **IV:**327*t*
New Zealand, **III:**417*t*
Nigeria, **I:**360*t*
Norway, **IV:**339*t*
Oman, **III:**426*t*
Pakistan, **III:**442*t*
Panama, **II:**287*t*
Peru, **II:**313*t*
Philippines, **III:**470*t*
Poland, **IV:**355*t*
Qatar, **III:**481*t*
Romania, **IV:**383*t*
Russia, **IV:**400*t*
St. Kitts and Nevis, **II:**328*t*
St. Lucia, **II:**337*t*
St. Vincent and the Grenadines, **II:**345*t*
Senegal, **I:**389*t*
Sierra Leone, **I:**407*t*
Singapore, **III:**515*t*
Slovakia, **IV:**418*t*
Slovenia, **IV:**427*t*
Spain, **IV:**443*t*
Sri Lanka, **III:**536*t*
Swaziland, **I:**446*t*
Sweden, **IV:**456*t*
Switzerland, **IV:**470*t*
Tajikistan, **III:**573*t*
Tanzania, **I:**458*t*
Thailand, **III:**588*t*
Trinidad and Tobago, **II:**361*t*
Tunisia, **I:**479*t*
Turkey, **III:**616*t*
Turkmenistan, **III:**628*t*
Ukraine, **IV:**483*t*
United Kingdom, **IV:**499*t*
United States, **II:**375*t*
Uruguay, **II:**388*t*
Uzbekistan, **III:**655*t*
Venezuela, **II:**399*t*
Vietnam, **III:**673*t*
Yemen, **III:**683*t*
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Burundi, **I:**49
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Ethiopia, **I:**171
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Australia, **III:**21*t*
Austria, **IV:**34*t*
Bangladesh, **III:**52*t*
Belarus, **IV:**43*t*
Belgium, **IV:**58*t*
Bolivia, **II:**58*t*
Brazil, **II:**72*t*
Bulgaria, **IV:**79*t*
Burkina Faso, **I:**44*t*
Burundi, **I:**52*t*
Cambodia, **III:**91*t*
Canada, **II:**89*t*
Central African Republic, **I:**80*t*
China, **III:**107*t*
Colombia, **II:**117*t*
Costa Rica, **II:**129*t*
Côte d'Ivoire, **I:**124*t*
Croatia, **IV:**91*t*
Czech Republic, **IV:**101*t*
Denmark, **IV:**115*t*
Dominican Republic, **II:**157*t*
Ecuador, **II:**167*t*
Egypt, **I:**146*t*
El Salvador, **II:**178*t*
Estonia, **IV:**124*t*
Ethiopia, **I:**176*t*
Finland, **IV:**137*t*
France, **IV:**152*t*
The Gambia, **I:**192*t*
Germany, **IV:**176*t*
Ghana, **I:**202*t*
Greece, **IV:**189*t*
Guatemala, **II:**206*t*
Guinea, **I:**211*t*
Guinea-Bissau, **I:**221*t*
Guyana, **II:**214*t*
Honduras, **II:**232*t*
Hungary, **IV:**202*t*
India, **III:**168*t*
Indonesia, **III:**182*t*
Ireland, **IV:**223*t*
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- Jamaica, **II:**242*t*
- Japan, **III:**236*t*
- Jordan, **III:**248*t*
- Kazakhstan, **III:**261*t*
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- Korea, South, **III:**292*t*
- Kyrgyzstan, **III:**311*t*
- Laos, **III:**323*t*
- Latvia, **IV:**251*t*
- Lesotho, **I:**241*t*
- Lithuania, **IV:**271*t*
- Luxembourg, **IV:**282*t*
- Madagascar, **I:**266*t*
- Malaysia, **III:**354*t*
- Mali, **I:**282*t*
- Mauritania, **I:**291*t*
- Mexico, **II:**255*t*
- Moldova, **IV:**306*t*
- Mongolia, **III:**389*t*
- Morocco, **I:**310*t*
- Mozambique, **I:**322*t*
- Nepal, **III:**405*t*
- Netherlands, **IV:**326*t*
- New Zealand, **III:**416*t*
- Nicaragua, **II:**276*t*
- Niger, **I:**343*t*
- Nigeria, **I:**360*t*
- Norway, **IV:**339*t*
- Pakistan, **III:**441*t*
- Panama, **II:**287*t*
- Papua New Guinea, **III:**458*t*
- Paraguay, **II:**300*t*
- Peru, **II:**312*t*
- Philippines, **III:**469*t*
- Poland, **IV:**354*t*
- Portugal, **IV:**370*t*
- Romania, **IV:**383*t*
- Russia, **IV:**399*t*
- Rwanda, **I:**370*t*
- St. Lucia, **II:**336*t*
- Senegal, **I:**388*t*
- Sierra Leone, **I:**406*t*
- Slovakia, **IV:**418*t*
- Slovenia, **IV:**427*t*
- South Africa, **I:**427*t*
- Spain, **IV:**442*t*
- Sri Lanka, **III:**536*t*
- Swaziland, **I:**446*t*
- Sweden, **IV:**455*t*
- Switzerland, **IV:**470*t*
- Tanzania, **I:**458*t*
- Thailand, **III:**588*t*
- Trinidad and Tobago, **II:**360*t*
- Tunisia, **I:**479*t*
- Turkey, **III:**615*t*
- Turkmenistan, **III:**628*t*
- Uganda, **I:**492*t*
- Ukraine, **IV:**483*t*
- United Kingdom, **IV:**498*t*
- United States, **II:**375*t*
- Uruguay, **II:**388*t*
- Uzbekistan, **III:**654*t*
- Venezuela, **II:**399*t*
- Vietnam, **III:**673*t*
- Yemen, **III:**682*t*
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PREFACE

The *Worldmark Encyclopedia of National Economies* joins the Worldmark family of encyclopedias and attempts to provide comprehensive overviews of the economic structure and current climate of 198 countries and territories. Each signed entry provides key data and analysis on a country's economic conditions, their relationship to social and political trends, and their impact on the lives of the country's inhabitants. The goal of this set is to use plain language to offer intelligent, consistent analysis of every important economy in the world.

It is our sincere hope that this set will open the reader's mind to the fascinating world of international economics. Contained within this collection are a number of fascinating stories: of Eastern European nations struggling to adapt to capitalist economic systems in the wake of the collapse of communism; of Pacific Island nations threatened with annihilation by the slow and steady rise of ocean levels; of Asian nations channeling the vast productivity of their people into diversified economies; of the emerging power of the European Union, which dominates economic life across Europe; of Middle Eastern nations planning for the disappearance of their primary engine of economic growth, oil; and many others. To make all this information both accessible and comparable, each entry presents information in the same format, allowing readers to easily compare, for example, the balance of trade between Singapore and Hong Kong, or the political systems of North and South Korea. Economics has a language of its own, and we have **highlighted** those economic terms that may not be familiar to a general reader and provided definitions in a glossary. Other terms that are specific to a particular country but are not economic in nature are defined within parentheses in the text.

This set contains entries on every sovereign nation in the world, as well as separate entries on large territories of countries, including: French Guiana, Martinique, and Guadeloupe; Macau; Puerto Rico; and Taiwan. The larger dependencies of other countries are highlighted within the mother country's entry. For example, the entry on Denmark includes a discussion of Greenland, the United Kingdom includes information on many of its Crown territories, and the United States entry highlights the economic conditions in some of its larger territories.

ENTRY OBJECTIVES

Each entry has two objectives: one, to offer a clear picture of the economic conditions in a particular country, and two, to provide statistical information that allows for comparison between countries. To offer comparable information, we have used some common sources for the tables and graphs as well as for individual sections. Even the most exhaustive sources do not provide information for every country, however, and thus some entries either have no data available in certain areas or contain data that was obtained from an alternate source. In all entries, we tried to provide the most current data available at the time. Because collection and evaluation methods differ among international data gathering agencies such as the World Bank, United Nations, and International Monetary Fund, as well as between these agencies and the many government data collection agencies located in each country, entries sometimes provide two or more sources of information. Consequently, the text of an entry may contain more recent information from a different source than is provided in a table or graph, though the table or graph provides information that allows the easiest comparison to other entries.

No one source could provide all the information desired for this set, so some sources were substituted when the main source lacked information for specific countries. The main sources used included: the *World Factbook 2000* and *2001,* which provided the common information on the countries' gross domestic product (GDP) at purchasing power parity, the division of labor, balance of trade, chief imports, chief exports, and population, unless otherwise noted in the text; the World Bank's *World Development Indicators,* which was a valued source for information about the infrastructure and consumption patterns of many countries; the *Human Development Report,* from the United Nations, which provided GDP per capita information on many countries; and the International Monetary Fund's *International Financial Statistics Yearbook,* which provided historical records of trade balances for most countries. Each entry also contains a bibliography that lists additional sources that are specific to that entry.

ENTRY ORGANIZATION

All entries are organized under 16 specific headings to make it easy to find needed information quickly and to compare the conditions in several different countries easily. (The sole exception is the entry on the Vatican, whose unique features necessitated the removal of several sections.) The sections are as follows:

COUNTRY OVERVIEW. This section includes information about the size of all land surfaces, describing coastlines and international boundaries. It also highlights significant geographical features in the country and the location of the capital. The size of the country is compared to a U.S. state or, for smaller countries, to Washington, D.C. Also included is information on the total population, as well as other important demographic data concerning ethnicity, religion, age, and urbanization. Where relevant, this section also includes information about internal conflicts, major health problems, or significant population policies.

OVERVIEW OF ECONOMY. This overview is meant to provide an analysis of the country's overall economic conditions, mentioning those elements that are deemed most important to an understanding of the country. It provides context for the reader to understand the more specific information available in the other sections.

POLITICS, GOVERNMENT, AND TAXATION. This section identifies the structure of the government and discusses the role the government, political parties, and taxes play in the economy.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS. This section offers a description of the roads, railways, harbors, and telecommunications available in the country, assesses the modernity of the systems, and provides information about the country's plans for improvements.

ECONOMIC SECTORS. This section serves as an overview for the three more specific sections that follow, providing a general description of the balance between the country's different economic sectors.

AGRICULTURE. This section discusses the agriculture, fishing, and forestry sectors of the country.

INDUSTRY. This section discusses the industrial sector of the country, including specific information on mining, manufacturing, and other major industries, where appropriate.

SERVICES. This section concentrates on major components of the diverse services sector, usually focusing on the tourism and banking or financial sectors and sometimes including descriptions of the retail sector.

INTERNATIONAL TRADE. This section focuses on the country's patterns of trade, including the commodities traded and the historical trading partners.

MONEY. This section offers a brief description of the changes in inflation and the exchange rates in the country, and the impact those may have had on the economy. It also mentions any recent changes in the currency and the nature and impact of the central banking function.

POVERTY AND WEALTH. This section paints a picture of the distribution of wealth within the country, often comparing life in the country with that in other countries in the region. It includes governmental efforts to redistribute wealth or to deal with pressing issues of poverty.

WORKING CONDITIONS. This section describes the workforce, its ability to unionize, and the effectiveness of unions within the country. It also often includes information on wages, significant changes in the workforce over time, and the existence of protections for workers.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT. This section provides a timeline of events that shaped the country and its economy. The selected events create a more cohesive picture of the nation than could be described in the entries because of their bias toward more current information.

FUTURE TRENDS. To provide readers with a view to the future, the entry ends with an analysis of how the economic conditions in the country are expected to change in the near future. It also highlights any significant challenges the country may face.

DEPENDENCIES. This section discusses any major territories or colonies and their economies.

BIBLIOGRAPHY. The bibliography at the end of the entry lists the sources used to compile the information in the entry and also includes other materials that may be of interest to readers wanting more information about the particular country. Although specific online sources are cited, many such sources are updated annually and should be expected to change.

In addition, a data box at the beginning of each entry offers helpful economic "quick facts" such as the country's capital, monetary unit, chief exports and imports, gross domestic product (GDP), and the balance of trade. The U.S. Central Intelligence Agency's *World Factbook* (2000 and 2001) was the main source of this information unless otherwise noted. Each entry also includes a map that illustrates the location of the country. Since economic conditions are often affected by geography, the map allows readers to see the location of major cities and landmarks. The map also names bordering countries to offer readers a visual aid to understand regional conflicts and trading routes.

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COMMENTS

We encourage you to contact us with any comments or suggestions you may have that will benefit future editions of this set. We want this set to be a meaningful addition to your search for information about the world. Please send your comments and suggestions to: The Editors, *Worldmark Encyclopedia of National Economies,* The Gale Group, 27500 Drake Road, Farmington Hills, MI 48331. Or, call toll free at 1-800-877-4253.

—Sara Pendergast and Tom Pendergast

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INTRODUCTION

THE POWER OF ECONOMIC UNDERSTANDING

The economies of the world are becoming increasingly interconnected and interdependent, a fact dramatically illustrated on 2 July 1997 when the Thai government decided to allow its currency to "float" according to market conditions. The result was a significant drop in the value of the currency and the start of the Asian economic crisis, a contagion that spread quickly to other Asian countries such as the Republic of Korea, Indonesia, Malaysia, and the Philippines. Before long the epidemic reached Brazil and Russia.

In this way, a small economic change in one less-developed country sent economic shock waves around the world. Surprisingly, no one predicted this crisis, though economist Paul Krugman in a prominent 1994 *Foreign Affairs* article argued that there was no Asian economic miracle and the kind of growth rates attained in recent years were not sustainable over the long term. In such an interconnected global economy, it is imperative to have an understanding of other economies and economic conditions around the world. Yet that understanding is sorely lacking in the American public.

Various studies have shown that both young people and the public at large have a low level of literacy about other nations. A survey of 655 high school students in southeast Ohio indicated that students were least informed in the area of international economic concerns, and the number of economics majors at the college level is declining. The economic and geographic illiteracy has become such a national concern that the U.S. Senate recently passed a resolution calling for a national education policy that addresses Americans' lack of knowledge of other parts of the world.

The information provided by the media also frequently reflects a distorted understanding of world economies. During the Asian economic crisis, we often heard about the collapse of various Asian countries such as Korea and Thailand. They were indeed suffering a severe crisis, but usually companies, not countries, collapse. The use of the "collapse" language was therefore misleading. In another example, a distinguished journalist writing in a prominent East coast newspaper claimed that Vietnamese women paid more in transportation and food costs than they were earning while working in a factory manufacturing Nike shoes. Such a statement, while well intended in terms of genuine concern for these women workers, makes no economic sense whatsoever, and is actually not accurate. The wages of these women are indeed extremely low by U.S. standards, but such wages must be viewed in the context of another society, where the cost of living may be dramatically lower and where low salaries may be pooled. At other times, a fact—such as the fact that a minority of the Japanese workforce enjoys employment for life—is exaggerated to suggest that the Japanese economy boomed as it did in the 1980s *because* of the Japanese policy of life-long employment. Such generalizing keeps people from understanding the complexities of the Japanese economy.

"THINGS ARE NOT WHAT THEY SEEM." In defense of this lack of economic understanding, it must be said that understanding economics is not easy. Paul A. Samuelson, author of the classic textbook *Economics* (1995), once stated about economics "that things are often not what at first they seem." In Japan, for example, many young women work as office ladies in private companies as an initial job after completing school. These young ladies often stay at home with their parents and have few basic expenses. Over several years they can accumulate considerable savings, which may be used for travel, overseas study, or investing. Thus, as Samuelson noted in his textbook, actual individual economic welfare is not based on wages as such, but on the *difference* between earnings and expenditures. Wages are not the only measure of the value of labor: one must also consider purchasing power and how costs of living vary dramatically from place to place. Without taking into account purchasing power, we overestimate economic well-being in high-cost countries such as Japan and Switzerland and underestimate it in low-cost countries such as India and Cambodia.

Consider the following examples: The cost of taking an air-conditioned luxury bus from the Cambodian capital of Phnom Penh to its major port, Sihanoukville, is less than $2. The same bus trip of equal distance in Japan or the United States would cost $50 or more. Similarly,

a (subsidized) lunch at a factory producing Nike shoes in Vietnam may cost the equivalent of 5 U.S. cents in 1998, while lunch at a student union on a U.S. college campus may cost $5. Thus a teaching assistant on a U.S. campus pays 100 times more for lunch than the Vietnamese factory worker. Who is more "poorly paid" in these situations? Add to this the reality that in many developing countries where extended families are common, members of the family often pool their earnings, which individually may be quite low. To look only at individual earnings can thus be rather misleading. Such cultural nuances are important to keep in mind in assessing economic conditions and welfare in other nations.

Various economic puzzles can also create confusion and misunderstanding. For example, currently the United States has the highest trade deficit in world history: it imports far more that it exports. Most countries with huge trade deficits have a weak currency, but the U.S. dollar has remained strong. Why is this the case? Actually, it is quite understandable when one knows that the balance of trade is just one of many factors that determine the value of a nation's currency. In truth, demand for the U.S. dollar has remained high. The United States is an attractive site for foreign investment because of its large and growing economic market and extremely stable politics. Second, the United States has a large tourism sector, drawing people to the country where they exchange their currency for U.S. dollars. Several years ago, for the first time ever, there were more Thais coming to the United States as tourists than those in the United States going to Thailand. Third, the United States is extremely popular among international students seeking overseas education. Economically, a German student who spends three years studying in the United States benefits the economy in the same way as a long-term tourist or conventional exports: that student invests in the U.S. economy. In the academic year 1999-2000, there were 514,723 international students in the United States spending approximately $12.3 billion. Thus, the services provided by U.S. higher education represent an important "invisible export." Fourth, 11 economies are now dollarized, which means that they use the U.S. currency as their national currency. Panama is the most well known of these economies and El Salvador became a dollarized economy on 1 January 2001. Other countries are semi-officially or partially dollarized (Cambodia and Vietnam, for example). As the result of dollarization, it is estimated by the Federal Reserve that 55 to 70 percent of all U.S. dollars are held by foreigners primarily in Latin America and former parts of the U.S.S.R. Future candidates for dollarization are Argentina, Brazil, Ecuador, Indonesia, Mexico, and even Canada. With so many countries using U.S. dollars, demand for the U.S. dollar is increased, adding to its strength. For all these reasons, the U.S. currency and economy remained strong despite the persisting large trade deficits, which in themselves, according to standard economic logic, suggest weakness.

SYSTEMS OF CLASSIFICATION. As in other fields, such as biology and botany, it is important to have a sound system of classification to understand various national economies. Unfortunately, the systems commonly used to describe various national economies are often flawed by cultural and Eurocentric biases and distortion. After the end of World War II and the start of the Cold War, it became common to speak of "developed" and "underdeveloped" countries. There were two problems with this overly simplistic distinction. First, it viewed countries only in terms of material development. Second, it implied that a nation was developed or underdeveloped across all categories. As an example, "underdeveloped" Thailand has consistently been one of the world's leading food exporters and among those countries that import the least amount of food. Similarly, in "developed" Japan there are both homeless people and institutions to house the elderly, while in "underdeveloped" Vietnam there are no homeless and the elderly are cared for by their families. Which country is more "developed"?

Later the term "Third World" became popular. This term was invented by the French demographer Alfred Sauvy and popularized by the scholar Irving Horowitz in his volume, *Three Worlds of Development.* "First World" referred to rich democracies such as the United States and the United Kingdom; "Second World" referred to communist countries such as the former U.S.S.R. and former East Germany. The term "Third World" was used to refer to the poorer nations of Africa, Latin America, and Asia (with the exception of Japan). But this distinction is also problematic, for it implies that the "First World" is superior to the "Third World." Another common term introduced was modern versus less modern nations. The Princeton sociologist Marion J. Levy made this distinction based on a technological definition: more modern nations were those that made greater use of tools and inanimate sources of power. Thus, non-Western Japan is quite modern because of its use of robots and bullet trains. Over time, however, many people criticized the modern/non-modern distinction as being culturally biased and implying that all nations had to follow the same path of progress.

More recently, economists from around the world have recognized the importance of using a variety of factors to understand the development of national economies. Each of these factors should be viewed in terms of a continuum. For example, no country is either completely industrial or completely agricultural. The entries in this volume provide the basic data to assess each national economy on several of these key criteria. One can determine, for example, the extent to which an economy is industrial by simply dividing the percentage of

the economy made up by industry by the percentage made up by agriculture. Or one can determine how much energy national economies use to achieve their level of economic output and welfare. This provides an important ecological definition of efficiency, which goes beyond limited material definitions. This measure allows an estimate of how "green" versus "gray" an economy is; greener economies are those using less energy to achieve a given level of economic development. One might like to understand how international an economy is, which can be done by adding a country's exports to its imports and then dividing by GDP. This indicator reveals that economies such as the Netherlands, Malaysia, Singapore, and Hong Kong are highly international while the isolationist Democratic People's Republic of Korea (North Korea) is far less international.

Another interesting measure of an economy, particularly relevant in this age of more information-oriented economies and "the death of distance" (Cairncross 1997), is the extent to which an economy is digitalized. One measure of this factor would be the extent to which the population of a given economy has access to the Internet. Costa Rica, for example, established a national policy that all its citizens should have free access to the Internet. In other economies, such as Bhutan, Laos, and North Korea, access to the Internet is extremely limited. These differences, of course, relate to what has been termed "the digital divide." Another important factor is whether an economy is people-oriented, that is, whether it aims to provide the greatest happiness to the greatest number; economist E.F. Schumacher called this "economics as if people mattered." The King of Bhutan, for example, has candidly stated that his goal for his Buddhist nation is not Gross National Product but instead Gross National Happiness. Such goals indicate that the level of a country's economic development does not necessarily reflect its level of social welfare and quality of life.

Another important category that helps us understand economies is the degree to which they can be considered "transitional." Transitional economies are those that were once communist, state-planned economies but that are becoming or have become free-market economies. This transitional process started in China in the late 1970s when its leader Deng Xiaoping introduced his "four modernizations." Later, Soviet leader Mikhael Gorbachev introduced such reforms, called *perestroika,* in the former Soviet Union. With the dissolving of the U.S.S.R. in 1991, many new transitional economies emerged, including Belarus, Uzbekistan, Kyrgyzstan, and the Ukraine. Other countries undergoing transition were Vietnam, Laos, Cambodia, and Mongolia. These economies can be grouped into two types: full transitional and partial transitional. The full transitional economies are shifting both to free markets and to liberal democracies with free expression, multiple parties, and open elections. The partial transitional economies are changing in the economic realm, but retaining their original one-party systems. Included in the latter category are the economies of China, Vietnam, Laos, and Cuba. This volume provides valuable current information on the many new transitional economies emerging from the former Soviet world.

KEY THEMES IN THE WORLD ECONOMY. In looking at the economies of countries around the globe, a number of major common themes can be identified. There is increasing economic interdependence and interconnectivity, as stressed by Thomas Friedman in his recent controversial book about globalization titled *The Lexus and the Olive Tree: Understanding Globalization.* For example, the People's Republic of China is now highly dependent on exports to the United States. In turn, U.S. companies are dependent on the Chinese market: Boeing is dependent on China for marketing its jet airliners; the second largest market for Mastercard is now in China; and Nike is highly dependent on China and other Asian economies for manufacturing its sports products. Such deep interdependence augurs well for a peaceful century, for countries are less likely to attack the countries with whom they do a vigorous business, even if their political and social systems are radically different. In fact, new threats to peace as reflected in the tragic terrorist attack of 11 September 2001, primarily relate to long-standing *historical* conflicts and grievances.

Conventional political boundaries and borders often do not well reflect new economic realities and cultural patterns. Economic regions and region states are becoming more important. The still-emerging power of the European Union can be gauged by reading the essays of any of the countries that are currently part of the Union or hoping to become a part of it in the coming years. This volume may help readers better understand which nations are becoming more interconnected and have similar economic conditions.

The tension between equity (fairness) and efficiency is common in nearly all national economies. In some economies there is more stress on efficiency, while in others there is more stress on equity and equality. Thus, as should be expected, countries differ in the nature of the equality of their income and wealth distributions. For each entry in this volume, important data are provided on this important factor. The geographer David M. Smith has documented well both national and international inequalities in his data-rich *Where the Grass is Greener* (1979).

Invisible and informal economies—the interactions of which are outside regulated economic channels—represent a growing segment of economic interactions in some countries. In his controversial but important volume, *The Other Path* (1989), the Peruvian economist Hernando de Soto alerted us to the growing significance of the informal economy. In countries such as Peru, research has

shown that in some cases individuals prefer work in the informal to the formal sector because it provides them with more control over their personal lives. The Thai economist Pasuk Phongpaichit and her colleagues have written a fascinating book on Thailand's substantial invisible economy titled *Guns, Girls, Gambling, and Ganja* (1998). Thus, official government and international statistical data reported in this volume often are unable to take into account such data from the hidden part of economies.

In an increasingly internationalized economy in which transnational corporations are highly mobile and able to move manufacturing overseas quite rapidly, it is important to distinguish between real foreign direct investment and portfolio investment. At one point during Thailand's impressive economic boom of the late 1980s and early 1990s, a new Japanese factory was coming on line every three days. This is foreign direct investment, involving actual bricks and mortar, and it creates jobs that extend beyond the actual facility being constructed. In contrast foreign portfolio investment consists of a foreign entity buying stocks, bonds, or other financial instruments in another nation. In our current wired global economy, such funds can be moved in and out of nations almost instantaneously and have little lasting effect on the economic growth of a country. Economies such as Chile and Malaysia have developed policies to try to combat uncertainty and related economic instability caused by the potential of quick withdrawal of portfolio investments.

Some argue that transnational corporations (owned by individuals all over the world), which have no national loyalties, represent the most powerful political force in the world today. Many key transnational corporations have larger revenues than the entire gross national products of many of the nations included in this volume. This means that many national economies, especially smaller ones, lack effective bargaining power in dealing with large international corporations.

Currently, it is estimated by the International Labor Office of the United Nations that one-third of the world's workforce is currently unemployed or underemployed. This means that 500 million new jobs need to be created over the next 10 years. Data on the employment situation in each economy are presented in this volume. The creation of these new jobs represents a major challenge to the world's economies.

The final and most important theme relates to the ultimate potential clash between economy and ecology. To the extent that various national economies and their peoples show a commitment to become greener and more environmentally friendly, ultimate ecological crises and catastrophes can be avoided or minimized. Paul Ray and Sherry Anderson's *The Cultural Creatives: How 50 Million People Are Changing the World* (2000) lends credence to the view that millions are changing to more environmentally conscious lifestyles.

In trying to understand the global economy, it is critically important to have good trend data. In each of the entries of this volume, there is an emphasis on providing important economic data over several decades to enable the reader to assess such patterns. Some trends will have tremendous importance for the global economy. One phenomenon with extremely important implications for population is the policy of limiting families to only one child in China's urban areas. This deliberate social engineering by the world's most populous country will have a powerful impact on the global economy of the 21st century. The global environmental implications are, of course, extremely positive. Though there is much debate about the economic, political, and socio-cultural implications of this one-child policy, overall it will probably give China a tremendous strategic advantage in terms of the key factors of human resource development and creativity.

THE POWER OF UNDERSTANDING. By enhancing our knowledge and understanding of other economies, we gain the potential for mutual learning and inspiration for continuous improvement. There is so much that we can learn from each other. Denmark, for example, is now getting seven percent of its electrical energy from wind energy. This has obvious relevance to the state of California as it faces a major energy crisis. The Netherlands and China for a long period have utilized bicycles for basic transportation. Some argue that the bicycle is the most efficient "tool" in the world in terms of output and energy inputs. Many new major highways in Vietnam are built with exclusive bike paths separated by concrete walls from the main highway. The Vietnamese have also developed electric bicycles. The efficient bullet trains of Japan and France have relevance to other areas such as coastal China and the coastal United States. Kathmandu in Nepal has experimented with non-polluting electric buses. In the tremendous biodiversity of the tropical forests of Southeast Africa, Latin America, and Africa, there may be cures for many modern diseases.

We hope to dispel the view that economics is the boring "dismal science" often written in complex, difficult language. This four-volume set presents concise, current information on all the economies of the world, including not only large well-known economies such as the United States, Germany, and Japan, but also new nations that have emerged only in recent years, and many micro-states of which we tend to be extremely uninformed. With the publication of this volume, we hope to be responsive to the following call by Professor Mark C. Schug: "The goal of economic education is to foster in students the thinking skills and substantial economic knowledge necessary to become effective and participating citizens." It is our hope that this set will enhance both economic and

geographic literacy critically needed in an increasingly interconnected world.

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ALBANIA

Republic of Albania
Republika é Shqipërisë

CAPITAL: Tiranë.

MONETARY UNIT: Lek (Lk). One lek equals 100 qindarka. There are coins of 5, 10, 20, and 50 qindarka and 1 lek, and notes of 1, 3, 5, 10, 25, 50, 100, and 500 leke.

CHIEF EXPORTS: Textiles, footwear, asphalt, metals and ores, oil, fruits, tobacco, semiprocessed goods.

CHIEF IMPORTS: Machinery and equipment, foods, textiles, chemicals.

GROSS DOMESTIC PRODUCT: US$10.5 billion (2000 est.).

BALANCE OF TRADE: **Exports:** US$310 million (2000 est.). **Imports:** US$1 billion (2000 est.). [The CIA *World Factbook* estimates that exports in 1999 were US$242 million while imports were US$925 million.]

COUNTRY OVERVIEW

LOCATION AND SIZE. Albania is located in the southwestern part of the Balkan peninsula in southeastern Europe. It is bordered by the Yugoslav republics of Montenegro, Serbia, and Macedonia, and by Greece and the Adriatic and Ionian Seas. Albania has an area of 28,748 square kilometers (11,100 square miles), making it slightly smaller than Maryland. The capital, Tiranë, is situated in the west-central part of the country near the Adriatic Sea.

POPULATION. The population of Albania was 3,510,484 in July 2001, compared with 2,761,000 in 1981. Population density averaged 111 inhabitants per square kilometer (287 per square mile) but nearly two-thirds of the population were concentrated in the west, especially in the Tiranë-Durrës region. Density there reached 300 inhabitants per square kilometer (777 per square mile). In 2001, the birth rate was 19.01 per 1,000 population while the death rate equaled 6.5 per 1,000. Albania had one of the most youthful populations in Europe, with 30 percent below the age of 14 and just 7 percent older than 65. The population growth rate in 2000 was comparatively modest, at only 0.88 percent, and the **emigration** rate stood at 3.69 per 1,000. Since the collapse of **communism** in 1989, many Albanians, allowed to travel abroad for the first time, have left their impoverished country for western Europe, mostly for Italy, Greece, Switzerland, and the United States. The emigration rate has declined from a previous rate of 10.36 in 2000, however.

There are 2 major Albanian ethnic subgroups with distinct dialects: the Gegs in the north, and the Tosks in the south. The Gegs account for more than half of the population, but the Tosks have been traditionally in control. The Tosk dialect of Albanian is the official language. Albanians account for 95 percent of the population, Greeks for 3 percent, and Vlachs, Gypsies, and Bulgarians for the other 2 percent. Albania is predominantly rural, with about 59 percent of the population living in the countryside (1999). The population of the capital—Tiranë—is 312,220 (2000); other cities include Durrës, Elbasan, Shkodër, and Vlorë.

OVERVIEW OF ECONOMY

Albania is Europe's poorest country; its annual **gross domestic product (GDP) per capita** was about US$1,000 in 1997, more than 10 times lower than in neighboring Greece. Liberated from Turkish domination in 1912, the country endured periods of anarchy, autocratic rule, and foreign occupation before being taken over by communists in 1944. Until the collapse of communism in 1989, Albania was ruled in international isolation by a rigid Stalinist regime. All economic activity was **nationalized** and the production of **consumer goods** and the development of the **infrastructure** were neglected while heavy industry was stressed. Since the collapse of the Soviet Union in 1989, market reforms have taken a foothold and a **privatization** program has

been in place since 1992, when the pro-market Democratic Party formed a cabinet.

Reforms have been slow, however, and the economy shaky as a result. Particularly disastrous was the 1997 collapse of several financial **pyramid schemes**) that wiped out the life savings of half of the Albanian population, causing violent riots. The democratic government was toppled, and foreign investors fled in panic. The Kosovo refugee crisis of 1999 dealt another heavy blow. Albania has been plagued by corruption and inadequate reporting; the flow of goods crossing the frontiers has remained largely unknown, and tax collection rates have been unsatisfactory. Organized crime and the trafficking of drugs and stolen cars from western Europe are a major social problem.

The **socialist** government, in office since 1997, has curbed crime, strengthened customs inspections, improved tax collection, and carried on with privatization. Some 420 comparatively larger enterprises were put on the market after **restructuring**, including Albpetrol (oil and gas and pipelines), Albakri (copper mining), Albkromi (chrome), Telekom Shqiptar, and the Albanian Mobile Phone Company. Many state-held assets were liquidated. Stable and independent government institutions were still a dream in 2000, however, although younger **technocrats** had been involved in decision-making and a more informative economic database was created.

In 2000, the Albanian economy grew by 7 percent, although it started from a low base. The currency was stable, **inflation** was only 2 percent (in 1999), and money transfers from Albanians abroad fueled a house-building boom. The International Monetary Fund (IMF) cautiously praised the authorities for progress in structural reform and their commitment to reducing poverty. Foreign investments in 2000 reached US$143 million (up from US$43 million in 1999), a Greek-Norwegian consortium bought the first mobile-phone network, a Greek-British consortium bought the second mobile-phone license, and corruption diminished.

Poverty is still pervasive and the country is burdened by a large foreign **trade deficit** (US$690 million in 2000). Among the government's concerns are the improvement of agriculture and the obsolete road network, encouraging private enterprise, and **liberalizing** foreign trade. The opening up of **free trade zones** to attract investors is expected to be supplemented by an improved legal environment, a financial sector restructuring, and a strengthening of law and order (safety is still a big concern in Albania). Heavily dependent on foreign economic aid, in 1997 the country received US$630 million in financial support and a US$58 million poverty reduction and growth facility (loan) from the International Monetary Fund (IMF), the World Bank, and the European Union (EU). No considerable funding has yet been received from the Stability Pact for Southeastern Europe, a regional initiative backed by the EU and the United States. Albania has not yet started negotiations to become a part of the EU, which insists that more substantial reforms are needed before talks could start.

POLITICS, GOVERNMENT, AND TAXATION

Albania is a parliamentary democracy with a **unicameral** (1–house) 155-member parliament. The presi-

dent is the head of state, but the prime minister is the executive head of government. The 2 major parties are the left-of-center Socialists (reformed communists) and the right-of-center Democratic Party. In the 1997 elections, the socialists won 101 seats, blaming Sali Berisha, the first post-communist president, and his democrats for the financial pyramid scams, economic chaos, rampant corruption, authoritarianism, and fraud. The socialists, whose power base lies mostly in the south, formed a coalition with the center-left social-democrats (8 seats), the small, predominantly ethnic Greek Human Rights Party (4 seats), and the smaller centrist Democratic Alliance (2 seats). They have a chance of remaining in office at the election in mid-2001. The democrats, whose power base is mainly in the north, retained 27 seats in parliament.

In early 2001, the state's role in the economy was diminishing, but the government was still highly centralized and financial resources were concentrated at the national level. In an attempt to attract foreign investors, Albania planned to create free-trade zones and companies operating in them would be exempt from import **duties** and a **value-added tax** (VAT) but not from taxes on profits. In order to curb the **budget deficit**, the government nearly doubled the VAT to 20 percent and increased **excise taxes** in 1997. The tax share of GDP was set to 22 percent in the 2001 budget, close to the norm for other economies making the transition from a communist to a market system. Albania had a **foreign debt** of US$820 million in 1998, which was not considered disproportionate.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Albania's infrastructure is far below the standards of other European countries. There are 18,000 kilometers (11,250 miles) of roads, of which 5,400 kilometers (3,355 miles) are paved, and rapid expansion in private car ownership (prohibited in communist times) has placed a great pressure on the network. Since the Kosovo war in neighboring former Yugoslavia, NATO has rebuilt the Albanian roads it used, and western governments have offered funding for several construction projects. One of them runs north-south from the border with Montenegro via Shkodër, Durrës and Vlorë to the Greek frontier (requiring US$94.8 million for its completion). Another runs east-west from Durrës via Elbasan to the Macedonian frontier (costing US$155.9 million). Albania has received US$108 million from the European Investment Bank (EIB) for completion of the Durrës-Kukës highway and other segments.

The railroad network has 447 kilometers (277.7 miles) of single track, not connected to the railroads of any neighboring country and in poor condition. Thirty-eight kilometers (23.6 miles) of the Durrës-Tiranë line were under renovation in 2000. Two seaports are located at Durrës and Vlorë. Albania's only international airport, Rinas, is located outside Tiranë and has 1 runway and a small passenger terminal.

Albania's power system has 1,670 megawatts (MW) of installed capacity, of which 1,446 MW is in hydropower plants (the country's mountainous terrain is favorable for that type of power) and 224 MW in thermal plants. A quarter of the energy is lost due to technical inadequacies, and blackouts are still frequent. Often, electricity reaching consumers is not paid for (70 percent of the clients refused to pay their bills in 1997). A particular concern is the theft of electricity by bypassing meters. The power utility, Korporata Elektroenergjitike, is still in state hands but is scheduled for privatization in 2001. A loan of US$30 million from the World Bank, US$12 million from Exportfinans of Norway, and US$1.2 million from the Chinese government helped Albania repair its electric grid in 2000.

The telephone system is obsolete, with 42,000 main lines in 1995 (11,000 telephones in Tiranë). In 1992, rioting peasants cut the wire to about 1,000 villages and used it to build fences. There were 3,100 mobile phones

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Albania	36	217	109	0.0	1	3.6	N/A	0.24	3
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Yugoslavia	107	297	259	N/A	23	1.9	18.8	7.65	80
Macedonia	21	200	250	N/A	15	1.5	N/A	4.40	30

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

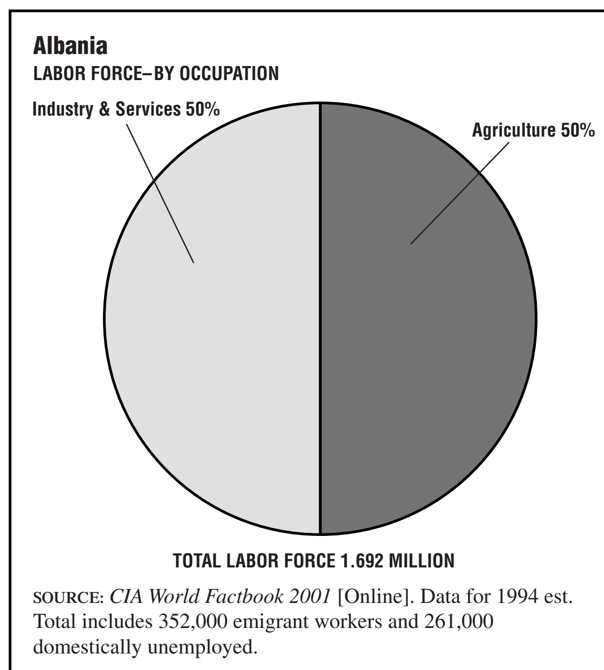
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

in 1999, with coverage limited to the main cities. In 2000, the privatization of the mobile phone company, Albanian Mobile Communications (AMC), was completed, and the sale of the fixed-line operator, Albtelekom, was set for 2001. A consortium of Vodafone (UK) and Panafon (Greece) won a mobile telephony license in early 2001 for US$38 million.

ECONOMIC SECTORS

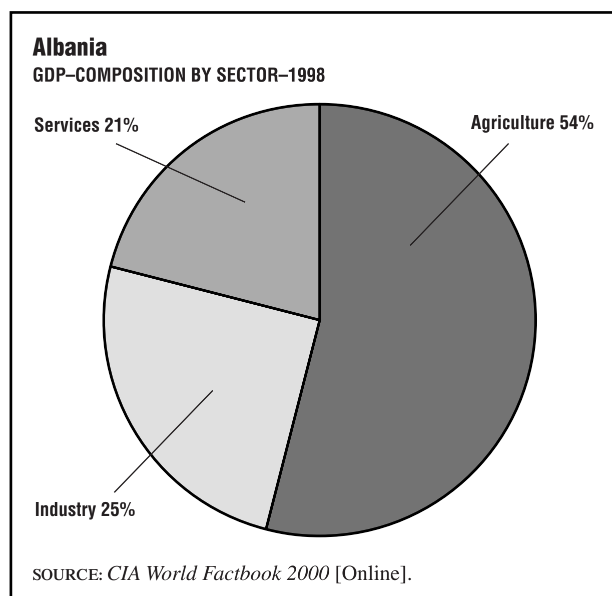
Albania's economy remains predominantly agricultural, and in 1999, the contribution of agriculture to GDP was 53 percent, up from 32.3 percent in 1989. Industry's share slipped from nearly 45 percent in 1989 to 26 percent in 1999, because of the collapse of loss-making state-run factories and the return of many workers to farming. The percentage of the population engaged in agriculture reached one-half by 1997. In 1998, 27 percent of the farms were engaged in **subsistence farming**—which means they did not sell their goods to the market—and only half used machinery. Prior to 1991, services were underdeveloped, with virturally no tourism and rudimentary banking and **retail** sectors. New service industries such as tourism and banking started to develop in the 1990s, mostly with foreign investment, but suffered in the 1997 financial collapse. The shrinking Albanian industry is based on local natural resources, notably oil, lignite, copper, chromium, limestone, bauxite, and natural gas.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1994 est. Total includes 352,000 emigrant workers and 261,000 domestically unemployed.

AGRICULTURE

In 1992, peasants took control of formerly collectivized land and livestock. Many collective farms (farms held by the state and worked by citizens) were looted, orchards were cut down for firewood, and agricultural output collapsed by almost half. Much of the irrigation works and greenhouses of the communist regime were looted. Under private ownership, agriculture picked up and by 1995, production was above the 1990 level. Serious problems facing farmers are the lack of technology and the tiny size of land holdings. In 1999, 42 percent of farms used animal and manpower alone. Self-sufficiency, forced on farmers by the communist prohibition of private trade, is high. In 1999, 48.5 percent of farm households bought no outside food. International lenders, such as the World Bank, the EU, and the U.S. Agency for International Development (USAID), have financed repairs and drainage projects, but the consolidation of small farm plots into larger and more efficient units has been slow. Albania imports basic foods (worth Lk3.8 billion in 1999, up from Lk3.7 billion in 1998), yet agriculture provides the livelihood for the majority of the population. Crops include wheat, corn, olives, sugar beets, cotton, sunflower seeds, tobacco, potatoes, and fruits. The livestock population was estimated in the early 1990s as including some 500,000 cattle, 1 million sheep, and 170,000 pigs.



SOURCE: *CIA World Factbook 2000* [Online].

INDUSTRY

Mining, metallurgy, food processing, textiles, lumber, and cement were among the leading industries in Albania under the communist regime, when heavy industry was a priority and some factories were capable of exporting. Until 1961, most equipment was supplied by the Soviet Union and then by China until 1978. After 1989, the sector declined due to the lack of new technology and financing and the dilapidated condition of the factories.

In the 1990s, plants and equipment were destroyed and sold for scrap, or fell into disuse, unable to compete with cheaper imports that came with trade liberalization. A revival of chromium, steel, and cement industries came with the increase of foreign investments in 2000. Some new equipment was purchased in the West for a cigarette-making plant in Durrës and for a manufacture of underwear in Korçë. Construction, especially in housing, was the main factor for investment growth.

Mining is a large (but shrinking) sector of the economy, given the rich deposits of bauxite, chromium, nickel, iron, copper ores, and petroleum. The export of raw materials is crucial for foreign exchange earnings. In the 1980s, Albania ranked third worldwide in chromium ore production. Output plunged 3 times to 157,000 tons in 1997, because of the weakening of domestic demand in addition to the closing down of loss-making industries, the lack of capital, high costs, problems with the electricity supply, and the economic chaos of 1997. Albania's output of copper was reduced from 1 million tons per year in the late 1980s to 25,000 tons in 1997. Iron-nickel mining collapsed in the early 1990s with the closing down of the steel works of Elbasan, its main client, but was revived in 2000 due to Turkish involvement at the plant. Coal and petroleum output and petroleum refineries production have also declined in the 1990s due to their inadequate technology.

SERVICES

Albania's banking system under communism was state-run and underdeveloped. By the early 1990s, the 3 major state banks were cash-strapped due to irrecoverable loans to loss-making industries. Since then, almost all banks (except the largest one, the Savings Bank) have been privatized, most in the form of **joint ventures** with foreign partners, including the Italian Albanian Bank (IAB), the Arab Albanian Islamic Bank (AAIB), and the Dardania Bank (DB). The sector has been plagued by a lack of capitalization and a lack of experience and technology. Little long-term investment credit is available, and debt collection is uncertain. The 1997 financial pyramids collapse annihilated US$1 billion in savings and only US$50 million seemed recoverable by 2000. To relieve the situation, the Bank of Albania (the central bank) imposed restrictions on banks (including credit limits and minimum interest rates) that additionally contracted the credit market. Albanians became extremely cautious in depositing money in the banks, and **private sector** investment started to rely on financing through family, friends, and partners. Larger companies transferred funds abroad and Albanian banks came to rely on short-term deposits and lending to selected customers for short-term trade financing. The privatization of the remaining state-owned bank, the Savings Bank (SB), was delayed in 2000 due to improperly audited accounts and was rescheduled for June 2001.

Albania's tourist industry is in an embryonic stage. There are few foreign visitors to its picturesque Mediterranean shore because of the lack of adequate infrastructure and fears for personal safety. A few modern hotels appeared in 2000, backed by foreign investment, but revenues were weak. With the privatization of retail businesses in the early 1990s, the sector was characterized by a large number of small family retailers. The quality of service was still rather poor because of the low household income and the subsistence farming of the majority of the rural population. In 1999 and 2000, the retail and hotel industry had a modest boom due to the presence of foreign troops involved in the Kosovo war.

INTERNATIONAL TRADE

Albania depends on imports for most of its consumption. It was not able to produce enough exports to offset its large trade deficit of US$814 million in 1999, a huge sum for the size of the economy. This trade deficit may create serious problems for Albania in the near future. A major contribution to offsetting the deficit are money transfers from Albanians abroad, which grew from US$324 million in 1999 to US$531 million in 2000. Raw material exports are also crucial but gradually shrinking. Exports are declining, particularly in minerals, contributing only 8 percent of domestic exports in the last quarter of 1999, down from 45 percent in 1998. **Re-exports** of goods processed in Albania for manufacturers abroad increased mostly in textiles and footwear but also in electrical appliances, foods, and metal products. In the last quarter of 1999, they contributed 70 percent of total exports, a 29 percent increase from the last quarter of 1998. Exports by the tobacco industry were down by almost a third in 1999 from 1998, and other agricultural exports were hit by drought. The EU countries are Albania's chief trading partners, notably neighboring Italy and Greece, partly due to subcontracting for Italian and Greek manufacturers drawn by cheap local labor. Other significant trading partners include Germany, Turkey, Bulgaria, Macedonia, and the United States. Albania joined the World Trade Organization (WTO) in 2000 and is committed to trade liberalization and reducing **tariffs** on imports. In 1999, the EU promised Albania preferred trade status and reduced some tariffs on Albanian exports.

MONEY

After the economic collapse of 1997, the **monetary policy** of the Bank of Albania was tightened and the regulation of the financial sector was improved. The currency was stabilized and kept under control. The **exchange rate** of the lek shifted from 179.06 per US$1 in

Exchange rates: Albania

leke per US$1	
Dec 2000	146.08
2000	143.71
1999	137.69
1998	150.63
1997	148.93
1996	104.50

Note: Leke is the plural of lek.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Albania	N/A	916	915	842	795
United States	19,364	21,529	23,200	25,363	29,683
Greece	8,302	9,645	10,005	10,735	12,069
Macedonia	N/A	N/A	N/A	N/A	1,349

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

1997 to almost 140 per dollar in 2001. New legislation included a law on bank deposit insurance and the setting up of a credit information bureau, an investment advisory office, a mediation office for commercial disputes, and an agency for the execution of bankruptcy and other related court decisions. Nevertheless, banking is not efficient, and the economy is still cash-driven. There is no formal **equities** market in the country as the Tiranë Stock Exchange (scheduled for privatization) is trading in Albanian **treasury bills** only.

POVERTY AND WEALTH

Poverty in Albania is widespread due to limited job opportunities, low income, and limited access to basic services such as education, health, water, and sewerage. Under the communist regime, employment was almost total, and the government provided some livelihood for nearly everyone. In the 1990s, the collapse of the state-run farms and industrial enterprises, unemployment, organized crime, and corruption generated widespread new poverty along with numerous illicit fortunes. Many families came to rely on transfers from family members abroad as 25 percent of working-age Albanians emigrated, only a fifth of them legally. More than 17 percent of the population lived under the poverty line in 2000, and 90 percent of the poor live in rural areas. Sixty percent of those heading poor households are self-employed in subsistence farming. The situation is worse in the north, where many rural families own less than 0.5 hectares. In Tiranë, there were about 800 street children in 2000 and child laborers numbered between 35,000–50,000 as need forced them to leave school early. Drug abuse, prostitution, trafficking in women, and child abuse have all increased with the economic hardship of the 1990s.

WORKING CONDITIONS

The Albanian **labor force** numbered 1.692 million (including 352,000 emigrants and 261,000 unemployed) in 2000. The private sector had between 900,000 and 1,000,000 workers, mostly in agriculture and small shops and enterprises. The unemployment rate was 18.2 percent in 2000, but unemployment in the rural regions, particularly in subsistence farming, was not reflected in this figure. Minimum wages are US$50 per month, insufficient to provide a decent standard of living. Many Albanians work with outdated technology and without adequate safety regulations. Workplace conditions are generally poor and often dangerous. The workweek is 48 hours, but hours are set by individual or collective agreement. Under the communist regime, unions were government-controlled and independent unions only emerged in 1991. The Independent Confederation of Trade Unions, with an estimated 127,000 members, was formed as an umbrella group for most branch unions.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Albania	62	3	13	3	10	5	4
United States	13	9	9	4	6	8	51
Serbia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Macedonia	33	5	15	6	9	9	23

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

The Confederation of Trade Unions represents school, petroleum, postal, and telecommunications workers and has 80,000 members. Union membership declined after 1997 because of the expansion of the private sector (few of its workers have unions). Labor disputes have been often confrontational and passionate.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

168 B.C. Romans take over Illyria (comprising most of present-day Albania).

1000s A.D. Illyria becomes known as Albania; feudal agriculture develops and Adriatic cities become centers of commerce.

1388. Ottoman Turks invade Albania and subdue it by the early 16th century.

1500s. The Ottomans convert many formerly Christian Albanians to Islam. The feudal economy remains unchanged into the 20th century.

1878. Albanian nationalism grows and the Prizren League is organized in the present-day Kosovo province of Serbia to work for national independence.

1912. Albania is liberated from the Ottomans. The European powers recognize its independence but leave nearly half of the ethnic Albanians outside its borders.

1919. U.S. President Woodrow Wilson vetoes the partition of Albania among its neighbors following the end of World War I.

1925. Albania is taken over by a dictatorship and gradually turns into an Italian protectorate.

1939. Italian troops occupy Albania at the start of World War II.

1944. Albanian communists take over and impose Stalinist economic rules, which last until the collapse of the Soviet Union in 1989.

1990. A multi-party system is allowed as thousands of Albanians try to escape the country by fleeing to foreign embassies in Tiranë.

1991. The first multi-party elections are won by the reformed communists, while the opposition Democratic Party wins 75 seats in the Assembly. Massive labor unrest topples the government.

1992. Elections are won by the democrats, and economic reforms and liberalization gain momentum. Elections in 1996 leave the cabinet in office but the opposition voices fraud accusations.

1997. The collapse of pyramid schemes causes violent riots. The government is toppled and the socialists (reformed communists) return to power in early elections.

1999. More than 400,000 Albanian refugees from Kosovo flood into Albania.

2000. Albania joins the World Trade Organization.

FUTURE TRENDS

With its economy reviving from the collapse of 1997, Albania remains essentially a developing country requiring heavy investment for its modernization. Without significant progress in coping with crime and weak state institutions, its internal stability is not yet guaranteed. Reforms are needed to enforce democracy and develop favorable conditions for foreign investment. Albania has strong potential for growth due to its youthful population and the large number of **guest workers**, many of whom may return with capital and know-how once domestic conditions improve. Proximity to Italy and Greece, abundant natural resources, and potential tourist attractions are additional factors that may encourage development. EU membership is not yet an issue for Albania, but with the accession of Balkan neighbors, its chances will grow.

The Socialist Party is expected to stay in power after the election in 2001 and GDP is likely to keep its growth rate of 7 percent driven by the privatization of power, the Savings Bank, hotels, and other government assets. Inflation will be low and unemployment will gradually decline, but many Albanians will continue to support their families by working abroad. Import dependency will diminish as domestic industry slowly picks up and the development of tourism and increasing money transfers may alleviate the trade deficit situation. However, Albania will remain dependent on international aid for the foreseeable future.

DEPENDENCIES

Albania has no territories or colonies.

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—Valentin Hadjiyski

ANDORRA

Principality of Andorra
Principat d'Andorra

CAPITAL: Andorra la Vella.

MONETARY UNIT: No local currency; French and Spanish currencies are both used in the country. Both Spain and France, along with 9 other members of the European Union (EU), are in the process of changing over from their national currencies to the single currency of the EU, the euro, for all transactions. This transition will be completed with the introduction of euro coins and bills in January 2002.

CHIEF EXPORTS: Tobacco products, furniture.

CHIEF IMPORTS: Consumer goods, food, electricity.

GROSS DOMESTIC PRODUCT: US$1.2 billion (purchasing power parity, 1996 est.).

BALANCE OF TRADE: **Exports:** US$58 million (f.o.b., 1998 est.). **Imports:** US$1.077 billion (c.i.f., 1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Andorra, a tiny landlocked principality in southwestern Europe, is situated in the eastern Pyrenees Mountains, bordered on the north and east by France and on the south and west by Spain. It comprises a region of 7 narrow valleys and the adjacent peaks reaching heights of more than 2,700 meters (about 8,860 feet) above sea level. Also named the Valleys of Andorra, the country has an area of only 468 square kilometers (181 square miles), about 2.5 times the size of Washington, D.C., or about half the size of New York City. The capital is Andorra la Vella (Andorra of the Valley), with a population of 21,985 in 1996.

POPULATION. The population of Andorra was estimated at 66,824 in July 2000, up from 64,716 in 1998. Although mountainous, the country is densely populated, with an overall density of 138 persons per square kilometer (358 per square mile). The population, however, is unevenly distributed, and is concentrated in the 7 urbanized valleys that form the country's parishes (political districts): Andorra la Vella, Canillo, Encamp, La Massana, Escaldes-Engordany, Ordino, and Sant Julia de Loria. Andorra has a slow population growth rate of 1.22 percent, fueled by a birth rate of 10.58 births per 1,000 population, a death rate of 5.27 deaths per 1,000 population, and a high net **immigration** rate of 6.9 migrants per 1,000 population

(all according to 2000 estimates). The Andorrans have a very high life expectancy at birth, standing at 83.46 years for the total population (80.56 for men and 86.56 for women). This is attributed partly to the pleasant mountainous climate, and partly to the prosperous economy and sufficient health care provisions in the country. The population is aging, as in much of the rest of Europe, with 15 percent of the Andorrans younger than 15 years, 72 percent between 15 and 64 years, and 13 percent 65 years or older.

Native Andorrans, curiously enough, represent a minority (only about 33 percent of the population) in their own country; they are Catalan in their culture and language. The official language of the principality is also Catalan, a romance language, spoken also by more than 6 million people in the regions of French and Spanish Catalonia (in southwestern France and northeastern and eastern Spain and the Balearic islands in the Mediterranean). More people of Andorran descent live outside the country (particularly in France) than in their home country, because historically, as in many similar societies with very limited land supply, land ownership has been strictly passed on to the oldest heirs while the rest often have had to seek their fortunes elsewhere. Spanish, French, and Portuguese immigrants (both working people and entrepreneurs) make up the majority of the population of the principality, and the Spanish, French, and Portuguese languages are widely spoken. Spaniards (Catalan-speaking or not) form the largest single ethnic group in the country with 43 percent; Portuguese constitute 11 percent and French 7 percent. Roman Catholicism is not only the predominant religion but also the religion of the state, unlike most European countries that strictly separate the church from the state. For example, only Roman Catholics are permitted to marry in the country, and all public records pertaining to issues such as birth, death, and family status are still kept by the church. Pilgrimages to the shrine of the Andorran patron saint, the Lady of Meritxell, are very popular among believers. The education law requires school attendance for children up to age 16 and a system of French, Spanish, and Andorran lay (secular) schools provides education up to the secondary level. Schools are built and maintained by the Andorran government but salaries for teachers are paid for the most part by France or Spain. About half of the Andorran children attend the French primary schools, and the rest attend Spanish or Andorran ones, which suggests that the role of the French language in the country's culture, communication, and business life will grow in the future.

OVERVIEW OF ECONOMY

Due to its small size and isolated mountainous location, Andorra has preserved its political independence over the years. But these factors also contributed to its economic and developmental impoverishment before World War II. The economy historically has been based on pastoral farming, the processing of tobacco and timber, and the smuggling of goods (mainly tobacco) into the neighboring regions of France and Spain. Over the last 4 or 5 decades of the 20th century, however, the principality has achieved considerable prosperity. This has been mostly due to its status as a tax-free port, the rapid development of tourism in Europe, the dramatic economic progress of its large neighbors France and Spain, and the European integration processes. Many investors and immigrants, both legal and illegal, are now attracted to its thriving economy and its lack of **income taxes**.

Tourism has been developing at a high rate since the mid-1950s and now dominates the principality's economic life. The extensive winter ski facilities, the cool summer climate, and the availability of inexpensive goods in the stores attract numerous tourists to Andorra's humming summer and winter resorts. With about 270 hotels and 400 restaurants, as well as many shops, the tourist industry provides a livelihood to a growing portion of the domestic and immigrant **labor force**.

Trade in consumer products is also very active, mostly in imported manufactured items, which, because of their **duty**-free prices, are considerably cheaper than in other European countries. Partly due to this, smuggling in the country, once a major livelihood, is still widespread. Duty-free status and the price differences between Andorra and its neighbor countries, however, are seen as a serious problem by the European Union (EU) and have had a very significant stake in the debate concerning the principality's relationship with the union. Andorra is a member of the EU customs union and is treated as an EU member for trade in manufactured goods (for which there are no **tariffs**), yet its duty-free shopping status gives it an edge over EU member states. However, the country's comparative advantage in duty-free shopping has been negatively affected as the economies of neighboring France and Spain have been **liberalized** and opened up over the 1990s, resulting in lower tariffs and a wider choice of consumer items.

Negotiations on maintaining Andorra's duty-free status and developing its trade links with the EU began in 1987, soon after neighboring Spain was admitted to the union. A difficult agreement, in effect since July 1991, has set some duty-free quotas and placed limits on certain goods such as tobacco, alcoholic beverages, and dairy products. But as of 2001, Andorra was still allowed to maintain its price differences from other EU countries, and visitors could still enjoy limited duty-free allowances. By creating a modern legal framework, however, the 1993 constitution has allowed Andorra to begin the needed shift from an economic model substantially

based on duty-free shopping to one relying largely on international banking and finance.

Andorra's **gross domestic product** (GDP) for 1998 was worth US$1.2 billion, with tourism providing by far the principal component (roughly 80 percent). **GDP per capita** was a healthy US$18,000 in 1996.

POLITICS, GOVERNMENT, AND TAXATION

Independent since 1278, for more than 7 centuries Andorra has been ruled jointly by the leader (the king, later the president) of France and by Spain's Roman Catholic bishop of the diocese of Urgel, who were acknowledged as "co-princes." Andorra's government, however, had no clear-cut division of powers into executive, legislative, and judiciary, as in most other (and virtually all democratic) states, until the late 20th century. Only in 1993 did Andorran voters approve their first written constitution, transferring all power to the parliamentary principality and proclaiming a sovereign parliamentary democracy. The constitution defined for the first time the rights and obligations of the citizens and the functions and specific terms of the separate legislative, executive, and judicial branches of the government.

The co-princes remained officially Andorra's heads of state, and they serve coequally, with limited powers and without the right to a veto over government acts. Presently, the co-princes are Jacques Chirac, the president of France, and Monseigneur Juan Marti, the bishop of Urgel. Naturally, they do not participate in person in the government's deliberations but are represented by delegates. As co-princes of Andorra, the president and the bishop maintain formally their supreme authority to approve international treaties with France and Spain, as well as all those state acts that deal with important internal security, defense, Andorran territory, diplomatic representation, and judicial or penal cooperation. Although the institution of the co-princes is viewed by many liberals as a medieval anachronism, the majority of the people of Andorra still regard them as an important symbolic element of their historical traditions and a practical way to mediate and balance the influence of both France and Spain. It is also worth mentioning that, until 1993, the principality of Andorra paid every other year, as the medieval treaties stipulated, a tribute worth US$2 to the French president and US$8 to the Spanish bishop. The bishop was additionally entitled to receive a contribution consisting of 6 hams, 6 cheeses, and a dozen live chickens.

The Andorran legislature is the General Council (founded in 1419), which has 28 members, elected to 4-year terms. There is universal suffrage in Andorra, with citizens over the age of 18 having the right to vote. At least one representative from each of the 7 parishes must be present for the General Council to meet. Historically, within the General Council, 4 deputies from each of the 7 parishes have been included in the representation. This arrangement lets the smaller parishes, who have fewer than 400 voters, be represented by the same number of delegates as the larger ones that have more than 2,500 voters. To correct this imbalance, the new constitution included a provision that introduced a modification of the process of electing the Council members; under this new arrangement, half of the delegates were to be selected by the traditional system by parishes and the other half elected from nationwide lists.

The executive power is vested in the Executive Council, headed by a president (in Catalan, the *cap de govern,* or head of government) who is chosen by the General Council and then formally appointed by the co-princes. The president appoints the other executive members of the council.

In the judiciary, civil cases are heard in the first instance by *batlles* (4-judge courts), with 2 judges each appointed by a co-prince. Appeals are heard by the one-judge Court of Appeals. The highest judicial body is the 5-member Superior Council of Justice. The Tribunal of Courts in Andorra la Vella hear all criminal cases. Andorra has no standing armed forces and only a small domestic professional police brigade. All able men possessing firearms serve without compensation in the reserve army, unique in treating all its men as officers. The army's principal responsibility is to carry the Andorran flag at official ceremonies; it has not fought a battle for more than 700 years.

Andorra's young democracy is in the process of redefining its political party system. In recent years, 3 out of the 5 parties that dominated the political scene have dissolved. The former Liberal Union (UL) is reshaping itself and changing its name to the Andorran Liberal Party (PLA), intending to offer a political umbrella to small parties and groups that have not yet consolidated. The currently ruling party is the PLA, led by the *cap de govern*, Marc Forne. The Social Democratic Party (PSD) attracts groups previously aligned with **socialist** ideals, and the third major party is the National Andorran Coalition (CAN). Given the number of parties and Andorra's size, no one party controls the General Council; therefore, legislative majorities arise through coalitions.

The fundamental impetus for the recent political transformation was a recommendation by the Council of Europe in 1990 that if Andorra wished to attain full integration in the European Union (EU), it should adopt a modern constitution which guarantees the rights of those living and working there. A Tripartite Commission made up of representatives of the co-princes, the General Council, and the Executive Council drafted the 1993 constitution. Since its adoption, the government has continued to

address many other long-awaited reforms. In addition to legalizing political parties and trade unions for the first time, freedom of religion and assembly also have been guaranteed.

Since its sovereignty was established with the 1993 constitution, Andorra has become an active member of the international community. In 1993, it established its first diplomatic mission to the United Nations in New York, and in 1995, it established diplomatic relations with the United States. Andorra also has expanded relations with other nations and is a full member of many international organizations, such as the United Nations (UN), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Telecommunications Union (ITU), and the Organization for Security and Cooperation in Europe (OSCE). Since 1991, Andorra has a trade agreement with the EU.

The Andorran government collects revenue through the sale of postage stamps and a very small number of local taxes.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Landlocked, mountainous Andorra has no railroads, harbors, or airports, but possesses a good road system and three-fourths of its nearly 270 kilometers (169 miles) of roads are paved. The country is rich in hydroelectric power and the power plant at Les Escaldes, with a capacity of 26.5 megawatts, provides 116 million kilowatt hours annually (1998), or about 40 percent of Andorra's electricity, while Spain and France provide the rest.

Andorra has a modern telecommunications system with microwave radio relay connections between the exchanges and land line circuits to France and Spain. There were 31,980 main telephone lines in use and 8,618 cellular phones in 1997. Andorra had 15 FM radio broadcast stations in 1998 but no local TV broadcasting stations, French and Spanish broadcasting and cable TV being widely available.

ECONOMIC SECTORS

Andorra's natural resources include iron and lead deposits, marble quarries, forests of pine and birch, hydropower resources, strips of fertile land in the valleys, and extensive pastures on the mountain slopes. But the economy is mostly influenced by the excellent skiing areas, the pleasant climate, and the crossroads location of the country. Nearly four-fifths of the GDP in 1998 was generated in the tourist and other related service sectors; about one-fifth was generated in industry, including construction and mining; and just about 1 percent in agriculture. The labor force was distributed by occupation as follows: agriculture, 1 percent; industry, 21 percent; services, 72 percent; and other sectors, 6 percent (1998 estimates). The most important industries included tourism (particularly skiing), cattle raising, timber, tobacco growing, banking, and **retail**. Before World War II, most families made their living off farming, tobacco and timber processing, and smuggling, but since the 1950s tourism has been the bulwark of economic progress. With the gradual dismantling of Andorra's duty-free shopping advantages in the course of EU liberalization, the economy will become gradually more dependent on banking and finance services.

AGRICULTURE

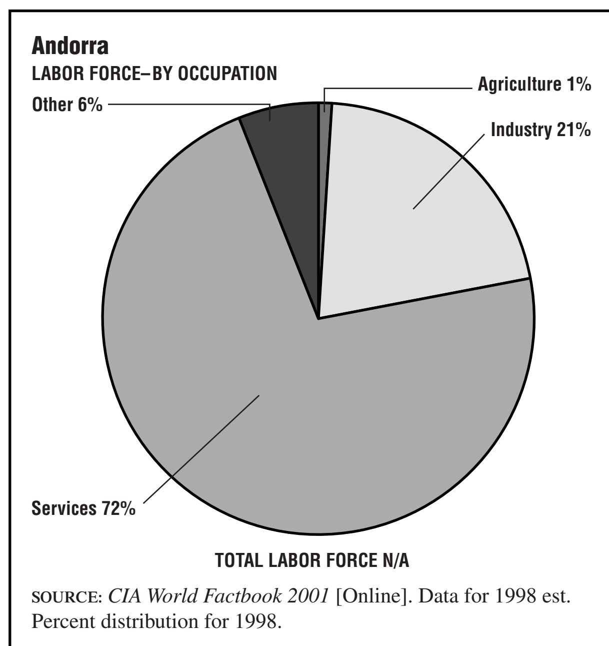
Andorra's territory is ill-suited for agriculture, comprising mostly rugged mountains traversed by narrow val-

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Andorra	32,946 (1998)	14,117 (1998)	AM 0; FM 15; shortwave 0	16,000	0	27,000	1	5,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
France	34.86 M (1998)	11.078 M (1998)	AM 41; FM about 3,500; shortwave 2	55.3 M	584 (1995)	34.8 M	62	9 M
Spain	17.336 M (1999)	8.394 M (1999)	AM 208; FM 715; shortwave 1	13.1 M	224 (1995)	16.2 M	56	4.6 M

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est. Percent distribution for 1998.

leys with scarce arable land making up only 2–3 percent of the total area. Pasture lands suitable for sheep grazing cover about 45 percent of the territory, mostly the lower mountain slopes, and forests cover approximately 35 percent of the land. Agriculture, nevertheless, was the core of the Andorran economy until the boom in tourist activities in the 1950s. Sheep raising has usually been the principal agricultural activity, but tobacco growing, although limited, has been more lucrative, especially given the long-time Andorran tradition of smuggling tobacco products into the neighboring regions of France and Spain. Apart from the timber-related activities, agriculture products currently include small quantities of tobacco, rye, wheat, barley, oats, vegetables, and sheep products. Most food has to be imported from France and Spain.

INDUSTRY

In addition to traditional local handicrafts, manufacturing in the principality includes cigars, cigarettes, timber processing, and furniture for the domestic and export markets. Raw materials such as timber and iron and lead ore are also produced, and mining and construction are important sources of revenue and employment. However, construction is still unable to provide adequate housing at affordable prices for many of the families that migrated to Andorra over the last several decades. Given its relative size, Andorran industry is not able to play a significant role in European markets; however, it provides livelihoods for the local people, additional income for the economy, and also caters to the needs of the larger tourist and retail sectors.

SERVICES

Tourism, the powerhouse of Andorra's tiny but prosperous economy, accounts for roughly 80 percent of GDP. An estimated 9 million tourists (more than one-fifth of the number of visitors to Spain) visit the principality annually, attracted by its resorts, good ski facilities, pleasant summer climate, mineral waters, and duty-free shops. The small but vital banking sector—integrated with both the French and Spanish banking systems but maintaining its **tax haven** status—contributes substantially to the economy. In the mid- to late-1990s, the Andorran government passed a series of laws to strengthen the banking sector and deter activities such as **money laundering**. Retail trade is thriving, particularly in imported manufactured goods, notwithstanding the problems issuing from current EU liberalization and the substantial lowering of tariffs in competing neighboring countries that have diminished Andorra's advantages as a duty-free shopping area. The retail sector is comprised mostly of small privately-held stores.

INTERNATIONAL TRADE

International commerce is crucial to Andorra's otherwise isolated economy. In 1998 the country exported US$58 million worth of goods and services, while importing US$1.077 billion. This massive **trade deficit** is made up for largely by the booming tourist economy. As is to be expected given its tight integration with France and Spain, these countries are its dominant trading partners. The majority of the country's exports, 58 percent, went to Spain in 1998, while France received 34 percent. Imports in that year originated mostly from Spain (48 percent) and France (35 percent).

MONEY

Andorra has a traditional **budget surplus**, with revenues of US$385 million and expenditures of US$342 million, including capital expenditures, as estimated in

Exchange rates: Andorra

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	N/A
1997	N/A
1996	N/A

Note: Prior to 1999 currency was in French francs and Spanish pesetas per US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

1997. The units of currency are both the Spanish peseta and the French franc. Both Spain and France, along with 9 other members of the EU, are in the process of changing over from their national currencies to the single currency of the EU, the euro, for all transactions. The euro started to be used in 1999, initially only for electronic bank transfers and accounting purposes. Euro coins and bills are planned to be issued in 2002, when the peseta and the franc will cease to be legal currency. The EU members have established the European Central Bank (ECB) in Frankfurt, Germany, responsible for all EU **monetary policies**. Since 1999, control over Spanish and French monetary issues, including interest rates and regulating the money supply, has been transferred to the ECB.

POVERTY AND WEALTH

Before World War II, Andorra was still living to a large extent in the ways it had known since the Middle Ages. Most of its people were rather poor and lived off small-scale farming, sheep breeding, and smuggling. Even now, many families still continue to live in the old farmhouses, and life still focuses on the family and the Roman Catholic Church. International tourism and European integration since the 1950s thoroughly modernized the country within several decades and most Andorrans have turned from agriculture to family hotels and restaurants, store-keeping, and various other tourism-related services. Currently, with an affluent service-based economy and a low **inflation rate** of 1.62 percent in 1998, Andorrans enjoy very good and comparatively equitable living standards and very high life expectancy. No extreme cases of poverty or very large private fortunes are currently known. Due to the high number of working immigrants, attracted over the past several decades mostly by jobs in the services industry, housing in Andorra is now probably the most acute social issue. Although many locals still live in their traditional family houses, housing is currently scarce; the construction sector is not yet in a position to address the challenge adequately, and the tiny real estate market in Andorra remains highly speculative.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Andorra	18,000	N/A	N/A	N/A	N/A
United States	28,600	30,200	31,500	33,900	36,200
France	20,900	22,700	22,600	23,300	24,400
Spain	15,300	16,400	16,500	17,300	18,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

WORKING CONDITIONS

The labor force in Andorra included 30,787 salaried employees in 1998, and the unemployment rate was very close to zero. Trade unions were legalized for the first time only after 1993, and modern social institutions are still in the early phases of development. But the most significant labor-related issue recently has probably been the re-qualification for Andorran citizenship, a major challenge in a country where still only 13,000 people (20 percent of the population) are legal citizens. Citizenship issues are economically very important because the law allows non-citizens to own no more than a 33 percent share of a company, even if it is a small business. Citizenship problems generate major troubles for the enterprising immigrants forming by far the most dynamic economic group in the country. Only after residing in Andorra for 20 years are they entitled to possess full ownership of a business. A draft law aimed at reducing the required years from 20 to 10 is currently being debated. In 1995, a new, more liberal citizenship law was passed, but Andorran nationality nevertheless remains very hard to acquire. Only Andorrans can transmit it to their children, birth on Andorran soil does not confer it automatically, and dual citizenship is prohibited. Lawful permanent residents in Andorra may be naturalized only after 25 years of residency, and their children may opt for citizenship at 18 only if they have resided all of their lives in the country.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

803. Andorra is given independence by the emperor Charlemagne, who names it a "March state," or buffer state created to keep the Muslim Moors of Spain from advancing into Christian France.

1278. Andorra comes under the joint suzerainty of France and Spain through the Catalan bishops of Urgel and of the counts of Foix of France. Throughout the Middle Ages and modern times up to World War II, Andorra remains outside the mainstream of European history, with limited ties to countries other than France and Spain. The economy is limited to small farm agriculture and forestry and is helped by smuggling.

1607. The head of the French state and the bishop of Urgel are established as the co-princes of Andorra.

1950s. International tourism starts to grow with the emergence of post-World War II western European welfare societies, the growing income and leisure time of the Europeans, and the increasing attractiveness of both neighboring France and Spain as two of the world's top tourist destinations. Tourism revenues, foreign investment, and the rapid development of tourist

infrastructure profoundly change the way of life in the course of a single generation and attract for the first time in the country's history many immigrants, lured by the opportunities for business and jobs offered by the economic boom.

1970. Women receive the right to vote.

1987. Andorra starts trade talks with the EU.

1993. Andorra adopts its first constitution and is admitted to the United Nations.

FUTURE TRENDS

The Andorran economy is now very closely related to those of France and Spain and is dependent on the overall trends in the EU. Despite positive recent changes in the economy, related to the increasing role of modern services, it is likely that Andorra will, at least over the next few years, continue to confront a number of problems arising from the large influx of foreigners and the need to develop modern social institutions.

In addition to questions of Andorran nationality and immigration, the country's priorities will include addressing housing scarcities and the tough real estate market, reinvigorating international tourism, and renegotiating its trade relationship with the EU.

The results of Andorra's polls so far have indicated that the people generally support reform initiatives and believe that the country has to integrate into the EU in order to preserve and develop its economic prosperity. It is likely that it will be successful in shifting from duty-free shopping to finance and other services as the second major economic sector and revenue source.

DEPENDENCIES

Andorra has no territories or colonies.

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—Valentin Hadjiyski

ARMENIA

Republic of Armenia
Hayastani Hanrapetut 'Yun

CAPITAL: Yerevan.

MONETARY UNIT: Armenian Dram (AMD). One dram equals 100 luma. Coins are in denominations of 1 dram and 50 and 20 luma. Paper currency is printed in denominations of AMD10, 25, 50, 100, 200, 1,000, and 5,000.

CHIEF EXPORTS: Diamonds, scrap metal, machinery and equipment, cognac, and copper ore.

CHIEF IMPORTS: Natural gas, petroleum, tobacco products, foodstuffs, and diamonds.

GROSS DOMESTIC PRODUCT: US$9.9 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$240 million (1999 est.). **Imports:** US$782 million (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Armenia is located in the southwest Caucasus Region, neighboring on Georgia and Azerbaijan to the north, Iran and Turkey to the south, and a separate province of Azerbaijan in the southeast. The total area of the country is 29,800 square kilometers (11,505 square miles), making it about the size of Maryland. The nation's capital is Yerevan, with a population of 1.5 million.

POPULATION. The total population of Armenia was estimated at 3,344,336 people in July 2000. According to the United Nations' *Human Development Report*, the total population of Armenia in 1993 was estimated at 3.7 million people. Hence the population has dropped since 1993 by more than 350,000 people, or about 10 percent. This decline is the result of a low fertility rate and widescale **immigration** (there are 4.23 migrants per every 1,000 members of the population). Life expectancy at birth for the total population is 66.4 years (61.98 for males and 71.04 for females). The total fertility rate is 1.47 children born per woman, which is below the replacement level, with 10.97 births per 1,000 members of the population. (Replacement level is a term that refers to the number of children a couple must have to replace only themselves. Thus, a man and woman would have 2 children to achieve replacement level. If a society has an overall replacement level of 2, then it has a stable population, neither growing nor shrinking. When women in a society typically have fewer than 2 children on average, this can be a sign of a shrinking population over time.) The infant mortality rate is 41.48 deaths per 1,000 live births.

Ethnic Armenians comprise 93 percent of the population. Other ethnic groups include the Azeris at 3 percent, Russians at 2 percent, and Kurds at 2 percent. Almost 96 percent of the nation's population speak Armenian. Russian is the second most common language, although only 2 percent of the population uses it as their primary form of communication. Orthodox Christianity is the most popular religion. The population density is 137 people per square kilometer (355 per square mile). About 31 percent of the population lives in rural areas and 69 percent in urban areas.

OVERVIEW OF ECONOMY

In 1920, Armenia was incorporated into what was then the Soviet Union. While it was under Soviet control, an effort began in the 1960s to industrialize the nation. From its previous state of minimal industrial development, Armenia became a significant manufacturing center, supplying machine tools, textiles, and various manufactured goods to the other Soviet Republics. In return, Armenia received raw materials and energy from these republics. Since independence in 1991, however, many large agro-industrial complexes were divided into small-scale agricultural units. New investments and new technologies are necessary for the healthy development of the agricultural sector. The government has given a high priority to **privatization** of the industrial sector, although the speed of privatization in this sector is slower

than that in the agricultural sector. For food, Armenia relies partially on imports, and it possesses only small mineral deposits (mainly gold and bauxite).

The county experienced a severe economic decline in the beginning of the 1990s, due to a devastating 1988 earthquake, the conflict with Azerbaijan over the Nagorno-Karabakh region (see below), and the disintegration of the Soviet system. In 1994, with assistance from the International Monetary Fund (IMF), the Armenian government introduced an economic reform program which resulted in increased economic performance during the 1995–99 period. **Inflation** was reduced from a staggering 1,885 percent in 1994 to a mere 2.5 percent in 1999. In 1998, about 200 medium and large-scale enterprises and about 600 small enterprises were privatized. Thus far, 74 percent of the country's large and medium enterprises and 64 percent of the small enterprises have been privatized. As a result of economic **restructuring** and privatization, Armenia's economy has grown since 1994. In 1999, the nation's **gross domestic product** (GDP) grew by 5 percent. **GDP per capita** has also increased to US$2,900 in 1999 from only US$459 in 1994.

Armenia had no **foreign debt** when it gained independence from the Soviet Union in 1991. At that time, it signed an agreement with Russia that relieved Armenia of any obligations related to the former Soviet Union's **external debt**. In exchange, Armenia could not claim any of the Soviet Union's external assets. However, after independence the nation ran up a significant foreign debt. By 1998, Armenia's total outstanding external debt was US$827.8 million, or 53.9 percent of its GDP. The nation also has a significant **trade deficit**: in 1999, it imported US$542 million more in goods than it exported.

External factors have both harmed and helped the Armenian economy. The longstanding ethnic conflict with Azerbaijan over possession of the Nagorno-Karabakh region—an Armenian-dominated region that lies wholly within Azerbaijan—has hurt the economy in a variety of ways, creating internal instability and closing the Azerbaijani markets to Armenian goods (Azerbaijan used to be Armenia's largest trade partner). The conflict also led Turkey, which supports Azerbaijan, to impose a trade **embargo**. However, Armenia has been the recipient of substantial foreign aid. In 2000, the World Bank granted Armenia US$45 million to reduce the government's **budget deficit**. The Bank has also granted Armenia US$30 million for economic aid. The country on average has received over US$200 million per year since the mid-1990s.

POLITICS, GOVERNMENT, AND TAXATION

Armenia is a parliamentary republic. The government consists of the executive branch, a legislative branch, and a judicial branch headed by the Supreme Court. The 3 main institutions of the executive branch are the chief of state, the head of government, and the cabinet. Since March 30, 1998, the chief of state has been President Robert Kocharian, elected by popular vote for a 5-year term and winning with a vote of 59 percent. Since November 3, 1999, the head of government has been Prime Minister Aram Sarkisyan. The president appoints the prime minister (usually the leader of the largest political party in the parliament) who in turn appoints the cabinet members. The legislative branch is the **unicameral** (one-chamber) National Assembly (Azgayin Zhoghov). The Assembly consists of 131 members who are elected for 4-year terms.

In 1999, the Armenian government's revenues were US$360 million, but its expenditures were US$566 million. In an effort to reduce its deficit, the government has cut spending and received aid from the World Bank. In 1999, the government spent US$75 million on military expenditures, or about 4 percent of GDP. Payments on

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Armenia	23	224	218	0.4	2	0.1	4.2	1.85	30
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Turkey	111	180	286	9.2	53	1.7	23.2	8.06	1,500
Georgia	N/A	555	473	2.8	11	N/A	N/A	1.59	20

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

the debt are a major drain on the governmental resources. In 1999, the government spent US$108 million on payments on the debt.

Personal **income taxes** range from 0 to 30 percent depending on income, and corporate taxes also range up to 30 percent. Banks and insurance companies are charged a 45 percent tax rate.

In 1996, Armenia signed a trade agreement with the European Union (EU). The main benefit of this agreement has been increased foreign aid from the EU. The government has sought other trade agreements, but the ongoing conflict in Nagorno-Karabakh has created uncertainty about the Armenian economy and prevented significant foreign investment.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Armenia's **infrastructure** needs substantial improvement. Much of the nation's roadways and railways were built during the Soviet period and are in need of repair and renovation. The length of the railway system in 1995, excluding industrial lines, was 825 kilometers (512 miles). Armenia had 15,998 kilometers (9,942 miles) of roads in 1998, of which 7,567 kilometers (4,702 miles) were expressways. All major roads were paved. Pipelines for natural gas in 1991 were 900 kilometers (560 miles) long. Armenia does not have any ports or harbors. There are 12 airports in Armenia (5 with paved runways), but only 10 are in service. Armenian Airlines, the national air carrier, operates service to a variety of international destinations including, Moscow, Paris, Athens, Amsterdam, Frankfurt, and Tehran.

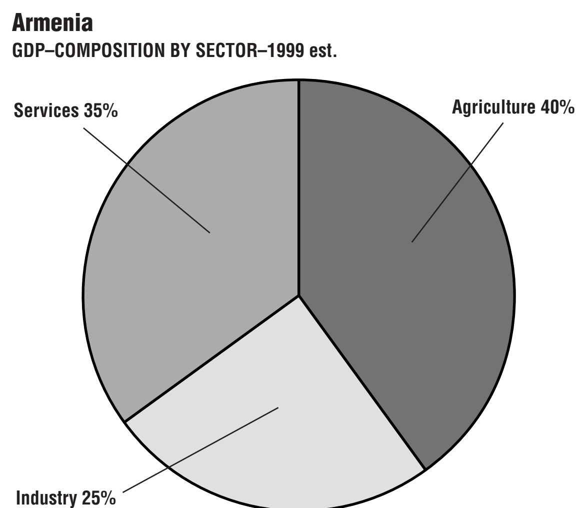
In 1995, of Armenia's total production of electric energy, 60 percent was from gas-fired plants, 34 percent was hydroelectric, and 5 percent was atomic. By 1998 these rates had changed to 25 percent thermal, 49 percent hydro, and 26 percent atomic. The total production of electrical energy in that same period was 5.6 million kilowatt hours (kWh), according to the IMF.

The nation has approximately 650,000 telephones, which gives it a telephone density of 17.7 phones per 100 people. This is relatively low when compared with Western European nations. For instance, Belgium has a telephone density of 50 per 100 people. However, the German company Siemens is engaged in a US$100 million project to upgrade the nation's telephone system with fiber optic and digital telephone systems. About 90 percent of the nation's telecommunications system is now privately-owned. Mobile phone use is increasing with 20,000 mobile units in use in 1998. Use of the Internet is also on the rise with the number of Internet service providers increasing from 1 in 1999 to 7 in 2000. The United States has provided US$1 million to Armenia to supply Internet service for schools.

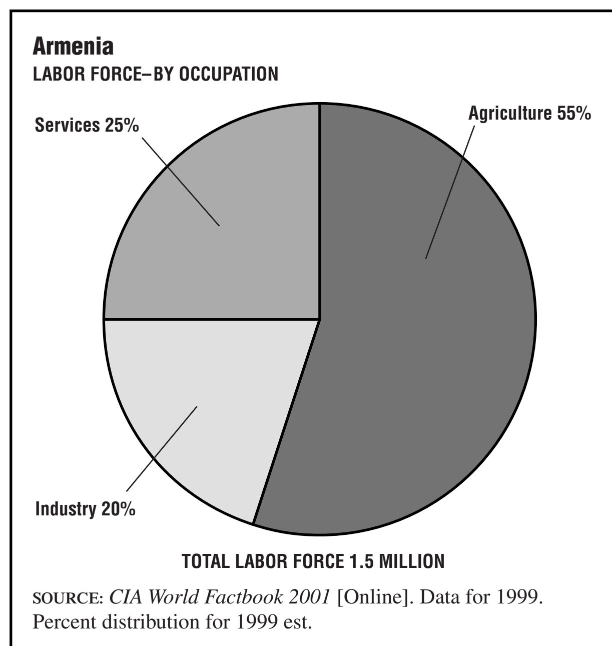
ECONOMIC SECTORS

Unlike most industrialized and economically developed nations where services and industry dominate the

Armenia
GDP–COMPOSITION BY SECTOR–1999 est.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1999 est.

economy, in Armenia agriculture is the main employer and largest source of GDP. According to the World Development report 2000/2001, the total **labor force** in 1999 was 1.5 million people, of which 55 percent were employed in agriculture, 25 percent in services, and 20 percent in industry. In 1999, agriculture accounted for 40 percent of GDP, industry 25 percent of GDP, and services 35 percent of GDP.

AGRICULTURE

Among the nations that made up the former Soviet Union, Armenia was the first to privatize agricultural lands. It broke up the large Soviet-style farms and reallocated the land to small, independent farmers. However, only 17 percent of the country's land is suitable for farming, which severely limits agricultural production. The nation has numerous vineyards and is a major producer of wine and cognac. In 1998 the World Bank provided US$15 million to establish a fund to furnish loans for small farmers.

Despite the limitations of this sector, agriculture provides the largest source of income for Armenia. Agricultural exports totaled US$15.4 million in 1998, or about 34 percent of all of the country's exports. The most significant exports were alcoholic beverages, various fruit juices, calf skins, and processed tomatoes. In 1998, the nation had to import US$297.7 million in agricultural products. In all, 70 percent of all food consumed in Armenia was imported in 1999. The main imports were eggs, sugar, flour, and processed foods.

A variety of crops are cultivated including barley, corn, potatoes, and wheat. In 1999, the total volume of crops produced amounted to 715,400 metric tons. This tally included 425,000 metric tons of potatoes, 220,000 metric tons of wheat, 65,000 metric tons of barley, and 5,200 metric tons of corn. The main livestock products were chicken, beef, and pork. In 1999, total agricultural production declined by 4.2 percent.

INDUSTRY

Industry in Armenia has traditionally been based on mining and the manufacture of goods such as textiles, electric motors, tires, chemicals, trucks, machine tools, and some consumer appliances (mainly washing machines). The contribution of industry to the economy fell from 46.5 percent in 1991 to 25 percent in 1999. In 1999 alone, industrial production declined by 2 percent. This decline has been the result of a lack of new investment (because of political uncertainty) and because many of the industrial markets in the former Soviet Union closed due to lack of demand.

MINING. Armenia possesses the second-largest reserves of copper in the world. Other important reserves are molybdenum, zinc, gold, silver, construction stones (mainly granite and marble), and other materials such as betonite, bauxite, perlite, zeolite, and diatomite. In the 19th century, industrial metallurgical mining started in the Alaverdy and Zangezur regions, and during Soviet times these activities increased enormously. In the 1980s, 25 percent of the Soviet molybdenum was supplied by Armenia. In 1991 the mining industry collapsed due to deteriorating conditions in the mines and declines in demand. In 1996, the mining industry started to recover, with production rising 32 percent in the period from 1996–99. From January to June 2000, it rose an additional 16 percent.

After food processing and jewelry and diamond processing, Armenia's mining sector was the third-largest industrial sector and the third-largest exporter. According to the Armenian government, exports of minerals and non-precious metals totaled roughly 23 percent of exports in 1995. Although the mining sector does relatively well, its production and export are well below its potential. The government has prepared a program to increase mining and metal production and to export more semi-finished products because of their higher **value added**. The major copper-molybdenum companies and the gold company are not yet privatized.

MANUFACTURING. Armenia was the leading chemical producer in the Caucasus in the 1970s, producing synthetic rubber, latex, acids, various glues, and special films mainly for the military sector. In the 1980s the chemical industry employed 24,200 people and accounted for 6.6

percent of the industrial production. The collapse of the Soviet Union, the energy crisis of 1992–93, and the war with Azerbaijan decreased the volume of production by more than 50 percent. In 1999, Armenia imported 6 times as many chemical products and materials as it produced itself. The main chemical export product is rubber, comprising 82 percent of total chemical exports, of which 93 percent went to states of the former Soviet Union. According to expert Jocelyne Decaye, the main weaknesses of Armenia's chemical industry are "high dependence on imported raw materials, obsolete technologies and old production lines, logistical difficulties related to Armenia's location, overstaffing and high costs for transports and electricity."

Armenia's light industry sector was well developed in the 1980s, when it had 115,000 employees and accounted for 25 percent of total industrial production. In the 1990s, however, the share of light industry in the total industrial production declined to under 2 percent. Textile and clothing production make up the most significant activities in this sector.

In 1999, the food processing industry accounted for 39 percent of total industrial output and 61 percent of total manufacturing output. In the 1980s, food processing accounted for only 18 percent of Armenia's total industrial production. The first 5 years of the 1990s saw a rise of nearly 70 percent. The major food products are wine and brandy, with such products as vegetables, fruits, tobacco, potatoes, cotton, grains, and teas making up the rest. Less than 10 percent of the total production is exported (US$16 million in 1999).

SERVICES

The value of services to the Armenian economy increased as a percentage of GDP from 31 percent in 1990 to 35 percent in 1999. The main segments of the service sector include tourism and financial services. Many common Western services do not exist in Armenia. For instance, there are no fast food or **retail** chains.

TOURISM. During the first 5 years of independence, the tourist industry declined, but since 1996, this trend has reversed itself. Since 1996, the number of tourists has more than tripled but remains low compared to the 1980s (about 21,000 visitors in 1999, including business tourism). The share of tourism as a percentage of GDP was 1.7 percent in 1999. The tourism infrastructure needs substantial development and modernization to keep this industry growing.

FINANCIAL SERVICES. During the Soviet period, the State Insurance Company provided mandatory insurance for all citizens. The responsibility to regulate the insurance market now rests in the hands of the Ministry of Finance. The Ministry of Finance provides licenses for insurance companies, and in 2001 some 65 private and state companies were registered. As of 2001, a legal framework concerning the insurance market was still being developed. Domestic and international companies are treated equally under Armenian law.

The banking system accounts for about 10 percent of GDP. In 1999, there were 31 commercial banks. The main foreign banks are Mellat Bank of Iran and Midland Bank of the United Kingdom. Only Midland Bank has established Automated Teller Machines (ATMs), and only a limited number of businesses in the major cities can accept credit cards as a form of payment. The total capital of all commercial banks in Armenia is US$60 million. The largest private bank is HSBC Armenia Bank with assets of US$9 million.

INTERNATIONAL TRADE

Armenia has maintained a trade deficit since independence in 1991. According to the *CIA World Factbook*, Armenia exported US$240 million in 1999, an increase of almost 5 percent compared to 1998. The country has also diversified its trading partners and now trades with an increasing number of Western nations. Armenia imported US$782 million in 1999, a decrease of about 6.5 percent compared to 1998, but still 3 times the amount of 1993. Until the nation's economy recovers, this deficit will continue.

Belgium is Armenia's largest export partner, importing a total value of US$84 million, followed by Russia and Iran, both of which imported US$34 million in 1999. In fourth place was the United States, importing US$16 million, and in fifth came Georgia with US$11 million. Most of the Armenian exports, US$127 million, went to industrial countries, and US$97 million went to developing countries, according to the IMF.

Armenia's main import partner was Russia, accounting for US$181 million in 1999. Second came the United States, exporting US$86 million in 1999. The

Trade (expressed in millions of US$): Armenia

	Exports	Imports
1994	215	393
1995	270	673
1996	290	855
1997	232	892
1998	223	895
1999	232	799

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

Exchange rates: Armenia

dram per US$1	
Feb 2001	554.29
2000	539.53
1999	535.06
1998	504.92
1997	490.85
1996	414.04

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Armenia	N/A	N/A	N/A	1,541	892
United States	19,364	21,529	23,200	25,363	29,683
Turkey	1,898	1,959	2,197	2,589	3,167
Georgia	1,788	2,366	2,813	2,115	703

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

United States was followed by Belgium, which exported US$85 million, then Iran with US$78 million, and in fifth was the United Kingdom, exporting US$67 million. Of Armenia's total imports, US$368 million came from industrial countries and US$451 million came from developing countries, according to the IMF's *Direction of Trade Statistical Yearbook 2000*.

MONEY

The value of the dram has declined significantly since the 1990s. In 1995, 405.91 drams equaled US$1. However, by 2000 it took 539.53 drams to equal US$1. This decline is the result of the continuing weaknesses in the Armenian economy.

In 1993, the Yerevan Stock Exchange (YSE) was established, which was followed by the establishment of 3 smaller exchanges. However, the total value of these 4 exchanges was only US$1.67 million in 1999.

POVERTY AND WEALTH

Officially, 45 percent of the population is considered to be poor, but unofficial estimates place the figure as high as 55 percent. Although poverty is mostly urban (59 percent), the incidence of extreme poverty is higher in rural than in urban areas. Rural poverty is expected to worsen as a result of people leaving rural areas for the cities. State expenditures on social infrastructure and product **subsidies** dropped drastically following independence from the Soviet Union in 1991, thus hurting the ability of the poor to meet basic needs. Since people make very low wages, food comprises about 67 percent of household expenditures. In 1996, the Ministry of Statistics and the World Bank found that the poor represented 55 percent of the total population, while the extremely poor constituted 28 percent. The only good news is that there has been a significant decrease in the proportion of the extremely poor, which is probably due to programs designed to help this sector.

Out of 580,000 **pensioners** (retired people receiving pensions) in Armenia, 223,000 are old age or retired pensioners, of which 186,402 are identified as needy and included in the system of family allowances. Pensions remain exceedingly low, with the average monthly pension worth US$7.5 and average family allowance at US$12. Without assistance from their families, many pensioners would face the most severe poverty.

WORKING CONDITIONS

In 1994, according to the IMF, 1,488,000 Armenians were employed and 106,000 were unemployed, resulting in an actual labor force of 1,594,000 people. The figures for 1998 give a different picture, with the number of total employed persons decreasing to 1,351,000,

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Armenia	52	3	18	3	15	4	5
United States	13	9	9	4	6	8	51
Turkey	45	7	18	6	5	2	16
Georgia	33	4	13	2	4	8	36

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

and a total of 139,000 unemployed, resulting in an actual labor force of 1,492,000 people. Although official figures state that the unemployment rate was 9.3 percent in 1998, unofficial estimates place the rate as high as 20 percent. In the state sector, 794,000 people had jobs in 1994, and in the **private sector** 694,000 people were employed. By 1998, 441,000 people were employed in the state sector, and 912,000 in the private sector, reflecting a major decrease in government payrolls.

According to the constitution, employees have the right to join and form trade unions and to form associations, although members of the armed forces and law enforcement agencies are forbidden to do so.

The minimum monthly wage in 1994 was AMD1,851, although by the second quarter of 1999 it had risen to AMD5,000. Forced and bonded labor is forbidden in Armenia, and for children the minimum working age is 16 years, although with the permission of a medical commission and the relevant union board, children may work from the age of 14. The standard legal work week is 41 hours, and with such a low minimum wage, most people have to take multiple jobs to support themselves and their families.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

c. 900 B.C. A number of small kingdoms are established in what becomes Armenia.

66 B.C. Armenia is conquered by the Romans.

1080–1269. During Armenia's "Silver Age," Armenia gains independence from Byzantium and there is a flowering of Armenian culture and the arts.

1375. Armenia is conquered by the Turks.

1639. Armenia is divided between Persia and Turkey.

1828. Eastern areas of Armenia are conquered by Russia.

1902. The Tiflis-Alexandropol-Yerevan railway is completed, dramatically increasing trade.

1915. During the Armenian Genocide, an estimated 1 million Armenians were killed by the Ottoman Turks.

1918. Armenia becomes an independent nation following the collapse of the Ottoman Empire at the end of World War I (1914–1918).

1918–1920. War occurs between Armenia and Turkey.

1922. Armenia is incorporated into the Soviet Union.

1923. The predominately Armenian region of Nagorno-Karabakh is transferred to Azerbaijan.

1950s. The Soviets undertake a broad effort to industrialize Armenia.

1988. An earthquake in Armenia results in the deaths of an estimated 25,000 people.

1991. Armenia gains independence from the Soviet Union after a nation-wide referendum.

1994. Azerbaijan and Armenia go to war over Nagorno-Karabakh. Economic conditions deteriorate and inflation exceeds 1,800 percent.

1995. A new constitution is adopted.

1996. Armenia signs a trade agreement with the EU.

1999. Prime Minister Vazgen Sarkissyan and other government leaders are assassinated.

2000. Armenia's request for admission to the Council of Europe is approved.

FUTURE TRENDS

A major impediment to Armenia's economic growth is its lack of infrastructure. Antiquated equipment has not been upgraded because of a lack of funds, and as a result many sectors of the economy are neither productive nor competitive. Most privatization efforts resulted in sales to people with connections who usually lacked either the commitment or the capacity to streamline operations. Industrial output is still low, and there is a lack of foreign investment. Armenia's imports exceed its exports by a 3-to-1 margin.

Although there are objective reasons for the failure of the Armenian economy, the widespread perception of corruption at every level of society seriously hampers the government's ability to attract foreign investment. The lack of confidence in the government has also created widespread political apathy among the population.

Furthermore, the high level of unemployment and seeming lack of hope in the country's future has created an **emigration** crisis. Although reliable statistics are hard to come by, the consensus among most observers is that hundreds of thousands of people have emigrated, with no indication that the exodus will abate anytime soon.

DEPENDENCIES

Armenia has no territories or colonies.

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—Mehdi Parvizi Amineh

AUSTRIA

Republic of Austria
Republik Österreich

CAPITAL: Vienna.

MONETARY UNIT: Austrian schilling (ATS). One Austrian schilling equals 100 groschen. There are 20, 50, 100, 500, 1,000, and 5,000 schilling notes, and 1, 5, 10, 20, and 50 schilling coins. There are also 10 and 50 groschen coins. In January 1999 Austria introduced the new European currency, the euro, for all electronic transactions. One euro had a fixed rate of 13.7603 Austrian schillings. It is planned that by 2002, euro bills and coins will replace the currencies in all European Union (EU) countries, including Austria.

CHIEF EXPORTS: Machinery and equipment, paper and paperboard, metal goods, chemicals, iron and steel, textiles, and foodstuffs.

CHIEF IMPORTS: Machinery and equipment, chemicals, metal goods, oil and oil products, and foodstuffs.

GROSS DOMESTIC PRODUCT: US$190.6 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$62.9 billion (1999 est.). **Imports:** US$69.9 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Austria is a landlocked country situated in southern Central Europe. Slightly smaller than Maine, it occupies a territory of approximately 84,000 square kilometers (32,000 square miles), which includes much of the mountainous territory of the eastern Alps and the Danube region. From east to west, Austria stretches to 580 kilometers (360 miles) and 294 kilometers (183 miles) from south to north. In total, the country has 2,708 kilometers (1,682 miles) of borders. It shares borders with 8 European countries: Germany (820 kilometers), the Czech Republic (469 kilometers), Italy (430 kilometers), Slovenia (330 kilometers), Hungary (354 kilometers), Switzerland (167 kilometers), Slovakia (103 kilometers), and Liechtenstein (35 kilometers).

Austria is a federal state comprised of 9 provinces: Burgenland, Carinthia, Lower Austria, Salzburg, Styria, Tyrol, Upper Austria, Vorarlberg, and Vienna. The major cities of Austria and their populations are Vienna (1.64 million), Graz (237,810), Linz (203,044), Salzburg (143,978) and Innsbruck (118,112).

Austria has always been a junction for communication, trade, and cultural exchange in Europe. The capital, Vienna, located on both banks of the Danube River, in the northeast of the country near Slovakia and Hungary, was once the political and economic center of the Austro-Hungarian Empire (1867–1918). It is now the headquarters to some of world's most important organizations, such as the International Atomic Energy Agency (IAEA) and the United Nations Industrial Development Organization (UNIDO). Other international organizations based in Vienna include the Organization for Petroleum Exporting Countries (OPEC) and its Fund for International Development and the International Institute for Applied Systems Analysis (IIASA).

POPULATION. Austria has a population of 8,139,299 (July 2000 est.). The country is highly urbanized and densely populated, with 651 people per square kilometer (251 per square mile). Nearly two-thirds of the people live in urban areas. About 4.0 million are male and 4.2 million (51.5 percent) are female. Due to improved health conditions and a low birthrate, Austria has experienced the rapid growth of its elderly population. Average life expectancy for those born in 2000 was 73.9 year for males and 80.2 years for females. About 21 percent of the population was under 18 years old. If current trends continue, by 2030, the number of children under 18 will drop to only 17 percent. The fertility rate is an estimated 9.9 per 1,000 people, and infant mortality is 6.7 per 1,000 live births. An estimated 99 percent of Austrians age 15 and

older can read and write, and there is 1 teacher for every 11 pupils.

ETHNICITY. Approximately 98 percent of the population is German. The remainder of the population is divided among a number of ethnic groups, including the Neo-Latins, Slavs, Magyars, Croats, Hungarians, Romany, Sinti, Czechs, and Slovaks. Burgenland province is home to a number of Croats and Hungarians. The majority of Austrian Slovenes live in the Gail, Rosen, and Jaun valleys of southern Carinthia and in some villages in the southern part of Styria. Romany and Sinti live mostly in Burgenland and to some extent in Vienna. Many Czechs and Slovaks also reside in Vienna and in Lower Austria, particularly in the Marchfeld and Tullnerfeld regions. The country receives refugees from a variety of nationalities, many of whom are from the former Yugoslavia.

RELIGION. Roman Catholics constitute 78 percent of the Austrian population; a further 5 percent are Protestant, and most of them belong to the Augsburg confession. About 4.5 percent of the population belongs to various other religious groups, while another 9 percent are non-denominational, and the remaining 3.5 percent of the people do not belong to any religion. Every young person over the age of 14 can freely choose his or her religion according to Austrian law. Religious education in Austrian schools is not restricted to the Roman Catholic confession, but most schools are Roman Catholic.

OVERVIEW OF ECONOMY

Austria has a small, yet open, economy with exports of goods and services accounting for 47 percent of the **gross domestic product** (GDP). In the past 2 decades Austria has enjoyed higher economic growth and lower unemployment than many European countries. The **recession** in the early 1990s led to a downward trend in annual GDP growth, from 4.2 percent in 1990 to 0.4 percent in 1994. Since 1995, however, due to positive merchandise export and investment activities brought about by membership in the European Union, the economy has experienced fairly constant growth, with annual GDP growth rates for 1998, 1999, and 2000 of 3.3 percent, 2.8 percent, and 2.7 percent respectively.

The country has a strong economic infrastructure with well developed industry, banking, transportation, services, and commercial facilities. Most of Austria's in-

dustrial and commercial enterprises are small. However, there are a number of large industrial enterprises employing thousands of people, mainly in iron and steel works and chemical plants. Overall, industry accounted for an estimated 32 percent of gross domestic product in 1998, with an average growth rate of nearly 3 percent. Though forming a relatively small component of the GDP—1.3 percent in 1998—agriculture also plays a vital role in Austria. Austrian farmers provide about 80 percent of the domestic food requirements of the country and contribute to export earnings with processed food items. Farms in Austria, like those of other mountainous European countries, are small and fragmented, with production being relatively expensive. Since Austria became a member of the EU in 1995, its agricultural sector has been undergoing reforms to comply with the EU's common agricultural policy.

Export growth was very strong during 2000. Trade with other EU countries accounts for nearly two-thirds of Austria's total imports and exports. Approximately 35 percent of the total exports went to Germany and 10 percent went to Italy. Austria's location is of immense importance for its economic growth. Vienna is one of three capitals forming a strategic Central European triangle. Slovakia's capital, Bratislava, and Hungary's capital, Budapest, are within short distances to Vienna. Expanding trade and investment in the **emerging markets** of Central and Eastern Europe continues to be a major element of Austrian economic activity. Exports to that region increased significantly since 1989, reaching an estimated 17 percent of Austrian exports by 1998. Austrian firms have sizable investments in—and continue to move labor-intensive, low-tech production to—the region. Although the Austrian government and businesses support the European Union's plans to offer membership to several East European countries, they insist that the candidates meet EU economic standards before accession. They have also favored a transition period for the free movement of labor and services to prevent severe competition in the Austrian labor market during accession.

For many years, the government and its state-owned industries played a primary role in the Austrian economy. Many of the country's largest firms were **nationalized** after World War II to protect them from Soviet takeover as war reparations. These included all oil production and refining, the largest commercial banks, and the principal companies in river and air transportation, railroad equipment, electric machinery and appliances, mining, iron, steel, and chemical manufacturing, and natural gas and electric power production. Although the government retains substantial control over the economy, many of these enterprises were **privatized** in the 1980s and 1990s. Through privatization efforts including the 1996–1998 budget consolidation programs and austerity measures, Austria brought its total **public sector** deficit down to 2.1 percent of GDP in 1999 and public debt to 63.1 percent of GDP in 1998. After the formation of a new government in February 2000, Austria promoted further economic **liberalization**, privatization, reform of the welfare system, and abolition of the system of political patronage (where those in political power protect and support certain businesses). An opinion poll published at the end of May 2000 showed that 43 percent of Austrians were in favor of these reforms, and 23 percent were against.

Membership in the EU has brought economic benefits and challenges. An influx of foreign investors, for example, have been attracted by Austria's access to the single European market. Austria also has made progress in increasing its international competitiveness. Since Austria is a member of the European Monetary Union (EMU), its economy is closely integrated with other EU member countries, especially Germany. Although economists have generally agreed that the economic effects of the EMU on Austria, such as the use of a common currency, have been and will be positive, support for the EU in late-2000 fell to an all-time low. According to a poll by the national newspaper *Die Presse*, on 27 October 2000, only 34 percent of Austrians thought that their country has benefited from EU membership; the figure was 45 percent in autumn of 1999. Some Austrians have asked for their country's complete withdrawal from the EU. It is not likely that such initiatives will get very far, however, with the Austrian chancellor having attacked the idea of withdrawal as a "betrayal of the European idea."

POLITICS, GOVERNMENT, AND TAXATION

Austria has a well-developed market economy and a federal republic form of government; the state has historically played a large role in the economy, though that role decreased dramatically at the end of the 20th century. Governed by 2 major parties, the Social Democrats (SPO) and the conservative People's Party (OVP), Austria has enjoyed political stability and economic growth since 1945. The SPO, which garnered 33 percent of the votes in the 1999 national legislative elections, traditionally draws its constituency and much of its strength from the urban and industrial areas. In the past, the SPO has advocated heavy state involvement in strategic industries, the extension of social security benefits, and a **full-employment** policy. In the mid-1980s, the party shifted more toward the advocacy of free market economics and the balancing of the federal budget. The OVP's traditional constituency has been among farmers, large and small businesses, and lay Catholic groups. Its center of strength is rural Austria. The OVP has also advocated conservative financial policies and privatization

of previously nationalized industries. The OVP received 27 percent of the votes in the 1999 election.

The major opposition to both parties during the late 1990s and early 2000s elections was the populist right-of-center Freedom Movement Party, headed by the controversial Jörg Haider, characterized as an ultranationalist (one who supports the nation at any cost), and a xenophobe (one who fears foreigners). Haider made several strong remarks praising Nazi policies. The rise of the Freedom Movement Party—from 5 percent of the votes in the 1983 election to 27 percent in 1999—was credited to voters who were disappointed by the employment opportunities in Austria. A system known as Proporz, supported by the ruling parties, distributed most top jobs in state business and public service to members of those parties. After the fall of the Iron Curtain in November 1989, when the U.S.S.R. started to loosen its control on the borders of its Eastern satellites, cheap and skilled labor came into Austria from Poland, Czechoslovakia, Hungary, and Slovenia. Many Austrian workers lost their jobs to the immigrants who were willing to work for lower pay and fewer benefits. In addition, many farmers were dissatisfied over the EU agrarian policy put into place after 1995, which lowered prices for agricultural products. In addition, the lack of professional chances in the civil service and in many other state institutions due to the EU budget criteria aroused the dissatisfaction of many young people who were seeking traditionally secure government jobs. Haider's Freedom Movement Party, which was against **immigration** and interference from the European Union, won increasing support.

In February 2000 the conservative People's Party, which wanted to establish an effective and legitimate government that would enjoy the support of Parliament, formed a coalition with the Freedom Party. Nearly 54 percent of the electorate voted for the new federal government. The European Union condemned Austria's new coalition, froze diplomatic contacts, and imposed **sanctions**, accusing Haider of being a racist, xenophobe, and Nazi sympathizer. Austria criticized the European Union for interfering in a democratically elected government. Demonstrations in Austria and throughout Europe followed. Haider did not join the government, and in February 2000 he resigned from the Freedom Movement Party to concentrate on his role as governor of the Carinthia province. In September 2000, the European Union lifted sanctions against Austria. Haider was expected to wield influence from the sidelines, however.

Austria's federal structure of government involves a high degree of decentralization with the executive and legislative functions shared between the Federation (federal government) and the Länder (provinces). The Länder play a significant role in federal legislation, having independent regional legislations which cooperate with the Federation in the execution of the federal legislation. According to the constitution of 1920, the head of the country is the president, who is elected by popular vote every 6 years and who represents Austria in its international relations and serves as commander-in-chief of the armed forces. Thomas Klestil, who was elected on 8 July 1992, was elected to a second term on 19 April 1998, with 63 percent of votes. The president is limited to 2 consecutive terms or a total of 12 years in office. Presidential elections are scheduled for the spring of 2004. The president appoints the head of the government, a federal chancellor, who appoints others to the executive branch. With the chancellor's recommendation, the president appoints the ministers. The president also appoints judges. After 4 February 2000, chancellor Wolfgang Schuessel of the OVP headed Austria's government.

The constitution of Austria provides for a distinct division of power among the executive, the legislative, and the judicial branches of government. Executive authority is vested in the federal government composed of the federal chancellor, a vice-chancellor, and other ministers. Legislative authority is vested in the **bicameral** (2-chambered) Federal Assembly composed of the Nationalrat (National Council or lower chamber) and the Bundesrat (Federal Council or upper chamber). Legislative authority is concentrated in the 183 members of the Nationalrat who are elected by direct popular vote for 4-year terms according to **proportional representation**. The Bundesrat consists of 64 members elected by the legislatures of the 9 provinces for 4- or 6-year terms, also according to proportional representation, with each province guaranteed at least 3 representatives. The Bundesrat reviews legislation passed by the Nationalrat and can send legislation back for reconsideration, but the Nationalrat need only pass the legislation a second time to override a veto. Furthermore, the Bundesrat can only initiate legislation by way of the government. The 2 chambers meeting as the Federal Assembly can propose a national referendum, if needed. The highest courts of Austria's independent judiciary are the Constitutional Court, which has jurisdiction over constitutional matters; the Administrative Court, which handles bureaucratic disputes; and the Supreme Court, which deals with civil and criminal cases. All cases initiated in the Administrative and Supreme Courts can be appealed to the Constitutional Court. The president appoints justices of all 3 courts for specific terms.

The federal government is responsible for developing and implementing the domestic and foreign policies of Austria and sets economic policy in consultation with what is known as the social partnership, consisting of the representative bodies of businesses, farmers, and labor. Designed to minimize social unrest, this consensual approach has come under criticism for slowing the pace of economic reforms, particularly in inflexible labor and

product markets. With an increasing number of decisions being made at the EU level, the influence of the social partnership has declined significantly. The government no longer has majority ownership in companies such as OMV (oil and gas), Voest (steel and plant engineering) and Elin (electrical machinery and equipment). **Subsidy** programs have also been scaled back to conform to EU regulations.

In 1997, the government completed an ambitious 10-year privatization program, which included the privatization of steel, aluminum, petroleum, engineering, banking, and other entities. The sale of the Postal Savings Bank and the Austrian Tobacco Company were underway in 2001. Furthermore, the federal railroads were excluded from federal budget accounts, and the newly reorganized Post und Telekom Austria (PTA) (postal and communications company) was divested as a private corporation and was required by law to list its shares on the stock market. Another focus of economic policy was employment creation. Austria has been one of the foremost supporters of the EU's national employment plans, which place strong emphasis on training and education, removal of bureaucratic hurdles, more labor flexibility, and a favorable climate for business start-ups. While some of these plans have been implemented, the government has failed to completely do away with the governing parties' special relationships with business and labor representatives.

The major source of government revenue comes from taxes. The corporate income and capital gains tax rate is 34 percent. A withholding tax of 25 percent applies to dividends, except for those paid to Austrian companies, and interest. A 20 percent tax rate applies to royalties. Only the Austrian-source income of non-resident companies is subject to taxation. When Austria joined the European Union, the government was forced to accelerate structural reforms and to liberalize its economy. Most non-**tariff** barriers to merchandise trade were removed, and cross-border capital movements were fully liberalized.

The 1996–97 economic program enabled the government to cut the federal deficit to 3.7 percent of gross domestic product in 1996, and to 2.6 percent in 1997. Because of this program, which included tax increases, the share of total taxes in gross domestic product reached a high of 44.8 percent in 1997. In 2000 the government cut taxes. The tax reform was expected to reduce the burden on taxpayers by approximately US$2.2 billion by 2003. These reforms included greater tax privileges for old age, a decrease in marginal tax rates, and an increase in the standard tax credit from US$592 to US$817 per year. These measures will ease the burden on the taxpayer by between US$268 and US$469 a year. About two-thirds of the entire reduction of the tax burden will benefit people earning monthly incomes of less than ATS23,000 (US$1,540). Through these measures, the tax burden on the majority of incomes is expected to be lowered in real terms.

Regarding the taxation of enterprises, the 2000 tax reform package contained 2 new provisions: Interest payments on personal **equity** will be taken into consideration for taxation purposes, and a tax allowance of US$335,000 will be introduced for inheritance (gift) tax in the case of enterprise transfers. Moreover, the research contribution and apprenticeship allowance will be increased. Private provision for old age will be promoted. In addition, regarding the taxation of capital gains from the disposal of securities, the retention period will be prolonged from 1 year to 2 years.

Relative to the gross domestic product, this tax reform is more comprehensive than the previous ones implemented in 1989 and 1994. The main emphasis of the reform is on easing the tax burden on private consumption. Consumer demand is expected to continue to increase by a cumulative 1.8 percent per year in real terms by 2005. Since direct incentives for investors are extremely modest, investments are not expected to grow significantly. Higher domestic demand, which also results in higher imports, is expected to only modestly contribute to the growth of GDP by 2005. The labor market is thought to be able to absorb another 9,300 employees. Price increases are expected to be insignificant at 0.2 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

A distinctive feature of the Austrian energy sector is its diversified sources of supply. In 2000, the total primary energy supply included liquid fuels (38 percent), natural gas (24 percent), hydropower (13 percent), other renewable resources (13 percent) and coal (12 percent). Nuclear power is legally banned, following a referendum on the subject in 1978. The renewable resources share in Austria's energy supply increased from 16 percent in 1973 to 26 percent in 2000. The government plans to completely liberalize the electricity market by 2003. Preparations are also under way to open up the natural gas market.

For decades, the telecommunications industry was a **monopoly** in Austria, with the state-owned Post and Telecom Austria (PTA) being the only national supplier of networks and telecommunication services. Because of EU liberalization directives, the government enforced legislation to open the telecom and energy sectors to competition. The Austrian telecommunications sector now exhibits much liberalization, though high interconnection fees are still a problem. Austria has a highly developed telecommunications system with 4 million telephones, 27 radio stations, 47 television stations, and 4 satellite

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Austria	296	753	516	139.1	282	N/A	233.4	252.01	1,840
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Hungary	186	689	437	146.5	105	17.7	58.9	93.13	600

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

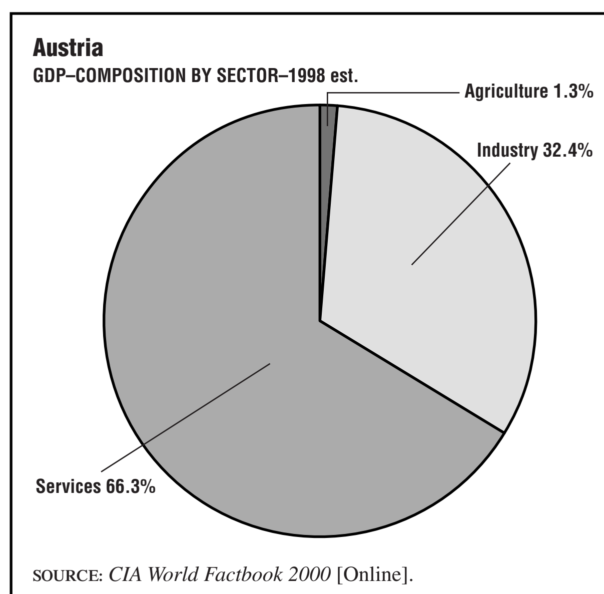
ground stations. Radio, television, telephone, and telegraph systems were all state monopolies until the broadcasting system was converted into a joint-stock company in 1957. The Austrian Broadcasting Company operates 3 radio and 2 television stations nationwide. Telephone and telegraph communications are directed by the Austrian postal and telecommunications service. More than 20 daily newspapers are published. Daily newspaper circulation averages more than 3.7 million. Influential dailies include *Die Presse* (published in Vienna) and *Salzburger Nachrichten* (published in Salzburg).

Austria has an excellent network of transportation and communication; due to its strategic location and relative political neutrality, Austria has established itself as a broker and an international place of encounter among nations. This role is exemplified by the countless summit meetings and conferences which the country hosts every year. Austria is also anticipating the increasing importance of its transport sector as an essential European communications hub. A factor of the growing importance of the transportation web is the growing European energy transit network (the transport of oil, natural gas and electricity), much of it passing through Austria.

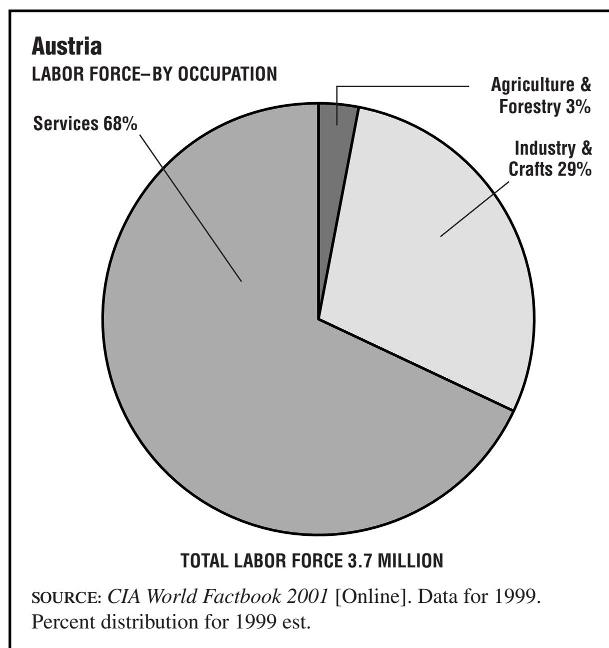
A landlocked and mountainous country, Austria depends on roads and rail passage for a major share of its foreign trade. In the transportation segment, it has 200,000 kilometers (124,000 miles) of roads and 6,028 kilometers (3,744 miles) of railroads, of which about 5,388 kilometers (3,347 miles) are state owned and 640 kilometers (398 miles) privately owned. Furthermore, more than 350 kilometers (217 miles) of inland waterways carry approximately one-fifth of the country's total trade. The main river ports are Linz, Vienna, Salzburg, Graz, Klagenfurt, and Innsbruck. The Danube River, the only navigable waterway with barges carrying up to 1,800 tons, is an important connection between the North Sea, Germany, and the Black Sea. In terms of air connection, Austria has 55 civil airports, 20 with paved runways. The main international airport is Schwechat located in southeast Vienna. International flights are available from the airports in Graz, Innsbruck, Klagenfurt, Linz, and Salzburg.

ECONOMIC SECTORS

Austria is one of the wealthiest and most stable of the EU member countries. It has a free market economy with a strong emphasis on social factors favoring the economically less privileged and providing conditions for equitable wages and pricing. Service, industry, and agriculture are the 3 major sectors of the Austrian economy. The foremost products are foodstuffs, luxury commodities, mechanical engineering, steel, chemicals, and vehicles. Within the vehicle sector, the production of engines and transmissions is the most important, accounting for an export quota of more than 90 percent. Austria manufactures as many as 800,000 engines per year for major car manufacturers. In the electronic engineering field, Austria is known for its production of customized elec-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1999 est.

tronics products such as microprocessors and integrated circuits for airbags, ABS braking systems, and components for Airbus airliners and for high-speed trains.

Approximately 3 percent of all Austrians work in agriculture and forestry. In 1998 that sector accounted for 1.3 percent of Austria's gross domestic product. Although about 41 percent of Austria's total area is thought to be suitable for agriculture, currently about 18 percent of the surface area is actually covered by farmland. Another 27 percent of the country's area is considered as grassland and nearly half (47 percent) is woods and forests. With its 20,000 organic farmers, Austria occupies a leading position in Europe in the branch of organic agriculture.

In 1998, Austrian industry (commodities manufacturing, energy, and mining) accounted for 32.4 percent of the GDP and employed 29 percent of the workforce. In the field of raw materials and energy generation, Austria possesses ample resources. It has major deposits of iron ore and non-ferrous metals. It also has its own resources of oil and natural gas and is the EU's number-one generator of hydroelectric power. However, the constant growth of the industrial sector necessitates a significant amount of supplementary imports. This is also true of fuels and energy and of the electricity which generates industry.

There are an unusually high number of medium-size enterprises in Austria's commercial industrial sector. Austrian industry covers practically every branch of manufacturing starting from basic goods to the labor-intensive production of finished goods. Plant construction (encompassing the planning, delivery, and assembly of industrial facilities) is among the most important industries of the country. Plant construction and electronics sectors are strongly export-oriented. Another export-oriented sector is Austria's handicrafts, famous worldwide for, among other things, costume jewelry, ceramics, and glassware.

AGRICULTURE

The agriculturally productive land of Austria covers 28.1 million hectares (69.5 million acres), or 94 percent of the total area. The provinces having the largest proportion of arable land are in the southern parts of the country. The total value of agricultural exports in 2000 was US$2.85 billion and that of imports was US$4.56 billion. A large amount of agricultural exports go to neighboring Italy.

FARMING. Austrian farms, like those of other West European mountainous countries, are small and fragmented. Their products are relatively expensive, with an emphasis on **cash crops**. Although Austrian farmers provide about 80 percent of domestic food requirements of the country, the agricultural contribution to the gross domestic product has declined since 1950. The principal agricultural products are wheat, rye, oats, barley, corn, potatoes, sugar beets, and cattle turnips. Besides these principal crops, other crops of considerable magnitude are: buckwheat, flax, tobacco, fuller's thistle, and cabbage. The principal garden products are kitchen vegetables and fruit, of which large quantities are exported. The best fruit districts are in Upper Austria and Styria. The primary meat products are beef and veal, chicken, duck, game, goose, horse, lamb, pork, rabbit, and turkey. The most valuable agricultural exports in 2000 were non-alcoholic beverages, chocolate products, beef, pastry, and processed fruit. Large quantities of wheat and maize are imported, much of it from neighboring Hungary. Important exports are barley, oats, milk, beef, and pork.

FOREST PRODUCTS. Forests occupy just over one-third of the productive area of Austria or 98,000 square kilometers (38,000 square miles). As much as 85 percent of all Austrian forests are dominated by tall timber, such as oak, pine, beech, ash, elm, and spruce, which are important in the paper and pulp industry and in building construction. In 2000 about 17 million cubic meters (590 million cubic feet) of round wood was cut. A comprehensive reforestation and conservation program has been in progress since the early 1950s to compensate for damage inflicted during WWII and for postwar overcutting of forest trees. Economic development in 1998 and the opening towards the EU market have also affected forestry. Although the number of employees and production decreased slightly, investments in forestry increased.

FISHERIES. The fisheries of Austria are very extensive. The numerous rivers of Austria swarm with a great variety of fish. The lake fisheries are largely developed and employ about 4,000 vessels and over 16,000 fishermen. Fishing for sport in the mountain streams is popular and constitutes a large source of income. However, most table fish are imported.

INDUSTRY

The essential industries in Austria are construction, machinery, vehicles and parts, food processing, chemicals, lumber and wood processing, paper and paperboard, communications equipment, energy production, and mining. Austria has favorable conditions for industrial activity, including a very well developed **infrastructure**, a rich source of raw material, and a skilled, moderately expensive **labor force**. Industrial output in 2000 (including energy production) grew by an estimated 6.8 percent over the previous year. The biggest growth rate, 11.1 percent, was recorded for **capital goods**, while production of **consumer goods** expanded by 2.6 percent.

MANUFACTURING. The Austrian manufacturing industry consists of a few large organizations, most of which operate under government control, and a great number of small and medium-size production units. Manufacturing remains focused on medium-technology sectors producing intermediate and capital goods, much of it bound as exports to neighboring Germany. Due to its well-established export markets, the manufacturing sector has a relatively low level of research and development expenditure, at 1.6 percent of gross domestic product in 1999, as compared to the EU average of 1.9 percent. The principal manufacturing products are textiles, metals, alcoholic beverages, leather, paper, sugar, glass, porcelain, earthenware, chemicals, and scientific and musical instruments. Because of the traditional popularity of Austrian wood, glass, textile, and ceramic handicrafts, many establishments produce such goods. The principal industrial products are pig iron, crude steel, rolled steel, motor vehicles, cement, fertilizers, paper, and cotton, woolen, and synthetic yarns and fabrics. Annual production of crude steel totaled about 3.95 million metric tons in 2000. The textile industry in all its branches (cotton, woolen, linen, silk, flax, and hemp) is a historic industry and is mostly concentrated in the southern part of the country.

MINING AND ENERGY. The annual production of principal minerals in 2000 included lignite coal (1.8 million metric tons), iron ore (1.6 million metric tons), crude oil (1.2 million metric tons), magnetite (1.0 million metric tons), salt (702,000 metric tons), and zinc ore (16,450 metric tons). Other substances commercially mined included copper, lead, antimony, bauxite, tungsten, and natural gas. Austria has numerous hydroelectric installations, which together produce nearly two-thirds of the country's electrical output. More than 51 billion kWh of electricity are generated each year.

SERVICES

Austria has an advanced industrial economy with a significant service sector. The service sector contributes more than 66 percent of the gross domestic product and employs 68 percent of the population. There is a substantial amount of foreign investment in the service sector. Foreign interests control most of the large computer-servicing firms, whereas tourism is in the hands of local interests. Management consultancy has also come to play a larger role in the Austrian economy, especially given Austria's role as a link between Eastern and Western Europe.

TOURISM. Because of its wealth of cultural and recreational facilities—including historical sites and winter and summer resorts in the spectacular mountains—Austria has a large tourism industry, which acts as a major earner of foreign exchange. More than 8 percent of Austrians are employed in the tourism industry. Tourism is based on the services of traditional agriculture in the Alpine region of Austria, where tourists appreciate the cultural landscape safeguarded by farmers. As many as 17,000 farmers annually rent private rooms to holiday-makers. In 1998, this category accounted for about 15 million overnight stays out of the total 111 million overnight stays in Austria. Austria's major cities are also a major attraction, for they boast some of the most impressive architecture in Europe and are known for the quality of their theatre, music, and museum art. According to the World Tourism Organization, Austria had 16.7 million visitors in 1997 and these visitors spent US$12.4 billion in the country. Increasingly, however, Austria has experienced a decline in the numbers of overnight stays due to its high prices compared to Eastern European countries.

FINANCIAL SERVICES. The contribution of the financial services sector to gross domestic product amounted to 6.3 percent in 2000. It employed some 110,000 people, or 3.6 percent of the workforce. The sector grew by 4.1 percent per year over the 1996–2000 period. Austrians' propensity to save, at about 25 percent of gross domestic product, has contributed to the success of the financial services. Austria's domestic savings to GDP ratio in 1999, according to the World Bank, was more than Germany's 23 percent or the United States' 15 percent. With about 1,000 banks, Austria has more than twice as many banks as neighboring Switzerland. Central and Eastern Europe comprise one area where Austria's banks have a competitive lead over European rivals. Raiffeisen Zentralbank has 2,500 staff and 80 branches in Central Europe and Bank Austria has 100,000 personal customers

in the region. In addition to its presence in Western Europe, Austrian bank exposure abroad is also found in neighboring Hungary and the Czech Republic. Bank Austria has also been active in Russia.

RETAIL. At the turn of the 21st century Austria was undergoing a major shift in the nature of its **retail** establishments from a system based on small, locally-owned shops to one based on larger franchises and foreign-owned chains. EU membership has brought the entrance of large grocery, clothing, and household goods stores to the country, often driving family-owned businesses out of business. Small shops and boutiques once made up nearly 90 percent of the retail sector, but that number began shrinking in 1995. By 1999 large shopping centers and malls accounted for 12 percent of retail sales, and 33 new malls were in development in 2001. German retail chains represent the dominant foreign presence in the retail sector.

Franchising is a small but growing factor in the Austrian economy. Experts estimate that it accounts for about US$830 million in annual sales or just over 2 percent of total retail sales (compared to almost 50 percent in the United States). Current growth in the franchise market of Austria is around 10 percent annually. About 1 in 3 franchise systems operating in the country is of local origin. The top foreign participant in the Austrian franchising economy is Germany, with around 20 percent of the franchise systems, followed by the United States, with about 5 percent of all the systems.

INTERNATIONAL TRADE

Austria's economy is dependent on foreign trade and closely linked to the economies of other EU countries, particularly Germany. Austria trades with some 150 countries, with the European Union accounting for about two-thirds of the total. Beside a variety of goods, Austria exports money in the form of investments. It is a major investor in the former Eastern European countries, with some 40 percent of all direct foreign investments in that part of the world coming from Austria. Another important branch of Austria's foreign trade sector is transit trade for goods and services traveling east and west across Europe.

Austrian exporters sold merchandise worth US$65.6 billion in 2000, up from US$62.9 billion in 1999. In 2000, Austria's international trade continued to grow. The trade balance deficit dropped from 8.4 percent to 5.6 percent of the export volume, reaching its lowest level since 1945. The sound economic situation in Central and Eastern Europe, the booming economy in the United States, and the moderate economic development in the European Union, as well as the favorable **exchange rate** were the main contributing factors. What grew strongest was foreign trade with the Eastern European countries and the United States. Exports to Eastern Europe rose 23 percent in 2000 and imports 29 percent, while exports to North America increased by about one-third. Exports to the European Union rose 12 percent, while imports grew by 10 percent. Exports to Asia climbed by almost one-fifth in 2000, while those to Latin America showed a modest rise of 9 percent.

Trade (expressed in billions of US$): Austria

	Exports	Imports
1975	7.519	9.394
1980	17.489	24.444
1985	17.239	20.986
1990	41.265	49.146
1995	57.642	66.386
1998	62.767	68.277

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

EU countries absorb the majority of Austrian exports and provide the majority of imports. In 1999, EU countries purchased 65 percent of Austria's exports, with Germany taking 36 percent, Italy 9 percent, and France 5 percent. Switzerland and Hungary each purchased 5 percent of Austria's exports. In 1999, 70 percent of all imports came from EU countries, with Germany providing 42 percent, Italy 8 percent, and France 5 percent. The United States is Austria's largest non-European trading partner, taking 4.5 percent of Austrian exports and providing 5 percent of its imports. Although the accession of Austria to the European Union has brought stiffer competition from European producers, U.S. exports to Austria increased considerably in the mid to late 1990s. Some U.S. exporters, particularly those in the data processing hardware and semiconductor sectors, are confronted with higher customs tariffs and regulations. Others have benefited from lower EU tariffs.

The EU ban on beef imports from cattle treated with hormones severely restricted U.S. exports of beef to Austria. Despite a World Trade Organization decision that the ban was inconsistent with the rules of international trade, the European Union did not lift the ban. Furthermore, the European Union ruled out the possibility of importing U.S. poultry or products containing poultry. The import of genetically modified food—what some Europeans call "Frankenstein food"—with the United States being the primary producer, was also banned. Austria went even further than its EU partners: Novartis corn and Monsanto BT corn, for example, which were major genetically modified foods approved by the European Commission, were banned imports in Austria.

Exchange rates: Austria

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	12.379
1997	12.204
1996	10.587

Note: Amounts prior to 1999 are based on Austrian schillings per US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Austria	18,857	22,200	23,828	27,261	30,869
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Hungary	3,581	4,199	4,637	4,857	4,920

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

MONEY

Austria has pursued moderate, stable, long-term **fiscal** and **monetary policies**. Throughout the decade, the money supply was constantly growing, as well as Austria's exports, imports, government revenue and spending, gross domestic product, and income. The Austrian currency, the schilling, is strong and convertible. Once called the alpine dollar, the Austrian schilling has become one of the most stable currencies in the world. The Austrian schilling depreciated against the dollar in 1996 and 1997 but was stable against most European currencies. With the decision on the European Monetary Union in place, fluctuations of the schilling against the currencies of the other 10 European Monetary Union participants were minimal during the remainder of 1998. The dollar continued to strengthen against the schilling during the first half of 1998 and 1999 parallel to its rise against the Euro.

In 1999, Austria adopted the euro, the common currency of the European Union, at a fixed conversion rate of ATS13.76 to Euro1. At the same time, Austria surrendered its sovereign power to formulate monetary policy to the European Central Bank (ECB), in line with other EU member states participating in the European Monetary Union. Austria's central bank, the Österreichische National Bank (ANB), is a full participant in the European System of Central Banks. The government successfully met all convergence criteria due to austerity measures implemented in 1996–97 and is pursuing a policy of further reducing the fiscal deficit and the public debt. The ECB's focus on maintaining price stability in formulating exchange rate and monetary policies is viewed by the ANB as a continuation of the hard schilling policy the ANB pursued since 1981. By fixing the Austrian schilling to the German mark, the government successfully kept **inflation** under control and promoted stable economic growth.

POVERTY AND WEALTH

The World Bank ranks Austria seventh in the world in terms of annual per capita income. The annual **gross domestic product per capita** is estimated to have surpassed US$30,000 by the late-1990s. Living standards are very high, and due to **socialist** policies of the federal government, the incidence of poverty is minimal. In 2000, the mean unemployment rate stood at 7.1 percent, and the mean gross monthly income was US$1,922.

There is no legally mandated minimum wage in Austria. Instead, minimum wage scales are set in annual collective bargaining agreements between employers and employee organizations. Workers whose incomes fall below the poverty line are eligible for social welfare benefits. Over half of the workforce works a maximum of about 38.5 hours per week, a result of collective bargaining agreements. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards. The Austrian system of social insurance is comprehensive, including sickness, disability, accident, old-age, and unemployment benefits; allowances for families with children; and rent aid. The program is financed by compulsory employer and employee contributions. Health insurance and some other types of insurance are voluntary for individuals who are self-employed. Health conditions and facilities in Austria are considered excellent.

Distribution of Income or Consumption by Percentage Share: Austria

Lowest 10%	4.4
Lowest 20%	10.4
Second 20%	14.8
Third 20%	18.5
Fourth 20%	22.9
Highest 20%	33.3
Highest 10%	19.3

Survey year: 1987

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Austria	20	10	11	4	9	9	38
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Hungary	25	5	17	6	20	12	15

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

Austria was ranked number-one in the World Competitiveness Report of 1999 for quality of life, providing high-performance infrastructure and rapidly falling telecommunications and energy costs. It also has one of the best records of price stability in the world. Corporate tax rates are one of the lowest among leading industrial nations.

There is a strong labor movement in Austria. The Austrian workforce is 3.7 million, 40 percent being females. About 45 percent of the total Austrian labor force belongs to the 14 unions that make up the Austrian Trade Union Federation. Membership in unions is voluntary, but all wage earners are required by law to join their respective chambers of labor. Guarantees in the Austrian constitution governing freedom of association cover the rights of workers to join unions and engage in union activities. The Austrian Trade Union Federation (OGB) comprises constituent unions with a total membership of about 1.5 million. Since 1945, the OGB has pursued a moderate, consensus-oriented wage policy, cooperating with industry, agriculture, and the government on a broad range of social and economic issues in what is known as Austria's social partnership.

Compared to other EU member states, Austria has the third lowest unemployment rate, with only the Netherlands and Luxembourg providing better job opportunities. (The European Union's average unemployment rate was 8.5 percent by the end of 2000.) In addition, Austria prides herself on having the lowest youth unemployment rate in Europe. In the past, both the federal government and the state governments spent billions of schillings to provide vocational training to those who left school at the end of compulsory education and to help others achieve secondary school qualifications. Now that more companies are willing to take on apprentices, the government has decided to **restructure** its vocational programs.

At a time of prosperity for the Austrian economy, however, the country received unexpectedly poor ratings from the Union of Industrial and Employers' Confederations of Europe (UNICE). It sharply criticized Austria for underfunding research and development. The organization also pointed out that Austria had far too few highly trained information technology personnel. UNICE expected a shortage of 13,000 qualified information technology workers.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1918. Austro-Hungarian empire collapses at the end of World War I, and the Republic of Austria is formed.

1922. Austria receives a loan from the League of Nations, pledging to remain independent for 20 years.

1930s. Dictatorship of Engelbert Dollfuss occurs.

1934. In February civil war breaks out, and the Socialist Party is outlawed.

1934. A coup d'etat by the National Socialists fails in July, and Dollfuss is assassinated by the Nazis.

1938. Austria is incorporated into Germany's Third Reich.

1945. In April Soviet troops liberate the eastern part of Austria, including Vienna. Austria is divided.

1945. Under the Potsdam agreements, the Soviets take control of German assets in their zone of occupation.

1955. All occupation forces are withdrawn, and Austria becomes free and independent.

1955. The Nationalrat enacts the Federal Constitutional Law, declaring the country's permanent neutrality. Austria becomes a member of the United Nations.

1979. Austria gains a permanent seat in the United Nations.

1972. Austria signs a free trade agreement with the European Community, abolishing all industrial tariffs.

1995. Austria becomes a full member of the European Union, together with Finland and Sweden.

1995. Austria joins NATO's Partnership for Peace program.

FUTURE TRENDS

Forecasts for economic growth in 2001 have been positive. A double-digit growth rate is expected in industrial output, retail trade has grown by 5 percent, and tourism is booming. Gross domestic product is likely to advance by 3.1 percent rather than the predicted 2.8 percent. Interest rates will rise slightly but remain low. Demand for Austrian goods is up, and this makes for full order books in the country's exporting industries. In addition to increased sales abroad, recent tax breaks are being used by private households for additional consumer spending rather than stocking up their savings accounts. Business confidence is buoyant given the competitive position of Austria's industry, strong foreign investment, and good export opportunities. Inflation is expected to remain lower than the EU average. The challenges that face the Austrian economy in the future will be securing the greatest possible congruence of its economic policy with common EU policies, most notably in the fields of trade, agriculture, regional development, taxation, and monetary policy.

On the agricultural side, Austria's organic farming and food industry may serve as an example to the world as an alternative to genetically modified food and hormone-treated cattle and poultry. With its ban on imports of genetically modified food, mostly produced in North America, and the outbreak of mad cow disease in Europe and foot-and-mouth disease worldwide, the already well-established organic farming of Austria is expected to continue to grow, generating record profits. Austria also faces social challenges of containing its right wing nationalists, as manifested by the ultranationalist Freedom Movement Party, and upholding the rights of thousands of non-ethnic Austrian and non-European immigrants who now compose an increasingly larger part of Austrian society.

DEPENDENCIES

Austria has no territories or colonies.

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—Payam Foroughi and Raissa Muhutdinova-Foroughi

BELARUS

Republic of Belarus
Respublika Byelarus

CAPITAL: Minsk.

MONETARY UNIT: The Belarusian ruble (BR) became the official currency in May 1992. New bank notes introduced in 2000 include 1, 5, 10, 20, 50, 100, 500, 1,000 and 5,000 ruble notes. The currency contains no coins. As of February 2001, BR1,244 equaled US$1.

CHIEF EXPORTS: Machinery, transport equipment, chemicals, metals, textiles, foodstuffs.

CHIEF IMPORTS: Fuel, natural gas, industrial raw materials, cotton fiber, sugar, foodstuffs.

GROSS DOMESTIC PRODUCT: US$55.2 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$5.95 billion (2000). **Imports:** US$6.55 billion (2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Belarus is a landlocked state in Eastern Europe bordering Poland, Lithuania, and Latvia to the west; Ukraine to the south; and Russia to the east and north. It has a total border of 3,100 kilometers (1,900 miles), with almost one-third of its border (960 kilometers, or 600 miles) touching Russia. Slightly smaller than the state of Kansas, Belarus covers an area of 208,000 square kilometers (80,000 square miles). Belarus is divided into 6 oblastsi (provinces). The cities of Minsk, Gomel, Brest, Vitsyebsk, Grodno, and Mogilev are the capital cities of these oblastsi.

Belarus is the smallest of 3 Slavic republics (with Russia and Ukraine) that were once part of the Soviet Union. These Slavic republics, along with 12 other regions, gained their independence from the Soviet Union in 1991.

POPULATION. The population of Belarus was estimated at 10.4 million in July 2000, with almost 75 percent living in urban areas. The population of the city of Minsk alone was estimated at 1.67 million in July 2000. The number of people living in Belarus peaked in 1993 and has been declining at an average annual rate of 0.5 percent. It is estimated that by 2015 the population will fall to 9.8 million. The negative population growth rate is partly due to a falling life expectancy (68 years; 62 years for males and 74 for females), a low fertility rate, and **emigration**. Belarusians are marrying at an older age and

having fewer children. Low fertility combined with increased emigration has resulted in an older population. In 1960, for example, 32 percent of the population was considered "young" and 14 percent was considered "old." The corresponding figures for 1996 were 23 percent and 21 percent.

Ethnic Belarusians make up more than 77 percent of the country's population. Russians, many of whom were migrants to Belarus while it was still part of the Soviet Union (1917–91), form the second largest ethnic group (13 percent). The remainder of the population are Poles (4 percent), Ukrainians (3 percent), and Jews (1 percent), with a small number of Latvians, Lithuanians, and Tartars (0.1 percent). Before World War II, Jews constituted the second largest ethnic group in the country.

Belarusians emigrate from their country for economic, military, political, and religious reasons. Some estimates put the number of Belarusians living abroad at between 3 to 3.5 million. The United States is one of the principal countries of Belarusian emigration. Since 1946, more than 500,000 Belarusians have emigrated to the United States, many fleeing a country devastated by World War II (1939–45).

Both Belarusian and Russian are official languages. The Belarusian language is an East Slavic language, closely related to Russian and Ukrainian. Like many of the Slavic languages, Belarusian uses the Cyrillic alphabet. Most Belarusians who profess a religion adhere to the Eastern Orthodox Church. There is, however, a sizable minority of Roman Catholics, and the Eastern-rite (Uniate) church is experiencing a revival after centuries of persecution under Eastern Orthodox-dominated Tsarist Russia and atheistic (not subscribing to any religion) Soviet rule.

OVERVIEW OF ECONOMY

The breakup of the USSR (Union of Soviet Socialist Republics) in 1991 had a negative impact on Belarus. Although the majority of the former Soviet republics quickly shifted their economies toward the free market system, Belarus was among the slowest to open up its economy. International financial institutions, such as the World Bank, International Monetary Fund (IMF), and the European Bank for Reconstruction and Development (EBRD) assisted the country with credits and special economic development projects. Although their efforts resulted in some positive outcomes, they also increased Belarus's international debt. Whereas in 1991 the country was practically debt-free, in 2000 Belarus owed nearly US$800 million to foreign banks and government bodies.

Agriculture and industry are the largest sectors of Belarus's economy, making up 13 percent and 34 percent of GDP in 2000, respectively. Wheat, rye, oats, potatoes, flax, hemp, and sugar beets are the primary agricultural products. Dairy and beef cows, pigs, and chickens are also raised. The main industrial items produced in Belarus are tractors, trucks, earth movers, metal-cutting machine tools, agricultural equipment, motorcycles, chemicals, fertilizer, textiles, and some **consumer goods**. Peat, the country's most valuable mineral resource, is used for fuel and fertilizer and in the chemical industry. Belarus also has significant deposits of clay, sand, chalk, dolomite, phosphor, and rock and potassium salt. Forests cover one-third of the country's territory and the lumber industry is economically important as a result. Having only small reserves of petroleum and natural gas of its own, Belarus imports most of its oil and gas, mainly from neighboring Russia. It also imports large quantities of grain. The main export items are machinery and household items.

The Chernobyl nuclear power plant accident that took place on 26 April 1986 in Ukraine released massive amounts of radiation, contaminating large amounts of agricultural land in Belarus. An estimated 150,000 inhabitants had to move, and many people needed medical help. Chernobyl caused the government to take more than 23 percent of the country's agricultural land and 20 percent of forest land out of production. Economic output declined for several years after the accident, but revived somewhat in the late 1990s. The economic revival was due to several factors, including improved production techniques, better relations with foreign countries, and the introduction of **privatization**.

Under the **socialist** system of the Soviet Union, Belarus's economy was merely part of the national economy of the Soviet Union. After winning independence from the Soviet Union in 1991, Belarus moved very slowly on free market reforms, keeping its basic economic reliance on Russia. Some reforms were implemented between 1991 and 1994, but they did not last long enough to make an impression. When Alexander Grigorjevich Lukashenka became president in 1994, many of these free market economic reforms were reversed. The government reintroduced **price controls** (an enforced price on an item) on at least 26 basic goods and services. Currency exchange regulations were re-imposed, and privatization was halted. The government subsidized businesses and farms. About half of all enterprises remained in state hands in 2000. Structural reform has been slower than in most other **Commonwealth of Independent States** (the CIS is made up of 12 republics of the former Soviet Union, not including the 3 Baltic countries of Latvia, Lithuania, and Estonia).

Russia remains Belarus's main trading partner, accounting for more than 50 percent of Belarus's foreign trade. Belarus has made several attempts at economic and political re-integration with Russia. Belarus seeks to use

the Russian ruble as its currency by 2005, and hopes to see a common Russia-Belarus currency by 2008. Other major trading partners are Ukraine, Poland, and Germany.

POLITICS, GOVERNMENT, AND TAXATION

There are 3 governmental branches in Belarus: the executive, including the president, prime minister, and council of ministers; the legislative, consisting of parliament; and the judicial, or the Supreme Court. Belarus has a president as the head of the state, who serves a 5-year term. The president appoints the prime minister, who is the head of the government. A **bicameral** (2-house) parliament consists of the 64-seat Council of the Republic and the 110-seat Chamber of Representatives. Judicial power in Belarus is in the hands of courts. The Constitutional Court exercises control over constitutionality (determination of legal validity based on the constitution) of acts and decrees. Administratively, the country is divided into 6 oblasts (administrative divisions). Local administration and decision making are carried out primarily by the Soviets of Deputies. There are several registered political parties: the Belarusian Popular Front, Party of Popular Accord, Union of Belarusian Entrepreneurs, Belarusian Party of Communists, Belarus Peasant Party, Belarusian Socialist Party, Social Democrat Party, Agrarian Party of Belarus, and United Democratic Party of Belarus.

President Lukashenka consolidated his power through a highly controversial election held in 1994. Based on the results of this vote, the Constitutional Court lost its independence, and the democratically elected parliament was abolished and replaced by presidential appointees. President Lukashenka used his increased power to suppress the freedoms of speech, press, association, and assembly. He also eliminated the system of checks and balances over the executive branch. In 1996 Lukashenka extended his term, which should have ended in 1999, to 2001.

Taxes are the primary source of government revenue. The taxation system of Belarus includes national and local taxes as well as other types of taxes and **duties**. National taxes are collected throughout the country and transferred to the national budget and extra-budgetary state funds. Local taxes are levied only within respective administrative and territorial units and transferred to local budgets. Belarus signed international agreements on avoiding double taxation with a number of countries. The country took steps to **liberalize** taxation and customs regulations, granting some benefits to investors in the 1990s. Belarusian laws allow foreign entities to make direct private investments in the Belarusian economy through the creation of **joint ventures** with as much as 100 percent participation of foreign capital.

From 1993 to 1999, investments in Belarus totaled US$697 million, a low figure compared to other former Soviet countries. The bulk of foreign investment came from Gazprom (Russia's state-owned gas company). The Yamal pipeline project funded by Gazprom will export natural gas to Western Europe via Belarus. Western investors in Belarus include the Coca-Cola company, which has been building a US$50 million plant in the capital city of Minsk, and Ford Motor Company, which holds a 51 percent stake in a truck assembly plant outside of Minsk.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Belarus has an extensive though aging **infrastructure**, which is badly in need of investment for repair and maintenance. A network of over 5,488 kilometers (3,409 miles) of railways and 52,131 kilometers (32,380 miles) of primary and secondary roads serve the country. About 11 percent of all roads are unpaved. The railways are used to transport both people and goods, and are in moderate use by international transit linking Western and Eastern Europe. Furthermore, the country has a large and widely used canal and river system, with 1 port at Mazyr. Nearly 5 percent of the former Soviet Union's fleet of ships are

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Belarus	174	296	314	N/A	1	1.9	N/A	0.77	50
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Ukraine	54	884	490	15.7	2	0.0	13.8	4.56	200

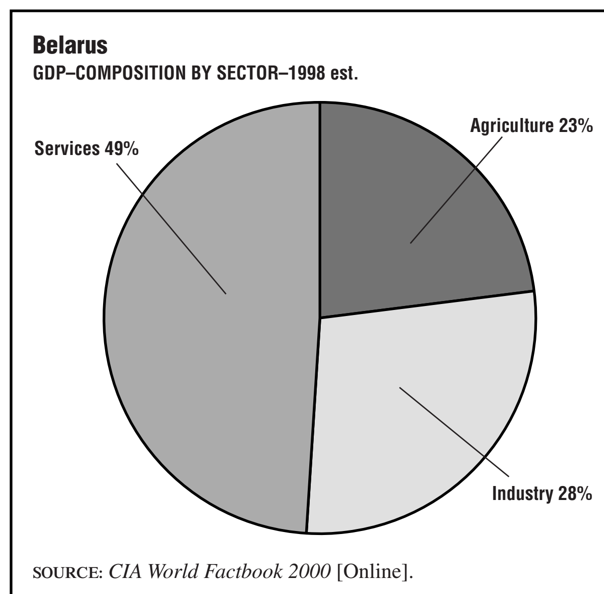
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

in Belarus. There are 118 large and small airports, few of which meet international standards. Only 36 airports have paved runways.

Belarus remains highly dependent on imported energy and has made little progress toward diversifying its exports and entering new markets. Many energy consumers, such as households, businesses, and even government offices, have not been able to pay their utility bills. Energy debt, mostly for natural gas, stood at more than US$250 million in May 2000. The government attempted to pay its debts by **bartering** and through agreements directly with Russia and Lithuania. Even though the large majority of electricity and fuel is imported, there is some domestic production of energy. In 2000 Belarus produced 25 billion kilowatts (kWh) of electric power, 1.8 million tons of gasoline, 3,500 tons of diesel fuel, and 5.6 million tons of industrial fuel oil.

Telecommunications services in Belarus are inadequate for both public and business use. Hundreds of thousands of applications from household telephones remain unsatisfied. Some investment on international connections and businesses has taken place, much of it in Minsk. There were 296 radios per 1,000 people in 1997, and 314 televisions per 1,000 people in 1998. A domestic cellular telephone system operated in Minsk, but only 1 person out of 1,000 owned a cellular phone in 1998. By 2000, the country had 9 Internet service providers. However, the number of personal computers in the country was very low.



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

More than half of the economy of Belarus is owned and operated by the state. The government's insistence on maintaining a centrally planned socialist economy and encouraging private and foreign investment has not been successful. Belarus's economic progress has fallen behind neighboring countries, many of which have adopted free market economic practices. Yet Belarus has a high capacity for progress. It has a relatively educated and skilled **labor force** (4.44 million in 1999) and it is situated in a strategic location of Europe. Industrial production (34 percent of GDP) dominated the economy in 1999, employing 28.9 percent of the workforce, but services employed almost half of the total workforce.

The lack of a **free market system** and human rights violations, such as the arrest of peaceful political activists and the control of radio and television stations, has discouraged substantial amounts of foreign investment. The country is short of **foreign exchange reserves** and has a relatively high **inflation rate** (more than 150 percent per year for 1998 and 1999). By March 2000, Belarus had not reached many of the economic goals through which it could receive additional International Monetary Fund aid. The government has been looking toward Russia for increased economic cooperation, such as increased trade, foreign investment, and an eventual unified currency.

AGRICULTURE

Agriculture accounted for 23 percent of the country's 1998 GDP and employed nearly 650,000 people, or more than 17 percent of the labor force in 1999. The majority of agriculture is conducted on state-owned lands and farms. Private farms, however, are much more efficient than state farms. Private farms produce an estimated 40 percent of agricultural output, even though they constitute a mere 15 percent of all agricultural lands. The primary food crops produced by Belarusian agriculture are barley, corn, potatoes, sugar beets, and wheat. Meat products include beef, veal, chicken, lamb, and pork. The most profitable agricultural exports in 2000 were butter, alcoholic beverages, condensed milk, beef, and cheese. The total value of agricultural exports in 2000 was US$377 million, while the value of agricultural imports was US$911 million.

Independence for Belarus, as in many of the former Soviet republics, brought economic hardships and food shortages. Between 1990 and 1998, total agricultural production was reduced by 29 percent, and in collective and state farms, production was reduced by 44 percent. Production of grains and pulses in 1998 was 69 percent of that of 1990, potatoes 88 percent, meat 57 percent, and milk 70 percent. Animal husbandry also saw a reduction: the average yield of milk per cow in government farms fell by 23 percent from 1990 to 1998. The nutritional value of the average daily ration shrank by 14 percent during that period. Due to the poor economic situation,

the per capita annual consumption of meat decreased by 14 kg (19 percent), milk by 59 kg (19 percent), and eggs by 57 units (18 percent).

Production of grains in 1998 was 4,475,000 tons. This provided less than half of the minimal grain requirements for the country. Grain yields fell by 31 percent during the period of 1990–98. Land sown to grain also fell by 4 percent. As a result of the grain shortage, Belarus was forced to purchase and import grain from abroad. Russia was a major source of grain imports for Belarus, making up 44 percent of all grain imports in 1998. Imports of grain from Ukraine constituted another 30 percent of the whole. Ukraine was also a major provider of corn to Belarus. To encourage the domestic production of wheat, the government offered an artificially high price for wheat to farmers.

Belarus requires no less than 350,000 tons of sugar per year, but the capacity of internal sugar factories is only 150,000 tons per year. Since internal sugar beet production covers only about 44 percent of the country's needs, the rest is provided by imports. Belarus purchases the majority of its sugar from the Ukraine. During 1998 a total of 476,000 tons of sugar was both produced and imported, leading to an accumulation of sugar reserves and to the export of excess sugar to other CIS countries, mainly Russia. The sugar beet growing areas are located in the Brest, Grodno, and Minsk oblasts, where the 4 main sugar factories are located. The crop takes only 0.7 percent of total farmland in the country. In accordance with state sugar program, the development of the sugar industry aims to increase sugar beet production, increase the production capacity of the 4 sugar factories, and reduce energy and raw material expenses.

Vegetable oil is produced locally and sold to Russia, and it is imported from the Ukraine. Production capacities of the fat and oil industry meet the domestic market demand for vegetable oil, margarine, mayonnaise, and soap, as well as allow for the export of some finished products. The fields devoted to rape (a type of herb with oily seeds used to make canola oil) were increased from 88,000 hectares in 1998 to 150,000 hectares in 2000. The total sowing area under oilseeds was still 16 percent less than what it was in 1990. In order to solve the problem of domestic vegetable oil needs, to expand the growth of oilseeds and to increase the efficiency of oilseed production, the government supplied farms with quality seeds, mineral fertilizers, pesticides, and specialized harvesting machinery. Furthermore, it strengthened the material and technical base for seed processing and drying. An increase of the domestic production of vegetable oil was also induced by the rapid rise of the price for imported oils and oilseeds. In 1998 the price of vegetable oil was US$1,161 per ton as compared to US$823 per ton in 1995. The largest volume of vegetable oil export was recorded in 1998 at 11,300 tons.

INDUSTRY

Industry plays a leading role in the economy of Belarus, responsible for 34 percent of its GDP. It includes more than 100 sectors and 2,000 enterprises, many of which are fully self-supporting, and employs nearly 1 million people (26 percent of the Belarusian labor force). Before the breakup of the Soviet Union, much of Belarus's industry was geared toward making military machinery. After independence, the country faced the challenges of changing from military to peacetime production, modernizing factories, and cleaning up industrial pollution left by old factories.

MANUFACTURING. The main industrial products include metal cutting tools, trucks, earth movers, motorcycles, bicycles, television sets, radios, refrigerators, and chemical fibers. In addition, tires, timber, paper, board, textiles, and clothing are produced. Agricultural machinery is one of the specialties of Belarusian industry. Basic agricultural machinery produced in Belarus includes tractors, harvesters, fertilizers, and equipment for livestock-raising farms. Engineering and metalworking plants account for as much as 25 percent of the industrial output. The automotive industry specializes in the production of heavy-duty trucks. The Minsk tractor plant produces tractors, tractor engines, and spare parts. In 2000 alone, 26,500 tractors were produced. The electrical engineering industry produces alternating current motors, power transformers, electric bulbs, and cable products. In addition, computer-aided control systems, clocks, watches, cameras, and electrical measuring and process monitoring instruments are produced. Furthermore, road building machines, building and reclamation machines, roller bearings, passenger elevators, gas cookers, and equipment for the food industry are also produced. In 2000, exported manufactured goods included 7,800 trucks, 26,100 tractors, 3,200 metal-cutting machine tools, 505,100 refrigerators, 161,000 television sets, and 120,000 bicycles.

CHEMICAL AND PETROCHEMICALS. The chemical and petrochemical industries are well-developed. There are large complexes for the production of mineral fertilizers, tires, artificial fibers, and filament. In 2000 they produced 502,000 tons of nitrogen fertilizers, 2.8 million tons of potash fertilizers, 51.7 million tons of phosphate fertilizers, 209,000 tons of artificial fiber and filament, and 1.3 million tires for motor vehicles and farm machinery. The state dominates the chemical and petrochemical sector of industry, owning 73 percent of production. In 2000, 1 million tires, 2.6 million tons of potash fertilizers, and 161,400 tons of artificial fiber and filament were exported.

SERVICES

TOURISM. Belarus has fewer visits by tourists than its neighbors, but the numbers are increasing. In 1997, a reported 250,000 tourists visited Belarus, an increase of 36 percent from 1994. Tourists spent US$25 million in 1997. There are several reasons behind the low number of visitors to Belarus. There are few historic assets on which to build a tourist industry. Many of the country's historic buildings were destroyed during World War II. Minsk was completely flattened and is now characterized by grim Stalinist architecture (Stalin was the former dictator of the USSR) and high-rise buildings. In addition, as opposed to most Eastern European and Baltic countries that have dropped visa (government approval to enter a country) requirements for most visitors, Belarus requires visas for most tourists. The potential for increased tourism in Belarus is still favorable because it is considered a good candidate for **ecotourism**. Ecotourism could generate urgently needed revenue, create jobs, and help conserve the natural environment. The Ministry of Sports and Tourism and Ministry of Natural Resources and Environmental Protection have looked into establishing national parks and protected territories and monuments to stimulate an increase in tourism.

FINANCIAL SERVICES. After independence in 1991, the Gosbank (state bank) of the USSR was converted into the National Bank of Belarus (NBB). The specialized Soviet banks, including Sherbank, Agroprombank, Promstroibank, and Vnesheconombank, were turned into commercial banks offering corresponding specialized services. By mid-2000, Belagroprombank and Belarusbank together accounted for 51 percent of all Belarusian banking sector assets. There are 22 locally owned and joint venture banks. The largest joint venture bank was the Russian Mossbusinessbank. By mid-2000, the banking system of the republic, with a total of 28 banks, held an estimated BR1.5 trillion worth of assets (approximately US$1.6 billion). As a percentage of GDP, this made Belarus one of the lowest among the CIS countries. Assets in local currency accounted for 43 percent of total banking assets. Among the problems with the banking sector was a relatively high rate of lending to government enterprises (constituting 47 percent of all lending), considered to be economically unwise.

INTERNATIONAL TRADE

Foreign trade **turnover** totaled US$12.5 billion in 2000, nearly the same as the previous year, but down 20 percent from 1998. Exports accounted for an estimated US$5.95 billion and imports US$6.55 billion. Some 60 percent of Belarus's international trade and 85 percent of its trade with the CIS were with Russia, making that country its main trading partner. Half of the trade with Russia was in the form of barter deals. After the Russian financial crisis of August 1998, however, Belarusian exports to Russia shrank by about 17 percent and imports from Russia fell by 19 percent. Other CIS trading partners of Belarus were the Ukraine (11 percent of CIS trade), Kazakhstan (1.4 percent of CIS trade), and Moldova and Uzbekistan (1 percent each of CIS trade).

Trade (expressed in millions of US$): Belarus

	Exports	Imports
1994	2510	3066
1995	4706	5562
1996	5652	6938
1997	7300	8688
1998	7070	8548
1999	5922	6664

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

Main exports include vehicles (16 percent of total value of exports), machinery (13 percent), chemicals (13 percent), textiles (12 percent), and metal-ware (9 percent). In 1990, special priority was given to the development of bilateral links with various Russian regions. Exports to Russia in 1999 were 7 times higher than to any other country. Agricultural exports to Russia were primarily meat (12 percent of total), dairy products (21 percent), and eggs (7 percent). Nearly 90 percent of Belarusian meat and dairy exports went to Russia, in addition to 50 percent of potato, fruit, and vegetable exports. Exports to non-CIS countries decreased from 30 percent in early 1990 to less than 12 percent in 2000. Food and agricultural exports have increased, while machinery exports have decreased. Agricultural goods made up 8.2 percent of total trade in 2000 compared to 6.6 percent in 1996. Exports of meat products increased by 40 percent from 1996 to 2000, dairy products by 60 percent, eggs by more than 250 percent, and margarine by 440 percent.

Principal imports are energy (25 percent of total imports), machinery and equipment (16 percent), metals (13 percent), and food (11 percent). The main share (more than 50 percent) of food and agricultural imports comes from non-CIS countries. Another 25 to 30 percent of such products are imported from Russia. In 1997 the volume of agricultural imports was the highest it had been in years, at US$1.12 billion, and the average annual import of agricultural commodities during 1996–2000 was equivalent to US$929.3 million. The import structure changed after 1991 with some traditionally exported items such as meat, animal fats, and margarine being imported from abroad.

Belarus has had a **trade deficit** since 1995. The trade balance with Russia, however, has traditionally been positive. Exports to Russia exceeded imports by more than 200 percent in 2000. In the same year, the trade deficit with non-CIS countries amounted to US$433 million. During the 1996–2000 period, goods supplied by non-CIS countries were cheaper than items imported from Russia, except dairy products and grain. Vegetables, fruits, vegetable oil, margarine, and pasta imported from non-CIS countries were more than 200 percent cheaper; tea and candies were over 500 percent cheaper; meat products were 50 percent cheaper; fish was 30 percent cheaper; and sugar was 40 percent less expensive.

MONEY

Annual **inflation** in Belarus, as measured by changes in consumer price inflation, or CPI, has been very high during the 1990s. It stood at 294 percent by the end of 1999. There were several reasons behind the inflationary pressure on the economy. The 1998 Russian monetary crisis had a negative effect on the Belarusian ruble due to the dependence of the Belarusian economy on Russia. Government **subsidies** to several sectors of the economy (such as agriculture and housing) supported bad lending practices, poor weather conditions caused low agricultural production, and the government's periodic expansion of the money supply caused a **devaluation** of the Belarusian ruble.

In February 1993 Belarus set up the Inter-Bank Currency Exchange which is the main trading forum of the legal currency market. Trades are performed in 4 main currencies: the U.S. dollar, the German mark, the Russian ruble, and the Ukrainian grivna. The Russian financial crisis of 1998 forced the Belarusian ruble to depreciate against the Russian ruble and the U.S. dollar. In April 2000 the **exchange rate** stood at BR435 to US$1. The depreciation of the Belarusian currency continued to accelerate in the following months, reaching a whopping BR1,247 to US$1 by mid-February 2001.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Belarus	N/A	N/A	N/A	2,761	2,198
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Ukraine	N/A	N/A	N/A	1,979	837

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

POVERTY AND WEALTH

For most Belarusians, independence compromised their economic and physical welfare. Environmental problems, the loss of life savings, and the continued effects of the Chernobyl nuclear disaster undermined the health of the population. Compared to other East European and former Soviet republic nations, the income of Belarusians lagged behind. The **GDP per capita** of Belarus declined from US$2,761 in 1990 to US$2,198 in 1998, while per capita GDP in Russia and Poland increased by over US$1,000 during the decade (based on the 1995 exchange rate).

Though many of the former Soviet republics and East European countries worked to change from socialist, **centrally planned economies** to free market economies, Belarus was not anxious to follow that route; as a consequence, the economy was left behind the other former Soviet states.

The life expectancy of Belarusians, which in the mid-1970s stood at 71.5 years, was estimated at 68.0 years in 2000. The mortality rate increased from 10.7 in 1990 to 13.0 in 1998. Men had a life expectancy of only 61.8 years, while women were expected to live 74.5 years. Approximately 22 percent of the population lives below the poverty line.

Exchange rates: Belarus

Belarusian rubles per US$1	
2000	1,180
Dec 1999	730,000
Jan 1999	139,000
1998	46,080
1997	25,964
1996	15,500

Note: On January 1, 2000, the national currency was redenominated at one new ruble to 2,000 old rubles.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Belarus

Lowest 10%	5.1
Lowest 20%	11.4
Second 20%	15.2
Third 20%	18.2
Fourth 20%	21.9
Highest 20%	33.3
Highest 10%	20.0

Survey year: 1998

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Belarus	36	7	15	7	10	11	14
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Ukraine	34	5	16	6	4	14	22

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

The official unemployment rate in the country was reported at 2.1 percent in 2000. However, the reporting of the unemployment rate in former Soviet republics is generally considered inaccurate. Many people are officially employed at state-owned enterprises, and are reported as such, yet in reality are unemployed or working part-time in the **informal sector** of the economy, selling agricultural produce in the local market or working at other small businesses.

In 2000, the Belarusian economy had 4.5 million workers, 60 percent of whom were reportedly employed in state-owned enterprises. This number may be higher, since the so-called Joint Stock companies, which were formerly state-owned and employed more than 270,000 people in 2000, were still functioning with government assistance. Less than 400,000 people, or only about 9 percent of the workforce, worked in private businesses.

A rural-urban age gap has also emerged. Many of the young job-seekers migrate to larger urban areas. This has led to a high concentration of older people in the rural areas. Older people make up as much as 35 percent of the population of rural villages. The combination of negative rural population growth, an aging society, and the state-run economy, with the emigration of many of the professionals to western countries, has led to an unhappy environment for the Belarusian worker.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1919. A Soviet regime is established in Belarus.

1922. Belarus becomes a member of the USSR.

1923. The forced mass collectivization of agricultural lands begins.

1944. After 4 years of occupation by Nazi Germany, Minsk is recaptured by the Soviet Army.

1986. The Chernobyl nuclear power station accident in Ukraine leaks radiation into Belarus.

1990. Belarus declares state sovereignty from the USSR.

1991. Belarus declares independence. Belarus, along with Russia and Ukraine, forms the CIS.

1994. Russia and Belarus announce a monetary union, which is abandoned by Russia a year later. Alexander Lukashenka is elected as the first president of independent Belarus.

1995. Belarus joins NATO's Partnership for Peace Program.

1995. Russia and Belarus allow the free movement of certain goods across their border.

1996. The last nuclear weapon left over from the Soviet-era is removed from Belarusian territory.

1997. Russia and Belarus sign the Act of Union, which envisions the union of the 2 countries.

FUTURE TRENDS

The parliamentary election of October 2000 showed that President Lukashenka would keep his grip on the country by making sure that his opponents remained out of power. This continued to damage the legitimacy of his administration. President Lukashenka is expected to continue to dominate the political scene in the future, and he is almost assured of re-election. The opposition will remain weak, owing to consistent pressure from the administration and a lack of media access. However, the suppression of the opposition before the presidential election would damage relations with Western countries and international lending agencies.

The Belarusian leadership has had limited vision when attempting to tackle the country's economic problems. While its neighbors to the west (Poland, Lithuania, and Latvia) have long endorsed free market programs of

economic reform, with overwhelming success, Belarus has stubbornly stood by a plan of economic union with Russia at a time when Russia has been facing economic uncertainty and political instability. Some polls have indicated that a large segment of the Belarusian population believes in the supremacy of the state and continues to expect a **communist**-like state to look after their well-being. The hard grip of the former communists on power, and an aging society with an unsure attitude towards market reforms, are likely to contribute to the maintenance of the status quo in Belarus, with continuing economic hardship and political repression.

DEPENDENCIES

Belarus has no territories or colonies.

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—Payam Foroughi and Raissa Muhutdinova-Foroughi

BELGIUM

Kingdom of Belgium
Royaume de Belgique
Koninkrijk België

CAPITAL: Brussels.

MONETARY UNIT: Belgian franc (BEF). One franc is equal to 100 centimes. However, the centimes denominations are no longer used. The Belgian franc is exchangeable on an equal basis with the Luxembourg franc. In 1999, Belgium began using the euro, the common currency of the European Union. The franc is set at a fixed exchange rate of 40.3399 per euro. The euro will replace all local currencies within the EU in 2002.

CHIEF EXPORTS: Machinery and equipment, chemicals, diamonds, metals and metal products.

CHIEF IMPORTS: Machinery and equipment, chemicals, metals and metal products.

GROSS DOMESTIC PRODUCT: US$259.2 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$181.4 billion (f.o.b., 2000). **Imports:** US$166 billion (c.i.f., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Belgium is a nation located in Western Europe. It is between the Netherlands to the north, Germany and Luxembourg to the east, France to the south, and the North Sea to the west. Belgium is about the size of Maryland, has an area of 30,510 square kilometers (11,780 square miles) and includes 280 square kilometers (108 square miles) of inland waterways. It has 66 kilometers (41 miles) of coastline and its borders total 1,385 kilometers (861 miles). Belgium shares 620 kilometers (385 miles) with France, 167 kilometers (103 miles) with Germany, 148 kilometers (92 miles) with Luxembourg, and 450 kilometers (280 miles) with the Netherlands. The nation also claims an exclusive fishing zone that extends 68 kilometers (42 miles) into the North Sea. Belgium is the traditional crossroads of Europe and its capital, Brussels, also serves as the capital of the European Union (EU). Brussels also serves as the headquarters of the North Atlantic Treaty Organization (NATO) and the Western European Union (WEU). Brussels is located in the middle of the country and has a population of 954,460. It is one of the largest cities in Belgium. In contrast, Antwerp, Belgium's second largest city has a population of 447,632 and is located in the northern area of the nation. Lastly, Ghent, Belgium's third largest city has a population of 224,074 and is in the northwest.

POPULATION. In July 2000, it was estimated that Belgium had a population of 10,241,506. The population growth rate is estimated at a low 0.18 percent. The fertility rate is estimated at 1.61 children born per woman and the birth rate consists of 10.91 births per 1,000 people. The death rate is 10.13 deaths per 1,000.

Like many advanced industrialized countries, Belgium's population is aging and 16 percent of the inhabitants are over the age of 65, while only 18 percent are between the ages of 0 and 14. The life expectancy for men is 74.47 years and 81.3 years for women. A majority of Belgians now live in urban areas and, as people from both the rural areas and immigrants settle in the cities, this trend is growing rapidly. The population density of Belgium is second only to the Netherlands in Europe.

The nation has 3 major ethnic communities: the Flemish, the Walloons, and the German-speakers. The Flemish make up about 58 percent of the population and speak a form of Dutch known as Flemish. The Flemish are concentrated in the northern regions of the nation. The Walloons speak French and mainly live in the southern areas of Belgium. About 31 percent of Belgians are Walloons. German-speakers are the third major group and they mainly reside in the east around the city of Liege. German-speakers comprise about 1 percent of the population. There are also numerous other ethnic minority groups in the country. Brussels alone has 19 different

bilingual communities. Many of these other groups are from North Africa and the Middle East, particularly Turkey. There is also a significant Italian population. Since World War II, higher birth rates among the nation's foreign-born population have increased faster than that of native Belgians. The majority of new immigrants from the Mediterranean region tend to settle in the industrial areas of the Walloons—Brussels and Antwerp. There is a low migration rate of 0.98 per 1,000. Although a small number of recent Belgium immigrants return to their countries of origin each year, most emigrants go to nations within the EU or the United States.

Conflicts between the Flemish and the Walloons have traditionally divided Belgian society. Throughout most of the 19th and early 20th centuries, the French-speaking population dominated the region. However, the Flemish eventually gained reform, obtained regional autonomy, and then established Flanders as a unilingual region. The 1970 constitution created 3 autonomous political regions: Flanders, Wallonia, and Brussels. In 1984, the German community of Liege was also granted its own legislative assembly and began controlling its own educational and cultural matters. Disputes between the 2 groups continue and have led to numerous political compromises, including a new constitution in 1993, which changed Belgium from a unitary state (a country in which the central government has the most political power) to a federal system (a country in which the central government and regional governments collaboratively share power to a certain degree).

OVERVIEW OF ECONOMY

Belgium has a well-developed free market economy, based on both industrial and service sectors. It is heavily dependent on international trade and most of its economic sectors are geared toward exporting products. The nation's exports are equivalent to almost two-thirds of its GNP. On a per capita basis, Belgium exports twice as much as Germany and 5 times as much as Japan. In 1999, the nation ranked number 11 among the world's top exporters. In spite of its small size, Belgium's economy has consistently placed among the top 20 economies of the world and remains strong. The kingdom's exports have given it an account surplus that is the sixth largest among the highly developed economies of the world.

For most of its history, Belgium's economy was based on the nation's manufacturing capabilities. The country was the first in continental Europe to undergo the Industrial Revolution, and through the 19th century

it was a major steel producer. Large coal deposits helped fuel the industrialization. At the same time, agriculture began to decline. This decline was even more pronounced after World War II, and by 2000, agriculture only accounted for a small percentage of the economy. Currently, agriculture is concentrated in West Flanders, Liege, and Eastern Namur. In the post-World War II era, heavy manufacturing and mining declined. However, there was significant growth in the service sector, and the country switched from heavy production to light manufacturing and began producing finished products instead of steel, textiles, and raw materials. Belgium imports basic or intermediary goods, adds value to them through advanced manufacturing and then exports the finished products. With the exception of its remaining coal resources, Belgium has no significant natural resources.

Belgium's economic strength is based on its geographic position at the crossroads of Western Europe, its highly skilled and educated workforce, and its participation in the EU. During its industrial period, Belgium developed a highly efficient and capable transportation **infrastructure** that included roads, ports, canals, and rail links. The multilingual nature of the workforce and its industriousness has made the workforce one of the most productive in the world.

The oil crisis of the 1970s and economic **restructuring** led to a series of prolonged **recessions**. The 1980–82 recession was particularly severe and resulted in massive unemployment. Personal and consumer debt soared, as did the nation's deficit. Meanwhile, the kingdom's main economic activity shifted northward into Flanders. In 1990, the government linked the Belgian franc to the German mark through interest rates. This spurred a period of economic growth. In 1992–93, another recession plagued Belgian history. During this period, the kingdom's **real GDP** declined by 1.7 percent. Foreign investments have provided new capital and funds for businesses and have consistently helped maintain the economy. Consequently, the government has consistently implemented programs to encourage foreign investment. Since Brussels is the capital of the EU, many multinational firms have relocated to the city so they can be near the bureaucracy and regional body's government seat.

There are major regional differences in the kingdom's economy. In the former industrial and agricultural areas of the countryside, unemployment rates tend to be higher. However, in the newer urban centers (where the service economy is dominant), unemployment rates are lower. For instance, in Wallonia and Brussels, unemployment rates are 2 to 3 times higher than in Flanders. Nevertheless, overall national unemployment rates continue to be lower than the EU average. In addition, wage levels are among the highest in Europe. In 1993, in an effort to give the regions greater flexibility to deal with economic problems, each region was given broad economic powers to control trade, industrial development, and environmental regulation. Each region has also endeavored to attract foreign investment, often to the detriment of other regions.

The government has also engaged in initiatives to **privatize** many companies that were formally owned by the state. Ongoing efforts are underway to privatize 2 of the largest remaining companies: Sabena (the national airline) and Belgacom (the main communications company). Since 1993, successive governments have privatized some 280 billion Belgian francs worth of business.

The kingdom has few energy sources. Consequently, it must import a substantial amount of fossil fuel (which provides 42.48 percent of Belgium's total energy needs). The country has a well-developed nuclear industry that provides more than half of Belgium's energy needs (in 1998, some 55.72 percent of total energy usage). The remaining energy needs are met by a limited number of hydroelectric and coal plants.

As the profitability of many industries declined in the post-World War II era, the government attempted to support them in order to maintain employment. Among the strategies used were subsidizing certain industries, mainly steel and textile companies. In addition, the government reduced interest rates and offered tax incentives and bonuses to attract foreign businesses. All of these measures helped maintain the economy by preventing massive unemployment, but they also led to drastic government deficits in the 1970s and 1980s. The government was then forced to borrow funds from international sources in order to maintain their imports and to continue social welfare programs. By the 1990s, successive governments diligently worked to reduce the debt. In fact, they even shifted from foreign to domestic sources in underwriting their debts. In 1999, Belgium's **external debt** was $28.3 billion or about 10 percent of the nation's total debt. Belgium is a net contributor of foreign aid. In 1997, the kingdom provided $764 million in foreign assistance.

Belgium was one of the founding members of the European Community (later the EU), and has been one of the foremost proponents of regional economic integration. In 2000, 80 percent of Belgium's trade was with other members of the EU. Membership in the EU was the culmination of longstanding national support for economic cooperation. For instance, in 1921, Belgium joined with Luxembourg to form the Belgian-Luxembourg Economic Union (BLEU). This economic union provides for an interchangeable currency and it established a joint customs union. Belgium and Luxembourg have also joined with the Netherlands to form the BENELUX customs union. This organization oversaw cross-border trade between the 3 nations. Belgium is also a member of the Organization

for Economic Cooperation and Development (OECD), an organization of the world's most highly developed industrialized democracies.

Belgium has supported the main economic initiatives of the EU, including the elimination of trade barriers, such as **tariffs**, between the organization's 15 member states. The EU also coordinates the external trade of its member states. In 1999, Belgium was one of the founding members of the European Monetary Union (EMU). EMU will replace the national currencies of its members with a single currency, the euro. This is designed to further ease trade among the nations that adopt the euro by eliminating currency fluctuations.

POLITICS, GOVERNMENT, AND TAXATION

Belgium is a constitutional monarchy based on heredity. After political reforms in the 20th century, the monarch's role is now largely ceremonial and symbolic. The monarch's main political function is to appoint the prime minister following elections or the resignation of the government. In this often-divided country, the sovereign is a unifying symbol and plays an important role. The current king, Albert II, succeeded his brother Baudouin who died in 1993.

The executive branch of the Belgian government consists of the king, prime minister and cabinet. The number of cabinet ministers is limited to 15. By an unwritten rule, there is usually a rough balance between Flemish and French-speaking ministers in the cabinet. The kingdom's parliament is **bicameral** (it consists of 2 chambers). The upper house is the Senate and consists of 71 members—40 of whom are elected directly by the people; the 3 linguistic communities indirectly elect the other 31. The lower house is the Chamber of Deputies and has 150 directly elected members. Representatives in both houses serve 4-year terms. Citizens are required to vote in national elections. Elections are relatively short, usually with only a month of campaigning.

There are no national parties in Belgium. Instead the political parties are divided among the major linguistic groups. As a result, governments are usually by coalition (a government composed of members of several different political parties).

As a result of the 1993 constitutional revisions, Belgium changed from a unitary government into a federal system. There are now 3 levels of government: national, regional, and linguistic community. Including the national government in Brussels, there are now 6 different authoritative bodies. Flanders has a single 124-member assembly which represents the region and Flemish-language speakers. Wallonia has 2 assemblies, one 75-member chamber for the region and a 94-member chamber for all French-speakers. Finally, the Brussels region has a 75-member body and the German-speakers have a 25-member assembly.

The government's multi-layered structure means that each governmental body has considerable freedom over their region's economic activities. The regions and communities have jurisdiction over transportation, public works, education, housing, zoning, and industrial and economic policy. Regional governments also coordinate foreign trade with the national government. Of the total government spending, 40 percent is controlled by regional and community governments. These funds are provided through a system of revenue sharing with the national government. These governments also have the ability to levy additional taxes and borrow money.

Following the economic recessions of the 1980s and 1990s, the government attempted to stimulate the economy by implementing various programs. Initially, they tried to protect declining industries by subsidizing them. For those workers that lost their jobs because of cutbacks, generous social benefits were maintained. They also tried to attract foreign businesses and capital. However, in 1994, these efforts led to a massive **national debt** that exceeded the kingdom's GDP by over 137 percent. In 1992, the government attempted to reduce its debt by implementing various economic policies. Unfortunately, this task proved to be quite difficult because they did not meet EMU's official requirements (which called for a debt-to-GDP ratio of 60 percent). Nevertheless, Belgium was admitted in the first round of the monetary union. Its 2000 budget projected a deficit of 1.1 percent and a reduction of the national debt so that it equaled 112 percent of the kingdom's GDP.

In order to reduce this debt, the national government implemented various strategies. First, it privatized a number of industries. Since 1993, the government has privatized 280 billion Belgian francs worth of companies, and is expanding this process. For instance, in 1997, it privatized some 35 billion francs worth of assets, but in 1998, it increased its privatization campaign to 45 billion francs. Second, it has cut government spending. Some programs have been shifted to the regional governments, while others have been scaled-back. Third, the government has reformed the tax structure. The top rate on individuals is 55 percent, but companies, including foreign corporations, pay only 39 percent. However, small companies only pay between 29 and 37 percent. There are no taxes on capital gains and taxes on interest income are 15 percent. Foreign companies are attracted to special corporate tax breaks on corporate centers, such as call centers. Still, Belgium has the third highest taxes among the OECD nations.

The government utilizes various tactics to promote certain consumer behaviors and economic activities. For example, they utilize government-guaranteed mortgage loans to encourage home construction and building. They have projects that help immigrant workers build low-income housing. They have implemented special taxes, known as ecotaxes, designed to encourage consumers to purchase environmentally friendly products. In addition, they have implemented a number of programs to enhance foreign trade and also offer companies direct **subsidies**. Lastly, they provide funds for participation in trade fairs and the development of market research.

The government maintains **price controls** on products and services such as energy, rents, and pharmaceuticals. Pharmaceutical price restrictions have hurt competition and prevented foreign companies from entering the Belgian market. In addition, some U.S. firms such as Toys 'R' Us and McDonald's have had considerable problems in obtaining permits and licenses for new operations. Furthermore, the government-owned telecommunications company, Belgacom, requires new companies to pay relatively high fees in order to offer services to Belgian consumers. In spite of problems in the telecommunications sector, it is one of the fastest growing components of the Belgian economy. In order to promote the sector, the government continues to auction licenses for new mobile phone providers and to promote the use of the wireless Internet.

One of the more significant problems with the economy is that of **procurement**. Foreign companies have had difficulties competing with Belgian firms that are often given preferential treatment. Specific complaints include the failure of the government to issue public notification when it calls for bids on procurement and poor enforcement of rules.

Continuing government support for economic integration with the EU will further spur Belgian's economy. As trade barriers continue to be dismantled among members of the EU, Belgium should be able to expand its exports and enhance its role as a port of entry for goods coming into the region. Although the majority of Belgium's trade is with its EU partners, the kingdom conducts a significant amount of trade with the United States. In 1999, it was the ninth largest trading partner of the United States and imported some $11.9 billion in American services and goods.

Of special concern to the Belgian government are environmental problems. Centuries of industrialization have resulted in widespread pollution. Soil contamination and groundwater pollution exist at many former industrial sites. Steel production wastes have contaminated the Meuse River, a major source of drinking water. Other rivers are contaminated by pollution from agricultural practices, mainly fertilizers. Industrial air pollution has created significant amounts of acid rain, both within Belgium and in neighboring countries. There has been a steady increase in greenhouse gas emissions, including coal, natural gas, and petroleum emissions. From 1995 to 1999, there was a 12 percent increase in these pollutants.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Belgium has an excellent infrastructure of roads, waterways, ports, and airports. The kingdom has 145,850 kilometers (90,631 miles) of roads that includes 117,701 kilometers (10,999 miles) of paved highways and 1,682 kilometers (1,045 miles) of expressways. In 1997, some 395,505,000 tons of goods were transported across Belgium's roads. The kingdom is the only nation in Western Europe that has an average of 50 km (31 miles) of roadways for every 1,000 square kilometers (386 miles). Brussels is the heart of a dense highway network that extends beyond the borders of the kingdom to major destinations such as Paris, Amsterdam, and London (via the tunnel under the English Channel). There are 3,437 kilometers (2,136 miles) of rail lines, the majority of which are electrified. In 1997, the railways transported approximately 60,696,000 tons of products. There are 2,043

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Belgium	160	793	510	367.3	173	18.7	286.0	266.90	1,400
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
France	218	937	601	27.5	188	47.4	207.8	110.64	5,370

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

kilometers (1,270 miles) of waterways, of which 1,528 kilometers (950 miles) are in regular commercial use for the transport of goods. In 1997, there were some 106,978,000 tons of goods shipped across the nation's inland waterways. Finally, there is an extensive network of pipelines. There are 161 kilometers (100 miles) of crude oil pipelines, 1,167 kilometers (725 miles) of lines for petroleum products, and over 3,300 kilometers (2,051 miles) of natural gas pipelines. These pipelines transported 96,540,000 tons of fossil fuels in 1993.

Belgium's extensive transportation network and geographic position have enhanced its role as the major point of destination for goods entering Western Europe. The kingdom has 42 airports and a heliport. In 1995, 535,000 tons of goods were shipped via air. The government and the private carrier, SwissAir, jointly own Sabena, the national airline. There is also a low-cost air carrier, Citybird, which provides no-frills inexpensive fares. The international airport at Brussels has become the hub for several major U.S. air carriers. Antwerp is Europe's second largest port facility and is the center of the international diamond trade. The seaports handled some 157,413,000 tons of products in 1995. Ghent and Zeebrugge are also major seaports. Meanwhile, Brussels and Liege are major river ports. In fact, Liege is the third busiest river port in Europe. The Albert Canal can handle river barges of up to 2,000 tons, while other canals easily accommodate barges of up to 1,350 tons. The kingdom has 22 medium to large merchant marine fleets that include 7 cargo ships, 7 petroleum tankers, and 8 chemical tankers. Combined, these fleets have a combined gross tonnage of 35,075 tons.

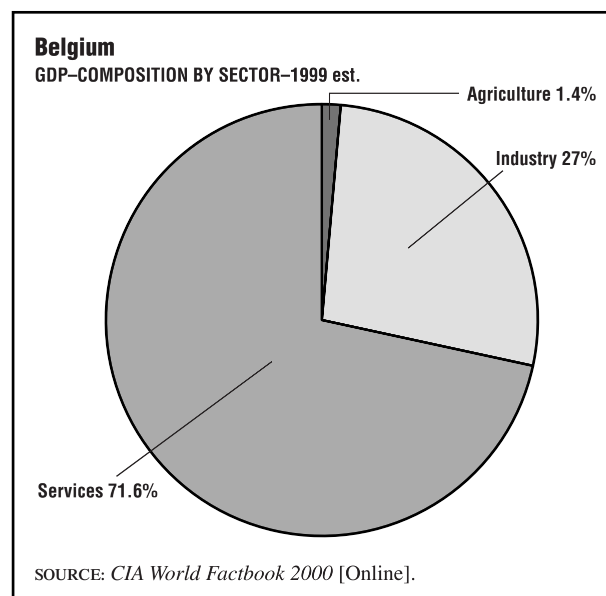
Belgians have an average of 427 automobiles per 1,000 inhabitants. The telephone system is highly developed and advanced. There is also an extensive nationwide system of cellular phones and 3.7 million mobile phones currently in use. Mobile phone usage is increasing at a rate of 20 percent per year. The kingdom also has 3 earth satellite stations. The Internet has gained in popularity and there are 51 Internet service providers in the nation. Approximately 1 million families use the Internet and 30 percent frequently purchase goods and services online. By 2004, **e-commerce** is expected to exceed $13.8 billion per year. In relation to the telecommunications industry, the government is in the third year of a privatization plan. Currently, there are 41 telecom operators besides the national carrier, Belgacom.

Electrical power production exceeds 78.7 billion kilowatts. Nuclear plants supply the majority of power (some 55 percent). Coal provides 12 percent of the kingdom's energy needs. Most of this coal is mined within the country. The nation meets 42 percent of its electrical needs through imported fossil fuels. Some 26.7 percent of these imports are natural gas. The majority of these natural gas supplies are imported from Algeria, the Netherlands, and Norway. The government has adopted a $9 billion program to provide for the modernization and maintenance of the nation's power system. **Deregulation** is also a priority of this program. Since Electrabel controls 84 percent of the energy market, new companies face significant obstacles while trying to enter this market. Although renewable energy sources, such as solar and wind power, currently only contribute about 0.17 percent of the nation's energy needs, the government continues to promote them.

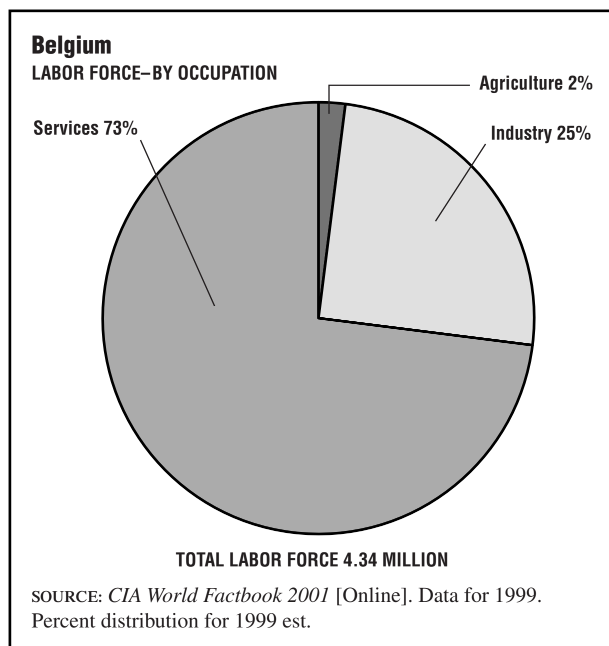
ECONOMIC SECTORS

Belgium is located in one of the most industrialized areas of the world. Its unique geographic location and port structure make it ideally suited as a point for goods to enter Western Europe. The economy remains dependent on trade and any global market disruptions impact Belgium. Nonetheless, the nation's foreign trade bolsters its economy and helps it rank among the world's top economies. Unemployment remains a problem for the economy. The nation has made significant progress in unemployment. In 1984, it declined from a high of 14.3 percent. In the 1990s, the nationwide unemployment rate averaged between 8 and 9 percent, with the lowest rate, 4 percent, in Flanders, and the highest rate, 16 percent, in Wallonia.

Since the last century, Belgium's agriculture has been in decline and currently only accounts for around 2 percent of the kingdom's GDP. Agriculture is concentrated in the northern areas of Flanders. The nation is self-sufficient in a variety of farm products, including various dairy



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1999 est.

goods, and exports some vegetables and meats. Fishing has also declined over the past decades and currently most of the catch is consumed within the kingdom.

In the post-World War II era, industry has become less important for the national economy. In contrast, the service sector continues to gain in prominence. Most of the kingdom's natural mineral resources have been exhausted. Steel and textile production have significantly declined. The remaining industry produces finished products from reprocessed materials. After the industrial transformation during the 1970s, a number of new industries emerged, including chemicals, refining, metals and machinery, food processing, and pharmaceuticals. Even newer industries such as automobile manufacturing have faced significant obstacles. Belgium has emerged as the center of the international diamond trade. Traditional manufacturing remains concentrated in Wallonia, while the newer industries tend to be located in Flanders.

As with most of the OECD nations, the service sector dominates the Belgian economy. In fact, service sector jobs now account for 73 percent of the nation's employment. In addition, the service sector is also the main area of growth for the kingdom. **Retail** businesses and tourism increasingly account for a larger percentage of the nation's GDP, while financial services continue to expand and attract foreign investment.

Belgium is the home to a number of international corporations and has outlets or subsidiaries of many multinational companies such as Ford, Volvo, and Renault. In fact, some sectors of the Belgian economy have come to be dominated by foreign firms. For instance, U.S. software manufacturers now control some 40 percent of the Belgian market while companies such as Compaq, Dell, and IBM dominate the personal computer market.

AGRICULTURE

The kingdom's agricultural sector has been declining for some time. Currently, only about 2 percent of the population is employed in agriculture and it accounts for just under the same percentage of the nation's GDP. The main areas of the country under cultivation are in the northern region of Flanders; however, small farms exist throughout Belgium. Some 39 percent of the nation's territory is used for some type of agriculture, including the production of forest products. Approximately 1 percent of the land is used for permanent crops.

There are 2 main trends in Belgian agriculture. The first is the disappearance of the small family farm. Farming is increasingly dominated by large **agribusinesses**. Over the past 3 decades, the number of small farms has decreased by 80 percent. The second major trend is the expanding output of the sector. New technologies and scientific crop research have combined to produce greater yields. Therefore, even if farmers' total acreage declines, they are still producing more. Between 1995 and 1999, crop production increased by 9 percent.

Agriculture in Belgium is mainly divided between crop production and raising livestock. The nation's main crops include barley, corn, potatoes, sugar beets, wheat, and assorted fruits and vegetables. Sugar beets, potatoes, and barley are the main staples. In 1999, the country produced 6.15 million metric tons of sugar beets, 2.7 million metric tons of potatoes, and 1.63 million tons of wheat. The country is self-sufficient in sugar, and exports certain vegetables and fruits. About 35 percent of Belgium's farms are engaged in crop production. Belgium also **re-exports** a number of fruits. For instance, bananas are imported into Belgium from the Caribbean and then exported throughout Europe. The nation also imports raw crops, processes them, and then exports them as prepared foods.

Stock farming or livestock production dominates Belgian agriculture. It accounts for 65 percent of the nation's farms. A variety of livestock is raised, including beef, veal, poultry, lamb, pork, and turkey. In 1997, there were 3.1 million head of cattle and 7.3 million pigs on Belgian farms. The beef industry is still recovering from a dioxin scare in 1999. Cattle were accidentally given feed that was contaminated with the cancer-causing chemical dioxin. This led to numerous recalls and various countries around the world banned the import of Belgian beef.

There is also a significant dairy industry and Belgium is self-sufficient in eggs, butter, and milk. In 1997, the nation produced 3.2 million tons of milk, 3.97 million eggs, and 175,000 tons of butter. Belgium also produces a variety of specialty cheeses. Currently, fishing is mainly done for domestic consumption. In 2000, the nation exported $193 million worth of fish, but it imported $833 million worth. The majority of imported fish came from the United States and included lobster, salmon, and prepared seafood meals.

While the nation is a net importer of wood products, it does have a significant timber industry. In 2000, the timber industry was worth $9.9 billion. Total exports were $991 million while imports were $3.5 billion. The United States supplied some 50 percent of Belgium's softwood and plywood needs.

INDUSTRY

Belgium's traditional industries face a number of challenges. Historically, the main industries were concentrated in the French-speaking areas of Wallonia. However, since the 1970s, the principal areas of industrial growth have been in Flanders. Newer light industries and more sophisticated technologies have replaced the older and labor-intensive manufacturing systems. Between Antwerp and Brussels, a new corridor of industries emerged. The majority of these were less labor-intensive and required more skilled workers. The principal industries that have fueled this growth have been the petrochemical and refining sectors. Nonetheless, the remaining industries tend to be highly advanced and technologically sophisticated. Light manufacturing and refining increasingly dominate the industrial sector. The entire industrial sector accounted for 26 percent of GDP in 2000.

STEEL AND PRECIOUS MINERALS. From the 1800s through the 1960s, steel making was the heart of the nation's industry. By the end of the 1960s, Belgian steel manufacturers became less competitive when foreign companies began producing steel for less by using cheap labor and less expensive resources. The twin oil crises of the 1970s further undermined the industry by reducing the worldwide demand for steel. In order to preserve jobs, the government tried to protect steel manufacturers by subsidizing the industry.

The high cost of labor continued to impair the competitiveness of these and other industries. Industry also suffers from excess capacity and continued high fuel prices. These factors have led car manufacturers such as Ford and Renault to cut production in Belgium and shift factories elsewhere. The government has also made considerable attempts to restructure its remaining industrial base. The main thrusts of these efforts have been tax incentives for both domestic and foreign companies in exchange for industry investments. It has also offered incentives for investments in new technologies and the creation of new manufacturing methods.

The steel and plastics industries continue to decline. Since 1990, steel, iron, and coke production has declined by 20 percent. Nonetheless, about 1,000 companies remain in this industry that employs 52,000 people. Belgium remains the eighteenth largest steel producer in the world. In 1999, the sector produced 11 million tons of crude steel and had revenues of 260 billion Belgian francs of which 45 percent came from exports. This was a 4 percent decline from the previous year. The primary plastic products include parts for automobile construction and for engineering projects.

Europe's largest electrolyte copper, zinc, and lead refineries are located in Belgium. The nonferrous metals industry includes: base metals such as aluminum, copper, zinc, lead, and tin; precious metals such as gold, silver, and platinum; and rare or special metals such as germanium, cobalt, and indium. The metals industry employs some 8,600 people. Its exports were worth 127 billion Belgian francs in 1999. New industrial investments totaled 2.6 billion Belgian francs in 1999 and attempted to reduce production costs. The kingdom is also a major producer of limestone, dolomite, various synthetic materials, and construction materials such as marble and concrete. There is also a significant mineral sector that is focused on the refining of imported minerals such as copper, zinc, and diamonds.

Antwerp is the center of the world's diamond trade. The diamond industry employs some 30,000 people and represents 6.4 percent of the nation's exports. In total, 9 out of 10 rough diamonds and 1 out of 2 cut diamonds pass through Antwerp. The diamond sector represents one area of industrial growth. The sector experienced an average growth rate of 6 percent in the 1990s. There are 400 companies engaged in trading rough-cut diamonds, and 700 companies engaged in trading cut diamonds. In 1998, the industry's exports were worth 369 billion Belgian francs.

Glassmaking remains a profitable and expanding industry. It employs some 12,000 people and in 1998, its output was 1.5 million tons of glass. This generated revenues of 100 billion Belgian francs. The industry's exports go mainly to other European countries (some 85 percent of glass exports). In Belgium, glass production was 3 times that of consumption and Belgian workers have among the highest levels of productivity. In 1980, Belgian glass workers produced 55 kg (lbs) of glass per hour; by 1999 that output had increased to 109 kg (lbs) per hour.

CHEMICALS. Belgium's chemical industry is highly diverse and efficient. From 1985 to 1999, the sector has

grown by an average of 3.5 percent per year. It is the second largest industrial sector in the nation. The industry is geared for foreign trade and some 80 percent of its products are exported (75 percent of these exports went to EU nations). In 1999, chemicals accounted for 23.5 percent of the kingdom's total exports and were worth 1.574 trillion Belgian francs. In an effort to remain competitive, the chemical industry invested approximately 50 percent of its profits in research and the development of new products and manufacturing techniques. In 1999, there were 97,167 people employed by chemical companies, which represents an 8.4 percent increase since 1985. Chemicals and pharmaceutical products are now Belgium's top exports.

TRANSPORT. Transport equipment is one of the strongest remaining industrial sectors in Belgium. This sector includes the automotive industry, shipbuilding, railway and tram construction, bicycles, and the aeronautical and aerospace industry. Although Belgium does not have its own national automotive manufacturers, it has a large number of international companies. Ford, General Motors, Opel, Renault, Volkswagen, and Volvo have plants in Belgium. In 1999, the nation produced 1.3 million cars. It also produces specialty vehicles including vans, trucks, buses, and minibuses. Of the vehicles manufactured in Belgium, 95 percent are exported. The main markets are France, Germany, and the United Kingdom. The automotive industry also produces a variety of specialty parts for cars. The industry specializes in "just in time" (JIT) manufacturing which involves producing products to be used immediately upon receipt. This process eliminates the need to stockpile items in warehouses.

Belgium no longer builds large sea-going vessels, but its shipyards still build smaller coastal and river craft. In addition, there are a number of firms that are capable of repairing and refitting larger ships. Companies also produce a variety of specialty products for marine use. Belgium invests considerable sums in aerospace. The government works with other European nations such as France and Germany on projects such as Airbus jet aircraft and the Ariane rocket.

TEXTILES. The textile sector employs over 42,500 people in 1,320 textile factories. Belgium is now the largest carpet exporter in the world. Textile revenues accounted for 250 billion Belgian francs. Unlike many of the other traditional industries, Belgium's textile manufacturers have been able to adjust to changes in the global market. Belgium is also noted for its quality leather products. There have been widespread consolidations and advancements in manufacturing techniques. As a result, the textile sector remains one of Belgium's largest industrial employers.

ELECTRONICS. Belgium produces a wide range of electronics equipment that includes both consumer and business products. This sector of the economy employs 49,000 people in 300 companies. These businesses produced products worth more than 300 billion Belgian francs. Two-thirds of the kingdom's electronic products are exported. The majority, 75 percent, goes to other members of the EU, while the remaining exports are divided among the United States, Eastern Europe, and Asia. Medical and hospital electronics are a major part of this sector. The electronics sector is the largest investor in the economy's infrastructure and research and development. The sector annually invests some 30 billion Belgian francs of which 60 percent is in research and development.

FURNITURE. Furniture manufacturing has a long and distinguished tradition in Belgium. Adaptability and quality reputation are its keys to continued success. Increased mechanization and automation have helped contain costs and kept the industry competitive. It has strong exports to Germany and the United Kingdom and has recently enjoyed dramatic growth in the Netherlands. The sector has also aggressively targeted the markets in Eastern Europe. Belgium furniture exports have increased by 57 percent and have grown by a phenomenal 79 percent to Russia itself. In 1998, the industry had revenues of 1.89 billion euros that included 1.13 billion euros in exports.

CONSTRUCTION. The construction industry in Belgium encompasses 2 different broad areas. The majority of activity is centered on the construction of new buildings and homes. There is also a considerable market in the restoration of older dwellings. Brick is the preferred building material and most homes are custom built. On average, only 10 percent of homes built are prefabricated. In 1998, residential construction accounted for 46 percent of new contracts, business construction accounted for 41 percent, and 13 percent of new contracts were in civil engineering. In 1997, Belgium's construction companies had revenues of 1 trillion Belgian francs. Belgian companies also carried out a number of projects abroad, mainly in developing nations. In 1998, total revenues from these projects were 88 billion Belgian francs. Government plans to eliminate slums and provide housing for low-income Belgians have significantly helped the construction industry grow.

SERVICES

The service sector is the largest area of the Belgian economy, accounting for 72.6 percent of GDP in 2000. It is well developed and diversified. Because of its geographic position as the gateway to Europe and the government's efforts to attract foreign banking and financial companies, Belgium is now the eighth-largest financial center in the world. In 1999, there were 130 different banking companies in Belgium. Of these, 81 were Belgian and 39 were foreign-owned. The majority of the

foreign-owned banks were from EU nations (23 of the 39). The implementation of EMU will make it even easier for foreign banks to establish a presence in Belgium as the members of the EU begin to use the common currency. The Belgian government encourages foreign banks to establish a presence in the kingdom. For instance, the government allows foreign banks to operate as either subsidiaries under Belgian law or to operate under the laws of the nation in which their parent bank is licensed.

FINANCIAL SERVICES. The financial sector has 3 main subdivisions: commercial banks, public credit institutions, and private savings banks. However, the divisions between these 3 types of institutions became less noticeable in the 1990s. There have been a substantial number of mergers across these fields. For instance, in 1999 the international banking corporation Dexia merged its Belgian and French subsidiaries to create a banking group worth $11 billion. Belgium's Banking Commission supervises private banks, finance companies, and the oversight of mutual funds. Investments in the country's financial sector ballooned from $55 billion in 1996 to $300 billion in 1999.

The 3 main trading banks in Belgium are the Fortis Bank, Brussels Bank Lambert, and KBC. Fortis has a workforce of some 40,000 and 3,000 branches. It services some 7 million customers in Belgium, Luxembourg, and the Netherlands, and is one of the leading banks in northwestern Europe. Brussels Bank Lambert has 900 traditional branches and 500 automated teller machines. It is the twelfth largest bank in Europe. KBC is the nation's third largest bank and is also one of the largest insurance companies. It has 1,500 bank employees, 500 insurance brokers, and 8,000 other brokers. This multinational bank has branches in 30 different nations. The fourth and fifth largest banks in Belgium are foreign-owned. Number-four is Dexier, a joint Belgian-French multinational, and number-five is Morgan Guaranty Trust of New York (a subsidiary of J. P. Morgan & Company). Other major international banks in Belgium are Citibank, Bank of America, and Chase Manhattan Bank.

In 2000, the EU enacted new rules that allow insurance brokers to operate in any other EU state as long as they are registered in their home nation. For instance, Belgian insurance companies will be able to set up offices in Germany or France without having to be licensed in that nation. This offers a variety of advantages to Belgian companies. For instance, 60 to 70 percent of the insurance bought by Belgian consumers was non-life (including car or home insurance). In contrast, in other EU states, non-life insurance typically accounts for some 20 percent of the market. Hence, Belgian insurance companies see these new markets as sources of great opportunities.

TOURISM. The main centers of the Belgian tourist industry are the country's coastal region and the Ardennes. The coastline has 65 resorts and numerous beaches. Most are designed for family-oriented vacations and draw tourists from France, the United Kingdom, and the Netherlands. Situated in the southeast of Belgium, the Ardennes forest is one of the few unspoiled natural areas in Western Europe. The area attracts campers and day-trippers. It is known for hiking, fishing, canoeing and kayaking, and mountaineering in the spring and summer months. In the winter, tourists engage in both downhill and cross-country skiing.

The total value of tourism in Belgium is $11.425 billion. Of this total, Belgians traveling within the country spent $4.9 billion. The United States is the number-one destination for Belgians traveling abroad. In 1999, some 257,000 Belgians visited the United States and spent $652 million.

RETAIL. Retailers in Belgium have rebounded from a period of stagnation in the early 1990s. Consumer spending has been increasing at a rate of 2.5 percent over the past few years and is expected to grow in the near future. Unlike many other markets in the EU or North America, independent companies still make up a large proportion of the retail market. For instance, although 78.5 percent of fashion merchandisers are independent, chain outlets control 16.7 percent of the market. The remaining 4.8 percent is in the hands of large department stores and supermarkets.

In 1999, there were 52,807 restaurants in Belgium. The largest chain is the Quick hamburger restaurant group that has 105 shops. The number-two chain is the U.S.-owned McDonald's. Other American chains such as Pizza Hut and Chi Chi's also hold significant market shares. Sales at foreign-owned restaurants were 10.45 billion Belgian francs while sales at locally owned stores were 7.53 billion Belgian francs.

INTERNATIONAL TRADE

Belgium's economy is dependent on international trade. From year-to-year, foreign trade accounts for approximately 70 percent of the nation's economy. This makes Belgium particularly sensitive to disruptions in global trade. Recessions or other economic problems around the world often cause reciprocal problems in Belgium's economy. Fortunately, the kingdom has a variety of trade partners so that problems in one export market are mitigated by export diversity. For instance, since companies were able to shift exports to other markets, Asia's economic problems in the late 1990s had little significant impact on Belgium.

The nation's main trade partners are in the EU. In fact, in 1998 some 76 percent of Belgium's exports went to nations in the EU. In that year, the main export mar-

ket for Belgian goods was Germany (19 percent), followed closely by France (18 percent), the Netherlands (12 percent), and the United Kingdom (10 percent). Most of Belgium's imports also came from the EU that provided 71 percent of the kingdom's imported products. Germany was the main exporter to Belgium and provided 18 percent of goods, while the Netherlands provided 17 percent, France 14 percent, and the United Kingdom 9 percent. Total foreign investment in Belgium is $68.1 billion. The Netherlands is the principal source of foreign investment (21.9 percent), followed by Germany (17.1 percent), France (16 percent), and the United States (11 percent).

The United States is a major trading partner of Belgium. The kingdom is the ninth largest trading partner of the United States. In 1999, the United States exported $11.3 billion to Belgium. About half of Belgium's imports from the United States are processed and re-exported to other markets. The kingdom is home to 1,300 U.S. companies. American investment in Belgium totals $18.9 billion. The majority of this investment is concentrated manufacturing ($8.969 billion), services ($5.262 billion), and wholesaling ($2.716 billion). Belgium also has significant investments in the United States that total $6.7 billion. The majority of these investments are in manufacturing ($2.6 billion), petroleum ($1.265 billion), and retail ($882 million).

Goods and products from EU nations enter Belgium without any tariffs or **duties**. However, goods from nations outside of the EU face import duties and a **value-added tax** (VAT). Depending on the product, these taxes amount to an average of 5–6 percent of the total value of the product. Consequently, many goods from outside of the EU face a price disadvantage.

Since Belgium is home to the headquarters of the EU and over 100 international organizations, it has a unique perspective on world trade and global markets. It also has significant influence on trade. Since it joined the European Community (now EU), Belgium has supported free trade and advocated measures that lower tariffs and reduce other barriers to the free movement of goods and services, labor, and capital within Europe. Belgium and Luxembourg also continue to be economically linked through BLEU. Despite its membership in the EU and BLEU, Belgium has bilateral trade agreements with 29 different nations. It has separate investment accords with Poland and Russia. It also has treaties with Bulgaria, Cuba, Liberia, Mauritania, and Thailand. Under the auspices of BLEU, it has jointly signed with Luxembourg. Many of these agreements have yet to be fully implemented.

Besides the national trade agreements, each of the 3 regions has the authority to grant financial incentives and other inducements to attract foreign goods and services. Among the tactics used are loan or interest rebates if the project is financed, financing by the regional government, and tax breaks for foreign companies.

MONEY

Through BLEU, Belgium and Luxembourg linked their currencies in 1921. Although the Belgian franc has declined in relation to the U.S. dollar, it has maintained its value against major European currencies. In 1995, 1 U.S. dollar was equal to 29.48 francs, but by 1999, 1 dollar equaled 34.77 francs. In 1999, Belgium joined the EMU that created a single currency, the euro, for all of the EU nations. The euro is fixed at a rate of 40.3399 francs per euro. Since its introduction, the euro has been weak against the dollar. In 2000, 1 U.S. dollar equaled 0.9867 euros (when the euro was introduced it was equal to $1.1789). The euro was only used in non-cash forms (such as electronic payments and transfers) until January of 2002, when euro coins and notes were issued and national currencies were phased out.

The Belgian National Bank acts as the state bank. It prints and issues the nation's currency and acts as the lender of last resort in certain credit operations. The bank also manages **monetary policy** by controlling interest rates. The Banking Commission oversees the operations of the nation's banks while the Finance Ministry regulates credit institutions.

In September of 2000, the Brussels stock exchange merged with the exchanges of Amsterdam and the Paris Bourse exchange to form Euronext. The new stock exchange is the first truly transnational exchange that combines stock, derivative, and commodity trading. The new exchange lists 1,861 different companies and has a value of 1.1 trillion euros. The merger will streamline trading and reduce transaction costs. It will also save approximately 50 million euros per year. The exchange also increases the transparency of stocks and gives investors greater cost comparisons. The stock-trading component of Euronext is divided into 3 broad areas: blue

Exchange rates: Belgium

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	36.229
1997	35.774
1996	30.962

Note: Amounts prior to 1999 are in Belgian francs per US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Belgium	18,620	21,653	22,417	25,744	28,790
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
France	18,730	21,374	22,510	25,624	27,975

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Belgium

Lowest 10%	3.7
Lowest 20%	9.5
Second 20%	14.6
Third 20%	18.4
Fourth 20%	23.0
Highest 20%	34.5
Highest 10%	20.2

Survey year: 1992

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

chip traditional industrial companies, high tech stocks, and traditional securities. The new multinational exchange is actively seeking further integration and consolidation and may merge or absorb additional national exchanges.

In order to become a member of EMU, Belgium had to maintain low **inflation**. The government took steps that kept inflation low—as low as 1 percent in 1999. Low prices on imported goods are likely to aid efforts to keep inflation low for the foreseeable future.

POVERTY AND WEALTH

Belgium, like many Western European nations, enjoys a high standard of living and a high per capita income. Each year the United Nations ranks the world's countries in its *Human Development Report.* Belgium consistently ranks among the top nations in its human development index that measures the quality of life in countries. In the 2000 report, the UN ranked Belgium number-seven—just behind Switzerland and ahead of the Netherlands. Its per capita income was $28,790. Belgium ranked 8th out of 191 countries in terms of per capita income.

There are extremes of wealth and poverty in Belgium. However, the nation's generous social welfare programs prevent abject poverty. Only 3.7 percent of the population falls into the lowest 10 percent of income levels while 20.2 percent of the households are in the top 10 percentile.

The nation's social welfare programs are extensive. There are 5 main elements to the Belgian **social welfare system**: family allowance, unemployment insurance, retirement, medical benefits, and a program that provides salary in the event of illness. Employers contribute the equivalent of 35 percent of a worker's pay to the social welfare system and workers contribute 13 percent of their pay. Many companies also offer supplemental retirement and medical programs. Almost all Belgians are covered by medical insurance. Payments to medical providers were $12.97 billion in 1999. Belgium ranked thirteenth among the 24 OECD nations and fifth among the 15 EU nations. Each region has special councils that provide public assistance and aid to the poor. The National Housing Society provides low-income housing for the poor and immigrants. The Society is also in charge of eliminating slums and revitalizing urban neighborhoods.

Belgium's educational system is among the best in Europe. Freedom of education is a constitutional right in Belgium. Both public and private schools exist, but the government subsidizes private schools since the legal system abolished fees in 1958. Children must attend

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Belgium	17	6	8	3	1	7	57
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
France	22	7	9	3	8	12	40

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

school between the ages of 6 and 18. The nation has 7 universities (4 that teach in French and 3 that teach in Flemish). There are also a number of specialized and technical schools.

WORKING CONDITIONS

Belgium's workforce is highly skilled, educated, and productive. Belgian workers are the most productive in the EU. The workforce is well paid and has both generous employer and government benefits. However, there are wide regional differences in wages, unemployment, and quality of life. Generally, conditions are better in Flanders and the German-speaking areas than in the French-speaking areas.

The nation's educational system is designed to prepare workers for entry into the workforce. From the age of 15 onward, children may work part-time while they attend school. In addition, industrial apprenticeship programs are available for students between the ages of 16 and 18. There is also vocational training available for both students and adults. The national government and regional governments offer a variety of incentives for retraining workers. These initiatives are designed to reduce the national social security burden.

There are laws against forced labor. The minimum age for a person to begin working is 15. Since education is mandatory until age 18, students may only work part-time during the school year. Youths may work full-time during school vacation periods. Both the national and regional governments aggressively enforce child labor laws.

In 1999, the government revised its legislation on equal opportunity in the workplace. The new laws outlawed sexual harassment, and continued the ban on gender discrimination in hiring, working conditions, wages, and termination. Equal treatment of men and women is guaranteed by the constitution. In 1999, legislation was passed requiring that women make up one-third of all candidates running for office. Economic inequities between men and women continue. For instance, the female unemployment rate was 10.9 percent in 1998, while the male unemployment rate was 6.7 percent. In addition, women only earn 84 percent of the salary that men earn in the same professions.

The constitution guarantees the right of workers to organize and to collective bargaining. Union membership is high and 63 percent of workers belong to unions. In addition, 90 percent of workers are covered by collective bargaining agreements. National laws limit wage increases to 5.9 percent per year. Special labor courts oversee disputes between workers and businesses. Although Belgian unions often have links to political parties, they are independent of the government. While there have been several significant strikes in the past decade, including those by teachers, railway workers and air traffic controllers, these disputes were settled peacefully.

National law sets a 40-hour workweek and mandates overtime pay for work beyond 40 hours per week and for more than 8 hours a day. In addition, each workweek must include a 24-hour rest period. However, many agreements between unions and companies have separate agreements that lower the workweek to either 35 or 38 hours per week. The minimum wage for workers over the age of 21 is $1,228 per month. Workers under the age of 21 are paid on a graduated scale. Workers who are 18 years old must be paid 82 percent of the minimum wage, 19 year olds must be paid 88 percent, and 20 year olds must be paid 94 percent. There are strong safety laws and many of these regulations are supplemented by collective bargaining agreements. Although companies with more than 50 employees must have health and safety committees made up of both management and workers, the Ministry of Labor oversees workplace laws.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

500–200 B.C. The area that is now Belgium is settled by a Celtic tribe, the Belgae (who gave their name to the region).

57 B.C. Julius Caesar begins conquering Belgium. The province comes to be known as Gallia Belgae. For the next 400 years, the area prospers under Roman control.

400 A.D. As Rome declines, the Franks gain control of the territory.

431. The Franks establish the Merovingian dynasty in Belgium.

466–511. Reign of Clovis I. During his reign, the last Roman territories in Gaul are captured and the kingdom is expanded to include areas of France and Germany. The Belgian people are converted to Christianity.

751. Pepin III deposes the Merovingians and starts the Carolingian dynasty.

768. Charlemagne succeeds his father, Pepin III. Charlemagne expands the empire to include all of Western Europe, and the king is crowned Emperor of the West by the Pope in 800. During his reign, organized trade begins along Belgium's rivers. After his death, the empire declines.

843. The Treaty of Verdun divides the empire among 3 of Charlemagne's sons. The western areas of Belgium come under France's control, while the eastern territories are controlled under the Middle Kingdom

of Lothair. Ultimately, Germans control the eastern territories.

867. In order to protect people from Norse raids, walled cities are created. The first of these is Ghent, followed by Bruges and Ypres.

977. Brussels is founded by Charles, the Duke of Lorraine.

1000. As the Norse raids subside, trade dramatically expands. This period is the golden age of Flanders. Merchants import wool from England that is woven into fine cloths and tapestries. Flemish cities become populous and wealthy.

1300. Because of their wealth, Ghent, Bruges, and Ypres gain virtual independence from the aristocracy. A civic culture flourishes. This independence is confirmed by the defeat of the French nobles in the Battle of the Golden Spurs.

1329. Aristocratic control is re-established and the independence of the Flemish cities is revoked.

1337–1453. There is a Hundred Years War between France and England. The English support their trade allies, the Flemish, in their continuing efforts to gain autonomy from France.

1384. Flanders comes under the control of Philip the Bold, Duke of Burgundy.

1419–1467. Philip the Good reigns. The Burgundian Empire in Belgium expands and includes the southeastern areas of Brussels, Liege, and Namur. Trade, arts, and culture expand. Prominent artists include Van Eyck, Rubens, and Van Dyck.

1490s. The canals around Bruges fill with silt and trade shifts further north to Antwerp.

1519–1713. Religious conflicts between the Protestant areas of Flanders and Catholics, led by Philip II of Spain, lead to the occupation of Belgium by Spain.

1648. The Protestant United Provinces of the North gain independence from Spain and become the Netherlands. The center of trade shifts from Antwerp and Ghent to Amsterdam. Meanwhile in order to avoid high labor costs and taxation, textile mills increasingly move from the urban areas to the countryside.

1719–1794. Austria occupies Belgium according to the terms of the Treaty of Utrecht. A revolt in 1790 leads to the establishment of the United States of Belgium, but Austrian control is soon re-established. During this period, landowners begin to mine various products, mainly coal and iron ore.

1795. France occupies Belgium and institutes a variety of civil reforms that serve as the foundation of the modern Belgian government. Encouraged by the French, industrialization begins during this period. By the turn of the century, factories with more than 100 employees become common. Ghent, home to numerous cotton mills, becomes the textile center of the country. Mining also continues to spread, especially in the French-speaking areas and in Liege.

1815. Belgium becomes part of the Netherlands by the Congress of Vienna. Dutch becomes the official language and William I of the Netherlands adopts a variety of programs to encourage industrialization in the south. However, the industrialization exacerbated the regional differences in the nation as the agrarian North sought free trade, while the industrialized South sought tariffs and other trade protections.

1831. Belgium gains independence from the Netherlands. Leopold of Saxe-Coburg becomes the Belgian king. Industrialization continues to sweep across the nation.

1835. The Banque du Belgique is founded. It provides financing for industry and serves as the model for similar banks in Germany, England, and France.

1844–46. Famine in Flanders leads to widespread economic problems and marks the final decline of the traditional linen industry. These combined problems slowed the economic development of the region well into the twentieth century.

1850. The National Bank of Belgium is formed.

1885. Congo becomes a personal possession of Leopold II.

1886. Worker unrest, which began in Liege, spreads throughout the nation. The government harshly suppresses this unrest, but it results in worker housing and wages reform.

1908. The Congo is annexed as a colony of Belgium.

1914. Germany invades Belgium at the start of World War I. During the war, some 20 percent of the nation's wealth is lost or destroyed.

1918. Universal suffrage is enacted.

1921. The Belgium-Luxembourg Economic Union (BLEU) is formed.

1930. Flanders and Wallonia become legally unilingual.

1940. During World War II, Germany invades Belgium and the Netherlands.

1944. Belgium joins the Benelux Economic Union, formed between Belgium, the Netherlands, and the Grand Duchy of Luxembourg.

1949. The nation joins NATO.

1952. Belgium joins the European Coal and Steel Community.

1957. Belgium is one of the founding members of the European Community.

1960. The Congo gains independence.

1961. Massive strikes lead to the creation of a permanent linguistic barrier between Flanders and Wallonia, while the Brussels region is officially bilingual.

1962. Rwanda and Burundi are granted independence.

1971. Flanders and Wallonia are granted cultural autonomy.

1973. The worldwide oil crisis initiates a period of deep industrial decline, which is exacerbated by the second oil crisis in 1979.

1989. A revised constitution grants greater autonomy to Flanders and Wallonia, and Brussels is granted the status of a region.

1993. King Baudouin dies and is succeeded by his brother, King Albert II.

1999. The kingdom joins EMU.

FUTURE TRENDS

Belgium is well positioned to continue its economic growth well into the 21st century. Its export-driven economy has created a **trade surplus** that will continue for the foreseeable future. In addition, Belgium's geographic position and its infrastructure indicate that the country will continuously serve as a point of entry for goods and services going into Europe. The introduction of the single European currency in 1999 will continue to make it easier for Belgian firms to trade within the EU.

While the 370 million people of the EU create one of the biggest commercial markets in the world, Belgium's dependence on intra-EU trade makes it vulnerable to economic slowdowns in the region. However, Belgium's trade with North America, namely the United States, continues to grow and may serve as a means to partially offset economic downturns in the EU.

Domestically, Belgium faces a variety of problems. Continuing tension between the Dutch- and French-speaking populations has led to the division of the nation into semi-autonomous regions that compete with one another for economic growth and investment. In addition, the unemployment rate remains stubbornly high, although it is lower than the EU average. Because of the high unemployment rate, the government is forced to maintain a high level of social welfare programs.

DEPENDENCIES

Belgium has no territories or colonies.

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—Tom Lansford

BOSNIA AND HERZEGOVINA

Republic of Bosnia and Herzegovina
Republika Bosnia i Herzegovina

CAPITAL: Sarajevo.

MONETARY UNIT: Marka (KM). One convertible marka equals 100 convertible pfenniga.

CHIEF EXPORTS: Manufactured goods, metals (aluminum, lead, zinc, steel), wood products, electricity, fruit and tobacco.

CHIEF IMPORTS: Fuel, machinery, transportation equipment, manufactured products, chemicals, and food.

GROSS DOMESTIC PRODUCT: US$6.5 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$950 million (f.o.b., 2000 est.). **Imports:** US$2.45 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Bosnia and Herzegovina is in southeastern Europe. It is bound on the north and west by Croatia, the southwest by Croatia and the Adriatic Sea, and on the east by Yugoslavia (Serbia and Montenegro). The country has an area of 51,129 square kilometers (19,741 square miles), which is slightly smaller than West Virginia, and has a tiny coastline of 20 kilometers (13 miles). The capital, Sarajevo, is in the east-central part of the country, and other prominent cities include Zenica, Banja Luka, Mostar, and Tuzla.

POPULATION. The population of Bosnia and Herzegovina was estimated at 3,922,205 in July 2001; however, this estimation may include significant errors because of the dislocations and ethnic cleansing from the Bosnian civil war (1992–95). In contrast, the country had a population of 4,364,574, according to the 1991 census. The civil war caused hundreds of thousands of casualties and forced many others to flee. By 1998, the population had decreased by an estimated 1 million people.

With an estimated birth rate of 12.86 and death rate of 7.99 per 1,000 inhabitants, Bosnia (the shortened name for the whole country) has an estimated population growth rate of 1.38 percent. The population is young, with 20 percent below the age of 14 and just 9 percent over 65. Bosnia's population density in 1998 was estimated at 66 people per square kilometer (170 per square mile). In 1997, 42 percent of the population lived in urban areas.

Bosnia's major ethnic groups are Muslims (Bosniaks), Serbs, and Croats. The Serbs are traditionally Orthodox Christians, and the Croats are Roman Catholics. Muslims are descendants of former Christian Slavs who converted to Islam during the 15th and 16th centuries (under Ottoman rule). In 1991, the population consisted of 44 percent Muslims, 31 percent Serbs, and 17 percent Croats. In 1995, the population consisted of 40 percent Muslims, 38 percent Serbs, and 22 percent Croats. Events leading to this population change include the **immigration** of approximately 200,000 ethnic Serbs from Croatia and the deaths of about 7.4 percent of the pre-war Muslim population and 7.1 percent of the pre-war Serb population during the savage civil war. Bosnia and Herzegovina's populations of Serbs, Croats, and Muslims will likely embroil the country in struggles with its more powerful neighboring republics. Bosnian Serbs, for example, may continue to push for annexation to a "Greater Serbia."

OVERVIEW OF ECONOMY

Prior to becoming independent in 1992, Bosnia and Herzegovina was the second poorest republic in the former Socialist Federal Republic of Yugoslavia. Before the inter-ethnic war (1992–95), the economy was devoted to mining, forestry, agriculture, light and heavy manufacturing, and particularly armaments. Unlike many Eastern European countries, Bosnia and Herzegovina's farmland was never collectivized by the **communist** regime. Agriculture was insufficiently developed, and the country

heavily imported food, while its military industry was overstressed. The breakup of old Yugoslavia, the disruption of traditional markets and economic links, and the savage civil war caused industrial and agricultural output to plummet by four-fifths by 1995. Since 1996, production has recovered somewhat; however, the **gross domestic product** (GDP) remains far below its pre-war level.

By the time the civil war broke out in Bosnia and Herzegovina, the **inflation rate** was about 120 percent. During the war, **inflation** skyrocketed to over 1,000 percent. Unemployment was about 30 percent when the war began, but by 1995, it rose to 75 percent. All sectors of the economy were badly hurt, and 45 percent of industrial plants and 75 percent of the oil refineries were incapacitated.

When the war ended in 1995, the country was united under a federal government but split into 2 legal entities: the Federation of Bosnia and Herzegovina and the Republika Srpska (The Serb Republic). The end of fighting made some recovery possible, especially in construction, trade, services, and traditional light industries. The division between the Federation and the Serb Republic

proved to be a significant obstacle to reconstruction. The Serb Republic included most of the agricultural land and mineral deposits. In contrast, most heavy industry and power plants were within the Federation. This division made the most basic economic functions, such as the distribution of electricity, dependent on good cooperation between the once warring entities.

Economic data on each of Bosnia's 2 units are of little use because they do not reflect the **black market**, and national-level statistics are not published. The country's **external debt** was estimated at US$3.2 billion in 2000 and US$1.2 billion of international aid is now being pledged to help the country's finances. Bosnia also receives substantial reconstruction assistance and humanitarian aid from the international community.

POLITICS, GOVERNMENT, AND TAXATION

In 1990, Bosnia and Herzegovina seceded from Yugoslavia (which further dissolved into Slovenia, Croatia, Macedonia, and a new Federal Republic of Yugoslavia comprised of Serbia and Montenegro). The newly independent Bosnia and Herzegovina could not maintain cooperation between 3 of its ethnic groups: the Serbs wanted to unite with Serbia, the Croats wanted to unite with Croatia, and the Muslims wanted Bosnia and Herzegovina to unite as an independent state. The differing opinions sparked a bloody civil war.

Between 1992 and 1995, the 2 areas of Bosnia and Herzegovina were almost devastated by inter-ethnic carnage that stunned the world. International mediation efforts helped bring about the Dayton accord, which ended the civil war in 1995 by dividing the country into 2 ethnic entities: the Federation of Bosnia and Herzegovina and the Serb Republic. The government established has been labeled an "emerging democracy."

The country has a federal government and 2 administrative divisions: the Bosniak/Croat-led Federation of Bosnia and Herzegovina and the Bosnian Serb-led Serb Republic. (There is also a self-governing administrative unit called Brcko, which is under the authority of the sovereignty of Bosnia and Herzegovina but is not a part of the Federation or the Serb Republic.)

The presidency of Bosnia and Herzegovina is held by 3 officials (1 Bosnian Muslim, 1 Croat, and 1 Serb), who are elected to a 4-year term and rotate the chairmanship of the presidency every 8 months. Both the Federation and the Serb Republic elect presidents of their own administrative entities. The country is still establishing laws for voting and terms of the legislature, which has been created as a national **bicameral** Parliamentary Assembly. The Federation also has a bicameral legislature, and the Serb Republic is served by its own National Assembly. The judiciary system is similarly split between federal and administrative jurisdiction. There is a Constitutional Court heading the federal judiciary, and the entities have their own supreme courts and a number of lower courts. (In 2000, the Constitutional Court of Bosnia and Herzegovina ruled that the new governmental structure of Bosnia and Herzegovina had undermined the country's ethnic base and should be changed to reflect the multi-ethnic character of the country.)

Bosnia's political life is still highly fragmented and organized strictly along ethnic lines. These political parties include the Croatian Democratic Union; the New Croatian Initiative; the Party of Democratic Action; the Party for Bosnia and Herzegovina; the Social Democratic Party; the Democratic Socialist Party of Republika Srpska; the Party of Democratic Progress; the Party of Independent Social Democrats; the Serb Democratic Party; the Serbian People's Alliance; the Serbian Radical Party of Republika Srpska; and the Socialist Party of Republika Srpska. In 2000, the Muslim Party of Democratic Action, the Serb Democratic Party, and the Croatian Democratic Union again won the general election. These major parties were previously influential in leading major ethnic groups in the civil war.

The government plays a large role in the economy. Although 90 percent of businesses are private, the largest conglomerates remain state-owned. Corrupt leaders often arbitrarily apply taxes and regulations, and the black market is a significant economic factor. **Privatization** legislation exists, but disposing of state assets is slow and often receives much resistance. This situation is particularly prevalent in the utilities sector that is entirely controlled by party oligarchs. In mass privatization, free company vouchers or privatization funds shares are distributed to the public. Foreign investors are attracted to cash privatization because it generates fresh foreign currency inflows and brings western technology to important companies. However, due to lack of interest, results to this tender have been modest. Between May 1999 and September 2000, more than 1,000 small enterprises were listed for privatization; however, only 200 were sold during this time.

In 2002 a comprehensive tax administration reform is expected to create a more business-friendly environment and to attract foreign investment. But foreign investment relies on continued political stability. The implementation of democratic governments in neighboring nations is expected to improve privatization efforts within Bosnia and Herzegovina and to limit the risk of renewed political instability.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The country's **infrastructure**, including highways, railroads, and communication networks were severely

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Bosnia & Herzegovina	152	248	41	N/A	7	N/A	N/A	1.38	4
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Yugoslavia	107	297	259	N/A	23	1.9	18.8	7.65	80
Croatia	115	336	272	N/A	41	11.2	111.6	25.94	200

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

damaged by the war. In 1991, Bosnia had 21,168 kilometers (13,154 miles) of highways, half of which were paved. The war destroyed 35 percent of these highways and 40 percent of their bridges. The railroads had 1,000 kilometers (600 miles) of track, three-quarters electrified, and damage to the system was estimated at US$1 billion. Sarajevo's international airport was destroyed in the fighting. From 1995 to 1998, more than US$1 billion in foreign aid was provided to rebuild the infrastructure, and much is being done to reconnect the telecommunications networks. A US$20 million loan from the European Bank for Reconstruction and Development should aid in this process; however, ethnic divisions have hampered reconstruction. Guiding and implementing projects through conflicting local interests, jurisdictions, price structures, and corruption schemes is complex and often time consuming.

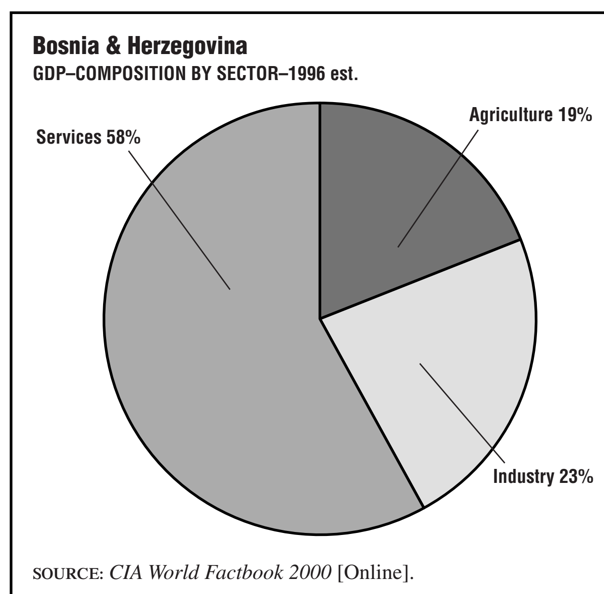
Electricity is produced in coal burning (32 percent) and hydroelectric (68 percent) plants. Because of the war, electricity-generating capacity declined by four-fifths. Most hydroelectric plants are in the Croat-controlled area. Therefore, close cooperation across Muslim- and Serb-held territory is essential for power distribution. Electricity prices vary substantially, with the Serb Republic subsidizing them heavily within its area. Hydropower Tyrol (Austria) is investing US$6 million in the Federation's 4 hydroelectric facilities.

ECONOMIC SECTORS

The distribution of the **labor force** and the contribution of the economy's different sectors have been difficult to estimate because of the internal conflicts in Bosnia and Herzegovina. Labor force information is limited to that estimated in 1990, when 48 percent of the labor force was employed in industry and 11 percent in agriculture. By 1996, the GDP contribution was divided as follows: 19 percent in agriculture, 23 percent in industry and utilities, and 58 percent in services. The war caused the leading industries—particularly armaments—to suffer greatly, and the disruption of economic links between the units, sanctioned by the Dayton accord, further decreased the economy's viability.

AGRICULTURE

As a part of the former Yugoslavia's **socialist** regime, agriculture was in private hands. Unlike other Eastern European countries, farms were small and inefficient. The republic has been, and still is, a net importer of food, relying on foreign supply for more than half of its food. The mountainous and rugged terrain is much less suitable for agriculture than Croatia and Serbia. Still the agriculture sector has traditionally produced wheat, corn, fruits, vegetables, tobacco, and livestock. The war and ethnic cleansing obliterated many Bosnian farms and severely affected the production of tobacco, the principal **cash crop**.



SOURCE: *CIA World Factbook 2000* [Online].

INDUSTRY

Under socialism, Bosnia specialized in mineral products; metals (steel, lead, zinc, aluminum); timber; manufactured goods (furniture, domestic appliances, and leather goods); and accounted for 40 percent of the former Yugoslavia's military production. Like Serbia and Montenegro, the industry wanted to counter unemployment and employed more workers than it really needed. Traditionally, the industrial bases were divided: heavy industry was in the Federation, and light industry was in the Serb Republic.

Most of the country's industry was damaged by the war, and in late 1995, manufacturing dropped to one-tenth of the pre-war level. Although destruction between regions varied, companies suffered because of disrupted supplier and buyer links. Given the low base, post-war industrial recovery was notable; however, it was limited to metal and wood processing, food, beverages, textiles, and clothing. Most factories are still operating at a fraction of their capacity.

In 1999, food processing accounted for 14 percent of the Federation's manufacturing production, metals for 13.4 percent, and wood processing for 5.4 percent. Recovery was much slower in engineering, chemicals, and pharmaceuticals. The Unis Vogosca company in the Federation and Germany's Volkswagen set up a **joint venture** to assemble Skoda cars, but had disappointing results. During this year, the Federation also established a consortium to manufacture tractors and other agricultural machinery. Construction grew, driven by housing reconstruction, and in 1999, Germany's Heidelberger Zement acquired a 51 percent stake in one of the cement plants, Kakanj. **Consumer goods** represent about 30 percent of total manufacturing output.

The government does not pursue a specific industrial policy. Trade is **liberalized**, there is no particular policy for protecting local companies, and domestic producers are exposed to foreign competition. Foreign investors are cautious in investing, donors favor the **private sector**, and large state-owned enterprises find it difficult to restart work because of lack of capital, technology, and extensive markets.

SERVICES

As in the former Yugoslavia, banks in the Federation and the Serb Republic are still too numerous, small, and undercapitalized. The political units have reached an agreement to allow Federation banks to operate in the Serb Republic as local ones. However, this arrangement may only add to the already over-banked sector. Although bank consolidation is needed for the gradual emergence of a sound banking system that will fuel investment and consumer spending and reinvigorate the economy, the government is more actively concerned with bank privatization.

Tourism has suffered from destruction and the general feeling of political instability. However, it has been recorded that domestic tourist visits have increased to the tiny Herzegovinian stretch of the Adriatic coast, and the number of lakeside resorts and foreign tourists has also increased. Before the war, Bosnia tourism was not as significant for the economy as in Croatia and Slovenia. However, it was given impetus as Sarajevo hosted the 1984 Winter Olympics and became internationally well known for its mountain resorts and colorful multicultural atmosphere. However, many tourist attractions were destroyed in the shelling of the city during the war.

Retail was well developed and to a large extent privatized before the war. It has since contracted because of the declining demand. The black market is still an important player in the economy. In contrast to Slovenia and Macedonia, foreign investment is limited.

INTERNATIONAL TRADE

In 1990, Bosnia imported US$1.9 billion worth of fuel, machinery, transportation equipment, manufactured products, chemicals, and food. It exported about US$2.1 billion worth of manufactured products, machinery, and raw materials. The war almost wiped out Bosnian foreign trade. As the economy was destroyed, Yugoslavia and Croatia imposed blockades and cut supply routes. In 1996, imports still totaled about US$1.9 billion, but exports were down to US$171 million. In 2000, exports grew to US$950 million, and imports remained much higher at US$2.45 billion.

From 1996 to 2000, the scope of the **trade deficit** amounted to well over US$1 billion yearly. This amount is huge for the size of the economy. Because of Bosnia's need to import vital commodities such as fuel, equipment, and food out of the limited international credit available, it is more heavily dependent on foreign aid from donor countries and international organizations than other former Yugoslav republics.

Metals and wood products were the most important components of Bosnia's exports in 2000, while electricity exports declined during and after the war. The EU accounted for 39 percent of the Federation exports in 2000 and leading trade partners included Croatia, Switzerland, Italy, and Germany (for the Federation), and Yugoslavia, Italy, Slovenia, and Hungary (for the Serb Republic).

MONEY

After the ethnic leaders failed to agree on a new currency, the UN introduced in 1998 a new currency, the

Exchange rates: Bosnia

marka per US$1	
Jan 2001	2.086
2000	2.124
1999	1.837
1998	1.760
1997	1.734
1996	0.015

SOURCE: CIA *World Factbook 2001* [ONLINE].

convertible mark. The convertible mark was fixed to the German mark. It gained acceptance, and the Central Bank of Bosnia and Herzegovina increased its reserves. Yugoslav dinars still circulate in the Serb Republic, and the Croatian kuna is used in the Croat areas of the Federation.

The government is still hoping to increase its capitalization by pressing for the privatization of the numerous small commercial banks. Raiffeisen Zentralbank Oesterreich, an Austrian bank, recently acquired many banks, including the Market Banka. The Austrian bank has also submitted privatization papers to the government bank privatization unit. It is not clear whether this will attract foreign attention, because the banking sector is weak and the economy is being reconstructed slowly.

POVERTY AND WEALTH

Before 1991, Bosnians, like most Yugoslavs, enjoyed a modestly prosperous life under the socialist governments, and Sarajevo citizens were proud hosts of the 1984 Winter Olympics. However, the war and the collapse of the economy ruined living standards. While average incomes sharply declined, prices of goods soared, particularly on the black market. Health, education, and welfare slipped into disaster. Physical survival was the only agenda for many Bosnians during the atrocities. While poverty grew, warlords, corrupt politicians, and officials made fortunes off looting and smuggling, and this caused an attitude of widespread resignation. After the war, the power of the party oligarchies remained almost unchallenged and was perpetuated by the country's highly complex ethnic-based political structure. Ethnic party elites still control much of the economy and oppose privatization in the most lucrative sectors such as energy.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Bosnia & Herzegovina	N/A	1,690	1,720	1,770	1,700
United States	28,600	30,200	31,500	33,900	36,200
Yugoslavia	N/A	2,280	2,300	1,800	2,300
Croatia	4,300	4,500	5,100	5,100	5,800

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

WORKING CONDITIONS

In 1999, unemployment was estimated at 40 percent. Employees were irregularly paid their wages which provoked waves of strikes in both the Federation and the Serb Republic. When paid, the average monthly wage in the more affluent Federation was US$194 in mid-2000, up by 8.4 percent from 1999, and inflation remained low. Wages and prices varied significantly by region. In the Federation, an average net wage in March 2000 bought 52kg of butter; in January 1998, 37 kg. In the Serb Republic, the March 2000 average net wage bought 26.6 kg of butter, in December 1998, 14.5 kg.

The limited scope of recovery has resulted in modest job generation, with most growth occurring in the public administration. The World Bank (WB) announced a US$15 million program to re-deploy unemployed ex-soldiers and insists that current labor laws and regulations, a legacy from the old socialist system, are now inappropriate. The WB provides generous severance payments for employees and keeps unpaid workers on waiting lists rather than laying them off. However some believe this will burden the companies, blur unemployment numbers, and impair **labor mobility**.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

6TH-7TH CENTURY A.D. Slavic tribes, including Serbs and Croats, settle in the present territory of Bosnia and Herzegovina.

958. The name Bosnia is used to denote the land. Most Slavic inhabitants belong to the Roman Catholic Church.

1180. Ban (a feudal title of nobility) Kulin creates an independent Bosnian state, and feudal agrarian economy develops.

1326. Ban Stephen Kotromanic unites Bosnia and Hum, which later becomes Herzegovina.

1463–83. Bosnia and Herzegovina are conquered by the Ottoman Empire, and large numbers of Christians are converted to Islam. Predominant Muslim feudal lords rule over a poor and Christian peasantry.

1878. After the European Congress at Berlin, the country is taken over by Austria-Hungary, but Muslims

and Orthodox Christians resist occupation. The new regime promotes modern economic development.

1908. Austria-Hungary officially annexes Bosnia.

1914. Austria-Hungary starts World War I by declaring war on Serbia; most Bosnian Serbs, Croats, and Muslims remain loyal to Austria-Hungary.

1918. After World War I, Bosnia becomes part of the new Kingdom of Serbs, Croats, and Slovenes (renamed Yugoslavia in 1929); the economy suffers from the loss of Austro-Hungarian markets.

1941. Yugoslavia breaks up during World War II, and Nazi Germany makes Bosnia part of the Independent State of Croatia.

1945. Germany is defeated, and Bosnia joins socialist Yugoslavia as a constituent republic.

1945–80. Yugoslavia develops a socialist economy.

1980. Communist dictator Josip Broz Tito dies, and the socialist economy of Yugoslavia begins to decline. Serb nationalism begins to rise, and non-Serbs grow dissatisfied with the Federation.

1990. In a multiparty parliamentary election in Bosnia and Herzegovina, the Muslim Party of Democratic Action, led by Alija Izetbegovic, wins 34 percent of the seats; the Serbian Democratic Party, led by Radovan Karadzic, takes 30 percent; and the Croatian Democratic Union gets 18 percent. Izetbegovic becomes president of a 7-member tri-national presidency.

1991. Bosnia and Herzegovina declares independence from Yugoslavia, which is confirmed by a referendum in 1992. Bosnian Serbs, led by Karadzic and backed by neighboring Serbia and the pro-Serb Yugoslav army, start an armed offensive aimed at forming a greater Serbia and thus cause the bloody Bosnian civil war.

1994. Muslims and Croats create a Muslim-Croat Federation.

1995. In Dayton, Ohio, the warring parties sign a peace agreement, and Bosnia and Herzegovina is divided between the Federation of Bosnia and Herzegovina and a Serb Republic. A NATO-led peacekeeping force (IFOR) of 60,000 is deployed to implement the agreement, and an international high representative is appointed.

1996. A Stabilization Force (SFOR) of 19,000 (as of late 2000) troops—to prevent new inter-ethnic hostilities—succeeds IFOR.

FUTURE TRENDS

In Bosnia and Herzegovina, economic reform is at the core of the international community's strategy. Over the next few years, the government will accentuate tax reform, improve the tax administration system, aid financial sector reform and encourage privatization. Labor regulations and the pension system will also be thoroughly **restructured**. Foreign investment will be encouraged, but future support from international financial institutions will be dependent on the success of the reforms. In the long term, it is hoped that reconstruction, reform, and EU integration will bring more peace and prosperity to what is considered to be Europe's most troubled land after World War II.

DEPENDENCIES

Bosnia and Herzegovina has no territories or colonies.

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—Valentin Hadjiyski

BULGARIA

Republic of Bulgaria
Republika Bulgaria

CAPITAL: Sofia.

MONETARY UNIT: Lev (plural Leva). One lev equals 100 stotinki. There are coins of 1, 2, 5, 10, 20 and 50 stotinki.

CHIEF EXPORTS: Machinery and equipment; metals, minerals, and fuels; chemicals and plastics; food, tobacco, and clothing.

CHIEF IMPORTS: Fuels, minerals, and raw materials; machinery and equipment; metals and ores; chemicals and plastics; food and textiles.

GROSS DOMESTIC PRODUCT: US$48 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$4.8 billion (f.o.b., 2000 est.). **Imports:** US$5.9 billion (f.o.b., 2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of Bulgaria shares its borders with 5 other countries in southeastern Europe and has a coastline on the Black Sea. Romania lies to the north, Turkey to the southeast, Greece to the south, the former Yugoslav Republic of Macedonia to the southwest, and Serbia (with Montenegro part of the Federal Republic of Yugoslavia) to the west. The eastern coastline on the Black Sea is 354 kilometers (220 miles) long, and the total area of the country is 110,910 square kilometers (42,823 square miles), making it slightly larger than the state of Tennessee. The capital, Sofia, is situated at the foot of the Balkan and Vitosha Mountains in western Bulgaria; other principal cities are Plovdiv in south-central Bulgaria, the coastal cities of Varna and Burgas, and Ruse on the Danube River.

POPULATION. The Bulgarian population recorded in the 1985 census was 8,948,649, but by July 2000, largely due to **emigration**, the population was estimated to have decreased to 7,796,694. In 2000, the birth rate stood at 8.06 and the death rate at 14.63 per 1,000 population, but this downward trend should be halted as the economy improves, emigrants return, and the country joins the European Union (EU) in 2007. By 2010, the population is projected to reach 7.26 million. Population density is about 70 persons per square kilometer (181 per square mile).

Ethnic Bulgarians account for 85 percent of the population, Turks 9 percent, and Roma (Gypsies) 3.7 percent. Other small, miscellaneous groups round out the total. Bulgarian, a Slavic language with a written tradition dating back to the 9th century, is the principal language, with other languages spoken corresponding to the ethnic breakdown. Religions include Orthodox Christian (83 percent), Muslim (13 percent), and Roman Catholic (1.5 percent), with Jewish, Protestant, and other groups making up the rest. The population of Bulgaria is aging, with 16 percent below the age of 14 and 16 percent older than 65. The median age is expected to increase from 37.5 years in 1995 to nearly 41 in 2005. A majority of the population, 69 percent, lives in urban areas, and Sofia and its suburbs are home to the largest number.

Prior to 1989, the government encouraged population growth by providing maternity benefits, free health care, affordable pre-school day care, and reasonably adequate pensions. Emigration was negligible due to government restrictions on travel. Since then, however, deteriorating living standards, the opening of the economy, and freedom to travel have generated emigration, mostly of young people, to Western Europe and North America, and of ethnic Turks to their neighboring homeland. Many of the latter, however, return or maintain households in both countries.

OVERVIEW OF ECONOMY

Until 1944, Bulgaria was a predominantly agricultural country. Under the **socialist** regime introduced after World War II, industry and **infrastructure** were **nationalized** and

operated in line with central government economic planning. Most farming was collectivized (organized into government-run units), and the development of heavy industry was made a priority. From the 1970s until 1989, Bulgaria enjoyed one of the most prosperous economies in Eastern Europe, with good health, education, and living standards. Considered by many to be the "Red Silicon Valley" (denoting its role as the **communist** equivalent of the U.S. technology breeding ground), it became the sixth nation to fly in space.

The socialist economy, however, was dependent on the imports of subsidized Soviet fuels (some **re-exported** to obtain **hard currency**) and the extensive but straightforward Soviet (and other socialist) markets for most exports of machinery, computers and peripherals, clothing, tobacco, beverages, and food. With the disintegration of the Soviet Union in 1989, the Yugoslav wars of the 1990s, economic **sanctions**, and the Persian Gulf crisis of 1990–91, Bulgaria lost many of its markets, its cheap energy sources, and hard currency revenues. As a result, living standards declined significantly in the 1990s. Bulgaria has become a poor European country and, like most its neighbors and near-neighbors, except Poland and Slovenia, it is a long way from improving on its 1989 real level of output. The Yugoslav wars interrupted both road and river (the Danube) trade routes to Western Europe and hurt the economy, but the Stability Pact, a regional initiative for economic development, democratization, and security devised in the late 1990s and backed by the United States and the EU, should facilitate future recovery.

Despite these many problems, Bulgaria earned a reputation for economic and political stability during the 1990s. The government followed a slow but sure path towards a market economy and expanded its commercial ties with Western Europe and the United States. The

European Union (EU) currently accounts for 52 percent of its exports and nearly half of its imports, and the United States is among the top foreign investors. Bulgaria aspires to join the North Atlantic Treaty Organization (NATO) in the first decade of the 21st century and is on course to join the EU.

In 1997, the government imposed tight **monetary policies** and strict financial discipline, stabilizing the banking system and cutting government spending. Triple-digit **inflation** gave way to moderate price increases, but growth and foreign investment have remained low. Ongoing market reforms include **privatization** or liquidation of state-owned enterprises and **liberalization** of agriculture and the creation of a land market. Privatization is seen as the only efficient way to **restructure** the economy, create jobs, and introduce new technology. It is also crucial for attracting foreign investment, stopping the slide in output, increasing exports, and generating cash for current needs. But the government has been criticized for relying heavily on controversial management-employee buyouts for smaller enterprises. New social policy measures include reforming social insurance and addressing the issues of crime and corruption.

The **external debt**—estimated at over $10.4 billion in 2000 and accumulated as a result of foreign **trade deficits** throughout the 1980s—is considered high but not unduly so. Although the **balance of payments** situation had stabilized by 2000, the debt has caused a negative long-term impact on economic growth and living standards. Another problem arises from the depreciation of the euro (the common currency of the EU), since most revenue is measured in euros while the debt is calculated mostly in dollars. There are attempts to encourage debt-for-**equity** swaps (transforming bank debt into **foreign direct investment**) which, along with the expected growth over the next few years, might alleviate the debt burden.

POLITICS, GOVERNMENT, AND TAXATION

In 1990, communist rule in Bulgaria gave way to a multiparty parliamentary democracy, with executive power vested in the Council of Ministers. Although political life has been active, Bulgaria has sound policies regarding minorities and is regarded as an oasis of stability in the tinderbox of the Balkans. In the 1997 parliamentary elections, the United Democratic Forces, an alliance of the reformist Union of Democratic Forces (SDS) and the People's Union, won 137 of 240 National Assembly seats. The Bulgarian Socialist Party (BSP), reformed communists, was reduced to 58 seats, which reflected the BSP responsibility for the 1996–97 financial meltdown, from which the SDS was perceived as a deliverer. The remaining seats were shared between the Movement for Rights and Freedoms (MRF); a centrist, predominantly ethnic Turkish party; the Euroleft; and the Business Block. The Bulgarian Agrarian People's Union and the Democratic Party form the People's Union coalition. The local elections in 1999 gave the BSP control over most local governments and signaled decreasing SDS popularity due to persistent economic hardship and corruption charges. All major parties currently support market reforms and membership in the EU and NATO. During the 1999 Kosovo crisis, the government cooperated fully with NATO.

The government aims to privatize all state-owned firms except for utilities, strategic railroads, natural gas, postal services, education and sciences, environmental protection, geology, and cartography. The law requires that the state retain at least a 51 percent interest in merchant shipping and passenger fleets, major ports and airports, transport, and highway construction companies. By June 1999, about 40 percent of state enterprises had been privatized, while the **public sector** accounted for 36 percent of the GDP. The **private sector** contributed 25–30 percent of the GDP in 1995; 35–40 percent in 1996; approximately 65 percent in 1997 and 1998, and 64 percent in 1999, and is expected to increase further.

Privatization processes were particularly dynamic in 1999 and 2000, with priority given to tourism, food processing, agriculture, heavy industry, engineering, textiles, and construction materials. The privatization program is being carried out through capital market offerings, mass privatization, and cash deals. The offerings on the capital market (through corporate stocks and bonds sales) are insignificant, and the local stock exchange is still in its infancy. In the mass privatization program, all citizens and company employees were made eligible to receive free vouchers for company (or privatization fund) shares. More significant for foreign investors is cash privatization, which allows investors to buy smaller enterprises from central government ministries, larger ones from the privatization agency, or municipal assets from local government. The privatization agency hires foreign consultancy firms to assess the value of important enterprises and to advise on marketing, but the process has often been described as slow and challenging. Potential investors have been frustrated by the difficulties of investing, and others are unhappy with inflexible procedures. Complex criteria for determining which buyers are eligible to invest has caused concern about corruption.

Taxes are a major source of government revenue. Personal **income tax** rates are progressive, from 20 percent to 40 percent. The profit tax rate is 20 percent for large firms and 15 percent for small firms. **Value-added tax** (VAT) is levied at a rate of 20 percent. All firms pay 10 percent on profits in municipal tax. Investors in high

unemployment areas get a 10 percent reduction on government profit tax. The tax system is still perceived by many as unfriendly to business, and tax cuts are being debated within the government.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Bulgaria's transportation infrastructure includes railroads, with 3,979 kilometers (2,472 miles) of track in use, and about 36,724 kilometers (22,819 miles) of paved roads, although some of these are unsatisfactory. There are only about 250 kilometers (160 miles) of 4-lane highway. Back in the 1980s, Somat, the state trucking company, was among the largest in Europe. However, political troubles involving Serbia made the road route to Western Europe across Serbian territory problematic. The result was greater traffic via Romania across the only existing bridge with a ferry crossing on the Danube. Bulgaria recognized the need for a second bridge, but mixed signals from Romania have held up the project. However, the reopening of traffic through Yugoslavia following the ousting of Yugoslav leader Slobodan Milosevic in 2000 may rule out bridge construction.

Bulgaria has many highway projects under construction, notably portions of the Trans-European motorway connecting Budapest, Hungary, with Athens, Greece, via Sofia, and with Istanbul, Turkey, via eastern Bulgaria. International investors and the state budget are the main sources for financing road network improvements. Completion and modernization of portions of the Trakia, Cherno More, and Hemus expressways are being given out to contractors, and there are plans for a north-south tunnel under Mount Shipka.

The Danube River is an important artery, and much of the freight traffic uses the Black Sea. There is a sizeable merchant marine fleet operated by the Navibulgar shipping company. Two major seaports and east-west transport corridor gateways, in Varna and Burgas, are planned for rehabilitation. Balkan, the national airline, serves major cities and international destinations, although it has suffered after its recent sale to the Israeli Zeevi group in a questionable privatization deal. Smaller airlines also operate, and 3 major international airports, in Sofia, Varna, and Burgas, are currently undergoing modernization. There are 129 airports with paved runways.

Bulgaria's energy sector is state-owned and derives most of its output from thermal plants burning fossil fuels, mostly coal and natural gas (52 percent), nuclear plants (41 percent), and hydroelectric facilities (7 percent). Newer units of the Kozloduy nuclear plant will be upgraded under a contract between the National Electric Company and the U.S. company, Westinghouse. Bulgaria exports energy, primarily to Turkey and Yugoslavia. The country produced 38.423 billion kilowatt hours (kWh) of energy in 1998, a slight decrease from the previous year, and electricity consumption stood at 35.493 billion kWh. Studies to determine the feasibility of oil pipelines carrying oil from the Caspian Sea through Bulgaria to the Greek Aegean Sea coast or the Albanian Adriatic Sea coast could bring future opportunities for expansion. There are extensive networks of pipelines carrying natural gas throughout the country.

Bulgaria has the highest penetration of telephone service in Eastern Europe, at 38.47 percent. The network is operated by the state-owned Bulgarian Telecommunications Company (BTC). In 1998, it replaced antiquated facilities with up-to-date equipment and connected major cities with digital exchanges, satellite ground stations, fiber-optic lines, and digital microwave networks in a $300 million project funded by international investors. Residential telephone development will reach EU standards by 2008. There is analog cellular telephone network operated by the Mobifon company, created as a **joint venture** between Cable & Wireless (49 percent), BTC (39 percent), and the Bulgarian company Radio Electronic Systems (12 percent). The Bulgarian company, Mobiltel, operates a digital cellular telephone net-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Bulgaria	257	543	398	28.8	15	N/A	N/A	11.89	235
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Romania	300	319	233	119.2	29	N/A	10.2	9.01	600

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

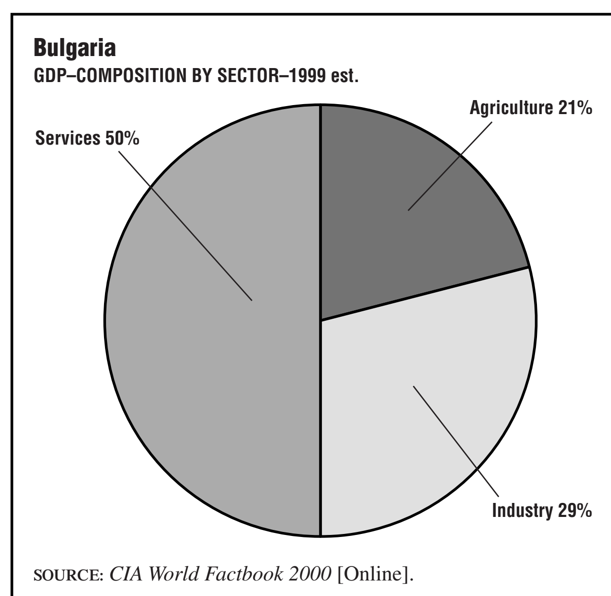
work, and the country has many small, unregulated, Internet service providers. Privatization of 51 percent of the BTC, worth more than $500 million, will be the largest privatization deal in Bulgaria, and was being prepared in 2001, while the Greek telecommunications company, OTE, was granted a license for a second national digital cellular phone network.

ECONOMIC SECTORS

Since the late 1980s, manufacturing, mining, transport, construction, and agriculture have been declining in Bulgaria, while the service sector has been growing, particularly in **retail** business and finance. Energy, communications, and tourism have also become high-profile if turbulent industries. The *World Factbook* estimated that by 2000 agriculture accounted for 15 percent of **gross domestic product** (GDP), industry 29 percent, and services 56 percent. Estimates for the division of the **labor force** were from 1998, when 26 percent of the labor force was employed by the agriculture sector, 31 percent by the industry sector, and 43 percent by the services sector.

Much of Bulgaria's earlier economic strength lay in heavy industry powered, until the early 1990s, by subsidized energy from the Soviet Union. With the collapse of centrally planned Eastern European economies, manufacturing suffered a downturn. Major state-owned chemical, oil-refining, and metallurgical plants were targeted for privatization and examined to determine whether they could compete effectively in international markets. The largest privatization deal in heavy industry was the sale of the Sodi Devnia chemical plant to the Belgian company, Solvey, in 1999 for $160 million. Many other major assets, including oil refineries and chemical, metallurgical, and cement plants were privatized, while some were reduced to a shambles.

Food processing, textiles and apparel, and other **consumer goods** manufacturers have performed comparatively better, often attracting investment from renowned companies such as Kraft Jacobs Suchard or Danone. Future growth looks probable in light industry, led by electronics, textiles, and food processing. A small percentage of new private companies are involved in manufacturing. Private sector growth is greatest in the construction and food industries, maintenance and repair of electronic tools and equipment, household appliances, and automobiles.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Bulgaria is renowned for sheep's milk cheese, oriental tobacco, wine, rose attar (used in perfumery), vegetables, fruit, medicinal herbs, and, particularly, natural yogurt. The temperate climate, abundant arable land, and soil conditions support the farming of both livestock and crops (grains, oil seeds, sugar beets, vegetables, grapes, fruit), but the country was affected by drought in the late 1990s and into 2000. Tobacco is among the most important of Bulgaria's crops, contributing nearly 20 percent to the value of agricultural goods. The principal timber areas are in the Rila, Rhodope, and Balkan Mountains. The fishing industry, which in the 1980s operated a large ocean fleet, is currently depressed. All told, the agricultural sector was estimated to account for 21 percent of the GDP in 1999 and to employ 26 percent of the workforce. Although estimations for the labor force were not available, the percentage of the GDP the sector contributed dropped slightly by 2000 to 15 percent.

Although historically a surplus food producer, Bulgarian agriculture was facing a downturn at the turn of the century. Cropland, livestock population, and yields were declining (limited use of fertilizers, however, has led to cleaner rivers and sea water). Animal feed is imported and its shortage has led to distress slaughtering, the killing of livestock in the face of a shortage of feed. The price of agricultural goods is not rising in line with inflation. Imported subsidized vegetables, fruit, dairy products, and meat from the EU adversely affect local producers. Restitution of collective farmland to private owners has been complicated and considerable collective farm assets were lost in the process. New private holdings are too small and can only be serviced with technical equipment or irrigated if their owners band together, but such efforts are proving slow to develop.

Price liberalization should encourage more output, especially as income gradually rises. Agriculture has the potential to make Bulgaria again basically self-sufficient in grains, and prospects are excellent for further increases

in hard currency earnings from wine and dairy products, particularly cheese.

INDUSTRY

Before 1989, heavy industry dominated the Bulgarian economy. Metallurgy was largely dependent on iron ore imports, while locally mined copper, zinc, and lead ores were smelted in Bulgaria. The chemical industry produced fuels, plastics, rubbers, soda ash, and fertilizers. Engineering was well developed, especially in the production of electrical equipment, electric and motor trucks, heavy machinery, machine tools, electronics, and shipbuilding. Since the transition to a market economy, with a few exceptions that have attracted major foreign investment or serve sizeable international demand, the remaining heavy industry companies have struggled under management-employee privatization schemes. By 1999 industry contributed 29 percent to the GDP and employed 31 percent of the workforce. More recent labor force estimations were not available, but the percentage of GDP the sector contributed by 2000 remained the same.

Computer and software industries grew spectacularly in the 1980s, but, since then, many hi-tech players have been severely hit. DZU, a modern data storage equipment manufacturer in 1989, later leased out its production facilities to dubious firms that made Bulgaria the world's second largest producer of pirated compact discs (CDs). A government crackdown then all but ruined DZU, whose chances of survival currently lie with Hungary's Videoton, which acquired it for a nominal price. At best, it will function as a cheap assembly plant, but other companies will not even be this lucky. Bulgaria lost more than 50,000 computer programmers and engineers to developed countries over the 1990s, and this drain on a skilled workforce showed no sign of slowing down.

Textiles, the oldest industry in Bulgaria, together with apparel, leather goods, and footwear manufacturers, use largely domestic raw materials. The manufacture of building materials—cement, bricks, and glass—is well established. Pharmaceuticals and beauty products, food processing, including wine and other beverages, and tobacco processing, were once major revenue sources and show prospects for future growth.

Industries whose market prospects show promise in the 21st century include the manufacture of electrical equipment; telecommunications equipment and services; computers, software, and information technology; medical equipment; automotive parts and service equipment; agricultural equipment; building materials; chemicals; and, to some extent, metallurgy. All these enterprises, however, require massive restructuring and investment for their revitalization.

SERVICES

The service sector, generating approximately half of Bulgaria's GDP in 1999 and employing 43 percent of the workforce, continues to experience the highest growth of any sector. Most private sector activity involves some form of trade or retail, and financial services such as insurance and lending, health-care services, and tourism are well regarded by private companies.

FINANCIAL SERVICES. With the breakup of the rigid socialist banking system, the 1990s witnessed expansion of the banking and financial services sector. In 1996, however, many state-owned and some private banks collapsed under the burden of bad debts accumulated by state factories that had become obsolete and by the now infamous "credit millionaires." In 1997, the government focused on achieving stabilization and financial discipline, forcing the banks to avoid new lending and to maintain very high **liquidity** rates (a measure of how much cash is kept on hand). Bulgaria's low inflation is accompanied by low interest rates, but the level of lending is a third of that in most central European countries and is a major barrier to investment. The economy is heavily reliant on cash payments, which is detrimental to efficiency and conducive to corruption and tax evasion. Savings have been declining since 1999 due to generally low income levels.

The government is privatizing remaining state banks, and there were plans to sell in 2001 the largest, Bulbank, to a consortium made up of UniCredito (Italy) and Allianz (Germany), and the Bulgarian State Savings Bank. The large Post Bank was sold in 1998 to a consortium of Greek banks and AIG (U.S.), which also bought a stake in the United Bulgarian Bank in 1999. Most hard-won loans are now going to private companies. Consumer credit is developing, although slowly, with banks actively encouraging car and home loans to the tune of $400 million. Credit card companies have also started operations in this formerly virgin market.

TOURISM. Tourism plays a significant but not crucial role in the economy. While its competitors, Spain, Greece, and Turkey, have the advantage of aggressive and expensive marketing campaigns and decades of exposure to the market, Bulgaria has been unable to capitalize on its popular image as a land with a rich folklore tradition. The country offers extensive beach resorts along the Black Sea coast, several alpine skiing resorts in the Vitosha, Rila, Pirin, and Rhodope Mountains, and natural mineral water health spas. Nevertheless, the number of Western tourists fell by a third between 1994 and 1996, and the total revenue from the tourist industry in 1996 was $669 million. Attracted by low prices, cultural similarities, the lack of visa formalities, and a Russian-friendly population, former Soviet nationals spent 130 percent more overnight stays in Bulgaria in 1996 than in

1985, and 63 percent more than in 1993. Former East Germans are also frequent visitors. In 1996, overnight stays by Russians and Germans were around 2 million each, but the number of British and Scandinavian visitors is low. Poles, Czechs, Slovaks and Hungarians, among the top tourists to Bulgaria in the 1980s, now prefer other destinations. Foreign-acquired tourist hotels on the coast are mainly Russian-owned, while others have been leased to tour operators such as Germany's Neckermann who carry out renovation. However, it is 5-star business hotels that most attract foreign investors.

RETAIL. Growing quickly during the 1990s, the retail sector was energized by the privatization of state and municipality-owned stores, the emergence of many small private firms, and the import of cheap foreign consumer goods. Major foreign retailers, such as the German Metro, the Turkish Koc Holding, and others from Austria and France, began developing a network of large hypermarkets. The choice of goods has widened impressively, but low-income Bulgarians are generally reluctant or unable to pay more for better-looking products, often leaving consumers reliant on traditional domestic suppliers. The lower price of subsidized agricultural goods from the EU make them popular with buyers but detrimental to local producers. Direct and network marketing, which became popular in Eastern Europe after Oriflame (Sweden) made a success of it, is taking root, but only gradually, due to low levels of **disposable income**.

INTERNATIONAL TRADE

As a consequence of the **foreign debt** incurred in the late 1980s, Bulgaria suffered from declining markets and negative trade balances during the early 1990s. Although dependent on imports as heavily as ever, Bulgaria showed improvement after 1994 as the lev weakened, making exports more affordable in foreign markets; trade with former Soviet republics was revived, and trade with the EU increased. However, after 1997, the Yugoslav **embargo**, together with the government's restrictive policies aimed at financial stabilization, brought a downturn in the balance of trade. In 1998, exports of goods stood at $4.293 billion and imports at $4.609 billion, generating a current account deficit of $316 million. This trade deficit mushroomed to $1.5 billion in 1999, when Bulgaria imported $5.3 billion in goods while exporting just $3.8 billion.

Trade (expressed in billions of US$): Bulgaria

	Exports	Imports
1975	N/A	5.949
1980	N/A	N/A
1985	13.339	13.657
1990	4.822	4.710
1995	5.354	5.657
1998	4.300	4.979

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

An accumulating trade deficit would badly affect Bulgaria's ability to meet its financial obligations in the future, but June 2000 was the tenth month in succession to see an increase in exports. Exports for that month reached $393.6 million, an increase of 21.8 percent over 1999, attributed to the recovery of EU economies in general and the rise in the international price of Bulgarian exports. Exports to the United Kingdom (UK) rose by 40 percent, due to the strong pound against the weak euro, which is linked to the lev. Export to other Organization for Economic Cooperation and Development (OECD) countries rose by almost 45 percent, with most going to Turkey. Exports to Balkan countries, mainly Serbia and Macedonia, boomed after the Kosovo war in 1999, but those to other member countries of the Central European Free Trade Agreement (CEFTA) rose by less than 6 percent and those to the former Soviet Union fell by 17 percent, with exports to Russia falling by one-third.

Imports increased by 23 percent over the previous year, to $511.2 million in June 2000. Over 50 percent of the rise was due to higher oil prices. Imports of industrial raw materials rose by more than 8 percent and imports associated with the recovering metallurgical sector grew, while those required by the food sector fell. Investment also rose in 2000, but the greatest growth, 56 percent, was in energy, mainly imported from Russia. The EU is now the main supplier of consumer and investment goods to Bulgaria. Imports from Balkan countries expanded impressively a year after the Kosovo war.

A fairly active trade-show calendar attracts firms from many countries. Major export commodities included textiles, clothing and footwear; base metals and metal products; minerals and fuels; food, beverages, and tobacco; machinery and equipment; chemicals and plastics; furniture and household appliances. Italy accounted for 14 percent of exports in 1998. Germany (10 percent), Greece (9 percent), Turkey (8 percent), and Russia (5 percent) were other major partners. Together, EU countries accounted for 52 percent of exports.

Major import commodities included fuels, minerals, and raw materials; metals and ores; textiles and apparel; machinery and equipment; automobiles; chemicals and plastics; and food. Major import partners were Russia, accounting for more than 20 percent of all imports in 1998, Germany (15 percent), Italy (9 percent), Greece (6 percent), France (5 percent), and the United States (4 percent). Together, EU countries accounted for more than 48 percent of imports.

MONEY

The Bulgarian National Bank (BNB) is the **bank of issue**. It controls government funds and state-owned enterprises. All banks were nationalized in 1947, but since 1990, private banks have been established and international banks allowed to enter the market. The banking sector has been consolidated, and complete privatization of the remaining state-owned commercial banks was expected by 2001.

The Bulgarian currency plunged dramatically in late 1996 and early 1997, reaching a low of approximately 3,000 leva per US$1. Many banks that had extended loans to failing concerns, both state-owned and private, were forced into insolvency. By early 1997, most banking institutions were bankrupt or had closed doors to depositors. The new government that took office in May of 1997 committed itself to stringent financial and structural policies for dealing with this drastic situation and received the encouragement of backing from international financial institutions.

Since July 1997, as required by the International Monetary Fund (IMF), the Bulgarian government has been operating under the control of a **currency board**. This body rules that the BNB must hold hard currency reserves in leva to cover circulation and banking reserves. Further, the currency board dictates that the BNB cannot refinance commercial banks except in an emergency and restricts the government's freedom to take on new financial liabilities or provide sovereign guarantees. The lev was tied to the German mark and later to the euro at a fixed rate, and in 1999 the currency was redenominated (new bills and coins were issued and the **exchange rate** was fixed at 1 lev to 1 German mark).

Under IMF conditions for strict financial discipline, the government was pledged to close loss-making enterprises and speed privatization, bank reform, and restructuring. It issued an isolation list of loss-making state enterprises, that is, companies denied access to commercial credit unless they privatize. These accounted for half of the public sector, but by 1999 the government succeeded in privatizing, or beginning liquidation of, all such companies. In the early 1990s, there were 30–40 virtually unregulated stock markets in Bulgaria, most of whose listed firms turned out to be dealing in **pyramid schemes**. A national stock exchange opened in October 1997, but daily **turnover** has seldom been more than $200,000, and rarely exceeded $1 million, even in 1998.

Exchange rates: Bulgaria

leva (Lv) per US$1	
Jan 2001	2.0848
2000	2.1233
1999	1.8364
1998	1,760.36
1997	1,681.88
1996	177.89

Note: On July 5, 1999, the lev was redenominated; the post-July 5, 1999 lev is equal to 1,000 of the pre-July 5, 1999 lev.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Before 1989, Bulgaria was arguably a land of economic equality. Almost no private initiative was allowed, but the vast majority of the population was employed by the state, and large government funds were allocated to free health care, free higher education, maternity and disability benefits, and pensions. Most Bulgarians owned their houses, and many had small country "villas" and motor cars. Traditionally, even the poorest Bulgarians, the ethnic Roma, held jobs, received social security payments, and enjoyed a decent standard of living, particularly in rural areas. The only exceptions to this modest yet guaranteed standard of living were the **nomenklatura** and the **informal economy** players, whose privileges inflamed discontent among the population.

The market reforms of the 1990s created both new poverty and new wealth. Unemployment, hitherto almost unknown, skyrocketed, inflation all but wiped out most social benefits, and the cooperative farms that were the livelihood of many formerly landless villagers were disbanded. Many entrepreneurs, corrupt politicians and officials, and mobsters amassed spectacular fortunes, which most people resented. Restitution of urban real estate, and particularly of farmland and woodland, was controversial and failed to generate much wealth. Mass privatization also failed in this respect.

For all its problems, Bulgaria was in 1995 still more egalitarian than neighboring Greece or the wealthy United States. The poorest 20 percent were responsible for 8.5 percent of the nation's consumption (compared to 7.5 percent in Greece and 5.2 percent in the United

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Bulgaria	N/A	1,329	1,553	1,716	1,372
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Romania	1,201	1,643	1,872	1,576	1,310

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Bulgaria

Lowest 10%	3.4
Lowest 20%	8.5
Second 20%	13.8
Third 20%	17.9
Fourth 20%	22.7
Highest 20%	37.0
Highest 10%	22.5

Survey year: 1995

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

States), while the wealthiest 20 percent consumed 37 percent (40.3 percent in Greece, 46.4 percent in the United States). Bulgaria's **Gini index**—which rates a country's level of equality with 1 representing perfect equality and 100 representing perfect inequality—was 28.3 in 1995, while Greece's was 32.7, and the United States' was 40.8. Polarization increased between 1995 and 2000, but it is believed that economic growth over the next decade and the accession to the EU will gradually increase living standards for all Bulgarians.

By 2001 most of the population was enduring hardship. The growth of wages and pensions lagged behind the index of consumer prices and unemployment is officially estimated at 15 percent, although it is believed to be much higher. The prospects for many small businesses seem bleak, due to the unavailability of loans, weak demand, crime, and corruption. Agriculture is struggling to provide a sustainable livelihood for small farmers. While many professionals and business owners make a good living, thousands of Bulgarians can afford only the bare necessities. Numerous chronically ill people suffer from an inadequate supply of life-supporting medicines, and many children, particularly those of Roma families, are unable to attend school because of the growing cost of textbooks and clothing. Many people who live in small towns and villages with high unemployment rates, as well as single parents, **pensioners**, persons in state social homes, disabled people, and others face considerable personal distress.

According to the United Nations Development Programme (UNDP), Bulgaria is currently behind Hungary and Poland, but ahead of neighboring Turkey and Romania, in terms of its human development index. In 1998, Bulgaria still had a smaller population per physician and per hospital bed than the EU average, but health-care spending per head was much lower. Food constituted 33.1 percent of household spending (but was believed to be rising), while the EU average was 14.1 percent. Cars in use per 1,000 population were 219.9 for Bulgaria and 399.7 for the EU. Houses with piped water constituted 83.4 percent of households in Bulgaria and 99 percent in the EU, and houses with flush toilets were 57.7 percent in Bulgaria against 96.3 percent in the EU.

WORKING CONDITIONS

Bulgaria is a party to all relevant major universal as well as regional legal instruments, such as the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of Discrimination Against Women, and the Convention on the Rights of the Child. It is also a signatory to treaties on the right to equal compensation and collective bargaining and against employment discrimination. Market reforms, though, made Bulgarians aware of unemployment and job insecurity problems. Before 1989, the economy was plagued by the sustained labor deficit for blue-collar workers, but labor disputes were virtually non-existent since the Communist Party supervised trade unions. Nevertheless, over the decades after World War II, working conditions improved in both urban and rural areas with the introduction of new technology and progressive legislation and the development of health-care and social-security systems. At the same time, safety at work and environmental protection, particularly in the mining, energy, and chemical industries, were often inadequate.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Bulgaria	30	6	17	8	11	5	23
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Romania	36	7	9	3	20	9	16

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Bulgaria did not develop independent labor unions as such before democratic reforms took root. The only exception was the Podkrepa Labor Confederacy, now one of the major national unions. Along with the Confederacy of Independent Syndicates of Bulgaria and other groups, the Podkrepa participates in collective bargaining, and the unions' role is growing as many Bulgarians face unemployment and deteriorating working conditions. Conditions are notably bad in clothing sweatshops set up by foreign investors in rural areas severely afflicted by unemployment. Women have traditionally participated on an equal footing in the economy but are now suffering heavily from unemployment, job-related stress, and unsafe labor conditions. Over the 1990s, hundreds of thousands of educated young Bulgarians left the country, and it is expected that the forthcoming waiver of visa requirements for most EU countries will encourage others to seek short-term employment. EU membership is likely to intensify the mobility of workers between countries until a balance is reached.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

550 A.D. Slavs settle into present-day Bulgarian (then Byzantine) lands, comprising the ancient Roman provinces of Moesia, Thrace, and Macedonia.

681. Khan Asparuh founds the first Bulgarian state as a union between Slavs and newcomer Bulgars, militant people from the steppes of the northern Caucasus. They are to be assimilated by the Slavs but leave their name and statehood tradition to the nation.

863. Bulgaria converts to Christianity under Prince Boris I and embraces Byzantine civilization as a feudal agrarian economy takes root.

893. The Cyrillic alphabet and Old Bulgarian (Slavonic) are adopted as the official language (instead of Greek).

893–927. The territory expands under Prince (later Tsar) Simeon. A rich medieval culture spreads its influence to other Slavs in Serbia, Walachia, Kievan Rus, and later Muscovy.

927. Bulgarian rulers recognize the title of tsar (emperor); Bulgarian Orthodox Church is elevated to patriarchy.

1018. The First Bulgarian Empire is violently subdued by Byzantium.

1185. The brothers, Asen and Peter, take over an uprising to liberate the Bulgarian lands and restore the state known as the Second Bulgarian Empire.

1230. There is territorial and commercial expansion under Tsar Ivan Asen II. Bulgaria becomes a major grain supplier to Byzantium, actively trading with Venice, Genoa, and Ragusa (Dubrovnik).

1371. Commercial and cultural development accompanies political crisis under Tsar Ivan Alexander. Bulgaria is divided into several lesser kingdoms and principalities.

1396. Bulgaria is violently conquered by the rising Ottoman Empire and remains under its rule for nearly 500 years.

1762–1876. A national revival develops new Bulgarian culture and pride. Agriculture and home industries thrive, benefitting from large Ottoman markets. Merchants and industrialists emerge and benefit the economy. The national liberation movement gains momentum.

1871. An independent Bulgarian church is restored.

1876. There are mass uprisings against Ottoman rule.

1878. Bulgaria is liberated from Ottoman rule as an outcome of the 1877–78 Russo-Turkish war.

1879. The first Bulgarian constitution establishes a democracy, modeled after the Belgian constitution.

1885. North and South Bulgaria unite after being separated since 1878 by the European powers. A sizable ethnic Bulgarian population remains under the Ottoman Empire.

1887–12. Democratic statehood develops as well as a market economy that remains largely agrarian and a national culture.

1903. There are mass uprisings of Bulgarians in the Ottoman lands (Macedonia and Adrianople area).

1912–18. Bulgaria participates in the Balkan Wars and World War I, which is aimed at liberating ethnic Bulgarians outside Bulgaria's borders. The war ends in defeat and brings an influx of refugees.

1923–41. Political life is troubled by violence as democracy gives way to bitter partisanship and is finally supplanted by a pro-Nazi Germany regime. The economy grows with the influence of German investors.

1944–56. Communist rule takes over. Central economic planning is introduced, focusing on heavy industries, and farms are collectivized. Economic cooperation with the Socialist bloc develops.

1946. Bulgaria is proclaimed a people's republic.

1955. Bulgaria joins the United Nations.

1956–80. Bulgaria exhausts the extensive socialist growth model and reaches stagnation.

1985–89. Economic and political crisis occurs as *perestroika* unfolds in the Soviet Union. The Bulgarian regime desperately seeks methods of market reform,

while cracking down on dissenters and the Turkish minority.

1989. Communist leader Todor Zhivkov resigns as the transition to multiparty democracy and a market economy begins. Bulgaria shifts its loyalties to the EU and NATO.

1991. A new democratic constitution of the Republic of Bulgaria is adopted, and elections bring the reformist Union of Democratic Forces (UDF) to power.

1995. Bulgaria is admitted as an associate member of the EU and applies for full membership.

1997. IMF-sponsored program for financial stabilization is implemented by the second UDF government.

1998. Effective IMF membership is established.

1999. Negotiations for full membership of the EU get underway.

FUTURE TRENDS

Bulgaria's economic policy after 2000 will be determined by the success of its preparations for EU membership. The EU opinion on its progress is favorable, but negotiations will become more difficult as they move from administrative to economic issues, such as the restructuring of the energy sector and agriculture. Bulgaria's market economy and its competitiveness within the single European market still require significant further improvement. Public expenditure will focus on investment in roads, natural gas, electricity, agriculture, and the environment. The government claims investment of some $9 billion is enough to fuel growth over the next years, but, all too optimistically, it relies on the private sector to provide most of the funds.

With Bulgarian privatization completed by the end of 2001, the IMF envisages strong annual growth of 4 percent to 5 percent over the next several years and single-digit inflation. However, slow and allegedly corrupt privatization processes are a potential obstacle to economic transformation, and corruption charges combined with insufficient growth, unemployment, poverty, and deteriorating health care and education, could bring about a change of government in 2001. This outcome would not mean any long-term changes in policy.

The end of Slobodan Milosevic's government in Serbia could prove beneficial by decreasing the risk of war on Bulgaria's borders. The reopening of land routes and river traffic on the Danube will facilitate trade with the EU, Bulgaria's largest export market, whose growth will have a positive impact on the economy.

DEPENDENCIES

Bulgaria has no territories or colonies.

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—Valentin Hadjiyski

CROATIA

Republic of Croatia
Republika Hrvatska

CAPITAL: Zagreb.

MONETARY UNIT: Croatian Kuna (HrK). One kuna equals 100 lipas. There are coins of 1, 5, 10, 20, and 50 lipas and 1, 2 and 5 kuna. There are notes of 5, 10, 20, 50, 100, 200, 500, 1000, and 2000 kunas.

CHIEF EXPORTS: Textiles, chemicals, foodstuffs, fuels.

CHIEF IMPORTS: Machinery, transport and electrical equipment, chemicals, fuels and lubricants, foodstuffs.

GROSS DOMESTIC PRODUCT: US$24.9 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$4.3 billion (f.o.b., 1999). **Imports:** US$7.8 billion (c.i.f., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of Croatia is located in southeastern Europe, with a long coastline on the Adriatic Sea to the south, and borders with Slovenia and Hungary to the north, and Yugoslavia and Bosnia and Herzegovina to the east. It has an area of 56,538 square kilometers (21,829 square miles), approximately the size of West Virginia. The country's coastline stretches for 5,790 kilometers (3,598 miles), and consists of 1,778 kilometers (1,104 miles) of mainland coastline and 4,012 kilometers (2,493 miles) of island coastline. The capital, Zagreb, is located in the northwestern corner of the country. Other major cities include Osijek, Pula, Rijeka, Zadar, Split, and Dubrovnik.

POPULATION. Croatia's population has been gradually decreasing since its 1990 figure of 4,508,347 and, according to *CIA World Factbook* statistics, in July 2000 the figure stood at 4,282,216. However, the year 2000 saw a slight increase, with the birth rate, at 12.82 per 1,000, higher than the death rate (11.51 per 1,000). If this trend continues, a projected population growth rate of only 0.93 percent will not dramatically change the size of Croatia's population in the foreseeable future. By the year 2010 it is estimated to reach 4,697,548.

With 76.5 percent of its inhabitants Roman Catholics, Croatia is predominantly a Roman Catholic country. Although the majority of the population is Croatian, other ethnic groups include Serbs, Bosnian Muslims, Hungarians, Slovenians, and Czechs. Approximately 18 percent of the population is under 15, about 67 percent is aged between 15 and 64, and the remaining 18 percent is over the age of 65. According to 1997 figures, the majority of people (56.5 percent) reside in urban areas, showing a significant increase from the 1975 figure of 45.1 percent. By the year 2015, urban dwellers are expected to number 64.4 percent of the population. Although population density is only 83.5 people per square kilometer (216 per square mile), the population is not evenly dispersed. Almost a quarter of Croatians reside in the capital city of Zagreb and its suburbs, while many of the country's islands and rural areas are very sparsely populated by mostly elderly inhabitants.

Like several other European countries, Croatia is experiencing the problem of very slow population growth. The government recognizes the problem but has done very little to address it.

OVERVIEW OF ECONOMY

Prior to World War II, peasants comprised more than half of Croatia's population and the country's economy was based largely on agriculture and livestock. Croatia's northern region is rich in agricultural soil and has been exploited for those purposes since ancient times. The coastal regions are not as lush but have a perfect combination of climate and soil for growing grapes, olives, and citrus fruit. Industrialization took place after

World War II when Croatia became a part of the Socialist Federal Republic of Yugoslavia. During this time, the economy diversified, industry and trade grew rapidly, and tourism developed swiftly. Since Croatia and Slovenia were the most developed of the Yugoslavian republics, profits from their industries were used to develop poorer regions of the federation. This factor, together with hyper-**inflation** in the 1980s and austerity programs imposed by the federal government, led to both Croatia and Slovenia opting for independence from the Yugoslav federation at the beginning of the 1990s. Croatia's bid for independence was met with military force by the Yugoslavian government, unleashing a war that lasted from 1991 to 1995.

Prior to 1991, Croatia was part of a **socialist**-dominated country. Since then, it has been going through a transition from state-controlled economy to **free-market system**, but the conflict with Yugoslavia had a devastating effect on its economic **infrastructure**. During the war, parts of the country were destroyed or damaged. Many people became refugees, forced to rely on assistance from the state, while a large portion of the state budget was used for defense. The cost of material damage caused by the war was estimated at US$27 billion, more than the country's 2000 **gross domestic product** (GDP) of US$24.9 billion. The war also brought a substantial reduction in trade between Croatia and the former Yugoslav republics, and caused difficulties in com-

peting in European markets. Croatian tourism, a very important contributor to the country's GDP, suffered disastrously, as did trade and industry.

At the end of the war, Croatia began a slow process of economic rehabilitation. The structure of the Croatian economy is currently similar to that of a developed western economy, with services accounting for 71 percent of the GDP, industry for approximately 19 percent, and agriculture for 10 percent.

The country's major economic sectors are tourism and trade. Croatia has a beautiful coastline and many national parks, which attracted hundreds of thousands of annual visitors before the war. After the war ended in 1995, tourism revenues steadily increased, approaching the pre-war levels. In terms of trade, Croatia's major export industries include chemical products, textiles, shipbuilding, food processing, and pharmaceuticals. Agricultural production does not satisfy domestic needs, and food products comprise a significant part of the country's imports. Other imports include machinery and transport equipment, chemical products, and fuel.

The total **foreign debt** of Croatia stood at US$8.3 billion in 1998. Although the debt has been growing since 1991, the rate of increase has been much slower than the increase in government revenues. In 1991 the debt accounted for 12.3 percent of the government revenue, but by 1996 this figure had fallen to 8.4 percent. More than half the debt was to private creditors such as large banks and businesses, while the balance was in outstanding loans from the International Monetary Fund (IMF), the World Bank, and the European Bank for Reconstruction and Development.

European Union countries have contributed nearly US$1 billion to reconstruction efforts in Croatia since 1991. Some of the aid went to assist over 600,000 displaced people and 250,000 Bosnian refugees. The country received co-finance for most major projects from 3 sources: the World Bank, the European Bank for Reconstruction and Development, and Hermes Kreditversicherungs, known as Hermes. Hermes is a consortium of a private insurance company and a quasi-public company which provides credit insurance on behalf of the German government. Projects financed by these sources have included post-war reconstruction of infrastructure, support for the health sector, and improvements in the financial, enterprise, and agricultural sectors.

Foreign direct investment (FDI) has played a significant role in Croatia's banking sector and its pharmaceutical industry. According to CEEBICnet Market Research, current FDI in Croatia exceeds US$3.6 billion, most of it invested in mixed ownership enterprises, those owned jointly by foreign and local entities. Major investors have come from Germany, Austria, Italy, the United States, and the Netherlands.

Although the **private sector** has grown since Croatian independence, the country still has a fairly undeveloped enterprise sector consisting of small and medium-size operations. Between 1996 and 1999 employment in these businesses remained static due to a poor business environment, high taxation, and difficulties in obtaining appropriate financing for expansion.

POLITICS, GOVERNMENT, AND TAXATION

Croatia is a parliamentary democracy consisting of executive, legislative, and judicial branches. The executive branch consists of the president and the Council of Ministers. The president, who is the head of state and commander-in-chief of the armed forces, is elected by popular vote to a 5-year term of office and may serve a maximum of 2 terms. The president appoints the prime minister and the cabinet, as well as the Council of Ministers, whose members are proposed by the prime minister. The Croatian legislature is the parliament (Sabor), which consists of a Chamber of Deputies and a Chamber of Counties (Zupanije), all of whose members are elected to a 4-year terms. The first chamber has between 100 and 160 deputies and the second 68 members.

The judicial branch of the government consists of the Constitutional and Supreme courts. The Constitutional Court makes decisions on the constitutionality of laws and has the power to repeal a law and to impeach the president. It consists of 11 judges elected for 8-year terms by the Chamber of Deputies at the proposal of the Chamber of Counties. The Supreme Court holds open hearings and makes its judgements publicly. Its judges are appointed for life.

During its first 8 years of independence Croatia was ruled by the Croatian Democratic Party (HDZ) and its president, Dr. Franjo Tudjman, who remained head of state until his death in 1999. During this time the government was preoccupied with the war and was slow to **privatize** state-owned enterprises and attract foreign investment. The ruling HDZ party has occasionally, for political purposes, supported trade legislation that has benefited certain industries and economic sectors. After the elections in 2000, a coalition of 2 parties, the Social Democratic Party (SDP) and the Croatian Social Liberal Party (HSLS), came to power. The new government—led by President Stjepan Mesic and Prime Minister Ivica Racan—is dedicated to economic and social reform but, by the end of 2001, had not been in power long enough to show significant results.

As a former socialist country, Croatia is battling against the legacy of strong state control over the economy. This control had some positive results, such as a significant post-war reconstruction effort launched by the

government which, due to the lack of domestic capital, relied mainly on foreign borrowing. On the down side, however, it was very difficult for the private sector to expand or compete in a state-dominated economy; the government frequently exploited important positions in industry for political gain, which prohibited the private sector from entering the field.

Croatia generates government revenue through a wide range of taxation measures and is one of the most highly taxed countries in Central Europe. Heavy taxation has slowed the growth of the private sector and contributed to the rise of an **informal economy** whose interactions are not subject to taxation. Personal **income tax** paid on individual earnings ranges from 20 to 35 percent and **value-added tax** (VAT), paid on domestic sales and on most imports, is fixed at 22 percent. An import **duty**, levied on goods and services, is paid by the importer, while there are further taxes payable on property transactions, inheritance and gifts, tobacco and alcohol, and motor vehicles.

In 1993 the government launched a relatively successful economic program to stabilize prices and the **exchange rate**, which slowed inflation to approximately 3 percent by 1995. Since then, inflation has increased slowly by approximately 0.5 percent to 1 percent per year. At the same time, the government's continuing high rate of taxes and military expenditure to finance the war hindered the recovery process. During the first few years of the economic stabilization program, the currency remained stable, partly due to improvement in the economic climate, but largely because the central bank artificially maintained this stability.

The government established a Privatization Fund (CPF) to oversee transfer of state-owned enterprises to private hands. The privatization process used several methods, including the sale of company shares to employees at a discount, a system whereby vouchers are distributed for use in place of cash to bid for shares in companies undergoing privatization and to award compensation for property that had been taken away by the **communist** regime. These measures, however, were not very successful. They proved easy to abuse and led to many cases of corruption. Privatization of utilities and the country's main oil producer has been slow, as these are considered strategically valuable enterprises by many in the ruling party.

Croatia's ratio of **pensioners** (retired workers collecting government benefits) to workers is very high and puts a heavy burden on the economy. To ease this burden, the government, with help from the World Bank, introduced pension reforms. A 3-band pension system was approved but, by 2001, had not yet been implemented. This system will keep part of the monthly retirement contribution in government funds, while a portion will go into a privately managed fund.

The new government elected in 2000 managed to make a significant impact on speeding up privatization of the banking and telecommunications sectors, and in late November 2000, Croatia became the 139th member of the World Trade Organization.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Judged by Eastern European standards Croatia has a comparatively developed infrastructure. In 1998, the country had 23,497 kilometers (14,601 miles) of paved highways, but only 330 kilometers (205 miles) of these were 4-lane expressways. Since the country suffered significant war damage between 1991 and 1995, it received loans from the World Bank and the European Bank for Reconstruction and Development to improve roads, railroads, the electricity and water supply network, and air-traffic control. The government is strongly committed to these efforts, and many of these projects, including the building of 1,600 kilometers (994 miles) of 4-lane highway, are under way.

There are 8 main airports in Croatia (Zagreb, Split, Zadar, Dubrovnik, Osijek, Pula, Rijeka, and Brac) ser-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Croatia	115	336	272	N/A	41	11.2	111.6	25.94	200
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Yugoslavia	107	297	259	N/A	23	1.9	18.8	7.65	80
Slovenia	199	406	356	150.5	84	9.8	250.9	99.34	250

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

viced by major airline companies. Croatian seaports include Rijeka, Pula, Sibenik, Split, Ploce, and Dubrovnik, all of which are located on the Adriatic Sea. Transportation between these seaports and many islands is currently provided by only one company, Jadrolinija. The railway network extends for 2,699 kilometers (1,677 miles) but does not meet the country's needs. Plans to improve the railway system do exist, but carrying them out is not considered a priority.

Tourism is one of Croatia's main sources of revenue. Transportation facilities for tourists (a developed network of roads, railroads, and airports) plays an important role in making the tourist industry efficient. Since the majority of tourists arrive in Croatia by road, construction of highways has the highest priority. In addition, the country's odd "boomerang" shape requires excellent roads in order to link its northern, central and southern areas. If all these requirements are to be met, the country must provide a more modern and extensive highway and railroad system.

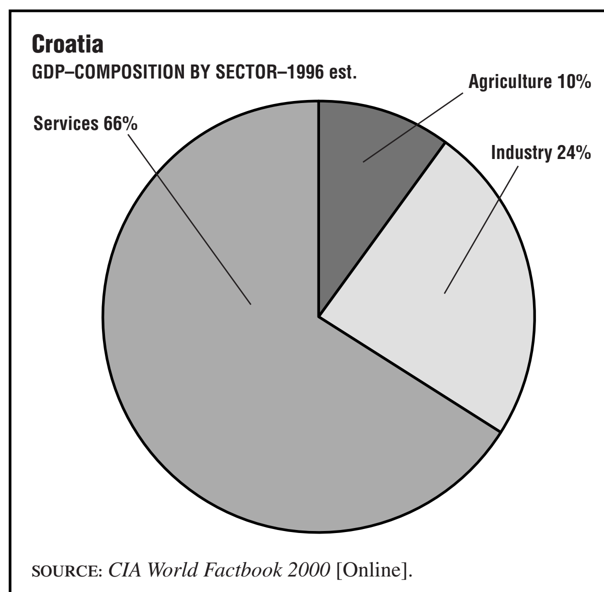
Croatia's demand for electricity is mostly satisfied by domestic production, while 10 to 20 percent is covered by imports. The country produces most of its electricity from fossil fuel and hydroelectric plants. A small portion comes from the nuclear plant Krsko, which Croatia shares with neighboring Slovenia.

Telecommunications services in Croatia are modern, although they lag behind those of Western Europe and the United States. Telephone service is provided by Croatian Telecom (HT), which has invested heavily in improving telecommunications. According to the *CIA World Factbook* there were 1.488 million telephone lines in use in 1997 and, although some domestic lines are still analog, they are being replaced by digital technology with a capacity of 2,200,000 telephone lines. The international telephone service is completely digital, and its main switch is located in Zagreb. A project is under way to install fiber-optic cables throughout the country and connect them with Slovenia. Currently there are 220,000 kilometers of fiber-optic cables connecting 4 main Croatian cities and 35 countries.

There are approximately 200,000 Internet users in the country, and, according to CEEBInet Market Research, Croatia had 5 Internet service providers in 2000. The 2000 World Development Indicators state that, in 1995, there were 272 television sets per 1000 people and 36 television broadcast stations.

ECONOMIC SECTORS

Being a small country, Croatia contributes relatively little to worldwide production in each of its 3 sectors. The country's economy is based on services, dominated by tourism and manufacturing, with international trade also an important contributor to the economy. The 5 years of war were mostly responsible for the country's poor economic performance, and post-war recovery has proceeded slowly. Other factors that limit economic growth are an inadequate legal structure and bureaucratic red tape, both of which restrict business activity; a slow privatization process; a poorly developed banking sector; and insufficient highway infrastructure. Some of these problems, such as privatization and highway construction, are being addressed, but it will take time for projects to be completed and for their effects to be felt.



SOURCE: *CIA World Factbook 2000* [Online].

Prior to the 1990s Croatia, and especially its beautiful Dalmatian coast, was a popular vacation spot for many Europeans, but with the eruption of war in 1991, tourism was decimated. Since the end of the conflict in 1995 the sector has seen a slow but steady recovery. Tourism was an important element in the services sector and contributed 71 percent to the GDP in 1999.

Agricultural production has been in decline since 1992, averaging about 60 percent of pre-war levels. Again, the war contributed heavily to the disruption of agriculture, but 1998 brought severe heat and drought, which caused disease and further hindered crop growth. By 1999 agriculture contributed just 10 percent to the GDP.

Industrial production declined sharply during the war years. Some of the worst fighting and destruction took place in areas where industry was located. During the war, this sector produced only a half of what it had in peacetime. Since 1996, industrial production has been experiencing growth, but certain industries tend to do better than others. The most successful are those, such as the food and beverage industry and manufacturing of

chemicals and chemical products, that underwent **restructuring** as a result of privatization. One of the most important companies headquartered in Croatia is the Croatian pharmaceutical giant, Pliva, whose shares are traded on the Zagreb and London stock exchanges. Major foreign companies who have a significant presence in the country are Swedish Ericsson (telecommunications), Austrian Hofmann & Pankl Bet (mineral processing), Swiss Soc. Suisse de Cim. Port. (cement production), Dutch Grassette Nederland (maritime services), Austrian Messer Griesheim (industrial gasses) and the U.S. Coca-Cola Export Corp. (beverages). All told, industry contributed 19 percent of the GDP in 1999.

AGRICULTURE

Agriculture, fishing, and forestry accounted for about 10 percent of the total GDP of Croatia in 1999, but they are nevertheless important to the overall economy. According to the Croatian Bureau of Statistics, these sectors combined to employ over 33,000 people and produce earnings of approximately US$1.4 billion per year. Croatia is fortunate not to have experienced the environmental damage from mass industrial development that characterizes its Eastern European counterparts. Environmental concerns do exist, but they do not have a heavy impact on agriculture, forestry, and fishing.

Croatia's geographical diversity led to different patterns of livelihood and culture. As a result, agriculture varies throughout the country's regions, influenced by regional climate. Agriculturally rich lowlands located in Croatia's northern part are dominated by the cultivation of wheat, corn and sunflower crops, while viticulture (the cultivation of grapes), fruit-growing, and olive-farming are popular in the coastal region, with pasture land common in the mountainous areas. Most agricultural land is privately owned, and the large cooperatives created during the communist era are being privatized and restructured. Croatian agricultural production is dominated by small farms. The *EIU Country Profile* for 2000 states that in 1991 almost 70 percent of farms were 3 hectares or less, with only 5.6 percent larger than 8 hectares.

The war had a devastating effect on Croatian agriculture, changing the country from an exporter of agricultural products to a net importer. After the war, government efforts to boost agricultural production created positive results, increasing production of wheat, improving agricultural machinery, and increasing the number of cattle. In 1999, combined earnings from agriculture, hunting, and forestry equaled US$1.39 billion. Aside from wheat, fruits, olives, and grapes, the agricultural sector also produces corn, sugar beets, seed, alfalfa, clover, livestock. and dairy products.

FORESTRY. The exploitation and management of forests in Croatia is carried out by a public company. Since one-third of the country is covered by forests, this industry is very important for the economy. In 1996 Croatia received a loan from the World Bank for replanting and protecting forests along the coast in order to stimulate tourism.

FISHING. Both war and over-fishing of the waters has had a negative impact on fishing, which is a traditional Croatian industry. The catch decreased from 40,000 metric tons in 1989 to just over 15,000 metric tons in 1995, and the sector's earnings decreased from US$32 million in 1996 to US$22 million in 1999. Current employment in the fishing industry stands at only 1,100.

INDUSTRY

MANUFACTURING. In the early 1990s total industrial output declined, partly due to the war but also because of the collapse in trade among Eastern European countries. During this time, Croatia lost a large share of its Yugoslav markets when the Yugoslav federation fell apart. After the war, industrial output began to recover, but major restructuring of industry and more investment is still necessary in order to increase efficiency. Due to a high unemployment rate of over 20 percent, the government is reluctant to worsen the situation by laying off industry workers.

Key industries in Croatia include textiles, chemicals, pharmaceuticals, and petrochemicals. The textile industry is especially well-developed and includes over 400 enterprises, the majority of which are engaged in co-operative activities with foreign manufacturers. In 1998, all of the key industries combined employed over 400,000 people and earned more than US$3 billion from exports. In the same year, the total export revenue across all sectors was approximately US$4.5 billion.

Two important heavy industries are ship building and metal products. Both were subsidized by the government during the war because of their strategic importance, but it remains unclear as to whether this **subsidy** continues. Growth of the construction sector has seen substantial expansion with the need for mass building and reconstruction caused by the war, and the government has been leading the building program and looking for international aid. The value of construction projects rose from almost US$1 billion in 1995 to over US$1.4 billion in 1997. During the same period, the number of employees in the sector rose from 23,600 to 29,500. This sector has drawn interest from international investors, such as the United Kingdom's RMC International Cement, which bought a majority stake in Croatia's largest cement producer, Dalmacijacement.

ELECTRICITY. Production in this sector has been increasing but is not able to keep up with the country's in-

creasing demand. Currently, between 10 and 20 percent of the demand is satisfied by imports, but plans by the Croatian Electricity Board (HEP) are under way to build additional plants and renovate existing ones. The electricity sector, together with oil, gas, and water supply, employs almost 26,000 people, accounting for 2 percent of the total **workforce**.

OIL AND GAS. This sector has experienced substantial difficulties, both because of the war and the slowness in privatizing Croatia's only energy company, INA. By 1995 the production of oil and natural gas fell to 73 percent of pre-war levels. In 1999, Croatia extracted over 1.2 million metric tons of oil and over 1.5 million cubic meters of natural gas, representing a decrease in production over previous years. The country's oil and gas reserves are located southeast of Zagreb, along the border with Hungary and along the Adriatic coast. As of December 1998, Croatia's oil and natural gas reserves were estimated at 15 million metric tons and 35 million cubic meters respectively. The country's demand for extra gas supply is satisfied by imports from Russia, but projects have begun with foreign investors to develop new gas fields. These are expected to produce enough to export gas to other countries in Eastern Europe.

SERVICES

TOURISM. Tourism is of major importance in a services sector that accounts for over 70 percent of the GDP. Croatia is not only rich in natural beauty and history but enjoys a very low crime rate and a reputation as a safe destination. These factors have made it a favorite vacation spot for many Europeans and Americans, but tourism was heavily affected by the war, and the revenue it currently generates has not yet regained pre-war levels. A year after the war started, this sector earned only half a billion U.S. dollars. As the stability returned to the region, earnings from tourism gradually increased, reaching US$3.5 billion in 2000. During the 1990s, the country not only suffered from war devastation, but little was done to develop and restructure the tourism sector. This work started in 2000 when privatization of hotels and businesses was speeded up and tourism expenditure increased.

The improvement in political stability towards the end of the 1990s brought an increase in the number of tourists visiting the country. In 1998, the Croatian Bureau of Statistics recorded over 31 million overnight stays, which was 3 times as much as the 1992 figure. This number, however, still does not compare to the pre-war years, such as 1989 when more than 61 million overnight stays were registered.

Currently, Croatia has a total capacity of 725,000 beds, almost 95 percent of which are located in the coastal region. It also has 43 marinas, 17 of which are open year-round, but many of these are in dire need of reconstruction and better management.

TRANSPORT. Croatia is situated along major routes linking South Central Europe with the world, and its transport services are of major importance to the country's well-being. During the war, one-third of the country was occupied by enemy forces, causing disruption to main traffic links between different areas and a substantial increase in transportation costs. Since the war, greater regional stability has improved the situation, and the construction of a highway that will connect the country's southern region with its northern areas and the rest of Europe will greatly contribute to expansion and further improvement of service. According to the Croatian Bureau of Statistics, transport, storage, and communication employed over 83,000 people in 1999 and earned more than US$1.6 billion in the same year.

INTERNATIONAL TRADE

International trade is a significant part of the country's economy, accounting for between 6 percent and 8 percent of the GDP in the last decade. In 1999, imports totaled US$7.8 billion, against exports of US$4.3 billion. The country experienced a sharp fall in trade during the war when commerce with the country's main trading partners, namely the republics of former Yugoslavia, substantially decreased. Since then, the country reoriented the trade sector towards Western and East Central Europe. As a result, in 1999 only a quarter of Croatia's exports went to the former Yugoslav republics and only 10 percent of imports came from these countries. Due to this new trend and extensive subcontracting in the textile and leather industries, Croatia's main trading partners currently are Germany, Italy, and Slovenia. Other trading partners include Bosnia and Herzegovina, Austria, France, and Russia. Even though trade has experienced growth, revenues from Croatian exports account for less than 2 percent of total European exports and import revenues for less than 3 percent of Europe's total. At the end of the war, the trade imbalance increased as the country's

Trade (expressed in millions of US$): Croatia

	Exports	Imports
1994	4260	5229
1995	4632	7509
1996	4511	7787
1997	4170	9104
1998	4541	8383
1999	4279	7777

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

imports substantially outstripped its exports. High labor and production costs, as well as high taxes, which make Croatian products more expensive than imports, have contributed to this trend.

The largest percentage of Croatia's exports went to the following countries in 1999: Italy (18 percent), Germany (15.7), Bosnia and Herzegovina (12.8 percent), Slovenia (10.6 percent), and Austria (6.2 percent). Some of these countries are also major sources of Croatia's imports, with Germany accounting for 18.5 percent, Italy 15.9 percent, Russia 8.6 percent, Slovenia 7.9 percent, and Austria 7.1 percent. Croatia's exports include chemical products, clothing, footwear, raw materials (wood, textiles, fertilizers), fuels (petroleum and gas), food products, beverages, and tobacco. Imports include machinery, transport, and electrical equipment, chemicals, fuels and lubricants, food products, clothing, and footwear.

MONEY

The Croatian currency, established in 1991, has experienced a slight depreciation (decline in value) since it was launched. The National Bank of Croatia uses the euro as a reference currency; therefore, the recent depreciation of the euro against the U.S. dollar had the same effect on the exchange rate between the kuna and the U.S. dollar. In 1995, US$1 equaled 5.230 kuna, while at the end of 2000, the exchange rate jumped to 8.320 kuna to US$1. According to the Quarterly Economic Report of Germany's Commerzbank, this situation is likely to change by 2002 when US$1 will equal 7.88 kuna.

There are many reasons for the depreciation of the kuna, among them deficits in the pension system, the slow rate of privatization, and compensations paid to depositors of bankrupted banks. The ratio of pensioners to the employed increased from 0.65 in 1998 to 0.95 in 2000. This statistic means that for almost every retired person there is only 1 person employed in Croatia. One external factor that influenced a drop in the kuna exchange rate was the recent increase in energy prices.

Croatian **monetary policy** and supervision of the commercial banking sector is managed by the National Bank of Croatia (the central bank). Although there are over 50 banks operating in Croatia, more than 70 percent of the overall assets of the banking system belong to the 6 largest. Most of these, and some of the medium-sized banking institutions, are indirectly owned by the government, which holds large proportions of shares in these operations through government-controlled companies. There are several representative offices of foreign banks operating in Croatia.

A large portion (approximately 75 percent) of the total assets of the Croatian banking system are immobilized, which is to say they are not generating returns. Such assets consist of state bonds, public debt, ownership in companies that yield no dividends, and investments that are unlikely to produce returns. This is the main reason for high real interest rates for long term loans, which are 25 to 30 percent per year. The government is committed to restructuring the most problematic banks and has received a pledge of US$100 million from the World Bank to assist in solving this problem.

The Zagreb Stock Exchange is the only stock exchange operating in Croatia. It originated in 1918 but was abolished by the communist regime in 1945. Almost half a century later, after Croatia became independent in 1991, the stock exchange was revived by 25 banks and insurance companies as a non-governmental, non-profit-making institution. The ZST is fairly small, and there are only a few privatized firms that trade on it.

POVERTY AND WEALTH

Until 1991 Croatia was part of a socialist-governed country whose system and ideology did not allow great disparity between rich and poor. Those who benefited most from the system and were better off than the majority, were the senior functionaries of the ruling Communist Party. They lived in pleasant, state-owned apartments, drove good cars, and earned relatively high salaries. The poor generally lived in underdeveloped rural areas of the country, were badly educated, and were not politically active.

Exchange rates: Croatia

Croatian kuna per US$1	
Jan 2001	8.089
2000	8.277
1999	7.112
1998	6.362
1997	6.101
1996	5.434

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Croatia	N/A	N/A	N/A	5,432	4,846
United States	19,364	21,529	23,200	25,363	29,683
Romania	1,201	1,643	1,872	1,576	1,310
Slovenia	N/A	N/A	N/A	9,659	10,637

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Croatia

Lowest 10%	4.0
Lowest 20%	9.3
Second 20%	13.8
Third 20%	17.8
Fourth 20%	22.9
Highest 20%	36.2
Highest 10%	21.6

Survey year: 1998

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Since Croatian independence in 1991 and a move to the free-market system, social conditions have changed, to the benefit of some and the disadvantage of others. Inadequate progress towards privatization and the appointment of political favorites to influential positions brought corresponding wealth to the few, although the free-market system has also rewarded a number of skilled or enterprising Croatians. Those groups dependent on the government for their survival suffered as a result of the changing economic system and suffered further from the social and economic impact of the war. These disadvantaged groups include pensioners and the privileged prewar middle class who later found themselves impoverished by changes in the country.

The poor of Croatia tend to be concentrated among the uneducated and the elderly. The **United Nations Development Program**'s 1999 Human Development Report states that in 1997 the average pension was less than half of the average salary. Pension payments are often months late, and the elderly have to rely on other means for survival, such as help from relatives. Retired people represent one-fifth of the total population, and as the ratio of pensioners to workers increases, the pension system is becoming overburdened.

The Croatian education system is almost entirely state-run and is very good. Close to 100 percent of children are enrolled in primary schools, and almost 70 percent attend secondary school. As a result, literacy rates are high (99 percent for men and 96 percent for women) and similar to those of other Eastern European countries and the industrial countries. The children of both the poor and the rich attend the same elementary schools, but although the vast majority of the poor are literate as a result of primary school education, they tend to drop out of the education system early. If they do pursue secondary education, they usually attend vocational high schools and few go to college. University education is not very expensive, but the number of scholarships and stipends that would help the poor are limited, and their numbers lag behind those of other East Central European countries. Insufficient education prevents the poor from competing for jobs that would earn them a better living, thus locking them into poverty.

The state maintains the country's health care system, although a small private sector does exist. A shortage of resources for the health sector has caused problems in recent years (only 6.7 percent of GDP goes towards health expenses), including a failure in targeting the needs of the poor, but most of the population does have basic health coverage. Since the price of food and clothes is high relative to average salaries, poor people spend most or all of their income on basic necessities. They tend to have weak and monotonous diets and although the majority have housing, they often find it difficult to pay for utilities or maintenance of their homes. Those households whose monetary income falls below 350 kunas per month (approximately US$55) qualify for the social assistance program. This monetary allowance equals 15 percent of average salary and, at this level, covers only a quarter of the expenses of poor households.

Even though Croatia has experienced significant social changes in recent years, differences between the rich and poor are not as vast as in Western economies. They are, however, greater than in other Eastern European countries.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Croatia	24	4	18	4	3	6	41
United States	13	9	9	4	6	8	51
Serbia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Slovenia	27	8	14	4	16	11	20

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

Croatia's transition to the free-market economy began significantly to change the structure and level of employment in the country. During the socialist era, over three-quarters of the labor force of more than 2 million was employed in the **public sector** and by large, state-run enterprises. Unemployment was kept artificially low (approximately 9 percent in 1990) by over-employment and the creation of unnecessary jobs. During this period **emigration** was encouraged, and many people left the country to work abroad, contributing to low unemployment. A small private sector did exist under socialism, employing only 13 percent of the labor force in 1990.

With the arrival of the privatization process, new businesses opened and private sector employment increased to 45 percent. At the same time, employment in state-owned firms and the public sector fell to 36 percent of the labor force. Unemployment ceased to be regulated, and privatization and competition from more efficient businesses resulted in massive layoffs and early retirements. By 1998, 17 percent of 1.6 million people in the Croatian labor force were out of work. In order to ease the effects of high unemployment, the government pursued a policy of early retirement which, in turn, strained the pension system since there were far fewer people contributing to the fund than those seeking its benefits. Many pensioners received smaller pensions than they should have and were pushed into poverty.

The country's labor laws set regulations for a 42-hour work week, a 30-minute daily break, and a minimum 24-hour rest period during the week. Eighteen days of vacation are standard and time-and-a half is required to be paid for overtime. Most unions were able to negotiate a 40-hour workweek. The average salary after deductions such as taxes and contributions in 1998 was 3039 kuna, then equivalent to US$425. Over a half of gross salary (salary before deductions) goes to the government and various funds such as health care and pensions. The highest salaries are paid by the financial sector, which employs the smallest number of people. Those working in wholesale and **retail** trade, fishing, and mining average the lowest salaries. The average net salary is not enough to provide a decent standard of living for an average family. For this reason, most people supplement their income with self-employed activities, work in the informal sectors, or earn income from property such as rents and leases, in-kind income, or help from relatives living abroad. There is also a **barter system** for the exchange of goods and services, and those who can grow fruit and vegetables on small plots or in their gardens for personal consumption. In March 1999 the government signed an agreement which established a minimum wage of 1500 kuna (approximately US$211). Unemployment benefits also exist and currently assist almost 17 percent of the unemployed.

Croatia has a much higher level of job protection than other European countries. These regulations protect workers' job stability, but are costly to employers. For example, the law on termination of employment requires an advance notice of up to 6 months and, in certain instances, the approval of the workers' council. This makes labor costs much more expensive than in other countries whose economies are in transition and prevents the creation of new jobs. The regulations slow down the process of hiring new employees and make it difficult to offer part-time work. The government also regulates health and safety standards, which are implemented by the Ministry of Health.

Child labor has not been a problem in Croatia, while discrimination against women in the labor force is common if not prevalent. On average, women still earn less than men and share a higher percentage of unemployment than men (57.3 percent of women were unemployed in 1997 compared to 43.1 percent of men). Over half of the female workforce is employed in the service sector.

A large portion of Croatia's labor force is skilled and/or highly educated. In 1999, for example, out of 320,000 (33.7 percent) unemployed, over 30 percent consisted of skilled and highly skilled workers and about 7 percent were people with college or university degrees. Unemployment is highest among the young and is rising, and poor job prospects have driven many to seek work in other countries. Since 1990, the number of unemployed people under 30 years of age increased by 25,000. Since young people are generally most mobile, they tend to be the first to emigrate. Because of demand in other countries for a high profile labor force, many skilled and educated unemployed Croatians have been filling those positions. As a result, Croatia has been experiencing a serious brain drain since the 1990s.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

600. Croatians begin settling in the area of present-day Croatia.

679. The first international treaty is signed between Croatian Duke Borko and Pope Agathur.

810–23. Duke Ljudevit Posavski establishes a powerful state in what is present-day northern Croatia.

925. Tomislav, the unifier of the territories of Pannonia, Croatia, Dalmatia, Bosnia, and Herzegovina, is crowned the first Croatian king.

1102. After the death of Petar Svacic, the last Croatian king, Croatia enters into a union with Hungary.

1527. By the decision of the Croatian Assembly, Ferdinand of the Hapsburg dynasty is elected to the Croatian

throne; massive migrations of Croatians (especially to Burhenland, Austria, and Molise, Italy) begin.

1815. After a short period under the rule of the French emperor Napoleon, almost the entire territory of present-day Croatia becomes a part of the Austrian Hapsburg monarchy.

1847. Parliament adopts Croatian as the country's official language, replacing Latin.

1848. Ban (Viceroy) Josip Jelacic defends Croatia against Hungarian attempts to occupy the country and unites all the Croatian provinces. Serfdom is abolished.

1903. Anti-Hungarian and anti-Austrian riots erupt, causing some 50,000 Croatians to leave for the United States.

1918. After the downfall of the Austro-Hungarian Empire in World War I, Croatia becomes part of the Kingdom of Serbs, Croats, and Slovenes, later proclaimed Yugoslavia.

1941. German and Italian forces occupy Yugoslavia during World War II and dismantle the country; a pro-Nazi government is installed in Croatia. The country becomes a German puppet state resisted by Croatian anti-fascists led by Josip Broz Tito.

1945. After World War II, the Federated Socialist Republic of Yugoslavia is proclaimed, consisting of 6 republics, including Croatia. Marshal Tito is made president and holds office until his death in 1980. Yugoslavia is aligned with the Soviet Union until 1990.

1990. The first multi-party elections since World War II take place in Croatia and are won by the Croatian Democratic Union. The Croatian Assembly elects Dr. Franjo Tudjman as the first president.

1991. Croatia proclaims independence from Yugoslavia. A Serbian rebellion starts in Krajina, supported by the Yugoslav National Army from Belgrade and resulting in the occupation of one-third of Croatian territory.

1992. Croatian independence is recognized by the world and the Republic of Croatia becomes a member of the United Nations.

1995. Croatia recaptures Krajina from the Serbs, and the war in Croatia officially ends.

1998. The last Serb-occupied region of Croatia, located in its eastern part which includes the city of Vukovar, is peacefully integrated into the country.

2000. Croatia becomes a member of the World Trade Organization.

FUTURE TRENDS

For Croatia the 1990s were difficult and traumatic. The country experienced war devastation, population displacement, and turbulent political change, all of which contributed to its ruined economy. As the 21st century gets under way, Croatia faces serious and urgent challenges in improving its economic situation. The country needs to make major policy reforms. Improved administration of business activity—including cutting red tape, offering tax incentives to stimulate business growth, and completing the privatization process—must be implemented. Reform is also necessary to increase the effectiveness of the health and pension systems. Improvement of the banking sector is another key factor in easing the path of such reforms. A firm commitment to these reforms would send a positive signal to foreign investors and act as an encouragement to international aid in financing reform. If these challenges are met and international investment acquired, Croatia could implement programs for sustained economic growth, thus achieving a higher standard of living for its people and full integration into the rest of Europe.

Successful restructuring is possible and realistic since the country possesses the necessary infrastructure and expertise. Its location and its promising economic opportunities are attractive to investors. What is desperately needed is decisive action by the government, which needs to grasp the necessity for economic reforms and to begin their implementation without delay; delay would serve only to burden the economy with more costly adjustments in the future. Without reform, growth will not be possible, unemployment will remain high, the banking system weak, and the economy will not recover.

DEPENDENCIES

Croatia has no territories or colonies.

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—Katarina Deletis

CZECH REPUBLIC

CAPITAL: Prague (Praha).

MONETARY UNIT: The monetary unit is the Czech crown (Èeská koruna), abbreviated as Kè. Each crown is composed of 100 hellers. There are coins of 10, 20, and 50 hellers, and 1, 2, 5, 10, 20, and 50 crowns. Czech banknotes come in denominations of 20, 50, 100, 200, 500, 1,000, 2,000, and 5,000 crowns. This monetary unit came into being with the division of Czechoslovakia into the Czech and Slovak Republics in 1993, and is now valued at a different rate than the Slovak crown.

CHIEF EXPORTS: Machinery and transport equipment, other manufactured goods, chemicals, raw materials and fuel.

CHIEF IMPORTS: Machinery and transport equipment, other manufactured goods, chemicals, raw materials and fuels, food.

GROSS DOMESTIC PRODUCT: US$120.8 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$26.34 billion (1998 est.). **Imports:** US$30.24 billion (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Czech Republic is located in Central Europe. It is surrounded by Germany to the northwest, Poland to the northeast, Slovakia to the southeast, and Austria to the south. The total area is 78,866 square kilometers (49,007 square miles). The terrain is generally composed of rolling hills and some mountainous areas. Its 4 borders total 1,881 kilometers (1,159 miles), and it has no coastline. Its size is comparable to Mississippi (48,434 square miles) and Louisiana (51,843 square miles).

The Czech Republic features 3 primary regions: the Czech Lands to the west, Moravia to the southeast, and Silesia to the northeast. The capital, Prague, is located slightly to the country's northwest. Other important cities include Ostrava to the northeast, Brno to the southeast (in the Moravian region), and Plzen to the west.

POPULATION. In 2000 the population was estimated at 10,272,179. Approximately 1.19 million inhabitants, or 11.56 percent of the population, resided in Prague. The birth rate stood at 9.1 births per 1,000 people in 2000, while the death rate was 10.87 deaths per 1,000, resulting in a projected growth rate of -0.08 percent. The first time the population growth rate was registered as negative was in 1994. According to the Statistical Office of the Czech Republic, the projected population for 2010 was 10.24 million.

While 81.2 percent of the population is Czech, 13.2 percent is Moravian. In addition, 3.1 percent of the population is made up of ethnic Slovaks. The remainder of the population includes Roma (Gypsies), Poles, Germans, Silesians, and Hungarians. However, the Roma population is often underrepresented politically because they are a nomadic (no fixed residency) people. Approximately 40 percent of the people declare themselves to be Roman Catholic, 40 percent declare themselves to be atheist, and the remainder are primarily Protestant, Orthodox, or other religions.

OVERVIEW OF ECONOMY

The territory that is now known as the Czech Republic was part of the Austrian, or Hapsburg, portion of the Austro-Hungarian Empire until the end of World War I in 1918. It then became a part of the Czechoslovak state. During the 1930s, Czechoslovakia was an industrial powerhouse. The Czechoslovak industries, including machine and automotive manufacturing, were among the world's most developed.

After World War II, Czechoslovakia fell under the political and economic influence of the Soviet Union. The **communist** economy included state ownership of enterprises, state-led central planning of economic activities, and artificial **price controls**. After some Czechoslovak leaders attempted to introduce some political, cultural, and economic **liberalization**, the country was invaded by the troops of neighboring communist countries under the direction of the Soviet Union (1968). This intervention put a stop to liberalization, when the government attempted to

increase production of **consumer goods** in exchange for compliance among the people. In spite of the government's efforts, the economy declined, causing a crisis by the late 1980s.

A series of anti-government protests took place in the late 1980s. By 1989, the more liberal policies of the Soviet Union toward Eastern Europe, as well as the weakening of communist governments in neighboring East Germany, Hungary, and Poland, made it impossible for the Czechoslovak communists to stay in power. In November and December of 1989, the communist government stepped down. Free elections for parliament were held in 1990, and Václav Havel was elected president. The government quickly made economic reforms based on free market principles. In addition, the government began the process of **privatization**.

From 1990 to 1992, these reforms were more popular in the Czech Republic (which had a larger industrial base) than in the Slovak Republic. Under Czechoslovakia's federal structure, which gave both republics independent power, the newly-elected prime ministers of the Czech and Slovak republics negotiated the divorce of Czechoslovakia. The Czech Republic and the Slovak Republic became separate sovereign states on 1 January 1993. After an initially strong performance, the Czech Republic experienced some setbacks, most notably in 1997 when the country experienced an economic crisis and a political scandal that forced out the prime minister.

The Czech Republic's strongest economic sectors are in the areas of industry and services. Its primary industrial products include iron and steel, machinery and equipment, motor vehicles, chemicals, armaments, textiles, and glass and ceramics. In the service sector, commercial, financial, and insurance companies are important.

The Czech Republic is famous for its beers, which are exported throughout the world. Other agricultural products include potatoes, wheat, and sugarbeets. Since freeing up its international trade in 1990, the Czech Republic has imported items such as machinery, consumer goods, raw materials and chemicals, and some foods.

Along with uranium, some of the country's natural resources include coal, timber, and fuels, which remain important energy sources, though some energy must still be imported from Norway and Russia. The Czech Republic experienced a sizable amount of Western investment during the 1990s.

As a NATO member since 1999 and a prospective member of the European Union (EU), the Czech Republic has been quite successful in reorienting its trade away from the East, and towards the West. It has received aid from international organizations such as the World Bank, the International Monetary Fund (IMF), the European Bank for Reconstruction and Development, and the European Investment Bank, in the form of loans and grants. In 1994, the Czech Republic polished its world image by paying some of its IMF debts ahead of schedule. The country's estimated **external debt** for 1999 was $24.3 billion. While organized crime has a notable presence in nearly all of the countries of east-central Europe, the Czech Republic is less affected by such activities than its neighbors.

POLITICS, GOVERNMENT, AND TAXATION

The Czech Republic is a democracy with a parliamentary political system, in which the parliament elects the president. The electoral system for the Chamber of Deputies is proportional, meaning that individuals tend to vote for specific parties rather than for specific candidates. After the elections, each party receives a number of seats in parliament according to the percentage it receives of the vote, provided it receives at least 5 percent. Each party organizes a list of individuals that they will send to the parliament to fill their allotted seats. The elections for the Senate are conducted according to single member districts, in which a single candidate wins a majority vote in each of the 81 Senate districts.

The Czech president is elected by the parliament and serves a 5-year term. Václav Havel was elected in 1993 and reelected in 1998, although he was not affiliated with a particular political party. The 200 members of the Chamber of Deputies are elected for 4-year terms. The 81 Senate members are elected for 6-year terms, with one-third of the Senate elected every 2 years.

The first parliamentary elections to be held in the independent Czech Republic took place in 1996. The party that favored immediate free market reforms, the Civic Democratic Party (ODS), and the party that favored a slower pace to free market reforms, the Social Democrats (ÈSSD), emerged as the most powerful parties in the Chamber of Deputies. A political and economic crisis led to early parliamentary elections in 1998. The third most significant party in the Chamber of Deputies elections was the Communist Party (KSÈM), followed by the reformist Christian Democrats (KDU). Other significant parties include the nationalist Republicans, the free-market oriented Civic Democratic Alliance (ODA), and the conservative Freedom Union (US).

The government has directed the complex process of transforming the economy from a centrally planned communist system to a market-based system. Each reform has required the passage of new laws and the implementation of new regulations. Among other general market reforms, a Commercial Code was adopted in 1991 under the Czechoslovak state and was revised in 1996. It outlined legal protections for private property and business activities for both Czechs and foreigners. Other reforms included a Foreign Exchange Act establishing the Czech currency as convertible abroad, and a Trading Act to set conditions for trade.

Part of the economic reforms involved the privatization of assets and companies that had been the property of the state. In 1990 and 1991, under the Czechoslovak state, some property, such as farms, shops, and homes, was given back to its pre-communist owners. The privatization of small enterprises was completed through auctions by the end of 1993. The privatization of large enterprises was a more complicated process involving vouchers that allowed citizens to buy shares of some companies. It also included direct sales, auctions, and free transfer. More than 80 percent of former state assets had been privatized in 2000.

The government obtains revenues through several different taxes. There is a progressive personal **income tax** that ranges from 15 to 32 percent. The corporate income tax is 31 percent, although investment companies and pension funds are taxed at a rate of 20 percent. Some **tax holidays** are offered as part of an effort to attract foreign investment. Other taxes include property tax, road taxes for business vehicles, inheritance tax, and fees for administrative services. In addition, a **value-added tax** is imposed on all goods except necessities such as food and health care. **Excise taxes**, customs **duties**, and real property transfer taxes also bring in government revenues.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The Czech Republic inherited an extensive network of public transportation, in the form of bus and train routes, from Czechoslovakia. Even some of the most remote locations may be reached by bus. One of the most significant changes of the post-communist era has been an increase in independent auto transportation among the population. There are 127,693 kilometers (73,348 miles) of highways, including 497 kilometers (309 miles) of expressway, all of

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Czech Republic	254	803	447	77.1	94	10.4	97.3	85.58	700
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Slovakia	185	580	402	105.1	87	10.0	65.1	38.79	600

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

which are paved. The country now has 9,435 kilometers (5,363 miles) of railways. Continued improvements are planned for the railway and highway systems in order to bring them more in line with EU standards.

There are 10 public international airports and 114 total airfields, 71 of which have paved runways. The largest airport is Ruzyne, in Prague, which services approximately 95 percent of the total passenger traffic. There are 677 kilometers (421 miles) of waterways in the Czech Republic, the most important being the Vltava and Elbe rivers. Tourists tend to enter the Czech Republic via the airport in Prague or by train from Austria, Germany, Hungary, Poland, or Slovakia.

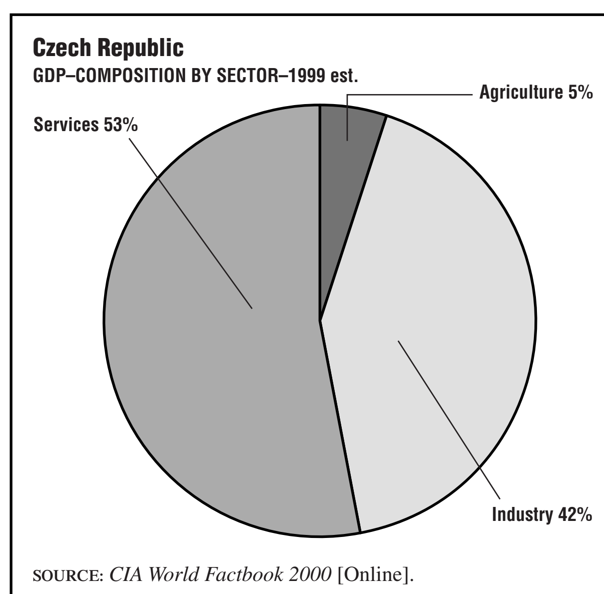
Electricity production stands at 61.5 billion kilowatt hours, and the country uses a 220-volt power system. The majority of electricity is generated by fossil fuels (76 percent). While a portion of this production comes from coal, oil provides a sizable portion as well and is imported from Russia. Nuclear power contributes 20 percent of electricity production.

The Czech Republic has a rapidly-modernizing communications **infrastructure**. In the first few years after the transition from communism, the installation of telephone lines by the state company was still difficult. However, the increased entry of private telecommunication companies and the growing popularity of mobile telephones has provided a way to sidestep these difficulties, and increased competition has forced the Czech telecommunications company, STP Telecom, to improve its service. There are 94 mobile phones per 1,000 people in the Czech Republic, compared to 50 per 1,000 in neighboring Poland, and there is 1 digital cellular system and 2 global system for mobile communication (GSM) providers for cell phone service. A number of Internet service providers sprung up in the late 1990s, creating between 20 and 30 options for service. Internet cafes are readily available, and the Czech government has taken steps to promote increased public computer and Internet technologies.

ECONOMIC SECTORS

During the 1990s, the Czech Republic experienced a drastic shift away from the industry sector and towards the services sector. This change resulted partly from the Czechoslovak split, and partly from the transformation to a market-based system. The communist system created several large **monopoly** industries, particularly in large machine manufacturing. Once privatized, only some of these industries were actually competitive in a free-market environment. Moreover, while the service sector was given a low priority under the communist system, the free-market environment demonstrated a strong demand for services.

Foreign direct investment (FDI) in Czech companies has been crucial to their successful transition, and the Czech Republic has benefited from high FDI levels. Some of the most famous Czech companies that have successfully survived the transition process are the Škoda



SOURCE: *CIA World Factbook 2000* [Online].

car company, the Tatra truck company, the glass production company Bohemia Glass, and several brewing companies such as Pilsner Urquell, Staropramen, and Budvar (Budweiser).

AGRICULTURE

Agriculture makes up the smallest sector in the Czech economy, contributing about 5 percent of the total GDP. In 1997 the agricultural sector employed 5.6 percent of the **labor force**, or roughly 200,000 people. This number was just 39 percent of the number of people employed in this sector under communist rule. The primary agricultural products were sugarbeets, fodder roots for animal feed, potatoes, wheat, hops, fruit, pigs, cattle, poultry, and forest products.

The Czech Republic has 3.1 million hectares of arable land, although roughly half of this land is not highly productive. Under the communist economic system, Czech agriculture was collectivized, meaning that small private farms were taken by the government in order to create state-owned cooperatives. After the end of communism in 1989, these cooperatives were transferred to private owners, often by the direct sale of the farm as a unit. However, some lands were also given back to their former owners. By 1999, 85 percent of agricultural lands were privately owned. Of this total, 40 percent are corporate farms, 34 percent are co-operatives, 24 percent are owned by individuals, and 2 percent are state owned.

Agricultural output decreased 28 percent between 1989 and 1998, with the greatest declines in livestock production. This reflects the overall decline of the agricultural sector in the Czech Republic, where more than half of all farms experience financial difficulties. Problems include the high costs of labor, machinery, fertilizer, and other agricultural inputs; the lack of modern technology; and low levels of state aid for agriculture.

INDUSTRY

Industry makes up a large but declining sector of the Czech economy, contributing 42 percent of the country's GDP in 1999, and employing 40.7 percent of the labor force in 1997. The majority of large and medium-sized enterprises have been privatized. Companies that are still run by the state are not very competitive and have sizable debts. Such companies lie primarily in the energy and mining sectors, although some of them are classified as strategic industries.

MANUFACTURING. Road vehicles are the country's most significant export, bringing in significantly more revenue than other important exports, such as electrical machinery and appliances, and industrial machinery and equipment. Other major export products include iron and steel, non-metallic mineral products, textiles, specialized machinery, transport equipment, furniture, power generation machinery, and rubber goods.

Because many of the manufacturing plants that were privatized after communism featured outdated equipment, foreign direct investment has been extremely important in determining which industries survive the transition to a market economy. The primary foreign investments have been in the area of consumer goods and tobacco, transport and communications (including equipment, commerce, and services), petrochemicals, financial and insurance affairs, mineral products, and electricity, gas, and water supply. By 1999 over 800 foreign companies had set up manufacturing subsidiaries, each employing more than 50 persons in the Czech Republic.

With increasing investments in the automotive sector, the Czech Republic is expected to become the third-largest auto manufacturer in Eastern Europe, after Russia and Poland. Other fast-growing sectors are electronics, precision engineering, environmental technologies, and software development. The government offers incentives for investment in high-tech products or machinery, and has begun a program to support the development of industrial zones throughout the republic.

The traditional Czech industries of glassmaking and beer brewing survived the economic transition in the form of the glassmaking company Bohemia Glass and the brewing companies Pilsner Urquell and Budvar/Budweiser. Companies producing transport equipment, such as Tatra Trucks, Zetor tractors, and Škoda cars, also remain visible in the current Czech economy. Other products that continued to be manufactured after communism include trams, planes, motorcycles, buses, and machines.

The most important products mined in the Czech Republic are coal and uranium. The coal is primarily used for heating purposes, while the uranium is used for the production of weapons, and a significant amount of uranium is exported. While uranium was exported almost exclusively to Soviet bloc countries before 1989, it is now exported more widely.

In the second half of the 1990s prices for commercial construction increased for small and medium enterprises, as well as for domestic non-financial corporations. The largest price increases for commercial construction were from firms employing more than 300 persons (especially for those employing more than 500), and for foreign non-financial corporations. Price increases for these types of structures indicated a higher level of demand relative to supply.

SERVICES

The service sector accounted for 53 percent of the GDP in 1999. As opposed to a negative trade balance in

industry, the Czech Republic registered a positive trade balance in services between 1993 and 2000. The service sector employed 53.7 percent of the labor force in 1997.

As insurance was not provided under the communist system, there was significant growth in this area during the first decade of **capitalism**. Financial services and consulting companies experienced similar growth. Although foreign companies initiated growth in this sector, they quickly gained competition from Czech companies. The majority of commercial banks are under private ownership. Foreign banks constitute a growing proportion of this sector.

There is an ever-increasing number of Internet service providers in the Czech Republic. In addition, there has been some growth in the area of Internet software development, which began attracting foreign investment in the late 1990s.

The **retail** portion of the service sector has undergone dramatic changes since 1989. Under the communist economic system, retail operated through state-owned shops. Not only were product shortages common and the displays unattractive, but these stores were often overstaffed and employed people unsuited to the job.

Retail stores were privatized early in the transition to a free market. The retail sector consists of **restructured** stores as well as completely new stores. These stores differ greatly from their communist-era predecessors, as they have adopted capitalist marketing methods and retail decorum. Among the most popular products among consumers are foreign appliances, such as televisions, VCRs, and stereos.

Tourism has increased exponentially since the demise of communism in 1989. Nearly all tourist facilities have been privatized. Tourism contributed $3 billion to the country's net foreign currency earnings in 1999, and approximately 100 million people visit Prague, the country's capital, each year. Most tourist revenues remain in Prague, which is renowned for its architecture and history. The majority of visitors come from the Czech Republic's neighboring countries. The dramatic increase in tourism has led to an increased need for tourist services, particularly for hotels. Foreign tourists visiting Prague account for three-quarters of all hotel capacity in the Czech Republic. In addition, the city of Prague is attempting to improve its image as a potential convention site. While in the Czech Republic, tourists engage not only in sightseeing, but also in concerts, sports, and gambling.

INTERNATIONAL TRADE

The Czech Republic has had a **trade deficit** since 1975. The primary industrial commodities exported by the Czech Republic are machinery and transport equipment, as well as other manufactured goods. In 1998, these categories comprised 41 percent and 40 percent of all commodity exports, respectively. Other significant exported commodities were chemicals, which made up 8 percent, and raw materials and fuel, which were 7 percent. Aside from commodities, the Czech Republic also exports some services, and has demonstrated a positive trade balance in this sector. The primary consumers of Czech exports are Germany and Slovakia.

Trade (expressed in billions of US$): Czech Republic

	Exports	Imports
1975	N/A	N/A
1980	N/A	N/A
1985	N/A	N/A
1990	N/A	N/A
1995	21.654	26.524
1998	26.337	30.239

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

The Czech Republic imports primarily the same type of goods as it exports. Approximately 39 percent of all imports for 1998 were classified as machinery and transport equipment. Other imports included manufactured goods, which comprised 21 percent of imports; chemicals, 12 percent; and raw materials and fuel, 10 percent. Germany and Slovakia serve as the primary sources of Czech imports.

In the first few years following 1989, the Czechoslovak state made a concentrated effort to shift trade away from the former Soviet countries, and to the European Union (EU) and the United States. The Czech government actively encouraged this shift in an effort to improve chances for entry into the EU. Czech trading patterns continue to show increased volume in trade with the EU and the United States, and decreased volume with other East European countries and the former Soviet Union. As one result of this shift, trade with the Slovak Republic has declined, in spite of a favorable customs union between the 2 countries. The Slovak Republic made up 18 percent of the Czech Republic's foreign trade **turnover** in 1993, but by 1999 it was approximately 7 percent. The EU now makes up approximately 67 percent of the foreign trade turnover of the Czech Republic.

Among the EU countries, the Czech Republic's most significant trading partner is Germany, which made up 38 percent of the Czech trade turnover in 1999. Following Slovakia (7 percent), other important European trading partners are Austria (6 percent), France, Italy, Poland, and the United Kingdom, which each make up 4 to 5 percent of the trade volume. The United States and the Russian

Federation each make up approximately 3 percent of Czech trade turnover.

MONEY

The Czech crown has been convertible to other currencies on the world market since 1995. The Czech National Bank serves as the country's central bank, and sets **monetary policy**. It is designed to be autonomous from political structures. In spite of the bank's policies to curb **inflation**, the currency began to decline in value after a political and economic crisis in 1997. In addition to this bank, there is a government-owned agency to assist companies through the bankruptcy process.

The majority of banks have been privatized, with only 2 of the largest remaining in state hands. There has been some consolidation among the private banks, and the largest 5 banks conduct the majority of operations. In addition, the number of foreign banks operating in the country has grown. This process corresponds with the country's efforts to prepare for future integration into the financial structures of the EU.

The Prague Stock Exchange registers several hundred companies for security and derivative trading. It is engaged in a process of updating its trading rules and procedures to fit EU standards. In addition, there is an off-exchange market called the RM-system, for the trade of securities.

POVERTY AND WEALTH

Four decades of communist rule (1948–89) had a strong effect on the distribution of incomes, an effect that remains visible today in the Czech Republic. The communist system resulted in a social hierarchy very different from the class system in most capitalist countries. Under communism, wages were artificially kept at similar levels, so professionals such as doctors earned wages similar to those of factory or construction workers. Because property had belonged to the state and housing was distributed through state channels, those individuals who obtained large homes often did so through political means, such as good standing with the Communist Party.

Ten years later, this system is changing. As property has become privatized, individuals with successful businesses can now afford to buy the larger homes. Political affiliation matters much less for one's living standard than it did before. However, given the fact that the privatization process has been run by the government, political affiliation and social contacts have not been irrelevant, either. In spite of the fact that the Czech Republic's transition has been one of the most transparent, some instances of corruption have allowed a few individuals to improve their economic standing through dishonest means.

Although the social structure is rapidly moving away from relatively equal income distribution to a class system, as of the late 1990s income distribution and consumption in the Czech Republic remained more equalized than in the United States. In the United States, the richest 20 percent of individuals earn and consume 46 percent of available wealth. However, in the Czech Republic, the richest 20 percent of individuals earn and consume 36 percent of available wealth. In addition, the poorest 20 percent earn and consume only 5 percent of available wealth in the United States, but in the Czech Republic the poorest 20 percent earn and consume 10 percent of available wealth.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Czech Republic	N/A	N/A	4,884	5,270	5,142
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Slovakia	N/A	N/A	3,630	3,825	3,822

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Exchange rates: Czech Republic

Czech crowns per US$1	
Jan 2001	37.425
2000	38.598
1999	34.569
1998	32.281
1997	31.698
1996	27.145

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Czech Republic

Lowest 10%	4.3
Lowest 20%	10.3
Second 20%	14.5
Third 20%	17.7
Fourth 20%	21.7
Highest 20%	35.9
Highest 10%	22.4

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Czech Republic	24	5	14	5	12	16	24
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Slovakia	26	7	16	5	12	10	24

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Under the communist system, higher education and health care were freely provided by the state. The Czech Republic has been implementing reforms that require individuals to pay for these services. These reforms have been difficult for average individuals, because institutions such as a comprehensive student loan system or health insurance have not been developed. The state does provide social security and social assistance, such as unemployment and disability benefits.

WORKING CONDITIONS

The Czech Republic's labor force is 5.2 million, and approximately 46 percent of the total Czech population was registered as employed in 1999. In 1999, the rate of unemployment, which registers those actively looking for work, was 9 percent. Unemployment has been on an upward swing since an economic crisis in 1997, but has shown recent signs of stabilizing. Unemployment benefits are available to individuals, and slightly less than half of those registered as unemployed receive these payments.

Prague consistently maintains the lowest level of unemployment in the country. The highest levels of unemployment are in northern Bohemia and in Moravia. Wage levels reflect these differences, with the highest wages in Prague. According to estimated figures for 1997, the majority of those employed—53.7 percent—worked in the service sector. Industry employed 40.7 percent of the workforce, and the remainder—5.6 percent—worked in agriculture. Given the importance of foreign investment in the economy, those individuals who speak English and German have an advantage in the labor market.

The Czech Republic features a system of laws which prohibits employment discrimination on the basis of race, sex, language, religion, faith, political views, and sexual orientation. However, discrimination against the hiring of Roma (Gypsies) persists in practice. There are 28 weeks of maternity leave available, with a possible extension to 3 years. A woman taking maternity leave is provided some income by the social security and health insurance systems, with some contributions by employers.

Workers' unions were a fixture of the communist system. After the end of communism in 1989, the communist-affiliated unions rapidly declined in popularity. Laborers now tend to belong to non-affiliated unions, and approximately two-thirds of all workers are union members.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1914–17. World War I. The Austro-Hungarian Empire, which includes Czechoslovakia, disintegrates.

1918. The Czechoslovak state is founded.

1938–45. Hitler takes over Czechoslovakia during World War II.

1945. Czechoslovakia is freed from the Nazis by the Soviets in the east, and by the Allies in the west.

1948. The Communist Party takes over the Czechoslovak parliament.

1968. Attempted reforms by the Czechoslovak state are met with an invasion of tanks from Czechoslovakia's Soviet bloc neighbors.

1970s. Some political dissidents begin to visibly resist the communist leadership.

1980s. Worsening economic conditions facilitate protests against communism.

1989. The communist government is forced to step down.

1990. The first post-communist parliamentary elections are held, and Václav Havel is confirmed as Czechoslovakia's new president. The government embarks on a series of reforms to replace the communist economic system with a capitalist system.

1992. The second post-communist elections result in a disagreement between the Czech and Slovak republics. The leaders plan the country's divorce.

1993. The Czech Republic is officially founded on 1 January 1993. It establishes a separate Czech currency in February.

1997. An economic crisis and political instability cause difficulties.

1998. The Czech Republic begins accession talks with the European Union.

1999. The Czech Republic joins NATO.

FUTURE TRENDS

The Czech Republic has come a long way since its founding in 1993, through nearly a decade of transition from a communist to a capitalist economic system. It is a member of the United Nations, Organization for Security and Co-operation in Europe (OSCE), Organization for Economic Co-operation and Development (OECD), International Monetary Fund, (IMF), World Bank, European Bank for Reconstruction and Development (EBRD), and the World Trade Organization (WTO), and became a NATO member in 1999. In addition, it is an associate member of the EU and the Western European Union (WEU). The government's primary focus in recent years has been the preparation of legislative and regulatory structures for future EU membership, for which it has made a formal application. Accession talks with the EU officially began in 1998, and the Czech Republic is slated to become a full member between 2003 and 2005.

In spite of the enormous changes that the Czech Republic successfully underwent in its first few years of independence, more remains to be done. The country is expected to continue to rebound from the economic **recession** of the late 1990s, especially as it improves its trade with Western European nations. But it is the interaction with Western European nations in the EU that is expected to pose the greatest challenge to the Czech Republic in the coming decade. Restructuring the large enterprises that remain in the hands of the state, and reforming legislation to conform to EU standards will cause some economic displacement. Yet once the country moves through this difficult period, its position at the heart of Central Europe, its well-developed infrastructure, its high-quality educational institutions, and its educated populace promise a vibrant economic future.

DEPENDENCIES

Czech Republic has no territories or colonies.

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—Sherrill Stroschein

DENMARK

Kingdom of Denmark
Kongeriget Danmark

CAPITAL: Copenhagen.

MONETARY UNIT: Danish krone (DKr). 1 Danish krone is made up of 100 øre. There are coins for 20, 10, 5, 2, and 1 krone and 50 and 25 øre. Paper currency comes in denominations of DKr1,000, 500, 200, 100, and 50.

CHIEF EXPORTS: Machinery and instruments, meat and meat products, fuels, dairy products, ships, fish, and chemicals.

CHIEF IMPORTS: Machinery and equipment, petroleum, chemicals, grain and foodstuffs, textiles, and paper.

GROSS DOMESTIC PRODUCT: US$136.2 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$50.8 billion (f.o.b., 2000). **Imports:** US$43.6 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Denmark is in Northern Europe, bordered primarily by the Baltic Sea and North Sea. It consists of the peninsula of Jutland, north of Germany, and close to 406 islands, about 80 of which are inhabited. The most populated and largest of the islands is Zealand, where the country's capital can be found; Funen; and Jutland. Denmark occupies 43,094 square kilometers (16,621 square miles), a little less than twice the size of Massachusetts. Germany shares 68 kilometers (42 miles) of border with Denmark, and the other 7,314 kilometers (4,545 miles) is coastline. In 1 July 2000, the Øresund Bridge was completed, connecting Denmark and southern Sweden. The Kingdom of Denmark also includes the island of Bornholm in the Baltic Sea, and the territories of Greenland and the Faroe Islands.

POPULATION. Denmark's population in 2000 was 5,336,394, and was projected to fall to around 5,200,000 in 2025. From the late 1960s to the present, the fertility and mortality rates have been declining. Average life expectancy at birth has increased, but it is notable that life expectancy for men and for women in Denmark is still lower than all of its neighbors, especially for women (in 1999 life expectancy for women was 78.3, while in the United States it was 80.1). The overall population growth rate has been consistently low at 0.31 percent.

The Danish population is extremely homogenous. As of 2000, 97 percent are Danes (ethnic Scandinavians), and the rest are Inuit (Eskimo), Faroese, and Germans. The proportion of elderly people in the population has been increasing as well, with the result that in 2000 only 18 percent were under 14, and 15 percent were over 65.

The population is highly urbanized, with around 85 percent living in cities. However, population density is low compared to places such as the United States and European countries farther south. It is worth noting that to be classified as "urban" in Denmark, a settlement needs only 250 people (compared to Greece, where "urban" is defined as a settlement of 10,000 or more). Urbanization has slowed in the 1990s, with some Danes reversing the pattern and moving back to rural areas.

OVERVIEW OF ECONOMY

Denmark has a technologically advanced free-market economy, mainly involved in high **value-added** production such as processing and finishing products, rather than extracting and producing raw materials. Main exports are industrial products, followed by agricultural products—chiefly livestock-based products such as cheese, pork, and other meats. Denmark's reliance on export trade has meant that its economy has been sensitive to fluctuations in world demand, although its generous **welfare state** policies since the 1960s have cushioned the population from suffering much from this volatility. Because of its geographic location, Denmark is an important distribution

point for Eastern Europe, Scandinavia, England, and the rest of Europe.

Denmark's high-tech agricultural sector is the latest development in a long history of Danish farming. Before the late 1800s, Denmark's chief agricultural products were grains, but at the end of the 1800s an influx of cheap grains from the Americas and Russia caused prices to plummet. Danish farmers, supported by the government and the Folk High School Movement (a cultural and educational movement that encouraged knowledge-sharing, adult education, and agricultural research and reform, especially in rural areas), switched to livestock production, feeding their animals on the cheap grain. Danes developed an industry making processing machinery for its agricultural products. By the 1960s, industry had overtaken agriculture as the largest sector of the economy.

From the 1960s to the 1980s, the Danish economy followed a fairly regular cycle: increases in wages and benefits raised costs for firms, which led to price hikes and thus less ability to compete in foreign markets. This upset Denmark's **balance of trade**, as the high wages raised demands for imports, so the government would attempt to control rising consumption, usually by tightening credit and imposing a new tax. The 1970s and 1980s

saw labor, political, and economic troubles as the government attempted to impose austerity measures such as harsh savings programs. Strong public opposition (including labor strikes) to various plans led to the repeated dissolution of the ruling coalition governments. After 1973, rising oil prices and the international **recession** led to high unemployment and low domestic demand.

External debt stayed high during the 1980s, consisting mainly of bonds bought by outside investors that required interest payments by the government. However, the extent of debt was not enough to discourage foreign investors, thus Danish business did not have to worry about financing drying up. While Denmark's balance of trade was positive from 1990 to 1997, that surplus was used to pay off the debt, which gradually fell from over 40 percent of GDP in 1990 to 24 percent in 1997. The **budget deficit** was not eliminated until the mid-1990s, but since then government has generally run a small surplus.

Businesses in Denmark are mainly small- and medium-sized. Over 75 percent of Danish industrial companies employ fewer than 75 people. Most farms are family-owned, a tradition that was partly supported by a law prohibiting public companies from owning farms. This prohibition was lifted in 1989. The increasing accessibility to consumers in Europe has begun to encourage Danish businesses to look at ways to supply these consumers on a larger scale, including the possibility of merging small companies together into larger ones, as well as developing networks of coordination and communication between several companies.

Across most of the political spectrum, Danes are committed to ensuring a basic level of economic equality, which has been the impetus behind the creation and maintenance of a large and generous welfare, social security, national health care, and education system. The **public sector** in 1999 employed close to 800,000 people, over 25 percent of the **labor force**. Since the 1960s, the public sector has ensured that despite economic fluctuations, everyone in Denmark has completely free access to health care and education, as well as unemployment benefits, sick leave, parental leave, and housing and childcare **subsidies**. Although unemployment has been one of Denmark's most persistent problems, in the new century it has fallen remarkably, to a current low of just under 6 percent.

In 2000, Denmark opted out of the final stage of the European Monetary Union (EMU), choosing to keep their own currency rather than join the euro. However, as the krone is closely tied with the euro, the Danish economy is not autonomous. Arguments against the EMU in Denmark mainly accentuate the need to retain political autonomy. These opponents stress that integration into the EMU could result in a threat to Denmark's commitment to economic equality and the environment, especially if Danish businesses were required to compete with those based in countries which do not require them to comply with similar environmental or labor regulations.

POLITICS, GOVERNMENT, AND TAXATION

Queen Margarethe II is officially the head of state, but actual power resides in the prime minister and his or her cabinet (called "the government" in Denmark and virtually all other parliamentary systems, and similar to a U.S. "administration") and the Folketing (the parliament). The Queen formally appoints the prime minister and the cabinet, but this appointment is always the result of behind-the-scenes maneuvering and coalition-building after a general election. The prime minister is accountable to the Folketing for his or her actions. Most ministers have their own ministries, (such as the Ministry of Finance or the Ministry of the Environment), but some individual ministers may be selected without being assigned to a specific ministry. Legislation is created cooperatively by the Folketing and the government. Proposals for laws are considered twice in the Folketing, and if approved, must then be approved by the Queen and the government. The Queen is not independent from the government in approving legislation, but rather acts under its advice.

The Folketing has 179 seats; members are elected by **proportional representation** (voters elect parties rather than individuals, that receive a number of seats in the legislature proportional to the percentage of votes received). This system encourages the proliferation of political parties that may form coalitions not only to form governments, but to pass legislation in the Folketing. The prime minister can call an election at any time in the hopes of gaining more seats for the ruling coalition. And as in virtually all parliamentary systems, new elections may be called if there is a vote of no confidence in the Folketing, although this has not happened since 1909. The minimum level of popular support necessary for a party to be represented in the Folketing is 2 percent (corresponding to 3 or 4 seats), and 2 seats each are reserved for representatives from the Faroe Islands and Greenland.

Like much of Scandinavia, Denmark has a good record on women's representation in government and politics at both the local and national levels. In the government in the year 2000, 35 percent of cabinet ministers were women, as were 37 percent of the Folketing (compared with the United States in 2000, where women were 41.4 percent of the cabinet but only 12 percent of Congress).

Since 1973, there have been 10 major political parties. Underlying all but the most extreme right wing of

the parties is the Nordic emphasis on the importance of economic equality, ensured by strong social welfare programs. The issue of whether or how to join the European Community has been important to all the parties over the past 20 years, but does not divide them according to traditional "right-left" alignments.

The parties in the government in 2001 were elected in March 1998. The ruling coalition is comprised of the Social Democratic Party (65 seats), the Socialist People's Party (13 seats), the Radical Liberal Party (7 seats), and the Unity Party (5 seats); in the opposition are the Liberal Party (43 seats), the Conservative Party (17 seats), the Danish People's Party (13 seats), the Center Democratic Party (8 seats), the Christian People's Party (4 seats), and the Progress Party (4 seats).

The Social Democrats and Socialist People's Party do not wish Denmark to rely solely on market forces to organize the economy, and place a priority on equalizing income distribution and living standards. Trade unions are especially associated with the Social Democrats. The Radical Liberals (Det Radikale Venstre) are to the right of Social Democrats, and want to curb public spending, lower **income tax** rates for high earners, and reduce benefits for the unemployed. The Unity Party or Unity List is an alliance of far-leftist and environmental groups, to the left of the Social Democrats.

The Conservative Party (CP) has been generally gaining in popularity since the mid-1970s, although its peak was in the 1980s. Representing especially the interests of business and property owners, the Conservatives emphasize the rights of ownership while trying to reduce power of trade unions. While still supporting a welfare state, the CP wants to limit public spending on social programs, but increase spending on defense. The CP is fairly pro-European integration. The Liberal Party (Venstre) is close to but more extreme than the conservatives in wishing to reduce government spending and power, and are strongly pro-European integration. The Danish People's Party (DPP) is a nationalist party for ethnic Danes, against **immigration** and suspicious of refugees. They are strongly anti-European integration, although they support free trade and market-based agricultural policy. The DPP are for social welfare programs, but only for Danish citizens, and also support abolishing or greatly reducing property, inheritance, and other taxes. The Center Democratic Party wants fewer taxes, especially for individuals. They do support social welfare programs and are also pro-Europe. The Christian People's Party (CPP) was formed in response to the late-1960s legalization of abortion laws and lessening of restrictions on pornography, both of which they oppose. They want to decentralize political decisions, avoid special interests, and emphasize protecting the environment and quality of life. They have historically had a small share of popular vote, usually just above the 2 percent threshold required for representation in the Folketing. The Progress Party (PP) was founded in 1990, an extreme right-wing party with a reputation for unruliness. Their main platform is to abolish income taxes and greatly reduce government spending, and to restrict immigration. Against joining the European Union, their arguments often alienate more tolerant Danes, while some of their leaders and members have espoused more explicitly racist attitudes. Many of the other parties are reluctant to form a coalition with them.

In 1997, the public sector employed around a quarter of the workforce, and provided health care, welfare, social security, education, and administration of the government. Government-owned businesses are also still important to the economy, although there has been increasing **privatization** in recent years. Recently privatized businesses include a life insurance company (now totally private), the national telecommunications company TeleDanmark (totally private), Copenhagen Airport (now 49 percent private), and the computer services company Datacentralen, 75 percent of which was sold to the U.S.-based Computer Sciences Corp. The large Postal Service and Danish State Railroads companies have also been turned into private companies, although the government actually owns these firms. Some other public services such as sanitation, cleaning, and catering to public institutions are also being privatized.

The **value-added tax** (VAT) is the main source of government revenue, accounting for over one-quarter of total revenue in 1998. At 25 percent, it is one of the highest VAT rates in the world. Income tax is also high. In 1999, the marginal income tax rate was 40 percent for taxable incomes up to $21,500, while the highest bracket was about 60 percent for taxable incomes of more than $37,000. In 2001, 40 percent of all Danes in full-time employment were in the highest tax bracket. The Danish government, fearing an economic slowdown, is beginning to shift its tax burden somewhat away from individual incomes. "Green taxes" on pollution and to enforce environmental regulations are expected to make up some of the difference, and are already generating significant revenues; in 1995 over 8 percent of tax revenue came from environmentally-related taxes (over 2 percent of GDP). In the same year in the United States, only 4 percent of tax revenues came from environmentally-related taxes (less than 1 percent of GDP).

Even though most Danes must give almost half of their salaries to the government as income tax, they get most of it back in the form of free, high-quality health care, education, and **transfer payments**. For example, in 1996, 47 percent of the DKr386 billion collected by the national government was returned to the public in the form of transfer payments such as unemployment and sickness benefits, old-age pensions and housing subsi-

dies. Some 60 percent of all government revenues from taxes in 1996 were spent on the health service, while transfer payments accounted for 40 percent of total public revenues (22 percent of GDP).

At 32 percent, corporate taxes are high. Denmark plans to reduce them to 26 percent by 2002. However, contrary to many economists' predictions, Denmark's high corporate tax rate has not discouraged foreign investment. In a surprising situation that suggests that there must be multiple reasons why foreign companies choose to invest, Denmark in 1997 showed an increase in foreign investment that was an amazing 308 percent—almost 10 times that of the European Union as a whole.

The Danish currency is pegged in a **fixed exchange rate** with the euro, so interest rates nearly always follow the European Central Bank. This relationship changed slightly after the referendum in 2000 when the Danes narrowly voted to reject the last stage of the EMU and keep their own separate currency. After the referendum, the Danish national bank raised its interest rates, which encouraged people to borrow less (since interest on loans was higher), and thus reduced the amount of money in circulation. As money became scarcer, its value increased, and the bank prevented the krone from **devaluation**. However, the krone has never been allowed to fluctuate beyond the level allowed by the **exchange rate mechanism** (ERM).

Denmark was the first country to establish a Ministry for the Environment, in 1972. Danes spend more per capita on environmental protection than most nations in the world. This has also inspired the development of a local industry of pollution control equipment, which is now a significant international force. This environmental focus has also affected the Danes' relation to European integration. Many have feared that joining the European Union (EU) would require them to lower their standards of environmental protection in order to remain in line with the other EU nations. Other than environmental protection laws, there are few regulatory controls on the economy.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Denmark has a thoroughly modern and extensive **infrastructure**. Its numerous islands have encouraged the development of a network of ferry services in domestic waters with 415 kilometers (258 miles) of waterways. A well-maintained road and rail network includes 71,437 kilometers (44,388 miles) of highways (including 843 kilometers, or 524 miles, of expressways), and 2,859 kilometers (1,773 miles) of railways which serve almost every town. Some 508 kilometers (316 miles) of the railways are privately owned, while the rest are owned by the state.

In cities, environmental concerns have encouraged bicycle riding for all. Urban traffic is minimized by legislation requiring nearly all new shops be built within the existing commercial centers of cities, towns, and villages. Additionally, most new workplaces are required to be a short walking distance from a transit stop. Shops, offices, and factories must make accommodations for bicyclists and pedestrians. As a result, in 1998 less than one-third of travel within cities was via cars and trucks, and motorized traffic in the city centers had increased very little over the past 25 years.

As of 1999, Denmark had one of the world's highest density air networks, with 28 paved-runway and 90 unpaved-runway airports. Air service for Denmark, Norway, and Sweden is provided by Scandinavian Airlines Systems (SAS). Copenhagen Airport was voted "World's Best Airport of 2000" by the International Air Transport Organization, the same year that also saw the completion of the 7.8-kilometer Øresund bridge linking Denmark with Sweden.

Danes consumed 33.03 billion kilowatt-hours (kWh) of electricity in 1998, importing 2.68 billion kWh, and exporting 7.1 billion kWh. Most of the imported fuel is coal, which in 1998 amounted to 6.3 million tons. Denmark is shifting further away from coal use, as the 1998

Communications

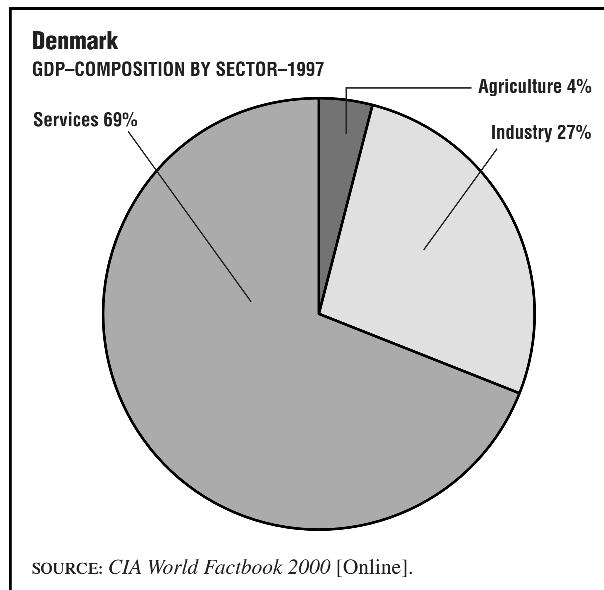
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Denmark	309	1,141	585	248.4	364	N/A	377.4	540.30	1,500
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Norway	588	915	579	160.1	474	50.0	373.4	754.15	2,000

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

figure is 60 percent lower than it was just 2 years earlier. Since the discovery of oil and natural gas reserves in the 1960s, Denmark was self-sufficient in oil production by the 1980s. In 1998 oil production was 238.35 million barrels per day (bpd) with exports of 8.98 million bpd, while natural gas production was 267.68 billion cubic feet (bcf), and exports were 95.35 bcf. The state owns significant shares in both oil and natural gas extraction, although the giant Maersk/A.P. Møller Corporation is also a dominant figure. Overall, in 1998 Denmark generated 4.27 billion kWh of electricity. Fossil fuel from its own reserves accounted for 90.8 percent of this electricity, hydroelectric power for 0.07 percent, and the remaining 9.13 percent was generated by other means, including wind power. Denmark has, since 1980, banned nuclear power, and focuses much research and development on conservation and alternative energy sources.

Denmark has an excellent telecommunications system based on 3.20 million telephone lines (1995). Cellular phone ownership increased by 304 percent from 1993 to 1997, and in 1999, such telephones were owned by 49 percent of the population, including nearly every person between ages 17–25. Cell phone ownership per capita in 1997 was 190 per 1,000, as compared to the U.S. figure of 128 per 1,000. Denmark's burgeoning IT services industry is supported by high Internet connectivity; 90 percent of all businesses use some aspect of the Internet. The Danish government has strongly supported the development of personal as well as business Internet use. In January of 2001, the prime minister announced that the government intends to provide all households in Denmark with access to the Internet, while at that time nearly 50 percent of all households with a computer were already connected.



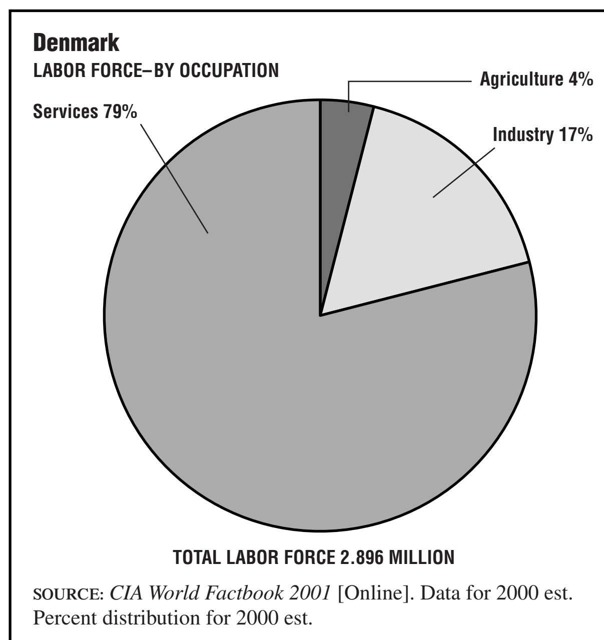
SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

In modern Denmark, the economic sectors of agriculture and industry are so closely linked that it is difficult to separate their influences. Both food and wood-based industries such as paper depend heavily on agriculture for raw materials while using sophisticated technology to process them. In addition, agricultural production itself is quite technologically advanced. The agricultural sector's highly technical nature means that its great productivity is generated by a small fraction of the total workforce—4 percent in 2000. In contrast, well over two-thirds of the workforce was employed in the service sector in the same year.

Agriculture in Denmark also includes forestry and fishing. The agricultural industry was Denmark's first engine of growth, especially its livestock production and forestry industry. Agriculture's economic influence relative to other sectors has basically been declining; by the 1960s, industry had surpassed it in terms of employment and percentage of GDP, and by 2000 agriculture made up 3 percent of GDP. Despite the small size of Denmark's agricultural sector today, it is comparatively highly productive, accounting for around 15 percent of exports in 1999. In 1998, Denmark was the world's seventh-largest producer of pork, while the Danish fishing industry was the second-largest in Europe.

The lack of raw materials other than agriculture (until the discovery of oil and natural gas in the 1960s), meant Denmark's industries developed as secondary production and processing concerns, usually specializing in



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 2000 est.

narrowly-defined fields. This has led to the predominance of small- or medium-sized firms making niche products, often with a high-tech or design focus. For example, in a small design-oriented field such as furniture making, Denmark excels—in 1998 accounting for 20 percent of furniture exports by EU countries. The complexity and versatility of this organization of the industry has somewhat sheltered the Danish manufacturing industry from fluctuations in the world market. Alongside food processing and agro-industry, chemicals and engineering are important industries, and electronics are increasing in significance. Denmark's position in the North Sea has led to the development of a strong shipbuilding sector—it is currently the world's third-largest shipbuilder after Japan. The general trend in the manufacturing industry is that work- and material-intensive industries such as food processing, textiles, and metals decline or stagnate, while knowledge- and technology-based industries such as chemicals, electronics, and engineering have been expanding. Industry contributed about one-quarter of GDP in 2000. The sophisticated technology of much of Denmark's industrial sector has meant that high or increasing productivity does not always correspond with high or increasing employment. Over the past decade, the percentage of the workforce employed in manufacturing has remained fairly constant at around 25 percent.

In 2000, Denmark's services sector contributed more than two-thirds of GDP. Private services accounted for around two-thirds of productivity, and public services the remaining one-third. However, many private services are in fact subcontracted to public institutions. The majority of public services are in health, welfare, and administration. In the service sector as a whole, business services and wholesale/**retail** trade accounted for the most productivity growth. Wholesale and retail trade is the largest employer in private services, in 1997 accounting for a little over half of service sector employment. Between 1992 and 1998, the service sector saw a 12 percent increase in employment. Public services have consistently accounted for nearly one-third of employment in services (mostly in health and education) over the past decade, while telecommunications and business services have slowly increased their share of employment.

AGRICULTURE

Denmark is the only country in the Baltic region with a net export of agricultural products, producing 3 times the amount of food it needs for itself. A good percentage of arable land and moderate climate has been conducive to agriculture, but the sector's extremely advanced technology and infrastructure are what have made it so productive in recent years. Although agriculture's role in the Danish economy has steadily decreased as industrialization and economic development has progressed, it is still essential as a source of foreign currency, a direct and indirect source of jobs, and as a supply of everyday foodstuffs.

The increasing mechanization of agriculture, combined with changes in farm management and organization, plus the draw of industrial employment in the cities, has meant fewer people are required to farm ever-increasing quantities of land. Farm sizes have increased, and the number of individual farms has dropped dramatically since the 1950s. From the 1970s into the 1990s, 2,600 individual holdings disappeared every year, absorbed into larger farms. In the first half of the 20th century Denmark had around 200,000 individual farms, averaging 16 hectares in size; by 1997, there were about 60,900 farms averaging 43.6 hectares. Family-run farms are still dominant in Denmark, where even in 1997, some 91 percent of farms were family-owned and run, 7 percent company-owned, and the rest owned by the state, local authorities, and foundations. Along with increasing farm size, the typical farmer has to an increasing extent concentrated on one sole branch of farming, and specialization in animal production has led to fewer types, but larger numbers, of livestock.

In 1996, primary forestry occupied approximately 3,000 employees, while forestry formed the basis for most of the work for around 34,000 employees in the wood manufacturing industry. Denmark is Europe's primary supplier of Christmas trees. Profits from forestry have historically been invested both in modernization of the industry and in investment in other industries. The state is the largest owner of forests, with one-third of forested land under its control. The rest is owned by a multitude of private companies, individuals, and institutions.

In the early 1990s, Denmark was among the top 10 to 15 fishing nations in the world, catching 1.6 million tons in 1993. Industrial fishing (catching fish for industrial use, i.e. producing fish meal and fish oil) has been the most important branch of fishing with a total catch in 1993 of 1.2 million tons. In 1993, the export value of the fishing industry was around DKr10 billion, corresponding to some 4 to 5 percent of Denmark's total exports.

Environmental legislation has been on the increase in the past decade, some of which has directly affected productivity. For example, the greater emphasis on forests and parks has meant that some land had to be turned away from farming use. New restrictions on waste disposal and contamination have also forced some farmers to limit or end production.

INDUSTRY

MANUFACTURING. In 1996, 45 percent of the manufacturing industry's total production went to export,

corresponding to 75 percent of total exports. Mechanical engineering production, especially of electronic goods, was an increasing proportion of the sector's value, and also created some 12,400 new jobs between 1980 and 1996. Nearly all Danish electronics production is exported, including products such as measuring instruments, microphones, equipment for tele- and radio communication, computer networks, power units, engine controls, and hearing aids. Food, drink, and tobacco production/processing, by contrast, has declined between 1993 and 1997 from around 30 percent to around 25 percent of production in manufacturing. The Carlsberg beer company is the most significant producer of beverages, in 1998 having a **turnover** of DKr29.3 billion and employing 20,500 workers. The largest employers in manufacturing are the makers of metal products, machinery, and equipment; the food-processing industry (bacon factories, dairies, corn mills, and breweries); the paper and graphic industries; and manufacturers of transport equipment, especially shipbuilding. A significant percentage of workers are also employed making wood and wood products.

CHEMICALS. The chemical industry has also grown through the last decade, and in 1999 accounted for 24 percent of all chemical production in the EU. Denmark, in 1996, was the world's second-largest per capita exporter of pharmaceuticals, with exports valued at almost DKr15 billion. Novo Nordisk, despite its status as one of the largest chemical companies, is still in many ways typical of Danish industrial style: a high-tech, highly-specialized firm, investing heavily in research (in this case on insulin, hormones, and enzymes), exporting 98 percent of its products.

ELECTRICITY, COAL, GAS, AND OIL. Denmark is the third-largest oil producer in Western Europe, in 1998 producing 233.35 million barrels per day (bpd) of petroleum, while in the same year natural gas reserves produced 267.69 billion cubic feet (bcf) per year. Natural gas exports at that time were over 95 bcf per year, primarily to Sweden and Germany. Danish oil and gas production in 1998 was worth just over DKr30 million. In 1999, the energy and water industries together employed 17,000 people. Maersk/A.P. Møller, the largest company (of any kind) in Denmark, is heavily involved in oil production, although it began as a shipping concern. Statoil (owned by the state of Norway), and the American-based multinational Amerada Hess are the other significant operators in this industry. At the end of the century, Denmark was still opening up new areas of the North Sea for exploration, and it is possible that new reserves will be discovered. The government retains its shares in some oil industries, and licenses the right to explore and extract.

CONSTRUCTION. The construction industry illustrates the trend of a decline in work-intensive manufacturing. Devastated in the 1970s and 1980s by a severe fall in house building, production, and employment in this construction fell considerably and stayed low through the late 1990s. The value of construction products fell from 12 percent of GDP in 1972 to 6 percent in 1996. Over that time, employment fell by 43,000. The building and construction industry is mainly made up of small companies in which independent (paid) and assisting (unpaid) spouses constitute a relatively large proportion of those employed. The rapid decline in this sector in Denmark has in the first half of the 1990s led to the industry being more export-oriented, partly through Danish firms increasing activity in Germany. Construction has shifted somewhat from mainly making new buildings (which had accounted for 47 percent of its work in 1970) to a greater focus on repairs and maintenance, which grew from 23 percent in 1970 to 38 percent of construction work in 1999. New building construction in that time frame fell to 32 percent.

SERVICES

TOURISM. In 1997, 2.2 million tourist arrivals in Denmark were recorded (a 4 percent increase from 1993). In 1999, tourism generated around DKr44 billion in revenues, an increase of 1 million from the year before. This made it the third-largest sector after industry and agriculture. The attractions most visited by tourists are Tivoli Gardens (Copenhagen), Lego Land (Billund), Hans Christian Andersen's House and Museum (Odense), and the Viking Ship Museum (Roskilde). Old manor houses and castles are also popular destinations, while Copenhagen harbor was in 2000 one of the most popular stops on European cruises.

Tourism employed over 70,000 (1999) people full-time in the facilities described above, as well as 650 hotels, 30 inns, 525 registered campsites, and over 100 youth hostels. In 1998, the Danish Ministry of Business and Industry, SAS, the Danish Tourist Council, and other tourism interest groups joined forces with local authorities to promote Denmark as a tourist destination for businesspeople and wealthy weekend tourists from the United States, Germany, Southern Europe, Sweden, and Russia. The 3-year international marketing project was estimated to cost a total of US$7.7 million, of which SAS was to pay US$4 million, the Ministry of Business and Industry US$1.3 million, and the rest will come from various municipalities.

WHOLESALE AND RETAIL TRADE. Employment in the service sector is dominated by the wholesale and retail trades, with 441,000 people in 1998. However, employment has declined since the 1970s, as the sector has seen considerable **vertical integration** (an overall integration of retail, wholesale, and in certain cases production sectors). Moreover, 1980s-era mergers within the sector

(horizontal integration) have marked both areas, leaving wholesale and retail highly concentrated (with a few firms dominating the market). In 1995, 4 percent of firms accounted for about 75 percent of the total turnover. In 1998, there were 8 wholesalers operating domestically, the largest 2 of which were Maersk and the cooperative FDB, which together accounted for 61 percent of the market in 1998. Total transactions in 1998 amounted to US$10.7 billion. In retail, even though a few large players dominate the industry as a whole, there are still a large number of small shops; 3 out of 4 retail shops are one-person businesses, while the remainder are mainly small companies or cooperatives.

TELECOMMUNICATIONS. Growth in postal and telecommunications services was larger than any other business sector; from 1992 to 1998 productivity grew by 44 percent. **Deregulation** of the industry, beginning in 1986, paired with strong research and development supported by the government allowed firms to take advantage of new technologies. However, technological advances have meant that growth was not accompanied by much of a rise in employment, which in 1996 was 45,000 people, the same as in 1986. The major telecommunications companies are at least partly-owned by foreign companies. TeleDanmark, in which Ameritech (U.S.) owns a controlling interest, and Sonofon cellphones, almost half of which is owned by Bellsouth (U.S.), together account for over 75 percent of the market.

FINANCIAL SERVICES. Between 1989 and 1996 there was a one-third decline in the number of domestic bank and financial institution branches. This was mainly due to Denmark's banks being burdened by a number of bad debts in the early 1990s. Since 1994, the improvement in both Denmark's economy and the banks' lending policies has contributed to more stability in the industry, along with a number of consolidations among the country's banks. The reduction of branches of institutions coincided with a 14 percent decline in the number of employees over the same 7 years. In 1998, Denmark had 95 banks with assets of US$216 billion, while total assets of the 5 largest banks totaled US$179 billion, over 80 percent of total banking sector assets. The 2 largest banks, Den Danske Bank and Unidanmark-Gruppen, also operate as financial "supermarkets" offering a wide range of financial services, and account for 50 percent of the financial service market. Danish banks are technologically sophisticated, and have invested heavily in computers and the development of electronic transfer systems, in 1998 adopting one of the first nationwide electronic payment card systems (Dankort). Employment in business services has been increasing throughout the last decade; by 1999, 326,000 people worked in the financial services sector, with Den Danske bank employing 11,409 people, and Unidanmark-gruppen employing 9,960.

TRANSPORTATION. Road transport, both trucking/hauling and personal transport such as taxi services, dominates the domestic transportation sector. Road transport in 1996 generated just under half of the total revenues from the transport sector, while the remaining value was divided among other types of the transport: shipping (16 percent), railways (11 percent), and aviation (7 percent). The transport sector created around 9 percent of Denmark's GDP and 7 percent of total employment in 1996. Activity in the sector as a whole has risen steadily and at a faster rate than overall productivity since the 1980s. Production value in the sector rose by 74 percent between 1986–1996. In 2000, over half of Danish international trade was by road, and most of the remainder by sea. Denmark's increasing expertise in making high-tech liner and tanker ships has helped the shipping sector in recent years. Shipping accounts for most of Denmark's international freight traffic, and the country's almost 600-vessel merchant fleet is the fourth-largest in the European Union. Denmark's Maersk shipping line bought the U.S.-based Sea-Land Services in 1999 to become the largest container shipping line in the world.

INTERNATIONAL TRADE

Denmark is one of the most trade-oriented economies in the world. As a base for exporting, Denmark has many advantages. Its key location as the only Scandinavian country connected to mainland Europe, plus its position on the Baltic sea, gives it access to lucrative markets for both EU and non-EU countries. Its extensive infrastructure and well-educated, high-skilled workforce also help promote trade and foreign investment.

Germany is currently Denmark's most important export destination, followed by Sweden and the United Kingdom. Exports to these 3 countries totaled 41.7 percent of Danish exports in 1997. The United States is the largest trading partner outside the EU, and accounted for almost 5 percent of Denmark's total trade value in 1997. Over one-third of Danish industrial exports are machines and instruments, while pharmaceuticals, energy (especially oil), meat, and meat products make up the rest.

Trade (expressed in billions of US$): Denmark

	Exports	Imports
1975	8.712	10.368
1980	16.749	19.340
1985	17.090	18.245
1990	35.133	32.228
1995	49.036	43.223
1998	47.070	44.994

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Denmark's main imports are raw materials and unfinished products that are used in its own industrial sector. In 1997, imports for the industrial sector were about 70 percent of total imports, while the rest were consumer products, including cars. Of the services imported, computer software and management consulting are very important. Imports from Germany, Sweden, and the UK account for 42 percent of total imports.

The early 1990s were a difficult time for Danish international trade as its 3 most important markets—Germany, the UK, and Scandinavia—were all performing sluggishly. More recently trade has increased, especially due to a depreciation of the Danish krone. The krone is expected to remain stable through the next few years, which may reduce the growth in exports. However, Denmark is currently exporting more than it imports in all 3 sectors: industry, agriculture, and services.

MONEY

Since the 1980s, Denmark has pursued a fixed exchange rate linked to the German mark. On 1 January 1999, **monetary policy** was linked to the new European Central Bank. In September 2000, Denmark opted out of the European Monetary Union's (EMU) third phase (establishment of a joint EU currency and relinquishment of jurisdiction over monetary policy), although the country's economic performance exceeds the established criteria for membership. This was due to resistance on the right, especially from nationalist groups who wish to retain the Danish currency and not tie its economy so closely to that of Europe, and equal resistance on the left, where many fear that equalizing human rights and environmental regulations with the EU will chip away at the Danish welfare state and its environmentally-conscious business practices.

The National Bank of Denmark (Danmarks Nationalbanken) is the only **bank of issue** in the country and enjoys a special status as a self-governing institution under government supervision. Profits in the National Bank revert to the state treasury. Although Denmark has retained its own currency, separate from the EU, its currency is so closely tied to the euro that monetary policy often closely follows the European Central Bank. The National Bank lends to smaller banks and to the central government, and is responsible for administration of the foreign exchange policy.

The Copenhagen Stock Exchange (CSE) was established in the capital in 1861, and in 1999 had 233 listed companies. At the end of 1999 its **market capitalization** was US$105.29 billion. The CSE was a pioneer in computerized trading, being the first in the world to introduce electronic bonds and shares.

POVERTY AND WEALTH

The **Gini Index** measures the level of income inequality in a country, with 100 equal to total inequality (basically one person receiving all the income), and 1 indicating total equality (everyone having exactly the same income).

Raija Julkunen, a lecturer on social policy at the University of Jyväskylä, describes the differing U.S. and Nordic attitudes towards the role of the state: "American culture conceives citizenship and welfare as diametrically opposed, as if state-ensured welfare did not go along with a free society. In the Nordic countries, on the other hand, the notion of a welfare state has a positive ring to it. Only social rights—guaranteed minimum income, employment, education, health care—make citizens free and equal." The Nordic approach has succeeded in that there is virtually no poverty in Denmark.

Denmark's extensive **social welfare system** has existed in its current form since the 1960s, but has roots in Danish culture back to the 1930s. Because of Danes' long-standing preoccupation with economic equality, there is less of a difference between Denmark's high-income and lowest-income citizens than in the United States or many other countries. People who work in restaurants or cleaning buildings have free access to the same quality of healthcare as those who are lawyers, professors, or accountants. They have paid holidays, mater-

Exchange rates: Denmark

Danish kroner (DKr) per US$1	
Jan 2001	7.951
2000	8.083
1999	6.976
1998	6.701
1997	6.604
1996	5.799

Note: The Danes rejected the Euro in a September 28, 2000 referendum.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Denmark	22,984	25,695	29,332	31,143	37,449
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Norway	19,022	23,595	27,113	28,840	36,806

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Denmark

Lowest 10%	3.6
Lowest 20%	9.6
Second 20%	14.9
Third 20%	18.3
Fourth 20%	22.7
Highest 20%	34.5
Highest 10%	20.5

Survey year: 1992

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

nity and paternity leave, sick leave, and unemployment benefits.

All families with children under 18 receive, irrespective of income, family allowances consisting of a regular, tax-free amount per child, with a higher rate for children under 7 years of age. Bread-winners who are single parents or **pensioners** can receive additional allowances per child. Families with children are entitled to free home help if the person who has the responsibility for the home and the children cannot manage it on account of, for instance, illness or confinement. Among other things, families living in rented accommodation can, depending on family income and the size of the rent, receive a housing benefit (in December 1998, there were 169,000 recipients).

According to sociologists Jens Hoff and Jorgen Goul Andersen in their article "The Danish Class Structure" in *Acta Sociologica* (1989), the concept of class is difficult to compare between countries with this kind of social system and countries such as the UK, the United States, or in less-developed countries. Class in Denmark is tied less to things like income and healthcare, and more to location, profession, and the kind of work engaged in, i.e. the amount of control over one's own responsibilities. Much of the Danish labor force works without much individual control over workplace decisions, without supervising others, and without much autonomy. This might make them working class by some definitions. However, these workers' quality of life is still very high by most standards, underscoring the impression that in Denmark, there is a lack of status distinctions between those who have high-skill or low-skill jobs.

One facet of the Danish welfare model has been the belief that benefits should not be tied to the kind of job one has, or whether someone is working or not. This approach has proven problematic as the country continually struggles with its unemployment rate—especially among the young. Critics argue that there is not enough incentive for people to choose to be employed rather than collect unemployment money. However, proposals of dramatic reductions in benefits are political suicide, as Danes are wary of what they might see as the sacrifice of a commitment to equality.

WORKING CONDITIONS

In 1999, the Danish workforce numbered 2.89 million, while the unemployment rate was 5.7 percent. The labor force is shrinking in Denmark. This is partly due to the aging of the population, as more workers retire than enter the workforce each year. High income taxes combined with generous unemployment assistance also may dissuade many, especially young workers, from entering the workforce. The government is currently attempting to **restructure** its taxation system to change this picture, shifting the burden of taxation away from individual income.

The standard working week is 37 hours, with a minimum of 5 weeks mandatory vacation. Three-quarters of those in employment have a 5-day work week, while those out sick may be paid up to 90 percent of their wage (with a maximum of DKr2,556 per week).

Danish laws guarantee the right of workers to organize and all (except civil servants and essential service

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Denmark	16	6	11	3	17	5	43
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Norway	16	7	11	5	4	6	51

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

workers) have the right to strike, as well as the right to bargain collectively. The government stands behind these rights, does not interfere with unions, and prohibits anti-union discrimination by employers. More than 75 percent of all wage earners are organized in trade unions, as are about the same percentage of salaried employees, and collective bargaining is very common. Strikes are also rather common; in 1997, 101,700 workdays were lost due to labor conflict.

Mothers get extensive maternity leave—4 weeks prior to the birth of a child, and up to 24 weeks after—while fathers get paternity leave of 2 weeks after the birth. From the fifteenth week after the birth the mother can transfer all or a portion of her remaining maternity leave to the father. A tax-free benefit (known as the "children's check") is paid to the parents of all children 7 to 18 years old regardless of the household income. Denmark's child-care system enables either or both parents to work outside the home. In 1994, 80.3 percent of 3 to 6 year-olds were in childcare, (compared to 57.4 percent 10 years earlier). Women who used to be expected to care for their own children no longer face the same demand; in Denmark women's rate of participation in the workforce is very high—in 1995 89 percent that of men. In the same year women's salaries were 88.1 percent of men's.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1871. Denmark's **socialist** movement is officially founded, the start of a strong and diverse socialist tradition influencing Danish politics in the years to come.

1901. Change of political system to a constitutional monarchy, creating the Government (body of ministers selected by the queen) and the Folketing (representatives elected by the people).

1914–18. Denmark remains neutral during World War I.

1915. Constitutional reform; women and servants are enfranchised.

1933. Social reform movement begins, expanding the welfare and education system.

1940. Denmark occupied by Germany during World War II.

1941. United States establishes military bases in Greenland (with Danish ambassador's approval).

1945. Denmark liberated from Germany at the end of World War II.

1948. Faroe Islands, until this time part of Denmark, are granted home rule, which allows them control over domestic policy.

1949. Denmark joins North Atlantic Treaty Organization (NATO), a strategic military alliance of Western European and North American non-**communist** nations.

1960. Denmark joins European Free Trade Agreement (EFTA), which reduces or eliminates barriers to trade (such as **tariffs**) between participants.

1967. Pornographic text and photography (excluding photos of children) is legalized, a sign of Denmark's progressive/permissive social attitudes; however, response to this and the stance on abortion leads to the founding of the Danish Christian People's Party.

1973. Compulsory National Health Insurance set up (replacing sickness benefits fund).

1973. Denmark joins the European Economic Community (EEC—an organization of states that lowered barriers to trade between them).

1976. Social Assistance Act introduces a unified structure of public assistance and benefits, partly needs-based.

1979. Greenland, formerly part of Denmark, is granted home rule.

1985. Greenland leaves EEC over fears of EEC regulations' effects on its fishing industry.

1985. Denmark joins the European Union.

2000. Danes reject final stage of European Monetary Union (EMU) in a referendum.

FUTURE TRENDS

Danish manufacturing remains a strong base for growth, especially as research and development help support its further extension into high-tech industry. The Danish government's support for the growing use of Internet services for both businesses and individuals bodes well for Danish flexibility and responsiveness to global market trends. Public investment in education, particularly in relation to computers and computing, also supports prospects for growing computer-related services.

Unemployment has been reduced for the present, but the main mechanism was to shrink the size of the workforce through early-retirement plans and state-funded sabbaticals. A smaller workforce drives wages up, raising production costs for many Danish businesses, which makes them less competitive internationally. This has affected Denmark's **balance of payments**, which has even dipped into negative territory in recent years. It is not clear what effect this will have on the economy, but if the government can manage to strike a balance, keeping **inflation** and interest rates low without hurting industrial competitiveness, then a small deficit may be an acceptable price to pay.

Denmark's greatest challenge for the future is due to its aging population. Its welfare and social security system will be severely strained by the demands of the growing population of elderly people and the shrinking workforce and sources of tax revenues. If nothing is changed, Denmark will not be able to maintain the standard of benefits it currently grants to its citizens. As most Danes are fiercely supportive of state guarantees of a standard of living, any government attempting to reduce those guarantees faces hostility and resistance. The current government has made some changes in the labor market (reducing and altering some benefits and pensions), but it is unclear how much the public in the highly-unionized workforce will stand for reductions in benefits or wages. The governing coalition must tread carefully if it is to make changes without seeming to compromise its commitment to material equality.

In October of 2000, Danes voted not to join the last stage of the European Monetary Union, and to keep its own currency. Despite the urging of Prime Minister Poul Rasmussen, the Danish public did not support the euro. However, the krone is still closely tied to the euro, and Denmark's economic decisions, particularly monetary ones, will be heavily influenced by the EU. Resistance to the EMU has been made more on political grounds than economic ones. There is some fear that opting out of the EMU will hurt prospects for foreign investment, which in the previous 5 years had increased dramatically in Denmark. The current government has demonstrated its friendliness to business by lowering corporate taxes and other business taxes, which may help to counteract any possible flight of investment. It is too soon to tell if either effect has come to pass.

DEPENDENCIES

GREENLAND. Greenland (local name Kalaallit Nunaat) is the world's largest island, with an area of 2,175,590 square kilometers (840,000 square miles), slightly more than 3 times the size of Texas. Only 15 percent of the island is not covered in ice. There are no crops or trees, but there are many plants and flowers, as well as seals, fish, and reindeer. The population in 1998 was 54,100 with high birth and death rates. Greenlanders (Inuit and what the *CIA World Factbook* calls "Greenland-born whites") form the majority with 87 percent of the population, and the rest are Danish and others. Languages spoken are Greenlandic (East Inuit), Danish, and English. The 56 towns and villages on the island are mostly small; 40 have fewer than 500 people, and only 3 have more than 4,000. The administrative capital is Godthåb, called Nuuk in Greenlandic, with around 12,100 people.

Greenland was first a Danish colony in the 1300s, when Norway and Denmark were united kingdoms. In World War II, when Germany occupied Denmark, the U.S. and Danish ambassador in Washington D.C. agreed that U.S. troops could be stationed in Greenland. Some U.S. air bases remain there even now. A referendum (a nation-wide vote on a particular issue) in 1979 gave Greenland "home rule." Denmark has jurisdiction over foreign policy, defense, and justice, and there is joint authority over its oil and mineral resources. Greenland has its own legislature.

The population depends on fishing, and some also hunt seals. There is a small amount of mining, but the harsh climate and lack of transportation infrastructure have prevented much development. Greenland's economy has not been strong in the past 10 years. Since 1990, imports have outpaced exports. Following the closure of Greenland's last lead and zinc mine in 1989, the fishing industry and grants from the Danish government became the mainstay of the economy. In 1999, grants from mainland Denmark and EU payments for the right to fish in Greenland's waters made up about 50 percent of the home-rule government's revenues. As the cod is threatened with extinction, shrimp fisheries have taken over as the most important income earner.

Greenland is also looking to tourism as a sector for growth; however, the season is quite short due to the long and harsh winters. The public sector—both publicly owned businesses and municipalities—plays a dominant role in Greenland's economy. Greenland joined the European Community together with Denmark but withdrew in February of 1985 (after a referendum in 1982) due to disagreement with the EC over fishing policy.

FAROE ISLANDS. The Faroe Islands (local name Foroyar) are north of the Shetlands and northwest of Scotland, between the Norwegian Sea and the North Atlantic Ocean. There are about 30 islands, 18 of which are inhabited, with a total 2000 population of 45,296. The total land area is 1,399 square kilometers (540 square miles). The population is mostly descended from Viking settlers who landed there in the 8th century. The local language is Faroese, descended from Old Norse, although Danish is also required in schools, and adults on the island can speak it. The capital of the Faroes is Torshavn.

The Faroes have been part of the Danish Kingdom since the 14th century, but were granted home rule in 1948, although the Danish government is still responsible for defense and other aspects of administration. Denmark's Folketing (Parliament) reserves 2 seats for representatives from the Faroes.

Despite their small and remote location, the Faroes have a good domestic and international communications infrastructure, with 22,000 main telephone lines—about one for every 2 people on the island. There is also a satellite earth station and a fiber-optic submarine cable that

links the Islands to Iceland and Denmark. There are 14 radio stations and 7 television stations.

The mild winters, cool summers, and rocky terrain of the Faroes are unsuitable for agriculture, and in the past, sheep farming was very important to the economy. Nowadays fish and fish products are the center of the economy, with fish products comprising 90 percent of exports. Most other food is imported. This near-total dependence on fishing means the economy is very vulnerable, both to the changes in world demand and to environmental change. Even with the fishing industry, the Faroe Islands depend significantly on grants from Denmark. Without Danish government bailouts in 1992 and 1993, the Faroese economy would have gone bankrupt. The Faroes did not join the European Community (EC) when Denmark did, because of disagreement with EC fishing policies, which, the Faroese felt, put them at a disadvantage.

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—Larisa Mann

ESTONIA

Republic of Estonia
Eesti Vabariik

CAPITAL: Tallinn.

MONETARY UNIT: Estonian kroon (EEK). One kroon equals 100 sents. There are bills of 1, 2, 5, 10, 25, 50, 100, and 500 krooni, and coins of 1 and 5 krooni and 5, 10, 20, and 50 senti. The EEK is pegged to the German mark at a rate of 8:1.

CHIEF EXPORTS: Manufactured goods, machinery and transport equipment, timber, chemicals, food.

CHIEF IMPORTS: Machinery and transport equipment, manufactured goods, chemicals, fuels and lubricants, food.

GROSS DOMESTIC PRODUCT: US$7.9 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$2.5 billion (f.o.b., 1999). **Imports:** US$3.4 billion (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in northeastern Europe, bordering the Baltic Sea on the west, the Gulf of Finland on the north, Latvia on the south, and Russia on the east, Estonia has an area of 45,226 square kilometers (17,500 square miles), smaller than New Hampshire and Vermont combined. The capital, Tallinn, is situated on the Gulf of Finland; other major cities include Tartu, Parnu, and Narva. Estonia is the smallest of the Baltic countries (the others being Latvia and Lithuania) that emerged as independent republics when the Soviet Union dissolved in 1991.

POPULATION. The population of Estonia was estimated at 1.43 million in July 2000, with a density of 32 persons per square kilometer (82 per square mile), one of the lowest population densities in Europe. In 2000 the birth rate was 8.45 per 1,000 population, while the death rate was 13.55 per 1,000, giving Estonia a negative population growth rate of negative .59 percent. The government may introduce tax breaks for families with 3 or more children in 2001 in an attempt to increase the population growth rate. Estonia is relatively prosperous and has not experienced any massive **emigration**, yet its net migration rate was estimated at -0.79 migrants per 1,000 population in 2000. The population is also aging, with just 18 percent below the age of 14, and approximately 14 percent older than 65 years of age. The urban population makes up about 73 percent of the total.

Ethnic Estonians, ethnically and linguistically close to the Finns, make up 64 percent of the population, and ethnic Russians (living mostly in and around Narva) form 29 percent of the population. Other minorities include Ukrainians, Belarusians, and Finns.

Ethnic Russians made up only 4 percent of the population before the Soviet Union annexed Estonia in 1940, but Russians **immigrated** in large numbers during the Soviet period of industrialization. After Estonia restored its independence in 1991, only Russians (and their descendants) who had lived in the country before 1940 were granted Estonian citizenship. All others were subject to a citizenship exam testing Estonian language proficiency. Many did not speak Estonian, and by 1998 about 22 percent of the Estonian population was considered foreign (9 percent had Russian or other foreign passports and 13 percent were stateless). In 1998, under pressure from Russia and the European Union, the government eased the citizenship provisions and amended the language law.

OVERVIEW OF ECONOMY

Until World War II, Estonia was poor and mostly agricultural. Its industrial economy was shaped during the Soviet period (1940–91) with the **nationalization** of industry and the collectivization of agricultural land into large state-run farms. Soviet central planning stressed the development of heavy industries. Prior to restoring its independence from the Soviet Union in 1991, Estonia was

the most prosperous Soviet republic. Its policy since independence has focused on building up relations with the Nordic countries, particularly Finland and Sweden, Western Europe, and its Baltic neighbors, while weakening ties with the rest of the former Soviet countries.

Estonia's economic record is among the strongest in Eastern Europe. Although its **gross domestic product per capita** was only US$3,951 in 1998, its total **gross domestic product** grew by over 4 percent in 2000, and expectations for 2001 were for a strong 5–6 percent growth. The Estonian monetary and banking system, which suffered after independence, stabilized with the introduction of a **currency board**. The central bank holds foreign currency reserves to cover all circulation and reserves in krooni. It cannot refinance commercial banks unless there is extreme need, and the government's freedom to take on debt is restricted, as recommended by the International Monetary Fund (IMF). The Estonian kroon was pegged to the German mark at a **fixed exchange rate** of 8:1. Despite the limitations of the currency board, stable finances and economic reforms have created a predominantly free market European-style economy.

Many state-owned assets were **privatized** after independence, and the sale of public companies was still underway in the energy, telecommunications, and transportation sectors in 2000. High levels of **foreign direct investment** have supported the privatization program. Foreign investors in Estonia have been most active in communications, financial services, manufacturing, transportation, and real estate. They have acquired control of local assets relatively cheaply, while increasing the value of domestic companies through capital expenditures. Approximately 60 percent of foreign investments in Estonia are from Finland and Sweden, followed by the United States, Denmark, Norway, Liechtenstein, and the United Kingdom.

In 1998 Estonia began negotiations with the European Union for accession by the end of 2002. It is among the front-runners for membership, with a functioning market economy and the ability to cope with competitive pressure in the single European market. Estonia's **foreign debt** is estimated at a manageable US$270 million. Estonia also receives economic aid from the European Union (US$137.3 million in 1995).

POLITICS, GOVERNMENT, AND TAXATION

Estonia is a democratic republic with the legislative power vested in a Riigikogu (a 101-member **unicameral**, or single-chambered parliament) elected by universal suffrage for 4-year terms. The Riigikogu appoints the cabinet, which is led by the prime minister, who is the head of government. The president, who is elected by the Riigikogu and who appoints the prime minister, has limited executive power. Political parties include the center-right Fatherland Union (Isamaaliit), the Reform Party (RE), the Moderates, the Center Party, the left-centrist Coalition Party, the agrarian Rural Union (KMU), the Country People's Party, and the mostly ethnic Russian United People's Party (UPPE). In 1999 the opposition Coalition Party received the highest percentage of votes (23.4 percent), but the Fatherland Union, led by Prime Minister Mart Laar (16.1 percent), was able to form a coalition with the RE (15.9 percent) and the Moderates (15.2 percent) to win the elections. Particular policies may spur political feuds but the major Estonian parties are committed to economic stability, openness, and EU integration.

Economic reforms have curbed the government's role in the economy due to the currency board regime and the legal requirement of a balanced budget. The **tariff** regime was **liberalized** dramatically by removing import tariffs (excluding agricultural products from certain countries) and by restricting **excise taxes** to several goods. Yet the state exerts considerable influence with the **public sector** accounting for roughly half of gross domestic product and the public consuming over one-fifth of the total gross domestic product.

The average **income tax** burden for citizens was 26 percent in 1999 but the government was trying to reduce it by 2001. Reductions were expected in the form of tax breaks for families with a third child and an increase in

the minimum taxable personal income base. Amendments sanctioning the taxation of dividends and other income earned by foreign companies in Estonia were passed in 2000.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The transportation **infrastructure** includes 1,018 kilometers (634 miles) of railroads but only 132 kilometers (82 miles) of electrified rail lines. There are 10,935 kilometers (6,835 miles) of paved roads, including 75 kilometers (47 miles) of expressways. Estonia had 320 kilometers (200 miles) of navigable waterways and 420 kilometers (263 miles) of natural gas pipelines in 1992. All international flights use the Tallinn Airport, and there are several ports on the Baltic Sea, the port of Tallinn being the third largest in the Baltic Sea. A two-thirds stake in the state-run Eesti Raudtee railroad company was expected to be sold in a tender (possibly to RailAmerica) and the second-largest city, Tartu, was also expected to sell its public transportation company AS Liikor to a private investor in 2000.

Estonia's 2 oil-shale power plants produce twice what is consumed domestically. Under Soviet rule the country exported energy to Russia and Latvia but these markets dried up after independence. The government is forming a **joint venture** with the American NRG Energy company to renovate and operate the plants, bringing them into line with international environmental standards, and its priorities include creating an energy connection to western European electricity grids via an undersea cable.

The telecommunications market in Estonia is among the most liberalized in Eastern Europe. In 1998 a 49 percent stake in the state-held Eesti Telekom was sold to a consortium of state-controlled Telia (Sweden) and Sonera (Finland), and the government was considering selling the remainder of its stake in the company. Modern phone lines extend throughout Estonia. There are 3 mobile phone service providers: Eesti Mobiiltelefon (a subsidiary of Eesti Telekom), Radiolinja Eesti (a subsidiary of Finland's Radiolinja), and Ritabell (a joint venture between the British Millicom International and local Levicom). Estonia has the highest number of mobile phone users per capita in Central and Eastern Europe. Eesti Telefon, the fixed line division of Eesti Telekom, had a **monopoly** in domestic and international fixed line calls until 2001. In 2000, it had 521,901 subscribers (36.3 lines per 100 inhabitants), and the 3 cell phone operators had 514,000 users (35.7 per 100 inhabitants). The number of cell phones is expected to grow to 700,000 in 2003, when 1 out of every 2 Estonians is expected to own a cell phone. Estonia has one of the highest numbers of Internet subscribers in Eastern Europe, and the government intends to provide all schools with Internet access. In 2000 over 28 percent of the Estonians were online and 34 percent of them banked over the Internet.

ECONOMIC SECTORS

The economy of Estonia is service-based, with services contributing 65.7 percent of gross domestic product (GDP) in 1999, while industry is responsible for 30.7 percent, and agriculture and forestry comprise 3.6 percent of GDP. Estonia has natural deposits of shale oil, peat, phosphorite, amber, cambrian blue clay, limestone, dolomite, and timber and arable land. Services, especially transportation and tourism, are the principal growth sectors, although the manufacturing and the forest products sectors are also likely to see growth.

AGRICULTURE

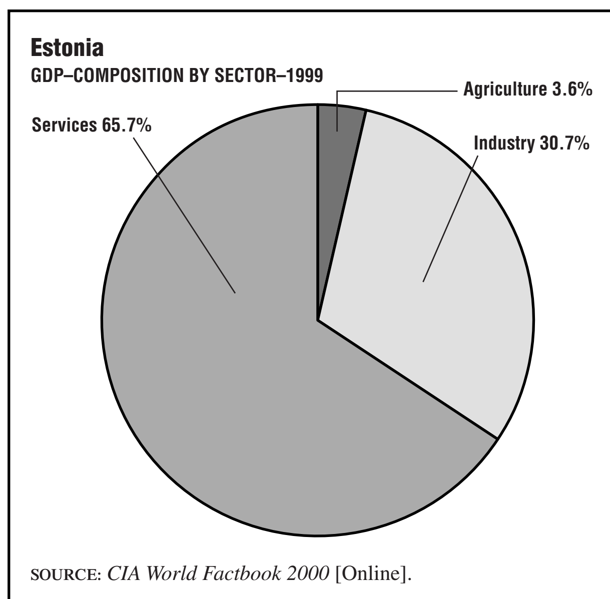
Arable land covers 25 percent of the territory, permanent pastures 11 percent, and woodlands 44 percent. The foods produced include animal products, cereals, potatoes, fruits and vegetables, and fish. Agriculture was the traditional livelihood of most Estonians before

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Estonia	174	693	480	15.1	170	N/A	34.4	174.65	200
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Latvia	247	710	492	58.0	68	N/A	N/A	50.86	105

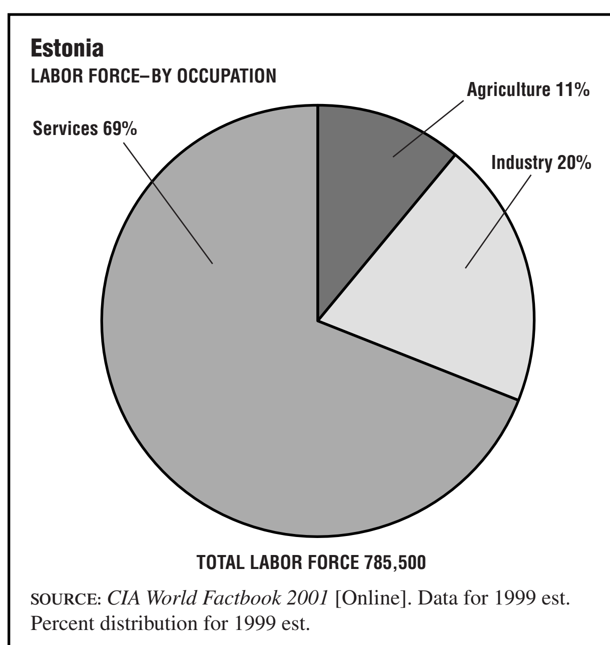
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

Soviet collectivization in the 1940s and there were over 100,000 family-held farms. After independence in 1991 land privatization carved thousands of new private farms out of the Soviet cooperatives. By the mid-1990s, these farms produced nearly 70 percent of the crops and 40 percent of the livestock, but most were unable to afford fertilizers, fuel, seeds, or capital investments. Competition from foreign producers put many farms out of business, and adjusting the sector to EU standards has been controversial. As a result, agricultural output decreased and almost one-fourth of the arable land was abandoned.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999 est. Percent distribution for 1999 est.

INDUSTRY

Traditional Estonian industries include oil shale mining, shipbuilding, phosphates, electric motors, excavators, cement, furniture, clothing, textiles, paper, shoes, and apparel. Many of these industries stagnated after independence, deprived of their Soviet markets and sources of cheap raw materials. Yet the sector has been growing at a rate of 3 percent (1996 estimates), mostly due to the rapid privatization and the entry of foreign (mostly Scandinavian) investors in electronics, cement, chemicals, and forest products. Estonia has developed adequate assembly capacities to supply electronic components to leading Scandinavian telecommunications companies and suppliers. In addition, with its low taxes, low labor costs, and trained workforce, the country is an ideal location for electronics manufacturing. In early 2001 telecommunications giant Ericsson (Sweden), the world's leading maker of telecommunications equipment, sold its loss-making mobile handset operation, dramatically cutting its orders with Elcoteq (Finland). Elcoteq terminated the manufacture of Ericsson handsets in its Estonian subsidiary, Elcoteq Tallinn/ET, which was responsible for one-quarter of Estonian exports in 2000. But Elcoteq quickly refocused on mobile systems components for Ericsson, reflecting its long-term demand. ET continues producing handsets for Nokia (Finland), and will launch systems components production in Estonia later in 2001.

SERVICES

FINANCE. The Bank of Estonia was established in 1990, and became the central bank following its merger with the Estonian branch of Gosbank (the Soviet central bank) in 1992. The early days of independence witnessed a rapid proliferation of banks—42 were started by the end of 1992—when they encountered serious **solvency** difficulties, caused by stagnation and **bad loans** (granted to insolvent private debtors or loss-making state firms). The sector has since been consolidated through mergers and the closure of loss-makers, and in 1998 there were 11 banks. The 4 largest in 1998 were Eesti Uhispank (Union Bank of Estonia), Hansapank, Eesti Hoiupank (Estonian Savings Bank), and Tallinna Pank, and there was only 1 foreign bank branch (Merita Bank of Finland) and 5 foreign bank offices. In 2000 Hansapank and Uhispank were owned, respectively, by Swedbank and SEB (both Swedish). The financial sector is considered modern and efficient. About 10 percent of Estonians banked online in 2000, and since only a few users had credit cards, banks developed other online payment systems.

TOURISM. Boosted by crowds of Finns visiting Tallinn for shopping and pleasure, tourism has grown by 15 percent yearly since 1993. The number of visitors in 1998 was 1.5 million and the revenues US$660 million. In

1998 the number of visitors increased by one-third from the previous year due to the abolition of visa requirements for Nordic countries and the lower costs of travel to Estonia. The government-funded Estonian Tourism Board, besides attracting visitors to Tallinn and Tartu, advertises Estonia's national parks and reserves and its Baltic seaside resorts.

RETAIL. Estonia's **consumer goods** boom is based on economic growth and high consumer confidence. Estonians have a passion for household electronics and, as the absence of customs tariffs keeps imported household appliances cheaper, toasters, coffee makers, and mixers are found in the majority of Estonian homes. Finnish retailers, attracted by liberal regulations, dominate **retail** in Tallinn. Finnish tourists form a quarter of the retailers' clientele, lured by Estonia's lower **value-added tax**. Estonia's clothing is 20 percent less expensive than in Finland; and Estonian food, especially cheese and alcohol, is cheaper. In 2000 Estonia had an upper-income class of about 10,000 and a growing middle-class numbering about 60,000, both fueling domestic retail demand.

INTERNATIONAL TRADE

Estonia benefits from its location between prosperous Finland and Sweden and the economic potential of Russia. Estonians, both Nordic in culture and experienced in working with Russia, can provide a bridge between these growing markets. Estonia's open economy, although constrained by the currency board, is export-oriented, but still unable to reduce its foreign **trade deficit** of about 12 to 13 percent of gross domestic product. Exports in 1999 amounted to US$2.5 billion, while imports stood at US$3.4 billion. In 1999 chief exports included electronic components, machinery, and appliances (19 percent), wood products (15 percent), textiles (13 percent), food products (12 percent), metals (10 percent), and chemical products (8 percent). Estonia's leading export markets were Sweden (19.3 percent), Finland (18.8 percent), Russia (8.8 percent), Latvia (8.8 percent), Germany (7.3 percent), and the United States (2.5 percent). Chief imports included machinery and appliances (26 percent), food (15 percent), chemical products (10 percent), metal products (9 percent), and textiles (8 percent). Leading suppliers of imports were Finland (23 percent), Russia (13.2 percent), Sweden (10 percent), Germany (9.1 percent), and the United States (4.7 percent).

MONEY

The currency board and the requirement for a balanced budget has prompted Estonia to establish an offshore stabilization fund where it deposits income above its expenditures. Such revenue comes from privatization, including the initial public offering of Eesti Telekom at the Tallinn Stock Exchange in 1998. The 2 largest banks, Hansapank and Uhispank, acquired by Swedish financial institutions, opened their own brokerage houses that fueled the boom of the Tallinn Stock Exchange after 1998. Swedish SEB and Swedbank have also made Estonia a center of financial consolidation in the Baltics as they target the largest Latvian and Lithuanian banks for acquisition. **Inflation**, which had been a serious problem in the years immediately following independence, has been tamed since the mid-1990s and was estimated at 3.3 percent a year in 1999.

Exchange rates: Estonia

krooni (EEK) per US$1	
Jan 2001	16.663
2000	16.969
1999	14.678
1998	14.075
1997	13.882
1996	12.034

Note: Krooni are tied to the German deutsche mark at a fixed rate of 8 to 1.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Under the Soviet regime, Estonia was arguably a land of economic equality and the most affluent republic of the Soviet Union. The vast majority of the population was state-employed, no private initiative was allowed, and government funds were allocated equitably (for free health care, higher education, pensions, and other benefits). The only exceptions to this modest standard of living were the **nomenklatura** (the **Communist** Party elite) and the **informal economy** players. Market reforms in the 1990s generated new poverty and wealth, however. Unemployment, hitherto unknown, increased, although not as dramatically as elsewhere in the region. Social benefits suffered from inflation in the early 1990s. The withdrawal of the Russian military from the territory

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Estonia	N/A	4,022	4,451	4,487	3,951
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Latvia	2,382	2,797	3,210	3,703	2,328

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Estonia

Lowest 10%	2.2
Lowest 20%	6.2
Second 20%	12.0
Third 20%	17.0
Fourth 20%	23.1
Highest 20%	41.8
Highest 10%	26.2

Survey year: 1995

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

and the breakup of collective farms deprived many Estonians of their livelihood.

At the same time, many entrepreneurs made fortunes and a new middle class started taking shape as privatization and free initiative changed economic rules. Estonia generally avoided the surge of corruption and crime that plagued other Eastern European countries. In 1995 its **Gini index** (measuring economic equality with 0 standing for perfect equality and 100 for perfect inequality) was 35.4—more equitable than the United States, but much less equitable than most Eastern European countries and Nordic countries. Although extreme poverty in Estonia was nowhere near the size in other Eastern European countries, 6.3 percent of its population lived below the poverty line in 1994. As a country with an aging population, Estonia is struggling to maintain its pension system, and the government is formulating a much-needed pension reform.

WORKING CONDITIONS

Estonia is party to all major universal and European legal instruments on economic and social rights, the rights of the child, the right to equal compensation and collective bargaining, and the elimination of discrimination in the workplace. The Estonian **labor force** numbered 785,500 in 1999. Unemployment is around 10 percent, yet working conditions are considerably better than in many other Eastern European countries. The labor force is skilled and educated and the average salary in 1997 was US$257 a month (US$322 in the manufacturing sector), a fraction of the rate elsewhere in Scandinavia but higher than most Eastern European countries. The percentage of people working in the services industry was 69 percent, industry 20 percent, and agriculture and forestry 11 percent. Labor unions have limited influence and have a non-confrontational approach to government and employers. With a decreasing and aging population, Estonia faces serious demographic challenges. Many labor practices are inefficient and improving productivity is key for Estonia's economy.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1561. Estonia is subjugated by Sweden; reforms improve the economic situation of the peasants.

1721. Estonia is ceded to Russia's Peter the Great.

1816. Russian reforms abolish serfdom, and peasants obtain the right to buy land. Nationalism grows.

1905. In the wake of the first Russian revolution, nationalism is boosted by modern press and literature.

1917. The Russian tsar is toppled by the second Russian Revolution.

1918. On February 24 an independent Estonian democratic republic is proclaimed.

1920. The Tartu peace treaty between Soviet Russia and Estonia recognizes Estonia's sovereignty.

1921. The Estonian Republic is recognized by Western powers, becoming a League of Nations member.

1934. A coup establishes an authoritarian regime.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Estonia	41	7	24	8	4	9	7
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Latvia	30	5	16	6	23	11	10

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

1939. Estonia is left in the Soviet sphere by a non-aggression pact between Germany and the USSR.

1940. The Soviets invade Estonia and on August 6 the country is incorporated into the USSR.

1941. Nazi Germany invades the USSR and occupies Estonia until it is driven out in 1944.

1945. Soviet rule is restored and the economy is reformed along Soviet lines.

1985. With the reforms of Soviet president Mikhail Gorbachev, Estonia moves towards independence.

1991. Communist rule collapses and the USSR recognizes the independence of Estonia in September.

1991. Estonia becomes a member of the United Nations and adopts reforms for democratization and privatization.

1994. Russia withdraws troops from Estonia.

1995. Estonia becomes an associated member of the European Union.

1998. Estonia starts negotiations for full membership in the European Union.

1999. Estonia joins the World Trade Organization.

FUTURE TRENDS

Estonia is a leading candidate for EU membership and hopes that its accession could be finalized as early as 2002, although internal problems in the union may postpone it. Political consensus on EU accession will generate stability throughout the transition from a communist to a free-market economy. Gross domestic product growth may accelerate slightly in 2001 due to domestic demand. Exports will grow in line with international demand but the negative foreign trade balance is not likely to be offset in the first half of the decade. The Estonian economy will become more service-based and financial services will receive more weight. Domestic manufacturing will be dependent on the high-tech sector in Sweden and Finland and is likely to grow. Privatization may be almost completed with the railroad sale in 2001. New foreign direct investments will enter Estonia and the flow will increase when the country joins the European Union. Reform of the finance services sector may lead to a further rise in credit growth. Pension reform will be key in 2001 with the government making its new pension scheme obligatory for all new employees. The living standards of the Estonians will rise gradually after the country's EU accession. Access to the development funds and the expertise of the European Union, once full membership is achieved, will be greatly beneficial for the development of the country's infrastructure, rural regions, education, social services, and virtually all aspects of economic life.

DEPENDENCIES

Estonia has no territories or colonies.

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—Valentin Hadjiyski

FINLAND

Republic of Finland
Suomen Tasavalta

CAPITAL: Helsinki.

MONETARY UNIT: The markka (FMk or FIM) or finnmark. One markka equals 100 penni. Banknotes come in denominations of FMk20, 50, 100, 500, and 1000. There are 1, 5, and 10 markka coins, and 1, 10, and 50 penni coins. The markka will remain in circulation until 28 February 2002, when it will be completely replaced by the new European currency, the euro. The exchange rate for the euro is 1 euro=5.94573 markka.

CHIEF EXPORTS: Machinery and equipment, chemicals, metals, timber, paper, pulp.

CHIEF IMPORTS: Foodstuffs, petroleum and petroleum products, chemicals, transport equipment, iron and steel, machinery, textile yarn and fabrics, fodder grains.

GROSS DOMESTIC PRODUCT: US$108.6 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$43 billion (1998 est.). **Imports:** US$30.7 billion (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located between Sweden and Russia, Finland also borders the Baltic Sea, Gulf of Bothnia, and Gulf of Finland. Finland's area, at 337,030 square kilometers (130,127 square miles), is slightly smaller than the state of Montana. Finland shares a long border of 1,313 kilometers (816 miles) with Russia, 729 kilometers (453 miles) of border with Norway, and 586 kilometers (364 miles) of border with Sweden. The remaining 1,126 kilometers (700 miles) of its boundary is coastline, excluding islands and coastal indentations. The capital, Helsinki, is the northernmost national capital in Europe, but it is found in the south of Finland, as are the majority of its 94 towns. Finland also includes the island province of Åland, located between Sweden and Finland. The islands are locally autonomous, have their own government, and are entirely Swedish-speaking.

POPULATION. The population of Finland was estimated in July of 2000 as 5,167,486. The population growth rate is a very small 0.17 percent and generally has been small. Finland has a high proportion of elderly: only 18 percent of the population are under 14 years of age and 15 percent are over 65.

Finland is extremely homogenous. Ethnic Finns make up 93 percent of the population, ethnic Swedes 6 percent, and the rest is mainly made up of the Sami (also called Lapps), Roma, and Tatar. There are 2 official languages: Finnish (spoken by 93 percent of the population) and Swedish (by 6 percent). Due to the harsh climate in the north, population is concentrated in the lowlands in the south of Finland. Approximately 81.2 percent of Finns live in urban areas with around 1 million concentrated in the capital, Helsinki, and its metropolitan area.

Formerly a source of emigrants (people moving outwards from a country), Finland is currently becoming a destination for immigrants (people who move into a foreign country). In 1996, the number of foreigners living in Finland was 74,000, with Russians accounting for about 20 percent, followed by inhabitants with Estonian, Swedish, and Somali former citizenship.

OVERVIEW OF ECONOMY

Finland is a free market economy that is highly dependent on international trade. Around 1900, agriculture, especially forestry, was Finland's economic backbone, as trees were Finland's chief natural resource. The more arable southern provinces of Finland have always had higher population density and have dominated the agricultural economy. Finland now has a technologically advanced economy, in high-tech forest production, electronics, and other manufacturing. But the southern regions continue to dominate in population and productivity.

The late 19th century saw the heavily forested country first investing in sawmills and timber, followed by wood pulp and paper production. Wealth from the timber industry was used to invest in making the machinery for the pulp and paper industry. Technical know-how and growth in metalworking and engineering facilities enabled Finland to expand into metal shipbuilding after World War II. Combined with forest products, this industry led the economy until the mid-1990s. In the 1990s, high-tech electronics came to the foreground, with Finland currently the world leader in mobile-phone manufacture. Finland also produces high-tech instruments for environmental measurement and medical devices.

A strong focus on research and development (R&D) and cohesion between government, industry, and workers has helped economic development, especially in the past 50 years. The government's support and coordination of high-tech R&D began as early as 1983 when it founded the Technology Development Center (TEKES). TEKES is the principal organization in Finland for implementing technology policy. In 1984, one year after TEKES was founded, a small business called Nokia switched its focus to high-tech mobile phone production and became the largest mobile phone company in the world. Nokia's growth drove production in the manufacturing sector unlike many European economies, expanded its share of **gross domestic product** (GDP) throughout the 1990s. TEKES has also had an effect on agriculture through its support in 1997 of research into developing functional foods (foods with proven health benefits, often additives and substitutes that are less dependent on the quality of farming land than on the quality of the R&D **infrastructure**).

As in most other developed nations, the Finnish service sector has in recent years become the highest-producing sector in the economy and accounted for 63 percent of the GDP in 2000. Business services, data processing, and transportation are all key service industries, with expansion in business and financial services especially driven by new technological developments, expanding into Internet and Internet Technology (IT)-based services. Public services, primarily health care and education, are also important and employed 32 percent of the **labor force** in 2000.

A **welfare state** is made up of institutions reflecting the responsibility a government has assumed for the well-being of its citizens. In Finland, Europe, and most of the developed world, a welfare state includes health care, education, social security, and unemployment. In Finland, the extent of the welfare state is smaller than those of other Nordic countries, but it still accounts for over half of the GDP.

Finland's proximity to Russia, and formerly to the Soviet Union (USSR), has powerfully affected Finnish economic development. In the early years of the USSR, political differences prevented much trade. Yet Western European demand, especially for lumber, pulp, and paper, supported the forestry industry at that time. During World War II, Finland joined the Axis powers, partly in order to prevent partial annexation by the Soviet Union. After the war, Finland had to pay reparations to the Soviet Union, who required mainly industrial products. This requirement forced Finland to develop a substantial metal and engineering industry. After reparations were completed in 1952, trade with the USSR continued through a **barter system**, characterized by an exchange of goods for energy since Finland lacked natural fuel resources. Finland was the only free-market member of the Council of Mutual and Economic Assistance (COMECON),

an economic and development cooperative association formed in 1949, which was otherwise composed of **socialist** states. Finland was able to use its good relations with socialist states as a economic buffer against downturns in the Western market. Finland did not hesitate to link itself to Western markets as well, which helped its position as a trade gateway to the USSR. Finland joined the Organization for Economic Cooperation and Development (OECD) in 1969 and the European Free Trade Agreement (EFTA), a predecessor to the European Union (EU), in 1986. However, the USSR, as Finland's closest neighbor, remained a large and influential market, and its collapse in the early 1990s worsened Finland's already severe **recession**.

Deregulation of Finnish financial markets in the 1980s led to a domestic credit boom, which collapsed in the early 1990s, leading to stock and real estate market speculation and crashes. Finnish observers called this experience "casino economics": an economy becomes dependent on speculation (first seen as a sign of growth) and speculation runs out of control. The chief casualty was productivity and employment; the GDP fell by about 15 percent in 3 years while unemployment skyrocketed to 20 percent. The recession lasted until 1993, when Finland devalued its currency. This action allowed the nation to improve its export sector, especially through growth in manufacturing high-tech electronics and expansion of its export market for paper goods into the newly-booming Asian economies.

During the recession from 1990 to 1993, the Finnish government began accumulating **external debt**, which peaked at nearly 60 percent of the GDP in 1994. There has only been a partial recovery from the recession, with high unemployment lingering and debt continuing to increase. The currency **devaluation**, however, helped economic growth rebound, and by 1996 the GDP had recovered to pre-recession levels. The flourishing high-tech industry, led by the cellular phone manufacturer Nokia, was at the center of export-led growth. In 1998, Nokia alone accounted for 1 percent of Finland's approximately 5 percent growth of the GDP. Growth was fairly steady through the second half of the 1990s, except for a slight recession in 1998 that was mainly due to the slump in many Asian economies that were importers of Finnish goods and services.

In 1999, central government debt was 45.4 percent of the GDP. Since joining the European Monetary Union (EMU) in 1999, Finland has been required to reduce its debt. Even before its membership, partial **privatization** of many state-owned businesses, such as the telecommunications provider Sonera, helped to create revenue from the sale of shares. However, public debt is still high and has been increasing, posing a continued economic challenge into the 21st century.

POLITICS, GOVERNMENT, AND TAXATION

Finland is a parliamentary republic, with a president and a prime minister. The president is elected by popular vote for a 6-year term. The prime minister and a deputy prime minister are nominated by the president after the parliamentary elections, and the Eduskunta (parliament) must approve the president's nominations. The prime minister nominates ministers for the Council of State, or Valtioneuvosto (also simply called "the Government"), which is divided into 13 ministries overseeing various aspects of government. Nominations are approved by the president, and responsible to the Eduskunta.

The Eduskunta is responsible for legislation. Members are elected popularly under a system of **proportional representation** (voters elect parties, who have a number of seats in government related to the percentage of votes they receive). The election on 15 April 1999 put 10 parties in the 200-member Eduskunta. The Social Democrats (SDP) received 25.5 percent of the votes cast, the Center Party 23.5 percent, and the National Coalition (Conservative Party) 23 percent.

Women do not participate equally in government, but Finland's showing is better than most countries in this respect. In 2000, about 35 percent of the Eduskunta and 33 percent of the Cabinet were females. The Ministers of Foreign Affairs and Defense were female, as was the Speaker of Parliament. By comparison, in the United States women held 12 percent of the Congressional seats and 41.4 percent of the Cabinet seats in 2000.

The SDP has been the largest party in the legislature in almost every election since 1907. Its main base of support is skilled laborers, lower-class white-collar workers, small farmers, and professionals. It is also the closest party to the labor unions. SDP supported Finnish membership in the EU and voted in favor of Finland's entering the EMU in 1999. The National Coalition (also called Conservative Party, Kansallinen Kokoomus or "the Kok"), mainly represents private enterprise and the business community. The Kok strongly supported EU membership, favors limited spending, deregulation, and lower taxes but is still in favor of the welfare state. The Center Party has in recent years been split on the EU question, and it opposed Finland's joining of the EMU in 1999. Many of its voters live in rural areas, and the party especially represents agricultural interests.

In 1990, a conglomeration of socialists, ex-communists, and disenchanted Social Democrats, who believed that the SDP had compromised on social issues and international human rights, formed the Left Wing Alliance. There has been pressure on the government to cut costs and spending, and it has been difficult for the Alliance to remain in government alongside the Social Democrats and

Conservatives. The long-established minority of Swedish-speaking people is represented by the Swedish People's Party (RKP), which consistently receives 5 to 6 percent of the vote and has a strong base of support in the Åland islands. The RKP generally supports center-right causes and also was in favor of EU membership. Since the party is able to compromise with both socialist and non-socialist governments, its swing vote has been used to protect Swedish-speaking community interests. As of 2000, Finland had the first Green Party in government in all of Europe. The Greens strongly oppose nuclear energy but favor a moderate approach to key economic issues such as forestry, taxation, and the welfare state. They have strong appeal to young, urban voters and to women. Of the party's 9 Eduskunta members, 6 are women.

Many other small parties in Finland also influence debate, although few make it into the Eduskunta. As in other Nordic countries, public debate in the 1990s and beyond is more likely to include a few voices from some extreme right-wing parties, some of which argue for tightening borders against immigrants and refugees, others for abolishing taxes and regulations on business.

Indirect state management of the economy is aided by regular meetings with representatives from industry and trade unions, as well as incentive programs that the government uses to promote investment in areas deemed to be in need of development. The programs include cash grants, loans, tax benefits, and investments in **equity**, guarantees, and employee training. One institution that demonstrates the Finnish government's ability to influence the economy in this way is the Technology Development Center (TEKES), founded in 1983 to fund R&D in technology. TEKES set the stage for advances and innovation in Finnish technology in the early 1980s and business in the 1990s. The government continues to invest in this direction, contributing almost one-third of the total spending on R&D in 1999. Total R&D spending in Finland is higher than in most other highly advanced economies like the United States and Japan; it was estimated at FMk22,334 million (including private investment) in 1999, or around 3 percent of the GDP. R&D expenditure had risen in real terms by almost 15 percent from the year before.

In Finland, 3 of the 10 largest companies were majority state-owned in 1998; "majority state-owned" means that the state has a majority of share-determined votes, ranging from 53.4 percent control to total control. State ownership occurs mainly in metals and mining, chemicals, and utilities. These companies do not receive **subsidies** or special treatment, and private companies are not excluded from these sectors (with the exception of Alko, the state's **monopoly** on liquor sales). Sonera, a telecommunications company, was the largest state-owned company in 1999, but it competes like any other firm in the market. In addition, the state is authorized to sell off all of its remaining shares in Sonera and is likely to do so. The state still owns significant shares in metals and mining, chemical, and utility companies, as well as Finland Post and the Finnish State Railways. Total state ownership has become rare. In November 2000, among the 15 most significant state-owned companies only Patria, a defense company; Vapo, a peat manufacturer; and Alko were 100 percent state-owned.

Until the 1970s, Finland also had a much smaller **public sector** (as a percentage of the GDP) than its neighbors. In fact, the ratio of the public sector to the GDP did not approach the rest of Scandinavia until the recession of 1990 to 1993, when the overall GDP shrank dramatically. Rather than increase spending, Finland simply did not decrease it at the rate that the other sectors had declined, so its share of the GDP overall was increased. When recovery began, the public sector grew, although still at a slower rate than other Scandinavian countries. The public sector in 1998 employed almost one-third of the population and accounted for well over half of the GDP.

The state may help to provide a new direction for Finnish agriculture, which has been challenged by EU requirements, by funding R&D for agricultural products in the "functional foods" category. The EU agricultural regime has led to falling domestic prices (as they must be on par with EU levels) and fiercer competition from EU agricultural imports. Most Finnish producers still supply the same amount of goods to the Finnish market but have thus far seen significantly lower profits.

Taxes are the government's main source of revenue. Total central government tax revenue in 1999 was FMk188,499 million, about 32 percent of which came from income and property taxes, and 32 percent from **value-added tax** (VAT). In the 1990s, Finland lowered and adjusted its VAT, especially after EU membership, since VAT rates must eventually harmonize with the EU taxation system. The standard Finnish VAT in 2000 was 22 percent, the VAT on foodstuffs and animal feed was 17 percent, and there was an 8 percent rate for entertainment events tickets, passenger transport, pharmaceuticals, and books. Personal **income taxes** are quite high; the highest bracket was officially 34.9 percent in 1999. Both the OECD and the International Monetary Fund (IMF) have urged Finland to cut its income tax to encourage employment. Corporate taxation is 29 percent, giving Finland one of the lowest rates among OECD countries, along with Sweden and Norway. To replace revenue lost from income tax and VAT reductions, the government has been imposing "green taxes," or taxes supporting environmental regulations. In 1995, over 6 percent of tax revenue came from environment-related taxes (approximately 3 percent of the GDP).

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Finland	455	1,496	640	175.7	572	38.5	349.2	1,116.78	2,143
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Sweden	445	932	531	221.4	464	50.9	361.4	581.47	3,666

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

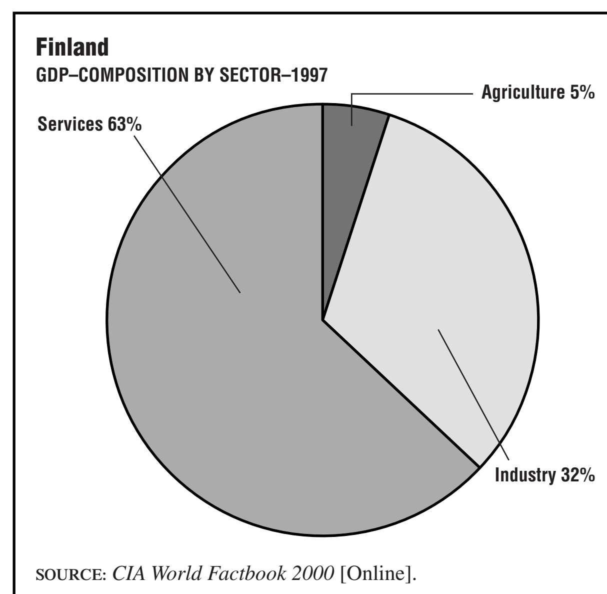
Finland has an efficient road and rail network, despite its only becoming fully developed in the mid-20th century. As late as the 1940s, difficult terrain and harsh weather had made internal communications and transport problematic. After World War II, steady improvements in infrastructure led to the current situation. By 1998, Finland had 77,895 kilometers (48,404 miles) of highways, including 473 kilometers (294 miles) of expressways. Bridges and car ferries assisted road travel in the lakeland areas and in the island archipelagoes. The gauge of Finnish railways is the same as Russia's, which enhances Finland's position as a trade gateway to the Russian region. However, Finland's 5,685-kilometer (3,533-mile) rail network is uneven, better serving the economically dominant southeast regions. Finland's sea communication and transport is extensive, with over 50 ports and loading places and 23 seaports open year round. Finland also has 157 airports and a state airline, Finnair. International air service is provided through Helsinki airport.

Finland produced 75.30 billion kilowatt hours (kWh) of electricity in 1998, of which fossil fuel comprised 41.62 percent, hydroelectric power 19.59 percent, nuclear power 27.59 percent, and other sources 11.2 percent. Total consumption was 79.28 billion kWh in the same year, or over 15,000 kWh per person, almost two-thirds higher than the average per capita consumption for the EU. This is due especially to the long Finnish winter and the high energy consumption of the paper and pulp industry. Finland relies on nuclear energy and imported hydrocarbons for almost 50 percent of its power, while imported fossil fuels make up the rest. Finland exported only 300 million kWh of electricity in 1998, while importing 9.55 billion kWh.

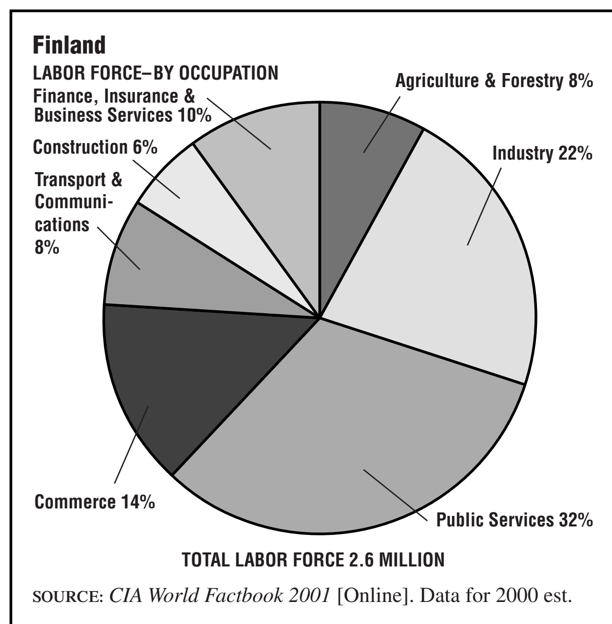
Finland's telecommunications system is cutting-edge and extensive, with 2.86 million main telephone lines in 1997 and 2,162,574 mobile cellular phones. The half-state-owned Sonera is the main telecommunications provider as of early 2000. Finland is famous for its quick adoption of cellular phone and wireless technology. About 60 percent of Finns had mobile phones in 1999, compared with 28 percent in the United States. Nokia, along with dominating domestic mobile phone sales, also supplies almost a quarter of the world's mobile-phone market. Internet connectivity is also very high, with more Internet service providers (ISPs) per person than any other country in the world. The telecommunications industry was fully deregulated by 1995, and subsequent laws have allowed telecom companies to share lines and have eased entry into the sector by eliminating the licensing requirement previously needed to construct a fixed telephone network. Phone **tariffs** are among the lowest in the EU.

ECONOMIC SECTORS

In 2000, the balance between Finland's economic sectors was consistent with those of most OECD nations,



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est.

with agriculture contributing 5 percent to the GDP, industry 32 percent, and services 63 percent. However, until the 1960s, Finland relied much more heavily on agriculture than its neighbors. It was partly the pressure of post-World-War-II reparations to the USSR that forced Finland to build and expand its industrial base. Finland's 1999 accession to the EMU has further shifted the emphasis from agriculture and has forced the end of many subsidies to farmers. In more recent times, growth in the various sectors also has set Finland apart from its neighbors and most of the OECD countries, as manufacturing (especially high-tech products) expanded more quickly than the service sector.

The U.S. Department of Commerce identifies milk production as "the backbone of the Finnish agriculture industry." In 2000, Finland produced 2.5 million units of milk, about 0.44 percent of world milk production. Dairies and egg farms produce more than Finland needs to feed itself, while Finnish meat production roughly equals consumption. Membership in the EU has deeply affected the agriculture industry; in 1996, producer prices fell more in Finland than in any other EU country. In 1997 food prices averaged 11.2 percent lower than in 1994 (prior to EU membership). Finnish producers had to reduce prices to EU levels, especially facing competition from agricultural imports of the union's members. A new focus for agriculture is research into specific enzymes and bacilli that have health and commercial use, with the raw products of the dairy and forestry industries (milk and trees) providing some of the raw material. Finland is also basically self-sufficient in meat production.

Finland's high-tech, highly productive forestry industry overlaps and links the agriculture and industry sectors. Finland has the world's highest per capita forestry production, twice that of Sweden and 3 times that of Canada. With about 70 percent of its area covered by forests at the end of the 20th century, Finland's use of its most abundant natural resource provides the materials for Finland's industrial wood-processing industries. Finland supplies 25 percent of the world's exports of printing and writing paper and 15 percent of the world's paper and paperboard exports.

From 1993 to 1998, industry's share of the GDP rose from 31.3 percent to 33.8 percent. Manufacturing dominates this sector, with output in 1999 worth FMk504.9 billion. Nokia, the cellular phone maker, has been the main engine of Finnish industrial growth in the late 1990s. In 1998, Nokia alone contributed 1 percent to Finland's 5 percent GDP growth. However, there is some concern that Nokia holds too much responsibility for the sector and the economy. It is far and away the largest firm in manufacturing, with no other company even approaching its level of production and employment. Other branches of manufacturing in general have not seen similar growth. Unlike many other developed nations, where the service industry is often the main sector for growth in employment, Finnish industry has been the biggest job creator, especially manufacturing.

In the service sector in 1997, government services make up nearly one-third of all service sector activity. Many private services, especially business and IT services, are growing at a faster rate than public services. The production of private services increased by almost 5 percent in 1997 and has been steadily growing since the mid-1990s, with telecommunications and service to businesses marking the fastest-growing sectors. However, unlike in other OECD countries, the service sector's share of the GDP and employment has not increased as quickly as manufacturing. New jobs in the service sector are mainly created by manufacturing, which outsources many of its production-related services.

AGRICULTURE

Finland's severe winters; short, frost-interrupted growing seasons; and relatively scarce and acidic arable land has made agriculture a continually tough endeavor. Before the end of the 19th century, Finland was so isolated from the rest of the world that its farmers focused on grains to feed the local population. In the 1880s and 1890s, cheap grain from Russia and the Americas began to flood the market, while simultaneously, dairy products began to be in more demand domestically and abroad. Finnish farmers began to use the imported grain to feed dairy cattle and other livestock, a pattern that has persisted to the present. Arable land is nearly always combined with forests, which cover approximately 70 percent

of Finland. Most farms have survived by a combination of farming and forestry. Farms in the more arable south and west focus less on forests than those in the more wooded north and east.

Productivity has increased and the number of farms has decreased since the 1960s. This is partly due to advances in agricultural technology, which required fewer people on the land, and partly to the expansion of the industry and services sectors, which have attracted people towards factories and the city. The traditional Nordic emphasis on family farming has meant that the image of the family farmer is a culturally heroic figure, which may have helped farmers resist the urge to set up huge impersonal **agribusinesses**. In 1999, average farm size in Finland was only 25 hectares (62 acres). The Finnish tradition of cooperative organization has meant that small farms coordinate marketing, transportation, and processing of agricultural and forestry products. Finland's desire for self-sufficiency in basic foodstuffs supported a system of subsidies for the remaining farmers, until the 1995 accession to the EU forced price equalization. Equalization meant a 50 percent or larger reduction in many producer prices. The price of a kilogram of eggs, for example, fell by over 75 percent in 1995. Finland's own budget had to try to cushion the blow, but during the first 3 years of EU membership over 10 percent of Finnish farmers gave up farming. Currently only 4 percent of the population engage in farming. Of the agricultural products exported, dairy products topped the list in 1998. Finland is a net importer of agricultural products, with a total value of agricultural exports of US$1.31 billion and imports worth US$2.3 billion in 1998.

Since the decline of other agricultural production in the past decades, forestry is now the most significant contributor to agricultural production, with a **turnover** in 2001 of around FMk10 billion. Due to improvements in management and harvest techniques, Finland's timber reserves have increased by over 25 percent since the 1970s. Much of its forest production goes to its industrial sector to make paper products, while a significant percentage goes to create wood products like furniture as well. Finland produces 5 percent of global forestry goods, and its printing and writing paper exports are 25 percent of world production.

Finland's fur industry dominates the world market for farm-raised foxes, accounting for over half of global fox pelt production in 1997 with revenues of US$2.55 million. Finnish mink furs also have a high reputation on international markets. Commercial fishing, once quite important to the economy, has gradually become less significant, currently accounting for only 0.1 percent of the GDP. The decline can be attributed to river pollution and dams built for hydroelectric works, which have adversely affected natural spawning habits.

INDUSTRY

METALS AND ENGINEERING. Metals and engineering now constitute the largest sector of Finnish industry, with motor vehicles and machinery driving much of the growth of the late 1990s. In 1999, mechanical engineering and metals manufacturing industries employed 187,175 people, and total revenues reached around FMk123 billion.

Finland holds a leading international position in the building of icebreakers, luxury liners, and other specialized ships. The are only 2 main ship building companies, Masa Yards and its rival, Finnyards, both dominated by Norwegian companies. Masa Yards was bought by the Norwegian firm Kvaerner in 1991 and Aker Maritime, another Norwegian firm, bought 60 percent of the shares in Finnyards in 1997. Both companies have specialized in niche markets in shipbuilding, which has helped them survive in an over-saturated global market. Finland's strong pollution control and other environmental laws, plus neighboring countries' environmental concerns and support from TEKES and other research organizations, has led Finnish industry to specialize in environmental technology. Finland made US$1.45 million of environmental equipment in 2000, much of it used by Finland's own pulp and paper industry.

INDUSTRIAL FORESTRY. Finland's abundance of forestry products is the historical heart of the Finnish export industry, accounting for almost 30 percent of total exports—although only 2.4 percent of the GDP—in 2001. There was record growth in nearly every aspect of forest industry in 2000. Total forest production increased by nearly 5 percent. Plywood production rose the fastest—over 8 percent compared with the previous years, with total production of about 1.2 million cubic meters. Sawnwood production rose by nearly 5 percent in 2000 to 13.3 million cubic meters. Paper and paperboard production reached 13.5 million tons, 4.3 percent higher than in 1999. Turnover in the forest industry in 2001 was worth FMk100 billion. In 1998, forest industries employed 95,886 people. Stora-Enso, the largest group in this sector, is the second largest producer of newsprint products in the world and had revenue of over FMk75 billion in 2000.

ELECTRONICS AND ELECTRO-TECHNICS. The electronics and electro-technical equipment industry employed 63,700 people and had revenues of FMk114.6 billion in 1997, while high-tech products accounted for almost 26 percent of total export value by 1999. The majority of growth in this industry can be attributed to the mobile-phone manufacturer Nokia. Nokia originated as a pulp and paper concern but began investing its profits in high-tech research in the early 1980s and is now one of the leading mobile phone manufacturers in the world. Nokia is an example of Finnish industry's emphasis on

R&D; it spent almost 9 percent of its turnover on R&D in 1999. Nokia, however, is the only high-tech company in Finland with a significant market share, unlike Sweden, which has a range of companies in competition. This means that growth in this industry is dependent on Nokia's fate, a risky situation.

CHEMICALS. The third largest industry in Finland, the chemicals industry, had a value of FMk56 billion in 1999, which was over one-tenth of the total value in Finnish manufacturing. The chemicals industry focuses on a number of core areas, including chemicals for the forest industry, agribusiness, and other industries, as well as paints, plastic products, environmental products, petrochemicals and oil products, and most recently biotechnical products. Finland's strong environmental consciousness has fuelled not only innovation in chemicals to help the environment—Finland was the world's top producer of water treatment chemicals in 2000—but also environmentally conscious business practices. In 1992 Finland joined a voluntary international program called Responsible Care, which is an environment, health, and safety initiative operating in 45 countries. Although only 12 percent of chemical firms have signed on, some of Finland's largest producers are members, meaning that over 80 percent of chemical production is covered by the initiative. Members commit themselves to continuous improvement in performance regarding environment protection, health, and safety and to open communication about activities and achievements on these issues. Some effects can be seen in the 60 percent drop in employee accident rates over the past 10 years, while emissions also fell significantly in 2000.

The recent growth of the electronics industry has spurred the production of plastic components and packaging for electronic equipment. In 1999, the chemical industry in total employed almost 39,000 people, or 9 percent of the total industrial workforce.

FOOD AND BEVERAGES. The Finnish food industry is a good example of how Finnish industry might grow throughout the 21st century. Finland has begun expansion into the niche market of "functional foods," researching and developing naturally-derived food additives which are deemed to have health benefits. One of the more well-known is xylitol, a sweetener derived from the birch wood chips of Finland's forests that has been shown to prevent tooth decay. Xylitol can be found in many chewing gums and as a sweetener in some medicines. The Finnish company Xyrofin is the market leader in producing xylitol; its predecessor Suomen Sokeri patented the industrial manufacturing method for xylitol in 1972. The more traditional sectors of the food and drink industry are also based on processing and refining raw materials and, in 1998, employed 40,700 people to produce a total output worth FMk49.3 billion. Meat processing accounts for over one-fifth of the total **value-added** sector, followed by beverages and dairy products. Russia, despite its economic troubles, is still a primary destination for food and drink exports. In 1997 Finnish food and drink industries sold Russia around 336 million euro worth of goods.

CONSTRUCTION. The construction industry faced a severe slump in the early 1990s. In 1994, commercial construction was less than 25 percent of what it had been in 1990. The decline in production reversed in 1997, partly due to government subsidies intended to rescue the industry. While a more recent economic boom has led to housing shortages in the Helsinki metropolitan area and a correspondingly high demand for house-building there, there is still little construction in other regions. In 1997, construction accounted for 5.1 percent of the GDP, employed 105,000 people, and produced FMk69 billion in revenues. Much of the construction work was exported to Russia, which in 1997 accounted for 25 percent of the construction industry's exports. The growth in construction is expected to continue, and there is some hope that it will spread outside of the city.

SERVICES

RETAIL AND WHOLESALE TRADE. Sales volumes in trade and commerce increased 5 percent in 1997, especially the purchase of vehicles, construction materials, and household appliances. **Retail**, wholesale, hotels, and restaurants accounted for a little over 12 percent of the GDP in 1998. The sales industry is very concentrated, with huge supermarkets accounting for over half of all retail outlets for everyday goods. Approximately 217,000 people were employed in retail and wholesale trade in 1998. The major Finnish wholesalers and importers are Kesko Oy, SOK-chain, and Stockmann Oy. Each company also has its own retail operation, each including several department stores and separate chain stores. Kesko, a wholesale and supermarket chain, had a turnover of FMk35.6 billion in 1998, which was 8 percent of total revenues (FMk440 billion).

TRANSPORTATION. Transportation and communications accounted for 10.2 percent of GDP in 1998. The increase of exports and industrial production in the second half of the 1990s raised demand in land, rail, and water transport and output grew by 8 percent in 1997. Road transport dominates domestically as 93 percent of passenger traffic and 67 percent of goods transport take place on the dense network of Finnish roads. The railway sector is currently state-owned, although discussions are underway to allow other companies to use the rails for moving freight. There are currently no plans to privatize the Finnish railway company, which provides long-distance passenger transport. Shipping is important

for Finland's international trade; in 1998 total shipping (imports and exports) between Finland and other countries totaled 76.59 million tons. Of that, two-thirds were shipped to other EU countries, 18 percent to Germany, and 16.4 percent to Sweden. Domestic shipping totaled 12.88 million tons, up from 11.85 million tons in 1997. Due to Finland's extremely cold winters, Finnish shipbuilding and shipping is dependent on the building and use of icebreakers. Total employment in the transport sector was 154,000 and total turnover in the same year was FMk440 billion.

TELECOMMUNICATIONS. Telecommunications contributed only a little over 2 percent to the GDP in 1997; however, it is the existence of a large, inexpensive, extremely sophisticated and efficient network that has enabled almost every other industry to grow. The telecommunications sector was fully opened to competition in 1995, and the government passed a series of laws to increase the flexibility of telecommunications operators sharing and trading access to infrastructure. The government also eliminated the need for operators constructing a fixed telephone network to purchase a license, although licenses are still required for mobile phone networks. High competition in this sector has kept tariffs among the lowest in Europe. Data processing services are in great demand owing not only to the Internet but also to the turn of the millennium and the adoption of the euro. The state-owned Sonera Corporation (previously Telecom Finland) and the 45 privately owned local telephone companies operating under the Finnet Group cover the majority of the telecommunications market.

FINANCIAL SERVICES. Although accounting for only 3.5 percent of the GDP in 1998, financial services have been the source of fastest growth in the private services sector. Banks and other services have been recovering steadily since the recession of 1990 to 1993, and by 1998 net operating profits in the financial sector were FMk7.6 billion. Approximately 42,000 people were employed in the banking sector in 1999. A recent development, spurred by the advances in connectivity and other computer technology, is the rapid increase in Internet banking, which rose to around 1.5 million users in 1998. Merita Nordbanken was formed from the merger of the local Merita and the Swedish Nordbanken banks Together with the cooperative Okobank group and the state-owned Leonia. These 3 largest banking groups account for 87 percent of all domestic lending and 85.8 percent of deposits.

INTERNATIONAL TRADE

In terms of trade-orientation, Finland was almost 4 times more dependent on external trade than the United States in 1998. This outward focus of the economy rendered it quite sensitive to disturbances in external markets. The scarcity of most natural resources (except for trees) and arable land has led to reliance on imports for raw materials. The continuing abundance of trees, plus well-developed livestock farms and a technologically advanced manufacturing base, enables the processing and exporting of imported raw materials, domestic timber and wood pulp, and machinery. The majority of its forest products go to the EU and the United States.

Trade (expressed in billions of US$): Finland

	Exports	Imports
1975	5.502	7.628
1980	14.150	15.635
1985	13.617	13.232
1990	26.571	27.001
1995	39.573	28.114
1998	42.104	31.364

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Finland's shared border with Russia (and previously the USSR) has had a tremendous effect on its trade practices. Finnish industry was able to supply the USSR with ships and some metalwork during World War I, but the Russian military collapse and the Bolshevik Revolution in 1917 ended that relationship. After World War II, war reparations demands from the Soviets required Finland to vastly expand its industrial capacity. This necessity led to the development of a specialized Finnish industry that made icebreakers and reinforced-hull ships. After reparations were completed in 1952, Finland and the USSR continued on a barter system, with Finland mainly trading machinery and ships in exchange for oil (a resource Finland lacks).

The collapse of the USSR in the early 1990s and the Soviet-Finnish barter system was catastrophic for Finland. Trade with Russia went from 26.7 percent of Finland's external trade in 1982 to only 2.8 percent in 1992, and the number of Finnish workers supported by economic ties with Russia plunged from 230,000 in 1981 to fewer than 50,000 in 2000. Trade with Russia in 2000 was about 5 percent of external trade.

The USSR's collapse forced Finland to focus much more on exporting to the West. Demand for timber has been a somewhat risky engine of growth, but the increasing demand for high-tech goods has helped Finland to rapidly expand its high-technology sector. Finnish and general Nordic concern with environmental issues has inspired Finland to specialize in environmental pollution-monitoring equipment for domestic and exported use. In the mid-1990s, Finland also began to increase exports to

Japan and other expanding Asian economies, mostly consisting of pulp and paper products. The economic troubles of the Asian economies in the later 1990s caused a mini-recession in Finnish industry, particularly in pulp and paper exports.

Finland has been able to improve its trade situation, and has consistently run a **trade surplus** in the past few years with an estimated trade surplus of US$10.74 billion in 1998. Electronics overtook paper as the second largest export earner in 1998, generating over 25 percent of all export revenue. Germany and Sweden are the primary suppliers of imports, followed by the United States, Finland's most important non-EU trading partner. Finland's primary export markets (in descending order) are Germany, Sweden, the United Kingdom, and the United States.

MONEY

Since 1 January 1999, the Frankfurt-based European Central Bank (ECB) has been in charge of Finnish **monetary policy**. The Bank of Finland still has some responsibilities, such as holding and managing Finland's official foreign-reserve assets and contributing to supervisory credit institutions. The ECB's main **macroeconomic** goal is to keep **inflation** in the euro zone below 2 percent.

In the 1980s, Finland's economy grew faster than the European average, with stable prices and relatively low unemployment. The Finnish financial market underwent rapid change. The state's role in the money market declined, and the economy became increasingly market-oriented. Foreign banks were first allowed to operate in Finland in the early 1980s and were permitted to open branch offices there in 1991.

However, the collapse of the USSR and its loss as Finland's chief trading partner was a severe blow to the Finnish economy. Following the banking and speculation crisis, the country fell into a severe recession. In the banking industry, nearly one-third of the employees were laid off.

Exchange rates: Finland

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	5.3441
1997	5.1914
1996	4.5936

Note: Amounts prior to 1999 are in markkaas (FMk) per US$1.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Since its devastating recession in the first 3 years of the 1990s, Finland's economy has been steadily recovering and by early 1997, GDP had returned to pre-1990 levels. Recovery was led by Finland's export sector, which was greatly aided by the Finnish currency's devaluation in 1991 and subsequently changing the markka to a **floating exchange rate**. Both actions effectively lowered the price of Finnish exports in foreign markets, which led to increased demand for them.

In 1991–92 the markka was pegged (set by the Bank of Finland in a fixed relationship) to the euro, but these limits were abandoned 2 years later, allowing the markka to float. Finland then joined the **Exchange Rate Mechanism** (ERM) of the EMU in October 1996 at the central rate of 1 euro=FMk5.8066. As of 1 January 1999, the 11 EU member countries, including Finland, joined the EMU, locking together the **exchange rates** of the 11 currencies involved. The markka was pegged to the euro at 1 euro=FMk5.9457. In 2002 Finland will adopt the euro as its paper currency.

At the beginning of the 21st century, the economy was growing, especially in the high-technology industries. Although still saddled with debt, Finland has been attempting to reduce its deficit. However, membership in the EMU has removed the Bank of Finland's ability to set an independent currency policy, which is a major tool in debt reduction. The current government is attempting to curb public spending, but with some difficulty, partly because the left-wing parties in government resist this move and have significant popular support. High unemployment (around 10 percent in 2000) is also a major problem, which many blame on a taxes-and-benefits system that makes low-wage work less attractive than collecting unemployment benefits. Inflation has been high and increasing in recent years, especially because of rising world prices of crude oil, the depreciation of the euro in relation to the dollar, high interest rates, and housing price increases.

The Helsinki Stock Exchange (HSE) is small and remote, but EMU membership is changing this situation since the HSE is the only real euro-based stock exchange in the Nordic region. Since Sweden and Denmark do not participate in the EMU, the financial focus of the area could shift towards Helsinki. Trading almost doubled from 1997 to 1998, and the value of Finland's total stock market is 3 times the GDP, the highest ratio of stock market value to the GDP in the world.

POVERTY AND WEALTH

In states with a high level of income equality and widely used welfare programs, class is difficult to identify. In Finland to some extent, it is more meaningful to look at regional or urban-rural differences. During the

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Finland	17,608	19,925	22,347	25,957	28,075
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Sweden	21,157	22,283	24,168	26,397	27,705

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Finland

Lowest 10%	4.2
Lowest 20%	10.0
Second 20%	14.2
Third 20%	17.6
Fourth 20%	22.3
Highest 20%	35.8
Highest 10%	21.6

Survey year: 1991

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

1960s Finland experienced one of the fastest rates of rural depopulation in the western industrialized nations. Over 10 years, 600,000 people were added to the urban population, and the urbanization rate (the rate of increase of the proportion of people living in urban areas) increased from 38.4 percent in 1960 to 50.9 percent in 1970. This uneven distribution of the population has interfered with the development of infrastructure and the provision of services, and it has made the costs of services in rural and small communities much higher.

The recession of the early 1990s led to some cutbacks in Finnish social programs. On the whole, health care and housing allowances were not diminished, but unemployment pensions, spouses' pensions, conscripts' allowances, disability benefits, refunds of medical examinations, and child-care allowances were reduced.

The poorest and most marginal members of the population tended to suffer more immediately as they had the least ability to influence those making the cutbacks. Yet in the longer term, cutbacks increasingly focused on larger programs that affected more of the population, which often made the government instituting the cutbacks less popular. Public services whose employees were numerous and well organized, such as the medical profession and trade union-dominated jobs, tended to be cut the least.

The urban-rural divide is simultaneously a regional divide, with urban areas heavily concentrated in the southern regions. In the south of Finland, overcrowding has sometimes hurt both the environment and access to social services (mostly creating waiting lists for non-emergency care), while the declining population in already sparsely inhabited areas makes it difficult to maintain even the existing economic and service facilities. However, the typical Scandinavian emphasis on social equality has ensured that nearly all inhabitants of Finland are not in a condition identifiable as poverty in terms of access to health, education, and sanitation.

WORKING CONDITIONS

For much of the post-war period, Finland had very low unemployment. The emergence of unemployment as a serious problem more or less coincides with the collapse of the USSR and the 1990s recession. Recent growth has not been able to solve the problem, especially as many of the fastest-growing businesses are in the high-technology sector and do not require as many employees as jobs of earlier eras.

The Finnish labor force was 2.53 million people in 1999, over 80 percent of whom were organized. Likewise, 80 percent of employers belong to an employers'

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Finland	17	4	10	4	15	7	43
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Sweden	17	5	12	4	14	6	41

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

association. The Finnish constitution protects the rights to organization, peaceful assembly, and strike, and these rights are adequately enforced by the state. The government, major employers' associations, and representatives from the Central Organization of Finnish Trade Unions (Suomen ammattiliittojen keskusjarjesto or SAK, an umbrella organization consisting of 25 trade unions and totaling 1.1 million members) meet at the national level and communicate to discuss economic and employment policy. However, coordination of this kind has not prevented disagreement, which has often led to strikes. There were 18 strikes in the fourth quarter of 1997 alone, including a firefighters' strike.

There is no specific minimum wage law, but employers are required to bargain with workers' organizations at the industry level (usually with government participation) over contracts that include a minimum wage, which has historically been more than adequate. This wage is extended to non-union workers, and if other wages rise (either due to general rises in the cost of living or due to improvements in the industry), that benefit must be passed on to even the minimum-wage workers, so their situation will keep pace with the higher-paid ones.

There is still wage inequality among the genders in the Finnish labor force, despite the existence of an equal rights act and a law mandating equal pay for equal work. In 1998 women's average earnings were 81 percent of those of men, and women still tend to be segregated in lower paying occupations. While women have individually attained leadership positions in the private and public sectors, there are disproportionately fewer women in top management jobs. Industry and finance, the labor movement, and some government ministries remain male dominated.

Legally, the workweek is set at 5 days with a maximum of 40 hours of work. In practice, this limit is usually understood as a minimum provision, and many workers enjoy even stronger benefits through effectively enforced collective bargaining agreements.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1809. Finland, a province of Sweden, is taken over by Russia.

1836–86. Finland is supposedly granted autonomous rule under the Russian tsar Alexander II, but has little real independence. Finnish joins Swedish as an official language.

1905. The Eduskunta (national parliament) is created. Universal voting rights (including women and men who hold no property) are granted.

1917–19. The Russian Empire collapses. Finland declares independence, after which civil war briefly breaks out between political factions.

1919. The Eduskunta ratifies the Finnish constitution. Finland becomes a parliamentary republic with a president as the head of state.

1932. Finland and the USSR sign a non-aggression pact.

1939. The border region of Southern Karelia is ceded to the USSR after the 15-week "Winter War."

1940. A peace treaty with the USSR ends the Winter War.

1941–44. After Germany invades Russia in 1941, Finland enters the Continuation War alongside Germany against the USSR to win back Karelia.

1944. Peace is declared, and Finland stops fighting alongside the Germans.

1944–45. Finland fights against the Germans in the Lapland War as they retreat across Finland from the Soviet front.

1946. Finland signs the Treaty of Friendship, Cooperation, and Mutual Assistance with the USSR.

1951. Self-government is granted to the Swedish-speaking Åland Islands, formerly ruled from mainland Finland.

1970. Finland adopts a 40-hour working week.

1973. Finland signs a free-trade agreement with the European Economic Community (EEC), an international body that centralizes economic decisions and organization among its member states.

1991–93. The Soviet Union collapses, worsening an already severe recession and banking/financial crisis in Finland.

1995. Finland joins the EU, a replacement of the EEC. The new union has a more explicit political and human rights agenda in addition to the economic one. The first Green Party representatives in a European government are elected to the Eduskunta.

1999. Finland joins the EMU. All EMU member nations agree to adopt a single new currency, the euro.

FUTURE TRENDS

Finland's aging population poses the greatest challenge for the future. Its extensive welfare and social security system will be strained by the shrinking workforce and increasing population of the elderly. A major difficulty the government faces is the political unpopularity of suggesting reductions in the welfare system. The guarantee of a certain standard of living is considered to be of primary importance to most Finns, but the question of where the money will come from to support this policy has no easy answer. The suggestion made by Finland's

most right-wing political organizations—restricting those who are eligible for benefits based on ethnic criteria—is fortunately not popular. However, it is clear that significant re-structuring of the welfare system will be needed. The IMF, while praising Finland's strong recovery from its recession of 1991 to 1993, recommended several measures to anticipate and defuse the coming demographic crisis, including raising the effective retirement age of 59, altering individual pensions accounts, and reducing the length of time that unemployment benefit can be claimed. The Finnish government so far has focused on altering tax and wage structures and is more wary of reducing benefits.

Although steady economic growth reduced unemployment to some extent, Finland still faces an unemployment problem. National unemployment is still above 10 percent, and in areas of rural northern and eastern Finland it exceeds 30 percent. Since most export industries are highly automated and create relatively few jobs, it has been suggested that Finland is nearing its structural limit on unemployment. The state has been investing in education programs for adults and children to familiarize people with the Internet and computer programming and it is hoped to find a place for them in the new economy. However, public spending is expected to fall in 2001, and the government is trying to find a way to solve the unemployment problem without increasing government expenditure. Plans for lowering the income tax may be one way to encourage more participation in the labor force but cannot guarantee that the kind of workers required by the new economy will be available.

In 1995, the first Green Party representatives were elected to the Eduskunta, and their strong opposition to nuclear energy and fossil fuels poses a challenge to the government, which is looking for consensus on how to meet increasing energy demands. In the light of domestic and international environmental concerns about sustainability, pollution, and other risks associated with nuclear power, as well as dependence on exhaustible fossil fuels (which must be imported), Finland's energy system may need to be reexamined. It is unclear how the coalition government will deal with this challenge. Most attention has been given to research into sustainable energy sources, for which some funds have been allocated. Finnish businesses appear to be more sensitive to these issues than some of their European counterparts that may actually be better equipped to handle the task.

The importance of the timber industry to the economy may lead to future problems. Many current environmental reports describe commercial timber farming as destructive to Finland's ancient forests. The government and timber industry deny this claim, and they do not appear to distinguish between old-growth forests—which are ancient and full of a diverse range of plant, animal, and insect life—and homogenous, younger, and non-native trees that have been more recently planted. High levels of logging and clear-cutting of ancient trees and their replacement with commercially viable tree species threatens the bio-diversity of these ancient forests and poses extinction risks to local plant and animal species. Complaints by environmental groups on this issue have inspired the Finnish Ministry for the Environment to increase efforts to ease the ecological pressure on Finland's ancient forests. The timber industry, however, is highly dependent on world demand and is not as flexible in its responses as other industries. Finland's ongoing commitment to research and development in all its industries can be taken as a hopeful sign that further flexibility may come, as new industrial products are developed which can allow the industry to diversify.

Membership in the EMU has taken away Finland's ability to control the economy through interest rates and devaluation. **Fiscal policy** is now the main instrument of control. This situation could lead to problems, as the government has been running a **budget deficit**, and depends on high taxes for much of its revenue. If the EU starts to require harmonization of taxes among its members, Finland will be in great difficulty.

Although Finland has recovered well from its recessions of a decade ago, it is still in a slightly precarious position in its over-concentrated engine of growth. Specifically, Nokia alone accounts for around 65 percent of shares traded on the Helsinki Stock Exchange, and Finland is particularly sensitive to world demand of its main forest products for export. As the nation's population ages, the shift of people out of the workforce and into its pension system will strain the government's resources, which have only recently recovered from the recession. Membership in the EU gives some advantages, especially in terms of an export market but also removes some control over the economy. It is up to the Finnish state to attempt to strike a balance.

DEPENDENCIES

Finland has no territories or colonies.

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—Larisa Mann

FRANCE

French Republic
République Française

CAPITAL: Paris.

MONETARY UNIT: French Franc (FRF). A franc equals 100 centimes. Coins are in denominations of 1, 2, 5, 10 and 20 francs, and 5, 10, 20 and 50 centimes. Paper currency is in denominations of FRF 50, 100, 200, and 500. In 1999, the European Union (EU), of which France is a member, introduced a new currency, called the euro, to be the common currency among the participating member countries. The euro is scheduled to circulate amongst the members of the European Monetary Union (EMU) by 2002. When this happens, it will be the sole currency in member states, including France. The exchange rate between the euro and franc is fixed at 6.56 francs per euro. Both the franc and euro currently **float** against all other currencies. The exchange rate for 1 U.S. dollar was 0.98 euros at the euro's inception, but it has lost substantial value since then. There are 100 cents in a euro. Coins will come in denominations of 1, 2, 5, 10, 20, and 50 cents, as well as 1 and 2 euros. Paper currency will be issued in denominations of 5, 10, 20, 50, 100, 200, and 500 euros.

CHIEF EXPORTS: Machinery and transportation equipment, chemicals, iron and steel products, agricultural products, textiles and clothing.

CHIEF IMPORTS: Crude oil, machinery and equipment, chemicals, agricultural products.

GROSS DOMESTIC PRODUCT: US$1.373 trillion (in purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$304.7 billion (f.o.b., 1999). **Imports:** US$280.8 billion (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. France has the largest land area of any Western European nation and lies between the Mediterranean Sea on the southeast and the Bay of Biscay and English Channel to the north and west. France has a total land area of 547,030 square kilometers (211,208 square miles) and a coastline of 3,427 kilometers (2,130 miles). It shares borders with Andorra, Monaco, Belgium, Luxembourg, Germany, Switzerland, Italy, and Spain. Its area is about four-fifths of the size of Texas.

Paris, the capital city, is the largest city in France and Europe (excluding Russia), and accommodates about one-sixth of the country's population. Other cities with over a million people including surrounding areas are Lyon, Marseille, and Lille.

POPULATION. France's population was estimated to be 59,329,691 in 2000, with a slow growth rate of 0.38 percent. The French population is about one-fifth of Europe's total population and ranks third in Europe and sixteenth in the world. It has about 106 inhabitants per square kilometer (or about 275 people per square mile). Roughly one-sixth of the entire population lives in the Greater Paris area. France's ethnic groups include Celtic and Latin strains, with Teutonic, Slavic, North African, Indochinese, and Basque minorities. Foreigners comprise 6.3 percent of the population.

While the majority of the population (65 percent) falls between the ages of 15 and 64, about 16 percent are older than 65 years of age. The remaining 19 percent are 14 years old and younger. At the turn of the 19th century, France was the most populous country in Europe. But by the late 19th and early 20th century, France experienced the lowest birth rate in the continent. Due to government efforts and the post-World War II baby boom, however, France reached a birth rate of 21 per 1,000 people in the post-war era. This growth declined to 18 and 13.6 per 1,000 in 1963 and 1989, respectively. Currently, France's birth rate stands at 12.27 births per 1,000 population according to 2000 estimates. (France had 9.14 deaths per 1,000 population during the same

year.) The influx of immigrants into France at the last quarter of 20th century, though, has moderated the trend toward a shrinking population. It is estimated that France has received 0.66 net immigrants per 1,000 people in 2,000. The ratio between males and females is nearly one-to-one in almost all age strata of French population, with the exception of those over age 65, where there are 0.68 males per each female. This is mainly because the life expectancy for females at birth is about 83 years while it is only 75 for males. Life expectancy for the total population averages 79 years.

In 2000, France was the sixteenth most populous nation in the world. The French population is expected to decline by the year 2025 when France will rank twenty-fifth in the world. The **United Nations Development Program** (UNDP) estimates that the population will reach 61,662,000 in 2025 but drop to 59,883,000 in 2050, with 30 percent of the population over 80 years of age. (This number was 16 percent in 2000.) This means that the potential support ratio (the number of people aged 15 to 64 for each person aged 65 years or older) in 2050 will be half of its 1999 level. In other words, every 2 work-

ing people will be supporting a retired person in 2050, which doubles the burden on the society from 1999 to 2050 in providing care and benefits for the elderly.

Archaic **immigration** policies make France somewhat unattractive for foreigners who seek work or asylum, even though the need for more workers has been recognized by many. The government provides generous family and health support programs, though these have not necessarily encouraged population growth. Individuals with health problems, the unemployed, and the retired are protected from bankruptcy by the social security system. Some cities even tried to implement their own programs to encourage population growth, but they were aimed at French or European races, and thus quickly denounced as racist. Overall, the government's efforts to address the serious under-population problem of the near future have not been successful.

OVERVIEW OF ECONOMY

By the 18th century, France was one of the richest nations of the world. The potential for industrial development made France a rival to England, perhaps the most powerful country on Earth at the time. But it was its agricultural potential at the beginning of the Industrial Revolution (the period during the 18th and 19th centuries when Europe changed from agrarian, handicraft economies to the those dominated by industry and machine manufacture) which made France a world power. However, its sluggishness in moving from agrarian to industrial modes of production, together with several other factors such as a declining population, left France behind in an industrializing world in the 20th century. As this process continued, and due in part to nationalist sentiment, France largely closed its doors to foreign competition in order to protect its own industries. The **nationalization** of major industries in France took place in the late 1930s in railways, coal, natural gas, electricity, and the banking sector. Flagship companies in various transportation sectors, such as Renault and Air France, also came under the state control. Although a capitalist country, France made many **socialist** adjustments such as heavy government control over the economy, which included strict government regulation of many industries or powerful representation of the government in sectors considered essential to the national economy. As part of its statist economic policies, France implemented national economic development plans.

Despite its mixed economic system, France has also recognized since the early post-World War II era that economic integration with Europe is in its own best interests. To this end, France has been the major impetus in the formation of such bodies as the European Coal and Steel Community (in the early 1950s) and the European Economic Community. These organizations were the first steps toward both economic and political union in Europe.

Currently the government's role in the economic sphere is much less than before, especially because of the requirements of the European Union (EU). Since the early 1990s, French companies have faced competition from their European counterparts with less help from the government. In an effort to **privatize** the state-owned industries, the government is selling off its shares in France Telecom and Air France, along with companies from the insurance, banking, and defense industries.

Because of its fertile and vast land, France has become a major agricultural producer of Europe, making use of modern agricultural technology. The agricultural sector enjoys generous government support in the form of **subsidies**. This policy sometimes becomes a point of contention with France's EU counterparts. Three-fifths of the land is devoted to agricultural-related economic activities. Besides wine, France is famous for its beef, veal, poultry, and dairy products. Various types of grains also make France the leader among European nations in agricultural production. Overproduction of the world-renowned French wine and competition from foreign producers have conspired to bring about decreases in its price, although the government as of 2001 has tried to discourage overproduction in an attempt to reverse this alarming trend.

France has a long seashore, but fishing is not one of the major components of the economy, except in coastal areas such as Normandy and Brittany, the southern Atlantic coast, and the Mediterranean, where it employs a significant local **labor force**. France has few fishing ports used in shipment of fish products and ranks 20th in the world in total fish production.

Even though France has a highly-educated labor force, unemployment—which stood at 9.2 percent in December 2000, according to the International Labor Organization (ILO)—is still a major problem, mainly because of the slow growth of the economy. Employment opportunities for college graduates were especially lacking. A 35-hour work week was introduced in 1999 by the government in order to create more jobs. Small companies especially objected to the measure as burdensome, for it forced them to hire more workers. Larger firms are more comfortable with the shortened work week, arguing that participation in the European Monetary Union and a common currency have brought new flexibility into the market and hence has eliminated the costs brought by the shortened work week.

France still maintains its ties with many of its former colonies, especially those in Africa, such as Algeria, Benin, and Senegal. France provides support in the form of French francs in order to stabilize some African currencies. It also

provides other types of aid to some of its former colonies, totaling US$6.3 billion in 1997.

As of the end of the 20th century, the **capital goods** sector was one of the fastest-growing sectors of the economy, followed by automobiles and services. The French government predicts continuing stable growth in the first few years of the 21st century, largely due to investments in technology and the promise of structural reforms. France's **infrastructure** is modern in all respects.

POLITICS, GOVERNMENT, AND TAXATION

A democratic republic with a constitution approved by referendum in 1958, France is both economically and politically a hybrid of many systems. Economically, it is a capitalistic country with a socialist outlook, exemplified by property rights and a capitalistic concept of private ownership on one hand and an extremely generous social security system and a socialist approach to solving the society's problems on the other. France has a presidential system combined with a more typical European parliamentary arrangement.

The president of the republic, as the head of state, is elected by direct suffrage every 7 years, and appoints the prime minister as the head of government. However, the president must choose the prime minister from a party or a group of political parties determined by the National Assembly, which is the lower house of the French Parliament. It is quite possible that the president and the prime minister may come from different, and even rival, political parties. This is known as cohabitation. Following the 1995 presidential elections, President Jacques Chirac, who represents the center-right side of the political spectrum, cohabits with a center-left government headed by Prime Minister Lionel Jospin, who was his rival in 1995 presidential elections. Prime Minister Jospin is the head of the Socialist Party, and his coalition government includes representatives from the **Communist** and Green parties.

The French parliament is **bicameral** (a representative system with 2 houses in the parliament or legislature, as in Germany or the United States). Representatives are elected to the National Assembly (the lower house of parliament) by direct universal suffrage, and senators are elected indirectly by an electoral college which is comprised of approximately 145,000 representatives of city councilmen. Representatives serve for 5 years, whereas senators are elected for 9 years. The main power brokers in the French political spectrum can be classified from right to left as National Front (FN), Rally for the Republic (RPR), Rally for France (RPF), Union for French Democracy (UDF), the Socialist Party (PS), Green Party, and the Communist Party of France (PCF). The extreme left parties support continued state control over the economy with big spending programs, while the right-wing parties want to end most forms of state support. The right-wing parties also wish to see far less immigration and more people of European origin populating the country. The high level of unemployment and rising nationalism, expressed also in the form of xenophobia (enmity against foreigners and immigrants), have fueled the popularity of the extremist National Front. President Chirac is from RPR. Both that party and the RPF are neo-Gaullist parties (parties supporting the policies and principles laid down by former French statesman Charles de Gaulle, which call for greater European and French power, prestige, and independence, especially from the United States). The UDF is relatively moderate. There are other small parties which may play roles, sometimes influential ones, at the local but not the national levels. Left-leaning parties, especially the socialists, usually advocate implementing a domestic agenda aimed at fighting unemployment and promoting social programs.

Because of pressure from the EU, more budgetary discipline has been emphasized in governmental affairs. **Protectionist policies** have been abandoned against other members of EU countries. There is strong support for the EU amongst the French people as well as from the president and prime minister. In fact, France is among the most prominent supporters of a unified Europe. Some believe the basis of this support is France's effort to counter the power of the United States in the world's economic and political affairs.

French governments changed hands between left and right in the last quarter of the 20th century, and sometimes political movements changed course. After the influential General de Gaulle's right-leaning government in 1960s, President Francois Mitterand broke with tradition when he came to power in early the 1980s. De Gaulle held the office of the president between 1959 and 1969, and Mitterand served 2 terms as president (1981–95). Catering to the demands of the powerful Communist Party, which supported Mitterand, his socialist government increased government spending by engaging in several public projects and increased taxes in order to pay for the spending. While most of the capitalist world recognized the virtues of the free market economy, the Mitterand government embarked on nationalization efforts. This policy soon led the country into economic turmoil with higher levels of **inflation** coupled with lower values for the French franc. This tendency forced the government to reverse some of its previous policy decisions, even if it meant adopting policy suggestions of political rivals. Mitterand's prime minister (Chirac) lost the presidential election in 1988 only to win it in 1995. However, the solutions to the economic problems on which Chirac based his campaigns have not yet been completely achieved. With one of the highest levels of unemploy-

ment in the EU and its president battered by corruption charges, France saw a general strike in December 1995 that brought the country to a virtual economic standstill. The French government still has a strong presence in the economy, especially in such industries as aeronautics, defense, automobiles, and telecommunications. Even though a great deal has been achieved in privatization, the government can still exert its influence on privatized companies via its large minority stakes in such companies. Nevertheless, after a policy decision of the president in 1996 to streamline defense industries, a wave of mergers and **restructuring** took place among French defense companies.

France prefers to continue with a large government budget financed mainly by taxes rather than to curtail its spending. Currently, France ranks highest in broadly defined tax categories among G8 countries (a group of the most industrialized countries of the world consists of the United States, Japan, Germany, France, Italy, Canada, Russia, and the United Kingdom). The basic corporate tax rate is 33.33 percent. The largest tax burden in France, though, is **income tax**, which in the highest income bracket runs to 54 percent. (By comparison, U.S. federal taxes range from 15 to 33 percent.) The highest tax bracket starts at only about US$40,000, so the middle and upper classes in France pay a significant portion of their salaries in taxes. This rate is one cause, some economists believe, of unemployment, because high taxation together with generous government spending programs discourages working. Incomes of less than 26,100 French francs (approximately US$3,500) a year are not taxed at all, while all income levels above US$20,000 are taxed of a rate of at least 40 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

France enjoys one of the most sophisticated infrastructures in the world, developed through the government's heavy investment in the field and made possible by advanced technology. A network of various modes of transportation blankets the whole country, including air, land, and rail transportation. Transportation is also possible via rivers. The technologically advanced rail system—utilizing some of the fastest trains in the world—is operated by the French National Railways (SNCF), a state-owned company. There are a total of 31,939 kilometers (19,846 miles) of rail lines in the country. There are approximately 828,000 kilometers (514,605 miles) of roads in France, all of which are paved. About 47 per cent of the waterways are heavily used. There are a total of 474 airports in France, many of which serve international traffic. The major airline is Air France, which provides service to all corners of the globe. Many of the ports and harbors are equipped to handle the needs of freight as well as passenger ships. The major port cities are Dunkirk, Bordeaux, Marseille, Nantes, Rouen, Le Havre, Boulogne, Cherbourg, Dijon, La Pallice, Lyon, Mullhouse, Paris, Saint Nazaire, Saint Malo, and Strasbourg.

The communications infrastructure of France also ranks high among advanced countries. There were about 35 million main telephone lines in use by the end of 1998, with mobile cellular phone usage at about 35 percent of that figure. About 218 newspapers were sold in France per 1,000 people in 1996. This number slightly exceeds EMU member countries' newspaper circulation rate for the same period but falls behind the high income countries' average of 286. The number of radios per 1,000 people in 1997 was 937, which shows the same pattern with respect to the EU and high income countries' averages. Radios broadcasting in AM, FM, and short wave cater to domestic and international clienteles. Television set ownership is somewhere in the middle of EU countries. Cable TV is not as widespread in France as it is in either high-income or EU countries as a whole. France's ratio of 27.5 cable subscribers per 1,000 is a far cry from Europe's 110.3 and that of the wealthiest nations' 184. In spite of its vast mobile phone usage, France also lags behind both EU as a whole and its wealthiest countries. There are fewer Internet service providers (ISPs) in France

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
France	218	937	601	27.5	188	47.4	207.8	110.64	5,370
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Spain	100	333	506	11.8	179	17.8	144.8	76.75	4,652

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

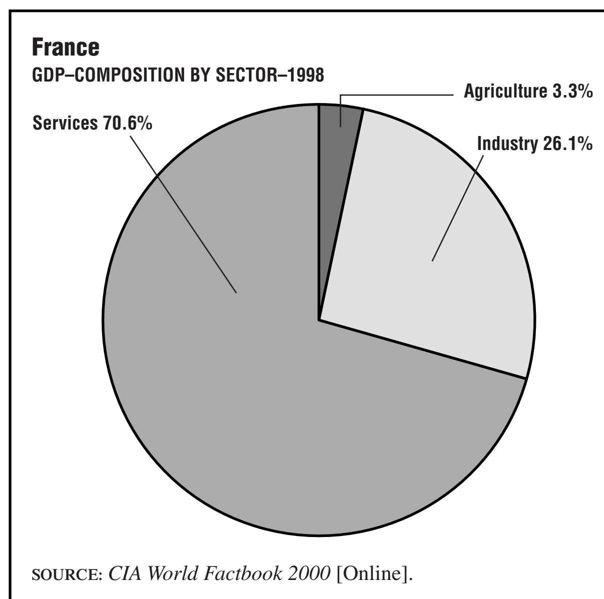
than in many other EU nations, but there is easy access to the Internet via both domestic and foreign ISPs. The dominant domestic telecommunications company, Minitel, is run by the government-owned France Telecom, which has a proprietary electronic commerce service. Even though it lags behind its counterparts in the developed world in some electronic communications industries such as the Internet, France is quickly catching up.

Nevertheless, France is a very conservative country, deeply committed to its own distinct national information infrastructure, which makes the country cautious in approaching innovations that do not originate within France. The government makes special efforts to prevent English, which is by far the most widely used language on the Internet, from taking over in communications. A law was even passed in the early 1990s in an attempt to bolster the use of French in the communications field, thanks to efforts of the Ministry of Culture. The French Internet industry and other communications sectors are more heavily regulated than those of Germany and Britain, and some economists maintain that this has significantly impeded developments in the Internet and related industries in the country. On the other hand, government is promoting the usage of information technology and began in 1999 to **deregulate** some aspects of the industry.

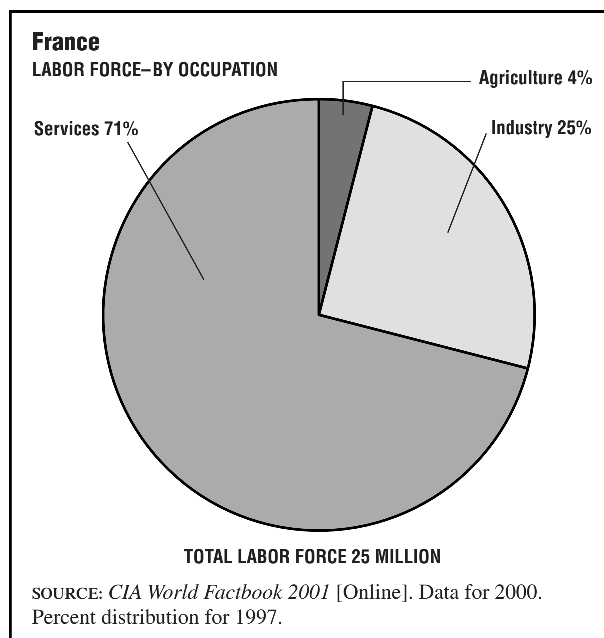
France is not rich when it comes to fuel resources, so it imports three-quarters of the fuel it needs, especially oil. The same does not hold true for electrical energy production, though. Electricity production reached over 480 billion kilowatt hours (kWh) in 1998. The biggest source of electrical power is nuclear energy, which supplies about 76 percent of the country's needs and making France the second largest supplier of nuclear energy after the United States. The next largest source of electrical power is hydroelectric, which supplies about 13 percent, which is produced by plants operating on the Isère, Durance, Rhine, Rhône, and Dordogne rivers. Additionally, a tidal power plant is located on the Rance River in Brittany. Fossil fuel represents about 11 percent of electrical power in France and supplies about 389 billion kWh of energy. France exports about 62 billion kWh of fossil fuel energy and imports 4 billion kWh more.

ECONOMIC SECTORS

The French economy is competitive on a global scale in many goods and service sectors. In 1998, about 3.3 percent of the GDP was contributed by the agricultural sector, and 26.1 percent by the industry. But the major portion of the GDP is accounted for by the service sector, which makes France a typical modern industrialized country. While most employment is provided by this sector (about 66 percent), agriculture employs only 7 percent and services 27 percent. Historically, France has been the capital of Europe with its vast expanses of farm land. French wine and cheese are famous throughout the world. For historical and cultural reasons, French farms have generally been small and family-owned, and worked with traditional tools and methods. Globalization, which involves the opening of France to the market forces of Europe, has led the country to think about modernization in agriculture, which has only partially adopted modern methods. Currently, the French economy is stronger and more competitive in world markets than before, even though many business enterprises are still smaller than their counterparts in Europe, Japan, and the United States.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1997.

The leading industries are metallurgy, mechanical and electrical engineering, chemicals, textiles, and the manufacturing of airplanes and automobiles. The auto producers, Renault and Citroen, are household names in many European countries. The French are very proud of Airbus Industrie, which is the main competitor of the Boeing Company, the leading U.S. aircraft producer. Airbus has captured a sizable portion of the commercial airplane market, a domain which had belonged exclusively to Boeing and its smaller U.S. and British competitors before the rise of Airbus in the 1970s. The world famous Mirage and Concorde are also produced by French aviation companies. The tragic July 2000 crash of a Concorde in France marred the otherwise superb reliability of Concorde airplanes, but in 2001 the sleek jet was scheduled to go back into service with Air France. France is not very rich in natural resources other than bauxite, but the country processes imported material into commercial products and resells them domestically and to the rest of the world.

France has a diverse and important services sector. Paris has the fifth largest stock market in the world. France's 4 banks rank among the biggest 25 banks in the world. The insurance industry ranks fifth in the world. France has been, for much of the last century, the world capital in fashion, setting the trends in designer clothes. Although there is a threat from countries with lower labor costs, French textile products are among the best in the world. Perfumes produced in France are synonymous with high fashion. Paris is known all over the world for its cultural attractions, architecture, and cosmopolitan lifestyle. That is why France is 1 of the 3 most-visited countries in the world, along with Spain and the United States.

AGRICULTURE

France has been one of the most dominant agricultural centers of Europe for centuries. That gave France an important role in European and, to some extent world, affairs in the pre-industrial age. Currently, France still leads Europe in agriculture, excluding the Russian Federation. With about 730,000 farms, approximately 7 percent of the workforce is employed in agriculture or similar sectors such as fishing or forestry. When all people engaged in agriculture-related activities (including the processing of agricultural goods, for example) are considered, the percentage of the population engaged in agricultural production is much larger. As of 2001, many younger people tend to look for employment outside of family farms and help out only as part-timers. This trend, however, has generated an opportunity for others looking for jobs in agriculture. According to the French Ministry of Agriculture, the share of population actively involved in farming is decreasing. Nevertheless, new creative methods of marketing and agritourism have attracted some young talent to the sector. The sheer size of the land used for farming, about three-fifths of the total, indicates the place of agriculture in the lives of French people. In the post-World War II era, government has made a significant effort to modernize French agricultural production by switching to more scientific methods and modern equipment. In 1997, about 86 percent of farms owned at least 1 tractor, and farmers increasingly upgrade equipment. The size of irrigated land in 1997 is twice that in 1979.

The major agricultural products that place France among the top producers in the world market are sugar beets, wine, milk, beef and veal, cereals, and oilseeds. Producing 29 million metric tons of sugar beets, France leads the EU. It takes second place in both the EU and the world in the production of its highly popular wine varieties, with 5.3 million metric tons. Though fifth in the world, France ranks second in the EU in milk production, totaling 23.3 million metric tons. France is the major source of meat and veal in the EU with 1,815,000 metric tons. What is commonly known as "Mad Cow Disease" (an illness first discovered in British beef that causes death if it infects humans) created a rift among European countries, especially when France prohibited British beef from entering the country. In the cereals category, which includes soft wheat and grain maze, France leads the EU. With 4.1 million metric tons of production, France also holds the leading position in oilseeds in the EU.

The biggest export items among agricultural products are various types of beverages and alcoholic drinks. According to the Ministry's numbers, the value of alcoholic exports reached 56.6 billion francs in 1999. This amount registered a 6 percent increase over the previous period. Cereals and flour exports, which increased 12 percent, totaled 36 billion francs. Meat and other animal products experienced a shrinkage of 7 percent but were still valued at 28 billion francs. All categories of prepared food brought 27 billion francs into the country in the same year. However, this reflected a decline of 10 percent from the previous year. Dairy products also suffered a loss of 2 percent in the world market share, generating 24 billion francs. Demand for French sugar and sugar refineries declined sharply in the world market by about 8 per cent in 1999. The total export revenue obtained by this category was 11 billion francs. The economic crises in world markets played a role in the declines experienced by French exporters of agricultural products. The EU and the United States are France's principal customers for agricultural products.

France is also an importer of agricultural commodities. Prepared food tops the list of imported agricultural items. Figures from 1999 indicate that France imported 19 billion francs worth of meat and other animal products. Even though it has a sizable coastline, France imports a

large segment of its fish demand from abroad, which was valued at 16 billion francs in 1999. Fruits, dairy products, and various beverages cost France 14, 12 and 10 billion francs respectively in the same year. All import categories experienced moderate shrinkage between 3 and 6 per cent, except meat, animal products, and fisheries, all of which remained unchanged from 1997. France did most of its shopping from the same countries to which it sold its products.

Almost half of farm income in France is generated by livestock raising, and the other half is contributed by crops. Cattle are raised mainly in the north and west; sheep and goats primarily in the south and east, which is drier and more mountainous. Pigs and chickens are raised everywhere in France. The Paris Basin area is the source of wheat while some rice comes from irrigated fields of the Rhone delta. While Burgundy, Champagne, Bordeaux, and Alsace are well-known wine regions, wine is actually produced all over the country.

Fishing does not contribute to the French economy in comparison with the agriculture on the national scale. According to the data released by the Ministry of Agriculture, fish production in 1998 reached nearly 600,000 metric tons, a slight increase of 1.5 percent over the previous year. Because of favorable prices, though, the fish products sector exceeded 6.5 billion francs. The exports of the sector fall far behind imports, creating a **trade deficit** in fisheries which is more than double the exports. However, France still ranks twentieth in the world in total fish production. Locally, fishing plays an important role in such areas as Normandy and Brittany, the Southern Atlantic coast, and the Mediterranean. Concarneau, Boulogne-sur-Mer, Lorient, and La Rochelle are the main fishing ports of France.

France's forests are prized for both economic and ecological reasons. The National Forestry Service, founded in 1966, is responsible for managing the country's forests. From 1850 to 1900 a big reforestation campaign occurred, and as of 2001, about 27 percent of French land is covered by forests, making it the third-most forested country in the EU. Two-thirds of the forests are occupied by deciduous trees, and the rest are conifers. France's forests have grown 35 percent since 1945 and continue to grow by about 30,000 hectares each year. Close to 4 million people in France have private ownership of wooded areas. The marketed wood harvest was up in 1998 from its level in 1997 by about 1.6 percent. The rise in the wood industry is attributed to the renewal of activity in construction. As in many other countries, forests in France are utilized not only for wood production but as recreation as well. Hence, while supplying wood products and playing a role in a healthier environment, forests also contribute to the national economy by serving the tourism sector.

INDUSTRY

France is among the most industrialized countries of the world. It is a member of the G8, a group of countries which comprises the 7 largest industrial democracies, plus the Russian Federation. In 1999, the French GDP was almost identical to that of Great Britain and comfortably larger than that of Italy.

MANUFACTURING. About 19.3 per cent of the GDP was generated by manufacturing in France in 1999, compared to 17.8 percent in the United States and 18.5 percent in Britain. Manufacturing contributes roughly 20 percent of the GDP in Italy, Germany and Japan. Investment in the industrial manufacturing sector was 141 billion francs in 1999. (These figures excluded the energy and agricultural manufacturing sectors.)

Firms operating in the industrial manufacturing sector produced a variety of goods such as consumption goods , items related to the auto industry, and equipment such as electronics, machinery, and **intermediate goods**. The well-established name for French products in the fashion world helps France in the export of perfumes and even flowers. The consumption goods industry made nearly 200 billion francs from sales abroad in 1999. The contribution of the auto industry to the French exports figures in 1999 was almost 300 billion francs. France is one of the largest producers of passenger cars and commercial vehicles in the world, along with Japan, the United States, and Germany.

The principal manufacturing companies are located in Ile-de-France, Rhone-Alpes, Nord-Pas-de-Calais, and Pays de la Loire regions. New industrial areas emerged around the English Channel and Mediterranean Sea in order to save shipment costs of imported raw materials. Even though some French companies, such as Renault and Airbus, are world famous, most French firms are characterized as moderate to small-sized. But small firms tend to be ineffective in the world market because of heavy competition from companies based in countries with cheaper labor costs or higher and better production technologies. The pressure of competition was felt heavily with the unification of the European markets under the umbrella of EU, in which movement of capital and labor is not constrained. Unless smaller and relatively inefficient French firms can adapt, labor and capital may move elsewhere. With the advent of the euro, many French companies have had to restructure and form mergers.

The major European airplane producing company is Airbus, which is based in France but also supported by Germany and Britain. With more than 4,200 aircraft orders placed by international customers as of April 2001, Airbus is the world leader in aircraft production. Airbus and Boeing of the United States are in competition, and they have conflicting ideas about the future of the world

air travel. The perception of future demand and air travel habits shapes the design of aircraft to be produced. Airbus believes that huge aircraft with a short flight range will shape demand in the future. Boeing, on the other hand, believes that passengers will be flying long miles in smaller aircraft. Time will show which one is on the right track.

One other field where French companies are strong is construction and civil engineering. However, a recent declining trend in enrollment in science classes in the country is a major concern of education authorities. France is the second ranked producer and the leading exporter of agri-foodstuffs (processed food such as wine, cheese, and pasta) in Europe. It is the fourth-largest exporter in the world in chemicals, rubber, and plastics; and third ranked in pharmachemicals and pharmaceuticals.

MINING. Mining is not a field in which France competes, and only a very minor fraction of the labor force (less than 1 percent) is engaged in mining. Regarding coal, 2 major fields produce most of France's coal: the Lorraine coal field near Metz and the Nord-de-Calais coal field near Lille. Most of these fields do not have economically viable reserves compared to other big producers because they lack sufficient amounts in some cases or are difficult to extract. Many coal fields have shut down since the 1950s.

France is among the biggest producers of bauxite in Europe and also plays a big role in the continent's natural gas production. France's position may be threatened, however, if some Asian companies acquire access to the European market, although the **tariff**-free regulations that EU member states enjoy put France in a strong position. France is an importer of petroleum but processes petroleum at home to produce several oil products which are sold domestically and abroad.

SERVICES

As with any other developed country, the services sector is an important component of the French economy. Out of over 2 million companies in France, roughly one-third operate in the various subsectors of the services industry. More companies are currently in the services sector in France than in any other part of the economy. The services industry (other than government) provides jobs to about 27 percent of the workforce, or 4.5 million people, and contributes 39 percent of the GDP. Investment in the industry is also significant.

FINANCIAL SERVICES. France has a developed credit market which channels savings to investors very efficiently and in large volumes. The **market capitalization** of shares listed on the Paris Stock Exchange, the fifth largest in the world, accounts for about 32 percent of the French GDP. Market capitalization at the end of 1997 reached an extraordinary 4 trillion francs. The Paris Stock Exchange is an internationally used capital market, and foreign investors hold about 35 percent of French stocks. This puts Paris in an advantageous position to attract more international capital with the help of the euro, the common currency of the EU. In an effort to adjust to the introduction of the new currency, all asset management companies in France started to offer their services in euros as of January 1999, the date the euro was introduced as the common currency of Europe. Since not all EU, let alone the European countries, decided to adopt the euro as their currency, authorities in the Paris Stock Exchange believe it has a comparative advantage over the stock markets of these nations since it can offer more opportunities via its reach to wider international audience. The Paris Stock Exchange has gone through extensive technological and legal restructuring to become more investor friendly in the international market. According to the stock exchange's data, foreign investments in the Paris Stock Exchange have tripled in monthly trading since the beginning of 1998, due in large part to the restructuring of the exchange. The exchange has trade relationships with the Chicago Mercantile Exchange and the stock exchanges of Sao Paolo, Toronto, Brussels, Lisbon, Tunis, Casablanca, Warsaw, and Amman, among others. The French bond market is among the world's leaders and ranks second after its U.S. counterpart.

The French banking system is also quite competitive in the world market. Credit Agricole, Compagnie Financiere Paribas, Groupe Caisses d'Epargne, and Banque National de Paris rank among the top 25 banks in the world. In Europe, banks are allowed to engage in activities that would normally be reserved for either commercial banks or investment banks in the United States. In a unified Europe, there will be one central bank, while national central banks will be largely autonomous.

INSURANCE. Like banking and the stock market, the French insurance sector is also a world player, ranking among the top 5 in the global insurance market. Although French insurance firms have a global presence, 60 percent of their total international activity is carried out within the borders of EU. Like other insurance industries, French insurers are institutional investors. The largest chunk of investments in the insurance industry is in the form of bonds, at 69 percent. Stocks account for only 15 percent of investment, and the rest is real estate, commercial paper and other assets. French insurers saw their overall value rise 16 percent from 1996 to 1997. The introduction of the common currency is expected to boost profits in the insurance industry.

TOURISM. Over 60 million tourists visit France every year, making it one of the largest tourist centers of the world. Visitors are attracted to its high fashion (or *haute*

couture), beautiful scenery, historic heritage, and cultural activities. Paris, the center of France's tourist trade, offers attractions such as the Louvre (its famous art museum), fine restaurants, the Eiffel Tower, and the beautiful works of architecture along the Seine, its major river. With about 67 million annual tourists, France trailed behind only the United States and Spain in 1997. France has a surplus in tourism in its **balance of payments** accounts. The more than 100,000 businesses directly or indirectly involved in tourism in 1997 generated over 100 billion French francs. Investments in the sector came close to 15 billion francs in that same year. According to the Ministry of Tourism, there were about 634,640 people employed in the various categories of the tourism sector including travel agencies, restaurants, and hotels. About one-sixth of this figure is employed for less than full-time.

INTERNATIONAL TRADE

France, with its developed economy, is one of the most active participants in world trade. After World War II, the French government saw that closer ties to Germany would bring it political security and greater economic strength. Thus, the European Coal and Steel Community was formed, which brought the 2 countries and other European nations into a consultative body to discuss the production of steel and coal. The EU, which France was instrumental in creating, has helped it to diminish government intervention in economic affairs by privatizing several industries. In 1992, the Treaty of Maastricht was signed, which was the watershed event in bringing Europe into political and economic union. On a practical level, the lower trade barriers and fewer restrictions that integration has brought have opened doors to French products to be sold in many European countries and has allowed a wider freedom of movement of capital in Europe, all of which has benefitted France. The downside is that France, sharing common trade and tariff policies with the rest of the EU countries, has discussed the erection of trade barriers against non-EU companies and products. France will follow EU policy as a whole whenever the EU erects trade barriers to foreign goods and firms. The EU has made it clear that it will erect such barriers in cases involving health, safety, and environmental issues, for instance.

Trade (expressed in billions of US$): France

	Exports	Imports
1975	53.086	54.222
1980	116.030	134.866
1985	101.674	108.251
1990	216.588	234.436
1995	286.738	275.275
1998	305.384	287.687

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

France's share of exports to the world's top ten economies was 9.3 percent in 1997, 9.8 percent in 1998, and 9.4 percent in 1999, putting it in fourth place behind the United States, Germany, and Japan. France is also the fourth largest exporter to the world, with over 5 percent of the world export market. France is the world's second largest exporter of agricultural products as well as services, including tourism and financial transactions. In the durable goods market, France ranks fourth in the world exports. The biggest trade partners of France are members of the EU, with which France enjoyed an overall trade surplus of 79 billion francs in 1999. The only EU countries with which France has a trade deficit are Germany and Italy. It also had a trade surplus with the Organization for Economic Co-operation and Development countries (OECD, a group of countries which promotes free markets and contributes to the development of members' economies through cooperation) of 66 billion francs in 1999. Its deficit with some Asian countries and Russia can be attributed to the economic crises experienced in these regions, which led to lower demand for French products.

Of over 2 million companies located in France, less than 5 percent take part in activities directly related to export, according to the Department of Foreign Trade of France. While mostly French-owned, some of these companies are **multinational corporations** . Companies such as IBM, Michelin, Hewlett Packard, and Daimler Benz are among France's top 20 exporters, with the top 3 exporters being PSA, Renault, and Airbus Industrie. The top 20 companies export mainly vehicles and such items as tires, aircraft, electricity, office products, plastic goods, industrial equipment, food items, computer products, pharmaceuticals, and chemical goods.

The 4 top exporters account for 10 percent of French exports, which is more than what the 100,000 next smaller companies bring into the country. The top 10 exporters contribute 15 percent of exports, while the first 100 make up 35 percent of it. Since some of these companies are active in more than 1 production area and usually operate under different names using subsidiaries, the real contribution of the largest 10 companies probably amounts to half of France's total exports. Hence, even though they may not appear in the list of large exporters, some conglomerates, such as Alcatel-Alsthom, are among the largest exporters.

The contribution of smaller-scale enterprises to the French export picture has been on the rise since 1990. Almost half of total exported goods and services were produced by companies having somewhere between 10

to 499 employees. These types of companies are called Small-to-Medium Enterprises (SMEs). Firms hiring fewer than 10 people are called Very Small Enterprises (VSEs). Foreigners control about 27 percent of SMEs in France and about 33 percent of VSEs. SMEs concentrate in agricultural products such as agro-foodstuffs and consumption goods such as wood and leather.

Oil tops the list of French imports. In 1997, petroleum products made up 4.64 percent of all imports. Natural gas is also a major import. Various auto parts, some from French companies located abroad, are also high in the shopping list of France.

Foreign investment in France has steadily increased since 1990. Direct foreign investment in France, in the form of expansion or start-ups, created over 31,000 new jobs in 1999, up 8 percent from its level in 1998. This trend was most likely due to France's skilled labor force combined with the government's efforts to make France attractive to foreign investors. Some 29 percent of all foreign investment-related jobs created in 1999 were due to hiring in U.S. and Canadian firms. This was followed by German investors. The information technologies and communications fields created 15 percent of new jobs. A similar pattern was observed in consultant and service sectors, including call centers and logistics, accounting for 13 percent of the jobs. France is the world's fourth largest receiver of international investments.

Realizing the importance of operating in the country where the market is, French companies have extended their presence abroad. French companies have established a sizable presence in other countries which amounted to 239.7 billion francs in 1998. France is a net exporter of direct capital investments to the rest of the world. The balance of export and import of direct capital investment almost doubled in 1997 from its 1996 value and did not change much in 1998, standing at 74.4 billion francs. This rate was due largely to the increased volume of foreign direct capital investment in France, overall, a remarkable change from the 1990 deficit of 112.3 billion francs. Emerging economies is another reason why French capital opted to take advantage of new markets abroad. But despite new investment in the developing world, two-thirds of French capital in 1998 was invested in the EU and the United States.

MONEY

The French franc is one of the reserve currencies of the world. However, its influence is nowhere close to that of the United States dollar. In 1999 France, together with certain other countries, agreed to phase out its domestic currency in favor of a common currency in Europe, which will work like the U.S. dollar among U.S. states. The euro was launched at a value slightly above the U.S. dollar, but by 2001 it had lost much of its value. The European Central Bank, with the help of the United States Federal Reserve and the Bank of Japan, undertook a salvage operation aimed at curbing further decline of the euro. The weaker euro made French products, along with other goods produced in the region that uses the euro (also known as the "Euro Zone"), cheaper with respect to the rest of the world. The sale of high-tech goods produced by U.S. firms, such as Intel and Boeing, has suffered during the process, which partly led to the U.S. central bank's participation in the joint effort to save the euro.

Exchange rates: France

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	5.8995
1997	5.8367
1996	5.1155

Note: Amounts prior to 1999 are in French francs per US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Not all EU member countries have opted to be part of the single monetary bloc. Great Britain's reluctance to join was a major blow to efforts to unite the monetary affairs of Europe. Though 10 countries initially joined, the Euro Zone now includes 12 countries (Austria, Belgium, Germany, Spain, Finland, France, Greece, Ireland, Italy, Luxembourg, Holland, and Portugal).

The euro is not yet a **hard currency**. However, it is used throughout the participating EU countries in non-currency financial transactions. Prices are quoted in both the domestic currency, such as franc, and the euro. Domestic currencies coexist with the euro in a **fixed exchange rate** regime. For example, 1 euro equals 6.56 French francs. However, the domestic currencies and the euro use market forces to determine their values on the world market in a flexible **exchange rate regime** (synonymous with a **floating exchange rate**). The transformation to the single currency will start in July 2001 when the banks begin issuing checks in the euros. A single currency is expected to ease the movement of labor and capital in Europe and generate a common market encompassing 20 percent of the world's trade.

The French monetary system is governed by the central bank of France, the Bank of France. The reserves of the Bank of France amounted to 72.19 billion euros as of January 2001. Of this amount, more than half (39 billion euros) was in foreign exchange, and 27.6 billion euros was in gold. The **Monetary Policy** Council is the decision-

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
France	18,730	21,374	22,510	25,624	27,975
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Spain	10,040	10,512	10,943	13,481	15,644

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: France

Lowest 10%	2.8
Lowest 20%	7.2
Second 20%	12.6
Third 20%	17.2
Fourth 20%	22.8
Highest 20%	40.2
Highest 10%	25.1

Survey year: 1995

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

making arm of the Bank, similar to Federal Open Market Committee (FOMC) of the United States. The governor of the Bank and Minister of Economic Affairs and Finance cooperate in making policy decisions. However, with the common currency, a new monetary governing body will be introduced, the European System of Central Banks (ESCB), which includes the European Central Bank and the national central banks of each country.

POVERTY AND WEALTH

World War I and II, which were separated by a widespread depression, had a dramatic impact on the whole of Europe, including France. In addition to the loss of manpower, productivity, and wealth, the infrastructure of the European countries was largely destroyed. In the 1950s, only half of French families had running water in their houses, and access to television and automobiles was highly limited. Half a century later, the picture has changed drastically, at least for the larger part of society. France is an advanced industrial country in every respect, although there are pockets in French society that are still comparatively under-developed. The per capita GDP in 1995 U.S. dollars has increased from under US$20,000 in 1975 to just under US$28,000 in 1998, making France among the highest-income nations in the world. However, men tend to earn US$10,000 (1998 dollars) more than women per year. The educational system, though, is more egalitarian: 94 percent of females and 91 percent of males have attended either a primary, secondary, or tertiary educational institutions. France spends about 6 percent of the GNP on public education, slightly higher than the average for OECD countries. However, only 5 percent of the students are in science in tertiary educational institutions, which is a concern to policy makers about the country's competitiveness in information age.

Standards of living are difficult to assess, and most economists group the Western European and North American countries close together at the top end of most "quality of life" scales. The United Nations Development Program ranked France as thirteenth on the "Human Development Index" in 2001, a testament to France's excellent health care, literacy, income, and life expectancy.

World Bank data show that the poorest 10 percent of the population receive only 2.8 percent of the national income in France. The poorest 20 percent receive only 7.2 per cent of the income. The highest 20 percent, on the other hand, possess 40.2 percent. Unemployment is a major problem, with a rate of 11.7 percent in 1998. Even though the unemployment rate decreased by 5 percent from 1994 to 1998, the rate is still high enough to cause concern among economists. Another related, but less apparent problem is the insecurity and low pay in

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
France	22	7	9	33	8	12	40
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Spain	33	12	11	3	5	8	28

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

jobs which do not require special skills. Marginal increases in government aid programs have not alleviated the problem completely.

Worst hit by the economic inequalities in France are immigrants, who are often subjected to severe discrimination. Some authorities in certain parts of the country have tried to encourage the native population to have more children by offering child benefits while denying immigrants the same services. The EU, on the other hand, has special educational programs for minorities and immigrants.

The percentage of people living with AIDS (0.37 percent) is slightly above the OECD average (0.32 percent) according to UNDP statistics. Public expenditures on health increased from 6.6 percent of the GDP in 1990 to 7.1 percent in 1996–98.

WORKING CONDITIONS

Some 25.6 million workers were employed in France by the end of 1999. France's labor force resembles that of many advanced industrial nations and is one of the most highly-educated in Europe. The GDP per employee per hour was US$34, larger than Italy, the United States, Germany, and the United Kingdom. France ranks third in Europe in employee productivity, and fourth in labor costs.

Unionism in France has declined dramatically over time and currently stands at half the level of the United States and reached the lowest level in Europe in 1997. Traditionally, unionism is stronger in Europe than the United States, and unions fight for non-wage rights more than for issues such as job security and vacations. The major labor union in France is the Confederation Generale du Travail (CGT) with about 2.4 million members. It is controlled by communists. The independent labor union, Force Ouvriere, is estimated to have about 1 million members. Another independent union serving white-collar labor is Confederation Generale des **Cadres** with 340,000 members. Other labor unions are the Conseil National du Patronat Francais (Patronat National Council of French Employers, CNPF) and the socialist-leaning labor union Confederation Francaise Democratique du Travail (CFDT) with about 800,000 members.

The decline of unions in France has not left the labor force without protection. There are still strong laws and institutional arrangements that give workers a say in running the workplace. The labor code sets standards regarding issues ranging from the workweek to vacations. In companies with more than 10 employees, workers are represented at various decision-making levels and are free to file grievances, individually or collectively, with the courts against the employer. Worker-employer relations are peaceful overall. A total of 8.4 working days are lost per 1,000 working days in France, making it one of the lowest strike countries of Europe. The same number is well over 40 days in Spain.

Another challenge the French labor force faces is the eroding job security as a result of adjustment to the common market policies of the EU. Cheaper labor from such countries as Greece and Spain may drive unskilled French workers out of jobs. Adding to this problem is the possibility that France's skilled workers may find extended opportunities in other member countries. In 1999, the government introduced a 35-hour work week to ease the unemployment problem by creating more positions for the unemployed. (The 35-hour workweek is paid on a 39 hour basis.) Starting in the year 2000, companies gradually phased in the 35-hour workweek schedule. Businesses were vehemently opposed to the initiative, though some agreed to it after negotiations with the government. Firms that implement the rule earlier than they are required to are promised government aid based on the number of workers they employ, which is expected to be a significant burden on the national budget. The government has proposed dipping into the unemployment benefits fund to pay the costs of the new policy.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

843. The treaty of Verdun roughly determines the borders of France. Charles the Bald becomes first monarch.

1338. The Hundred Years' War with England begins.

1643. Louis XIV's reign begins.

1789. The monarchy is overthrown by French Revolution. First Republic is founded.

1804. Napoleon Bonaparte declares himself the first emperor.

1870. France is defeated by Prussia in Franco-Prussian War.

1914. France is invaded by Germany during World War I and suffers enormous losses before winning the war, with the Allies, in 1918.

1940. France is invaded again by Germans during World War II. Allies liberate France in 1944. General Charles de Gaulle becomes head of the provisional government.

1946. France joins NATO.

1951. France plays a key role in the formation of the European Coal and Steel Community (ECSC), the first step towards the eventual formation of the European Union.

1954. France withdraws from Indochina (Vietnam) after its military defeat there.

1967. The ECSC, the European Economic Community (EEC), and Euratom all merge to form the European Community (EC).

1968. Students and workers strike in Paris in opposition to government policies regarding the poor; De Gaulle resigns after losing referendum on constitutional reform.

1974. Conservative Giscard d'Estaing becomes president.

1981. Socialist Francois Mitterand becomes president; massive nationalization campaign by the government begins.

1986. Jacques Chirac becomes the prime minister of the center-right coalition; the government embarks on privatization efforts.

1988. Francois Mitterand is elected for a second term and brings France much closer to integration with the EU.

1991. Socialist Edith Cresson becomes the first woman prime minister of France.

1992. The Treaty of Maastricht is signed, which calls for the political and economic union of European countries. A common monetary policy and legal structure is announced.

1993. France tightens immigration requirements and makes it easier to deport foreigners.

1995. Jacques Chirac wins presidency on his third try, cements relations with Germany and the European union.

1997. Socialist Lionel Jospin becomes prime minister.

1999. EU adopts the euro as the currency.

FUTURE TRENDS

France suffered twice from war in the 20th century at the hands of its neighbor Germany. The 21st century, however, looks much brighter than the preceding one. France is part of a European coalition which may create a United States of Europe in the future. Not only is France one of the leading players in this effort, it also has strong relations with Germany, once its invader, which brings it security. By joining the common currency efforts in Europe, France has secured an influential role for itself in European affairs, both economically and politically. It has already started to reap the benefits of one of the largest markets in the world by receiving a large volume of **foreign direct investment** and exporting its agricultural and other products within Europe in a tariff-free environment.

Recent **liberalization** and privatization efforts of the government, which reversed an earlier course of the 1980s, both brought confidence to markets and increased efficiency to the government, which is now much smaller than before. Its main problems lie in its relatively high unemployment rate and low population growth. The EU may provide a solution to the unemployment problem, but with a more integrated Europe comes the possibility that France may lose many of its more talented workers if they leave for better jobs. Coupled with rigid immigration policies and xenophobia, France may experience a shortage of technically capable individuals. Germany, which has many of the same racial difficulties, recently initiated a program which is similar to the U.S. green card and may encourage technologically savvy people to come to Germany. France may soon have to confront the same problem. Decreasing population growth may seem to be an answer to unemployment in the short run, but it is a fact that the burden of supporting the retired will have to be shared by fewer working people as France's demographics change. This situation may mean the need for higher spending on health care and related services, which will drain government aid funds. Perhaps this problem is the biggest challenge France has to deal with in the 21st century.

DEPENDENCIES

France has no territories or colonies.

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—Ismail H. Genc and Emine U. Genc

GEORGIA

Republic of Georgia
Sakartveld Respublika

CAPITAL: T'bilisi.

MONETARY UNIT: Georgian lari (GEL). One GEL equals 100 tetri. Introduced in September 1995, the Georgian lari comes in denominations of 1, 2, 5, 10, 20, 50, 100, and 500. There are coins of 5, 10, 20, and 50 tetri.

CHIEF EXPORTS: Scrap metal, ferro-alloys, nuts, tea, and wine.

CHIEF IMPORTS: Oil, natural gas, cigarettes, electricity, and pharmaceuticals.

GROSS DOMESTIC PRODUCT: US$11.7 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$329.9 million (2000 est.). **Imports:** US$700.2 million (2000 est.). The CIA *World Factbook* lists exports as US$372 million (2000 est.) and imports as US$898 million (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Georgia is located between Europe and Asia. East of the Black Sea, Georgia is separated from Russia by the Caucasus Mountains. It borders Turkey and Armenia to the south and Azerbaijan to the east. Georgia has a land area of 69,700 square kilometers (26,911 square miles) making it slightly smaller in size than the state of South Carolina. Approximately 75 percent of Georgia's territory is 500 or more meters above sea level. The country has a coastline of 315 kilometers (196 miles).

POPULATION. Georgia's most recent official census counted 5,400,481 in 1989. Recent state statistics, which underestimate the volume of **emigration**, keep the figure around 5.4 million. The U.S. Central Intelligence Agency (CIA) *World Factbook,* however, estimates the population in July of 2001 at 4,989,285. With estimated rates of 10.87 births and 14.52 deaths per 1,000 population and a net out-migration rate of 2.57 per 1,000 population, Georgia had an estimated growth rate of -0.62 percent in 2000.

Georgia is an ethnically diverse state. Georgians comprise only 70 percent of the population, while there are minorities of Armenians (8 percent), Azeris (6 percent), Russians (6 percent), Ossetians (3 percent), and Abkhazians (1.8 percent). These groups, while small in number, have posed problems for the T'bilisi government as they are concentrated in specific areas and some have aspirations towards independence. Georgia contains 3 autonomous republics: Abkhazia, Adjara, and South Ossetia.

OVERVIEW OF ECONOMY

It is difficult to understand the contemporary economic situation of Georgia without first understanding its tumultuous history since achieving independence from the Soviet Union (USSR) in 1991. Independence exposed the extreme reliance of the Georgian economy on the Soviet Union. At the time of independence, the vast majority of Georgia's trade was conducted within the USSR. Trade with the Newly Independent States (NIS), the name given to the states that emerged from the collapse of the USSR, was disrupted by the wars in Abkhazia and South Ossetia and by civil war. When Georgia was a part of the USSR, heavy-industrial enterprises were established throughout Georgia but fell into disuse when the country became independent. Net material product experienced an unprecedented decline in the immediate years after independence. It declined by 11.1 percent in 1990, by 20.6 percent in 1991, by 43.4 percent in 1992, and 40 percent in 1993.

Most of Georgia's recent economic problems can be attributed to the weakness of centralized authority and to an insufficiently developed civil society. The legacy

of the Soviet state is a primary cause of these problems. Georgian society was ill-prepared for independence—politically, economically, culturally, and psychologically. In particular, no social groups existed independent of the state and a democratic culture had not been established. Moreover, the de facto (existing whether lawful or not) federal administrative-political system imposed during the Soviet period weakened the power of Georgia's own government. Soviet control also fostered separatist tendencies in the region. Administratively, Georgia was a "little empire" that began to disintegrate in much the same way as the larger model of the USSR. The effective secession of Abkhazia, Adjara, and South Ossetia coincided with ineffective control over the Armenian and Azeri dominated regions. The war in Abkhazia was especially detrimental to national and civic integration as it occurred at a critical stage in the state-building process.

The economic path followed by the breakaway republics of Abkhazia, Adjara, and South Ossetia diverged considerably from that of the rest of the country. The Abkhazian victory in September 1993 led to an economic blockade by Georgia followed by a similar Russian blockade in 1996 as Moscow tried to improve relations with T'bilisi. The Russian ruble is the only currency in widespread use in Abkhazia and the region operates under Moscow time, 1 hour behind T'bilisi. Despite a flourishing unofficial trade with Russia, the Abkhazian people had to rely heavily on humanitarian handouts as a means of subsistence. The once dynamic tourism industry is in tatters. Despite maintaining the trappings of an independent state, lack of economic potential has forced South Ossetia to consider closer ties with the rest of Georgia. Adjara maintains the closest links with T'bilisi and has benefited accordingly.

Corruption has been a persistent feature of Georgian society for several decades and has been entrenched since the establishment of an independent state in 1991. The weakness of the central government is clear in its lack of control over its employees. Small and medium size businesses, which could provide a vital base for economic growth and employment are hindered by lack of resources to withstand persistent demands for bribes. Few citizens see the point in engaging in political protests as they perceive the members of the government as hopelessly corrupt and their situation as unavoidable.

For most of the 1990s, Georgia was torn between dependency on Russia and the West. Georgia relies heavily on Russia for fuel, and an estimated 800,000 Georgians who work in Russia **repatriate** a substantial sum to their families in Georgia every year. This economic lifeline was suddenly put at risk when the Russian government imposed a visa regime on Georgia. Before 5 December 2000, Georgians could travel freely to Russia but now are required to obtain permission from the Russian embassy in Georgia. An apparent punishment for alleged tolerance of Chechen guerrillas who take refuge in Georgia, the visa regime is symptomatic of a cooling of relations between Moscow and T'bilisi. Georgia has increasingly turned to the West for assistance. It has deepened relations with the European Union (EU) and declared its intention of joining the North Atlantic Treaty Organization (NATO) at some point in the future.

POLITICS, GOVERNMENT, AND TAXATION

Georgia's political system is modeled on that of the United States with a directly elected president, parliament, and judiciary. Politics in the Caucasian republic has been dominated by Eduard Shevardnadze since 1972, the year he became First Secretary of the Georgian Communist Party. Before becoming Soviet Foreign Minister under Mikhail Gorbachev in 1985, Shevardnadze gained a reputation for his anti-corruption policies and his economic initiatives. Shevardnadze entered into alliances with paramilitary forces when he felt it necessary and arrested them when he felt that he was strong enough to maintain power. He adopted an anti-Russian policy at the beginning of his administration, then sought and received Russian aid in putting down an internal rebellion. He even joined the **Commonwealth of Independent States** (CIS)—a heretical act for Georgian nationalists considering the dominant role Russia plays in that organization. When it became clear that Russian economic aid would not be forthcoming, he explained that he attained concessions for his country by such devotion. As Russia adopts a hostile position towards the small republic, some suspect that the Georgian president is now saying what the West wants to hear in order to get the loans and legitimacy necessary to retain control. Shevardnadze was elected for another—and, according to himself, final—5-year term of office in April 2000.

To consolidate his influence and further his policies, Shevardnadze founded the Citizens Union of Georgia (CUG) party in 1993. Officially dedicated to free market economics, the CUG advocates increasing the collection of taxes, fiscal rectitude, and improving social welfare provisions. The CUG emerged as the largest party after parliamentary elections in 1995 and 1999. As with society generally, politics is clannish in Georgia and many important administrative functions are handed out to family relatives and friends. Despite the more than 100 small parties in Georgia, there is little effective opposition to the Shevardnadze-led government. With the exception of the electorally insignificant **communist** faction, all political groups are committed to the free market, so alternative leaders provide a functional but not an ideological opposition to the status quo.

The "black hole" of tax collection is so great that tax revenues constituted only 10 percent of **gross domestic product** (GDP) in 1997, a year in which the Georgian economy enjoyed one of the world's fastest growth rates. Insubstantial tax revenues are partially due to the narrow tax base; most of those who do pay taxes are state employees for whom tax is automatically subtracted from salaries. While those living below the poverty line might have some ethical grounds for evading tax, many of those that have the means to pay have shown no willingness to contribute their share. The situation is aggravated by the actions of underpaid tax officials who ignore hidden income in return for pocketing a portion of the total amount due. The government has done little to develop more effective means of enforcing the law and appears resigned to the situation.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

There are 20,298 kilometers (12,613 miles) of roads in Georgia which consist of international motor roads (1,474 kilometers/916 miles), internal state motor roads (3,330 kilometers/2,069 miles), and local roads (15,494 kilometers/9,628 miles). The vast majority of roads are in poor condition. A Georgian railway network was established in 1872, which grew to 1,583 kilometers (984 miles) of track in 2000. T'bilisi is connected by rail to the capitals of Azerbaijan and Armenia, but due to unrest in Abkhazia, the route to Russia and Europe has not been in operation since the early 1990s. In 1988, during the last years of the Soviet regime, Georgian railways transported 36.2 million metric tons of cargo. The volume declined to 4.7 million metric tons in 1995, or only 13 percent of total railway production. Since that date, the volume of cargo has steadily increased, reaching 9.4 million metric tons in 1999.

The Georgian electricity power sector is in urgent need of modernization, refurbishment, and investment. The provision of electricity to Georgian citizens has declined every year since 1995 and the lack of power is an obstacle to economic growth. In 1998, a U.S.-based energy company (AES Corporation) bought Telasi, Georgia's bankrupt electricity distribution company. Government corruption, non-payment of bills, and a reliance on aging hydroelectric and thermal

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Georgia	N/A	555	473	2.8	11	N/A	N/A	1.59	20
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Ukraine	54	884	490	15.7	2	0.0	13.8	4.56	200

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

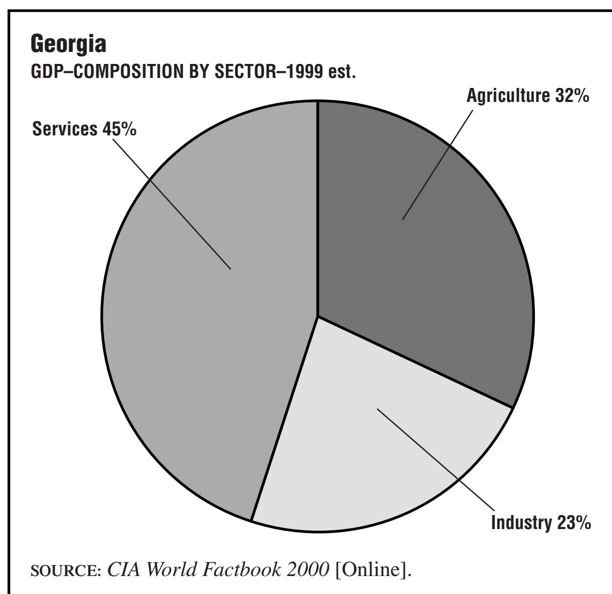
power stations have all contributed to the electricity shortage. During the winter of 2000–01, electricity supply to households was an average of 4 hours per day. These shortages have inflicted misery on an already disenchanted population. Widespread protests and street demonstrations during November 2000 provided a safety valve for popular frustration but aroused fears of another civil war.

The communications sector is the most stable sector of the economy and has attracted the interest of foreign investors. The modernization of ground lines is a process that will continue for some years while the mobile phone operator networks have enjoyed rapid expansion. In 1998, there were 115 telephone lines, 11 cellular phones, and 0.1 public phones per 1,000 citizens. Most of the public phones, however, were in serious disrepair. Internet service providers have also recorded increased business but access to computers remains the luxury of a privileged few (0.15 per 1,000 citizens).

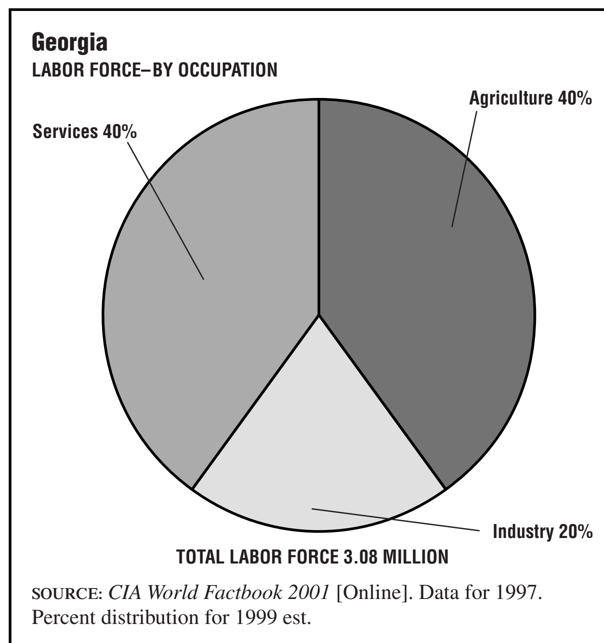
ECONOMIC SECTORS

In terms of volume of goods and numbers employed, agriculture plays a key role in the Georgian economy and is crucial in reducing poverty in rural areas. The **liberalization** of prices and the **privatization** of the land were important steps taken during the 1990s to improve the agricultural sector, though lack of capital has prevented the development of modern systems of management and the attraction of new markets.

The industrial sector has enjoyed modest advances in recent years. In 2000, industrial output grew by 10.8 percent, amounting to GEL1.051 million. Industry accounted for 21.5 percent of GDP in 2000. One positive trend was the increase in the number of small businesses, which totaled 2,296 in October 2000, though they only accounted for 14.5 percent of total industrial production. There is an unequal share of production among the in-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997. Percent distribution for 1999 est.

dustries—43.8 percent of industrial production is produced by 52 of the 2,713 industrial companies—indicating a low level of diversification. In addition, the shadow industry, a legacy from Soviet times, continues to hinder growth. The volume of informal or shadow industrial production was estimated to be 177 percent of officially produced goods in 2000. Industry employed 20 percent of the workforce in 1999.

The service industry constituted 51 percent of Georgia's GDP in 2000. Trade and transport both play a major role in the service industry and each accounted for more than 10 percent of the sector, respectively, by 2000. Tourism remains one of Georgia's great unfulfilled potentials, but the loss of Abkhazia and poor **infrastructure** continue to hamper development in this area. The banking sector has consolidated greatly since 1994 but there are still too many banking groups relative to both the population and the resources of the Georgian people. Approximately 40 percent of the workforce was employed in the service industry in 1999. The remaining 5.9 percent of the GDP was accounted for by net taxes.

AGRICULTURE

During the Soviet period, agriculture and food processing were major activities in Georgia and the country continues to be a significant producer of wine, tea, fruit, and vegetables. Land use in Georgia varies with local climatic and soil patterns. The cultivation of citrus is concentrated along the Black Sea, particularly in Abkhazia and Ajara. Georgian wine has a reputation for excellence, though the industry has suffered in recent years from the manufacture of fake Georgian wine. The cultivation of nuts and tea are also of fundamental importance. Overall, agriculture, forestry, and fisheries accounted for 21.5 percent of GDP in 2000 and employed 40 percent of the workforce in 1999.

Adverse weather conditions contributed to a substantial fall in agricultural production during the year 2000. The volume of agricultural produce fell by 18.5 percent compared with 1999 and the Ministry of Agriculture and Food estimated losses at US$225 million. A prolonged drought throughout the country was particularly devastating for the agricultural heartland of eastern Georgia; almost 400,000 hectares of agricultural lands were damaged. The damage included 155,000 hectares of grain fields causing the annual grain yields to average 900–1,000 kilos per hectare, half of normal production. The effect on sunflower plantations was even greater with 58,600 hectares of the crop suffering damage and the harvest being almost entirely destroyed in some regions.

Forty-three percent of the country's territory is forested. About 97 percent are located on the slopes of the main and small Caucasus Mountain systems, the remainder are to be found in the valleys of East Georgia and the Colkheti lowlands. As a result of the energy shortage, large forest areas have been cut down, leading to soil erosion, the reduction of underground and surface water, and the formation of land and snow slides. Collectively, these processes have caused soil salination and a decrease in soil fertility in many areas. Reliance on manual labor, out-dated techniques, and poorly maintained irrigation systems also lead to decreased productivity.

INDUSTRY

MINING. Georgia used to possess one of the world's richest manganese deposits in the Tchiatura and Sachkhere regions: present-day resources are estimated at about 200 million metric tons. Significant deposits of high quality mineral and drinking water exist in Georgia. Two-thirds of estimated resources (amounting to 17–18 cubic kilometers/4–4.3 cubic miles) are located in western Georgia at 10 to 15 meters depth while the remaining third in eastern Georgia is also accessible at a depth of 250 to 300 meters. A thriving industry during the Soviet period, bottled water production declined sharply after independence and by 1993 was down to 5 percent of pre-independence levels. In recent years, however, the mineral water industry has revived with the "Borjormi" label leading the way.

MANUFACTURING. Georgia's manufacturing base is so weak that many of its most important enterprises can only operate without paying for electricity. The government, afraid of the potential redundancies, has refused to take decisive action. The metallurgy and chemical sectors are commodities of most importance to the Georgian economy, specifically manganese ore, ferromanganese, mineral fertilizers, and synthetic ammonia.

Other industrial activities include domestic processing of agricultural products, which accounted for 4.7 percent of overall GDP in 2000, and construction, which accounted for 3.5 percent. While construction has been increasing relatively rapidly (4 percent in 2000), much of this activity is part of the **shadow economy**.

SERVICES

TOURISM. Georgia was once the tourism center of the Soviet Union with 3 million visitors annually, 250,000 of whom came from outside of the USSR. As Georgia descended into civil war in the early 1990s, its tourism industry ground to a halt. According to Georgia's State Department of Tourism and Resorts, about 383,000 people visited Georgia in 1999, of which 219,000 came from the CIS and 164,000 from other countries. Many of the hotels and health resorts that had catered to tourists were used to house the thousands of internally displaced

people who fled to the capital after the defeat of Georgian forces in Abkhazia. Tourism is also hindered by a cumbersome visa regime that requires letters of invitation and submission of passports to embassies prior to departure. Visas can be obtained upon arrival at the airport but only at very high prices.

The attractions for travelers in Georgia include the beautiful coastal regions along the Black Sea, though the 2 autonomous republics of Abkhazia and Adjara dominate most of the coastline. With its large mountain ranges (the highest peak is 5,150 meters/16,897 feet), Georgia is ideal for skiing, and the Bakuriani and Gudauri ski resorts were very popular among Russian tourists in the Soviet era. Revival of this tourist attraction will, however, require heavy investment and continued political stability. Though tourism could become one of the country's leading industries, hotels and restaurants contributed only 2.2 percent of GDP in 2000.

TEXTILES. The textile industry is also one that should witness significant development in the coming years. A legislative framework for investment and close proximity to EU markets complements the availability of raw materials and a cheap skilled workforce. Eighty-five percent of textile companies have been privatized, either as joint stock companies or companies with limited liability.

FINANCIAL SERVICES. The legacy of communism and the reality of corruption ensured that the creation of a strong banking system in Georgia would be troubled. The absence of an effective banking sector made it difficult for entrepreneurs to get the capital needed to invest in private enterprises, while government interference forced banks to give loans to dubious projects and individuals, further debilitating the development of financial services. Hundreds of banks were established in the early 1990s with capital of US$500 or less. Between 1998 and 2000 the number of banks fell from 294 to 33 and more closures are expected as a result of bankruptcy, closure, or merger.

INTERNATIONAL TRADE

As an integral part of the Soviet Union, Georgian trade was conducted almost exclusively within the USSR. On the eve of the country's independence, 95.7 percent of Georgia's exports and 72.3 percent of its imports were from trade with other Soviet Republics. In the decade following independence, Georgia had to seek out new trading partners because most of the former Soviet republics were poor and the new government did not wish to rely on Russia. In 1997, Russia accounted for 27.4 percent of exports and 15.2 percent of imports; 2 years later these figures had been further reduced to 12.4 percent and 7.1 percent, respectively.

Trade with the EU and Turkey has replaced much of the trade with Russia. In 2000, Georgia exported US$68.3 million to the EU and imported goods to the value of US$167.1 million. Though this meant that Georgia had a **trade deficit** of US$95.8 million, the figure represented a dramatic improvement on the 1998 figure when the trade imbalance was US$273.8 million. Germany has emerged as Georgia's largest trading partner among the EU member states. In 1999, Georgian exports to Germany amounted to US$24.5 million while it imported US$44.2 million of German produce. Despite improving the trade balance in 1999, Georgia still had a trade deficit with all EU member states except Spain.

At the beginning of 2000, Georgia had a trade deficit with 70 trading partners and enjoyed a trade surplus with 18 countries, the most significant of which were Turkey and Syria. Reducing the trade deficit is one of the key priorities of the Georgian government but its efforts are hampered by the conflict in Abkhazia and the de facto independence of South Ossetia and Adjara. The defeat of Georgian forces in Abkhazia resulted in the loss of the rail route to Russia and Europe. The independent regions are popular smuggling routes, depriving the government of revenues and hindering its regulation of trade.

MONEY

Like many former Soviet republics, Georgia used the Russian ruble as a unit of currency after achieving independence. In April 1993, however, the Georgian National Bank introduced a coupon currency to alleviate the shortage of Russian rubles, which was hampering payment of government salaries. Priced on a par with the Russian ruble, the currency was supposed to circulate with the ruble but by August 1993 it had become the sole legal tender. The value of the currency was expected to be maintained by the proceeds from privatization, but when these failed to materialize, a large quantity of unsecured credits were issued with the predictable consequence of rampant **inflation**. By 1994 US$1 was worth 2 million Georgian coupons and inflation was at 100 percent per month. Not surprisingly, most transactions were carried out in U.S. dollars or Russian rubles.

Exchange rates: Georgia

lari per US$1	
Dec 2000	1.9798
2000	1.9762
1999	2.0245
1998	1.3898
1997	1.2975
1996	1.2628

SOURCE: CIA *World Factbook 2001* [ONLINE].

The government introduced a new currency—the lari—on 25 September 1995, which became the only legal tender a week later. Coupons were exchanged at the rate of 1 million per Georgian lari (GEL). Due to the economic reforms that had already begun to take effect and the absence of war, the lari proved to be far more successful than its predecessor. Introduced at the rate of 1.23 Lari per U.S. dollar, the currency has remained relatively stable, declining to 1.35 lari by August 1998 and to 1.97 lari by September 2000. The rate of exchange dipped in the early months of 2001, reaching 2.11 by the middle of February, a decline that was attributed to economic crises in Turkey.

Only the Russian ruble is used in Abkhazia and South Ossetia. Though the lari is accepted as legal tender in the Armenian-populated region of Javaketi, the Armenian dram and the Russian ruble are the dominant currencies, the latter due to the presence of Russian troops. The relative stability of the lari since 1995 contributed to the reduction of inflation. With the ruble in circulation in 1992, inflation had stood at 913.1 percent for the year but war, the failure of economic reforms, and the introduction of the coupon saw this figure rocket to 7,380 percent in 1994. The rate of inflation dropped to 57.4 percent in 1995, 13.8 percent in 1996, 7.2 percent in 1997 and 4.6 percent in 2000.

POVERTY AND WEALTH

Before the collapse of the USSR, poverty was relatively unknown in Georgia. Since then, the standard of living has declined. In June 2000, 53 percent of the population was below the national poverty line, which meant that average spending was less than US$2 per day per person. Georgia's tradition of an extended-family support system has acted as a buffer against the worst privations of severe poverty, however.

Access to land has alleviated some of the hardships for the rural population. In 1997, the poverty gap and squared poverty gap index were 40 and 60 percent higher in urban areas, respectively, than those in rural areas. There are also significant differences in poverty rates and poverty gaps among the geographic regions, with poverty rates in the richest areas (Samegrelo/Poti, Adjara/Batumi) being half those of the poorest ones (Imereti, Guria). The people of the most impoverished region, Imereti, live in remote, mountainous areas that are almost inaccessible during winter partly due to lack of infrastructure maintenance. The former centers of Soviet heavy industry were most adversely affected while those that possessed diversified agricultural and agro-industrial sectors proved less vulnerable to the dramatic upheavals of the 1990s.

The minimum subsistence levels established by the U.S. State Department for Statistics (SDS) were GEL113.2 a month for a working man, GEL99.3 for an average consumer, and GEL197 (US$100) for a family of 4. In 2001, the country's 800,000 **pensioners** received payments of GEL14 (US$7) with GEL2 deducted for electricity. This represents only 12 percent of the SDS's suggested minimum *subsistence* income level. Pensioners, therefore, invariably rely on family, neighbors, street trading, or begging. The **dependency ratio** is 1:1.2, which is dangerously high compared to the suggested 1 dependent per 3 people. The large proportion of workers not paying taxes worsens the government's ability to introduce an adequate pension scheme. The pension system also suffers from a large number of "ghost" recipients: the 1999 registration revealed payments to 37,743

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Georgia	1,788	2,366	2,813	2,115	703
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Ukraine	N/A	N/A	N/A	1,979	837

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Georgia	33	4	13	2	4	8	36
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Ukraine	34	5	16	6	4	14	22

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

deceased pensioners. This unusual situation is partially explained by the high cost of funerals, which force many people to bury their relatives without registering their deaths. Postal workers, however, earn bonuses for withholding the delivery of pensions to unreported, deceased pensioners.

While the Soviet health-care system had imperfections, it was far superior to that of independent Georgia. In 1999, government spending on health care constituted 0.59 percent of GDP, a figure that compares unfavorably with Latin America (2.6 percent), eastern Europe (3.9 percent), and high-income nations of the western world (6 percent). Georgians are expected to pay for their own health care, but surveys indicate that almost 80 percent of Georgians spend less than US$5 a month on it. Because of the strong sense of family obligation that is a fundamental part of the Georgian culture, financial support for ailing and aging citizens often becomes the responsibility of family. This family contribution is one of the factors that allows Georgians to enjoy an average life expectancy of 73 years.

The Georgian educational system was one of the few institutions that did not collapse during the wars of the early 1990s, but the standard of education has diminished since the Soviet period. The university system is notoriously corrupt. Teachers are rarely paid. There is an acute lack of resources at all levels. Once renowned for their educational achievements, Georgians face an education crisis that may ultimately undermine one of the main attractions for potential investors—an educated workforce.

WORKING CONDITIONS

As the year 2000 came to an end, government statistics indicated that Georgia had a **labor force** of 2.06 million people, 8.4 percent of whom were unemployed. Official unemployment figures are deceptively low and do not accurately reflect economic realities. Most Georgians consider their chances of securing a job by registering themselves with the authorities as low, and they are not attracted by unemployment compensation. To qualify for standard monthly unemployment benefits, an applicant must have worked in the official sector and, even then, would only be entitled to receive benefits for the first 6 months of unemployment. The payments are fixed at GEL14 for the first 2 months, GEL12 for the third and fourth months, and GEL11 for the final period. On average, 2 percent of registered unemployed workers qualify for benefits.

Government labor force survey results for the last quarter of 2000 suggested that urban unemployment stood at 24.7 percent compared to a rural unemployment rate of 4.6 percent. The capital, T'bilisi, accounted for 41 percent of the country's unemployed. While the rural rate might seem encouraging, 65 percent of those in the countryside were self-employed. Indeed, agricultural self-employment comprised 86.5 percent of those described as self-employed and most lived below the poverty line.

The role of trade unions in Georgia is exceptionally weak, largely due to the poor state of key economic sectors. Strikes and other forms of industrial protest are meaningless against a backdrop of idle and bankrupt firms that are often *unable* to pay employees. Many employees continue to work in the hope that one day their salary **arrears** will be paid, a hope that evaporates if they cease working.

While there is no official discrimination against women, Georgia is a patriarchal society and in many menial jobs women are paid as little as half of what their male counterparts earn. Mass unemployment, however, has affected males disproportionately and upset traditional gender relations. Women have proved more successful at securing high-paid jobs with international organizations, which usually require proficiency in foreign languages.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1099–1125. David IV (the Builder) establishes the Georgian empire. Beginning of Georgian Golden Age.

1184–1213. Georgia's favorite monarch, Queen Tamara, defeats Turks and extends Georgian rule from the Black Sea to the Caspian Sea.

1220. Georgian Golden Age ends with the invasion of the Mongols under Genghis Khan.

1553. Ottoman Turks and Persians divide Georgia between themselves.

1801. Russian annexation of Georgia.

1811. Georgian Orthodox Church is stripped of its self-governing status as part of the Russification process.

1918. Georgia gains independence.

1921. Red Army invades Georgia and drives out the democratically elected government. Georgia is annexed and becomes part of the new USSR.

1972. Eduard Shevardnadze becomes First Secretary of the Georgian Communist Party and begins anti-corruption campaign.

1989. On 9 April, Soviet troops kill 20 civilians—mainly women—who were involved in a nationalist protest outside the parliament in T'bilisi. From this point on, Soviet rule is totally discredited in Georgia.

1990. In the country's first multi-party elections, a nationalist coalition is victorious and appoints Zviad Gamsakhurdia as president.

1991. On the anniversary of the T'bilisi massacre (9 April), Georgian parliament declares Georgia independent of the Soviet Union.

1991–1992. Gamsakhurdia is elected president by popular vote in May 1991 but is deposed in a coup in January 1992. Shevardnadze is invited by coup leaders to head the transitional government.

1992–1993. Georgian armed forces are defeated in Abkhazia. Abkhazia becomes a de facto independent republic, although it remains part of Georgia's national territory under international law.

1995. Shevardnadze is elected president. His Citizens Union of Georgia party emerges as the largest parliamentary grouping.

2000. Shevardnadze is re-elected president amid many voting irregularities. On 14 June, Georgia becomes the 137th member of the World Trade Organization.

FUTURE TRENDS

Georgia is a country of great economic potential but until it regularizes the supply of power to industry and to its citizenry, economic progress will be limited. The aging Shevardnadze, despite many imperfections, has played a pivotal role in securing stability. The question of who or what will follow his departure from the political scene remains unresolved. Political institutions and civic values are not yet rooted enough in Georgian society to permit total confidence in a smooth transition to a younger generation of politicians. The country will endure great difficulties in meeting external financial obligations. The shortfall in public spending—primarily on health, education, and welfare—will continue to bear hardest on the nation's poor. Georgia's greatest potential in the short- to medium-term lies in its geographical location. The government is committed to providing a trans-Georgian transportation infrastructure connecting Europe with central Asia to cater to an anticipated oil bonanza in the coming decades. The implementation of this so-called "Silk Route" project should enhance Georgia's international credentials, but this opportunity will be squandered if the endemic corruption that has plagued Georgia for decades is not seriously addressed.

DEPENDENCIES

Georgia has no territories or colonies.

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—Donnacha Ó Beacháin

GERMANY

Federal Republic of Germany
Bundesrepublik Deutschland

CAPITAL: Berlin.

MONETARY UNIT: Deutsche mark (DM). One deutsche mark equals 100 pfennigs. There are coins of 1, 2, 5, 10, and 50 pfennigs and 1, 2, and 5 deutsche marks, and notes of 5, 10, 20, 50, 100, 200, 500, and 1,000 deutsche marks. In January 1999 Germany switched to the new European currency unit, the euro, along with 10 other members of the European Union, as a part of the European Monetary Union (EMU) and the European System of Central Banks (ESCB). The euro was in use after 1 January 1999 for electronic transfers and accounting purposes, while euro coins and bills will be issued in 2002, and at that time the German currency will cease to be legal tender. On 1 January 1999, control over monetary policy, the setting of interest rates, and the regulation of the money supply was transferred from the German Central Bank (Bundesbank) to the European Central Bank (ECB) in Frankfurt am Main.

CHIEF EXPORTS: Machinery, vehicles, chemicals, metals and manufactures, foodstuffs, textiles.

CHIEF IMPORTS: Raw materials, machinery, vehicles, chemicals, foodstuffs, textiles, metals.

GROSS DOMESTIC PRODUCT: US$1.864 trillion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$549.0 billion (1999). **Imports:** US$478.9 billion (1999). [The *CIA World Factbook* lists 1999 exports of US$610 billion and imports of US$586 billion.]

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in western Central Europe, Germany has an area of 357,021 square kilometers (137,810 square miles), which makes it slightly smaller than the state of Montana. The country is bordered by the North Sea, Denmark, and the Baltic Sea to the north; Poland and the Czech Republic to the east; Austria and Switzerland to the south; and France, Luxembourg, Belgium and the Netherlands to the west. The capital city, Berlin, is located in the northeastern part of the country.

POPULATION. The population of Germany was estimated at 82.8 million in 2000, adding up to a 4.3 percent increase from 1990. The birth rate was only 9.35 births per 1,000 population and the death rate was 10.49 per 1,000, causing a decrease in the natural born population during 2000. The growth of the population during the 1990s was mainly due to **immigration**. The immigration rate was 4.01 immigrants per 1,000 population in 2000. The population of Germany has increased 21 percent over the second half of the 20th century, but it is expected to contract to 79.3 million by 2025 and 70.3 million by 2050. The birth rate is declining due to a fertility rate of 1.38 births per woman in 2000, far below the replacement threshold of 2.1 births per woman. The population, as in most of Europe, is also aging with a high life expectancy of 77.44 years for the total population (74.3 for men and 80.75 for women in 2000). In 2000, 16 percent of the population was 14 years old or younger, while an equal percentage was 65 years or older.

Germany's welfare system has supported population growth by offering social services, such as old-age pensions, health and unemployment insurance, disability benefits, subsidized housing, and **subsidies** to families raising children. However, these programs have so far failed to increase Germany's birth rate. Higher living standards and the modern economy restricted population growth during the 1990s. Germany's **labor force** is expected to shrink, particularly after 2020, and the number of **pensioners** will grow steadily. This decline in the ratio of active workers to retirees may force Germany by 2020 to bring in as many as 1.2 million immigrant workers annually (both skilled, such as computer programmers, and unskilled) to maintain its industrial output at 2000 levels. To offset these effects, the German government

has encouraged policies that sustain the life of native workers such as better health care, nutrition, and adult education. Public social security system reform is also important as the number of taxpayers decreases, causing intense financial pressures on those who still work. **Structural unemployment** has prompted the government to offer early retirement options to those who have skills and want to work yet cannot find work in their chosen fields. This has increased the pressure on the German retirement system and welfare system as a whole.

Higher living standards in Germany continuously attract many economic immigrants, mostly from eastern and southern Europe and the Middle East. The country received a considerable number of refugees from the Yugoslav wars in the early 1990s. In 2000 ethnic Germans formed 91.5 percent of the population and the most significant minority group was the ethnic Turks (2.4 percent), while Yugoslavs, Italians, Russians, Greeks, Poles, and Spaniards made up the rest. In 1998 there were about 7.3 million foreigners in the country. Some Germans blame immigrants

for taking jobs from native-born people, equating unemployment with foreigners. Some occurrences of racism and ethnic hatred have been reported throughout the country but mostly in the poorer eastern states.

The population density was 233.8 people per square kilometer (605.5 per square mile) in 1995. In 1997 about 57.4 percent lived in towns and cities of 20,000 or more inhabitants. Approximately 87.3 percent of Germans lived in urban areas in 1999, mainly in the industrial region of the Ruhr in the western portion of the country. The main cities are Berlin, the capital, with a population of 3.46 million; the free port city of Hamburg on the River Elbe in the north, with 1.71 million; the Bavarian capital Munich in the south, with 1.23 million; Cologne on the Rhine in the west, with 964,000; Frankfurt am Main, a major European financial center, in west central Germany, with 648,000; and Dresden and Leipzig, historic cities and cultural centers in Saxony in the east, each with approximately 450,000 (2000 est.).

OVERVIEW OF ECONOMY

Germany has traditionally been the largest economy in Europe and a world leader in science and engineering. It had the third largest economy in the world in 2000, following the United States and Japan. In 2000 it contributed for about one-third of the **gross domestic product** (GDP) of the eurozone (the 11 member countries that joined the European Monetary Union in 1999), and was considered the economic powerhouse of the European Union (EU). Its **GDP per capita** of US$26,513 in 1999 and its living standards were among the highest in the world.

Recovering from the destruction of World War II, Germany's economy experienced a long period of strong economic growth that has been widely referred to as the "German miracle." During this period of growth, extensive and generous social services and benefits accompanied high-tech market **capitalism**. A broad cooperation among government, business, and labor complemented free market principles in economic decision-making. Companies were considered responsible not only to shareholders but also to employees, customers, suppliers, and local communities. However, this domestic capitalist model that linked business to a social conscience was challenged during the 1990s with the reunification of East and West Germany—which had been divided since 1949—and the consolidation and globalization of German businesses. The economy acquired more liberal U.S. traits in order to compete with foreign companies. European integration, including **liberalization** at the state level, the transfer to a single European market, and the adoption of the single European currency, also contributed to a more **liberal economic** landscape, which meant that market forces played a greater role in determining the shape of the economy while government decisions played a smaller role.

The integration of East Germany and West Germany after the 1989 collapse of the Berlin Wall brought the economy under significant economic strain. East Germany's large government debt and persistent unemployment—the product of years of **communist** control in that country—forced West Germany to offer an estimated US$100 billion annually to the poorer east German states. During the 1990s the shrinking number of tax-payers and the growing number of retirees, high labor costs, greater foreign competition from **emerging markets** (such as eastern Asia), and high **capital outflows** (by German banks and corporations investing abroad) also added to the economic stresses of reunification. The integration of the centrally planned East German economy was difficult, and many regions in western Germany have also been slow in **restructuring** and closing down obsolete heavy industries. Due to high labor costs and the country's image as an over-regulated economy, **foreign direct investment** in Germany was rather weak through the 1990s. The financial meltdowns in Asia, Russia, Mexico, Brazil and other emerging markets in the late 1990s also afflicted the economy, which was highly dependent on the export of manufactured, particularly capital, goods (machinery and equipment).

The government has pursued economic and social policies, such as budget cuts, tax cuts, and structural reform to encourage growth in foreign and domestic investment and job creation. In 1999 the Future Program 2000 was adopted, calling for a DM30 billion federal budget cut in 2000; radical business, family, and energy tax reforms; and a reform of the mandatory old age pension and health-care system. The government launched the Alliance for Jobs campaign with labor and business to discuss wage policies, making early retirement options more attractive for small and medium-sized firms, providing more work time flexibility, more trainee positions, and cutting overtime work. The government is working to increase the labor market flexibility (the readiness of workers to relocate to areas and industries with better growth perspectives) and to increase international competitiveness by reducing the costs of operating German businesses (by tax cuts and other measures).

POLITICS, GOVERNMENT, AND TAXATION

Following its military defeat in World War II, Germany was occupied and divided into the Federal Republic of Germany (West Germany) under western influence, and the German Democratic Republic (East Germany) within the communist bloc. On the wake of the democratic

reforms in the Soviet Union initiated by President Mikhail Gorbachev in the 1980s, and the collapse of communism in eastern Europe, the German countries were reunited on October 3, 1990. The political system is based on the Basic Law (Grundgesetz, or constitution) of 1949. The country is a democratic federation of 16 states (Länder) with their own governments and local traditions. Each state has an elected legislature and government whose responsibilities include local affairs such as education and keeping a police force. The federal legislative power is vested in a **bicameral** Federal Assembly or parliament comprising the Bundestag (lower house), with 662 members (328 elected from local constituencies and 334 elected through party lists in each state for a 4-year term), and the Bundesrat (upper house) comprised of 69 members nominated by the 16 states. Each state has between 3 and 6 votes in the Bundesrat, depending on its population, and these are required to vote as a block. The role of the Bundesrat is limited, but it can veto or initiate revision of legislation passed in the Bundestag when it would affect the interests of the states. Parliamentary elections in September of 1998 brought to office the cabinet of Chancellor Gerhard Schröder of the Social Democratic Party of Germany (SPD), and elections were scheduled for 2002. The head of state is the president (a role that is largely ceremonial), elected for a maximum of 2 5-year terms by an electoral college consisting of members of the Bundestag and representatives of the state legislatures. The president in 2001 was Johannes Rau, who took office in 1999, and presidential elections were scheduled for May 2004. The federal executive power is vested in the federal government led by the chancellor (prime minister), elected by the Bundestag on the nomination of the president.

Major political parties represented in parliament in 2001 included the Socialist Party (SPD) and the environmentalist, pacifist Alliance 90/the Greens; the conservative Christian Democratic Union (CDU) and the Christian Social Union (CSU); the Free Democratic Party (FDP); and the Party of Democratic Socialism (PDS). In early 2001 the SPD (supporting social welfare) had 298 seats. The CDU and its Bavarian sister party the CSU (or CDU/CSU) had 245 seats in the Bundestag. CDU/CSU was a major party that kept office for 16 years under Chancellor Helmut Kohl until 1998. It is generally conservative on economic and social policy but was plagued by corruption scandals in the 1990s. The Alliance 90/The Greens (Buendnis 90/Die Gruenen), with 47 seats, was a junior partner in the federal coalition government. The Free Democratic Party (FDP), with a relatively market-oriented, civil libertarian platform, had 43 seats in the Bundestag and was a traditional coalition partner of the CDU/CSU. The Party of Democratic Socialism (PDS), the successor party to the Communist Party of the former East Germany, had 36 seats, maintaining its political base in the poorer eastern states.

The center-left coalition government that took office in 1998 hoped to stimulate economic growth and control the rising government debt. Total German government debt stood at DM1,500 billion, or 61 percent of the GDP in 1998, and federal **debt service** obligations reached 25 percent of federal revenues. Reducing unemployment and fostering the development of eastern Germany were also high priorities. The government worked to enhance German competitiveness by implementing tax cuts, budget spending restraints, growth incentives, and structural reforms. Pension reforms were aimed at limiting the financial pressure on the public social security system and encouraging citizens to open extra privately funded retirement accounts. Fiscal consolidation and pension reforms were expected to reduce the government debt and to allow further tax reforms, thus cutting corporate **income taxes** and reducing personal income taxes while broadening the tax base. Tax cuts were designed to provide incentives to growth, by allowing corporations to invest more easily in high technology and by supporting an increase in the export of products through a reduction in the overall tax costs of production.

By 2000 the government had implemented significant tax cuts for low-income taxpayers, a modest tax relief for businesses, and higher energy taxes in return for lower labor costs. In 1999 the corporate tax rate for local companies on profits distributed to stockholders was 30 percent and on undistributed profits it was 45 percent, but under the tax reform this split rate was reduced to a single flat rate of 25 percent applicable also to foreign companies that were once subject to a 42 percent corporate tax on total profits. Additional local taxes still pushed the total rate of taxation for individuals and companies up to around 50 percent. A **value-added tax** (VAT) applied to all sales and services, at a rate of 16 percent or at a reduced rate of 7 percent. In addition to the VAT, there were numerous excise and other taxes, mainly at the state and municipal levels, including tobacco, gasoline, oil and heating oil, alcohol, stamp **duties**, and lottery taxes. The government decided to tax energy consumption after 1 April 1999 by a **levy** on the use of gas, oil and electricity; and after 1 January 2000 further tax increases on energy consumption were implemented.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Germany has one of the world's most developed transportation and communication infrastructures. Intensive investment since reunification in 1990 has brought the undeveloped eastern Germany in line with that of western Germany. Transport and communications utilities in Germany have been liberalized following EU requirements. A dense and efficient network of motorways, railways, and waterways connects the country with ma-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
France	218	937	601	27.5	188	47.4	207.8	110.64	5,370
Japan	578	955	707	114.8	374	126.8	237.2	163.75	27,060

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

jor centers and the world. In 2000 the total length of paved highways was 650,891 kilometers (404,444 miles), including 11,400 kilometers (7,083 miles) of expressways. More than 45 million motor vehicles were on the road, causing high road usage and frequent traffic jams, but the lack of speed limits on highways helped alleviate traffic problems. However, many Germans preferred to use the extensive public transport system, or bicycles, instead of motor vehicles. In 1998 the total length of railroads was 40,826 kilometers (25,368 miles) including at least 14,253 kilometers (8,856 miles) of electrified and 14,768 kilometers (9,176 miles) of double- or multiple-tracked railroads. The national railroad carrier, Deutsche Bahn AG (DBAG), was **privatized** in 1994 but still required government subsidies.

Germany's flagship air carrier, Lufthansa, is among the world leaders in the airline industry. According to EU requirements, Lufthansa is majority owned by EU governments, while the German government has relinquished its holding in it, and the state of Bavaria has reduced its stake in the company. Since the liberalization of air transportation in the European Union in 1997, Lufthansa has fought to retain its dominant position on Germany's internal routes. In 1998 a total of 127 million passengers were carried by commercial air services in Germany. There are 320 airports, including 14 with runways over 3,047 meters (1.89 miles), with 673,300 aircraft departures registered in 1998. The busiest airport, in terms of aircraft movements, passenger departures, and freight traffic is the Rhein-Main airport outside Frankfurt am Main. Munich is the second busiest in terms of passenger traffic and Cologne-Bonn is the second busiest in terms of freight traffic. The other major passenger airports are Berlin-Tegel, Dusseldorf, and Hamburg. The federal government and cities such as Berlin and Cologne are preparing to sell their shares in major airports.

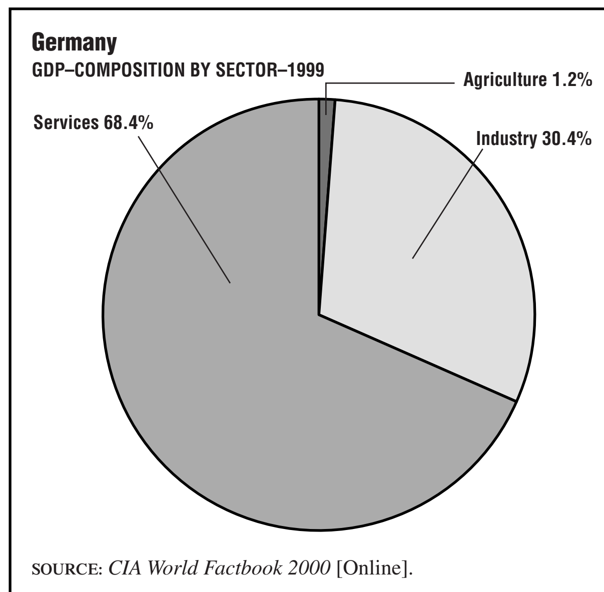
Marine transport is also developed, with major ports on the Baltic Sea, including Kiel, Rostock, and Luebeck, and on the North Sea, including Emden, Hamburg, Bremen, and Bremerhaven. Major rivers ports are at Duisburg, Cologne, Bonn, Mannheim, and Karlsruhe on the Rhine; Magdeburg and Dresden on the Elbe; and Kiel on the Kiel Canal which provides an important connection between the Baltic and North Sea. The most important port for Germany, however, is Rotterdam in the Netherlands. Hamburg is by far the largest port city in Germany, accounting for about 33 percent of all the freight. In 1998 the merchant fleet totaled 8.01 million gross registered tons, and freight traffic shipped through German ports that year totaled 210 million tons. Historically, industrial centers have grown closer to ports due to the supply of cheaper raw materials and coal. In recent decades, refinery and chemical industries have gravitated towards the 1,550 miles-long network of oil pipelines. Fuel transport by pipeline in Germany rose from 74.1 million tons in 1990 to 90.7 million tons in 1998.

The country imports most of its energy sources, including almost all of its oil. In the 1970s and 1980s it worked to reduce its dependence on imported oil by developing nuclear power and encouraging energy efficiency. In the 1990s, environmental considerations, including global warming, became a serious concern, and in 2000 a program of gradual withdrawal from nuclear power was agreed on by the SPD-Green government and electricity producers. In early 2001, a shipment of nuclear waste from France to Germany sparked massive environmental protests in the country, causing many injuries and hundreds of arrests. A total of 19 nuclear plants accounted for about 40 percent of Germany's electricity consumption in 2000. In 1998 the country produced 525.356 billion kilowatt hours of electricity and fossil fuel (coal-lignite, coal-anthracite, and natural gas) accounted for the largest portion while hydroelectricity contributed only 3.2 percent. Like all other industrialized economies, Germany has become increasingly cautious about energy consumption.

Prior to 1997 the electric sector was divided into 9 regional **monopolies**, with exclusive rights over transmission facilities within their areas. At the local level,

there were hundreds of municipally controlled power distributors. City and state governments had direct financial interests in the electric sector through concession agreements and in many cases ownership of local and regional distribution organizations. Between the regional monopolies and the local distributors were about 70 middle-level distributors of electricity. Although electricity prices in Germany used to be among the highest in the European Union, they fell dramatically after the Electricity Supply Law entered into force in 1997. This law implemented the EU power market liberalization directive and went beyond its requirements to create a thorough electric market liberalization in western Germany. By 1999 electricity **tariffs** for large users fell by up to 30 percent. The local and regional monopolies were broken by permitting third-party access for both commercial and residential customers. In addition, national utilities were allowed to buy from competing power producers, and electricity purchasing pools were created. The industry has undergone deep and rapid restructuring as large regional power generators have merged and sought the integration of production and distribution by purchasing some of 900 local power distributors. The federal government participates, often as a minority shareholder, in local energy utilities and is represented on the boards of supervisory authorities.

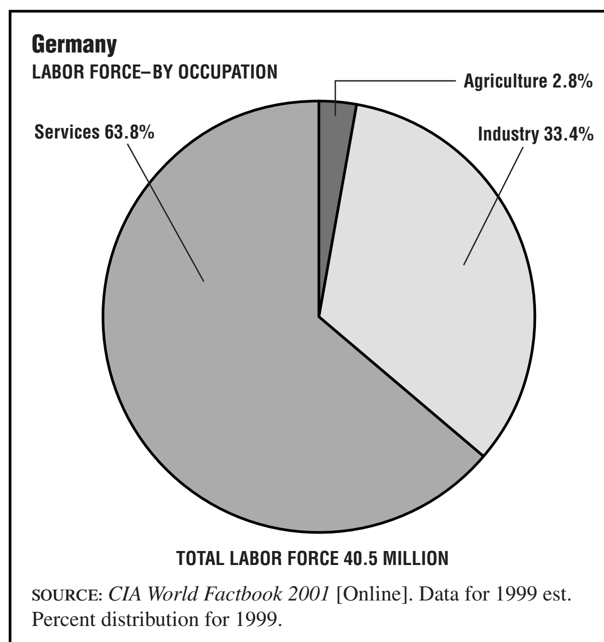
Germany is among the world's leaders in telecommunications, served by a modern telephone system and 46.5 million main lines connected by fiber-optic cable, coaxial cable, microwave radio relay, and a domestic satellite system. The state-owned giant, Deutsche Telekom (DT), one of the leaders of the European and global telecommunications sector, became a joint-stock company in 1989, but it was not until January 1998 that it ended its monopoly in fixed lines under EU law. DT was also partially privatized: 28 percent of the company was sold in the financial markets in 1996, 25 percent was sold in 2000, and the remaining shares owned by the German government were scheduled for future sale. Liberalization brought a variety of new service providers with varying prices for services. In the first year after liberalization, DT lost 30 percent of its peak-time long-distance-call business and introduced price cuts of 60 percent in January 1999. Competition from the nearly 200 new telecommunications companies and about 1,300 companies in non-licensed sectors has fueled arguments over network access charges and rates. Growth in the areas of multimedia, mobile communications, and the Internet has also been spectacular. Germany is one of the fastest growing markets for mobile phone equipment, and Germans owned 15.318 million mobile phones in 1999. The government is considering further investments into the area because it still compares poorly with the United States by the ratio of personal computers and Internet hosts per 1,000 people.



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

Germany's economic structure is typical of highly industrialized economies that often have a very strong services sector. In 1999 about 68.4 percent of the GDP was contributed by services, 30.4 percent by industry, and 1.2 percent by agriculture, forestry, fishing, and hunting. Approximately 63.6 percent of the country's workforce was employed in services, 33.7 percent in industry, and 2.7 percent in agriculture. The largest industries in terms of employment in 1998 were manufacturing and mining with 8.65 million employees, miscellaneous pub-



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999 est. Percent distribution for 1999.

lic and private services with 7.44 million, trade and tourism with 6.28 million, and public administration with 3.2 million. Other major employers were construction, business services and real estate, and transport and communications. Manufacturing has traditionally been the powerhouse of the economy, but its importance has declined significantly over the last third of the 20th century as a result of structural change. Manufacturing's share of the gross **value added** to the economic sector fell from 51.7 percent in 1970 to 32.8 percent in 1997. In the same period, the service sector increased its share markedly. Private services accounted for 37.3 percent of the gross value added in 1997, while commerce and transport accounted for 14.6 percent. Rapidly expanding branches, like information technology, communications, and the aerospace industry, have failed to compensate for the decline of traditional branches, such as textiles and steel, and the services sector has been unable to achieve high growth rates given that basic needs of the population are generally satisfied.

AGRICULTURE

Agriculture is important for the country's food security and also a provider of jobs. It produces about DM84 billion worth of goods annually and purchases goods for around DM52 billion. Over 80 percent of Germany's land is used for agriculture and forestry. Like other sectors of the economy, it has undergone profound structural changes in the second half of the 20th century. In the western states, the number of farms decreased dramatically between 1949 and 1997 as machines gradually replaced human workers, and productivity increased. In 1950 1 farm worker produced food for 10 people; by 1996 1 farm worker produced food for 108 people. Attracted by a better income, many farmers left agriculture for the industrial and service sectors. Family farms predominate in Germany's old western states, and in 1997, 87 percent of all farmers in western Germany worked on fewer than 124 acres. Individual farm enterprises have also gained ground in the east: in 1997 they accounted for 80 percent of agricultural output from the eastern states, while working on only slightly more than 20 percent of the agricultural land available in the east.

Chief agricultural products include milk, pork, beef, poultry, cereals, potatoes, wheat, barley, cabbages, and sugar beets. In some regions wine, fruits, and vegetables, and other horticultural products play an important role. Agricultural products vary from region to region. In the flat terrain of northern Germany and especially in the eastern portions, cereals and sugar beets are grown. Elsewhere, on more hilly terrain, and even on mountainous land, farmers produce vegetables, milk, pork, or beef. Fruit orchards and vegetable farms surround almost all large cities. River valleys in southern and western Germany along the Rhine and the Main, are covered with vineyards. German beer is world-renowned and is produced mainly, but not exclusively, in Bavaria. Germany has a high level of exports of farm products: in 1997, its exports had a total worth of DM42 billion. Agricultural imports amounted to DM72 billion, making Germany the world's largest importer of farm products.

Important areas of German agricultural policy have transferred to the European Union, particularly in market and price policy, foreign trade policy, and structural policy. EU agricultural reforms in 1992 cut market price supports, replacing artificial prices with government subsidies, and put stricter controls on output volume. Through the reduction of price supports and through additional measures, the reforms promoted more effective farming methods and more ecologically safe agricultural production. The federal and state governments, in their turn, provided financial assistance for agricultural development, land consolidation, village renewal, and construction of country roads. Special funds were available for disadvantaged areas where agriculture was an important economic and social factor. The government's requirements of good agricultural practice required that fertilization and plant protection did not exceed an established maximum, and farmers who used environmentally friendly farming methods received financial compensation in recognition of their environmental policy.

FORESTRY AND FISHING. Almost a third of Germany's total area is covered by forest and although the country has been traditionally a net importer of wood and wood products, it is a significant exporter as well. In 1994 it ranked second after the United States in imports of paper, cardboard, and goods made thereof, and first ahead of Canada, the United States, and Finland in exports. Germany's fishing policy is carried out within the European Community's Common Fisheries Policy (CFP), which is based on the principle of relative stability achieved by established quotas for member states and on exercising control over fish stocks by fixing annual total catch limits.

INDUSTRY

Manufacturing in Germany holds a declining share of the total GDP and jobs, but it remains the backbone of the economy and is highly competitive internationally. German scientific and engineering achievements fueled its phenomenal industrial growth during the 19th and 20th centuries as the country became the birthplace of television, modern airplanes, and the automobile. The creation of the gasoline motor by Gottlieb Daimler was complimented by Rudolf Diesel's invention of the engine bearing his name. From 1901 to 1930 Germans received a total of 26 Nobel prizes in physics, chemistry, and

medicine. Large companies, based on the German ingenuity of the past centuries, account for just fewer than 40 percent of the industry's total revenue, while small and medium-sized companies form the vast majority of firms in the industrial sector, supplying the larger companies with parts and supplies. Many of the large German firms are known throughout the world and have branches or research facilities overseas, including the car makers, Daimler Chrysler, Volkswagen, and BMW; the chemical corporations, Hoechst, Bayer, and BASF; the energy giants, VEBA and RWE; and the machinery and equipment manufacturers, Mannesmann, Siemens, and Bosch. The ownership structure in manufacturing is predominantly private, although the federal and especially the state governments hold **equity** in a range of companies. The federal government has pursued privatization plans since the early 1980s.

MINING. Germany has a distinguished mining tradition, but the industry has taken a minor role in the 1990s and is not able to meet the country's growing needs for energy and raw materials. The chief mining products are brown coal, or lignite, with total reserves at about 43 billion tons, and 24 billion tons of hard coal, or anthracite. Lignite, inexpensive in Germany, is a principal domestic source of energy covering about 26 percent of the electricity production. The country is the world's largest lignite producer, with about 20 percent of global output. Hard coal production, on the other hand, has fallen despite subsidies. In 1950 hard coal accounted for 73 percent of the primary energy consumption in West Germany, but by 1997 its share had fallen to 14.1 percent. Germany imported 12 percent of its coal in 1998, mostly from Poland, followed by Australia, South Africa, and Colombia, and imports were expected to double by 2020, as nuclear power is phased out and hard coal domestic production is further reduced. Oil and natural gas production is mostly limited to the North German Plain and the North Sea, making Germany the third largest oil importer in the world, with primary suppliers Russia, Norway, Libya, and the United Kingdom. Natural gas is imported from Russia, the Netherlands, and Norway.

MANUFACTURING. The German manufacturing sector is large and robust, with leading branches in chemical products and pharmaceuticals, vehicles and transport equipment, metals and metal products, electrical machinery, precision instruments, paper products, and processed foods. Other products include cement and construction materials, optics, electronics, ships, and textiles. In the eastern states, chief manufacturing sectors are electrical engineering and electronics, chemicals, vehicles, glass, and ceramics. The former state-owned companies in eastern Germany, although receiving significant investments from the west after reunification, are generally more unstable, and it is unclear which of them are to survive. Large portions of the old Communist manufacturing industries in the east have been shut down since unification.

MOTOR VEHICLES. Germany is the world's third largest automobile maker after the United States and Japan, and with nearly 730,000 employees and annual revenue of almost DM340 billion in 1999, the automobile industry is a crucial economic player. The industry provides markets for many related industries like machine tools, spare parts, tires, plastics and paints, and metal processing. With all suppliers, automotive services and retailers included, a total of about 5 million workers in the country depend on the health of the automobile industry for their livelihoods. Due to the increasing automation of production and the refocusing of manufacturers on core activities, the distribution of value between manufacturers, direct suppliers, pre-suppliers, and distributors is changing, but as a whole, in 1998, the percentage of gross domestic product related to the development, manufacture, sale and use of motor vehicles amounted to almost 20 percent. Car makers, such as Daimler Chrysler, Volkswagen, Audi, and BMW, are well known throughout the world. In 2000, Daimler Chrysler, with its revenue of 162.4 billion euros, was the second largest company in the world. Of the 5.309 million vehicles manufactured in 1999, 64.6 percent were exported mainly to other EU members and to North America, and German companies also produced 3.55 million vehicles in their foreign operations. Manufacturers from western Germany have opened new plants in the eastern states and invested nearly DM7 billion with the purpose to produce 370,000 cars a year. The German automotive industry has traditionally attracted significant foreign direct investments. The car maker Opel was acquired by General Motors of the United States before World War II, and after the war Ford and other industry leaders opened operations in the country.

MACHINERY. In 1997, Germany accounted for nearly 20 percent of the world's machinery exports (Japan was responsible for 16 percent and the United States for 15.7 percent). In some products, like metallurgical plant equipment, particularly rolling mills, paper and printing machines, and woodworking machinery, German exports amounted to one-third of the world total. With almost 6,500 factories in mechanical engineering, German manufacturers have a reputation for customized machinery of high quality. Among the important products are machine tools, including manufacturing systems, power transmission engineering, air handling, refrigeration, air pollution control, vacuum and compressor equipment, and food processing and packaging technology. Only about 5.5 percent of the factories have more than 500 employees and these are the producers of large, complex machines. Some large, well known machinery manufacturers include Mannesmann Demag, a producer of plant engineering and machine tools with a total of 55,000 employees; Heidelberger Druckmaschinen, a maker of

printing and paper machinery with 17,000 workers; the Bosch group, a manufacturer of packaging machines and automation technology with 7,000 employees in its machinery division; and Gildemeister, a producer of sophisticated machine tools with 2,300 employees (all figures from 1997). Over 80 percent of the companies in mechanical engineering, however, are highly specialized small- or medium-sized firms with fewer than 200 employees. In 1997 they had a workforce of 881,000 and combined revenues of DM210 billion, almost two-thirds of which were generated by exports. The German aerospace industry, which employed about 61,000 and generated a revenue of about DM21 billion by 1997, led major European technology cooperation projects, such as Airbus and Ariane.

CHEMICALS. In 1996 Germany was the largest exporter of chemical products in the world, with a share of 15.5 percent (the United States accounted for 14.4 percent and Japan for 7.5 percent). Its chemical industry, with its state-of-the-art technology, innovative products, and emphasis on research, was represented by corporate giants such as BASF, Bayer, and Hoechst, and by a multitude of small and medium-sized firms. In 1998 the industry employed 484,000 people, including 31,000 in the eastern states and generated sales of DM187 billion, while research and development expenditures reached DM11.3 billion. Nearly two-thirds of the industry output was exported, amounting to DM123.6 billion in foreign receipts. International networks of subsidiaries and branches characterized the large chemical companies, active in all major world regions. In the 1980s and 1990s, the chemical industry of western Germany underwent substantial restructuring processes and a reduction of its labor force by 45,000 people between 1991 and 1994, eliminating excess capacity and restructuring the geographical distribution of their production facilities under changing market conditions, growing international competition, new EU health and environmental regulations, and a shift in demand to environmentally friendly products.

ELECTRONICS. The electrical engineering and electronics industry, with revenue of DM242 billion and nearly 850,000 employees (1997), is also among the most research-intensive and innovative manufacturing sectors, including makers of production plant electronics, telecommunication systems, electronic components, programmable controllers, medical systems for diagnosis and therapy, household appliances, and others. The sector is dominated by a small number of large firms such as Siemens, Bosch, and IBM Germany. With annual sales of 78 billion euros in 2000 operations in 190 countries, Siemens employed 197,000 workers in Germany, and 203,000 workers abroad. Precision engineering, optical and process control technology, electromedical equipment, and timepieces generated DM52.4 billion in sales 1997, and nearly 2,000 primarily small and medium-sized firms in these industries employed more than 219,000 workers.

OTHER INDUSTRY. In 1999 Germany was the world's fifth largest producer of steel (after the United States, China, Japan, and Russia) with total production of 42.1 million metric tons, down from 44.0 million tons in 1998. With a workforce of about 830,000, the metal-producing and metal-processing industry generated sales of DM230 billion in 1997. Revenue of DM225.7 billion was reported in 1997 by the food processing industry with a labor force of 503,000. Germany has one of the highest per capita consumption rates of beer in the world and is a major producer of fine dairy products and meat delicacies. Textiles, clothing, and leather goods, some the oldest domestic industries, still play a significant role, employing 245,000 and generating a revenue of DM63 billion in 1997, but most important textile regions lost their significance during the 1980s and 1990s. With 775,000 employees and revenues of DM151 billion in 1999, construction was another important branch of German industry, and the country was considered to be Europe's largest construction market with the relocation of the federal capital from Bonn to Berlin and the eastern states' renovation following the reunification in 1990.

SERVICES

TOURISM. Although Germany is an attractive tourist destination and foreign visitors spent DM31 billion in 1999, it has a large deficit in the tourism **balance of payments**. Germans normally enjoy a 30-day paid vacation and many of them travel abroad, spending a total of DM88 billion in 1999 and bringing the negative travel balance to DM57 billion. Yet tourism is an important economic factor as approximately 2.4 million people (including part-time and seasonal help) were employed in the industry and immediately related areas such as travel, restaurants, lodging, relaxation and enjoyment, in 2000. Foreign visitors stay on average between 2 and 3 days, combining a visit to Germany with visits to neighboring countries. Approximately 11.7 million foreign guests visited Germany and about 287 million overnight stays were registered in 1997, including a total of 33.4 million overnight stays by foreign guests. About 15.2 percent of visitors came from the Netherlands, 10.9 percent from the United States, 8.9 percent from Britain, and 5.6 percent from Italy.

RETAIL. **Retail** has undergone profound structural changes over the second half of the 20th century, caused by changing consumer behavior and supply chains. Motorization and more economical bulk-buying have favored the spread of hypermarkets, self-service department stores, and discount stores, and many small retailers have gone out of business. Competition has become harder, profit margins

have declined, and the retail food and beverage market is increasingly dominated by a small number of large retailers like REWE, Edeka/AVA, Aldi, Metro, Tengelmann, Spar, Karstadt, Kaufhof and Kaufhalle. The 10 largest retailers accounted in 1999 for over 80 percent of the market, up from about 56 percent in 1990. Internationalization of retail is progressing as more German firms develop operations abroad and foreign competitors like Wal Mart or the French Intermarché group enter the domestic market. Mail-order firms actively benefitted from postal services liberalization and the growth of **e-commerce**. Due to strong competition, prices are low, the product range is wide, and the leisure component of shopping has increased constantly over the 1990s. A boom of new retail facilities has followed the shortage of retail space in East Germany after unification in 1990.

In 1997 retail **turnover** represented 34.3 percent of private consumption, totaling DM715 billion, and the industry employed nearly 2.7 million people (over 45 percent of them part-time, 33 percent of the total in food, beverages, and tobacco). Additionally, 60,000 commercial agents and brokers and 55,000 motor vehicle dealerships and filling stations employed nearly 700,000 workers. A total of 294,000 firms operated in the market, most of them small: 74 percent had fewer than 5 employees, and only 2,925 enterprises had more than 50 workers. Small and medium-sized retailers have found ways to compete with large ones by catering to individual tastes, specializing in certain types of products, and offering expert advice and personalized service, and have also increasingly cooperated in purchasing, sales, and marketing.

FINANCE. No sector of the economy has grown as financial services have done over the 1990s. The turnover of the German banks has risen from DM4 trillion in 1988 to DM9.1 trillion in 1997. Savings deposits, stock and security holdings, loans, and cashless payments have all grown. Banking in Germany has traditionally been characterized by the large amount of long-term credit provided to industry and local government and by the regional or local focus of many credit institutions. In the 1990s, however, the industry was looking to foreign markets and turning to the stock exchange.

German banking is represented by private commercial banks, cooperative banks, and Sparkassen (savings banks) organized regionally and supervised and coordinated by the Landesbanken (state banks). Over half of all savings accounts are in the hands of the 563 Sparkassen, usually held by municipalities, and nearly one-third are in the about 1,800 cooperative banks. Germany's second largest fund manager, DekaBank, is owned by the Sparkassen, and the third largest one, Union Investment, by the cooperatives. As of early 2001, there were 340 commercial banks, 13 regional giro institutions, 596 savings banks, the Deutsche Genossenschaftsbank, the central institution of the cooperative Volksbanken and Raiffeisenbanken, as well as 3 regional institutions of credit cooperatives, 2,411 credit cooperatives, the Deutsche Postbank AG, 33 private and public mortgage banks, 18 credit institutions with special functions, and 34 building and loan associations. Nearly every employee in the 1990s had a salary account and more than 40 million had a Eurocheque card and used this international payment system. Credit cards have also grown in popularity: in 1980, roughly 580,000 people were using them, and in early 2001, the number was 15 million. Since 1980 it has been possible to get cash from automated teller machines (ATM), and the electronic cash system was introduced in 1990 and by 2000 was used at more than 140,000 terminals, especially in retail stores and gas stations.

Germany has 3 large commercial banks which dominated the market after World War II: Deutsche Bank, Dresdner Bank, and Commerzbank. The merger of Bayerische Vereinsbank and Bayerische Hypotheken und Wechsel Bank (Hypobank) in the late 1990s created Bayerische Hypo und Vereinsbank (BHV), which was second in size only to Deutsche Bank. In April 2000 negotiations on the proposed merger of Deutsche Bank and Dresdner Bank were suspended due to EU banking regulations and antitrust laws. Deutsche Bank and the other nationwide banks had powerful positions on the boards of some of the largest industrial and commercial companies and were estimated to own 10 percent of total shareholdings in the country. Their role as shareholders came under EU criticism in the 1990s, and banks were expected to divest themselves of many holdings. In late 1998, both Deutsche Bank and Dresdner Bank announced that they would cut their equity holdings, and Deutsche Bank shifted DM40 billion of assets into a separate company. In their move into investment banking the Landesbanken also attracted criticism from private commercial banks, resulting in investigations by the EU competition authorities into the allegedly privileged status of the Landesbanken. During the 1980s and 1990s, growing competition, declining profit margins, and pressures from shareholders to raise profitability have intensified, and banks have expanded into capital market activities in Germany and into investment and other banking activities abroad. Through Allfinanz (offering insurance, asset management, and banking activities at once), large banks have achieved minority participation in large insurance companies, while some insurers have taken over banks. In early 2001, Allianz, a giant insurer, acquired Dresdner Bank, of which it already owned more than 20 percent, creating Germany's largest company.

INTERNATIONAL TRADE

The German economy is heavily export-oriented and needs imported goods, mostly fuels and raw materials, so

Trade (expressed in billions of US$): Germany

	Exports	Imports
1975	90.176	74.930
1980	192.860	188.002
1985	183.933	158.488
1990	410.104	346.153
1995	523.802	464.271
1998	540.554	467.315

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

with a foreign trade turnover at 48.5 percent of the GDP in 1999 (the world's second largest after the United States) international trade has traditionally played a crucial role. Germany accounted for 9.6 percent of the total world trade in 1999, and its policy of liberalization is consistent with its strong international competitiveness demonstrated by its foreign **trade surplus** of US$70.1 billion (or 3.3 percent of the GDP) in 1999. As in other major trading nations, Germany's jobs, investments, profits and standards of living have been seriously affected by disruptions of world trade and changes in the global economy.

The country's most important trading partners are the European Union and the United States. In 1999, they accounted together for 67.4 percent of exports and 61.6 percent of imports. EU integration has greatly intensified intra-European trade, and in 1999 the European Union accounted for 57.2 percent of Germany's exports and 53.4 percent of its imports. Germany's most important trading partner continues to be France, and the United States has become both the second largest market for German products, spending DM100.8 billion, and supplier of goods to Germany worth of DM71.2 billion in 1999. Other major markets for Germany are Great Britain (8.4 percent of exports), Italy (7.4 percent), the Netherlands (6.5 percent), Belgium and Luxembourg (5.5 percent), Austria (5.3 percent), Switzerland (4.5 percent), Spain (4.4 percent), and Poland (2.4 percent). After France and United States, major suppliers to Germany are the Netherlands (7.9 percent of imports), Italy (7.3 percent), Great Britain (6.8 percent), Belgium and Luxembourg (5.2 percent), Japan (4.8 percent), Austria (4.0 percent), Switzerland (3.9 percent), and Spain (3.2 percent). About 13 percent of the trade volume is exchanged with the Asia-Pacific region, and Germany's largest trade imbalance for decades has been with Japan. Germany's main exports in 1997 were motor vehicles (DM159.1 billion), machinery (DM149.3 billion), chemical products (DM130.8 billion), and electrical engineering products (DM110.3 billion). Its most important imports were raw materials and energy (25 percent), chemical products (13 percent), **consumer goods** (13 percent), electronic goods (12 percent), and motor vehicles (11 percent).

MONEY

Germany has a stable and powerful financial system, and the value of the deutsche mark has been steadily growing since the 1950s. The **exchange rate** of the deutsche mark to the U.S. dollar fell from DM4.21 in 1955 to DM2.15 in 2001 (the lowest price for US$1 was reached in 1992–1995 at DM1.43). The currencies that gained against the deutsche mark after 1950 were Japan's yen and the Swiss franc. Since 1 January 1999, in accordance with provisions of the EU Maastricht Treaty, the European Monetary Union (EMU) was established and the Deutsche Bundesbank (the central bank) became an integral part of the European System of Central Banks consisting of the European Central Bank (ECB) and the central banks of the 11 EMU member states. The euro became the currency unit but was initially used in electronic transfers and for accounting purposes only. The deutsche mark remained as legal tender until the end of the year 2001, and in 2002 the new euro will replace it completely. On 1 January 1999 the exchange rate of the euro was fixed at DM1.9558. **Monetary policy** was also transferred to the ECB, its primary objective being to ensure price stability. In 2001 the most important function of the Bundesbank was to ensure the implementation of ECB monetary policy, including banking supervision and management of national monetary reserves, acting as the house bank of the federal government, overseeing payment transactions in Germany, and controlling the issue of euro notes.

In 1997 stock exchanges in Germany reached a turnover of DM8.97 trillion, 60 percent of which related to fixed interest securities (bonds) and the rest to shares. Trading was conducted on 8 exchanges (in Berlin, Bremen, Düsseldorf, Frankfurt am Main, Hamburg, Hanover, Munich, and Stuttgart), yet the Frankfurt exchange was

Exchange rates: Germany

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	1.7597
1997	1.7341
1996	1.5048

Note: Amounts prior to 1999 are in deutsche marks per US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Germany	N/A	N/A	N/A	N/A	31,141
United States	19,364	21,529	23,200	25,363	29,683
France	18,730	21,374	22,510	25,624	27,975
Japan	23,296	27,672	31,588	38,713	42,081

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Germany

Lowest 10%	3.3
Lowest 20%	8.2
Second 20%	13.2
Third 20%	17.5
Fourth 20%	22.7
Highest 20%	38.5
Highest 10%	23.7

Survey year: 1994

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

the largest and ranked fourth internationally (after New York, Tokyo, and London). In 1992 the Deutsche Börse AG was founded in Frankfurt am Main as a **holding company** for the Frankfurter Wertpapierbörse (Frankfurt Securities Exchange), the German part of the German-Swiss futures exchange Eurex, and the Deutsche Börse Clearing AG, responsible for securities settlement and custody. Frankfurt is also the host of many local and foreign credit institutions, including major banks and brokerages.

POVERTY AND WEALTH

After World War II Germany developed a social structure comprised predominantly of a large and prosperous middle class (about 60 percent of the population), including mid-level civil servants, most salaried employees, skilled blue-collar workers, and a shrinking number of farmers. A smaller, wealthier group is made up of the upper-middle class and the upper class; and the poorer class is made of unskilled white and blue-collar workers, and unemployed and socially disadvantaged people. Unskilled blue-collar workers perform the poorest paid and dirtiest tasks. Foreigners account for about 25 percent of this group, and German women form about 38 percent of unskilled blue-collar workers. In 1992 approximately 7.5 percent of the population in the western states and 14.8 percent in the eastern states were poor (with income less than half the national average). From 1960 to 1994, the **disposable income** of private households in the western part of the country increased 10 times, from DM188 billion to over DM1,867 billion, and in 1997 the disposable income of private households in the whole of Germany reached about DM2,355 billion. In 1997, a 4-member household in the western part of Germany disposed of about DM5,725 per month, of which DM4,293 was spent on private consumption, and only about 57 percent had to be spent on food, clothing, and housing. Spending on leisure, automobiles, education, and telephones rose markedly. In 1997, about 53 percent of the private households in the west and 30 percent in the east owned real estate.

Although living standards in the eastern states and among many foreign workers are considerably lower than among most western Germans, there are no extreme forms of poverty, and extensive social programs relieve to a large extent the economic condition of the poor. In 1992 there were 4.6 million recipients of social assistance, nearly 700,000 from the east. Households with 3 or more children, and single parents were the most likely recipients of social assistance. In terms of education, average income, and property ownership, Germany ranks among the world's leaders. In 1963, at the height of the so-called economic miracle following World War II,

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Germany	14	6	7	2	10	7	53
United States	13	9	9	4	6	8	51
France	22	7	9	3	8	12	40
Japan	12	7	7	2	22	13	37

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

social spending excluding education was 17.8 percent of the GDP in West Germany, compared with 13.8 percent in Sweden and 11.8 percent in the United Kingdom. Social benefits were further improved in the 1970s. In the 1990s the cost of social protection increased as a result of the aging population, rising structural unemployment, and the high rate of unemployment in the eastern states. German labor costs in the mid-1990s became the highest of most major economies, primarily as a result of high wages and non-wage social costs.

WORKING CONDITIONS

The German workforce numbered 40.5 million in 1999. Strong partnerships between labor, business, and the government after World War II contributed to the construction of a safe and responsible working environment. German companies have been held responsible for a larger array of social and community issues than is normally expected in the United States. The high environmental, health, and safety consciousness of the Germans has greatly contributed to improving general working conditions. German companies are more hierarchical than their U.S. counterparts, and employee relations are often formal. German workers have had the highest level of education in Europe, and as many as 2.5 million Germans, or almost half of the 15- to 19-year-old age group, annually receives vocational training within a range of about 400 occupational specialties, often on the basis of contracts with preselected employers. Combined on-the-job and academic training for apprentices produces many employees with the skills employers need, but the system has not kept up with the number of applicants and some say it needs to be made more flexible and responsive to the changing demands of the economy.

However, the German economy has been traditionally afflicted by a high unemployment rate (averaging a total of 10.5 percent in 1999, with 7.7 percent in western Germany, and 17.3 percent in eastern Germany), and structural unemployment is estimated at 80 percent of the total unemployment. In addition to the economic problems that contributed to high unemployment levels in 1999, the nation-wide collective bargaining system for worker representation produced wage and work time demands that failed to consider differences between regions and companies. The SDP government that took office in 1998 launched an ambitious program to cut unemployment, and more labor flexibility was reached at the company level, especially in eastern Germany. However, the rising number of companies that leave industrial organizations and negotiate contracts and wages at the company level is indicative of the growing discontent with the existing collective bargaining system. In 1998 only 48 percent of western German businesses were covered by a collective bargaining contract and about 25 percent in the east. These western German firms accounted for about 68 percent of total employees and for about 50 percent in the east. Trade union activism, however, has also been on the rise since 1998 to counter these changes in the traditional German economic model. In early 2001 a new union, ver.di, was formed as the world's largest union with 3 million members, comprising the unions of white-collar workers (DAG), the **public sector** (OTV), banking and retail (HBV), and postal workers and the media (IG Medien), with the purpose to represent labor across the growing service sector.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1356. Hanseatic League of northern Germany controls all trade on the Baltic Sea and in northern Europe.

1555. The Peace of Augsburg accords Protestants equal rights with those of Catholics.

1612–48. Thirty Years' War between Protestants and Catholics devastates Germany.

1700s. German states of Austria and Prussia abolish serfdom (1781 and 1773, respectively).

1806. Napoleon Bonaparte of France disbands the Holy Roman Empire and occupies Germany.

1833. Prussia organizes a customs union of 18 German states.

1867. Prussia defeats Austria, becoming the undisputed leader of the movement for the unification of the German states.

1871. The German Empire is proclaimed, with a population of over 50 million.

1900s. Germany becomes a major industrial world power and acquires colonies in Africa and the Pacific.

1918. Germany is defeated at the end of World War I (1914–18), a revolution erupts, and the country becomes a democratic republic.

1924. Germany enjoys relative economic prosperity, but millions of workers join the Nazi Party.

1933. During the Great Depression, National Socialist populist leader Adolf Hitler comes to power.

1939. With his attack on Poland, Hitler starts World War II.

1945. Germany surrenders and is divided into 4 occupation zones: British, American, Russian, and French.

1949. The Federal Republic of Germany (West Germany) is created out of the British-, American-, and French-occupied zones of Germany, while the German

Democratic Republic (East Germany) is made from the zone occupied by the USSR.

1951. West Germany is accepted into the European Coal and Steel Community and joins the North Atlantic Treaty Organization (NATO).

1961. The Berlin Wall is erected between East and West Berlin.

1968. The European Community is created to organize economic exchanges between European countries.

1970s. West Germany emerges as a leading economic power, along with the United States and Japan.

1990. East and West Germany are unified after Soviet President Mikhail Gorbachev loosens his grip.

1995. Schengen Agreement loosens border controls between Germany and bordering countries.

1998. Germany joins 10 other EU members in adopting the euro as the new single European currency.

1999. The capital of Germany moves from Bonn to Berlin.

FUTURE TRENDS

Germany will continue to be one of the world's leading economies and the powerhouse of the European Union. Its economy will be influenced mostly by European integration, the adoption of the euro, the integration and upgrading of the East German economy, the restructuring of its economic sectors, and its aging population. The ability of the government to cope successfully with these issues may result in a solution to the problems of slow economic growth, high unemployment, high government debt, high tax rates, high unit labor costs, and growing social security and non-wage labor costs. Germany has a special interest in promoting EU enlargement by the accession of eastern European countries but it is also concerned with the possible influx of immigrants and high financial transfers to new EU countries. An important priority of the federal government is fostering the development of eastern Germany, a major burden on the federal budget throughout the 1990s. Germany's responsibility as an influential member of the international community will also grow in areas such as economic assistance for developing countries, environmental protection, and cooperation in combating corruption and transnational organized crime. Future economic stability will also depend on successful European monetary policy and the performance of the other countries within the euro zone and on global economic trends as the German economy becomes more and more international.

While traditional industries such as textiles and steel are declining, growth in the services sector, particularly in finance and high-tech sectors, will be indicative of the economy's development over the first part of the 21st century. Technological advances, notably in the information and communication sectors, will fuel dramatic productivity increases and the further globalization of businesses. The determination to be among the most advanced countries in the application of new technologies forces Germany to expand its already generous investments into that area. Expected new tax reductions will allow German corporations to invest in technologies with higher productivity and to increase exports. Gloomy forecasts of an aging and declining population will foster reforms in Germany's social security system.

DEPENDENCIES

Germany has no territories or colonies.

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—Valentin Hadjiyski

GREECE

Hellenic Republic
Elliniki Dhimokratia

CAPITAL: Athens.

MONETARY UNIT: Drachma (Dr). 1 drachma equals 100 lepta. Coins in circulation are 1, 2, 5, 10, 20, 50 and 100 drachmae. Paper currency includes denominations of 100, 200, 500, 1,000, 5,000, and 10,000 drachmae. As a member of the European Union, Greece adopted the new currency, the euro, for non-cash transactions beginning in 2001, and will adopt the euro for cash transactions beginning in January 2002. The drachma will be replaced by the euro on February 28, 2002.

CHIEF EXPORTS: Manufactured goods, foodstuffs and beverages, fuels.

CHIEF IMPORTS: Manufactured goods, foodstuffs, fuels, chemicals.

GROSS DOMESTIC PRODUCT: $149.2 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$12.4 billion (1998 est.). **Imports:** US$27.7 billion (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Greece is located on the southernmost point of the Balkan Peninsula and is flanked by 3 large bodies of water: the Aegean Sea, the Ionian Sea, and the Mediterranean Sea. Greece is bordered to the north by Albania, the Former Yugoslav Republic of Macedonia (F.Y.R.O.M.), and Bulgaria. To the northeast and east is Turkey. The Hellenic Republic of Greece is rich with history, tradition, and archeological sites dating back thousands of years to classical ancient Greece.

With an area of 131,940 square kilometers (50,942 square miles) and a coastline of 13,676 kilometers (8,498 miles), Greece is a land of mountains and sea. Greece's mainland, the Peloponnesus Peninsula, is connected to the Isthmus of Corinth. The country also has more than 2,000 islands, of which 170 are inhabited. Greece is approximately the same size as the state of Alabama. Its cosmopolitan capital, Athens, is located on the Peloponnesus Peninsula.

Greece's position in the Aegean Sea and its access to the Turkish Straits has made it a country with a rich nautical tradition and a valued member of the North Atlantic Treaty Organization (NATO: a military alliance of certain European states, Canada, and the United States).

POPULATION. The July 2000 population of Greece was estimated at 10,601,527. The birth rate was 9.82 births per 1,000 people while the death rate was 9.64 deaths per 1,000 people. The annual population growth rate was estimated at 0.21 percent.

Nearly all of the population is of Greek descent (98 percent) with the remainder belonging to other ethnicities. However, the Greek government has claimed there are no ethnic divisions in Greece. The majority of Greek citizens are between the ages of 15 to 64 years (67 percent) with 15 percent of the population under 15 years of age and 18 percent 65 years and over.

About 98 percent of Greeks are Orthodox Christians, a religion that figures prominently in Greece's culture. Small religious minorities do exist in Greece. Muslims comprise 1.3 percent of the population and the remaining 0.7 percent includes Catholics, Jews, Old Calendar Orthodox, Jehovah's Witnesses, Mormons, Protestants, and other faiths. Most Muslims live in Thrace, and they are Greece's only officially recognized minority after receiving legal status through provisions in the Treaty of Lausanne of 1923.

The official language of Greece is Greek, which is spoken by 99 percent of the population. The Greek language has its basis in classical Greek and the language of the 21st century is quite similar to that which was spoken during the 5th century B.C.

Athens has a population of 3,096,775 and is a bustling urban center. Athens' suburban population stands at 748,110. Urbanization has been an important trend in the 20th and 21st centuries, yet more than one-third of Greek society is classified as rural. Many people moved into the cities following World War II, lured by a thriving economy that offered a better standard of living than existed in the countryside. Athens is known for its cosmopolitan lifestyle and for retaining many characteristics of village life such as the importance of family, family businesses, and the popular Greek coffeehouses.

OVERVIEW OF ECONOMY

The Greek economy grew significantly after World War II, but declined in the 1970s due to poor economic policies implemented by the government. As a result, Greece has spent much of the latter part of the 20th century and the early 21st century trying to rebuild and

strengthen the economy. Thus, Greece is one of the least economically developed member countries in the European Union (EU).

While the Greek government encourages free enterprise and a capitalistic system, in some areas it still operates as a **socialist** country. For instance, in 2001 the government still controlled many sectors of the economy through state-owned banks and industries, and its **public sector** accounted for approximately half of Greece's **gross domestic product** (GDP). Limited natural resources, high debt payments, and a low level of industrialization have proved problematic for the Greek economy and have prevented high economic growth in the 1990s. Certain economic sectors are stronger and more established than others, such as shipping and tourism, which are growing and have shown promise since the 1990s.

The Greek government took measures in the late 1980s and 1990s to reduce the number of state-owned businesses and to revitalize the economy through a plan of **privatization**. This policy has received support from the Greek people and political parties of both the left and right. Despite the government's efforts, a drop in investment and the use of economic stabilization policies caused a slump in the Greek economy during the 1990s. In 2001, the Greek government fully encouraged foreign investment, particularly in its **infrastructure** projects such as highways and the Athens Metro subway system.

Soon after joining the European Union (EU), Greece became the recipient of many **subsidies** from the EU to bolster its struggling agricultural sector and to build public works projects. However, even with the European Union's financial assistance, Greece's agricultural and industrial sectors are still struggling with low productivity levels, and Greece remains behind many of its fellow EU members.

In the late 1990s, the government reformed its economic policy to be eligible to join the EU's single currency (the euro), which it became part of in January 2001. Measures included cutting Greece's **budget deficit** to below 2 percent of GDP and strengthening its **monetary policy**. As a result, **inflation** fell below 4 percent by the end of 1998—the lowest rate in 26 years—and averaged only 2.6 percent in 1999. Major challenges, including further economic **restructuring** and the unemployment reduction, still lie ahead.

The modern Greek economy began in the late 19th century with the adoption of social and industrial legislation, protective **tariffs**, and the creation of industrial enterprises. At the turn of the 20th century, industry was concentrated on food processing, shipbuilding, and the manufacturing of textile and simple consumer products. It is worth noting that, having been under direct control of the Ottoman Empire for over 400 years, Greece remained economically isolated from many of the major European intellectual movements, such as the Renaissance and the Enlightenment, as well as the beginnings of the Industrial Revolution. Therefore Greece has had to work hard to catch up to its European neighbors in industry and development.

By the late 1960s, Greece achieved high rates of economic growth due to large foreign investments. However, by the mid-1970s, Greece experienced declines in its GDP growth rate and the ratio of investment to GDP, which caused labor costs and oil prices to rise. When Greece joined the European community in 1981, protective economic barriers were removed. Hoping to get back on track financially, the Greek government pursued aggressive economic policies, which resulted in high inflation and caused debt payment problems. To stop rising public sector deficits, the government borrowed money heavily. In 1985, supported by a US$1.7 billion European Currency Unit (ECU) loan from the EU, the government began a 2-year "stabilization" program with moderate success. Inefficiency in the public sector and excessive government spending caused the government to borrow even more money. By 1992 government debt exceeded 100 percent of Greece's GDP. Greece became dependent on foreign borrowing to pay for its deficits, and by the end of 1998, public sector **external debt** was at US$32 billion, with overall government debt at US$119 billion (105.5 percent of its GDP).

By January 2001 Greece had successfully reduced its budget deficit, controlled inflation and interest rates, and stabilized **exchange rates** to gain entrance into the European Monetary Union. Greece met the economic requirements to be eligible to join the program of a single currency unit (the euro) in the EU and to have the economy governed by the European Central Bank's focused monetary policy. The Greek government now faces the challenge of structural reform and to ensure that its economic policies continue to enhance economic growth and increase Greece's standard of living.

One of the recent successes of Greece's economic policies has been the reduction of **inflation rates**. For more than 20 years, inflation remained in double digits, but a successful plan of fiscal consolidation, wage restraint, and strong drachma policies has lowered inflation, which fell to 2.0 percent by mid-1999. However, high interest rates remain troublesome despite cuts in **treasury bills** and bank rates for savings and loans institutions. Pursuing a strong **fiscal policy**, combined with public-sector borrowing and the lowering of interest rates, has been challenging for Greece. Headway was made in 1997–99 and rates are progressively declining in line with inflation.

POLITICS, GOVERNMENT, AND TAXATION

Greece is a presidential parliamentary republic. The Greek government is similar to the model found in many Western democracies, such as Germany. The prime minister and cabinet are responsible for making national and international policy. The president, whose powers are mostly ceremonial, is elected by parliament for a 5-year term and is eligible for reelection for only one additional term. His powers include declaring war and concluding agreements of peace, alliance, and representing Greece in international organizations. However, the cabinet must countersign any emergency powers exercised by the president. The constitution does not allow the president to dissolve parliament, dismiss the government, or suspend articles of the constitution.

Members of the Greek parliament are elected by secret ballot to 4-year terms; however, elections can be called before their term is up. To prevent political parties from dividing and to ensure there is always a parliamentary majority, Greece uses a complex **proportional representation** electoral system. A party must obtain at least 3 percent of the total national vote to qualify for parliamentary seats. As of 2001, there are 5 main political parties operating in Greece: the Panhellenic Socialist Movement (PASOK), New Democracy (ND), Political Spring, Communist Party of Greece (KKE), and the Coalition of the Left (SYNASPISMOS).

Greece is divided into 51 prefectures, each led by a "prefect" who is elected by direct popular vote. There are also 13 regional administrative districts (peripheries), which include a number of prefectures led by a regional governor, the periferiarch, who is appointed by the Minister of Interior. Although municipalities (a city with self-government and corporate status) and villages have elected officials, they do not have an adequate independent tax base and depend on the government for a large part of their financial needs. Accordingly, they are subject to numerous government controls.

Greece has had a rocky political experience since its independence, and has been jolted by a series of deposed (removed from power) leaders and a military coup d'etat. Soon after the civil war of 1944–49, Greece decided to align itself with the Western democracies and became a member of NATO in 1952. During the 1950s and early 1960s, Greece was ruled by a series of politically conservative parties. The Center Union Party of George Papandreou came to power in 1963 and remained in office until 1965.

Several weak coalition (multiple parties ruling together) governments ruled Greece after the Center Unionists left office. Then in 1967 a coup occurred under the leadership of Colonel George Papadopoulos. The coup introduced a dark period in Greek politics. Many civil liberties were taken away, thousands of political protesters were jailed or exiled to remote islands, and military courts replaced civil courts. University students were politically active during the coup and staged an impressive protest at the Athens Polytechnic University in 1973. The international community did not support the military-led government and called for immediate free elections.

The military junta (a small group that rules a country after a coup d'etat) lost power in 1974 when its new leader, General Dimitrios Ioannides, tried to depose the president of Cyprus, nearly causing the outbreak of war between Greece and its long-time rival Turkey. The junta fell after Ioannides lost support from his senior military officials. Order was restored that same year when former prime minister Constantine Karamanlis returned to Greece from exile in France to lead a new constitutional government. His new political party, New Democracy (ND), won the 1974 elections and he became prime minister again.

A new constitution was adopted in 1975, which restored a number of civil liberties and created the Greek presidency. The New Democracy party stayed in power until 1981. Under their leadership Greece became the tenth member of the EU in January 1981. That same year Greece elected its first socialist government headed by the Panhellenic Socialist Movement (PASOK), which was led by Andreas Papandreou.

PASOK has dominated Greek political life since the 1980s. However, in 1990 the New Democracy party gained control of the parliament but collapsed in 1993 when several party members broke off and formed their own political party, Political Spring, and new elections were held after the collapse of the government. PASOK won elections in 1996 and 2000, and under Prime Minister Constantine Simitis's leadership, the economy has been revived and relations between Greece and Turkey have improved. Perhaps one of Simitis's greatest achievements is securing Greece's entry into the European Monetary Union in January 2001.

Since the 2000 elections, the PASOK government has improved social services by creating affordable pensions, improving health services and education, and creating better jobs while moving ahead with its privatization and economic policies. However, the PASOK government has become the target of growing criticism because of its recent strict reforms to ensure economic stability. PASOK emphasized meeting the criteria for low inflation and low public debt which are necessary for participation in the "euro zone"—those countries in Europe that will use the euro as a currency. The New Democracy (ND) party has accused the government of awarding large state contracts to friends of the party and favoritism in the sale of state assets, and the government is more cautious now when awarding contracts.

The Greek government employs a taxation system for revenue in which all persons permanently or temporarily residing in Greece, regardless of nationality, are required by law to pay taxes on their income. Sources of taxable income include real estate, securities, commercial and agricultural enterprises, and salaries. Additionally, corporations, companies, foreign construction companies operating in Greece, and ship owners are taxed.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Greece has a modern infrastructure complete with airports, railways, and paved roads and highways. There are a total of 80 airports (1999 est.), 64 of which have paved runways. There are 2,548 kilometers (1,583 miles) of railways and 117,000 kilometers (72,703 miles) of highways, 107,406 kilometers (66,742 miles) of which are paved. As expected from a historically seafaring country, Greece has 12 ports and harbors and a large merchant fleet of more than 700 ships.

Communications are also modern. The country's telephone system is adequate, with networks reaching all areas for main telephone lines and mobile cellular phones. Most telephone calls are carried by microwave radio relay. Underwater cables transmit calls to the Greek islands. In 1997 there were 5.431 million main lines in use and 328,000 mobile phone users. As of 1998 there were 26 AM radio stations, 88 FM stations, and 4 short-wave stations. In 1999, 64 television stations were operating in Greece. Computers and communications are increasing in popularity and availability. By 1999 there were 23 Internet service providers (ISPs) operating in Greece.

During the 1980s, the government dissolved its **monopoly** on radio and televisions stations. Many private television and radio stations emerged, as well as European satellite channels. By early 2001, however, the Greek government moved to shut down dozens of the popular privately-owned radio stations, saying that their proximity to the new Athens airport could cause radio interference. The announcement was widely condemned by opposition parties and media unions, as well as large numbers of loyal listeners.

The press in Greece operates much differently than it does in the United States. Journalistic objectivity, where a reporter writes the facts of a news event without his or her own political or ethical viewpoint, is often not followed. Businesspeople with extensive commercial interests in the economy own many of the media outlets and use their newspapers, magazines, and radio and television outlets to promote their commercial enterprises as well as to seek political influence.

Electrical power in Greece is supplied by lignite-fueled power stations. Lignite is a type of coal. Hydroelectric power is also used. Solar energy and wind power are being considered as alternative energy sources. Total power production in 1998 amounted to 43.677 billion kilowatt hours (kWh), while consumption in that year was 42.18 billion kWh.

Natural gas is becoming a popular alternative to coal for electricity production. The gas comes from a pipeline shared by Greece and Russia and is considered more environmentally friendly and efficient than coal. In February 2000, the Ministries of the Environment, Natural Planning, and Public Works signed an agreement to replace coal with natural gas. Natural gas is a new energy source in Athens, and many homes and businesses are beginning to use it. Another benefit is that natural gas would reduce the high smog levels in Athens.

ECONOMIC SECTORS

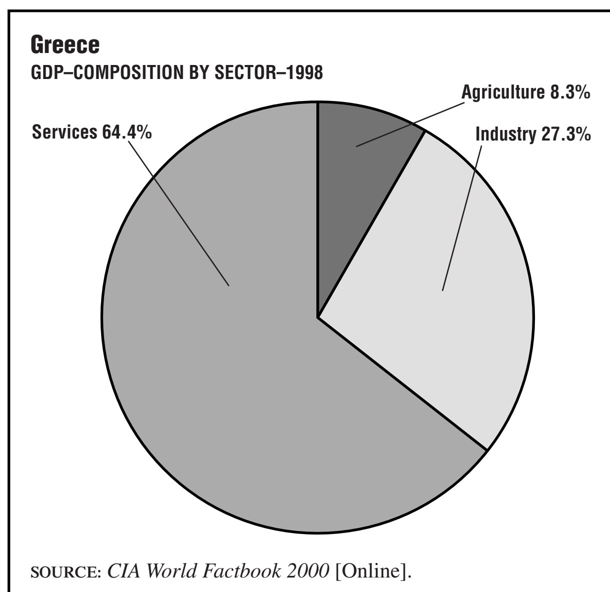
Greece is not a fully capitalist state as there are still many state-owned industries, but the government plans to sell many of them. Greece receives a great amount of financial assistance from the European Union, which accounts for about 4 percent of its GDP. Greece's main

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Greece	153	477	466	1.2	194	3.8	51.9	59.57	750
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Italy	104	878	486	2.8	355	31.3	173.4	68.28	7,000

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

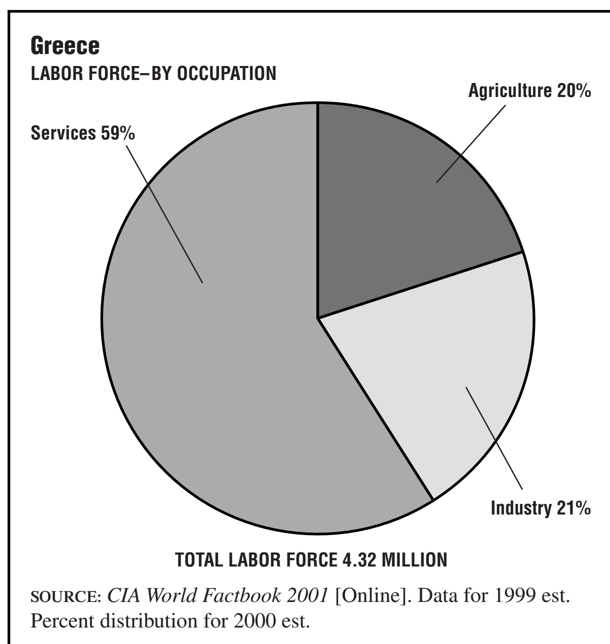
SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

imports are industrial and **capital goods**, foodstuffs, and petroleum, and it exports manufactured goods, food and beverages, petroleum products, cement, chemicals, and pharmaceuticals.

Greece's chief sector of the economy—services—is comprised of transportation, tourism, communications, trade, banking, public administration, and defense. The service sector is the fastest-growing and largest part of the Greek economy, accounting for 64.4 percent of GDP in 1998. Tourism is the foundation of this sector. However, a poorly developed infrastructure has slowed its expansion. In 1996, more than 10 million tourists visited Greece, yet the tourist industry still faced declining revenues due in part to the drachma's weak performance. Tourism revenues exceeded US$5.2 billion in 1998, an upsurge due in part to political problems in neighboring Balkan countries and an economic recovery in the European Union.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999 est. Percent distribution for 2000 est.

The industrial sector accounts for 27.3 percent of Greece's GDP. One of the fastest growing and most profitable industries in this sector is the food industry, which has excellent export potential. High technology equipment production, especially for telecommunications, is also a fast-growing sector. Textiles, building materials, machinery, transport equipment, and electrical appliances are also a significant part of the manufacturing sector. Shipping is another industry that has shown economic promise. A nation with a great nautical tradition, Greece has built an impressive shipping industry based on its prime geographic location and the entrepreneurial skills of its owners.

AGRICULTURE

Greece's agricultural sector suffers from a lack of many natural resources. Approximately 70 percent of the land cannot be cultivated because of poor soil or because it is covered by forests. Agriculture is centered in the plains of Thessaly, Macedonia, and Thrace, where corn, wheat, barley, sugar beets, cotton, and tobacco are harvested. Greece's low rainfall, its rural land ownership system, and the **emigration** of the rural community into urban areas or abroad are factors that hold back the growth of the agricultural sector. In 1998 agriculture accounted for only 8.3 percent of GDP.

While agriculture is not a thriving economic sector, Greece is still a major EU producer of cotton and tobacco. Greece's olives—many of which are turned into olive oil—are the country's most renowned export crop. Grapes, melons, tomatoes, peaches, and oranges are also popular EU exports. Wine is an export with promise, and the government has urged vineyard owners to produce higher quality wines to increase its popularity as an international export.

Given Greece's vast coastline and its numerous islands, it is natural that a fishing industry exists. However, it is not as vital to the economy as would be expected from a country with a rich maritime history. Over-fishing has lessened the impact of fishing revenues on the economy. Pollution in the Mediterranean has also damaged the industry.

Animals and animal production constitute a significant part of Greece's agricultural output. Goat and sheep meat and milk are popular and provide about 6 percent of agricultural production, especially sheep milk, which

is used for making Greece's renowned feta cheese. Hogs, cattle, chickens, rabbits, beehives, and pigeons are other important livestock.

Employment in the agricultural sector has slipped throughout the latter part of the 20th century and into the 21st. In 1981 the agricultural workforce was measured at 972,000 and had fallen to 873,000 by 1991. Women have dominated employment in the agricultural sector.

Greece adopted a system of farming cooperatives as early as 1915 to streamline farming efforts. These cooperatives are now unionized and have been supported by every government that comes to power. Under the socialist governments of the 1980s, the cooperatives were greatly enhanced, and they received a large percentage of agricultural loans.

The European Union has granted Greece a number of subsidies to bolster its agricultural sector, but it continues to perform poorly in the 21st century. To expand the market for Greek food exports, the Ministry of Agriculture established a private company, Hellagro SA, to assist Greek companies in selling their products over the Internet. Private stockholders will hold the majority share in Hellagro, and financing will come from **e-commerce**, commission (money paid for performing a given act or transaction), investment opportunities, and **joint ventures**. The government is hoping this effort will help revitalize the struggling industry.

INDUSTRY

Greece's industrial sector is weak. While it expanded during the 1960s, growth slowed from the 1970s to the 1990s. Industry has progressed to a higher level in 2000 due to large increases in mining and energy production, as well as construction, but it remains an underperforming economic sector. The shipping industry, however, is an important exception, and has performed exceptionally well. Textile production, food processing, construction, cement, and shipping are important segments of this sector. High-technology equipment production, particularly in telecommunications, is another growing and important industry.

MANUFACTURING. Manufacturing accounts for about 14 percent of the GDP. In 2000 the manufacturing sector increased modestly. During the 1990s, the most important and profitable sectors have been (in order) foodstuffs, textiles, chemicals, and nonmetallic minerals.

The economic crisis of the 1970s and 1980s, in which the Greek economy experienced declines in its GDP growth rate, rising labor and oil costs, and high inflation, hurt many manufacturing companies. The government bought many of these companies to prevent them from going out of business and help them earn a profit. Eventually, the PASOK government in the 1990s decided to embark on a continuing privatization policy in an effort to encourage foreign investment.

Prior to Greece's admittance into the EU, the government tried to bolster new manufacturing companies with tax breaks, tariff protection, and cheap loans. However, this policy was eliminated to comply with EU regulations. Today, most government assistance to manufacturing firms takes place in the form of grants and subsidies for new investment.

Foreign investment in manufacturing has not been strong, despite incentives from the Greek government as early as 1953, but it has grown since 2000. Investment by foreign companies is important, as it helps a struggling economy grow. It expands an economic sector, brings new technology into a country, increases tourism, creates new job opportunities, and accelerates growth in other sectors of the economy. Greece's EU membership helped lure some investors with the promise of working in a unified European market. In 1992, a large Italian company, Calcestruzzi, bought a substantial share of Greece's major cement company, AGET. By 1988, an estimated 18 percent of total manufacturing employment was under foreign control.

MINING. The mining industry is small but significant because of Greece's vast mineral resources. Lignite, which is used for making energy in Greece, and bauxite, the raw material needed for aluminum production, are 2 minerals that are found abundantly in Greece. Other mineral deposits include ferronickel ores, magnesite, mixed sulfurous ores, ferrochrome ores, kaolin, asbestos, and marble. Mining accounts for only 1% of the GDP. Mining of metallic ores is concentrated in the hands of a few private companies. Quarry production is divided among many small companies. In 2000 mining output rose significantly, in contrast to its negative performance of the previous 2 years.

CONSTRUCTION. Housing and building construction have always played a key role in Greece's industrial sector and have long been a major source of income. Today, construction activity accounts for approximately 7.5 percent of the GDP and is expected to rise due to new infrastructure projects financed by EU funds.

The government traditionally has seen the construction sector as a way to boost employment, income, and domestic demand. Accordingly, the housing construction industry has historically enjoyed tax advantages. However, with the fiscally conservative policies of the 1990s, increased taxation was considered.

The construction of large public works has also played a significant role in this subsector of the economy. The new international airport in Athens was a major construction project planned by the government. The

first passenger flights took off in March 2001 and the government hopes the airport will become a regional hub for routes to Europe, Africa, and Asia. With its state-of-the-art facilities, the new airport is expected to boost the tourism sector and handle the tourist traffic demands of the 2004 Olympic Games, which will be held in Athens. The $1 billion construction project involved both Greek and foreign private companies and the Greek public sector. Attiki Odos, a conglomerate of Greek construction companies, constructed a high-speed toll roadway, and plans are underway to build new hotels near the airport.

The Athens Metro subway system is another construction project that is being renovated and expanded in 2000–01, as well as new roadways, railroads, and bridges. Under the terms of the EU, Greece must be open to international bidding for major projects, which provides tough competition for the Greek construction industry.

In 2000, private building activity increased. Permits for new projects, particularly in the housing industry, rose by 6.3 percent and many predict a real-estate boom in coming years. Although the residential housing market has matured, expansion seems likely in the area of home renovations and in the purchase of second homes.

SERVICES

The service industry is the most important sector of the Greek economy. In 1998, the service sector provided 64.4 percent of Greece's GDP, and accounted for nearly 60 percent of Greece's **labor force**. A variety of businesses are included in this sector: street vendors, the hotel and lodging industry, telecommunications, and public administration.

TOURISM. Greece has long been known for its warm climate, scenic Mediterranean coastlines, and classical archeological and historical sites. These attractions, together with its beautiful and quiet islands, delicious culinary offerings, and renowned hospitality have made Greece a popular tourist destination. The most popular attractions are the Acropolis of Athens, the palace of Knossos on the island of Crete, the temple of Apollo at Delphi, the Epidaurus Theater and the palace and treasure of Mycenae in the Peleponnesus, and the Acropolis of Lindos on the island of Rhodes.

The tourism industry has grown significantly since the 1960s, and is a major source of foreign exchange, but this sector has suffered from poor infrastructure and a strong drachma. European tourists visiting Greece tripled from the early 1970s to the late 1980s, and reached 11.5 million visitors in 2000. Most tourists visiting Greece hail from Great Britain and Germany; however, droves of visitors come from Italy, the former Yugoslavia, France, and the Netherlands. The number of American tourists declined during the 1990s. Lodging options have increased significantly between the 1970s and 1990s due to an expansion of hotels. In 1998, tourist revenues were high as Greece benefited from problems in neighboring countries and an economic recovery in the EU. Today Greece faces tough competition from Turkey, which has become a popular vacation destination, but improvement in the tourism sector does hold promise.

Fully understanding its importance, the government is working to improve this vital sector of the Greek economy. First, it is attempting to upgrade facilities in the country to levels found in competitors Spain and Italy. It is also looking to expand the tourist season from 6 months to year-round through sports, hosting international conferences, and cultural tourism. Developing marine tourism with activities such as cruises and sailing excursions is another priority. To accommodate more tourists, the state-controlled Hellenic Tourist Organization is planning to expand the number of marinas (docks for pleasure boats) operating in Greece.

In 2001 the PASOK government of Prime Minister Simitis launched a campaign to attract private investment in Greece's tourist industry as part of its ongoing privatization program. The Hellenic Tourist Properties (ETA), which is the asset management arm of the Hellenic Tourist Organization, is trying to attract private investors to develop its properties through long-term leases, joint operations, or **equity** operations. Some of the projects in need of investment are a theme park for Anavissos, an aquarium, and camping grounds at Voula. The city of Rhodes will build more hotels, a golf course, and athletic facilities. The government hopes these new attractions increase Greece's popularity as a tourist destination, especially with the approach of the 2004 Olympic Games, which will bring thousands of new visitors to Greece. The government is trying to ensure they will return as tourists.

TRANSPORTATION. Greece's rugged interior, its lengthy coastline, and multitude of islands have made shipping an important industry. Greece's 5 major cities—Athens, Thessaloniki, Patras, Heraklion, and Volos—are all major ports, and there are a total of 123 ports throughout the country, which are essential to transporting and importing goods to and from Europe, the Balkans, and the Middle East.

Shipping has been one of Greece's most important and profitable industries due to the business know-how of its shipowners. Its merchant fleet is one of the largest in the world totaling 3,358 ships in 1998, although many of its ships are older. However, Greek ship owners are trying to upgrade their fleets with new ships, and there were a record number of new ship-building orders placed in 2000, due to low prices offered by South Korean shipyards. Many of Greece's ships are cargo carriers to third-

world countries, so the industry is sensitive to downturns in the world economy.

Road transportation saw increases in the second half of the 20th century, gaining in importance compared to rail and shipping transport. However, the closing of roads in the former Yugoslavia, traditionally Greece's route into Europe, caused sea transport to increase in importance once again.

Olympic Airways, which is partially state-owned, is Greece's exclusive airline. Olympic offers domestic flights throughout Greece's major cities and islands, as well as overseas flights to Europe, the Middle East, the United States, Japan, Singapore, Thailand, and South Africa. While passenger loads have increased, the airline has faced financial difficulty as a result of high costs. Greece has negotiated plans with the EU to restructure the airline.

Railway construction began in Greece in the 1880s and, given the rugged terrain of the country, was an extraordinary feat of engineering. Tracks cover slightly less than 2,548 kilometers (1,583 miles) of the country. The EU is providing assistance in renovating the railroad system. Since 1990, diesel locomotives have gone into service and shortened travel time.

In 2000, new registrations for automobiles increased, although many buyers have apparently postponed new purchases until Greece joins the economic and monetary union and interest rates fall to euro zone levels. Truck roads are inadequate in comparison to European standards. Greece has one of the worst automobile accident levels in Europe.

Public transportation in Athens is made up of an overcrowded and unreliable bus network and Metro subway system. Renovation and service extension of the Athens Metro finally began in 1993 after many delays. Work on the 130 year-old Athens Metro was finished in January 2000. The project faced many obstacles because of poor soil conditions, the presence of archeological remains, and contractor disputes. The Metro is expected to have a huge impact on daily life in Athens and ease passenger traffic congestion, making commuting much easier. Attiko Metro, a state-controlled company, oversaw the design, construction, and operation of the new Metro lines and U.S.-based Bechtel International acted as project manager. Further expansions are planned, particularly into lower-income neighborhoods in Athens as required in the funding package from the EU's Community Structural Fund, which provided much of the financing.

INTERNATIONAL TRADE

Member countries of the European Union have dominated international trade in Greece. Germany and Italy are Greece's main EU trading partners, with 25 and 11 percent of exports and 16 percent of imports each, respectively. Outside of the EU countries, the United States is Greece's largest trading partner, with 16 percent of exports and 11 percent of imports. Other significant partners include the United Kingdom, Central and Eastern European countries, and the former Soviet Union. In the 1990s, the biggest trade increases occurred with South Korea, Bulgaria, Egypt, Japan, and China. The former republic of Yugoslavia's internal political problems resulted in a sharp decline in its trade with Greece.

Trade (expressed in billions of US$): Greece

	Exports	Imports
1975	2.294	5.357
1980	5.153	10.548
1985	4.539	10.134
1990	8.105	19.777
1995	10.961	25.944
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Greece's imports are machinery, transportation equipment, food, chemical products, and petroleum products. Greece's main exports are fruit, vegetables, olive oil, textiles, steel, aluminum, cement, and various manufactured items such as clothing, foodstuffs, refined petroleum and petroleum-based products. Once it joined the EU, Greece was also required to break down all trade barriers in accordance to the organization's by-laws.

Greece must keep its economy in order as a member of the EU. To do this, the government embarked on an ambitious privatization plan during the 1990s, and continues to encourage foreign investment. Greek businesspeople are getting used to competition from international firms, and the government keeps state industries, such as tourism, open to private investment. A good example of foreign investment in a state-owned industry is the operating company Athens International Airport SA, which constructed the airport and will handle its operations. The Greek government owns 55 percent of Athens International Airport SA and the remaining 45 percent belongs to the German Hochtief Group.

Membership in the European Union has been extremely beneficial for Greece. Net payments from the EU budget have significantly decreased Greece's account balance and the state budget deficit. Support packages for public works projects such as the Athens Metro, and economic and human development projects, have been especially useful in attempting to upgrade Greece's infrastructure.

Greece's **balance of trade** has traditionally been negative (see chart). In 1991–93 exports of goods fell short of imports by more than US$13 billion. By 1998 that trade imbalance had grown to US$15.3 billion on exports of US$12.4 billion and imports of US$27.7 billion. Greece's trade deficit has usually been covered by loans from the EU, **remittances** from Greeks living abroad, tourism, and shipping.

MONEY

After many years of high inflation, the Greek economy appears to have settled since 2000. Inflation is above the EU average but is under control and expected to remain that way in the near future. Reducing inflation rates has been a success of Greece's recent reformist economic measures.

Inflation, consistently above 10 percent in the past, has fallen due to government fiscal policies, wage restraints, strong monetary policies, and debt consolidation. By mid-1999 inflation fell to 2.0 percent but later rose again because of a sharp easing of Greece's monetary policy when it joined the EU's Economic and Monetary Union (EMU). Fortunately, this did not cause a huge inflation increase as had been feared.

In January 2001, Greece became a member of the EMU after 4 years of careful fiscal planning by the government of Prime Minister Costas Simitis. Greece is expected to relax its monetary policy as its short-term interest rates converge with euro zone rates. The government views the economic forecast favorably, but progress could be slowed if it remains committed to tax cuts.

Greece's banks consist of 3 kinds of institutions. The first is the Central Bank of Greece, which controls and manages the country's money supply and currency exchange rates. It does this by regulating the cash flow of other banks and by direct intervention in money markets. It also operates as a regulatory agency for commercial banks and protects the monetary system against banking catastrophes. In conformity with EU rules, the bank should be a separate entity from the state to keep the government from borrowing bank funds. A large number of Greece's banks remain under state control and in the early 1990s state-controlled banks held some 70 percent of deposits.

Commercial banks also operate in Greece and are the second type of banking institution. Both foreign and domestic commercial banks operate in Greece, and New York-based Citibank is one of the largest banks in Greece. Traditionally banks have been depositories for the people but have recently expanded their operations to include wholesale and **retail** banking services. Commercial, industrial, consumer, and mortgage loans are issued through these institutions. They can also issue credit cards and letters of credit as well as exchange foreign currency. Some banks also offer brokerage services.

Exchange rates: Greece

drachmae (Dr) per US$1	
Dec 2000	380.21
2000	365.40
1999	305.65
1998	295.53
1997	273.06
1996	240.71

SOURCE: CIA *World Factbook 2001* [ONLINE].

A third part of the Greek banking system is made up of specialized credit institutions such as investment and mortgage banks. Examples are the Agricultural Bank of Greece and the Postage Savings bank. Many of the credit institutions are directly or indirectly controlled by the state; however, legislation in the 1990s sought to limit its influence. While these banks already offer credit services, EU standards have forced them to offer a wider range of banking services so that they do not have a monopoly on one specific area. Likewise, other banks are now permitted to offer these banks' specialized services, such as entering the agricultural credit market.

Since the late 1980s, the Greek banking system has undergone a process of **liberalization**, and Greece's EU membership has pushed modernization of the banking system. Interest rates are now set by market conditions, foreign exchange and capital movements have been **deregulated**, and credit quality controls were abolished. As a result, banking in Greece has become a modern and competitive industry. Proving its capability in this new environment, the Bank of Greece successfully managed a monetary crisis, protecting the drachma by tightening its monetary policy and raising interest rates to high levels. In less than 2 months, interest rates returned back to normal.

The Athens Stock Exchange (ASE) has been modernized and revitalized since 1987. Recent changes include the formation of brokerage firms participating as members of the exchange, the introduction of an automated trading system, and the establishment of a Central Securities Depository. The early 1990s saw 118 public companies on the ASE. Traditionally, many Greeks are reluctant to invest in stocks and shares, preferring to invest their money in real estate, foreign currency, gold, and jewelry.

POVERTY AND WEALTH

Since the 19th century, upward mobility has been more common for Greeks with each generation. How-

ever, unlike most European countries, which tend to have rigid class systems, Greece's class system has been more flexible as income has been more widely distributed.

For rich and poor alike, Greek society remains somewhat traditional. The Greek people have strongly held beliefs on the importance of the family and maintaining its societal role, which extends into the economic sector. For example, most Greeks, rich and poor alike, own their own home, and real estate usually stays within families. Non-home owners are considered impoverished, and questions arise about the family's inability to take care of its children and future generations.

The family remains the basic social unit for all classes. The extended family and the obligation of family members to help each other in times of trouble are essential parts of Greek society, which remains unaltered by the expansion of the middle and upper-middle classes following World War II. It is odd for a Greek man or woman to remain single or to break ties with his or her family. Sons and daughters will often live with their parents until they marry. Parents still have influence over the choice of a child's spouse. In rural areas, a groom and his family still consider a potential bride's reputation, family, health, age, and appearance important factors before agreeing to marriage.

Paternal authority is a key part of Greek family life and in Greek society as a whole. Men can often be found smoking, drinking coffees, and discussing politics in the cafés, which are not open to women. During the 1980s, however, significant changes were made in Greek family law, which restricted the dominant role of the father in the family. Dowries for brides were outlawed and although marriage is still viewed as an economic union, civil marriages were permitted and divorce was made easier.

Greeks are noted for their strong sense of community. Despite urbanization, village life remains a strong societal influence. Village square-style meetings on topics relevant to the community are common, even in cities. Many businesses are small, family-owned and operated enterprises. This is evident in some large and more dynamic sectors of the Greek economy such as the shipping industry, which is led by a tight-knit group of Greek families. Business operations are often run on family connections and favors.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Greece	8,302	9,645	10,005	10,735	12,069
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Italy	11,969	14,621	15,707	18,141	19,574

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Greece

Lowest 10%	3.0
Lowest 20%	7.5
Second 20%	12.4
Third 20%	16.9
Fourth 20%	22.8
Highest 20%	40.3
Highest 10%	25.3

Survey year: 1993

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Major strides in health care have occurred since World War II. Many diseases have been eradicated, and Greece has more doctors per person than any other EU member. However, most doctors are located in Athens, meaning many rural dwellers must travel to the city for medical care. In 1976, a government study found that the poor did not have adequate health coverage or access to services, and there was a lack of coordination between government agencies. Reform efforts took several years, but in the 1980s the PASOK government of Andreas Papandreou created a national health-care system which sought to put all medical practices under control of the state. One major goal of the plan was to provide free access to health care regardless of economic means. However, wealthier Greeks often choose to travel abroad for major operations, as they believe health-care services and doctors are more sophisticated elsewhere in Europe.

Greece's health system does provide benefits for workers. Greece has a generous maternity-leave policy for women, and when new mothers return to work they are allowed to leave work 2 hours early so that they can go home to their child. Vacation leave is generous, as it is in many European countries. Greeks take advantage of this, especially during April, the traditional month for vacationing because of the Easter holiday.

Pensions are a complex issue in Greece. Most of the working population, about 80 percent, is covered under the Social Insurance Institute and the Agricultural Insurance Organization. Workers and employers must both contribute to the pension plans for the Social Insurance Institute, which covers professionals, laborers, and craftsmen. The Agricultural Insurance Organization provides pensions for rural workers and is funded entirely by taxes.

Education has always played an important role in Greek society, dating back to its classical roots. The

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Greece	32	11	14	5	14	8	16
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Italy	23	11	12	3	17	8	27

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

literacy rate is 93 percent. In the post-World War II period, education has been viewed as the key to upgrading one's position in society and to economic prosperity. However, Greece's education system is rigid and heavily centralized. Teaching is not a highly respected profession and as a result there are not many qualified teachers. State educational institutions are considered inadequate by the populace and, as a result, many children go for tutoring after school at private institutions called *phrontistiria*. Greek education is free and compulsory for all children to 9 years of age.

The university admissions process for students is very intense and extremely competitive, as graduating from a top university often ensures professional success. About 1 in 4 applicants are admitted. The educational system is plagued by the low social status of educators, lack of supplies and books, frequent strikes, and inadequate labs and technology. Most state universities do not have graduate-level programs, decreasing the incentive for faculty research. Currently about 100,000 students are registered at Greek universities and about 15 percent of the population hold a university degree.

Private universities are not permitted in Greece, which means that the government, and ultimately the taxpayers, must absorb the operating costs of universities and technical schools. A number of new colleges and universities were created throughout the country from the 1960s to the 1980s to meet the growing demand for higher education. However, many of these institutions are not well-equipped with books and laboratory equipment and do not offer enough openings to meet the desire for a university-level education, forcing many Greeks to study abroad. Those students who travel abroad for university tend to enroll in American universities, especially for graduate school. The Greek government evaluates all degrees from international universities to see whether graduates can work in the public sector. One concern with the increased number who study abroad, particularly with EU educational exchanges, is that a "brain drain" will occur, where Greek students will remain abroad rather than return to their home country with their new skills and education.

Following the collapse of military rule in the 1970s, the Greek government issued a number of reforms touching all levels of education such as the expansion of compulsory education and increasing technical education programs. The first PASOK government, which came to office in 1981, continued making education a priority and doubled the education budget during its first 4 years in power. Teaching methods and planning were standardized, routine educational inspections took place, and state education was placed under the Ministry of Education and Religious Affairs.

With Greece's entry into the European Union and increased urbanization, there has been an emphasis on raising educational standards to those of its fellow EU countries. In June 1999, Greece was one of 29 states to sign the Bologna Declaration. The declaration sought to standardize EU member universities and shape degree requirements around European Union needs. Once accomplished, all university degrees in the EU would be comparable with one another. The plan called for the creation of a 2-cycle educational system with a 3-year undergraduate program and a 2-year master's degree program. The goal is to reduce unemployment by allowing trained and qualified students to enter the labor market more quickly. The Greek Ministry of Education was skeptical of the program and staged a conference in January of 2000 to debate the Bologna Declaration. University officials voiced strong reservations about the plan, particularly the emphasis on professional rather than liberal arts education. The Ministry of Education opted not to adopt the 3-year undergraduate system, but will make university credit hours more similar to those of EU educational institutions.

WORKING CONDITIONS

The occupational structure of Greece has changed in the 20th century because of increased industrialization

and urbanization. Since the 1960s, the number of rural workers has dropped considerably. Overall, the employment numbers reflect various sectors' contribution to the GDP, with most Greeks employed in the service sector (59.2 percent) and lesser numbers in industry (21 percent) and agriculture (19.8 percent), according to 1998 estimates in the 2000 CIA *World Factbook*. Greece's total labor force numbered 4.32 million in 1999, when unemployment was estimated at 9.9 percent.

Generally, more men work in the industry sector while women dominate the service and agriculture industries. Greek women tend to have higher unemployment rates than men and are on average paid less. For additional income many Greeks work in seasonal or nonpermanent agricultural or service industry positions. For example, a craftsman may also work at a tourist site during the summer. Public-sector employees may often take a second job in the evening. Second jobs often complicate the way employment and unemployment figures are measured within the various sectors of the Greek economy.

In the Greek workforce, labor unions have been active throughout the 20th century. But unions have been subject to legal restrictions by successive Greek governments who considered unions a threat to domestic economic stability. Organization is centered on a particular trade or craft within a community. Local chapters are generally affiliated with national federations, which in turn are organized under the umbrella of the General Confederation of Greek Workers (GSEE).

The GSEE was founded in 1918 and is one of the oldest trade unions. However, the Greek public does not hold the GSEE and the Supreme Civil Servants' Administrative Committee (ADEDI) in high regard. Public hostility is also aimed toward the white-collar Association of Greek Industrialists, although they improved their public image considerably in the 1990s.

While not popular with the Greek people or government, trade unions can yield considerable political power. For example, when the New Democracy administration was in office in 1992, labor unions staged strikes following the privatization of the Urban Transportation Company, putting the government on the defensive. However, the GSEE has been instrumental in establishing pay increases and other labor benefits, which have benefited the country as a whole.

One of the by-products of industrialization in Greece was the development of an **underground economy**, which includes unreported economic activities that are not subject to taxation. Given Greece's large service sector, there are a number of retail and small family businesses that are unregulated and untaxed by the government, and it is difficult to track the number of unpaid family members working in these businesses. Estimates of the Greek underground economy are at 50 to 60 percent of the officially reported economy, meaning that income and employment figures in Greece are actually significantly higher than the official estimates. While this unofficial sector provides employment and income to many that would otherwise be jobless, it undermines the modernization of the country's fiscal system and the development of an internationally competitive Greek economy.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

2600 B.C. Period of early Minoean civilization in Crete, beginning more than 1,400 years of cultural development.

9TH CENTURY B.C. The poet Homer writes *The Odyssey* and *The Iliad*, the Greek classical epic poems.

8TH CENTURY B.C. Trade relations begin between Athens, Sparta, and other city-states.

450s B.C. Under the rule of Pericles, the Golden Age of Athens begins. This period is marked by achievements in architecture, sculpture, and philosophy.

336 B.C. Alexander the Great assumes power and creates the largest empire in history.

86 B.C. Rome conquers Athens. *Pax Romana* period begins in 31 B.C.

1453. Ottoman Turks capture Constantinople and Greece falls to Ottomans and remains under Ottoman control for close to 400 years.

1821–32. Inspired by the Enlightenment movement in Europe, the Greek War of Independence begins which liberates modern-day Greece. Britain and France assist Greece's efforts.

1863. New constitution establishes parliament. Prince William of Denmark named King George I of Greece.

1881. Ottomans relinquish control of Thessaly and part of Epirus to Greece following pressure from Great Powers at 1878 Congress of Berlin.

1909. Greek government is overthrown by a military coup. Eleutherios Venizelos named head of new government.

1930. World depression causes political and economic unrest in Greece.

1936–41. General Ioannis Metaxas heads dictatorship after Venizelos resigns in 1932.

1941. Nazis invade Greece. Start of 4-year occupation. National resistance movement founded.

1944. Athens is freed from German control and Greece falls under post-WWII British sphere of influence.

1946–49. Civil war erupts between government and Democratic Army of Greece.

1949. Greece receives aid for post-war rebuilding from the U.S. Marshall Plan.

1967. Military seizes the government in a coup d'etat, starting a 7-year period of international isolation. King Constantine goes into exile.

1974. Turkey invades Cyprus in response to coup attempt by Greece against Cypriot president. Greek military junta loses power and civilian government returns. Democratic institutions are restored and the monarchy is abolished by popular vote.

1975. A new constitution based on republican form of government is created. Turkish Federated State of Cyprus declared, heightening tensions between Greece and Turkey.

1981. Panhellenic Socialist Movement (PASOK) ends post-war conservative control and starts 8-year rule marked by reform program under Andreas Papandreou; Greece becomes member of European Community (EC).

1990. New government formed by Konstantinos Mitsotakis's New Democracy (ND) party, which wins control of half of assembly.

1992. The New Democracy party privatizes the mass transit system. Strikes erupt against Mitsotakis' government and its economic policies.

1993. European Union (EU) 5-year economic reform program adopted by Greece; Papandreou again elected prime minister.

1994. Greece imposes trade **embargo** against Former Yugoslav Republic of Macedonia and EU declares embargo violates international law. UN, U.S., and EU attempt to work out a solution with Greece.

1995. Government ratifies UN Convention on the Law of the Sea, causing Turkey to threaten war if treaty is applied in Aegean Sea. Greece lifts trade embargo against the Former Yugoslav Republic of Macedonia.

1996. Papandreou resigns as prime minister because of poor health and is replaced by Constantine Simitis.

2001. Greece joins European Monetary Union (EMU). New Athens International Airport opens.

FUTURE TRENDS

In the 20th century, the Greek economy has fared poorly and has been plagued with high inflation, debts, account deficits, and shaky economic policies. However, its admittance into the EU has ensured economic reform and the commitment of the government to keep Greece's economic house in order. The road ahead looks brighter and more promising for Greece's long-troubled economy. Its entrance into the European Monetary Union (EMU) demonstrates that Prime Minister Simitis's PASOK government has successfully managed the economy without causing high inflation through tough fiscal measures. All signs show that the Greek economy is likely to expand, perhaps more so than that of other EU members. Recent wage increases, tax cuts, and employment growth are likely to keep consumer spending growing.

If the Balkan region becomes more stable, Greece may have stiff competition attracting foreign investors. Likewise, receiving funds from the Community Support Framework (CSF) of the EU may prove difficult as higher implementation standards are instituted. That said, the Greek economy is far better off than it was during the second half of the 20th century. And in fact, in 2001 the government expected to achieve a small surplus in the budget.

Politically, Greece is expected to remain stable under Prime Minister Constantine Simitis, ensuring the continuation of his economic platform, although there is some resistance to his privatization policies. Improving ties with its EU neighbors will be at the forefront of his political agenda, as well as fostering better relations with Turkey, Greece's longtime adversary. Throughout 1999 and 2000, the 2 countries made significant progress toward enhancing peaceful relations in the wake of Turkey's candidacy for admission to the EU.

Greece will host the 2004 Olympics, and the country is gearing up for this historic event. The new Athens International Airport is better equipped to handle the many tourists coming in for the Games, and improvements are being made in transportation and the country's infrastructure, such as new highways and expansion of the Athens Metro. Tourism revenues should increase significantly from the influx of Olympic participants and spectators.

As Greece continues its plan to modernize its economy while retaining some socialist aspects of its government, societal changes could occur. Businesses, especially family-owned businesses, are feeling the effects of closer integration with Greece's EU partners as the country's entrepreneurs now face growing competition from their European competitors. Small family-owned businesses could crumble due to competition from large international corporations. How this all plays out in Greek society, which is marked by strong family traditions, is unknown. It is hoped that increased free enterprise and **capitalism** will not damage Greece's strong family structure, which has been a pillar of its culture and society, much like those which still hold up the Acropolis after so many centuries.

DEPENDENCIES

Greece has no territories or colonies.

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—Lynn Mahoney

HUNGARY

Republic of Hungary
Magyar Népköztársaság

CAPITAL: Budapest.

MONETARY UNIT: Hungarian forint (Ft). One forint equals 100 fillérs. There are coins of 10, 20, and 50 fillérs and 1, 5, 10, 20, 50, and 100 forints, and notes of 200, 500, 1,000, 2,000, 5,000, 10,000, and 20,000 forints.

CHIEF EXPORTS: Machinery and equipment, other manufactures, agriculture and food products, raw materials, fuels and electricity.

CHIEF IMPORTS: Machinery and equipment, other manufactures, fuels and electricity, agricultural and food products, raw materials.

GROSS DOMESTIC PRODUCT: US$79.4 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$22.6 billion (f.o.b., 1999). **Imports:** US$25.1 billion (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Hungary is a landlocked country in eastern Central Europe bordered by Austria, Slovakia, the Ukraine, Romania, Serbia, Croatia, and Slovenia. Located in the Carpathian Basin, it is surrounded by the Carpathian Mountains, the Alps, and the Dinaric Alps. It has a total area of 93,030 square kilometers (35,919 square miles), 690 square kilometers (266 square miles) of which is water. Comparatively, Hungary is slightly smaller than the state of Indiana. The capital, Budapest, is located in the central northern region on the Danube river, which runs from Austria to the Croatian-Serbian border.

POPULATION. The population of Hungary was estimated at 10.04 million at the end of January 2000, a slight decrease compared to the 1990 population of 10.38 million. In 2000 the birth rate was estimated at 9.26 births per 1,000, and the death rate was 13.34 deaths per 1,000. The population growth rate estimate in 2000 was -.33 percent, making Hungary a country where population is declining. The majority religion in Hungary is Roman Catholic (67.5 percent), followed by Calvinist (20 percent), Lutheran (5 percent), and atheist and other (7.5 percent).

Some 60 percent of Hungarians live in urban areas. Compared to other European countries in population density, Hungary ranks in the middle with about 109.4 persons per square kilometer (283 per square mile). The most densely populated areas lie in the industrial axis areas, running southwest to northwest, that are rich in natural resources.

The Hungarian population is predominantly ethnic Hungarian (89.9 percent), descendants of the Finno-Ugric and Turkish tribes who merged with the Avars and Slavic tribes in the 9th century. The modern population also includes Roma (Gypsies, 4 percent), Germans (2.6 percent), Serbs (2 percent), Slovaks (0.8 percent), and Romanians (0.7 percent). An interesting feature of Hungary is that many ethnic Hungarians who identify themselves as Hungarians also live in bordering states and other countries, approximately 5 million in all. The largest Hungarian population outside Hungarian borders—approximately 2 million—lives in the Romanian region of Transylvania. Another 700,000 live in the Slovak and Czech Republics, and some 650,000 live in the former Yugoslavia.

OVERVIEW OF ECONOMY

Hungary has an advanced and diversified free-market economy. Economic growth is strong relative to other countries in Europe, and Hungary has its sights set clearly on accession to the European Union (EU) before 2010. It has been more than 10 years since the official end of state **socialism** and a semi-command economy, and over 85 percent of the economy has been **privatized**. Hungary has undergone significant economic reform since 1989 including privatization, reform of important state-supported sectors like health care, pensions, and social security, and

housing supports. It has also experienced significant regional development and the encouragement of both foreign and domestic investment.

Hungary's economic output has been steadily growing, yet it continues to lag behind typical western countries, including those of the European Union. Still, its growth rates have been impressive by the standards of developed countries, in recent years exceeding the EU average. Hungary's growth in the **gross domestic product** (GDP) was 5.5 percent in 2000, up from 4 percent in the previous year.

Hungary is regarded as a converging economy approaching the ranks of developed countries in general. Hungary is a member of the World Trade Organization (WTO), the International Monetary Fund (IMF), the World Bank, and the Organization for Economic Cooperation and Development (OECD). It is currently an associate member of the European Union and has been preparing for full membership since 1997.

The most significant event affecting Hungary's economy after 1950 was the experiment of state socialism. When the communists took over in 1948, the economy of Hungary was based primarily on agriculture. That emphasis shifted under **communist** rule toward industrialization, especially heavy industry and manufacturing. In the late 1950s and 1960s the government retreated on this stance somewhat, emphasizing more consumer-oriented goods. As a consequence the Hungarian standard of living rose relative to that of other Eastern European countries under communist rule, but by the 1980s the Hungarian economy began to stagnate. As a consequence, Hungary became increasingly indebted to international lenders. At the same time, its ties with foreign governments, businesses, and organizations were gradually increasing. The combination of these financial and commercial trends contributed to the shift to a multiparty system in 1989.

The introduction of multiparty competition in 1990 was quickly followed by significant free market reforms, especially in the area of privatization. The new government was also particularly aggressive at attracting foreign investment, accounting for more than half of all direct foreign investment in Eastern Europe by 1993. Since

1989 more than US$20 billion in working capital has been invested by foreign companies. About 40 of the world's top 50 multinational companies are represented in Hungary. Hungary also has the most highly capitalized stock exchange in eastern Central Europe.

The growth potential of the Hungarian economy remains strong relative to both its neighbors and to the advanced economies of the European Union. Hungarian sovereign debt now rates as investment grade (debt low enough for investors to seriously consider putting money into the country). Hungary's economic growth in 2000 exceeded 5 percent, placing it above the EU average. **Inflation**, while high at just above 10 percent, is expected to drop to single digit levels in 2001 or 2002.

Organized crime has been a problem in Hungary since its political and economic transition in 1989, especially as a consequence of its geographic location and relative economic openness. Organized crime groups have used Hungary as a transit country for smuggling drugs, people, and weapons. Hungary has passed tough laws against such activities, however, and is rated much more highly as an attractive locale for foreign investment than many other post-communist countries. As it seeks to gain accession to the European Union, Hungary is actively seeking to eradicate the further influence of organized crime.

POLITICS, GOVERNMENT, AND TAXATION

Since its transition to a multiparty system in 1989, Hungary has enjoyed a fully competitive and democratic political system. Hungary is a parliamentary democracy with the leader of the largest party as prime minister. There is also a president who acts as head of state and is elected by the legislature. The legislative branch consists of the single-chambered National Assembly, consisting of 386 representatives elected through a combination of proportional and direct representation. Elections are held every 4 years, taking place in 1990, 1994, and 1998.

The ruling coalition in 2001 consisted of the right-of-center Fidesz-Hungarian Civic Party, in concert with the Hungarian Democratic Party and the Independent Smallholders' Party. The main opposition parties were the leftist Hungarian Socialist Party and the centrist Alliance of Free Democrats. A far-right nationalist party, the Hungarian Justice and Life Party, also received 14 seats for the first time in the 1998 election. The parties differ over the emphasis and content of some key economic policy issues. The Fidesz-based coalition, for example, supports a faster pace of economic reform than does the Socialist Party, which during its period in government from 1994–98 slowed the pace of reforms. Because all major parties are committed to Hungary's joining the European Union, however, economic policy differences are muted.

Hungary's judicial branch is headed by an independent Constitutional Court, established during the regime change of 1989 by the First Act of the Constitution. By law it is the responsibility of the Constitutional Court to guarantee that the constitution is adhered to in legal and political affairs. One important duty of the Constitutional Court is to reconcile the differences between national and international law, especially important in the economic and policy sphere as Hungary prepares its laws to conform to EU standards.

The Hungarian justice system is divided into 3 areas of jurisdiction, including criminal, civil, and administrative law. Administrative law includes reviewing the legality of administrative decisions, including economic policy decision, with regard to existing regulations. Hungary has a 3-tier justice system. At the lowest level are local courts (municipal district courts), superseded by county courts (in the 19 counties and the capital Budapest), and the Supreme Court. The office of the public prosecutor also plays an important role, used to investigate criminal activity and to represent the public interest. The public prosecutor supervises investigations, enforces punishments, and oversees court proceedings.

Hungary has a large centralized tax office, known in Hungarian as APEH. APEH monitors the financial activity of citizens and businesses, processing annual returns and **value-added taxes**, currently between 12 and 25 percent in Hungary depending on the category of good. APEH has fairly sweeping powers to investigate tax non-compliance, including its own police branch. **Income tax** on individuals is progressive (meaning the proportion of tax paid increases as income increases), ranging from 25 percent to 42 percent for the highest incomes. The general tax rate on businesses is 18 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Like many former communist countries, Hungary possesses an excellent public transport system. The rail system, consisting of 7,606 kilometers (4,726 miles) of track, is state-owned and operated and connects all major cities in Hungary as well as a large number of international destinations. Hungary has 188,203 kilometers (116,944 miles) of highways, 81,680 kilometers (50,756 miles) of which are paved and 438 kilometers (272 miles) of which are expressways. Hungary also has 1,373 kilometers (853 miles) of permanently navigable waterways, including the Danube River flowing north to south through the center of the country. With its tributaries, the Danube provides a low-cost means to transport passengers and a large portion of domestic freight.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Hungary	186	689	437	146.5	105	17.7	58.9	93.13	600
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Austria	296	753	516	139.1	282	N/A	233.4	252.01	1,840

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

The completion of a canal between the Main River and the Danube River in 1992 allowed for goods to be shipped from the Black Sea to the North Sea. Finally, Hungary had 43 airports in 1999, including an international airport just outside Budapest. Hungary has a national airline, Malév, serving nearly all major European cities and several destinations in North America, Asia, the Middle East, and Africa. The airline was formerly state-owned but has now been partially privatized. The Ministry of Economic Affairs approved a large-scale program, the Széchényi Plan, designed to make massive national investments in highway and property development after 2000.

Power production in Hungary relies on a combination of domestically generated energy sources and imports. In 1999 Hungarian consumption of energy was 33.317 billion kilowatt hours (kWh), while production was 35.104 billion kWh. Hungary still has artificially low subsidized energy prices, but there are plans to allow prices to rise to western European market levels. At present Hungary's energy prices are between one-third and one-half of the prices in EU countries.

Like many other former Eastern bloc countries, Hungary relies heavily on fossil fuels to meet its energy needs. Hungary's estimated sources of primary energy supplies (1996, OECD/IEA) were 16.9 percent coal, 27.1 percent oil, and 40.4 percent natural gas. Of non-fossil fuel sources, 14.6 percent came from nuclear energy, 0.1 percent from hydroelectric sources, and 0.9 percent from other sources. Nuclear energy is produced in Hungary's 1 nuclear power plant, located near the city of Paks. Nuclear energy provides 38.9 percent of Hungary's electricity production, producing 13.969 billion kWh in 1998.

Hungary's telecommunication network has until recently been underdeveloped both from a technological and a service standpoint. But partial privatization of the state telephone company Matáv in 1993 and the planned introduction of competition for land-based telephone lines in 2002 has led to many important changes. Among these has been a spectacular growth in cellular phone services and ownership, with the number of mobile phone subscribers estimated at more than 3 million in 2000. (Official data put this number at 1.62 million in 1999, and 1.034 million in 1998.) There were 3 companies providing cellular service in 2001.

Under communism the telecommunication system was underdeveloped and poorly operated. Even in the first half of the 1990s, Hungarians often had to wait more than a year to have a fixed telephone line installed. This situation has changed quickly in recent years, however. The domestic phone network is now digitized and highly automated and is able to provide almost any telecommunication service need. Trunk services are carried by fiber-optic cable and digital microwave radio relay. Subscribers have had the option of fiber-optic connections (using ISDN lines) since 1996. Hungary has fiber-optic cable connections with all neighboring countries. Total fixed-line telephones in use were 3.609 million in 1999 and estimated at over 4 million in 2000. The Hungarian state telecommunications company, Matáv, had a state-guaranteed **monopoly** on fixed-line communications, a monopoly that was scheduled to end in 2002.

Hungary has an extensive number of radio stations: 57 FM radio stations, 17 AM radio stations, and 3 shortwave radio stations in 1998. Total radio ownership in 1997 was 7.01 million. Hungary also had 39 television broadcast stations and some 4.42 million televisions in 1997. Internet activity has also grown significantly in Hungary, with 45 Internet service providers operating in 1999. Only 58.9 persons per 1,000 owned personal computers in 1998, a figure well behind the United States, although many more people use computers in school or at their workplaces. The number of Internet users in 1999 was 137,000, and estimates for 2000 put this figure at 733,000.

Since private ownership of publications was legalized in 1989, the print media in Hungary has blossomed. In 1999 there were 10 national daily newspapers, the most popular being *Népszabadság* and *Metró*, each with

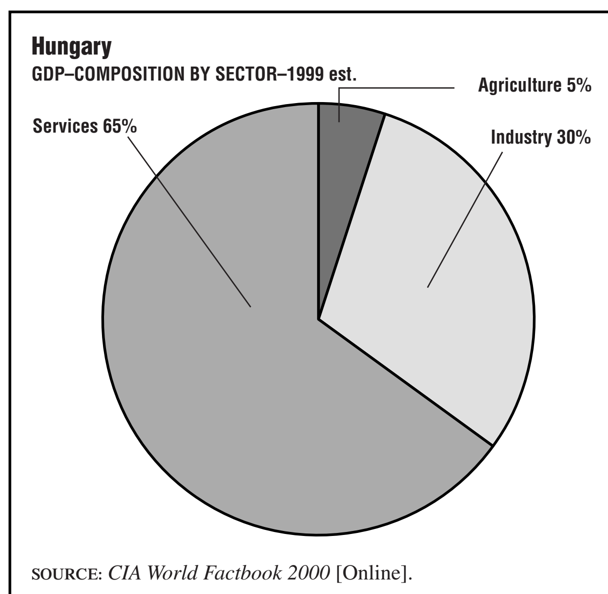
207,000 copies printed per day. *Népszabadság*, meaning People's Freedom, was formerly controlled by the communist party but is now independent. Most of Hungary's daily newspapers are partially foreign owned. Hungary also has dozens of weekly and monthly magazines and papers, the largest exceeding 500,000 copies per week.

ECONOMIC SECTORS

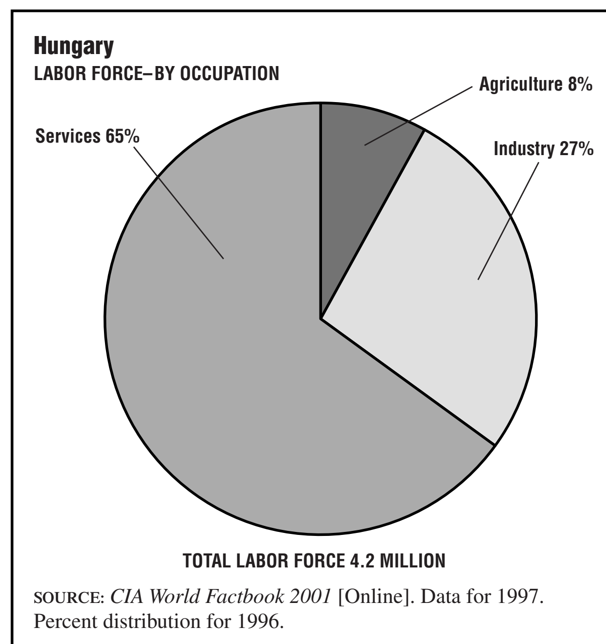
Hungary's shift to a service-based economy, away from the agricultural and industry sectors, has been the most marked change in recent decades. Before World War II, Hungary's economy was based primarily on agriculture, and its industry was almost entirely destroyed by the war. During the communist period beginning in 1948, emphasis shifted toward the development of industry, although production goals were set unrealistically high and Hungary was not able to meet them. In the 1960s and 1970s economic reforms shifted some of the emphasis from industry and placed more focus on agriculture and **consumer goods**. More recently, services have come to dominate the economy. According to 1999 figures, services account for 65 percent of the GDP, compared to 30 percent in industry and only 5 percent in agriculture. The labor force of 4.2 million shows a similar distribution, with 65 percent employed in services, 27 percent in industry, and 8 percent in agriculture.

AGRICULTURE

Agricultural production is important to Hungary's economy although its role in the economy has steadily declined. In 1999 agriculture provided 5 percent of the GDP and 8 percent of employment, roughly similar to proportions observable in West European countries. As a share of exports, agricultural and food products constituted 10.5 percent of Hungary's exports in 1998. Hungary has 93,000 square kilometers (35,900 square miles) of cultivated land, covering 52 percent of Hungary's total area.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997. Percent distribution for 1996.

During the communist period about 90 percent of all farmland was organized into collective and state-owned farms. In collective farms, different families worked together on jointly owned land and shared the earnings from the farm's output. State farms were directly owned and managed by the government. Following the introduction of the multiparty system and the transition to a free market economy in 1990, the new government began returning farms to private hands, also introducing forms of compensation for lands that had been seized. The result is that currently about 90 percent of cultivated land in Hungary is privately owned. Severe droughts following privatization, combined with sharp drops in government **subsidies** for farming, caused a 30 percent drop in agricultural production during the past 10 years. Animal breeding has fallen by 50 percent in comparison with 1990. State subsidies for agriculture in Hungary tend to be comparatively low, an average of 5 to 7 times less per capita in Hungary than in the average European Union country.

Hungary's leading agricultural products are a combination of staple crops, famous specialty items such as wine and livestock products, and basic livestock. Hungary's most important crops include corn, wheat, sugar beets, barley, potatoes, and sunflower seeds. It also produces grapes and wine, including several famous wines such as those from the Tokaj region. Other well-known specialty items include salami, goose liver, and paprika.

Livestock production is also important in Hungary, including cattle, pigs, sheep, horses, and poultry. Important livestock products include milk, meat, butter, eggs, and wool. Finally, Hungary has some important freshwater fisheries, mostly located on the Danube and Tisza rivers, and on Lake Balaton. The commercial fish catch consists mainly of carp, pike, perch, sheatfish, and shad.

Hungary also has important forestry resources, although poor forestry management reduced Hungary's forestry resources under communism. The expansion of agriculture, a high rate of exploitation, and inadequate replanting of trees contributed to a significant decline in the period following World War II. In response, the government reduced timber cutting and launched an extensive reforestation program in the 1960s. The timber cut in 1998 was 3.88 million cubic meters (137 million cubic feet).

INDUSTRY

Once a major component of the Hungarian economy under communist rule, industrial enterprises struggled in the early 1990s to come to terms with operating in a free market. By the late 1990s, however, investments in many industries and the expertise and education of Hungarian workers contributed to a resurgence in the industrial sector. From 1999 to 2000 alone, industry expanded 18.3 percent, the third straight year of double-digit growth in this sector.

MANUFACTURING. Manufacturing forms an important component of the Hungarian economy and was responsible for 84.6 percent of Hungary's exported commodities in 1998, even though most of Hungary's industries must import the raw materials used in the manufacturing process. The engineering industry—which is dominated by automobile and automobile parts production—accounts for roughly one-third of industrial output. Other leading manufactured products include steel (both crude and rolled), cement, aluminum, textiles, paper products, and shoes. The manufacture and processing of agricultural products is also an important contributor to Hungary's manufacturing output.

CHEMICALS. The chemical industry is an important component of the Hungarian economy. The plastic base materials and plastic processing industries were major components within this sector, contributing 2.1 and 2.6 percent of total industrial output, respectively. This sector is mainly concerned with producing goods for other companies within the industrial sector, and produces some goods for export. The pharmaceutical industry contributes 2.4 percent of industrial output and is primarily oriented toward producing human and veterinary medicines, fine chemicals, pesticides and insecticides, and other pharmaceuticals.

MINING. Mining was an important component of Hungary's industry during the communist period but has declined considerably since the collapse of the communist regime in 1989. Under communism, the government owned all subsurface resources and held exclusive rights to extract and use them. The only exception was uranium ore, which was mined by an agency of the Soviet Union. In the mid-1990s Hungary's chief mineral products were hard coal, lignite, bauxite, petroleum, and natural gas.

SERVICES

TOURISM. Tourism is an important and growing contributor to Hungary's economy. Not only does it directly fuel economic activity, but it has also in the past provided an important source of foreign currency. After agriculture, Hungary's second largest net foreign exchange earning source is tourism. The capital, Budapest, is a strong attraction for many tourists, with its many museums, churches, castles, and cultural events, including an annual spring festival of music and drama. In all, Hungary maintains more than 100 public museums throughout the country. Lake Balaton is also a popular vacation spot for summer recreation activities such as boating, fishing, and swimming. In 2000, according to the Hungarian Statistical Office, 31,141 foreigners visited Hungary, generating a total balance of revenues and expenditures of 2.5 billion euros.

RETAIL. **Retail** commerce forms an important and growing part of Hungary's economy. At the end of 1999 some 103,000 economic associations and more than 150,000 retail businesses were in operation. This represents 149 retail stores for every 10,000 inhabitants. Nationwide, the most important players in the retail sector are involved in the sale of food and groceries, accounting for 35 percent of the retail trade. Leisure and other items come next at 24 percent, followed by textile and clothing retail at 17 percent. Total retail revenues have been steadily rising, at 4.3 trillion forints in 1999, compared to 3.8 trillion in 1998.

FINANCIAL SERVICES. Financial services are provided by a competitive and largely privatized banking sector. The largest bank, the National Savings Bank or OTP, has branches nationwide and provides a full range of personal and business banking services. Many other banks exist, most private and wholly or partially foreign-owned. Bank services include personal accounts, credit and debit card accounts, mortgage and personal loans, business accounts and business loans, foreign currency accounts and currency exchange, insurance services, and safety deposits. Customer service in Hungarian banks lags behind United States standards but has been steadily improving as the sector becomes more competitive. Most banks now offer Internet and mobile phone account access, and all pro-

Trade (expressed in billions of US$): Hungary

	Exports	Imports
1975	4.519	5.400
1980	8.638	9.219
1985	8.472	8.183
1990	9.550	8.621
1995	12.540	15.073
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Hungary

forints per US$1	
Jan 2001	282.240
2000	282.179
1999	237.146
1998	214.402
1997	186.789
1996	152.647

SOURCE: CIA *World Factbook 2001* [ONLINE].

vide an extensive national network of automated teller machines.

INTERNATIONAL TRADE

Hungary's international trade made an important shift following the change of regime in 1990. Under the communist system, nearly half of Hungary's annual foreign trade was with the Soviet Union and other communist nations of the Council for Mutual Economic Assistance (CMEA). Since the late 1980s and the collapse of the CMEA shortly thereafter, however, most of Hungary's international trade has taken place with western countries. Hungary's leading trade partners today are Germany, Italy, Austria, Russia, and the United States. In 1998 Hungary's exports went to Germany (37 percent), Austria (11 percent), Italy (6 percent), and the Netherlands (5 percent). The country's imports came mostly from Germany (28 percent), Austria (10 percent), Italy (8 percent), and Russia (7 percent). Exports in 1999 amounted to US$22.6 billion, and imports were valued at US$25.1 billion. Hungary's main exports are machinery and transport equipment, consumer goods, agricultural products, chemicals, apparel, textiles, iron and steel, and wine. Its main imports are machinery and transport equipment, crude petroleum, chemicals, metal ores, consumer goods, and agricultural products.

MONEY

Hungary's currency is currently linked to an **exchange rate** control mechanism known as the **crawling peg**, a mechanism used by the Hungarian National Bank to slowly devalue the currency. The objective has been to gradually make the transition between the forint, historically a non-convertible currency, to a currency that is fully convertible on world markets. Under communism, the currency was not convertible outside the communist bloc countries and an artificial exchange rate applied within Hungary, set by the government. Western currencies sold on the **black market** during this period typically fetched a much higher conversion rate than the official government rate, and such activities were difficult for the government to control. The National Bank, therefore, sets and publishes a daily rate of exchange between the forint and the world's major currencies. This rate is determined by a combination of the market value of other currencies, the **inflation rate** of the forint, and decisions by the National Bank to change the value of the forint.

As in most economies emerging from communism, inflation in Hungary has been high relative to western economies. Despite concerted efforts by the government to bring inflation into single digits, inflation in 2000 was 10.1 percent. Hungary's inflation during the post-communist transition period, however, has remained much lower than in many other Eastern European countries where rates often rose into the triple digits.

The country's central bank is the National Bank of Hungary, which issues currency and maintains checking and savings accounts. Other financial institutions include the Foreign Trade Bank, which serves businesses trading outside of Hungary, and the State Development Institution, which finances large-scale investment projects. The Budapest Stock Exchange opened in 1990 and is today the most heavily capitalized exchange in the East European region.

POVERTY AND WEALTH

Despite the official ideology of equality during the communist period, incomes in Hungary during this period were far from equal. Incomes varied according to social class and place of residence, with incomes in Budapest typically higher than in villages. The situation was much worse during the period between World War I and World War II, however, when average per capita income was very low and income inequality very high. One measure often used to measure income inequality is the ratio of the richest 10 percent of the population to the poorest 10 percent. A survey taken in 1992 suggests that the ratio of incomes of the highest to lowest 10 percent was

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Hungary	3,581	4,199	4,637	4,857	4,920
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Austria	18,857	22,200	23,828	27,261	30,869

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Hungary

Lowest 10%	3.9
Lowest 20%	8.8
Second 20%	12.5
Third 20%	16.6
Fourth 20%	22.3
Highest 20%	39.9
Highest 10%	24.8

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

more than 6, making it similar to the income distribution in France and Germany. This level rose to 7.5 in 1996, according to one source, although the official figures from the World Bank place it at 6.3. The differences between social and employment categories has also widened. The social groups who were more affluent before the change in regime were able to increase their incomes in the 1990s faster than inflation, while the poorer groups had incomes that generally lagged behind inflation. In addition, the poorer segments of society were those where unemployment struck the hardest.

A large portion of Hungarian society, about 30–40 percent, suffered a loss in income after 1989. About 30–40 percent, on the other hand, were able to maintain their income, while a smaller percentage, around 10 percent, were able to increase their incomes. This small category included the managers of state and private enterprises, former government officials, and some of the intellectual elite.

Poverty is a problem in Hungary, and one which has worsened since the transition in 1989. According to estimates based on the subsistence level calculated by the Hungarian Statistical Office, in 1996 the proportion of those living under the subsistence level was at least 35 percent. Using the European definition of poverty as being 50 percent lower than the per capita average wage, then 14 percent of the population was poor in 1996.

Poverty in Hungary is disproportionately high among children, peasants and agricultural workers, housewives, and the handicapped. Geographically, poverty is higher in villages than in urban areas, with approximately 28 percent of the village population living in poverty, but only 18–19 percent of the city-based population and 5 percent of Budapest living in poverty. One social group where poverty is particularly high is the Gypsy ethnic grouping. The Gypsy population has been among the worst off in the transition to a market economy. Some 80 percent of Gypsies lived in poverty, compared to just 15 percent of non-Gypsies in 1996.

WORKING CONDITIONS

The single most significant factor affecting employment in Hungary has been the change in the early 1990s from a communist economy to a free market economy. The collapse of the communist system and the wide-scale privatization of the means of production led to a huge displacement of Hungarian workers, causing unemployment to reach 13 percent in 1993. But as the economy has continued to improve since the mid-1990s, employment has improved. Unemployment in 2000 was 6.4 percent, a respectable figure even lower than in many West

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Hungary	25	5	17	6	20	12	15
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Austria	20	10	11	4	9	9	38

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

European countries such as France or Germany. This rate is down from approximately 10 percent in 1999. Unemployment varies regionally, being the highest in the eastern and rural areas. Most Hungarian employment is in the service industry, which accounted for 65 percent in 1996. Another 27 percent was employed in industry, and some 8 percent in agriculture.

Throughout the 20th century, Hungary has seen a net migration from rural to urban areas. Urbanization in Hungary's 5 major cities accelerated this process, even though, after Budapest, the 5 major cities have populations only between 127,000 and 210,000. Currently many workers commute to urban workplaces from rural areas. In 1996, some 25 percent of the nation's workforce commuted to and from their jobs in this manner.

A labor code was passed in 1992 which recognized the collective rights of workers, including the right to organize into unions and bargain collectively. This code includes the right to strike, extended to all workers except the police and the military. Following the passage of this code the number of strikes in Hungary increased dramatically, although most lasted for only a short time. The largest union is the National Confederation of Hungarian Trade Unions, with approximately 1 million members in 1993 (from a total labor force of 4.3 million). A number of other union federations also exist.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1000. King Stephen of the Árpad dynasty rules the country. He is converted to Christianity and establishes Hungary as a Christian state.

1241. The Mongolian Tatars invade Hungary and occupy the territory for the year.

1526. Hungary is invaded by the Turks and the last Hungarian battle is lost in the southern town of Mohács. The Turkish occupation lasts for 150 years.

1686. Buda, the traditional seat of power on the western side of the Danube river dividing the cities of Buda and Pest, is recaptured from the Turks.

1703–11. Ferenc Rákóczi II, prince of Transylvania, leads a rebellion against the Habsburg Imperial army. The rebellion fails.

1848. A revolution against the Habsburg rule starting in Pest spreads to the whole country. Lajos Kossuth is elected governor after the Habsburg emperor is dethroned following several important Hungarian victories. The Hungarian revolutionary forces are defeated in 1849 by the Habsburgs, the ruling royal family of Austria, with the help of the Russian Army.

1867. A dual Austro-Hungarian monarchy begins following a compromise with the Habsburgs. A spectacular phase of industrial development begins.

1873. Pest, Buda, and Obuda are unified, and Budapest becomes a European metropolis, with the building of the Opera House, the National Gallery, and the Parliament. The first underground railway in continental Europe is put into operation.

1918. The Austro-Hungarian monarchy disintegrates following its defeat, along with Germany and its other allies, during World War I.

1920. The Treaty of Trianon is signed, redrawing the borders of Hungary. The new borders place one-third of Hungary's former population in other states and reduce its territory by two-thirds.

1944. The Nazis occupy Hungary in March during World War II. At the end of the war, fascists take over the country. In October, the Soviet Army liberates Hungary from fascist rule and occupies the country.

1947. The last relatively free election is followed by years of communist control, including show trials, executions, forced resettlements, forced industrial development, and a drop in living standards.

1956. Following the death of Soviet leader Joseph Stalin, a revolution against Soviet rule takes place in Hungary. The uprising is defeated by Soviet troops. János Kádár assumes power with Soviet assistance. Hundreds of Hungarians are executed, thousands more imprisoned, and about 200,000 flee the country.

1965. Cautious economic reforms are launched, causing a rise in living standards and a loosening of some of the more harsh measures of the communist system. In 1968 the New Economic Mechanism is introduced, reducing central control of the economy and allowing for greater freedom among individual business managers.

1982. Hungary becomes a member of the World Bank and the International Monetary Fund.

1988. A transition to democracy begins in Hungary, led by opposition parties demanding new institutions and the right to compete in legislative elections scheduled for 1990.

1989. The Hungarian Socialist Workers' Party agrees with opposition parties to end one-party rule and hold free elections in 1990.

1990. The Soviet Army leaves Hungary and the opposition Hungarian Democratic Forum wins the legislative elections held in March and April, ending 45 years of communist rule. Hungary also gains accession to the Council of Europe.

1991. Hungary, Poland, and Czechoslovakia sign the Visegrad Cooperation Agreement, a declaration to cooperate in preparation for accession to the European Union. Hungary also signs an agreement on cooperation with the European Union.

1992. Central European Free Trade Agreement pledging open and cooperative trade is signed by Hungary, Poland, and the Czechoslovak Customs Union.

1994. The Hungarian Socialist Party wins a legislative majority in elections held in May. Hungary joins the Partnership for Peace Program.

1996. Hungary joins the Organization for Economic Cooperation and Development (OECD).

1997. Hungary is formally invited by the European Union to begin accession talks.

1998. Hungary pays off its debts to the International Monetary Fund.The Fidesz-Hungarian Civic Party assumes power following elections held in May.

1999. Hungary becomes a full member of NATO.

FUTURE TRENDS

The future looks positive for Hungary's economy, given the trend since the end of the communist system. Growth has been steadily increasing, inflation has been declining, and unemployment has stabilized. Relative to other countries in the region, Hungary's economic conditions have proved quite favorable. The key economic event in the near future affecting Hungary will be accession to the European Union, something Hungary hopes will happen between 2004 and 2008. This event will bring about a significant **restructuring** of trade, employment, agriculture, and financial services. Hungary has already begun to introduce major fiscal and financial changes in preparation for accession, following the detailed guidelines issued by the European Union. Among other changes that accession would bring, Hungary intends to join the euro states adopting a single European currency. Doing so would link Hungary's inflation and interest rates to the European Central Bank in Frankfurt and remove the independence currently enjoyed by the Hungarian National Bank.

Hungary's main challenges for the future will be to manage its workforce, including some structural sectors where unemployment remains significantly high. There are also regions, especially in the eastern portion of the country, where unemployment and poverty remain significantly higher than the national average. In addition, Hungary in 2000 and 2001 has experienced problems with flooding that have caused significant disruption to people and to agriculture. These problems and more will have to managed in the future to enable Hungary's economy to grow and develop further.

DEPENDENCIES

Hungary has no territories or colonies.

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—Kenneth Benoit

ICELAND

Republic of Iceland
Lýðveldið Ísland

CAPITAL: Reykjavík.

MONETARY UNIT: Icelandic króna (Ikr). 1 króna (Ikr1) equals 100 aurar. There are coins of 5, 10, and 50 aurar, and 1, 10, and 50 krónur. Paper notes come in denominations of 10, 50, 100, 500, 1,000, and 5,000 krónur.

CHIEF EXPORTS: Fish and fish products, animal products, aluminum, diatomite, ferrosilicon.

CHIEF IMPORTS: Machinery and equipment, petroleum products, foodstuffs, textiles.

GROSS DOMESTIC PRODUCT: US$6.42 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$2.0 billion (1998). **Imports:** US$2.489 billion (1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. A small volcanic island located between the Greenland Sea and the North Atlantic Ocean in the Arctic, Iceland is the westernmost European country. Found between Greenland and Europe, just northwest of the United Kingdom, Iceland has an area of 103,000 square kilometers (39,768 square miles) of which 100,250 square kilometers (38,707 square miles) is land and 2,750 square kilometers (1,062 square miles) is water. Its coastline is 4,988 kilometers (3,099 miles) long. Iceland is about the size of the state of Kentucky. Its capital, Reykjavík, is located on the country's southwestern coast. The climate is moderated by the North Atlantic current. In Iceland winters are mild and windy and the summers are cool. Approximately four-fifths of the country is unpopulated and uninhabitable. Glaciers cover more of the land in Iceland than in all of Europe. In addition to glaciers, the island has lakes, mountains, a lava desert, lush green areas, and natural hot springs, making Iceland a spectacle of nature.

POPULATION. The population of Iceland was estimated as 276,365 in July of 2000, with a slow growth rate of 0.57 percent. Iceland is the most sparsely populated country in Europe, with an average of 3 inhabitants per square kilometer. In 2000, the birth rate stood at 14.86 births per 1,000 population and the death rate at 6.87 deaths per 1,000 population.

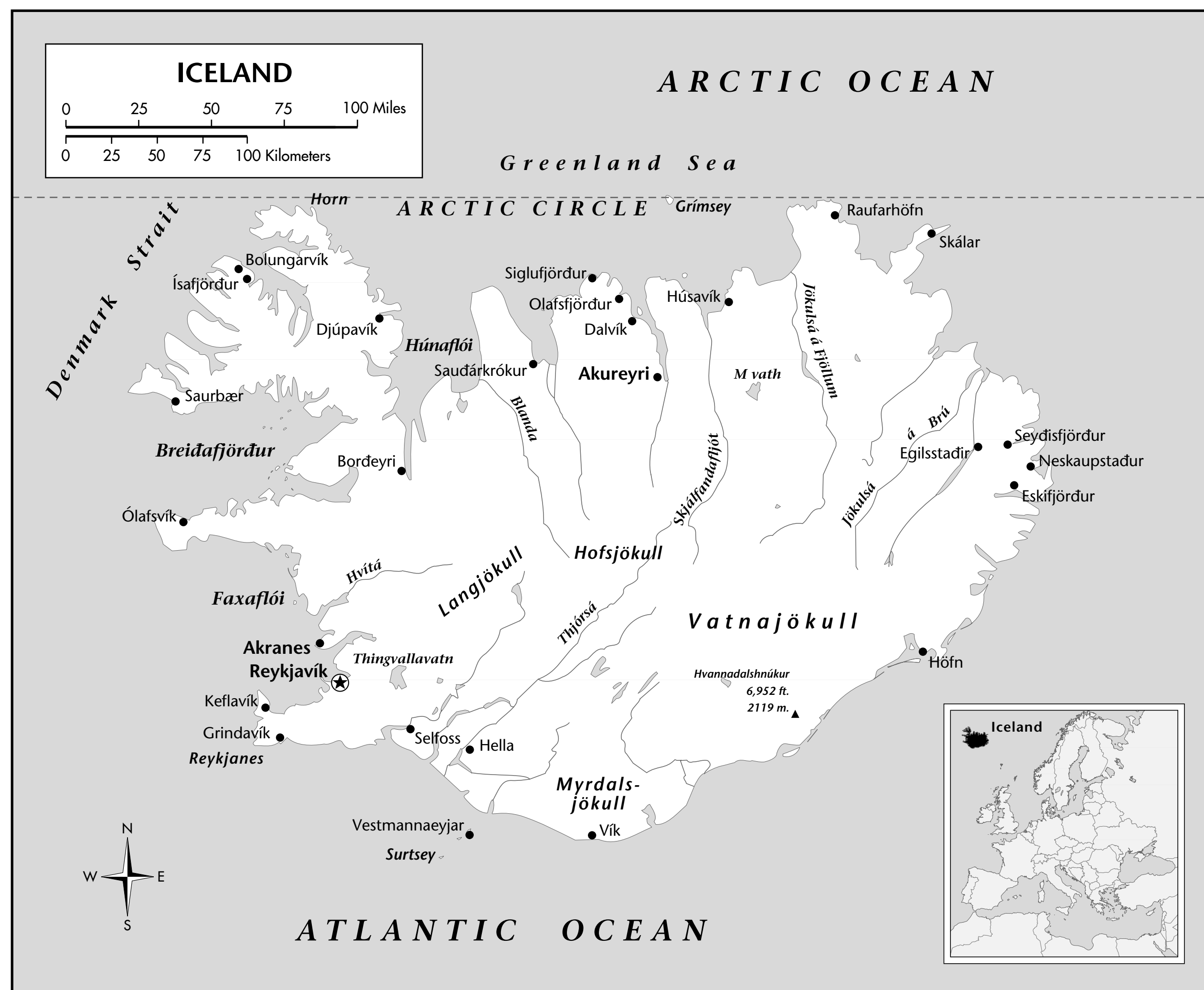
The majority of Icelanders live in a narrow coastal belt in the valleys and in the southwest corner of the country. The Icelandic government reports that 99 percent of the population live in urban areas and 60 percent of the people reside in the republic's capital, Reykjavík, or in suburban areas directly outside of the city.

Iceland has a relatively young and middle-aged population—65 percent are between 15 and 64 years, 23 percent less than 14 years, and 12 percent aged 65 and older. It enjoys one of the highest life expectancy rates in the world. Life expectancy at birth was estimated in 2000 at 79.39 years (male: 77.19 years, female: 81.77 years). Iceland also possesses one of the world's highest literacy rates at 99.9 percent (1997 est.). Literature and poetry are a passion of the people and its per capita publication of books and magazines is the highest in the world.

Icelanders descended from the Norwegians and the Celts (Scottish and Irish). The national language is Icelandic, which of all the Nordic languages is the closest to the Old Norse language. The Icelandic spoken in 2001 has changed little since the 12th century. About 91 percent of the people belong to the state church, the Evangelical Lutheran Church. However, Iceland has complete religious freedom, and other Protestant and Catholic churches exist. Given Iceland's remote geographic location, its long-established culture and language, and its small population, it is a tightly-knit homogenous society.

OVERVIEW OF ECONOMY

Iceland's economy is similar to that of its Scandinavian neighbors. It is mainly capitalistic, but the republic



has an extensive welfare system, low to no unemployment due to labor shortages, and a wide distribution of wealth. Poverty is practically non-existent. Overall, Iceland's economy is strong and Icelanders enjoy a standard of living similar to many European countries.

Iceland's use of its natural resources has been central to its economic success. The country has achieved a high standard of living and many years of economic stability from the profits of its fish and energy resources. Given Iceland's dependence on fishing and fisheries, the economy is profoundly affected by declines in the number of fish living in its seas and in the Atlantic Ocean. The economy is also sensitive to drops in world prices for its main exports of fish and fish products, aluminum, ferrosilicon, equipment and electronic machinery for fishing and fish processing, and woolen goods.

Foreign trade also plays an important role in Iceland's economy. Exports and imports account for two-thirds of the GDP. Most of Iceland's exports go to the European Union (EU) and ETFA (European Free Trade Association) countries, the United States, and Japan.

Stability is a key aspect of the Icelandic economy, and the performance levels of the economy are not expected to change anytime soon. The policies adopted by Prime Minister Olafur Ragnar Grimsson's center-right government effectively reduced the budget and government deficits, restricted foreign borrowing, controlled rising **inflation**, and revised agricultural and fishing policies while diversifying the economy and selling state-owned industries. The economy should continue to prosper in the future.

However, one factor that remains the subject of great debate is whether Iceland should join the European Union (EU). The main reservation against EU membership is the fear of losing direct control of Iceland's fishing resources. History plays an important role in this debate, as Iceland was under Danish control for 5 centuries and only became an independent republic in 1944. Therefore it is under-

standable that freedom and control over their country's own natural resources is an important issue to Icelanders, and does not make EU membership very alluring.

The Icelandic economy has several strong, growing sectors outside of its economic mainstay of fishing. Since the 1990s, the economy has been branching out into the manufacturing and service industries. The financial services, biotechnology, and computer software industries are especially strong and growing. Tourism is another important industry that is increasing. The number of international visitors has risen greatly in 2000, as people are intrigued by the natural wonders of Iceland. Whale watching, visiting hot springs, and horseback riding are popular tourist activities.

Since 2000 one of the government's top priorities has been to manage and control Iceland's booming economy. To ensure stability, the government has adopted conservative **fiscal policies** and reduced its public debt. **Privatization** is another policy adopted by the government to better manage Iceland's economy. In the early 1990s, the government launched its privatization policy by selling off many state-owned industries to private buyers. In 2001, Iceland's privatization program continued with the sale of state banks and a state telecommunications company. **Monetary policy** will continue to focus on price stability and increases are expected in interest rates in order to contain accelerating inflation.

POLITICS, GOVERNMENT, AND TAXATION

Iceland is a constitutional republic that boasts the world's oldest parliament, the *Althingi*, which was established in 930 A.D. An independent country for over 300 years, Iceland was conquered by Norway in 1262. In the late 14th century, Iceland fell under the rule of Denmark when Norway and Denmark united under the Danish crown.

Abolished in 1800, the *Althingi* was reestablished in 1843 as a consultative assembly. The Act of Union, a 1918 agreement with Denmark, recognized Iceland as a fully sovereign state united with Denmark under the Danish crown. The British military briefly occupied Iceland in 1940 after Germany invaded Denmark, and then the United States became responsible for Iceland's defense in July 1942 under a U.S.-Icelandic defense agreement. In 1944, Iceland regained its independence and became a republic.

The Icelandic government consists of 3 branches. The executive branch is composed of the president who is chief of state, the prime minister who heads the government, and a cabinet of 9 ministers. The legislative branch consists of 63 members of the *Althingi*. Finally, the judicial branch has a supreme court and several district and special courts. There are 23 counties (*Syslur*) in Iceland, and there are currently 5 major active political parties: Independence (IP), Progressive (PP), Alliance (A), Left-Green Movement (LGM), and Liberal Party (LP). There is universal suffrage in Iceland and all women and men are eligible to vote once they turn 18 years old.

Iceland has a written constitution and a parliamentary form of government. The president, who is elected by direct popular vote for a 4-year term with no term limit, has limited powers and acts as a spokesperson and head of state. The prime minister and cabinet are responsible for policy-making. There are many women in the Icelandic government; 3 are heads of ministries, and 22 women have seats in the 63-member *Althingi*.

Members of the *Althingi* are elected to 4-year terms by popular vote, unless the *Althingi* is dissolved sooner. Anyone who is eligible to vote, with the exception of the president and the judges of the Icelandic Supreme Court, can run for election in parliament. Members are elected on the basis of **proportional representation** from 8 constituencies. After every election, the president gives one of the parliamentary leaders of the political parties the authority to form a cabinet, usually beginning with the leader of the largest party.

The present cabinet is a coalition government of the Independence Party (IP) and the Progressive Party (PP), which was formed in May 1999. The conservative Independence Party (IP) has dominated politics in Iceland since the 1990s. After the IP lost its majority in the *Althingi* with its former coalition partner, the liberal Social Democrat Party (SDP), the IP leader Prime Minister David Oddsson made an alliance with the more conservative Progressive Party (PP). The strategic move was a success and the IP regained its parliamentary majority with 40 *Althingi* seats. Since the 1990s, the SDP has not had much popular support because of its support of full EU membership for Iceland. The SDP are the only party to fully espouse the benefits of Iceland joining the EU, though in 2001 the PP and the Alliance party began to explore membership.

In 1996, Vigdis Finnbogadottir chose not to run for reelection as president of Iceland after serving 4 popular terms. She was the first woman elected president in the world. With a strong voter turnout, leftist party chairman Olafur Ragnar Grimsson became president by winning with a good margin against 3 other candidates.

In 2001, the center-right coalition government of the IP and PP continues to enjoy solid majority support and is expected to remain in office. However, harsh budgetary austerity measures introduced in the 2001 budget to control the rising economy could conceivably cause a decline in their popularity. The coalition partners remain in agreement on the importance of Iceland's current economic

policy and have managed to avoid becoming embroiled in controversial issues, such as membership in the European Union. The largest opposition party, the left-of-center Alliance, has been preoccupied with reorganizing its **infrastructure** and is not a threat to the IP-PP coalition. The next round of parliamentary elections is scheduled for May 2003.

About 90 percent of the government revenue in 1998 came from income and wealth taxes, as well as **indirect taxes** such as those placed on corporations, payroll taxes, and **value-added taxes** on goods and services. The wealthy pay a high **income tax**, while the country's poorer citizens are exempt from taxation and receive a credit.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Iceland enjoys an extensive infrastructure. Roads started to be built in 1900 and construction increased during the 1980s. However, there are still a number of gravel roads in Iceland. The current national road system connects most of the cities and is largely in the coastal areas. It consists of about 12,691 kilometers (7,868 miles) of roads, with 3,262 kilometers (2,022 miles) paved. There are no railroads in Iceland.

Airplanes and ships conduct travel between Reykjavík and Iceland's smaller cities. Additionally, there are daily international flights from Iceland to Europe and North America. There are 12 airports with paved runways and 74 with unpaved runways. Because of Iceland's dependence on fishing revenues, there are 9 ports and harbors. The Icelandic merchant marine has a total of 3 ships: a chemical tanker, a container ship, and a petroleum tanker.

Telecommunications are completely modern, and a high percentage of the population use cellular phones (6,746 in 1997). Icelanders enjoy adequate domestic telephone service, and international telephone systems are run by 3 satellite earth stations, one of which is shared with the other Scandinavian countries.

As of 1998, Iceland had 3 AM radio stations and about 70 FM stations. There were 14 television broadcast stations (plus 16 low-power repeaters) in 1997. In 2001, there were 2 national state radio channels and many private stations that broadcast around the clock. The first privately owned station went on the air in 1986 and others soon followed.

In the 1960s the state television station was on the air for only 2 nights a week. Later, television programming was broadcast on the other nights of the week but for years there was no television on Thursdays. Icelanders did not watch television programs in their own language until 1966. Since the 1990s less than half of television programming is in Icelandic and most programs are from the United States and Great Britain and are subtitled.

Computer use is widespread in Iceland and about 82 percent of Icelanders have Internet access at home, at school, or at work. This is reflected in the republic's ever-growing information-technology industry, with the export of software rapidly increasing.

ECONOMIC SECTORS

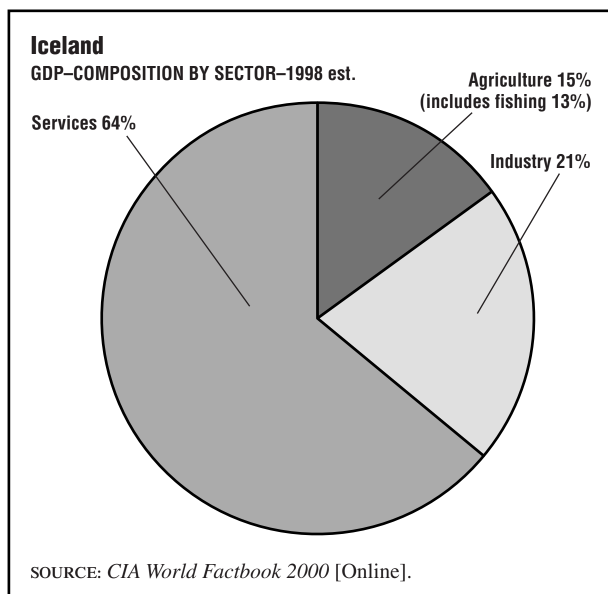
Iceland's economic sectors reflect the small size of the country. Natural resources are important, especially the fishing industry. For this reason, fisheries dominate Iceland's trade policies and coincide with Iceland's overriding foreign trade interests, especially free trade of fish. All told, the fishing industry contributes 13 percent of GDP. However, other sectors such as biotechnology and tourism are growing.

Communications

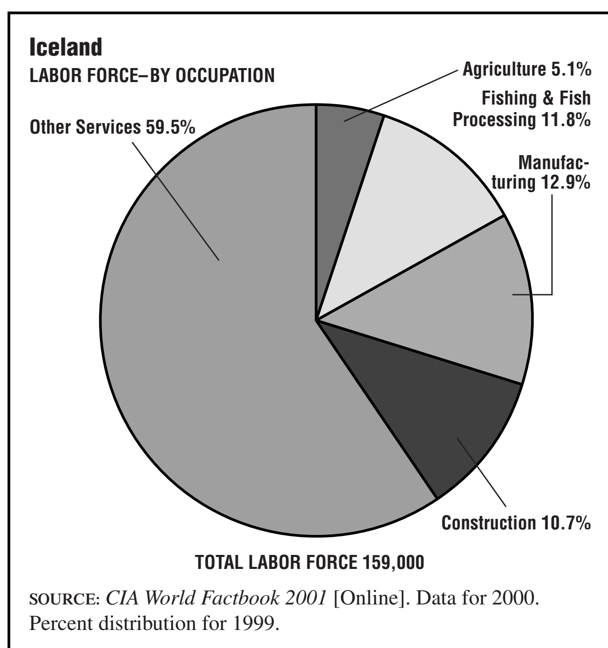
Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Iceland	168,000	65,746	AM 3; FM about 70 shortwave 1	260,000	14	98,000	7	144,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
United Kingdom	34.878 M	13 M (1998)	AM 219; FM 431; shortwave 3	84.5 M	228 (1995)	30.5 M	245	19.47 M
Norway	2.735 M 1998)	2,080,408 (1998)	AM 5; FM 650; shortwave 1	4.03 M	360 (1995)	2.03 M	13	2.36 M

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1999.

AGRICULTURE

Agricultural production is a vital part of the Icelandic economy, accounting for 1 percent of its GDP (1998 est.) and employing over 16 percent of Iceland's **workforce**. Fish is the republic's main agricultural export but Iceland also produces potatoes, turnips, cattle, and sheep.

FISHING. The fishing industry has grown to symbolize Iceland's economic independence from its Scandinavian neighbors. The Icelandic Ministry of Fisheries reported that in 1999 the total catch of fish by the Icelandic fleet was 1.7 million tons. In 2000, marine products accounted for more than 70 percent of Iceland's total export earnings, making Iceland's economy vulnerable to changing world fish prices. Cod and capelin are the most abundant fish in the catch. Full free trade in fisheries products has been established not only within the European Free Trade Association (EFTA) but also in a series of free-trade agreements with countries in Central and Eastern Europe and in the Mediterranean.

Iceland recognized in the 1970s that it was in danger of depleting its fisheries, and initiated a plan involving Individual Transferable Quotas (ITQs) and Individual Vessel Quotas (IVQs). While complex, the aim of the plan is to fairly allocate fishing rights to those in the fishing industry. Some argue that the plan, because it encourages efficiency and speed, has rewarded larger vessel owners at the expense of smaller operators, thus it is still a matter of some disagreement in Iceland. But overall, most observers feel that the plan has succeeded in managing Iceland's fisheries.

Friction exists between Iceland and its European neighbors over fishing rights. Norway and Russia have complained about Iceland's herring fishing in the Barents Sea between Iceland and Norway. Canada has objected to Iceland's shrimp fishing off the coast of Newfoundland.

The European market is the most important outlet for Icelandic agricultural products. Iceland is a member of the European Economic Area (EEA), which gives it full access to the EU without requiring membership in the body. But progress in fish-processing technology and transport has opened up new trade possibilities with other countries. Exports to Japan are increasing and **emerging markets**, like China and Korea, hold promise for the future. Attempts to further open markets in the fisheries sector have given Iceland virtually **tariff**-free access for most of its exports to Europe. While EEA membership has reduced pressure for Iceland to join the EU, it risks being left on the sidelines as the European Union expands.

INDUSTRY

While a small country, Iceland has a strong industrial sector that accounts for 21 percent of its GDP. Like its 2 other main economic sectors, industry in Iceland is centered on its natural resources. Fish processing, aluminum smelting, ferrosilicon production, and geothermal power are its main industries.

ENERGY. Mineral resources are scarce in Iceland, though efforts are being made to develop deposits of diatomite (skeletal algae). Iceland has vast geothermal power sources (which develop power from the internal heat of the earth) and about 96 percent of the population enjoys geothermal heating in their homes. Geothermal energy

plays an important role in Iceland's health-care system, which has shown interest in its medicinal possibilities. The Blue Lagoon, one of Iceland's most popular tourist attractions, is a good example of a combination of the traditional utilization of geothermal energy for economic reasons and its non-traditional utilization for healing. Geothermal energy is also used to generate electricity, and the effluents from power plants (extra thermal energy) can be used for many purposes in connection with spas and the tourist industry.

Iceland's abundant hydroelectric power sources are controlled by the government. The largest power station in Iceland has a capacity of 240 megawatts (mw). Other major hydroelectric stations are at Hrauneyjarfoss (210 mw) and Sigala (10 mw). Efforts are underway by the government to export hydroelectric energy to Europe by transporting it via submarine cables. The government is also investigating ways to expand its aluminum and ferrosilicon melting plants. One such venture is the Nordural aluminum plant, which accounted for a 1 percent growth rate in Iceland's 1998 GDP. Nordural is a wholly-owned $180 million investment by Columbia Ventures of the United States. As of 2001, plans were underway to build a new aluminum plant in the east of Iceland or expand existing ones. A new or expanded plant would increase investment and GDP growth.

SERVICES

Iceland's service sector accounts for approximately two-thirds of GDP, and has been rapidly increasing since the 1990s, particularly in the areas of financial services, tourism, software production, and biotechnology.

TOURISM. Tourism is a growing and important industry in Iceland. In fact, the national airline, Icelandair, is one of the country's largest employers. According to *Statistics Iceland,* by 1999 tourism accounted for 4.4 percent of GDP on net receipts of Ikr282 million, up from 3 percent just 10 years earlier. The industry is expanding with the government's promotion of the country's magnificent natural attractions such as whale-watching, hot volcanic springs, glaciers, and horseback riding throughout the country. By 1999 the country boasted 24 hotels and guesthouses. It is a promising economic growth area and its numbers increased by 16 percent in 2000.

BIOTECHNOLOGY. The sector that is showing the most rapid development is biotechnology. Iceland has unique natural resources and its position on the mid-Atlantic ridge is the source of its many hotsprings and the high-temperature areas where thermophilic bacteria (which thrive on heat) live, which can be utilized in various industries, especially pharmaceuticals. Scientists believe that thermophillic bacteria could lead to the development of better drugs and to more environmentally friendly forms of industry.

Iceland's rather limited human gene pool—due to its homogenous and cohesive population—makes it an invaluable laboratory for the study of the role of genes in the transmission of diseases. However, a fierce debate over genetics and individual rights erupted in Iceland in 1998. An Icelandic biotechnology company, deCode Genetics, wanted to include Icelanders' medical records, family trees (which are meticulously documented in Iceland; some can be traced as far back as over a thousand years ago), and genetic information into a single database. The company claimed the database would be beneficial to the health of Icelandic citizens, while critics argued such a project would simply serve the financial interests of deCode Genetics. The *Althingi* passed a bill in 1998 which allowed the Ministry of Health and Social Security to grant a license to create and operate an Icelandic Health Sector Database (IHD). In 2000, the Ministry awarded a 12-year license to Islensk erfdagreining, a subsidiary of deCode, to build and run the IHD, which has been operational since 2001.

FINANCE. Three commercial banks, with branches and savings banks, operate in Iceland. Investment credit funds, insurance companies, private pension funds, and securities firms are among Iceland's financial institutions. During the 1980s, the financial sector was **deregulated** and reformed to help bring inflation under control.

INTERNATIONAL TRADE

Historically, Iceland has been late in joining major trade agreements. It joined the General Agreement on Tariffs and Trade (GATT) in 1968 and the European Free Trade Association (EFTA) in 1970. It entered into a free trade agreement covering all industrial products with the European Economic Community (now called the EU) in 1972. In the 1990s, Iceland was the last of the EFTA countries to ratify the European Economic Area Agreement (EEA) and did so only after the longest debate in the history of the *Althingi*. It comes then as no surprise that Iceland has decided at the moment not to become a full member of the EU. Self-protection and self-preservation have characterized Iceland's foreign trade policy since its independence from Denmark.

Iceland's international treaties have strengthened foreign trade. Membership in the EEA in 1994 and the Uruguay Round agreement brought greater market access for Iceland's exports, capital, labor, and goods and services, especially seafood products. Agriculture is heavily subsidized and protected by the government, with some tariffs ranging as high as 700 percent.

Trade (expressed in billions of US$): Iceland

	Exports	Imports
1975	.306	.484
1980	.918	.999
1985	.815	.905
1990	1.592	1.680
1995	1.804	1.756
1998	2.050	2.489

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Iceland

Icelandic kronur (IKr) per US$1	
Jan 2001	84.810
2000	78.676
1999	72.335
1998	70.958
1997	70.904
1996	66.500

SOURCE: CIA *World Factbook 2001* [ONLINE].

The question of Iceland's relationship with the EU and its possibility of becoming a member depend heavily on protection and control of its fishing industry and natural resources. The Icelandic government and the people pay close attention to the EU's resource policy, especially the Common Fisheries Policy, which is based on the premise that fisheries resources are in principle the common property of the member EU states. While this policy may not be a major obstacle to Iceland joining the EU, it could prove to be a stumbling block, calling for a creative solution in order for Icelanders to be comfortable with EU membership.

In 1999, Iceland had total exports of US$2.0 billion and imports of US$2.489 billion. Iceland's **trade deficit** widened in 2000 due to rapid import growth coinciding with a slow rise in exports. Exports did increase by 3 percent despite a slight contraction in the export of marine products. In 2000, marine exports accounted for 6 percent of total exports as compared with 68 percent in 1999. The drop in marine exports was attributed to a 31 percent growth in the value of aluminum exports—the result of increased production and favorable world prices.

In 1999, 69 percent of Iceland's exports and 66 percent of its imports came from trade with EEA countries. Germany and the United Kingdom are Iceland's most important trading partners in the EEA, with Germany accounting for 13.1 percent of Iceland's exports and 11.8 percent of its imports, and the U.K. accounting for 19.7 percent of exports and 9.2 percent of imports. The United States is the single largest trading partner outside the EEA, with 14.7 percent of exports and 10.9 percent of imports.

MONEY

In light of the recent depreciation of the króna and the threat of high inflation for 2001, the Central Bank of Iceland will likely continue its conservative fiscal policy in 2001–02 to tighten the money supply and lower domestic demand for goods and services. Inflation has eased slightly as a result, although it was recorded at a high 4.6 percent in November 2000 as Iceland's economy **overheated**. The Central Bank announced in March of 2001 that its desired inflation target was under 3 percent, and that it would take action when inflation deviated substantially from that figure.

Public finances are in good shape due to the government's conservative fiscal policies and debt consolidation, which it started in 2000. The government has implemented its program in response to the recent signals of economic troubles, which were caused by high inflation and a growing budgetary deficit.

Privatization and mergers between large private companies continued in 2001. In October of 2000, the government permitted the merger of 2 of the biggest Icelandic banks: the National Bank of Iceland and Agricultural Bank of Iceland. In May of 2000 the country's largest investment and corporate bank, Icelandic Investment Bank (FBA), merged with a leader in **retail** banking, Islandsbanki, creating IslandsbankiFBA.

POVERTY AND WEALTH

Icelanders enjoy a high quality of life, and poverty is practically nonexistent. Keeping in line with the reserved character of Icelanders, there is not much conspicuous consumption of wealth, despite the high standard of living. This contrasts to life in 18th century Iceland, which was marked by economic troubles and a drop in the population. Economic conditions improved and population numbers grew throughout the 19th and

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Iceland	17,445	22,609	23,977	26,510	29,488
United States	19,364	21,529	23,200	25,363	29,683
United Kingdom	13,015	14,205	15,546	18,032	20,237
Norway	19,022	23,595	27,113	28,840	36,806

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Iceland	16	6	8	3	10	9	48
United States	13	9	9	4	6	8	51
United Kingdom	14	7	9	3	3	6	58
Norway	16	7	11	5	4	6	51

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

early 20th centuries. Following World War II, Iceland experienced an economic boom with a marked rise in its standard of living.

Icelanders, regardless of their economic circumstances, have access to the excellent health services. The social security system provides for pension insurance, occupational injury insurance, health insurance, and maternity leave. The government finances health care through taxation, and hospitalization is free. All hospital inpatient services are free and other medical services cost little. Icelanders have one of the longest life expectancies in the world.

The Icelandic government provides a number of welfare services for its citizens, including unemployment insurance, allowances for families who have children, and pensions for the elderly and disabled. Nearly all schools and universities in Iceland are free for its citizens. All students are required by law to attend school until the age of 16. Most students attend a 4-year academic college when they turn 16 and then continue their studies at the University of Iceland. A number of technical and vocational schools exist as well. Access to higher education is quite good for the young men and women of Iceland.

WORKING CONDITIONS

In the 20th century, 2 societal trends affected the Icelandic labor market: higher participation of women and changes in education. More women of all ages—many highly educated—entered the labor market. On the average, though, women still earn less money than men do.

Unemployment is extremely low in Iceland, a trend that does not seem to be changing. One of the downsides of Iceland's low unemployment is that it has created an extremely tight labor market and most Icelanders have very long workdays, some of the longest in Europe. In 2000, the unemployment rate registered at 1 percent, and in October 2000 it reached its lowest level since 1988 at 0.6 percent. Accordingly, there is a high demand for labor, especially in Reykjavík, though less so in the rest of the country. To meet labor demands, the government allowed for an increase in the number of work permits issued to foreigners. Despite the demand for labor, wage increases have been slow to rise.

About 8 percent of Icelandic workers belong to unions. The Industrial Relations Act of 1938 gives workers the right to form unions open to all persons working in a particular trade within a district. For example, carpenters are allowed to form unions in their own hometown or city to ensure their employment rights are being met and protected.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

874. Iceland is settled by Norsemen. Ingólfur Arnarson is said to be the first settler, arriving with his family in present-day Reykjavík.

930. The ruling chiefs of Iceland establish a republican constitution and an assembly, the *Althingi,* the oldest parliament in the world.

1000. Christianity adopted in Iceland; Greenland discovered and colonized by Icelanders.

1262. Iceland enters into a treaty establishing a union with the Norwegian monarchy.

1397. Norway, Sweden, and Denmark form the Kalmar Union. Iceland falls under the sovereignty of the Danish crown but retains constitutional status.

1800. *Althingi* abolished. Iceland fully under the Danish crown.

1843. *Althingi* reestablished as a consultative assembly.

1874. Denmark grants Iceland home rule. Icelandic constitution written (revised in 1903).

1918. An agreement between Iceland and Denmark, the Act of Union, recognizes Iceland as a fully sovereign state under the Danish crown.

1940. When the German army occupies Denmark at the start of World War II, British military forces arrive to defend Iceland.

1941. The British pass responsibility for Iceland's defense to the United States under a U.S.-Icelandic defense agreement.

1944. Iceland formally becomes an independent republic.

1949. Iceland becomes a member of the North Atlantic Treaty Organization (NATO).

1968. Iceland joins the General Agreement on Tariffs and Trade (GATT).

1970. Iceland joins the European Free Trade Association (EFTA).

1972. Iceland enters a free trade agreement with the European Economic Community.

1980. Icelanders elect the world's first woman president, Vigdis Finnbogadottir; she goes on to serve 4 4-year terms.

1992. Iceland joins the Western European Union (WEU).

1994. Iceland becomes a member of the European Economic Area (EEA).

FUTURE TRENDS

Iceland has entered the 21st century on an economic high note. A tight fiscal policy, lowered inflation, exceptional social services, access to education, high literacy rates, and extremely low unemployment levels have all contributed to the good quality of life enjoyed by Icelanders.

Foreign trade and policy remain controversial areas, especially membership into the European Union, and the protection of fishing resources will remain high on Iceland's political and economic agenda. Debates over the pros and cons of EU membership will continue both inside and outside of the government, especially since the opposition leftist Alliance party is expected to adopt a pro-EU stance.

In 2001, the government looked to continue its policy of tight fiscal and budgetary restraint and the reduction of public debt. Privatization will likely continue, particularly with banks and financial companies. Interest rate increases are expected to lower any rising inflation. Economic growth is expected to slow somewhat in 2001. Overall, Iceland's economic policy and its political life appear to continue on a stable and carefully charted course.

DEPENDENCIES

Iceland has no territories or colonies.

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—Lynn Mahoney

IRELAND

The Republic of Ireland
Éire

CAPITAL: Dublin.

MONETARY UNIT: Irish Pound (I£). One Irish pound equals 100 pence (p). There are notes of 1, 2, 5, 10, 20, 50, and 100 pounds. There are 1, 2, 5, 10, 20, and 50 pence coins. Ireland is part of the European Monetary Union (EMU) implemented on paper in January 1999. From 1 January 2002, the pound will be phased out with the introduction of the euro. The euro has been set at 0.787564 Irish pence, with I£ equaling approximately 1.21 euros. There are 100 cents in the euro, which is denominated in notes of 5, 10, 20, 50, 100, 200, and 500 euros, and coins of 1 and 2 euros and 1, 2, 5, 10, 20, and 50 cents.

CHIEF EXPORTS: Machinery and equipment, computers (hardware and software), chemicals, pharmaceuticals, live animals, animal products.

CHIEF IMPORTS: Data processing equipment, other machinery and equipment, chemicals, petroleum and petroleum products, textiles, clothing.

GROSS DOMESTIC PRODUCT: US$83.6 billion (2000 est.).

BALANCE OF TRADE: **Exports:** US$73.8 billion (2000 est.). **Imports:** US$46.1 billion (2000 est.). [CIA *World Factbook* indicates exports to be US$66 billion (1999 est.) and imports to be US$44 billion (1999 est.).]

COUNTRY OVERVIEW

LOCATION AND SIZE. The Republic of Ireland constitutes 26 out of the 32 counties that make up the island of Ireland, with 6 northern counties under the jurisdiction of the United Kingdom. Situated in Western Europe, it is bordered on the east by the Irish Sea from the United Kingdom and bordered on the west by the North Atlantic Ocean. With a total area of 70,280 square kilometers (27,135 square miles) and a coastline measuring 1,448 kilometers (900 miles), the Republic of Ireland is slightly larger than the state of West Virginia. The capital city, Dublin, is located on the east coast.

POPULATION. The population of Ireland was estimated to be 3,797,257 in 2000. There has been a steady increase in the population since 1994 (3,586,000), marking a historic turn-about in demographic trends. This is attributed to growth in the economy, a decline in previously high levels of **emigration**, the return of former emigrants, and an increase in **immigration** to the point where net migration is inward. Despite having one of the lowest population densities in Europe, Ireland's population density has reached the highest sustained level since the foundation of the Republic in 1922.

Emigration lowered population to under 3 million in the early 1980s. Birth rates declined from a high of 17.6 per 1,000 in 1985 to a low of 13.4 in 1994, but this trend has slowly been reversed, reaching 15 per 1,000 in late 1998. If the population is to meet the demands of the labor market, further increases will be necessary. Government efforts to attract further immigration and to increase the population are marred by housing shortages and service deficiencies.

At the 1996 census, 40 percent of Ireland's population was under 25, and the Irish population is still relatively young, with only 11.33 percent over the age of 65. The people are largely concentrated in urban centers, with almost one-third of the total population living in the city of Dublin and its surrounding county. Population in the other major cities and their surrounding areas is on the increase. In the sparsely populated midlands and in the western and border counties, though, population is either stagnant or declining.

OVERVIEW OF ECONOMY

An economic policy that emphasized self-sufficiency and was characterized by huge **tariffs** on imports to

encourage indigenous growth dominated in Ireland until the late 1950s. This ideology was then abandoned in favor of a more open economic policy. Ireland's first economic boom followed this change. The failure of domestic overspending to induce growth, along with negative global influences such as the oil crises of the 1970s, made this boom relatively short lived. The 1980s brought fast-rising **inflation** (up to 21 percent), unemployment close to 20 percent, emigration at unprecedented high levels (50,000 per year) and a soaring **national debt**.

Since the early 1990s, however, the Irish economy has produced high growth rates. It is integrated into the global trading system and, between 1994 and 1998, was the fastest growing economy in the countries of the Organization for Economic Cooperation and Development (OECD). The economy was forecast to continue expanding well in excess of any of its European Union (EU) partners during 2001 and 2002. Robust growth rates averaged 9 percent from 1995 to 1999 and some analysts predicted growth at 11 percent in 2001. Unemployment, which climbed to record levels beginning in the mid- to late 1980s, reaching 14.8 percent, fell to just 3.8 percent in 2000. Unemployment was predicted to fall below 3 percent by 2002. Living standards, measured by **gross domestic product** (GDP) per capita, were estimated to have caught up with the European average by late 1998.

This transformation can be credited to many forces, both domestic and global. Recent government policies have emphasized tight fiscal control alongside the creation of an environment highly attractive to enterprise, particularly international business. Policies based on "social consensus" and wage agreements negotiated by the government with business, farmers, trade unions and other social partners, have kept wages at moderate, business-friendly levels. A corporation tax of 10 percent, alongside grants to attract foreign business, has further contributed to the pro-business environment, as has the existence of a highly educated workforce.

EU regional policy has emphasized cash transfers to economically weaker and poorer member states. This is done to prepare these states to manage in a single market and currency. These transfers developed the Irish economy to a point where it could sustain growth. As an English-speaking country with access to the European market, Ireland is proving attractive as a base for international companies, particularly from the United States.

The reason behind the current economic boom is the high-tech manufacturing industry sector; in particular the foreign-owned multinational companies in this sector. Agriculture, while still remaining an important indigenous activity, is in decline. The industrial sector has seen growth rates higher than most industrial economies and accounts for 39 percent of GDP and about 80 percent of exports. It employs approximately 28 percent of the **labor force**. This dominance can be seen in the gap between GDP and **gross national product** (GNP), which was 15 percent lower in 1998. Although the service sector is smaller than that of other industrialized countries, it is nonetheless dominant and growing, accounting for 54.1 percent of GDP in 1998. Government remains heavily involved in the provision of health and transport services and, together with the private service sector, employs 63 percent of the workforce.

Successive Irish governments have maintained responsible **fiscal policies** over the last decade that have led to the reduction of national debt from 94.5 percent of GDP in 1993 to 56 percent of GDP in 1998. There have been concerns about the effects of current fiscal policy, with its emphasis on reducing **income tax**, on the high

levels of inflation in the economy since late 1998. The government has argued that inflation is primarily due to external pressures such as the weak euro and high oil prices, which have caused increased consumer prices. Nonetheless, consumer price inflation peaked at 6.8 percent in the 12 months running up to June 2000, considerably higher than any other EU country.

POLITICS, GOVERNMENT, AND TAXATION

The Republic of Ireland is governed by a parliamentary democracy. Parliament consists of a Lower House, the Dáil (pronounced "doyl") and an upper house, the Seanad (pronounced "shinad"), or Senate. Together, the 2 houses and the president form the Oireachtas (pronounced "irrocktos"), or government. The Irish president, although directly elected, has relatively few formal powers and the government, elected by the Dáil from its membership, is led by the Taoiseach (pronounced "Teeshock"), or prime minister, who presides over a 15-member cabinet of ministers.

Fianna Fáil (pronounced "foil"), a highly organized, center-right party, dominates the party system, with popular support of between 35 and 45 percent in 2001. It leads a minority center-right coalition government (with the Progressive Democrats) that depends on the support of a number of independent TDs (member of parliament) in the Dáil for the 1997–2002 term. Fine Gael (pronounced "feena gale"), the second largest political party and commanding between 20 and 30 percent of the popular vote, also occupies the political center-right, though it has shifted more to the center and has developed a social-democratic and liberal agenda over the last 3 decades. Its support base is generally among the more affluent, but these class trends are not especially strong overall and many wealthy people, particularly from the business sector, support Fianna Fáil. Fine Gael led the 1995–97 "Rainbow" coalition government, thus referred to because of its inclusion of 3 parties and representation across the political spectrum. The Rainbow coalition included the Labor Party and the Democratic Left (a party further to the left), which has since merged with Labor.

Unlike practically all other European party systems, the Irish party system exhibits no strong left-right division. The 2 largest parties have not traditionally defined themselves in terms of ideology, but grew out of differences over the nationalist agenda at the time of independence. The Labor party, weak in comparison with its European counterparts, has consistently been the third largest party, commanding between 10 and 15 (sometimes more) percent of support nationally, and has considerable power in a system dominated by coalitions.

A number of tribunals have been in operation since 1997–98, investigating allegations of political corruption. The allegations involve unacceptable links between politicians and big business, corrupt practices in the planning process, and inept and negligent public service on sensitive health issues from the 1970s to the 1990s. The ensuing revelations are assumed to have adversely affected Fianna Fáil's popularity, but opinion polls have proved inconclusive in measuring the amount of support the party might have lost.

A number of smaller political parties are also important in Ireland. Polls conducted in 2000–01 gave the Progressive Democrats 4 to 5 percent support, the Green Party 3 to 4 percent and Sinn Féin (pronounced "shin fane"), an all-Ireland Republican party with links to the Irish Republican Army (IRA), between 2 and 6 percent. Sinn Féin's association with the provisional IRA, which is responsible for punishment beatings in Northern Ireland and vigilante activity in the Republic, could, with its increase in popular support, present larger parties with controversial questions over coalition formation.

There is currently a broad consensus among the major political parties on how to run the economy. It is unlikely that a new government coalition would significantly alter the current pro-business economic policy.

The tax system incorporates standard elements of tax on income, goods and services, capital transfers, business profits, and property, and operates a system of social insurance contributions. Income tax has been reduced substantially, to 20 percent and 40 percent, with incomes over I£17,000 subject to the higher rate (2000 budget). A controversial individualization of income tax was introduced in the 2000 budget, with the object of encouraging more women to enter the labor force. Goods bought and sold are subject to **value-added tax** (VAT) at 20 percent, which is comparatively high, while luxury goods such as alcohol, tobacco, and petrol are subject to high government **excise tax**. Capital gains tax on profits has been reduced to 20 percent, and corporation tax, levied at between 10 percent and 28 percent, is to change to 12.5 percent across the board by 2003. Both employers and employees are subject to a social insurance tax, pay-related social insurance (PSRI), and an unusual business-unfriendly measure shifted the burden of the contributions to business in the 2001 budget. In terms of social spending, a means-tested (eligibility determined by financial status) system operates, resulting in about a third of the population receiving free medical and dental treatment. However, state medical-card holders suffer from long waiting lists for treatment, as opposed to the more than 50 percent or so of the population who have private medical insurance.

In line with EU policy, recent governments stress the importance of competition. A competition authority with

enhanced powers is responsible for investigating alleged breaches of competition law in all sectors. This affects overly regulated private service providers such as taxicab companies, and it is anticipated that the restrictive pub licensing laws will be tackled next.

Government control over the economy is restricted by Ireland's membership in the EU and the euro zone, as well as by its own policy that has made Ireland one of the most open economies in the world. While the European Central Bank (ECB) controls **monetary policy** and largely controls interest rates, the government does retain control over fiscal policy.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Though vastly improved during the 1990s by grants of I£6 billion in European structural funds, the Republic of Ireland's **infrastructure** is still struggling to cope with the country's unprecedented economic growth. Long traffic delays and below average roads linking major business centers around the country are a potential threat to continued expansion. A late 1990s report commissioned by the Irish Business and Employers Association (IBEC) estimated that a further I£14 billion would have to be spent to raise the quality of the country's infrastructure to generally accepted European levels. Ireland's share of European structural funds for 2000 to 2006 has decreased to approximately I£3 billion, but increased government spending and planned joint public-private funding of projects should make up the shortfall.

Ireland has the most car-dependent transportation system in the EU, with roads carrying 86 percent of freight traffic and 97 percent of passenger traffic. Yet full inter-city motorways are not in place, making the links between Dublin and other major cities subject to heavy traffic and delays. Economic growth and increased consumer spending has pushed up car ownership levels dramatically, which, together with increased commercial traffic on the roads, has offset the considerable improvements of the 1990s. The road network is estimated to total 87,043 kilometers (54,089 miles) of paved roads and 5,457 kilometers (3,391 miles) of unpaved roads (1999).

Long rush hours and traffic gridlock occur in the major cities and gridlock in Dublin is estimated to cost the national economy around I£1.2 billion every year. Policies aiming to attract more daily users to the public transport system might take effect over the next decade. Following much debate and deliberation, the current government has commenced the implementation of a light rail system (3 lines) to cover some important routes into the capital, most importantly a link to the airport. This will add to the "Dart," Dublin's existing, relatively efficient suburban rail service, which consists of 5 lines covering 257 kilometers (160 miles) and 56 stations.

The railway linking Dublin to 2 major cities on the island, Belfast (Northern Ireland) and Cork, has been vastly improved over the last few years, but recent reports by external consultants have highlighted the poor, even dangerous, state of much of the rest of Ireland's 1,947–kilometer (1,210–mile) railway infrastructure.

Ireland has 3 international airports—at Dublin (east), Shannon (southwest), and Cork (south)—and 6 independent regional airports. Air traffic increased dramatically during the 1990s, with the number of passengers up from 6.8 million (1992) to 12.1 million (1997), while annual air freight traffic also doubled. Inevitably, these increases have led to congestion, especially at Dublin's airport, and a major capital investment program launched by the government is nearing completion, with similar projects to follow in Cork and Shannon. Cargo traffic is similar, with increases of up to 50 percent in cargo tonnage and passenger traffic passing through the main ports over the 1990s. The government recognizes that capacity must increase if major congestion is to be avoided.

Liberalization in the telecommunications sector, completed in 1998, increased the number of providers from just 1 state-owned company to 29 fully licensed telecommunications companies, operating in residential,

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Ireland	150	699	403	171.1	257	27.4	271.7	156.68	679
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
United Kingdom	329	1,436	645	45.9	252	33.9	263.0	270.60	12,500
France	218	937	601	27.5	188	47.4	207.8	110.64	5,370

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

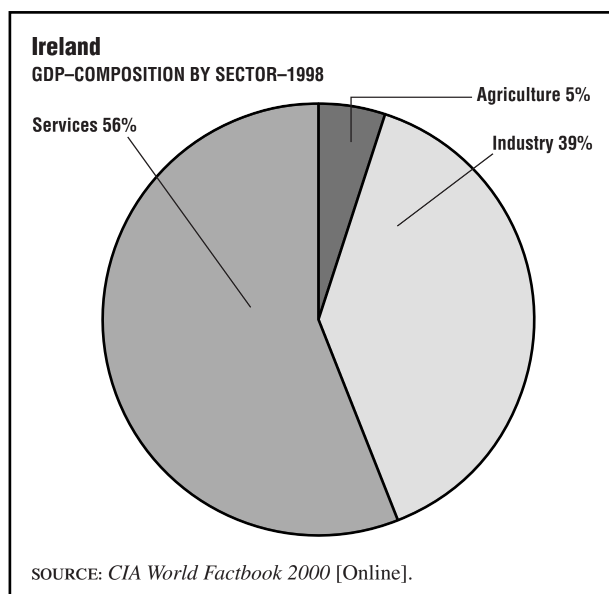
SOURCE: World Bank. *World Development Indicators 2000.*

corporate, and specialized data services sectors. The government hopes that liberalization and the resulting competition in the market will encourage private investment and improve the state's poorly developed telecommunications infrastructure. The mobile phone market has been dominated by competition between Eircell and Esat Digiphone. Both have now been bought by the British giants, Vodaphone and British Telecom (BT), respectively, while a third mobile phone company, Meteor, has recently entered the market.

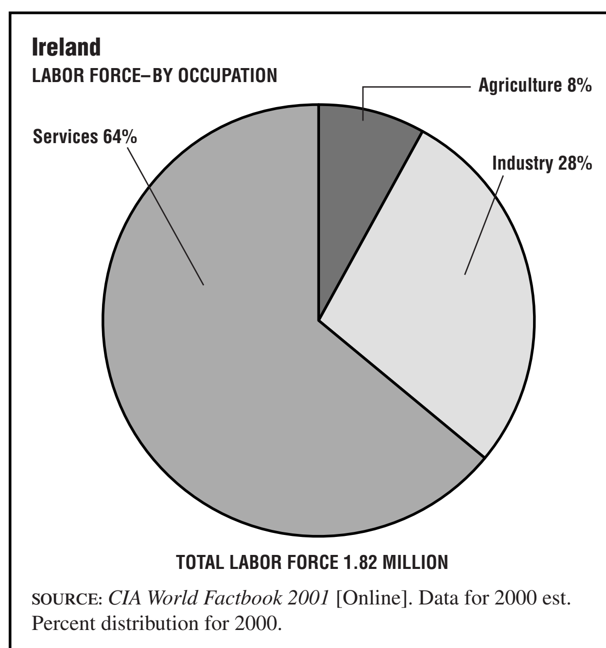
Energy consumption is, not surprisingly, on the increase. Total energy consumption rose from 8.5 million metric tons (9.35 million tons) in 1996 to 9.5 million metric tons (10.45 million tons) in 1997, with household use accounting for 3.6 million metric tons (3.6 million tons). Two-thirds of energy is supplied by imported coal and oil, with the remaining third supplied by indigenous peat (12 percent of the total) and natural gas. The distribution of gas, oil, peat, and electricity remains state dominated, though industrial users hope that recent liberalization of the gas and electricity markets will result in a lowering of prices.

ECONOMIC SECTORS

Strong growth (55 percent growth from 1993 to 1999) has been the recent trend in the Irish economy, but it lacks consistency across all sectors. Agriculture (forestry and fishing), as a share of total GDP, has seen a steady decline, while the fastest growth has occurred in industry, particularly high-tech industry. The expanding service sector accounted for 56 percent of GDP in 1998. Ireland's economy has remained the fastest growing economy in the EU and compares favorably with developed economies worldwide in terms of growth, output, trade volume, and employment levels.



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 2000.

AGRICULTURE

Ireland's mild temperature, high rainfall, and fertile land offer ideal conditions for agriculture and, despite a pattern of decline over the past 2 decades, agricultural activity remains an important employer in rural and remote regions of the country.

The drop in agricultural output from 16 percent of GDP in 1975 to just 5 percent in 1998 reflects only a relative decline when measured against the steady increase in GDP driven by other sectors. While the fall in prices of agricultural products has been sharp, the volume of output has seen only a small decrease. The industry suffers from over-capacity and falling incomes and is increasingly reliant on EU **subsidies** and fixed prices. The number of small farmers remains high for an industrialized country, and many small farmers take up other employment to subsidize their income. While average farm size (29.5 hectares or 73 acres) is slowly increasing, the Irish Farmer's Association asserts that farm size remains the single biggest obstacle to generating adequate income in the agricultural sector. Adjusting to EU measures to bring prices more in line with world agricultural prices seems unlikely to help the industry, while reducing high levels of pollution in the waterways to comply with EU regulations is also not expected to aid farming profitability.

Average farming incomes fell by 6.2 percent in 1997, even though productivity per individual farmer

increased significantly over the last decade. On 40 percent of all farms, the annual income was only I£5,000. On a further 25 percent of farms, it rose to between I£5,000 and I£10,000. Combined employment in agriculture, forestry, and fisheries fell from 175,000 at the beginning of the 1990s to 142,000 at the end of the decade. Figures that include related food-processing industries put employment at 176,000 in 1999, representing 12 percent of all workers in employment. Some figures estimate that agriculture generates so many service sector jobs that it indirectly accounts for 350,000 jobs (23 percent of the labor force).

BEEF AND OTHER LIVESTOCK. The most productive agricultural sector is the largely export-oriented beef and livestock industry, which accounted for 50 percent of output value in 1998. Cattle and sheep farming have, however, been hard hit by a number of crises. After EU agreements in 1999 to reduce beef prices, in February 2000, farmers were badly affected when BSE (Bovine Spongiform Encephalopathy), or "Mad Cow" disease, resulted in a 27 percent drop in beef consumption in the key European market. In February-March 2001, the unprecedentedly severe outbreak of foot and mouth disease in herds in Britain, with pockets in Northern Ireland and France also affected, brought another enormous challenge to the industry, threatening the export markets of Ireland and all the EU countries.

Overall, output decreased during the 1990s, with the annual value of livestock falling from I£1,885 million in 1993 to I£1,761 million in 1997. This represents decreases in the overall value of cattle livestock from I£1,349 million to I£1,097 million (1993 to 1997), with the value from pigs, sheep, and lambs showing small net increases in output value.

Livestock products, the most prominent of which is milk, also suffered a general, if undramatic decline in output during the mid-1990s, from I£1,132 to I£1,113 million. Crops output, with cereals and root crops dominant, also decreased marginally—from I£3,431 to I£3,315 million—during this period. Sugar beet, wheat, and barley yielded the highest commercial value (1997), with milk, eggs, and fresh vegetables also important products.

FORESTRY AND FISHING. Despite its reputation as a land of abundant greenery, Ireland has the lowest level of forest cover in Europe, with only 8 percent of the land under woodland, against a 25 percent average elsewhere. But this 8 percent is a considerable improvement from the 1 percent level of cover at the foundation of the state in 1922 and is the result of government reforestation programs. Current EU policy serves to encourage reforestation and the development of a timber-based agricultural sector. Reflecting this, timber output was expected (EIU estimate) to have reached 3 million square meters of timber by 2000. This would provide for an increase in the domestic market's share of local timber, as it previously imported 45 percent of its timber requirements.

Given Ireland's geographical position, fishing has been a naturally important economic activity, particularly in rural coastal areas where there are few other industries. The fishing industry has evolved to incorporate more diverse forms of activity such as fish farming, and employment rates have increased by 40 percent since 1980. Full and part-time workers together accounted for 16,000 jobs either directly or indirectly connected to the fishing industry in 1999. The value of exports increased from I£154 million in the early years of the 1990s to a peak of I£240 million in 1997. EU grants and government spending ensure that the industry will continue to expand.

INDUSTRY

The industrial sector has maintained its share in total economic activity at 39 percent of GDP throughout most of the 1980s and 1990s. This trend is unusual in developed countries and reflects strong growth. Although marking a slight slowdown from 1995 to 1998, growth in 1999 was high at 10.5 percent. Strong performance from both foreign-owned and indigenous Irish industry, primarily in the high-tech manufacturing sector, has driven the growth.

Significant reserves of zinc and lead ores, natural gas, and peat are to be found, and the latter 2 supply a third of domestic energy demand. Zinc and lead ores sustain one of the biggest zinc and lead mines in Europe and approximately 4,000 jobs. Ireland is a small country with limited natural resources, and a well-developed, open, and globally-integrated industrial economic policy is therefore essential to economic health.

HIGH-TECH MANUFACTURING. There are more than 1,000 foreign-owned companies operating in Ireland, mostly, though not all, in the high-tech manufacturing sector. Foreign-owned manufacturing accounts for more than half of the country's total manufacturing output. In 1998, foreign companies produced more than two-thirds of export goods and employed around 45 percent of the manufacturing sector's workforce, or 28 percent (468,800) of the total workforce. Most foreign-owned manufacturing is concentrated in high-tech sectors such as chemical production, metals, electrical engineering, and computer hardware.

Between 1993 and 1997, output in metals and engineering increased by 96 percent and employment by 49 percent. Leading metal output is the manufacture of agricultural and transport machinery. In the chemicals sector, output increased by 116 percent and employment by 38 percent. Both sectors continue to enjoy high productivity.

Performance in the indigenous high-tech sector has also been impressive. The sector's growth in volume of output increased by 37 percent from 1987 to 1995, contributing to a 113 percent increase overall (including foreign-owned). World-class manufacturing and management standards have developed, partly encouraged by the productive foreign-owned companies and by growing links between foreign-owned and indigenous sectors. An increasing percentage of inputs purchased by foreign-owned industry for production are supplied by indigenous Irish industry. Total expenditure of foreign companies in the Irish economy has reached I£6.9 billion, up from I£2.9 billion in 1990. By 1999, this economically healthy situation had brought an unprecedented 30,000 worker increase in employment by Irish-owned manufacturing firms since 1992.

Also well represented in this high-tech sector are the Industrial Development Authority (IDA)-targeted sectors of the pharmaceutical and computer software industries. The IDA is a government body charged with the task of attracting foreign investment and is part of an umbrella organization called Enterprise Ireland. The concentration of high-tech industries they have encouraged has created a clustering effect that facilitates self-sustaining growth.

TEXTILES, CLOTHING, AND FOOTWEAR. Dominated by indigenous industry, the labor-intensive textile, clothing, and footwear sectors registered no significant growth during the 1990s into the 2000s. They have suffered as a result of competition from cheaper foreign imports. Textile production in Ireland remained stagnant during the late 1990s, and employment in the sector fell by approximately 20 percent. Clothing and footwear output fell by almost 20 percent between 1993 and 1997 and has remained at that level.

FOOD, DRINK, AND TOBACCO. Food, drink, and tobacco production recorded the strongest growth in the traditional indigenous manufacturing sector, with production output, which is aimed at both domestic and export markets, increasing by 6.1 percent in 1997. Providing the backbone for the food industry is the production of beef, milk, eggs, fresh vegetables, barley, sugar-beets, and wheat.

CONSTRUCTION. A combination of increased business investment, infrastructure development and an acute housing shortage resulted in an increase in the value of construction output from I£13.7 billion in 1993 to I£16.1 billion, or 14.2 percent of GDP in 1996. In 1998, the bulk of construction was directed at residential buildings. Quarried stone exists as an important indigenous supply for the construction industry. Conditions ensured that this boom continued into 2001, but it is threatened by a shortage of labor and the accompanying effect of increasing wage demands.

The open-market economic policies adopted by successive Irish governments since the late 1980s can, in large part, explain the rapid expansion of the industrial sector, particularly the high-tech industrial sector. **Foreign direct investment** has been attracted by a number of factors, including a carefully built, business-friendly environment, a relatively inexpensive but highly skilled labor force, access to the EU market, and a range of incentives offered by the Irish government. Economic policy is currently establishing new priorities aimed at attracting industry to the poorer regions of the country, strengthening the roots of foreign-owned industry, and encouraging research and development programs.

SERVICES

Services accounted for approximately 63 percent of employment and 54.1 percent of GDP in 1999. Banking and finance and retailing and tourism dominate the private services sector, with software engineering and business consulting services growing in importance. State-owned industries dominate the provision of education, health, distribution, transport, and communication services, accounting for 18 percent of GDP in 1997. Private service providers are slowly entering these markets.

FINANCIAL SERVICES. Availability of branch banking is dominated by 4 main clearing banks—Bank of Ireland, Allied Irish Banks, Ulster Bank, and National Irish Bank. Since the early 1990s, banks and building societies have become increasingly involved in the providing of financial services, and total employment provided by these institutions increased from 25,200 in 1994 to just under 30,000 in 1998. A scheme introduced in 1987 created incentives to make Ireland an attractive base for foreign financial institutions. A particular incentive was the setting of corporation taxes at a low 10 percent. More than 300 banks, mostly North American and European, are established in the Irish Financial Services Center (IFSC) in Dublin, offering specialized services such as investment banking, fund management, capital markets, leasing, and re-insurance. The IFSC has created direct employment for between 5,000 and 7,000 people, as well as a considerable proportion of indirect employment connected with Dublin's concentration of banks.

TOURISM. The country's famously green and beautiful landscape, its fine beaches, a culture of small, atmospheric, and sociable pubs, and the friendliness of its people attract many tourists. Recent tourist expansion has largely resulted from Dublin's elevation to a very popular weekend-break destination, coupled with the government tourist board's overseas promotion programs, which highlight the country's attractions for fishing, walking, and golfing enthusiasts. Total revenue from tourism reached I£2.8 billion—more than 5.7 percent of GDP—

in 1997. This dropped slightly in 1999 (I£2.5 billion), but two-thirds of that year's revenue was generated by the arrival of more than 6 million overseas visitors. At the end of the 1990s, at least 120,000 jobs were estimated to depend on tourism. The biggest threat to the tourist industry is the poor quality of services. These are the result of a shortage of skilled labor, as well as increasing industrial unrest that periodically causes transportation disruptions and brings traffic chaos. Workers in the tourist industry have tended to be worse off than those in other sectors, but the I£4.50 per hour minimum wage introduced in 2000 stood to eradicate the worst cases of under-payment.

RETAIL. Economic expansion has facilitated increased diversification in the indigenous retailing industry. With consumer spending high, **retail** sales expanded by 53 percent in real value terms in 1997 and by 32 percent in volume terms. The surge in the growth of the retailing sector has attracted a large number of groups from the United Kingdom (UK), which have brought competition that has helped to control consumer price inflation. The volume of retail sales increased by 14 percent in the first quarter of 2000, with the purchase of new cars in the first half of that year up 42.9 percent.

INTERNATIONAL TRADE

Ireland has achieved the highest **trade surplus** relative to GDP in the EU and is in the top 20 exporting countries in the world. In 1999, the total value of the country's exports recorded a huge surplus, reaching I£44.8 billion, against imports of I£20.63 billion. The balance of trade between exports and imports continued the strong upward trend from I£13.7 billion (25 percent of GDP) in 1998 to I£24.17 billion in 1999. Figures from the first half of 2000 indicated a further increase. However, despite a robust 24 percent growth in export rates in 2000, trends indicated that import growth rates in response to high consumer demand would exceed export growth rates in 2000–01, thus threatening the surplus in the long run. The EU (including the UK) remains Ireland's most important export market. In 1998, export revenues from the EU accounted for 67 percent (I£30.27 billion) of total exports, with the UK contributing almost I£10 billion, or 22 percent of the total. Germany (14.6 percent), France, Italy, and the Netherlands are the other key European destinations, while the United States accounted for I£6.14 billion (13.7 percent) in 1998. Given the weak euro and the presence of many U.S. multi-nationals in Ireland, there are indications that the United States is set to become Ireland's biggest export market. Exports to U.S. markets increased by 54 percent to I£6.8 billion in the first 6 months of 2000. Exports to the UK, a non-euro zone, also increased by 22 percent during this period to I£6.9 billion. Ireland is a major center of computer manufacture, with U.S.-owned corporations such as Dell conducting operations there. The high-tech sectors recorded Ireland's largest export increases in 2000, with computer equipment leading the field at I£8.1 billion. The export of organic chemicals was valued at I£7.3 billion, and electronic machinery at I£2.9 billion. Chemicals, transport equipment, and machinery (including computers) accounted for 80 percent of the increase in exports between 1993 and 1997. While foreign multinationals dominate these sectors, there are positive signs of increasing domestic production in high tech manufacturing industries, such as the production of chemicals, software development, optical equipment, and electronic equipment. The production of electronic equipment and optical equipment supplied 9.2 percent of domestic exports in 1997. However, exports represented only 34 percent of domestic manufacture, while up to 90 percent of foreign-owned company output was exported. In 1997, food and livestock remained the fourth largest export commodities, with food, drink, and tobacco together accounting for an important, though declining, percentage of indigenous exports (53.9 percent, down from 61.9 percent in 1991). Fuel, lubricants, and crude materials also remain important.

Trade (expressed in billions of US$): Ireland

	Exports	Imports
1975	3.193	3.778
1980	8.398	11.153
1985	10.358	10.020
1990	23.743	20.669
1995	44.250	32.638
1998	63.959	44.355

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

The value of imports has increased rapidly, from I£13.1 billion in 1998 to I£34.66 billion in 1999. Their value for the first 6 months of 2000 was at I£20.7 billion, recording a 25 percent increase. Once again, the high-tech sector dominated, with imports of computer equipment increasing by 28 percent and manufacturing industry inputs by 26 percent. Imports of road vehicles also increased dramatically during this period. Despite the weak euro, the UK and the United States remain Ireland's largest sources of imports, both supplying goods in the first half of 2000, showing an increase in volume of 20 percent. Machinery and transport equipment dominated the volume of imports and accounted for I£15.7 billion in 1998, with chemicals and miscellaneous manufacturing goods accounting for I£3.4 billion each. Food and live animals accounted for the next largest share in total import value at I£1.8 billion in 1998. Live animals are both imported and exported. A factor distinguishing

Exchange rates: Ireland

Irish pounds per US$1	
Jan 2001	1.0658
2000	1.0823
1999	0.9374
1998	0.7014
1997	0.6588
1996	0.6248

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Ireland	8,605	10,044	10,944	13,907	23,422
United States	19,364	21,529	23,200	25,363	29,683
United Kingdom	13,015	14,205	15,546	18,032	20,237
France	18,730	21,374	22,510	25,624	27,975

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Ireland from its 10 euro-zone partners is its relatively low volume of trade within the euro zone—20 percent of imports and 45 percent of exports in 1998. Current trends do not predict a rapid change in this pattern.

MONEY

Ireland severed its links with the British pound sterling in 1979 and relinquished control over its monetary policy to the European Central Bank (ECB) in 1999. Consequently, the government is no longer free to use **exchange rates** as part of economic and trade policy. The relationship of the Irish pound to the sterling and the U.S. dollar is determined by their relationship to the euro, which itself has been consistently weak since its launch in January 1999. Higher interest rates have been introduced by the ECB to help the euro, but they would need to be considerably higher to curb Irish domestic spending and demand. A downturn in the U.S. economy could, perhaps, result in a strengthening of the euro. This would reduce the costs of imports and help curb inflation, but would at the same time decrease the value of exports. The Irish Stock Exchange (ISE) separated from the international stock exchange of the United Kingdom and the Republic of Ireland in 1995. Since then, in keeping with global trends, the ISE has grown rapidly, with **market capitalization** increasing from I£7.4 billion in 1992 to I£66.8 billion in 1998, and 81 companies listed in 2001. It appears, however, to be too small to attract significant levels of venture capital, and Irish technology companies tend to look to the NASDAQ or the EASDAQ (proposed Europe equivalent) for this reason. With this coordination of stock exchanges across Europe, investor participation in Irish stocks may increase.

POVERTY AND WEALTH

Unprecedented growth in the Irish economy during the late 1990s saw living standards in terms of per capita GDP reach the EU average for the first time in 1998. However, rapid growth does not automatically translate into a better quality of life, and Ireland is by no means immune to the risk in all industrial societies: that of creating a society where the rich get richer and the poor stay poor.

Inequality in Ireland falls generally into 2 categories. The first is essentially that of poverty traditionally created by unemployment. Despite almost **full employment**, pockets of deprivation characterized by long-term unemployment, high dropout rates from education, and a dependency culture, prevail. These disadvantaged groups, frequently plagued by social ills such as the drug-culture, suffer markedly from the considerable increase in the cost of living. To relieve deprivation of this nature requires a sustained effort at introducing more comprehensive social policies. In 2000, the Irish government spent only 16 percent of GDP on social welfare compared to the EU average of 28 percent.

The second category of poverty, arising from the disparity of income among the employed, affects a larger number of households. Comparative studies published in Brian Nolan, Chris Whelan, and P.J. O'Connell's *Bust to Boom*, reveal Ireland, along with the UK and Portugal, to have a high rate of **relative income poverty** compared to other EU member states. While there were improvements in income earned by the unskilled, skilled, highly

Distribution of Income or Consumption by Percentage Share: Ireland

Lowest 10%	2.5
Lowest 20%	6.7
Second 20%	11.6
Third 20%	16.4
Fourth 20%	22.4
Highest 20%	42.9
Highest 10%	27.4

Survey year: 1987

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Ireland	21	9	10	4	7	10	40
United States	13	9	9	4	6	8	51
United Kingdom	14	7	9	3	3	6	58
France	22	7	9	3	8	12	40

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

skilled, and educated employees alike, the overall trend from 1987 to 1997 brought more opportunities and higher wage increases for the latter 2 groups. This trend is more acute in Ireland than in other European states. The ESRI (Economic and Social Research Institute) points out that while the fortunes of wealthiest 10 percent of the employed population increased rapidly between 1987 and 1997, the top 5 percent rose even more rapidly. The only positive aspect of income distribution trends was that while the bottom, or poorest, 25 percent appeared to fall away from the average income, the bottom 10 percent did not, indicating that the very poor are not actually getting poorer. One further positive aspect is the increase in gender equality, with women moving to take advantage of increased employment opportunities. Women are establishing themselves as fundamental members of the labor force and improving their average take-home pay to 85 percent of that earned by their male counterparts.

However, trends in general income disparity are worsened by the crippling house prices. These either prevent many young people on average incomes from buying homes or leaves them with huge mortgage payments. Rents have spiraled due to shortages in the housing market. Exclusively located houses in Dublin have been sold for over I£6 million and, while this is not the norm, an adequate house with easy access to Dublin's city center costs between I£150,000 and I£500,000, having cost perhaps between I£30,000 and I£80,000 at the end of the 1980s.

The government does provide safety nets for those in need, granting free medical and dental care on the basis of means testing. Social welfare payments are available to the unemployed, but only to those who can provide an address, and there is some government-provided social, or corporation, housing. This scheme involves making low-rent housing available to the less well off, along with a tenant's long-term option of buying the government out. However, the service has suffered from the housing shortages, which show no signs of letting up (2001), and waiting lists are up to 18 months long.

WORKING CONDITIONS

The falling unemployment of the 1990s has accelerated to the extent that the key issue in 2001 is a shortage of skilled and unskilled labor. The labor force increased from 1,650,100 in early 1999 to 1,745,600 in mid-2000, with 1,670,700 in employment (mid-2000). In 1999 and 2000, surveys carried out by the Small Firms Association indicated that 91 percent of surveyed members were experiencing difficulties recruiting staff, particularly at the unskilled level. The labor market increased by 6.2 percent (96,000) in 1999, and the number of long-term unemployed decreased to just 1.7 percent of the workforce. There is a risk that this shrinkage in the volume of available labor will further fuel demands for wage increases.

Social partnership agreements over the last decade have kept wages moderate and generally lower than in other EU states. There is an increasingly widespread consensus on the part of workers, particularly in the **public sector**, that the fruits of economic growth have not been distributed, let alone distributed evenly. It is feared that demands for increased pay may undermine growth by fuelling inflation, thus pushing up the cost of living for individuals and of wages for business, both foreign and domestic owned.

The input of trade unions into economic policymaking was formalized with the introduction of national wage agreements in 1989. The umbrella body, the Irish Congress of Trade Unions, incorporates 46 unions, with a total membership of 523,700 (2000). According to the largest union, the Services, Industrial, Professional and Technical Union (SIPTU), membership increased by 60,000 to more than 200,000 in 2000. However, many multinationals do not permit union membership. Despite overall improvements in wage and employment levels, the current industrial climate is at its worst this decade. Strikes are a more regular feature across the public sector, with nurses, the Garda (police), and teachers demanding increases of up to 40 percent. The most recent wage agreement—the Programme for Prosperity and Fair-

ness (PPF)—has proved almost impossible to implement, since the agreed annual 5 percent pay increases are no longer considered sufficient by unions; they argue that the cost of living has increased by more and, with inflation having peaked at almost 7 percent in November 2000, they appear to have a case.

Hourly rates of pay have increased significantly across all sectors. According to the government's Central Statistics Office, the average industrial wage of I£274.37 for a 40.5-hour week in 1996 rose to I£283.53 in 1997 and I£295.20 in 1998. In 1999, employees in private firms had higher average wage figures. Skilled workers earned I£461.86 for a 45.6-hour week and the unskilled and semi-skilled were paid I£346.55 for a 46.8-hour week. As indicated above, income differentials—the difference between income levels across all sectors from the highest to the lowest—are higher than in other EU countries.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1800. British rule over Ireland, present since the 12th century, is extended to the entire country by the 17th and 18th centuries and further centralized with the Act of Union in 1800 (whereby no parliament sat in Dublin anymore).

1870s. Strong national movement emerges in Ireland. The national political movement in favor of "home rule" succeeds in incorporating both members of the Anglo-Irish aristocracy and peasant famers who seek land reform. But resistance on the part of conservative British governments and the strong will of the Protestant population of the northern province—Ulster—to remain in the union delays home rule.

1914–18. A more radical stream of nationalism begins.

1919–21. Guerrilla-style war for independence ensues. The Unionist population of Northern Ireland remains adamant that no granting of either home rule or independence to the island should include them.

1922. The Anglo-Irish treaty gives 26 of the 32 counties of Ireland independence from the United Kingdom with some symbolic restrictions, such as the retention of the crown as head of state. The remaining 6 counties in the north of the island remain part of the UK.

1923. Those for and against the treaty fight a civil war over the spoils of government and some over the retention of symbolic links with Britain, which ends in the capitulation of the anti-treaty forces, who then form the political party Fianna Fáil in 1926.

1925. Partition of the island into Eire and Northern Island is informally made permanent.

1938. More than a decade of politically provoked and disastrous "economic war" with Britain ends.

1940. Ireland declares itself neutral in World War II.

1949. Although informally a republic since 1937, Ireland is formally declared a republic.

1950s. Emigration increases rapidly, and rural poverty becomes widespread.

1960s. The inward looking, tariff-centered economic policies are rejected in favor of an open policy, but the state still plays a huge role in the economy.

1970s. High government spending increases the national debt to unsustainable levels and sparks off high inflation. The oil crisis of 1979 also hits the country hard.

1973. Ireland joins the European Economic Community, along with Britain and Denmark.

1980s. High inflation and unemployment levels alongside income tax that reach over 65 percent.

1987. Ireland endorses the Single European Act, which establishes the common European market. The first social partnership agreements of the 1980s negotiate a plan for national economic recovery.

1990s. Tighter fiscal policies, trade and enterprise-friendly economic policies, and social partnership agreements, alongside other factors such as the long-term benefits of EU transfers, facilitate a turnaround in the economic fortunes of the country.

1991. EU countries sign the Maastricht Treaty, which formalizes the plan for European Monetary Union and agrees on the ground rules for entry into EMU.

1994–98. Following the paramilitary cease-fire in Northern Ireland and long negotiations, a peace process results in political agreements between Britain, Ireland, and Northern Ireland.

1995–96. The economy shows strong growth and a significant increase in employment opportunities.

1998. Ireland endorses the Amsterdam Treaty, which extends EU co-ordination of social and security policy and enlargement.

1999. EMU is introduced and the European Central Bank takes over monetary powers in Ireland.

FUTURE TRENDS

For most of the latter half of the 20th century, Irish policy makers focused on the challenge of how to instigate sustainable economic growth that would serve to reduce high unemployment and emigration levels and to

increase standards of living to the European level. In the 21st century, the key challenge is to implement a policy mix that sustains the benefits of growth while dealing with the key interlinked threats posed by inflation and acute labor market shortages. In 2001, rising inflation has seen the cost of living increase considerably, and this, alongside more demand than supply in the labor market, puts strong upward pressure on wages.

Dealing with inflation and labor market shortages is complicated by the extent to which external forces affect Ireland's economy, which is a regional, export-oriented economy within a monetary union. For example, the health of the euro and trends in global oil prices will either help or hinder the curbing of inflation. Lower oil prices and a stronger euro would reduce the cost of imports and, thus, inflation. Another important external force is the slow-down in the U.S. economy (2001). This could decrease the United States' domestic demand for imports, at the same time decreasing multi-national companies' investment in the Irish market, thus putting trade volume, employment, and growth at risk. In turn, spiraling inflation could result as job losses cause people to struggle to pay mortgages and the high levels of credit that have been the trend throughout the 1990s and beyond.

While there are differing opinions as to which policies are most effective to curb inflation and thus reduce the upward pressure on wages, most commentators agree that a flexible fiscal policy, in particular flexible wages (using wage agreements), is vital if both are to be avoided. Flexibility is necessary because of the dual and uncertain nature of external challenges to economic success.

Different external factors call for different reactions. The immediate problem facing the government in 2001 is the threat to social partnership policy-making posed by the increasing demands of unions for higher wage agreements. Higher wages and a break in the partnership would threaten the competitiveness of the Irish labor market, which remains relatively cheap compared to the rest of Europe. But competitiveness is also at risk as a result of labor market shortages.

It is likely that moderate wage increases to maintain social consensus (partnership agreements) are required alongside policies to encourage immigration (to increase the labor market supply) and policies to encourage savings (to reduce the threat of inflation). However, different policy responses would be required should the U.S. slow-down reach the point where foreign companies pull out, thus reducing employment. Attempts have been made to prepare for this scenario; the IDA has put more emphasis on health care and **e-commerce** companies and on research and development functions to deepen the roots of foreign investment, thus lessening the risk of an exodus.

A healthy future economy largely depends on how government responds to uncertain threats, and it would appear that the adoption of a flexible approach is vital. This is in turn a prerequisite for improving the quality of life and diverting a percentage of expenditure to programs designed to narrow the disparities in individual prosperity.

DEPENDENCIES

Ireland has no territories or colonies.

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—Catherine Lynch and Eoin O'Malley

ITALY

Italian Republic
Repubblica Italiana

CAPITAL: Rome.

MONETARY UNIT: Italian Lira (L). One lira equals 100 centesimi. There are coins of 5, 10, 20, 50, 100, 200, 500, and 1,000 lire. There are notes of 1,000, 2,000, 5,000, 10,000, 50,000, and 100,000 lire. The lira will be replaced in January 2002 by the euro, the new unified currency of the European Union (EU). One euro will be worth 1,936.27 lira at a fixed exchange rate. All lira coins and bills will disappear, and by June 2002 only euros will be in circulation.

CHIEF EXPORTS: Engineering products, textiles, clothing, production machinery, motor vehicles, transport equipment, chemicals, food, beverages, tobacco, minerals, non-ferrous metals.

CHIEF IMPORTS: Engineering products, chemicals, transport equipment, energy products, minerals, non-ferrous metals, textiles, clothing, food, beverages, tobacco.

GROSS DOMESTIC PRODUCT: US$1.273 trillion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$241.1 billion (f.o.b., 2000). **Imports:** US$231.4 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in southern Europe, Italy is a peninsula extending into the Central Mediterranean Sea. It is shaped like a high-heeled boot kicking a "triangle"—the island of Sicily. Italy borders France to the west, Switzerland and Austria to the north, and Slovenia to the east. The country also shares a border with 2 tiny independent states, San Marino and the Vatican, both of which are entirely surrounded by Italian territory. Italy has an area of 301,230 square kilometers (116,304 square miles) and a coastline of 7,600 kilometers (4,722 miles), including the islands of Sicily and Sardinia. Comparatively, Italy is slightly larger than the state of Arizona. Rome, the capital city, is on the country's western coast at the heart of the peninsula. Other major cities include Milan, Naples, Genoa, Florence, Venice, Palermo, Bologna, and Bari.

POPULATION. In July 2000 the population of Italy was estimated at 57,634,327. In the same year the birth rate stood at 9.13 per 1,000 people while the death rate was 9.99 per 1,000 people. Thanks to the annual arrival of immigrants, the projected growth rate is 0.09 percent. The data clearly show that without the influx of foreign immigrants the Italian population would suffer a steady decline. More restrictive **immigration** policies are being adopted, and it is expected that by 2010 the population will decrease to 56,484,000.

According to 1996 statistics, just over 67 percent of Italians live in an urban setting; the rest live in the countryside. The regions with the highest density are Campania (with 426 people per square kilometer, or 1,103 per square mile, in 1998) and Lombardy (378 people per square kilometer, or 979 per square mile). The regions with the lowest density are Val d'Aosta (37 people per square kilometer, or 96 per square mile) and Basilicata (61 people per square kilometer, or 158 per square mile). The biggest city is Rome, with 2,646,000 inhabitants, followed by Milan (1,308,000), Naples (1,020,000), Turin (910,000), Palermo (687,000), and Genoa (641,000).

Ethnic Italians form 97 percent of the population, but there are small ethnic minorities such as German-Italian, French-Italian, Slovene-Italian, and Albanian-Italian, while foreign immigrants make up 1.8 percent of the population. The largest immigrant groups are Moroccans, Albanians, Filipinos, Americans, Tunisians, and Chinese. Italy—home to Vatican City, the seat of the Pope—is a predominantly Roman Catholic country, even though church attendance has been progressively falling. There are small Protestant and Jewish communities, but, as a consequence of the growing number of North

African, Bosnian, and Albanian immigrants, the second religion of Italy today is Islam. With 18 percent of people over 65 and only 14 percent below the age of 14, there is widespread concern about the rapid rate at which Italy's population is aging. With average life expectancy at 79.03 years, the government is worried about the financial costs, such as health care and pensions, associated with an aging population.

Contrary to popular perception, Italian families are no longer as large as they once were, and it is becoming common for couples to have only 1 child. Economic well-being, a high cost of living, and the entrance of women into the **workforce** have had a tremendous influence on family structure. In 1961, about 14.4 percent of families had 4 or more children, compared to 1998 when only 1.4 percent of families had 4 or more. Without the arrival of immigrants, the Italian population would have fallen over the last decade. To reverse the negative trend, the government has adopted family-friendly policies. The government encourages families to have more children through tax breaks and direct grants. The policy has not been too successful, however, because people do not consider the financial incentives to be enough.

OVERVIEW OF ECONOMY

Italy's **gross domestic product** (GDP) of US$1.273 trillion makes it the sixth richest country in the world. In income per capita, it occupies 18th place. The country's economic success is a recent accomplishment. Italy was unified in 1861 after 3 wars of independence fought against various foreign rulers who dominated different parts of the country. The driving force behind Italy's unification was Victor Emmanuel II, the king of Piedmont and Sardinia, who waged wars against foreign rule in the name of Italian independence and territorial unity. Italy had long been carved up by foreign powers, but several self-ruling cities and kingdoms also existed. With the help of committed patriots, such as Giuseppe Mazzini and Giuseppe Garibaldi, Victor Emmanuel accomplished his aim to unify the country under his rule. Despite the enthusiasm of unification, economic conditions were poor. Italy had few industries, and most people lived off agriculture. Furthermore, the difference between the more advanced northern half of the country and the poorer south was evident. The pace of industrialization was slow, and industry could not provide jobs for new generations of workers. Because of the poor standard of living and lack of work, many Italians left the country to find a better life, particularly in the United States. The first wave of mass **emigration** to the United States took place before the turn of the 20th century, followed by a second wave after World War I (1914–18). During the period of Italy's fascist rule, which lasted from 1922 until 1943, and then following the end of World War II (1939–45), many Italians migrated to European countries such as the United Kingdom, Germany, and Belgium. Before the economic boom in the late 1950s, many Italians also migrated to Australia, South Africa, Switzerland, and Latin America.

The turning point in Italian economic history was the economic prosperity of the 1960s. At the time, private and state-owned enterprises took advantage of foreign assistance from the United States under the Marshall Plan and the launch of the European Economic Community (EEC) to restore the Italian economy. Despite skepticism about the European Common Market, Italy joined and profited from the progressive integration of Western European economies. By developing strong export-related industries, the industrial triangle of Milan-Genoa-Turin led the economic boom. Italian exports became attractive, and the growth of exports led to a strong internal demand for goods and services. Small and medium enterprises began establishing themselves and prospering in Northern Italy. These companies were the force behind economic growth as they exported machinery, engineering products, textiles, and clothing. Large private companies such as FIAT and state-owned companies such as ENI and ENEL also contributed to economic growth. Meanwhile, southern Italy remained impoverished, and its inhabitants migrated north in large numbers until the late 1970s.

In the following decades, Italy was able to consolidate its economic success, even though the economy was never again as strong as it had been in the 1960s. Comparatively, the Italian economy grew faster in the 1960s than any other European country, while around the world only the Japanese economy fared better. The 1970s and 1980s saw much more uneven development. Italy is heavily dependent on Algerian gas and Arab oil supplies, so it was hit hard by the oil crises of the 1970s. Despite this trouble, Italy's economy grew over 3 percent annually during the 1970s, though it began to slow at the end of the decade. The second oil crisis in 1979 and domestic political turmoil created high unemployment and high **inflation**. Strikes, demonstrations, flight of capital, and confrontations between the trade unions and businesses plagued the country. To steer the country away from this troubled period, political parties formed a Grand Alliance to find a solution that would satisfy most of the people. A national solidarity government was formed and managed to deal with the problem of stagflation (high inflation combined with high unemployment and stagnant consumer demand), reduce civil unrest, and lay the foundations for future growth. The country began to recover about 1983 and moved toward a new period of economic expansion. Strong economic performance allowed successive governments to make improvements in the **welfare state** that provides health care, education, pensions, **infrastructure**, and benefits.

Before the 1980s, Italy was a free market economy with a strong element of state control and state ownership. Many state-owned companies had operated efficiently and contributed to economic growth. By the mid-1980s, however, the state sector was beginning to create distortions in the economy. Many Italians employed by the state lived well above their means, accumulating debts and enjoying a free ride at the public expense. By the mid-1980s, appointments to the civil service and to the management of state-owned enterprises were handed out as political favors, leading to widespread corruption. The mismanagement of public resources drained the economy. Furthermore, the high costs of the welfare system put a strain on the country's finances, thanks to widespread corruption and waste in the health care, social security, transport, and education systems. The economic slump of the early 1990s highlighted the burden of the public debt and brought about radical measures to cut costs, **privatize**, and reduce the role of government in the economy.

The state began to withdraw from its role in the economy after a first round of privatization was carried out at the end of the 1980s. Large state-owned enterprises such as the motor car manufacturing company, Alfa-Romeo, were sold to private investors. The progressive

disengagement of the state from the economy created more room for private investors. With the prospect of entrance into the European Monetary Union (EMU), Italy was forced to undertake massive reforms to lower inflation, reduce the deficit, and lower interest rates. By 1992 reforms accelerated as the state disengaged from the economic sphere. The radical changes brought success in tackling the high deficit through cuts to the welfare state and measures to limit waste. Inflation was brought under control by means of restrictive **monetary policies**, and the tax system was made more efficient. Because of the initiatives, Italy succeeded in qualifying to participate in the EMU.

By 1998 and 1999, Italy experienced sustained growth after many years of high taxes, budget cuts, and high unemployment. The relative importance of the Milan-Genoa-Turin industrial triangle declined, and small and medium-sized private enterprises in the northern part of the country became the chief participants in the new boom. Recovery from the economic **recession** of the early 1990s and acceptance into the EMU was due, in part, to the social partnership pact brokered by the government. Employers and labor united to put an end to confrontation and to adopt part-time contracts, flexible hours, and lower overtime rates. Even the **public sector** embraced these changes to improve its efficiency. Investments were made in technological development, salaries were frozen for months, and the workforce increased production in exchange for job security.

The Italian economy is now much more free-market oriented than at any previous time. Several sectors have been **liberalized** and state **monopolies** disbanded. Many state-owned enterprises have been privatized over the last 8 years, with 13 percent of these sold to national private investors and another 8 percent to foreign private investors. The remaining 79 percent were sold to the public via stock offerings. Over 500,000 workers were transferred from the public to the **private sector** between 1992 and 1998. Some of the largest companies to be privatized or already privatized included: AGIP, SNAM, and Italgas (in the energy sector); ILVA, Ansaldo, Nuovo Pignone, Dalmine, and Italimpianti (in the industrial sector); Credito Italiano, Banco di Roma, and Banca Commerciale (financial sector); Telecom Italia (communication sector); and Alitalia, Tirrenia, and SEA (transportation sector).

By 2000, Italy enjoyed a healthy economy characterized by slow growth. In fact, Italy had the slowest growing economy of the 11 founding members of the EMU. With the GDP growth of 1.4 percent in 1999, Italy lagged behind the 2.9 percent annual growth rate of other countries in the EMU. But growth increased in 2000, reaching an annual rate of 2.7 percent and may be expected to continue to improve in the coming years as the country continues to adjust to the new economic scenario created by the withdrawal of the state.

Despite the relatively healthy economy, high unemployment, underdevelopment in large areas of the south, and the large presence of an often criminal, **informal economy** continue to plague Italy. Most of the unemployed live in the south. Organized crime tries to recruit those people. Unemployment has always been a problem even in times of economic growth. In 2000 unemployment stood at 11.5 percent. Although unemployment is high, it may not be reflective of reality because of the number of people employed in the nation's informal sector. Living conditions in the south of Italy are difficult, the job market is tight, and emigration is still the preferred option of many young people. The government has made a serious attempt to address this problem by granting tax breaks to companies willing to set up business and hire workers in the south. CGIL, the largest Italian trade union, calculated that between October 1997 and April 2000 over 100,000 people found work in small or medium-sized enterprises in the south.

The government has toughened laws against businesses that fail to pay their taxes and who gravitate toward the informal economy. Companies that want to move from the informal economy and legalize receive help. The re-emergence of the companies entitles workers to social benefits and helps generate revenue for the state from taxes. Most of the new enterprises are active in the clothing, footwear, agricultural, and construction sectors. Although these businesses operate on a small scale, many hire a large number of workers. It is difficult to determine precise statistics because of the informal nature of the market.

It is incorrect to treat the whole of southern Italy as a homogenous area because there are substantial differences in economic and social development in different regions. For example, Abruzzo is more prosperous and developed than Calabria. Within the same southern region, production compares favorably with the more affluent north. Although social development and the standard of living is improving, overall indicators still point, however, to a significant gap between the north and the south.

Ironically, factories in the north suffer from a shortage of labor because of recent economic growth. Despite unemployment rates below 4 percent, southerners are reluctant to move to the north. Southern objections include the high cost of living in the north and the long hours accompanied by most of the manual job opportunities. Many people from the south with higher education hold out for better job prospects. Because of job vacancies, smaller companies in the north request more visas for eastern European and African workers.

POLITICS, GOVERNMENT, AND TAXATION

Italy has been a democracy since the end of World War II, and despite its international reputation for political instability, the country has enjoyed largely consistent policies from successive governments. The country became a republic following the abdication of King Victor Emmanuel III in 1946 and the creation of a constitution in 1948. The country's president is elected by an electoral college whose members represent the popular vote. The president in turn selects a prime minister from the ruling coalition in the parliament. In elections held in 1999 Carlo Azeglio Ciampi was elected president. Following legislative elections in 2001, Silvio Berlusconi was selected as prime minister.

Italy has a **bicameral** legislature consisting of a 315-member Senate and a 630-member Chamber of Deputies. Both houses are directly elected by popular vote, and members serve 5-year terms. The judicial branch is headed by a Constitutional Court whose members are appointed in equal number by the president, the parliament, and the administrative Supreme Courts.

The major parties that have dominated politics since 1946 are: the Christian Democrats (DC), the Communist Party (PCI), and the **Socialist** Party (PSI). The Christian Democrats have been the dominant force in Italian politics, continuously leading a coalition government from 1946 until the early 1990s. Until 1963, when the Socialist Party entered parliament, the Christian Democrats' coalition partners represented 3 smaller parties, the Republican Party (PRI), the Social Democratic Party (PSDI), and the Liberal Party (PLI). The main objective of all parties was the exclusion of the communists from government, and the resulting continuity of parliamentary representation ensured that there were no major swings of policy. This government coalition presided over a long period of economic growth and a satisfied electorate opposed to any radical change. The harsh recessions of the late 1970s, mid-1980s, and early 1990s, however, undermined the popularity of the DC-PSI axis, but it was not until 1992 that the political system fell apart. In that year, a major anti-corruption investigation that implicated politicians and heads of industry in a cash-for-favors exchange shook the political and economic establishment of the country.

The corruption scandals, combined with the collapse of the USSR that ended the ideological war over **communism** in Italy, radically altered the political system. In addition, a new economic recession for which mismanagement of the national economy was largely to blame hastened the exit of an already discredited political class. Thus, traditional parties disappeared, and new parties emerged between 1991 and 1994. Electoral laws were reformed, and in a radical move, **proportional representation** was abolished. It was replaced with the first-past-the-post system, where the country is divided into constituencies, and the constituency seat goes to the winning candidate. (The congressional elections in the United States follow a comparable system.) The changes stood to give the electorate clear choices and were welcomed by many who believed that, with fewer parties in government, politicians would deal with concrete issues in non-ideological terms. Far from decreasing, however, the number of political parties has increased, and coalition government still prevails. Nevertheless, to a certain extent, expectations have been met, and the Italian electorate does face a clear choice at election time between center-right and center-left coalitions. Both sides have had periods in office since 1994.

The main parties within the center-right coalition are Forza Italia, National Alliance (AN), the Northern League (NL), and the Center Christian Democrats (CCD). The largest party is Forza Italia, led by media tycoon Silvio Berlusconi, who is also the leader of the coalition. This party believes strongly in further reducing the role of the state in the economic sphere and aims to accelerate the pace of privatization. Clearly conservative, Forza Italia also plans to cut the costs of the welfare state and introduce free-market competition in health and education, as well as cutting taxes. The Northern League shares these economic policies but also advocates increased political and fiscal autonomy for all regions by devolving responsibility to the regions for providing several fundamental services, including the provision of education, health care, transport, and law and order. Under this proposal, the regions would be empowered to raise taxes, keeping most of the revenue to spend as they decide, without central government interference. The NL represents, in electoral terms, the majority of northern voters, and its appeals for federal reforms are to be taken seriously. The National Alliance is the most right-wing party of the coalition and is mostly preoccupied with limiting foreign immigration, preserving the integrity of the national territory, and safeguarding the international credibility of Italy. It shares the broad economic approach of its partners but does not support the federal reforms advocated by the NL. The Center Christian Democrats offer a more moderate voice regarding immigration and social policies but argue for increased economic liberalization.

The center-right coalition was in power in 1994 for only 7 months and was unable to carry out their promised reforms because the Northern League withdrew from the alliance. The center-left coalition won the 1996 election. The main parties of the center-left coalition are the Democrats of the Left (DS), the People's Party (PPI), the Greens, the Democrats, and, after years in the wilderness, the Communist Party (PCI). The DS, the largest partner in the coalition, is a social-democratic party. The broad

outline of its economic policy, shared by all its partners, favors liberalization, privatization, lower taxes, and job creation by means of financial incentives to employers. The PPI is one of the heirs of the old Christian Democrats (DC) and is the most socialist party of the coalition, supporting recognition of gay rights, subsidized housing for refugees, and abortion. In the economic sphere, the PPI is slightly to the left of the dominant DS and believes that the state should still play a strong role in managing the economy. One distinctive policy of the PPI is the advocacy of state aid to private schools run by the Catholic Church. The Greens subscribe to most of the economic policies advocated by the DS but are mainly concerned with the environmental aspects of those policies. In common with the Greens in the rest of Europe, they are particularly committed to limiting the use of motor cars in favor of a more environmentally friendly public transport system. Many of the economic policies of the right and left parties overlap; the difference is marked in matters of social policy, the environment, and federalism. The center-left coalition is not as keen as its opponents to introduce free-market competition in the provision of health and education, preferring a smaller, more efficient welfare state and, in principle, is not hostile to foreign immigration. Finally, the center-left supports administrative and political decentralization, but is against extensive federal reforms that would widen the already large gap between North and South.

The center-left coalition held power from 1996 to 2001, a period characterized by an economic slump and by Italian support for NATO actions in Kosovo. With the economy slumping in the runup to the 2001 legislative elections, the center-right parties, led by Silvio Berlusconi's right-wing Forza Italia, returned to power in a coalition that included some of the most right-wing parties in Europe. Since his return to power, Berlusconi has been an outspoken proponent of free trade and pro-business policies. He has promised to reduce unemployment, cut taxes, and reform education and the still-bloated state bureaucracy.

An aspect of Italian politics that should not be ignored is the growing disillusionment of the electorate. Many citizens feel that their participation in the political process makes no difference to government, and there has been a sharp decrease in party membership. Voter turnout has steadily decreased since the mid-1980s, and in the 1996 elections, 23.1 percent of voters either stayed away from the polls or spoiled their ballot papers. This is a worrying sign of disaffection, and many political parties are concerned that if this trend continues it will undermine the legitimacy of future governments.

The former leader of the Socialist Party, Giuliano Amato, launched a far-reaching privatization program in 1992, which was continued by both coalition governments. Aside from the sale of state assets, both coalitions agreed that the pension system should be reformed and its apparent generosity curtailed. The reform of the pension system was carried out in full by the center-left coalition in power from 1996 to 2001, which was able to convince the trade unions to accept a deal. Both coalitions are also in favor of increased international free trade, even though they advocate some sort of protectionist measures for so-called "cultural products" such as movies and TV programs, which promote Italian language and culture. Finally, budget cuts across the board (particularly as regards health and defense) have been welcomed by both coalitions. The general convergence of ideas on economic management should not, however, obscure the differences that still exist between left and right. These differences are highly visible when it comes to crucial social issues such as immigration, gay rights, and the environment.

Problems of corruption, including the infiltration of political institutions by organized crime, have long been a feature of Italian life. The present political system was born out of a popular reaction against the spread of corruption and crime, but the problem, though marginally worse in the 1970s and 1980s than it is as of 2001, refuses to go away. The new political structures seem only to have provided a pause in the usual pattern of "doing politics" and "doing business" in Italy.

Taxation in Italy is quite a complicated affair because there are numerous taxes that each citizen has to pay. Moreover taxation is high, representing 43.3 percent of the GDP. However, the number and quality of the public services are some justification for high taxes, and measures to simplify the tax system have been introduced since 1998. **Income tax** accounts for 34.9 percent of total tax revenues, while **value-added tax** (VAT) contributes 35.4 percent. In addition, local governments **levy** other **indirect taxes**.

The tax system is plagued by tax evasion, however. Many economists point to this problem as one of the main challenges Italy needs to resolve in the near future. The government is improving the situation, but there is still an enormous amount of work to do. Aside from the considerable sums of money that entirely escape the government due to the strength of the informal economy, there is significant income tax evasion. Employees in both the public and private sectors have their tax deducted from their paychecks and do not have to submit tax declaration forms. However, employers, self-employed professionals, and business owners must fill out tax forms and declare their profits. Huge numbers of people in these categories falsely report their earnings, thus lowering their tax bills. The state has as yet not found a method of tackling this situation. For many years tax evasion was ignored, thanks to a commonly accepted theory that it was conducive to economic development: the money

would swell either consumption or investment. But tax evasion is clearly putting a strain on public finances, and its effects are particularly negative at a time of increasing cutbacks in public services. The International Monetary Fund (IMF) recognized the problem in 1998 and pointed out that far-reaching reforms had to be undertaken if tax evasion was to be reduced. The government is currently implementing certain reforms that are expected to make the system more coherent and make evasion less common.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Italy has an efficient and modern infrastructure, even though it performs poorly compared to other Western European countries of comparable size. The whole peninsula is well connected through an extensive system of railways, expressways, national roads, airports and seaports. Most of the infrastructure was rebuilt after the ravages of World War II and is subject to constant improvement and upkeep. However, many important projects have failed to materialize, among them the subway system in Naples, and more railways in the south and east to facilitate the movement of goods. At the same time, funds were given to many useless projects, built solely to line the pockets of those whose political or economic support could thus be counted upon.

Italy has a number of important international airports and the national carrier, Alitalia, has a fleet of 166 planes which transport 25 million passengers annually and connect Italy to 60 other countries. Overall, Italy has 136 airports, the most important being Fiumicino (Rome), Malpensa and Linate (both serving Milan), Ronchi dei Legionari (Trieste), Caselle (Turin), and Marco Polo (Venice). Seaports used to be a key element of the Italian transport system; they handle a substantial percentage of cargo until the mid-1970s. Due to the development of alternative means of transportation and competition from neighboring ports, however, their traffic has declined somewhat. The ports of Trieste, Genoa, Naples, Taranto, Augusta, Gioia Tauro, and Livorno are economically important to their respective regions. Italy is a major power in container shipping in the Mediterranean. The Italian merchant fleet consists of over 2,000 ships, 1,331 of which are over 100 tons. The country also has 1,500 miles of waterways that are used for commercial purposes, but this system is relatively undeveloped.

Since most goods in Italy are transported by road, the system is constantly upgraded and improved. It provides a highly developed and efficient network of interconnected highways and lesser roads, particularly in northern regions. The main routes at the hub of the road system are Turin-Milan-Venice-Trieste, Milan-Bologna-Florence-Rome, Milan-Genoa, and Rome-Naples. There are 6,460 kilometers (4,014 miles) of expressway, mostly in the northern and central regions, and the system overall is comprised of 654,676 kilometers (406,815 miles) of paved roads. Links to the rest of Europe are excellent. However, even Italy's extensive and sophisticated road network is now barely able to cope with the steadily increasing traffic.

The country's rail system is also highly developed and traverses a distance of 19,394 kilometers (12,051 miles). Italian passenger trains are generally punctual, comfortable, and cheap compared to the rest of Europe. They are the preferred means of travel for many commuters as well as tourists, who can thus avoid congested roads and urban areas. In order to improve the system, the state-owned rail company, Ferrovie dello Stato (FS), is currently developing a project to introduce high-speed trains like the French TGV.

Infrastructure is not the same quality throughout the country. While the road and rail networks are intricate and plentiful in the north and center of the country, the southern infrastructure is poor. Northern Italy's impressive economic growth and geographical proximity to the heart of Europe made it a key commercial area, and the

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Italy	104	878	486	2.8	355	31.3	173.4	68.28	7,000
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
France	218	937	601	27.5	188	47.4	207.8	110.64	5,370
Greece	153	477	466	1.2	194	3.8	51.9	59.57	750

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

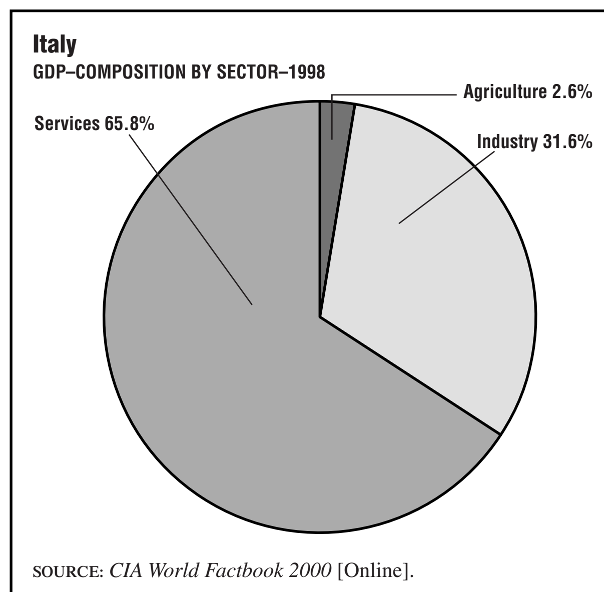
infrastructure developed accordingly. By contrast, the geographical isolation and poor economic development of Southern Italy meant that infrastructure was never a priority except for seaports.

Italy has very few natural resources and must import most of them from neighboring countries. Crude oil comes mainly from Libya, Algeria, and countries in the Arab peninsula. Petroleum represents 4.5 percent of all Italian imports. Gas comes from Algeria, Tunisia and Russia through a number of pipelines. Furthermore, unlike Germany and France, Italy has no nuclear power capability and is completely dependent on imported energy. For this reason, Italy is one of the few Western European countries to enjoy very good relations with a number of Arab states. In 1998 and 1999, Italian prime ministers were the first Western leaders to visit countries such as Iran and Libya after many years of diplomatic isolation. In 1998, Italy consumed 266.705 billion kilowatt hours (kWh) of electricity, provided mainly by the formerly state-owned company ENEL, which was privatized in 1999. The generally reliable 220-volt power system covers the whole country.

Until recently, the state-owned company Telecom Italia provided telecommunications services in Italy, but the market recently opened to competition, thanks in part to the privatization of Telecom Italia in 1997, which remains the principal provider. There were 25 million main telephone lines in use in 1999. Like many other Western European countries, Italy is experiencing the Internet revolution, and in 1999 there were 68 Internet hosts per 10,000 people. More recent, but unconfirmed, figures claim that 10 million Italians surf the net. What distinguishes Italians from their neighbors in Western Europe is the quantity of mobile phones in circulation. They have proved particularly popular in Italy, and by 1998 there were 355 mobile phones per 1,000 people. This figure has certainly increased dramatically since then and recent figures record that 48 million cell phones have been sold in Italy since 1995.

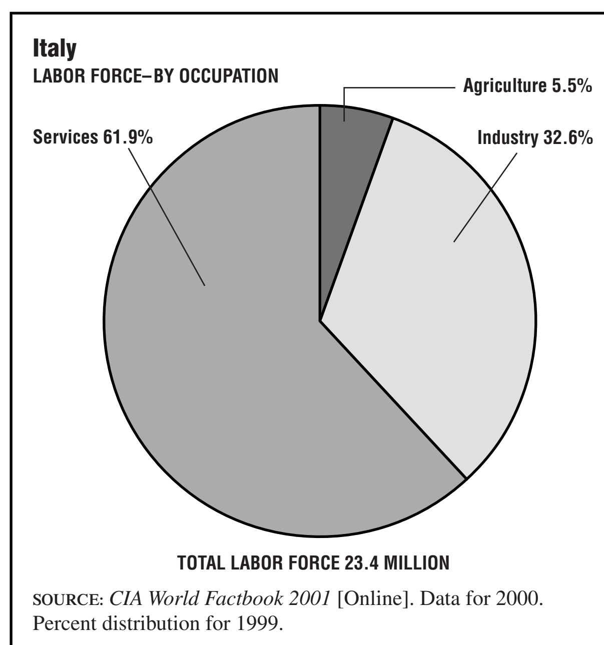
ECONOMIC SECTORS

Like all advanced capitalist economies, Italy is quickly moving away from its traditional economic sectors to become predominantly services-oriented, although the economic importance of the industrial sector is higher than the EU average. Agriculture accounted for 2.5 percent of the GDP in 2000, while industry and services accounted, respectively, for 30.4 percent and 67.1 percent of the GDP. Italy has recovered from the economic recession of the early 1990s in part through its efforts to develop the service sector even further. Services both to commercial enterprises and private individuals have grown in importance, while the relevance of the agricultural sector continues to decline. In the south, tourism is seen as one of the principal sectors for development, one that would generate employment in the region.



SOURCE: *CIA World Factbook 2000* [Online].

The manufacture of machinery, motor vehicles, clothing, footwear, and food processing are the main industrial sub-sectors. Many of these enterprises manufacture goods almost exclusively for foreign markets and must, therefore, monitor international economic changes very carefully. These companies are largely concentrated in the northern regions and are often small or medium in size. More often than not, they are also family run, and the business is kept within the family for generations. The



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1999.

large manufacturers include such internationally recognized names as FIAT, Benetton, Parmalat, Mediaset, Pirelli, and Zanussi, multinational companies which produce a wide range of products across several manufacturing sectors.

An interesting aspect of Italian economic development is the increasingly important role that small and medium enterprises have come to play. These companies are often family run and can count on a well-qualified and dedicated workforce. They receive extensive support from local government and are well integrated into their communities. These complex business networks are known as integrated industrial districts, which means that almost every company in the same geographic area makes the same products, or necessary components for those products. This pattern enables all companies in the integrated district to share a common distribution network and to take delivery of energy resources or raw materials in huge amounts in one place. The system cuts costs to business and helps them to compete in the international markets. Thus, for example, the northern area of Friuli is renowned for its furniture making factories, the region of Marche for shoemaking, and so on.

Italy's employment statistics reflect its economic trends. The agricultural labor force is steadily diminishing (down to 5.5 percent of the total workforce in 1999), and industrial employment is also shrinking due to the impact of the new economy (to 32.6 percent in 1999). The service sector employs the largest percentage, 61.9 percent, of the Italian workforce. During the 1993–95 recession, the industrial sector went through a painful period of **restructuring** and many jobs were lost. Older workers were offered the option of early retirement, while others were enrolled in retraining programs. A substantial number of jobs were saved by the introduction of the social partnership plan.

AGRICULTURE

The agricultural sector employed only 5.5 percent of the working population in 1999 and contributed only 2.5 percent of the GDP in 2000, with an output of over US$36 billion. However, in the southern regions of Basilicata, Calabria, and Molise, agriculture accounts for just over 20 percent of local employment. The decline of this sector in terms of employment and the GDP is, however, compensated for by ever-accelerating productivity. The agricultural profile is in line with all other Western European countries and is due specifically to the effects of the Common Agricultural Policy (CAP) of the European Union (EU). It is impossible to examine Italian agriculture without taking CAP into consideration since CAP is the basis for agricultural support across Western Europe. This EU policy ensures that **subsidies** and incentives are offered in order to sustain prices and guarantee a certain level of income to farmers. Thus, prices are artificially maintained, and if agriculture were to be liberalized in full, the sector would collapse throughout Europe. CAP was launched in the late 1950s to improve efficiency and as of 2001 accounts for most of EU expenditures, a staggering US$45 billion.

The CAP was not very successful in Italy in its initial stages because subsidies did not cover several traditional Mediterranean products such as olives, tomatoes, oranges, and lemons. When these were finally included, the more positive aspects of the policy emerged. First, it provided the necessary capital for mechanization, and Italy underwent rapid mechanization during the 1980s. Second, it offered an incentive to merge and thus enlarge the average farm. Through CAP, the EU buys up surplus products and, as a consequence, larger farms can be very beneficial to the economy. Finally, CAP ensures that all traditional Italian agricultural products are given some protection against cheap competition, with export traders subsidized to supply cut rates. Unfortunately, CAP seems to have favored northern farmers, but the government is attempting to correct the effects of CAP by offering grants and tax breaks to small farms in the south.

With only 5 percent of the land under cultivation, Italy is not self-sufficient in agricultural products, yet it enjoys an abundance of agricultural resources. Despite a negative **balance of trade** in agriculture, productivity is high, and the Mediterranean climate ensures that a variety of products are available both for internal consumption and external markets. Italy is a world leader in olive oil production and a major exporter of rice, tomatoes, and wine. Moreover, BSE, or "mad cow" disease, caused a major drop in beef consumption, while an increasing number of consumers turned towards organically grown produce.

The Italian government has always been a staunch defender of its national agricultural sector when it comes to negotiating production quotas with EU partners or seeking grants to defend the sector from decline. Funds to buy machinery, to compensate farmers for over-production, and to pay EU-imposed fines were constantly made available by the government. However, the Italian government was unable to stop the most recent CAP reform of 1997, which caused spending on Mediterranean products to decline in favor of increased spending for northern European dairy farmers.

In addition, Italian agriculture is suffering from changes in the climate and very poor management of the land. Large-scale farmers in the north live reasonably well, particularly in comparison to their counterparts in the south. The regional disparity is due partly to the effects of CAP and partly to organizational differences. In northern and central Italy, co-operatives has dominate. These farming co-operatives provide widespread support,

both socially and economically, for their members, and help in rationalizing production and distribution. In the south, farmers have no production and distribution networks on which they can depend, and the smaller scale of their operations, combined with their isolation, curtails their ability to compete in the market.

Meat has never been a major Italian product, and most of the meat consumed in Italy is imported from other European countries, particularly Ireland and Germany. Italy is also quite weak in the dairy farming sector, although it exports a handful of distinctive cheeses such as parmesan, mozzarella, and gorgonzola. Fruit is grown almost exclusively in the south, with most of the oranges and lemons coming from Sicily. Apples grow in Trentino Alto Adige. But the real strength of Italian agriculture is the production of olives, wine, and tomatoes.

OLIVES. Olives are one of the country's most lucrative exports. In 1999 production reached a record 7.243 million quintals (a quintal is a unit of weight equal to 100 kilograms, or about 220 pounds), confirming Italy as the leading producer in the world. The hot Mediterranean climate makes the southern region of Italy well suited for olive production, with most olives produced in Puglia. The industry changed considerably during the 1990s, moving away from traditional farming methods to more intensive and mechanized production. Thus, half of the olive-producing land excludes other types of cultivation and small producers are being driven out as large companies take over processing and distribution in the olive industry. Italy's main international competitors in olive production are Greece and Spain. In 2000, due to poor weather conditions, Italy's output decreased to 4.929 million quintals and Italian olive production was outstripped by Spain.

WINE. Grapes are to be found in every Italian region. Winemaking has a very long tradition in the country, and Italy enjoys a positive trade balance in this sector. The vines yield 9,459,000 metric tons of grapes and 62,618,000 hectoliters of wine (a hectoliter is 100 liters). Until the mid-1980s, wine production was not generally of a high standard and, indeed, much table wine was cheap and of very poor quality. The industry then went through a series of reforms that introduced strict quality controls, and standards rose to a level whereby Italian wines can compete at international level with French wines. Italy's best-known wines are Chianti (produced in Tuscany), Barolo (produced in Piedmont), Soave (produced in the Veneto), and the white wines of Collio (produced in Friuli), Marsala (from Sicily), and Brunello (produced in Tuscany).

INDUSTRY

As in all other advanced Western economies, the Italian industrial sector is declining, decreasing the level of employment in industry and affecting the sector's contribution to the GDP. Industry employed 32.6 percent of the workforce in 1999, while contributing 30.4 percent to the GDP in 2000. However, manufacturing was the key to Italy's post-World War II economic boom and remains important. The steel industry in particular allowed the country to become one of the strongest economies in the world. All branches of the industrial sector grew very quickly, and Italian exports soared. Then, in the second half of the 1980s, the industrial sector went though a crisis, while the service sector expanded. With the onset of the second millennium, the loss of jobs in the industrial sector seems to have stabilized, and although facing tough international competition, Italian companies appear ready for the challenge.

MANUFACTURING. The backbone of the manufacturing sector is a few internationally known multinationals, operating in company with large numbers of small and medium enterprises. The most noteworthy manufactured products include machine tools, textiles and clothing, motorized road vehicles, domestic appliances, arms, fertilizers, and petrochemicals. Most manufacturing firms are located in the north of the country, with very few large factories in southern Italy. When Italy experienced its economic miracle in the 1950s and 1960s, the manufacturing heart of the country was the industrial triangle of Milan, Genoa, and Turin. However, this area has lost its predominant role due to the demise of the steel mills and other heavy industry. The northeast of the country, mainly the regions of Lombardy, the Veneto, and Friuli, is now the engine of the Italian economy. Certain large enterprises have relocated some of their operations to southern Italy to benefit from tax breaks and a more flexible workforce, but the region still has a very poor concentration of factories. Furthermore, large state-owned factories shut down in Taranto, Crotone, Terni, and Naples in the late 1980s, causing the loss of thousands of jobs. This action was part of a rationalization plan that required either the closure or the privatization of state-owned companies, and the public sector workforce was encouraged to seek employment in the growing service sector.

The most important, and probably best known, Italian manufacturing business is FIAT. This multinational company, headquartered in Turin and headed by the Agnelli family, has been a major force in Italian economic life since the beginning of the 20th century. FIAT is mainly involved in the production of Fiat cars and has a number of plants in Italy and abroad. It also owns Alfa-Romeo, Lancia, and Ferrari. FIAT's combined operations produce 3 million cars per year in Italy. While its export market is reasonably healthy, FIAT's large share of the Italian market allows it to compete in the European market. The Italian government is still influenced by the idea that "what is good for FIAT is good for Italy," so it lends its support to the car manufacturing

company. In recent years, the government has subsidized the purchase of brand new cars (in most cases, Fiats) from car owners who want to trade in their old model. Thanks to this scheme, FIAT was able to make the Punto, one of the best-selling small cars in the company's history. Many FIAT operations are headquartered abroad, with cars and trucks made in countries such as Poland, Russia, Brazil, and Spain. Finally, the year 2000 alliance with General Motors allowed FIAT to rediscover its U.S. market, which was abandoned when Japanese car manufacturers began exporting to the United States. FIAT is also heavily involved in many other sectors of the manufacturing industry: car components, trucks, motorcycles, industrial vehicles, weapons, and engineering machinery.

TEXTILES AND CLOTHING. Another very important subsector in the manufacturing industry is textiles and clothing, which boasts some of the world's best known fashion designer labels, such as Valentino, Armani, Versace, Gianfranco Ferré, and Krizia. However, the more casual clothing market accounts for the financial success of this sector. The design, quality, and relatively inexpensive prices of its products have made textile manufacturing Italy's third largest business after engineering and construction. Almost 1 million workers are employed by the textile industry, which is a leading exporter of clothes and shoes. There are very few large enterprises in this industry; most producers have small or medium-sized factories. The real strength of the sector lies in the efficiency of its distribution networks, and in the fame they enjoy, particularly in newer markets like the United States and Asia where the top labels are status symbols.

One big name known throughout the world caters to customers of average income: Benetton. In recent years almost as well known for its controversial advertising as for its clothes, Benetton is a family-owned business located in the Veneto. In the 1980s and early 1990s, Benetton's annual sales figures passed the US$1 billion mark, with most of the income derived from export. By addressing the casual market rather than the high fashion market, Benetton was able to combine quality with affordable prices. The strategy paid off and helped other Italian manufacturers by creating a niche market from which they could all profit. However, currently, Benetton is not as strong as it was in the clothing market, and it has diversified into construction and communications. Nevertheless, the industry remains a vibrant cornerstone of Italian export.

While many of the more famous brand names are situated in northern Italy, the textile sector is reasonably strong in southern Italy, where an increasing number of producers have relocated some of their manufacturing. Fashion houses in particular tend to outsource their production to small, family-run businesses in the area of Naples or in Puglia, where workers are more flexible. They specialize in the manufacture of leather, from which clothes, handbags, wallets, and purses are made.

FOOD PROCESSING. The development of the food processing industry in Italy has been similar to that of textiles. While its contribution to the GDP is far less substantial, it is nevertheless a significant economic sector. Fragmented and small-scale until the 1980s, the sector became more competitive by the 1990s through privatization and rationalization. Very powerful food manufacturing groups such as Barilla (makers of pasta) and Parmalat (dairy products) are dominant in their respective fields, not only in Italy but also abroad. Swiss-owned Nestlé acquired Buitoni pasta and Perugina chocolate in 1987 and thus has an important presence in Italy. As well as these main players, a wide range of small firms produce traditional Italian fare such as mozzarella cheese, Parma ham, and Calabrian sausages, without much recourse to modern technology. Most of the food products are destined for local consumption, but many are also exported. The widespread network of Italian restaurants abroad contributes to the increasing reputation and popularity of Italian foods throughout the world, and processed food exports represent a major element of numerous businesses in the sector.

SERVICES

Services have become the strongest foundation on which Italy builds its economic health. With a 67.1 percent share of GDP in 2000, the sector is the largest contributor to the national economy. The enormous expansion of service industries over the last couple of decades has encouraged the government to regard as a priority further investment in the sector. Since 1991, the number of employees in the service sector of the state bureaucracy, however, has steadily decreased as part of the government's cost-cutting policy and important state-run services are being given over to the private sector.

TOURISM. Italy competes with the United States, France, and Spain as one of the most popular destinations for international tourists, who flock to it in huge numbers. Approximately 30 million tourists visited the country in 1999 and, thanks to the Catholic Jubileum (a celebration of Catholic heritage) over 40 million visited in 2000. Surprisingly, tourism was not a priority for the country until the late 1980s. Then a coherent promotion program emerged and led to general improvements in transport, hotels and other tourist accommodations, museums, and monuments. The turning point was the 1990 soccer World Cup, when tourists descended on Italy for that event and rediscovered the country's other attractions.

Italy is extraordinarily rich in history, classical art and architecture, ancient cities and villages, glorious

landscapes, and a coastline well served by beaches. The vast western historical and artistic heritage draws large numbers of visitors to Rome, Venice, and Florence, while the smaller cities such as Siena, Pisa, Naples, the Isle of Capri, and Taormina in Sicily are increasingly popular. The region of Emilia-Romagna is a favorite spot for those, such as the east Europeans, on a limited budget, while Sardinia and Sicily are more upscale destinations. In 1996, receipts from tourism amounted to over US$28 billion. If those working in the transport sector were to be included in the statistics for the tourist sector, almost half of the working population would be connected with tourism. However, as with so much else in Italy, tourism is highly concentrated in the center-north, where most of the hotels and accommodations are located. In recent years, however, both central government and local administrations have begun to invest heavily in tourist services in the southern regions. Potentially, tourism can bring **hard currency** and employment to the south, encouraging development in its comparatively neglected regions of the country.

The working conditions in the tourist industry vary considerably from region to region and from business to business. Many hotels, restaurants, and bars are family owned, and extra labor is hired at a low cost during the busy months. Conditions are better for workers in state-owned museums, tourist offices, and transport. An almost unlimited supply of labor from the informal economy is available to the tourist sector, and it is needy foreign immigrants who take the lowest paid and least pleasant jobs.

RETAIL. Italy has a highly developed **retail** system. Mass outlets in the form of supermarkets, malls, and multiple stores are becoming increasingly popular, and distribution is very well organized, particularly in the northern regions. The main chains are Standa, COOP, Esselunga, Sigma, and SPAR. Nevertheless, the retail sector is largely made up small, family-owned shops, and these remain the primary sales outlets for goods and services in the south. The shop-owners' association, a very powerful lobbying group, was able to convince government to withhold licenses for supermarkets and malls for 2 years so that small shop owners could claim back some business. Working conditions are decent in family-owned shops, where employers tend to treat outside help as if they belonged to the family. Italian shop assistants, unlike those in many other countries, are professionals who are likely to stay with their jobs for life.

FINANCIAL SERVICES. Italy is a highly developed economy, and the financial and banking sector is similar to that of all other Western European countries. The Bank of Italy is the central bank, but with EMU now in place, the country's monetary policy is overseen by the European Central Bank. However, the Bank of Italy remains in charge of credit control and functions as the ultimate **guarantor** of other banks. The number of banks in Italy has always been high, with a wide range of financial institutions operating at different levels. There are national banks, both public and private, popular co-operative banks, savings banks, and chartered banks. Most of the co-operative and savings banks operate within a limited territory (provincial or regional). In general, banks are concentrated in the north. A notable exception to this is Sicily, where a large number of banks and other financial institutions are located for the less than healthy reason that organized crime requires **money-laundering** institutions under its control.

In recent years, mergers and takeovers have increased in order to strengthen and stabilize the banking system. Privatization has also helped to streamline the sector. Investment institutions, both public and private, are becoming increasingly important, with many people turning to investments to supplement their income. Since 1998, the banking system has been almost fully liberalized and most banks offer a wide range of financial services to their customers. Italian families have been traditionally very keen to save money, and, in 1999, the total deposits held in Italian banks amounted to US$450 billion. According to 1999 data, European banks use 53 percent of their available reserves to service individual loans, such as mortgages, with only 46.3 percent directed towards financing private sector businesses. Italy, however, does not conform to this pattern. Italian banks invest 66.7 percent of their resources in private enterprise, while only 18.3 percent is given to private consumers.

INTERNATIONAL TRADE

Italy recorded a trade deficit for several decades, largely due to the fact that the country lacked energy resources and was entirely dependent on imports for its supply. However, the 1990s brought a change of fortune, beginning with the **devaluation** of the lira in 1992 which allowed many businesses to compete in overseas export markets, particularly in Asia markets and the United States. The reduction of oil and gas prices in the

Trade (expressed in billions of US$): Italy

	Exports	Imports
1975	34.988	38.526
1980	78.104	100.741
1985	76.717	87.692
1990	170.304	181.968
1995	233.998	206.040
1998	242.332	215.887

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

mid-1990s gave a further boost to small and medium-size companies, as did their aggressive promotion of their products, which enabled them to penetrate foreign markets. Today, "Made in Italy" is in many countries a well-regarded indication of quality. In 1998, Italy recorded a trade surplus, with imports totaling US$215.887 billion against exports worth US$242.332 billion. That surplus has since been trimmed, with export of US$241.1 billion in 2000 against imports of US$231.4 billion.

Italy benefits from the EU free market, which is not subject to any trade barriers or **tariffs**, and 56.8 percent of Italian exports went to other EU countries in 1999. Italy's main export destinations within Europe are Germany (16.4 percent), France (12.9 percent), the United Kingdom (7.1 percent), Spain (6.3 percent), and the Netherlands (2.9 percent). The country's biggest commercial partner outside Europe is the United States, which takes 9.5 percent of Italy's export goods. Recently, a number of Asian countries have become important buyers of Italian products, and exports, particularly of clothes and shoes, to Japan, South Korea, and China are increasing. Italy's major exports are transport equipment, electrical machinery, textiles and clothing, chemicals, and food and beverages. The single largest export is transport equipment, with FIAT the main supplier. FIAT not only exports the motor cars (including Ferraris) for which it is known worldwide, but also a number of other vehicles ranging from train carriages and metro cars to trucks and motorcycles.

The products of its EU partners also dominate Italy's imports. In 1990, over 61 percent of total imports came from EU countries: Germany (19.3 percent), France (12.6 percent), the Netherlands (6.3 percent), and Spain (4.4 percent). Outside the EU, the United States contributes 5 percent of imports. The composition of imported goods is evidence of the lack of energy resources and raw materials from which the country suffers. Thus, metal represents 9.9 percent of total imports, and petroleum represents 4.5 percent. Transport equipment also figures prominently, as do chemicals and food. All of the most important multinational businesses, across all sectors, operate in Italy, either directly or through subsidiaries. A number of them invested quite heavily in the country, particularly after the liberalization of the European market in 1987, under the auspices of the EU.

MONEY

The value of the Italian lira has been volatile over the last 30 years and is generally considered a weak currency by comparison with other major currencies. Historically, the weakness of the Italian lira has been both a curse and a blessing for the country. On the one hand, Italy had to pay for energy resources and supplies in hard currency (U.S. dollars), and imported goods were expensive. On the other hand, a weak currency contributed to making high-quality Italian exports very appealing due to their relatively low prices, and the foreign markets were duly conquered. Moreover, high production costs were offset by relatively cheap labor.

Exchange rates: Italy

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	1,736.2
1997	1,703.1
1996	1,542.9

Note: Rates prior to 1999 are in Italian lire per US dollar.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Italy's participation in the European Economic Community (EEC) failed to stem the currency's volatility, and the lira was twice forced to withdraw from the **fixed exchange rates** that had been established among the member states. Following the last withdrawal in 1992, the government devalued the currency in order to boost exports at the height of the economic recession when the lira was under tremendous speculative pressure. The calculated gamble of devaluation paid off, particularly as regards exports to the United States, where U.S. consumers were ready to enjoy their country's economic boom.

Since the launch of the euro, the lira has found a previously unknown stability. The **exchange rate** is fixed, and in January 2002, the lira will be replaced by the euro, which will become the currency that competes against the U.S. dollar, and other currencies in the global market. Public opinion in Italy, unlike that of certain other countries such as the United Kingdom, welcomes the introduction of the new currency and does not seem to mind abandoning the traditional lira.

The Italian Stock Exchange (ISE), located in Milan, was founded in 1808, but until the mid-1980s it played a comparatively insignificant role in the national economy. Many businesses were suspicious of the stock exchange and chose to remain unlisted. However, since 1998, the ISE has grown into a dynamic force as a result of privatization, a new generation of progressive managers, and the requirements of the new economy. The public, too, is increasingly interested in stocks and shares and, as in the United States and elsewhere, a greater number of people are playing the market. Consequently, the ISE has expanded, and at the end of 1998 there were 223 listed companies. During 1997 and 1998, the volume of trading increased continuously, achieving and sustaining record

levels. Privatization has certainly contributed to enhancing the qualitative level of listed companies and attracted a wider public. While Milan is by no means as important as London or Paris to European share dealing, it is becoming increasingly important to the Italian economy.

POVERTY AND WEALTH

The Italian Institute of Statistics assesses the class system using 6 different categories. The first is the bourgeoisie, which includes entrepreneurs employing a minimum of 6 people, self-employed professionals, and managers, and accounts for 10 percent of the working population. The white collar middle class covers employees engaged in non-manual jobs and makes up 17 percent of the working population. The urban petit bourgeoisie comprise 14 percent of the working population, defined as small entrepreneurs with a maximum of 6 employees, shopkeepers, and self-employed artisans. The rural petit bourgeoisie, at 10 percent, own and operate small enterprises in the primary sectors of agriculture, forestry, hunting, and fishing. The urban working class is the 37 percent of the workforce that is engaged in manual labor. Finally, the rural working class, at 9 percent, are employees of the primary sector. This class breakdown, in identifying 2 categories each of the working and entrepreneurial classes, is considered to be more precise than the more common method of class division and has been used since the mid-1980s.

The situation regarding upward social, or class, mobility in Italy is quite complex. In 1998, the absolute rate of mobility—people who belong to a different social class than their parents—was 60.3 percent for men and 64.9 percent for women, the great majority of the Italian workforce. However, when one breaks down the absolute rate of mobility figures by class and analyzes them in relation to the changes in occupation structure between the current times and the 1960s, the whole picture changes. The highest mobility rate is found within the rural working class (91.1 percent), due mainly to the fact that, in the space of one generation, the occupational weight of this class has been greatly reduced. The lowest rates of mobility are found in the classes that have not been radically modified by the occupational structure: the urban working class and bourgeoisie. In these cases only half of the people are in a different class than their parents. It is, therefore, quite clear that true social mobility is perceived as being greater than it is. This conclusion is confirmed by data that give the rate of intra-generational mobility for all classes as 30.3 percent. Thus, the opportunities for social mobility still largely depend on an individual's social origins.

Despite being a wealthy country, Italy suffers from serious inequality in the distribution of wealth and resources. These dramatic statistics stand out: in 1998, 2,558,000 families (11.8 percent of the total) lived in poverty, which is equal to 7,423,000 individuals. The figure was even higher at the end of the 1980s, when families living in poverty represented 14 percent of the population. Once again, the contrast between north and south could not be clearer, with over 65 percent of impoverished families living in southern regions. The gap between the rich north and the impoverished south continues to increase, as does the depth of poverty itself. Of those classified as poor, elderly people living on a simple state pension make up 53 percent of households living in poverty. Their numbers, however, are steadily decreasing, to be overtaken by the working poor. This phenomenon, which looks likely to become a permanent feature of Italian society, affects couples with one or more children, where only one parent works, is under 40 years old, and has few qualifications and, thus, low earning power.

As a result of Italy's generous welfare state, the great majority of poor families do not live in extremes of squalor or deprivation. Essential needs provided by the state include basic health care and education, clean water supplies, and housing. Moreover, extensive family networks help those living in poverty to feel less isolated and are sometimes a source of financial help. However, it is extremely difficult for families in poverty to improve their circumstances, and over 70 percent of households classified as poor in 1994 remained poor 2 years later.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Italy	11,969	14,621	15,707	18,141	19,574
United States	19,364	21,529	23,200	25,363	29,683
France	18,730	21,374	22,510	25,624	27,975
Greece	8,302	9,645	10,005	10,735	12,069

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Italy

Lowest 10%	3.5
Lowest 20%	8.7
Second 20%	14.0
Third 20%	18.1
Fourth 20%	22.9
Highest 20%	36.3
Highest 10%	21.8

Survey year: 1995

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Italy	23	11	12	3	17	8	27
United States	13	9	9	4	6	8	51
France	22	7	9	3	8	12	40
Greece	32	11	14	5	14	8	16

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Necessity often forces individuals in poverty to take up low-paid and unsafe jobs in the informal economy, where they are subject to threats and blackmail. In urban areas of the south, the younger generation finds it very difficult to obtain work and poverty drives a percentage of them into the arms of organized crime. Migration to the north or leaving Italy altogether still remain ways out for many. While poverty is less visible in the wealthy north, it does exist. In particular, young couples with 2 or more children who struggle to meet the high cost of living on low salaries find themselves caught in the poverty trap.

WORKING CONDITIONS

Official 1998 figures put the Italian workforce at over 23 million, with an unemployment rate of 11.5 percent, but these statistics fail to take the informal economy into account. Unemployment is substantially higher in the south and among the younger generation. Statistically, people from the south, under age 30 and with poor qualifications stand a 50 percent chance of being unable to find employment. Thus, both geography and age are major factors in the Italian labor market.

Italy has a number of trade unions which, although formally independent, are connected to the larger political parties. The strongest union has always been the Confederazione Generale Italiana Lavoratori (CGIL), originally of communist allegiance, but now affiliated with the leftist Democrats. Italian trade unions were very strong in the past, and thanks to their efforts in the 1970s and 1980s many Italian workers currently enjoy a high level of social protection. Some of this protective network is being dismantled, but the foundations remain in place. Following mass strikes and demonstrations in 1968 and 1969, a statute of workers' rights was finally made law in 1970, thus ensuring security of employment in larger firms. Smaller firms were exempted from adopting a number of the statute's measures, but its impact has nevertheless been considerable in promoting the rights of workers. Among other significant victories for the trade union was the wage indexing system, guaranteeing that salaries would rise in line with annual inflation; common job classification, which introduced standardized salaries throughout Italy for specific categories of work; paid maternity leave; and an increase in the number of paid holidays. Despite these measures, Italian workers are among the worst paid in Europe, and higher wages for all workers is a constant demand of the trade unions, since the strong and well-organized employers' associations do not ever award substantial increases. Poor wages, though, are generally offset by a number of other social benefits, and in recent years the working week has been reduced to 37 hours (down 2.5 hours) for the same pay. Furthermore, people who are laid off can count on employment checks for a number of months and are entitled to severance pay, no matter what the grounds for dismissal.

Workers in the informal economy tend to be poorly educated, live in high unemployment areas, and are often foreign immigrants. They are unable to take advantage of the benefits enjoyed by the legally employed, and their working conditions are inadequate. Those who run the informal economy ignore safety regulations, demand working hours that far exceed the legal maximum, make no contributions to pension funds, offer no job security, and give no severance pay. The informal economy has the greatest impact on farm laborers where work is seasonal, and on construction and textile production workers employed by small firms. Wages in the informal sector tend to be at subsistence level, but it is difficult to ascertain the actual figures. Despite the efforts of the EU to curb the informal economy in Italy and enforce safety regulations, over 1,000 workers die in the work place every year.

Trade unionism in Italy has been in decline since the mid-1980s and most paid-up union members are retired workers. The influence of the unions has declined due to the reduction of the workforce in the industrial sector, the skepticism with which the trade union elite is perceived, and government policy aimed at weakening the unions. Much that was achieved by the unions has been

abolished or is on the verge of being dismantled. Privatization, liberalization, and budget cuts have reduced the protection network, and businesses have a far freer hand in dealing with the workforce. Consequently, employers' contributions towards pensions are being slashed, and overtime is not as well paid. The pressure of international competition and the necessity to maintain a healthy budget mean that labor costs have to be cut in both the private and public sectors. In order to preserve jobs, the trade unions and employers entered into a pact by which workers moderate their requests and accept cuts in exchange for job security.

Women have been entering the workforce since the early 1960s. They are a significant presence in all sectors of economy and tend to continue working after marriage, and even after having children. Many, however, are still employed in sectors that have been traditionally perceived as suited to women, such as education, health care and social services. The difficulty of coping with a full time job and raising children is a real burden to many women, and they increasingly turn to part-time work, which, though becoming more common, is an underdeveloped sector in Italy.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1861. Italy is unified after decades of struggle against foreign occupation. The king of Piedmont becomes king of Italy.

1870. Radical land reform takes place, intended to benefit the peasant workers, but few profit from the reforms, and living conditions for farmers decline.

1880s. Prime Minister Giolitti embraces protectionism and places high tariffs on a number of agricultural and industrial products to defend the national sectors. The policy backfires, access to foreign markets collapses, and a tariff war with France ensues.

1890s. The tariff war with France ends. The economy begins to develop, but many leave the country in search of a better life. The United States and South America are the preferred destinations.

1899. Giovanni Agnelli founds FIAT in Turin.

1915. Italy joins the Allies and fights against Germany and Austro-Hungary in World War I (1914–18).

1922. In the wake of enormous postwar political and economic problems, Benito Mussolini's fascist movement comes to power. Mussolini is appointed prime minister and radically changes the country.

1925. Mussolini completes his design of transforming Italy into a fascist dictatorship. He reshapes the economy to focus on agricultural self-sufficiency, a strong industrial sector and a rapid military build-up. The economy is mixed: private companies co-exist with many state-owned companies.

1936. Italy enters the colonial race and invades Somalia, which remains an Italian colony until the end of World War II.

1939–45. Italy enters World War II as an ally of Nazi Germany in 1940. With the downfall of Mussolini in 1943, however, Italy switches its allegiance to the Allies.

1946. Following a national referendum, King Victor Emmanuel III abdicates, and Italy becomes a republic. A government of national unity is formed to tackle the country's problems.

1952. Italy becomes a founding member of the European Coal and Steel Community with Germany, France, Belgium, the Netherlands and Luxembourg.

1957. Italy becomes a founding member of the European Economic Community, the predecessor to the European Union. The Italian "economic miracle" begins through a combination of free market principles and heavy government intervention.

1963. The Socialist Party abandons its leftist stance and joins the Christian Democrat government. This coalition holds power until 1994.

1968–69. The country is shaken by a series of strikes and demonstrations. Workers and students demand the improvement of working and living conditions. The government meets many demands, and a more modern welfare state is established.

1973. The first oil crisis slows economic growth but does not stop it.

1977. The economy grinds to a sudden halt. Political crisis and stagflation lead to the formation of a government of national unity, as left- and right-wing terrorism spreads.

1980. Rationalization and privatization commence and continue throughout the decade, with private companies becoming dominant.

1984. The beginning of a new economic miracle. Low oil prices, technological innovations, and cheap labor drive the Italian economy forward. However, only the northern regions benefit from this growth.

1992. The old political class is swept away by corruption scandals. The new government embraces neo-liberal policies based on massive budgetary cuts, privatization, and the promotion of worker flexibility. The lira is devalued to boost exports. The policy succeeds, and Italy exports more than it imports. Italy signs the Maastricht Treaty, which provides for further European economic

integration. Among the measures to which Italy subscribes is participation in the European Monetary Union.

1994. The center-right coalition led by media magnate Silvio Berlusconi wins the elections but remains in power only 7 months. A temporary government led by **technocrats** replaces it.

1996. The center-left coalition wins the elections and continues with economic liberalization.

1999. Italy qualifies for monetary union with 11 other EU countries and plans for the introduction of a single currency, the euro.

2001. A center-right coalition led by Silvio Berlusconi gains control of the government.

FUTURE TRENDS

The liberalizing efforts of the 1990s laid the foundations for the present growth, and Italy entered the new millennium on a high note, embracing the European Monetary Union and its new currency, the euro. The country's technological revolution is succeeding, the network of small and medium-sized enterprises is solid, international competitiveness is strong, and the balance of trade is positive. The government is consolidating the excellent results obtained by limiting expenditures and is waging a determined battle against tax evasion. Italy's economic outlook is, therefore, a positive one, particularly as the level of education is rising, and population growth is manageable. All indicators point to continued improvements in living standards. The future will see the Italian economy integrated even more into the economy of its European partners, and the European Union will eventually become a fully integrated body in all economic matters, including taxation.

There are, however, still a number of negative aspects that plague the economic and social well-being of Italy. First and foremost is the gap between the north and the south, which has widened over the past couple of decades, with government policies and EU grants proving unable to bring about any substantial improvement. Closing this gap is Italy's biggest challenge in securing a healthy future.

The weight of the informal economy also remains a major problem. While attempts have been made to reduce the impact of this sector, it remains considerable, and in escaping state control, it has a negative effect on working conditions, quality control, and fiscal revenues. While the informal economy may represent a source of income for many poorer families in the short term, in the long run it will undermine the official economy and, therefore, the country as a whole. Finally, there is the problem of persistent unemployment. Even when the economy is doing very well, the number of people out of work is higher than the European average. Unemployment stood at 11.5 percent in 2000. The government needs to address this problem as a matter of urgency.

DEPENDENCIES

Italy has no territories or colonies.

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—Francesco Cavatorta

LATVIA

Republic of Latvia
Latvijas Republika

CAPITAL: Riga.

MONETARY UNIT: Latvian Lat (Ls). One lat equals 100 santimis. There are coins of 1, 2, 5, 10, 20, and 50 santimi and 1 and 2 lats, and bank notes of 5, 10, 20, 50, 100, and 500 lats.

CHIEF EXPORTS: Wood and wood products, machinery and equipment, metals, textiles, foodstuffs.

CHIEF IMPORTS: Machinery and equipment, chemicals, fuels.

GROSS DOMESTIC PRODUCT: US$9.8 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$1.9 billion (f.o.b., 1999). **Imports:** US$2.8 billion (f.o.b., 1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in the Baltic region of Eastern Europe, Latvia is bordered by Estonia (339 kilometers; 211 miles), Russia (217 kilometers; 135 miles), Belarus (141 kilometers; 88 miles), Lithuania (453 kilometers; 281 miles), and the Baltic Sea (531 kilometers; 330 miles). Slightly larger than the state of West Virginia, Latvia has a total area of 64,589 square kilometers (40,136 square miles). Its capital, Riga, is centrally located and lies next to its namesake, the Gulf of Riga.

POPULATION. In July of 2000 the population of Latvia was estimated at 2,404,926, a decrease of 10 percent from the 1989 population of 2,666,567. This decrease is the result of 2 factors. The first is the economic hardships that set in following the break-up of the Soviet Union in 1991—of which Latvia had been a reluctant member—and the decision of families to postpone procreation. For the first time since the 1945 flight from the advancing Red Army and the 1949 Soviet deportation of dissident Latvians to Siberia, the total number of deaths outnumbered the total number of births. The second, and more important, factor has to do with the out-migration of Slavs, primarily Russians and Ukrainians. The regained independence of Latvia in 1991 brought a shift in political power from Russian control into Latvian control. New Latvian language requirements for certain employment sectors and the sudden reality of monolingual Russian speakers living in a new "foreign" country spurred a large **emigration** movement.

In 2000 the birth rate stood at 7.8 births per 1,000 while the death rate stood at 14.88 per 1,000. With a current out migration of 1.32 per 1,000, Latvia's annual population growth rate is -0.84 percent, and the projected population for 2015 is 2.1 million and for 2030 is 2.0 million. With an official unemployment rate of 8.6 percent (unofficial estimates are close to 14 percent), there is no great demand for an immediate increase in the **labor force**. The below replacement level birth rate may factor into labor shortages should Latvia's productive economy increase significantly. Female life expectancy (74.6 years) is much greater than male life expectancy (62.4 years) and thus among older people women greatly outnumber men. The largest percentage of the population are within their working years, 20 to 64, and a great amount of economic responsibility falls upon them. The **dependency ratio** (the percentage of the population that are either above or below their productive working years) in 1997 was 49.9 percent. In this same year, the percentage of the population aged 65 and above was at 13.6 percent and is estimated to reach 16.8 percent by 2015. Despite this increase in the percentage of the aged, the dependency ratio is predicted to drop to 45.8 percent by 2015. This is due to the drop in fertility rate, from 2.0 children per mother in 1975 to 1.3 in 1997.

Language and citizenship policies that served as a reprisal against former Russian dominance fostered the out migration of that group, but criticisms from the

United Nations and the European Union for such discriminatory practices have caused the Latvian government to soften its citizenship and naturalization policies. In 1989 Latvians comprised only 52 percent of the country's population while Russians constituted 34 percent, with Belorussians, Ukrainians, Poles, and Lithuanians, in respective ranking, making up most of the remainder. Within 6 major municipalities, the Russian population grossly outnumbers the indigenous population, and the former dominance of the Russian language meant that it was impossible for a Latvian to engage in any type of economic activity without the use of Russian. Current conditions have changed and monolingual Russian speakers are faced with very difficult circumstances. In 1996 ethnic Latvians comprised 56.6 percent of the country's population, while the remaining ethnic Russians constituted 30.3 percent. However, 71 percent of the Latvian population are considered citizens while the remaining 29 percent are not, indicating that a significant portion of the ethnic Russian population has been given citizenship. This issue has been a continuing source of contention in the country's politics.

OVERVIEW OF ECONOMY

The economy of Latvia today, which is based on light industry and services, looks optimistically toward the future. But, like the other 2 Baltic States—Estonia and Lithuania—which emerged from the break-up of the Soviet Union in 1991, Latvia suffered severe economic shocks in the first decade of its transition from **communist** rule and has faced a difficult road during its transition to a market economy.

During the 1920s and 1930s, Latvia experienced a miraculous economic recovery after the ravaging of World War I (1914–18). Agrarian reform provided land for the dispossessed. Many farmsteads formed cooperatives that provided loans and export credits, the currency was stable, there was low **inflation**, unemployment was not as severe as it was in Western Europe during the Great Depression, and Latvia was able to tuck away 10.6 tons of gold in foreign banks. But this recovery was severely interrupted by World War II, and Latvia's economic processes were quickly altered by the invasion of the Red Army of the Soviet Union. As the Soviet Union took command of the economy, almost all property, including

farms, was placed under state control, leading to the 1949 deportation of 40,000 mostly rural occupants. The following decades saw a continual struggle between rational communist reformers and political ideologues attached to Moscow, with the latter habitually prevailing. Though there was an attempt to reorient Latvian industry from its growing reliance on imported raw materials, by 1959 Moscow, the capital of the Soviet Union, oversaw all of Latvian industrialization and economic development. Despite such control, Latvians always remembered their previous economic successes and recognized that they would have been better off if they had remained separate from the Soviet Union.

The Soviet economic system entailed the importation of raw materials, fuel, and workers into Latvia, and the exportation of finished products. But the environment and the social welfare of Latvians suffered under this plan, as they did in all the Soviet republics. Finally, by the late 1980s, Latvia managed to gain greater control of its economy, increasing its share of control of financial activities from 17 to 42 percent by 1990. After the break-up of the Soviet Union, all the republics encountered a severe economic trauma. Rising energy prices and lack of **price controls** made Western goods too expensive for the markets of the former Soviet Union, and the quality of goods produced in Latvia was too poor to be competitive in Western markets. International trade plummeted, manufacturing slowed, and unemployment and inflation soared.

Economic reforms introduced after the declaration of independence from Russia in 1991 called for a shift in the direction of exports away from Russia and toward the West, a change and stabilization of the currency, and a shift away from heavy industry toward a more service based economy. **Privatization** —the sale or transfer of state-owned businesses to the **private sector**—has proved to be one of the most difficult aspects of transition. It was some while before a privatization agency was established. There was not enough domestic capital to successfully purchase large enterprises, and perceived political instability and the prospect of costly retrofitting obsolete production companies hindered the attraction of foreign investment, which in itself was met with resistance as Latvians feared the selling off of its assets. Honoring the claims of previous ownership proved to be a difficult task as well. Claimants feared the high cost of repairs that would be necessary for properties, and the division of collectivized farms was troubled by the unequal value of the land.

The 1998 Russian financial crises affected Latvia, which experienced no growth in **gross domestic product** (GDP) in 1999. But currently Latvia shows every sign of becoming more involved with trade with the West and the world. It has joined the World Trade Organization (WTO) and has joined talks for accession into the European Union (EU). Major foreign investment in 1999 was directed toward real estate and in the financial sector, while investment in 2000 was directed toward energy and transportation. A 5.4 percent increase in the GDP in 2000, a decline in unemployment, and the stabilization of inflation spell good news for Latvia's bid to enter the EU in 2003.

POLITICS, GOVERNMENT, AND TAXATION

In 1989 the Latvian Supreme Soviet ended the Communist Party's political **monopoly**, and there was a rise in independent political parties and the opportunities for free elections, something that had not been possible in Latvia since 1940. Results of the first free election saw only 15 of the 201 pro-Soviet deputies reelected. Approximately two-thirds of the new members belonged to the Popular Front of Latvia (LTF), a pro-independence party that formed in 1987. On 4 May 1990, the Supreme Council, or Parliament, adopted a declaration of independence, declared Soviet annexation illegal, and restored articles of the 1922 constitution. On 21 August 1991, after the Soviet coup in Moscow, Latvia declared full independence but failed to enact components of the 4 May 1990 declaration because of questions about the legitimacy of the new government and whether amendments to the 1922 constitution should be permitted. Much of the opposition was due, the critics asserted, to the fact that election had taken place while Latvia was still occupied and that members of the Soviet army had participated and had been allowed to use rules different from the rest of the voting population. It was contended that only those with Latvian citizenship prior to Soviet occupation should be allowed to decide Latvia's future. In the following election in 1993 approximately 25 percent of the permanent residents in Latvia, mostly ethnic Russians, were not allowed to vote.

In Latvia's electoral system 100 representatives are elected for a 3-year period to serve in the Saeima, which then elects a board whose chairman or deputy serves as speaker for the legislature. The Saeima elects a president who also serves for 3 years and is excluded from serving more than 2 terms. The president appoints a prime minister, who then nominates the other cabinet ministers. In their May 1994 elections—the first since independence—a majority of the representatives elected were members of the Latvian National Independence Movement or other nationalist parties. Segments of the Communist Party of Latvia, which had previously dominated, fared very poorly. A host of contending political parties emerged and their particular prominence waxed and waned as various issues became more urgent for Latvia's citizens. For example, a 1994 dispute about **tariffs** on

agricultural imports prompted the Latvian Farmer's Union to withdraw from the ruling coalition and resulting in a collapse of the government. Lativia faced the critical issue of citizenship. The first bill was very restrictive for Russians and other non-Latvians, allowing only 2,000 people to naturalize per year. International as well as domestic pressure caused the Saeima to reconsider and initiate another, less restrictive policy. The revised policy was that the applicant should have lived in Latvia at least 5 years, have adequate knowledge of the country's language, history, and constitution, and have a legal source of income.

Latvia, as with the other Baltic States, has played an interesting role in the continuing geopolitical, suspicion-laden struggle between Russia and the West. Latvia's initial attempts to join with North Atlantic Treaty Organization (NATO) were unsuccessful, but efforts toward this end, as well as integration into the EU, continue. Continued strengthening of democratic policies and adherence to economic **liberalizing** policies has made Latvia's access to these groups favorable, even though Russia continues to express disfavor.

A sizable portion of the state income is derived from **value-added tax** (VAT), and this tax has been increased up to 18 percent in order to meet state expenditures. To attract foreign investment of capital and to stimulate the economy, certain conditions applied for the exemption of VAT toward foreign investment. The government also sells **treasury bills** and earns interest on loans to domestic, private, and national enterprises.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Latvia possesses 2,406 kilometers (1,495 miles) of railroads that extend toward Russia, Belarussia, and the other Baltic States. Both they and the cars that roll across them are aging and in need of repair. A network of 59,178 kilometers (36,773 miles) of roads, roughly a third of which are paved, allows access to all regions of the country. While private car ownership has risen in that last years, railways and buses transport the majority of commuters.

Major seaports located at Riga, Ventspils, and Liepaja, which remain ice free throughout the year, are superbly linked to both rails and an extensive network of roads, allowing the domestic and international transportation of goods. Latvia, which is dependent on the importation of fuels, also serves as a transit area for outgoing supplies. The port of Ventspils is the terminus for the Volga Urals oil pipeline (which extends into Russia) and can simultaneously accommodate 3 large tankers. The port at Liepaja, the deepest port in the Baltic Sea, was formerly operated for Soviet military purposes and is in need of major modification for commercial purposes. The port at Riga, the busiest in Latvia, is responsible for the greatest movement of trade goods.

Oil and gas are imported into Latvia from Russia and help to fuel industries and the 2 thermal power plants near Riga. In addition, 3 hydroelectric dams along Latvia's largest river, the Daugava, add to the power supply, but still electricity is imported to feed this most industrialized Baltic State.

Privatization has caused a reconstruction in Latvia's telecommunications network. In 1994, 49 percent of the system was sold to a British-Finnish telecommunications consortium and international communications became available at standard international rates. The privatized telecommunications company, Lattelcom, is working toward a fully digitized network by 2012, thus alleviating the problem of unmet demand due to a shortage of lines. In 1997 there were 748,000 main telephone lines in use, and in 1999, 175,348 cellular phones in use.

ECONOMIC SECTORS

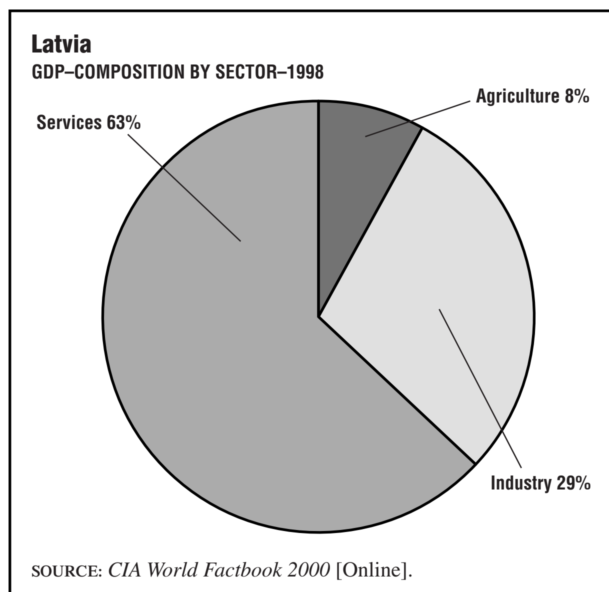
The years following World War II saw a shift in Latvia's major economic activity from agriculture and toward Soviet-style heavy industry. In 1990, agriculture

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Latvia	247	710	492	58.0	68	N/A	N/A	50.86	105
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.7	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Lithuania	93	513	459	67.5	72	1.7	54.0	30.45	103

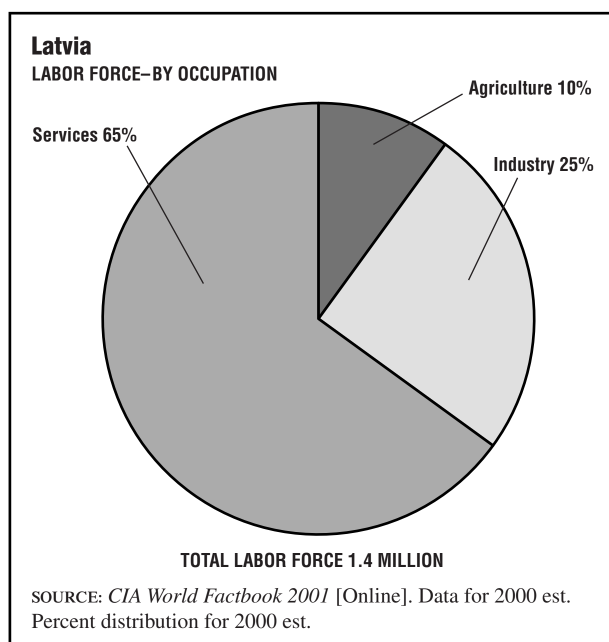
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*



SOURCE: *CIA World Factbook 2000* [Online].

accounted for 20 percent of the GDP while industry comprised almost 43 percent and services—including transportation, communication, and construction—were around 34 percent. The transition toward a market economy, however, has created a definite shift in economic orientation toward the west. By 1998 agriculture contributed only 8 percent of the GDP, while industry contributed 29 percent and services contributed 63 percent. (Employment per sector was last recorded in 1990 at 16 percent in agriculture, 41 percent in industry, and 43 percent in services, but these numbers have likely shifted significantly over the course of the decade.)



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 2000 est.

In 1993, 33 percent of Latvia's exports were directed toward Western Europe while 48 percent were directed toward the republics of the former Soviet Union. By 1999, exports toward the European Union were at 63 percent while export with the former Soviet Union states was reduced to 12 percent. The export of services has experienced rapid growth—22 percent in the first three-quarters of 2000 alone. These services include information technologies and computer software, international trade banks, and cargo services. As the Latvian economy models itself on the economies of the West, such services will play an even more important role in Latvia's integration into the European Union. These exports have been of great value, providing stability at a moment when external shocks, such as a strengthened dollar and rising oil prices, have hurt the trade balance.

AGRICULTURE

Under Soviet control, once-dominant Latvian agriculture took a back seat to industry. By 1990, the amount of agricultural land in Latvia decreased 32 percent from its 1932 levels. As agriculture was brought under state control, many of the former farms were abandoned and converted to forest. Half of the arable land was used for fodder crops for the cattle and dairy industries that supplied the Soviet Union. About 40 percent of the land was used to grow grain, and the rest was for potatoes, flax, and sugar beets. Meat, dairy products, and crops were shipped to other Soviet republics in exchange for equipment, fuel, and fertilizer. Small private plots and some animal holdings were permitted by the Soviet authorities. These plots served a vital role in supplementing the poor output of the inefficient collective farms. At the end of communist rule much of the country's livestock was held on such plots. When the Soviet system fell apart, however, feed shortages and rising cost of farm equipment created a decline in agricultural production in Latvia.

From 1994 to 1998 there was a general decrease in the production of meat products. Associated with this was a drop in fodder production. The most dramatic decline in livestock was in beef production and the least dramatic was in poultry. Milk production was down slightly while egg production increased. This is likely due to the economic austerity endured and the generally higher costs associated with meat product. Eggs, being a replenishable product, are a more economic form of protein. Production of cereals and potatoes decreased, but sugar beets doubled. This shift makes sense as the resultant sugar could be easily exported and bring in much needed **hard currency**. Forest products, such as paper and timber, also added to the economy through export. Even though agriculture declined in percentage of GDP in Latvia, it still accounted for 16 percent of the labor force in 2000.

Forests cover 40 percent of Latvian territory, with the majority of them being in the northern areas, which are 50 percent wooded. Over 11 percent of forests are protected, while the remaining forests are mixed between commercial and restricted management. Forest resources are not fully exploited, and if financial resources can be found to develop the industry, the number of annual cuts could be doubled. Local and international environmental organizations, of course, oppose such increased development

INDUSTRY

MANUFACTURING. Proximity to European markets and the ease and cheapness of transport across the Baltic Sea makes Latvia well situated for delivering goods to market according to EU standards. Cheap labor, a stable currency, membership in the World Trade Organization, and future membership in the EU has made industry an important part of Latvia's development plans.

Manufacturing in Latvia is currently organized around machinery, textiles (especially woolens), food processing, and wood processing. Due to cheap labor and abundant resources, wood processing is the most dynamic sector and possesses the potential for dramatic increase. Latvia produces automobiles, electric rail cars, and **consumer goods** such as radios and appliances. Steel, cement, wood products, chemicals, and electronics are also manufactured in Latvia's major urban centers. Dependence on imported energy delivered at increased prices injured the industrial sector of Latvia, once the most industrialized of the Soviet Republics, and the service sector has increased in importance. Information technologies (IT) have recently become a rapidly developing area due to changes in the political, business, and technical **infrastructure** of the country. About 20 percent of total foreign investments is directed at manufacturing.

As of 1999, food products and beverages comprised the largest share of Latvia's manufacturing at 36.4 percent. Wood and wood products, at 17.8 percent in 1999, comprised the second largest share of Latvian manufacturing and increased 14.5 percent from the previous year. Textiles remained important at nearly 6 percent in 1999, and other significant industries in 1999 included the following: publishing and printing (4.7 percent), wear apparel (3.7 percent), chemicals (3.5 percent), metal wares (2.9 percent), and transport vehicles (2.9 percent).

SERVICES

TOURISM. Latvia is the least known of the Baltic states and does not receive much tourism. However, Riga, the largest and most vibrant city in the Baltic States, is the primary tourist destination, offering opportunities for day trips. Tourism by Russians is still present in Latvia, but Western visitors have become more numerous. Latvia's coast supports several beach resorts, but poor water quality in the Baltic Sea has discouraged bathers. In fact, the number of visitors to Latvia has decreased from 2.4 million in 1993 to just 1.7 million in 1999.

FINANCIAL SERVICES. Latvia's 2-tiered banking system began in 1988 when its first commercial banks were established. Prior to the break up of the Soviet Union, there were no private banks in any of the Baltic States. Since that time, the banking system, although suffering 2 crises, has developed well and offers a variety of services to its customers. The Central Bank of Latvia was founded in August of 1990. It is an independent bank that has the right to issue the national currency, supervise other banks and credit unions, and control the economy via **monetary policy** instruments, such as national interest rates. It is independent of the Latvian government and handles foreign currency.

The commercial banking sector is controlled by the Central Bank. The bank crises have struck Latvia since independence. Connected to a large reduction in the number of banks, the first crisis occurred in 1995. The second crisis accompanied the Russian economic collapse of 1998. Since that time, the Latvian banking system has been recovering, and a majority of the banks have ended the year with a profit.

The banking system in Latvia has been almost entirely transferred into private hands, although 70 percent of the ownership and control is with foreign institutions. There are currently 21 banks and 1 foreign bank branch in Latvia. In 12 of these banks, more than 50 percent of assets are owned by foreign shareholders. In 2000 there was a 38 percent increase in the total assets of banks as investment has increased and proved profitable. Cash and capital flow into and out of Latvia faces virtually no restrictions.

The Riga Stock Exchange (RSE), re-established in 1993, is Latvia's only licensed stock exchange. It is owned by 27 shareholders, and the Latvian Ministry of Finance regulates its activities. The shareholders include major Latvian commercial banks, brokerage companies, and the State Real Estate Fund. In June of 1997, the RSE became the first exchange in Eastern Europe to have a Dow Jones Index, meaning that the daily activities are collectively reported in a quantitative fashion to display the rise and falls in the market.

INTERNATIONAL TRADE

Latvia's geographical position has made it a strategic trading hub for generations, and this benefit continues as an increase in trade between East and West passes across its borders. There has been a significant shift in

Latvia's international trade away from the states of the former Soviet Union and toward the EU and other western markets. In 2000, about 68 percent of exports were directed toward the EU. In 1998, Germany was Latvia's single largest tracking partner, with 16 percent of exports and 17 percent of imports. The United Kingdom was the second largest source of exports from Latvia, with 14 percent, followed by Russia with 12 percent, Sweden with 10 percent, and others. Russia was the second largest importer of goods to Latvia, with 12 percent, followed by Finland with 10 percent, and Sweden with 7 percent. About 65 percent of the energy imports come from Russia, but Estonia, with its nuclear reactors and available uranium, also provides electricity to Latvia. The EU is responsible for 45 percent of the imported machinery. All told, Latvia exported US$1.9 billion of goods in 1999 and imported US$2.8 billion in goods in 1998.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Latvia	2,382	2,797	3,210	3,703	2,328
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Lithuania	N/A	N/A	N/A	3,191	2,197

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

MONEY

The Lat replaced the Latvian ruble in March of 1993. The **exchange rate** of the Lat has remained relatively stable, which has been crucial to Latvia's development process, for it has meant that confidence among foreign investors has remained high. Initially, following independence from the Soviet Union, Latvia experienced considerable economic difficulty as relations with their former Russian trade partner weakened and Latvian goods were not competitive in the western markets. Inflation was high and the purchasing power of the population fell and remained low. With the exception of the setback of 1998, which was tied to the Russian financial crises, Latvia's economic condition has slowly been improving. As of 2000 the purchasing power had increased 4.2 percent from the previous year. The increase in **disposable income**, at 8.1 percent, has been greater in urban areas than in rural areas, according to the Central Statistical Bureau of Latvia.

POVERTY AND WEALTH

Political changes and the reintroduction of a **free market system** in 1991 have forced people who once depended on the state to struggle independently for their economic survival. For the poorest in Latvia, life is difficult because social services, such as health care, worker's compensation, and pensions, have been dramatically cut. The percentage of Latvia's poorest is higher than well-developed nations, with 21.4 percent living below the poverty line (defined as one-half of the average income). Poverty is highest among rural residents (26 percent) and among families with 3 or more children (44.1 percent), according to a report by Petra Lantz de Bernardis.

A 1999 survey of living conditions in Latvia reported by the Central Statistical Bureau of Latvia revealed, not surprisingly, that those with the lowest degree of education had the least favorable prospects for jobs. However, an advanced education does not necessarily guarantee a high standard of living in contemporary Latvia, nor does a high standard of living necessarily indicate an advanced education. In 1999 the average wage for an individual with a high education was 156 lats while a person with a basic education received 75 lats. In comparison to state and public enterprises, private enterprises more often engage workers without a contract, put them in unfavorable work conditions, and provide no sense of job security for the worker. Of the survey respondents aged 18 and over, 7.2 percent have been robbed of personal belongings from a home or car, 3.6 percent have been threatened with violence, and 3.3 percent have been mugged.

Exchange rates: Latvia

lats (Ls) per US$1	
Jan 2001	0.614
2000	0.607
1999	0.585
1998	0.590
1997	0.581
1996	0.551

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Latvia

Lowest 10%	2.9
Lowest 20%	7.6
Second 20%	12.9
Third 20%	17.1
Fourth 20%	22.1
Highest 20%	40.3
Highest 10%	25.9

Survey year: 1998

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Latvia	30	5	16	6	23	11	10
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Lithuania	33	5	13	4	27	9	8

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Many households cannot afford simple amenities. About 11 percent of the households cannot afford education for their children, 16 percent cannot cover emergency medical expenses, 20 percent cannot afford to eat meat or fish at least 3 times a week, 21 percent cannot afford annual dental checkups, 38 percent cannot go out for an evening at the movies or a concert, 38 percent cannot afford to entertain guests, 65 percent cannot afford new clothes, 77 percent cannot afford to replace worn furniture, and 82 percent do not have enough money for a holiday weekend abroad. While nearly half of the survey respondents reported good health, it was found that increased age was accompanied by decreased health. Also, there was a direct correlation between poor economic conditions and reports of ill health.

WORKING CONDITIONS

During Soviet rule, Latvia became the most industrialized and urbanized republic of the Soviet Union. While the importance of industry has deceased since the break-up, urbanization in Latvia remains high, hovering at around 78 percent of the population living in urban centers. The high level of pollution emitted by Latvia's factories contributes to low life expectancy, especially for males. Adding to the danger of shortened lives is a Latvian diet traditionally high in fats, a national aversion to exercise, and a male propensity toward heavy smoking. Nonetheless, the economic hardship caused by the break-up has improved the general health of Latvians and life expectancies are creeping upward.

Females live longer in Latvia but still do not experience economic equality with males. In 1998 the **real GDP** per capita for females was US$3,330 while for men it was US$4,664, a difference of almost 29 percent. There are more young women in secondary school and more in higher education. This may be due to the need for young men to begin work at an earlier age.

The dominance of service sector and light industries explains the high level of urbanization in Latvia. The city centers, which were previously most Russian, contain all of Latvia's institutions of higher education. The large percentage of Russians remaining in the city and the prohibitive cost of housing for students makes acquisition of a degree difficult for Latvians, who in 1989 were fourth in ethnic groups in Latvia to be enrolled in university.

The total workforce in Latvia in 1997 stood at 1.4 million, with an unemployment rate of 9.6 percent in 1999. As a result of economic conditions, many people are forced to work more than 40 hours per week in order to gain extra income. But simultaneously, many enterprises are unable to pay their employees a full week's wages, forcing employees to work part-time or to take unpaid leave. The legislation of Latvia regards forced holidays and a shortened business week as concealed forms of unemployment.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1300. Prior to this date Latvia is composed of half a dozen distinct and independent kingdoms; after 1300, German barons dominate the region and establishe a Germanic culture.

1710. A Russian elite infiltrates the bureaucracy of Latvia under the rule of Peter the Great, challenging the dominance of the Germans.

1850. First Latvian Awakening appears as resistance to Germanic and Russian influences. A Latvian elite begin to develop and push for self-determination in local affairs.

1880. Rapid industrialization of the largely landlocked Russian Empire causes it to incorporate the Baltic States in this process. The Latvian economy develops rapidly, under the direction of Russia, and the third largest port in the Russian empire is created by 1913.

1905. **Marxist** ideology spreads in the workplaces of Latvia, leading to a crackdown by authorities and the creation of a mass movement against Russian authority and German nobility.

1914. World War I (1914–18) leads to the evacuation of half the Latvian population who flee the invading German army into neighboring countries to the east. The Communist movement gains strength.

1918. Latvia claims independence on 18 November and 2 years later pro- and anti-Communist forces end their hostilities.

1921. Latvia joins the League of Nations and begins a 20 year period of economic progress, later known as the Second Awakening.

1934. Centrist politician Karlis Ulmanis gains power and ends the political instability of the multiple-party parliamentary system. He is later deported from Latvia to a prison camp in Russia by the Soviet authorities and dies in captivity in 1942.

1939. The Nazi-Soviet Nonaggression Pact between Germany and Russia puts Latvia, Estonia, and Lithuania under Soviet control.

1939. On 5 October Latvia is coerced into signing the Pact of Defense and Mutual Assistance; 30,000 Soviet troops occupy the country.

1939. In November, Soviets attack Finland, resulting in the Soviet Union being expelled from the League of Nations, along with Latvia.

1940. Soviet leader Joseph Stalin demands that the Baltic State governments be replaced with Soviet officials, leading to the creation of the Latvian Soviet Socialist Republic on 21 July.

1941. Immediately after the Soviet Union either deports or executes 35,000 Latvian dissidents, a Nazi invasion and 5 year occupation translates into an almost complete annihilation of Latvia's Gypsies and Jews.

1945. The Red Army reoccupies Latvia, and approximately 200,000 refugees flee. About 150,000 survivors settle in the West and engage in a long struggle to free their homeland from occupation.

1953. Soviet leader Joseph Stalin dies, and conditions for Latvian autonomy improve.

1957. Eduards Berklavs, a key figure in the Communist Party of Latvia (CPL), initiates de-Russification policies, i.e. restricted **immigration** from Russia, requirements that governmental functionaries know Latvian, and diversion of funds toward smaller, local activities rather than grandiose Soviet projects.

1959. Moscow purges Latvian national communists, including Berklavs and reinstitutes economic policies favoring Russia.

1985. Mikhail Gorbachev of the Soviet Union ushers in the period of perestroika, a campaign to reform the Communist Party through eased social, economic, and political mechanisms, and glasnost, the liberalization of the media and opportunity for critical discussion for the purpose of improving the system.

1987. Demonstrations for independence begin in Latvia.

1988. The Popular Front of Latvia (LTF) forms and organizes its first congress.

1989. With ever-increasing membership, the LTF becomes a de facto second government and pushes the Latvian Supreme Soviet to accept a declaration of sovereignty and economic independence.

1990. A new parliament, known as the Supreme Council, is formed and votes in favor of a transition to democracy and independence.

1991. Following a failed coup in the Soviet Union, Latvia declares independence on 21 August; Latvia joins the United Nations.

1992. Faced with high prices, problems with privatization, and hyperinflation, Latvia's economy crashes.

1993. A new currency, the Lat, is introduced and becomes the only legal tender by October.

1994. A citizenship bill, severely restricting the naturalization of Russians, is passed but later its restrictions are eased.

FUTURE TRENDS

The outlook for Latvia in the near and far future is bright. The continued stabilization of its currency, the increase in democratic activities and transparent economic activities, the growing degree of privatization, the liberalized trade policy, and the increasing skills of its workers all mean that unemployment will decline and foreign investment is likely to continue. The current downside to this situation is that poor wages prevent the average citizen from equal participation in the emerging economic system. Also, with minimal capital available to Latvian citizens, much of the country's developing assets will be foreign owned, a condition looked upon by many Latvians as unfavorable. With Latvia's accession into the EU, the situation is likely to improve even more as capital and labor will be able to move across the borders of a united Europe.

In its efforts to enter the EU, Latvia has decreased the distance between itself and the leading Eastern European countries. But Latvian officials are disappointed that a recent progress report on EU accession of Eastern European countries puts them in a lagging category. The report states that Latvia has a "functioning market" that should be able, in the medium term, to cope with the competitive pressures of the EU market. The main

tasks for Latvia will be continued privatization and fiscal discipline.

The Nordic States banking group, Nordea, predicts that Latvia will experience significant growth in the near future. The country's pulp mill industry is cited as one of the key factors for this predicted growth. Nordea predicted growth in the GDP in the coming years are as follows: 5.5 percent for 2001, 6 percent for 2002, and 5.3 percent for 2003. One negative aspect mentioned in the report was the possibility of current account deficit expansion if the privatization process should slow. This has been a perceived risk because recent political support for the left-oriented Social Democrats that are threatening the incumbent coalition.

DEPENDENCIES

Latvia has no territories or colonies.

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—Mark Carper

LIECHTENSTEIN

Principality of Liechtenstein
Fürstentum Liechtenstein

CAPITAL: Vaduz.

MONETARY UNIT: Swiss Franc (SFR). One SFr equals 100 centimes or rappen. There are notes of 10, 20, 50, 100, 200, and 1,000 Swiss francs, and coins of 5, 10, 20, and 50 centimes and 1, 2, and 5 Swiss francs. The country maintains a monetary and customs union with Switzerland. The Liechtenstein monetary, fiscal, and banking systems can therefore be regarded as an extension of their Swiss counterparts.

CHIEF EXPORTS: Small specialty machinery, dental products, stamps, hardware, pottery.

CHIEF IMPORTS: Machinery, metal goods, textiles, foodstuffs, motor vehicles, fuels.

GROSS DOMESTIC PRODUCT: US$730 million (1998 est.).

BALANCE OF TRADE: **Exports:** US$2.47 billion (1996 est.). **Imports:** US$917.3 million (1996 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The independent principality of Liechtenstein is located in central Europe and bordered on the east by Austria and on the south, west, and north by Switzerland. It is one of the smallest countries in the world, with a total area of only 160 square kilometers (62 square miles). Liechtenstein is about 25 kilometers (15.6 miles) long and 6 kilometers (3.75 miles) wide. Its total area is about 0.9 times the size of Washington, D.C. The western edge of the territory lies in the valley of the upper Rhine River and contains a narrow flat strip of arable land. The rest of the area consists of the foothills of the Alps, covered with forests and rising to several high and rugged peaks in the south. Along with Uzbekistan in Central Asia, Liechtenstein is one of the only two doubly landlocked countries in the world (bounded by other landlocked countries only). The capital and principal urban center, Vaduz, is a small town with a population of about 5,000 located in the west-central part of the country near the Rhine River.

POPULATION. The population of Liechtenstein was estimated at 32,207 in July of 2000; in 1998, it was 31,717. Although quite mountainous, Liechtenstein is densely populated, with an overall density of 198 persons per square kilometer (513 per square mile). The population is unevenly distributed and concentrated in the western, lower part of the country, along the Rhine. The principality has a population growth rate of 1.02 percent, with a birth rate of 11.83 births per 1,000 population. The death rate is 6.64 deaths per 1,000 population, and there is a high positive net migration rate of 5.03 immigrants per 1,000 population (all according to 2000 estimates).

Approximately one-third of the population are resident aliens, including Iranians, Turks, and others, while the vast majority of the Liechtenstein nationals are mostly of ethnic Germanic origin, like their neighbors in eastern Switzerland and western Austria. A south German dialect, Alemannish, is commonly spoken by some 87.5 percent of the population, while literary German is the official language of the country. In 2000, the **labor force** included 22,891 people, of which an astounding number of 13,847 were foreigners, mostly **guest workers**; 8,231 people commuted from neighboring Austrian and Swiss towns to work daily. Unlike Switzerland, however, **immigration** does not seem to be a major issue in the domestic political debates in Liechtenstein (in 2000, the Swiss electorate had to vote in a referendum on a conservative proposal to impose an 18 percent quota on the number of foreign workers in the country but decided against).

Approximately 88 percent of the population are traditionally Roman Catholic. In 1991, primary (elementary and junior high) school enrollment in the principality totaled 1,985 children, and about 1,200 attended secondary (high) schools. Primary and secondary education is free in Liechtenstein and schooling is required for 8 years. The

population, as elsewhere in Europe, is aging, with a high life expectancy at birth (82.47 years for women, 75.16 for men, 78.81 for the total population, all 2000 estimates). Around 18 percent of the people are 14 years of age and younger, 71 percent are between 15 and 64, and 11 percent are 65 or older. The high and stable standards of living and the declining fertility rate, combined with the limited but steady immigration flow, will contribute to a slow growth of the population and the aging of the Liechtenstein nationals, while immigrants' and guest workers' families will display a more youthful population profile.

OVERVIEW OF ECONOMY

Liechtenstein is tiny in size and has very limited natural resources, but it is nevertheless a prosperous country with a highly industrialized market economy and a robust financial services sector. Since World War II (in which the principality remained neutral), its liberal political regime and remarkably low business taxes have fueled strong economic growth and attracted many foreign companies. For over 80 years, Liechtenstein has been participating in a customs union with Switzerland; it uses the Swiss franc as its national currency, and in most aspects may be regarded as a part of the Swiss economy. Liechtenstein statistics are also included in the Swiss national statistics. Since 1919, Switzerland has represented Liechtenstein abroad diplomatically, as well. Living standards in the country are similar to those in the urban areas of neighboring Switzerland and Austria, both reckoned among the most affluent societies in the world. Its **gross domestic product (GDP) per capita** of $23,000 (1998 estimate) is also among the highest in the world.

Favorable tax treatment and extremely streamlined incorporation legislation have lured as many as 74,000 holding (or so-called "letter box") companies, operating overseas, to establish their head offices nominally in Liechtenstein, providing thus as much as 30 percent of the country's revenue basically in maintenance, administrative, and office services fees. Liechtenstein has been an active member of the European Economic Area (EEA), an organization serving as an intermediary between the European Free Trade Association (EFTA) and the European Union (EU) since May 1995. The government is working to harmonize its economic policies and legislation with those of the EU, although it is not negotiating for full membership in the union.

Some modern manufacturing industries have developed recently; notably in precision instruments, dental and optic materials, pharmaceuticals, and electronics. These industries contribute much to the country's positive trade balance. Yet much of the principality's income is also derived from tourism, banking, the sale of postage stamps and other **retail** services, and from the office expenses of the international companies maintaining their headquarters there.

POLITICS, GOVERNMENT, AND TAXATION

Liechtenstein is a constitutional monarchy governed by a hereditary prince. According to the constitution of 1921, legislative power is vested in the **unicameral** parliament (Landtag), consisting of 25 members elected by universal suffrage for 4-year terms. The Landtag members are elected in the 2 multi-seat constituencies (electoral districts): the Upper (or highland, formerly called Vaduz) and the Lower (or lowland, formerly called Schellenberg), by **proportional representation**. Although very small in size, Liechtenstein is further divided into 11 administrative units or communes (Gemeinden): Balzers, Eschen, Gamprin, Mauren, Planken, Ruggell, Schaan, Schellenberg, Triesen, Triesenberg, and Vaduz.

Elections for the Landtag held on 9 and 11 February 2001, gave 49.9 percent of the vote and 13 Landtag seats to the Progressive Citizens' Party in Liechtenstein (FBPL), a conservative group. The then ruling conservative Patriotic Union (VU) received 41.1 percent and 11 seats, and its representative, chief of government Mario Frick, resigned accordingly. An environmentalist group, Free List (FL), remained third with 8.8 percent of the vote, or just 1 seat in the House. In February 1997, the Free List (FL) had achieved the best score in its history with 11.6 percent of the vote, corresponding to 2 seats in the Landtag. Like the VU, in 2001 the FL lost some votes in favor of the FBPL and was not able to retain its former positions in the lowland constituency. Participation in the election reached 86.7 percent, just a bit less than in 1997, when 86.9 percent of the electorate voted.

The hereditary prince and the elected government constitute the executive branch of government. The ruling prince, Hans Adam II, assumed his executive powers in 1984, and his heir apparent is his son, Prince Alois von und zu Liechtenstein. On the motion of the parliament, the prince appoints a prime minister and 4 councilors to form the cabinet. Prior to the February 2001 elections, Mario Frick of the VU was the prime minister and chief of government since 15 December 1993. Following the 2001 elections, Otmar Hasler was selected as the prime minister.

Liechtenstein is a member of many international organizations such as the United Nations (it maintains a permanent mission to the UN in New York), the Council of Europe, the Organization on Security and Cooperation in Europe, the European Bank for Reconstruction and Development, the EFTA, the World Trade Organization, the International Atomic Energy Agency, and the World Intellectual Property Organization, among others.

With a maximum tax rate of 18 percent, Liechtenstein has one of the most liberal tax regimes in the world, and its banks, generally considered as members of the Swiss banking family, enjoy a stable reputation for their solidity and privacy policies. The country has a stable foreign trade balance surplus and zero **foreign debt**. But in 2000, it faced its biggest domestic and foreign political crisis since World War II as the affluent principality was shaken by allegations that it was an international **money laundering** center and by the subsequent arrests of several leading public figures ordered by a special prosecutor from Austria.

A conflict between Prince Hans Adam II and the government over the extent of the royal family's powers, reinvigorated by the money laundering allegations in 2000, almost brought about a constitutional crisis later that year. The prince and the cabinet had been at odds for quite a long time over a pending project for a constitutional reform. The prince had claimed he wanted to modernize the way Liechtenstein is run and give more power to the people, while the then prime minister Mario Frick and other critics held the opposite was true and claimed the envisaged reforms would concentrate more power in the prince's hands. The prince threatened to muster the 1,500 signatures required by law to bring about a referendum on the issue if he did not get what he wanted, and said if he was to lose the constitutional debate he would leave for Austria, the seat of his family before World War II. That might raise serious questions about how the principality would be governed in the future.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The transportation system of Liechtenstein consists of 18.5 kilometers (11.5 miles) of railroads, all electrified, owned and operated by, and included in the statistics of

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Liechtenstein	20,000	N/A	AM 0; FM 4; shortwave 0	21,000	N/A	12,000	44	N/A
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Germany	45.2 M	15.318 M (1999)	AM 51; FM 767; shortwave 4	77.8 M	373 (1995)	51.4 M (1998)	123	18 M
Switzerland	4.82 M (1998)	1.967 M (1999)	AM 4; FM 113; shortwave 2	7.1 M	115 (1995)	3.31 M	44	2.4 M

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

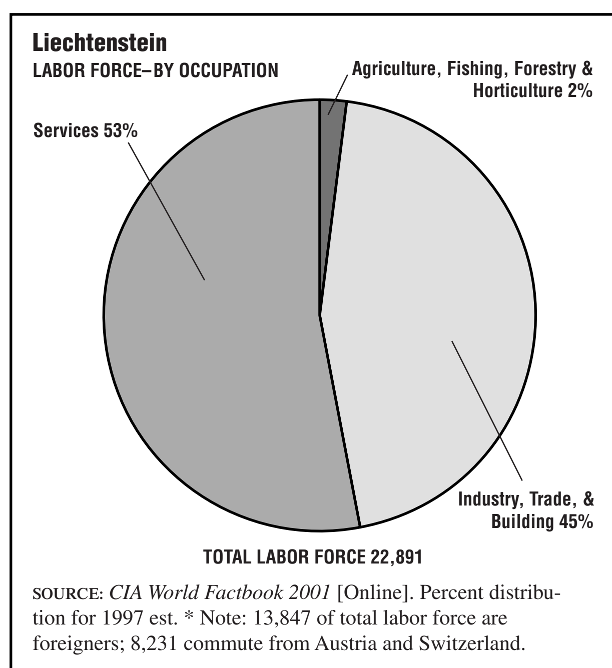
SOURCE: CIA *World Factbook 2001* [Online].

the Austrian Federal Railways. There are 323 kilometers (201 miles) of paved highways. There are no ports or harbors (the Rhine River is not yet navigable anywhere in Liechtenstein) and there are no airports in the small mountainous principality. The country is served in these respects by the extensive **infrastructure** of neighboring Switzerland and Austria. Liechtenstein is not traversed by any major international routes and road traffic in the country is 96 percent home-made while only 4 percent is accounted for by transit traffic, running mostly along the Schaanwald-Nendeln-Eschen-Bendern axis.

Electricity production in 1995 was about 150 million kilowatt hours (kWh), and Liechtenstein imported more than 90 percent of its energy from Switzerland and Austria. There is a modern telecommunications network with 19,000 main lines in use in 1995. All are linked to and operated by the Swiss telecom networks (some of the world's most technologically advanced) by cable and microwave radio relay. In 1999, 115 of the Swiss Internet service providers were offering service in Liechtenstein.

ECONOMIC SECTORS

Liechtenstein is highly industrialized, but much of its income is derived from banking, tourism, commerce, the sale of postage stamps, and from the international firms maintaining offices in the country because of more favorable tax treatment. Major manufactures include precision machinery, instruments and tools, pharmaceuticals, food products, metal goods, furniture, and pottery.



SOURCE: *CIA World Factbook 2001* [Online]. Percent distribution for 1997 est. * Note: 13,847 of total labor force are foreigners; 8,231 commute from Austria and Switzerland.

The distribution of the labor force by occupation in 1997 was estimated to be as follows: industry, trade, and building, 45 percent; services, 53 percent; and agriculture, fishing, forestry, and horticulture less than 2 percent.

AGRICULTURE

Agriculture contributes just 2 percent of GDP, although about 24 percent of Liechtenstein's territory consists of arable land, with permanent highland pastures making up 16 percent, and forests and woodland occupying 35 percent of the land. Animal husbandry and dairy farming are among the principal agricultural activities. Livestock graze in the alpine meadows during the summer. The fertile soil of the Rhine valley is used mostly for market vegetable gardening. Local agriculture products include wheat, barley, corn, potatoes, and grapes. The principality imports food, and some of it is processed and reexported.

Before World War II, almost half of the working population was occupied in agriculture. This number has continually decreased, and in 2000, about 350 persons (or 1.7 percent of the workforce) are active in agriculture, fishing, forestry, and horticulture. Despite the decline in that number, yields have been significantly increasing due to scientific rationalization and intensive machine cultivation.

INDUSTRY

About one-third of the nearly 23,000 working people of Liechtenstein are employed in industrial establishments. Due to the favorable economic conditions, an efficient, export-oriented high-tech industrial manufacturing sector developed over the last decades of the 20th century. Manufacturing, reported jointly with construction and trade, was responsible for nearly 45 percent of the jobs and the GDP by 2000 and a large percentage of the country's exports. Electronics, metal manufacturing, textiles, ceramics, pharmaceuticals, food products and beverages, and precision instruments manufacture are all well developed. The fact that Liechtenstein's economy exports so much is largely due to its high-tech manufacturing sector that accounts for the majority of its exports.

Among the most important domestic manufacturers are the Hilti Corporation, a large international supplier of rail anchors and anchor installation services to the rail transport industry, and electrical equipment; Ivoclar-Vivadent, developer and distributor of well-regarded products for prosthetic, restorative, and preventive dentistry; Balzers-Bal-Tec AG, manufacturers of electron microscopy preparation products for biological specimens; Fancoldi R.T., gem industry specialists, producing colored diamonds; and Aqualine, a major Austrian Alps mineral water bottling company.

Construction is also an important contributor to the economy, although its scope is necessarily limited. According to the building statistics, in the last quarter of 2000, 115 new buildings were granted permits. As compared to the same period of 1999, this corresponded to 39 permits less, but the construction volume increased by 5.6 percent and construction costs increased by 17.2 percent to 163.3 million Swiss francs. Building activities generally shifted from housing developments and public buildings towards industry and trade. The construction volume in that sector increased by 110.4 percent, while a decrease of 93.4 percent was registered for public buildings.

SERVICES

Liechtenstein's economy is increasingly service-based, as in most of western Europe. Services contributed to 53 percent of GDP, and about 10,000 people were employed in the sector in 2000. It particularly expanded over the last decade of the 20th century. In addition to the catering branch (made of 42 hotels and inns, and 81 restaurants and cafes), the public administration, insurance companies, and the health and educational systems, this sector is specially characterized by a vigorous presence in international commercial and financial transactions and in **fiduciary** business.

Finance in Liechtenstein is traditionally a very well-developed sector. Apart from the presence of the Swiss banks due to the monetary and customs union and the geographical and cultural proximity between the 2 states, 13 local banks exist. These include Liechtenstein-LGT Bank, an international private bank, claiming to be the largest banking operation in the country; Bank von Ernst, a financial institution providing Swiss private banking services, portfolio management, and family foundation; and Liechtenstein-VP Bank Group, a private bank founded in 1956, providing a wide range of financial services, holding assets worth some $5.5 billion, and employing about 600 people (but currently facing some serious legal troubles, as shown below), as well as the Centrum Bank AG, Liechtensteinische Landesbank AG, Neue Bank AG, Verwaltungs-und Privat-Bank AG, and Vorarlberger Volksbank AG. The largest banks in Liechtenstein belong to the Swiss Banking Association and recognize most of its rules, as do all the Swiss banks.

The Liechtenstein banks, which administer 112.5 billion Swiss francs (US$70 billion), have been known for their liberal policies and privacy, yet, following some serious money laundering allegations in 2000 described below, they intend to end anonymous accounts and carry out identity checks on their customers. Legislative changes to that effect are being pushed through parliament in hopes of averting possible **sanctions** from European Union countries and the United States following the scandals. However, bankers are reluctant to give up their judicial independence.

Tourism is also an important contributor to the economy. Despite its small size, alpine Liechtenstein is a diverse country with various communities offering a mix of attractions for all tastes. Situated between some of the most attractive tourist regions in Europe, the Swiss and Austrian Alps, the tiny principality often appears on their visitors' itineraries. Museums, banks, boutiques, dining establishments, historical sites, vineyards, and sports (particularly skiing and hiking) facilities are varied and charming. Liechtenstein is considered a microcosm of the European continent. Apart from the 42 hotels and 81 restaurants, the sale of postal stamps by the state post offices, galleries and shops offering art objects, local handicrafts, and souvenirs are also a significant source of revenue.

Retail is well-developed and targeted at serving the tourist clients as well as the local customers and commuters, but the small size of the market is still more conducive to small family-owned stores. Retail trade experienced a marked upswing over the 1990s as a result of increased specialization of stores, so that a wide range of diverse products is now available. As the Swiss retail sector is developing towards large-scale self-service and discount chain stores, Liechtenstein retailers have had to face fierce competition from the large Swiss shopping malls in the vicinity. Many of the small family-owned shops, relying basically on local customs, went out of business during the 1990s. Some 1,600 retail and wholesale trade enterprises are united in the Liechtenstein Chamber of Trade and Commerce as an umbrella organization. Trade enterprises cater mainly to the domestic market and contribute to the efficient infrastructure of the country.

Companies specializing in serving the offshore "letter box" companies' various needs in Liechtenstein include the Gestina Trust, specialists in the development and management of offshore companies, legal structures, and settlement advice; the Vazus-Syndikus Treuhandanstalt, offering financial advice and consulting in economic and legal matters, accounting, and contracts; the Vazus-Wanger Group, a law and patent firm in commercial law and asset management, and many others.

INTERNATIONAL TRADE

Due to the very small size of the country's market, Liechtenstein's industry is heavily dependent on exports. In 1996, the country exported $2.47 billion worth of goods and services, while importing $917.3 million worth. The European Economic Area (EEA) states are its most important export destinations. Liechtenstein joined the European Free Trade Association (EFTA) as an associate member in 1960 and has been a full member since

1991. In addition, it became a member of the EEA (the intermediary body between the EFTA and the EU) in 1995. Although small, the Liechtenstein economy is very open and its foreign trade balance is traditionally strikingly positive, with exports far outweighing imports, largely thanks to its high-tech manufacturing sector. Principal trade partners in 1995 were the EU and EFTA, recipients of 60.57 percent of exports, and Switzerland, recipient of 15.7 percent, and they were the origins of a comparable percentage of its imports. All trade numbers for Liechtenstein are included in the Swiss national statistics, and therefore a more clear-cut picture of its international trade is difficult to assemble.

MONEY

Liechtenstein has many advantages issuing from its use of the Swiss franc and from officially being part of the Swiss monetary system. It has a strong currency, a balanced budget with revenues of $424.2 million and expenditures of $414.1 million in 1998 (estimate), and a leading banking sector with solid private banks with a reputation for privacy, limited regulation, and the acceptance of foreign deposits with little oversight. Similarly to Switzerland in the late 1990s, however, these conditions have also led to some serious legal drawbacks.

Throughout 2000, Liechtenstein has been troubled by recurrent international allegations of domestic money laundering for transnational organized crime, an abuse of Swiss banking privacy policies. In 2000, the German press printed stunning details from a German federal intelligence agency report accusing Liechtenstein of acting as banker to Central American drug cartels and the Russian mafia. The report alleged that a former prime minister, Hans Brunhart, currently head of the Verwaltungs- und Privat-Bank (VP Bank), had been laundering drug money. The report named Liechtenstein as the only European country on an International Financial Action Task Force (FATF) list of 15 nations accused of failing to cooperate against money laundering. Finally, the Organization for Economic Cooperation and Development (OECD), in another 2000 publication, listed the principality among harmful offshore **tax havens** alongside Tonga, the Bahamas, and Barbados.

The allegations caused a storm of indignation in the country. Brunhart objected, and an independent investigator from Austria appointed by Liechtenstein did not support the case. The investigator found that Liechtenstein was not a hub of money laundering, although he criticized its preventive work against "hot money." In early 2001, the FATF confirmed that the country had made significant progress in connection with the fight against money laundering. The country was removed from the blacklist by the FATF in June of 2001.

Exchange rates: Liechtenstein

Swiss francs, franken, or franchi (SFR) per US$1	
Jan 2001	1.6303
2000	1.6888
1999	1.5022
1998	1.4498
1997	1.4513
1996	1.2360

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Liechtenstein is renowned as one of Europe's most affluent and carefree communities. With one of the highest measures of GDP per capita in the world, a low **inflation rate** (in terms of consumer prices) of 0.5 percent (1997 estimate), and the benefits of the monetary and economic union with Switzerland, the tiny principality offers its subjects one of the highest standards of living in the world, although at a very high cost of living. No data as to Liechtenstein's economic equality index (**Gini index**) are currently available, but if Switzerland's index is used for reference, economic equality in the principality is likely to be in better shape than the United States and even in the more egalitarian United Kingdom. No data as to any extreme cases of poverty are available.

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Liechtenstein	23,000	N/A	23,000	N/A	N/A
United States	28,600	30,200	31,500	33,900	36,200
Germany	20,400	20,800	22,100	22,700	23,400
Switzerland	22,600	23,800	26,400	27,100	28,600

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

WORKING CONDITIONS

Due to the number of specialized high-tech companies in Liechtenstein, there is an enormous demand for highly qualified specialists. Since the national job market, on account of its tiny size, can only partly satisfy the demand, the internationally active companies in particular are heavily recruiting in other countries, mostly Switzerland and Austria, but also elsewhere in Europe and the Middle East.

In 2000, the labor force included 22,891 people of which 13,847 were foreigners, mostly guest workers; 8,231 people commuted from neighboring Austrian and Swiss towns to work daily. A highly skilled workforce, laws promoting labor flexibility, and agreements between trade unions and employers' associations have resulted in very little labor unrest. The late 1990s have been good for Liechtenstein workers, with salaries having increased by an average of 7 percent between 1997 and 1999. It is all the more important that it was possible at the same time to realize improvements on the job market and to lower the unemployment rate.

In 2000, the unemployment ratio fell to 1.0 percent of the domestic labor force. The number of 274 individuals registered as unemployed at the end of February 2001 represents the lowest figure since June 2000, when 260 individuals had been registered. In February 2001, 28 persons were registered as unemployed either for the first time or were re-registered. Some 51 individuals were taken out of the statistics, 32 of whom started a new job, and the rest reached retirement age or started a new business. **Full employment** is a prominent aim of domestic economic policy. It is a goal that can be reached through measures including a project for the occupation of long-time unemployed, as well as a program for the better integration of handicapped employees.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1719. The former domain of Schellenberg and the country of Vaduz are combined into the Principality of Liechtenstein within the Holy Roman Empire.

1806. The principality is recognized as a sovereign state. Until the end of World War I, it remains closely tied to the Austrian Empire (named the Austro-Hungarian Empire after 1867).

1918. The military defeat and the collapse of the Austro-Hungarian Empire in World War I forces Liechtenstein to conclude a customs and monetary union with its other prosperous yet neutral neighbor, Switzerland.

1938. Prince Franz Joseph II becomes sovereign; the principality remains neutral in World War II (1939–45), while neighboring Austria is annexed by Nazi Germany.

1984. Executive authority is transferred to Prince Hans Adam II (crowned in 1989); a referendum grants women the right to vote in national elections.

1990. Liechtenstein joins the United Nations.

1991. Liechtenstein joins the European Free Trade Association (EFTA).

1992. Voters approve Liechtenstein's membership in the European Economic Area (EEA).

2000. Liechtenstein is disturbed by a money-laundering scandal and a constitutional crisis between the prince and the government.

FUTURE TRENDS

The Liechtenstein economy is closely related to the Swiss one and is dependent on the latter's progress towards full integration in the EU. It is likely that, despite financial scandals and constitutional problems, the principality will preserve its sound economy and high living standards and will continue to attract foreign companies and workers in the foreseeable future.

Liechtenstein has already developed close links with the EU through its participation in the EEA, the comprehensive adjusting of its domestic economic regulations to fit the EU standards, and its close relations with the Austrian economy (Austria is a full member of the union). In the event Switzerland finally decides to join the EU, the adjustment of the monetary and banking system (and possibly some agricultural **subsidy** policies) will likely be among the serious problems facing the small principality in this regard.

As to the problems related to the 2000 banking scandal, there is reason to believe that Liechtenstein can guarantee the implementation of some effective measures to combat money laundering. The former prime minister appointed 4 new judges working at the national court, the prosecution was **restructured**, the state department for financial services was strengthened, a new Financial Intelligence Unit (FIU) was founded, and a special bank department was set up within the national police force. Some needed legislative changes are being vigorously debated. It is expected that the country's banking practices will be soon brought in line with the general EU provisions, without reducing its competitive advantages too much. The positive ruling by the FATF in June of 2001 indicated the success of these measures.

It is harder to predict the outcome of the constitutional crisis. In 2000, Hans Adam II announced that he would end the discussion around the constitution as soon as possible. But reflecting on his new constitutional proposal of 1 March 2001, the former head of the constitutional commission, Peter Wolff, noted that in the controversial points, on which parliamentary criticism focused, nothing had been changed. Whatever the decision, however, it is not likely to cause any serious political disturbance in the principality that might jeopardize social stability and economic development.

DEPENDENCIES

Liechtenstein has no territories or colonies.

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—Valentin Hadjiyski

LITHUANIA

Republic of Lithuania
Lietuvos Respublika

CAPITAL: Vilnius.

MONETARY UNIT: Litas (Lt). One litas equals 100 centas. There are notes in denominations of 1, 2, 5, 10, 20, 50, 100, 200, and 500 litas. There are 1, 2, and 5 litas coins, as well as 1, 2, 5, 10, 20, and 50 centas.

CHIEF EXPORTS: Food products, textiles, consumer electronics, other manufactured goods.

CHIEF IMPORTS: Oil, gas, machinery, equipment.

GROSS DOMESTIC PRODUCT: US$15.5 billion (purchasing power parity, 2000 est.). [CIA *World Factbook* estimated GDP at purchasing power parity at US$17.3 billion for 1999.]

BALANCE OF TRADE: **Exports:** US$4.033 billion (2000). **Imports:** US$5.043 billion (2000). [CIA *World Factbook* indicates exports were US$3.3 billion (f.o.b., 1999) and imports were US$4.5 billion (f.o.b., 1999).]

COUNTRY OVERVIEW

LOCATION AND SIZE. An East European country bordering on the Baltic Sea, Lithuania has an area of 65,200 square kilometers (25,174 square miles) and a total coastline of 99 kilometers (62 miles). Lithuania is a mid-size country by European standards and is about the size of West Virginia. Lithuania's border countries are: Belarus, 502 kilometers (312 miles); Latvia, 453 kilometers (282 miles); Poland, 91 kilometers (57 miles); and Russia (Kaliningrad), 227 kilometers (141 miles). Vilnius, Lithuania's capital, is located in the country's southeastern part. Vilnius is also the nation's largest city with a population of about 600,000.

POPULATION. The population of Lithuania was estimated at 3,620,800 in July of 2000 but the population is decreasing, that is the growth rate is negative (-0.29 percent). In 2000, the birth rate stood at 9.77 births per 1,000 while the death rate stood at 12.87 per 1,000, with suicide rates among the highest in the world. The nation's fertility rate is below replacement level with only 1.34 children born to each woman. In addition, Lithuania has an infant mortality rate with 14.67 deaths per 1,000 live births. The nation also loses population to **immigration**, a loss of 0.16 people per 1,000 members of the population. Life expectancy for males is 63.07 years and 75.41 years for females.

The Lithuanian population is close to 100 percent literate. The official language (Lithuanian) is related to the pre-Indo-European language Sanskrit, very archaic in its structure, and therefore studied around the world for comparative linguistic purposes. Polish and Russian are also widely spoken. Ethnic Lithuanians constitute some 80 percent of the population. The largest national minorities include Russians (9 percent), Poles (7 percent), and Belorussians (1.6 percent). Despite decades of the **communist** propaganda and persecutions, many religions survived in Lithuania, including Roman Catholicism (dominant), Lutheranism, Russian Orthodoxy, Judaism, and Islam. Reflecting average European levels of urbanization, most Lithuanians (68 percent) live in urban areas. By international standards, Lithuania's population is distributed rather evenly across the country with a population density of 56 per square kilometer (146 per square mile).

OVERVIEW OF ECONOMY

Lithuania is an economy in transition from the communist economic system to a Western-style market economy. During the years of communist control (1944–91), the economy was controlled by the government, and there were restrictions against the private ownership of property and businesses. Since the end of the communist era, Lithuania has become a regional trend-setter by aggressively pursuing economic **liberalization** programs.

Europe's largest country in the 16th century, Lithuania has a statehood tradition going as far back as the 11th

century. However, Lithuania became part of Russia in 1795 and did not regain independence until after World War I (1918). Between World War I and the onset of World War II in 1939, Lithuania made substantial economic progress despite a lack of natural resources except for land. Predominantly based on agriculture, the economy developed rather close trade relationships with the Western world, especially Germany, United Kingdom, and Scandinavia. Lithuania exported agricultural products (mainly hog and poultry products) to these countries and imported advanced machinery and other industrial products from them. Lithuania's economic development level was well below that of the United Kingdom or Germany but was considered at par with some Central European and Scandinavian countries. Even during the Depression of the 1930s, the Lithuanian currency (litas) was strongest or second strongest in Europe. World War II and the Soviet occupation which began in 1940 interrupted Lithuania's independence until it was formally restored in 1990. The Soviets forced industrialization in a heavy, distorted way to the detriment of other economic sectors, especially production of consumer products and services. In 1990, the industry was dominated by 3 major branches: first, machinery and equipment including electronics; second, light industries; and third, food industries. Combined, these produced some 70 percent of the total industry output. Even if it brought some peculiar economic growth, the communist system imposed by the USSR slowed Lithuania's comparative economic development by at least 2 decades.

Postcommunist economies like Lithuania underwent a significant transformation **recession** coupled with the outburst of corrective **inflation**. On top of these systemic changes, Lithuania suffered trade disruption caused by

the collapse of the Soviet Union which was and remains its main trade partner. In combination with the usual disruption stemming from the radical **privatization** and other transformation measures, this resulted in a drop in measured output. In all, there was a 40 percent drop in the officially measured GDP that Lithuania suffered in the first half of the 1990s. That loss of GDP was recovered in part by a subsequent growth as a result of radical economic reforms. However, Lithuania suffered again as a result of the Russian financial crisis of 1998. In 2000, economic growth exceeded 3 percent and will probably accelerate to about 5 percent in the near future.

Since independence from the Soviet Union, Lithuania has been attempting to radically transform the economy. This is being done by political and economic liberalization, **macroeconomic** stabilization, and privatization as the main elements of the transition strategy. In 1997 alone, some 200 state-owned companies were sold to private industry. By 2000, an additional US$725 million in government-owned companies were sold-off. By that same year, some two-thirds of the economy was in private hands and largely working according to the rules of a competitive market economy.

By 1998, Lithuania's economy closely resembled that of most other Western European countries. Agriculture accounted for 10 percent of the GDP, industry for 32 percent, and services for 58 percent. The country's main industries are metal-cutting machine tools, electric motors, television sets, refrigerators and freezers, petroleum refining, shipbuilding, furniture making, textiles, food processing, fertilizers, agricultural machinery, optical equipment, electronic components, and computers.

Over two-thirds of its economy is dependent on foreign markets, and Lithuania has sought to increase its attractiveness to foreign investors. By 1997, foreign capitalists had invested over US$1 billion in the Lithuanian economy, and in 1998, there was an additional US$510 million in new investments. The largest single foreign investor in Lithuania is the United States which accounts for about 18 percent of all foreign investment. The low labor costs and high level of education of the workforce, when combined with the country's geographic location at the crossroads of Northern Europe, account for the attraction that foreign investors have in Lithuania. Among the major foreign companies with operations in Lithuania are Amber Consortium (Sweden-Finland), Motorola (USA), Philip Morris (USA), SEB (Sweden), Williams, Inc.(USA), Royal Dutch-Shell (the Netherlands), and Coca Cola (USA).

Following independence in 1990, the Lithuanian economy grew rapidly during the first part of the decade (with average annual growth rates which exceeded 5.0 percent). However, following an economic crisis in Russia which began in 1998, Lithuania's GDP declined by 3 percent in 1999. Unemployment rose to 10 percent in 1999. In 2000, growth in the GDP returned with a rate of 3.3 percent. Inflation remains low at 3 percent, after reaching a high of 35.6 percent in 1995.

In 1999, the European Union (EU) agreed to initiate the process to allow Lithuania to join the regional trade and political organization, beginning in 2000. By joining the EU, Lithuania will be able to trade freely with the 15 members of the organization (a market of 350 million consumers). This should increase Lithuanian exports and make imports from the EU less expensive since **tariffs** and **duties** on imports and exports would be eliminated.

POLITICS, GOVERNMENT, AND TAXATION

After regaining independence and shedding the imposed communist system (1990), Lithuania is a fully functional parliamentary democracy. The chief of state is the president, and the head of the government is the premier (who is formally appointed by the president, subject to approval by the parliament). The president is directly elected by the people and serves a 5-year term. The parliament, known as the Seimas, has 141 members who are elected for 4-year terms. Of these, 71 are directly elected by the people while 70 are elected by proportional vote.

The current president, Valdas Adamkus, had lived in the United States for 30 years after World War II. The Lithuanian political scene is dominated by 3 groups or forces: right, left, and center. Widely credited with dealing a mortal blow to the Soviet Union and restoring Lithuanian independence in 1990, the Lithuanian Independence Movement (Sajudis) was led by the Lithuanian Conservatives with Vytautas Landsbergis at its helm. Landsbergis became the nation's head of state after independence.

In the fall of 1992, Lithuania set a new trend in the post-communist world as the right-wing forces (Conservatives) lost power to the ex-communist left (Lithuanian Democratic Party of Labor, LDLP). The people's hopes for improvements in living standards were dashed by the hard reality of disastrous and development-retarding communist legacies. In another trend set for the region, the Conservatives returned to power in 1996 but were replaced by the centrist New Policy bloc by 2000; in 2001, the left-leaning government was formed with the ex-communist Algirdas Brazauskas as its leader.

Since independence, all of the Lithuanian governments and political parties have supported the transition processes to markets and democracy. The right or conservative political parties are the Homeland Union and the Conservatives who have joined together in a coalition. These parties are more pro-business and pro-Western.

The main centrist group is also a coalition of parties known as the New Policy bloc which includes the Center Union and the Democratic Party. The New Policy bloc supports policies that seek to balance business growth and social welfare programs. The left is made up of the former communist party, the LDLP, and genuine social democrats.

The LDLP is most resistant to transparent and rule-based privatization efforts, preferring the **nomenklatura privatization** instead. It has also supported increased taxation in order to expand government programs. Overall, due to privatization and other reforming efforts, the government plays a smaller and smaller role in the lives of Lithuanians. In 1997, the main privatization efforts began when the government sold the state-owned telephone company, Lithuanian Telecom. Additional privatization efforts have included the government-owned electric and utility companies. Overall, some 5,714 government-owned companies have been privatized. Still the government continues to own US$2.5 billion in property and businesses.

The government's budget in 1997 was US$1.7 billion, but it only had revenues of US$1.5 billion. The government deficit amounted to US$200 million or about 2.8 percent of the GDP. This situation marks a dramatic decline from the **budget deficit** of 9 percent of GDP in 1991. In 1999, the government spent US$181 million on defense or about 1.5 percent of the GDP. Lithuania seeks to join the North Atlantic Treaty Organization (NATO) and has worked to participate in NATO-led operations, including the peace-keeping mission in Bosnia. Lithuania receives foreign aid from a number of sources such as the EU and the United States. In 1995, foreign aid amounted to US$228.5 million.

The tax burden (mainly income and **value-added taxes**) at some one-third of the GDP is moderate by international standards and will further be reduced as the liberalization progresses. Progress has been made in strengthening and improving the tax administration. This shift will result in the removal of tax **arrears** and an increase in tax revenue. Further training of staff and improved exchange and processing of information are also needed. While the accession process to the European Union does not involve full harmonization of taxes, still the EU is assisting Lithuania in this process. Tax revenues come from a variety of sources. Goods that are imported into Lithuania face import duties that range from 10 to 100 percent (but average 15 percent on most goods). The highest tariffs are on tobacco, automobiles, jewelry, and gasoline. Corporate tax rates are officially at 24 percent, but incentives designed to draw new companies to Lithuania allow these new firms to reduce their taxes by 70 percent for a period of up to 3 years. The personal **income tax** level is 33 percent with rates of between 10 to 35 percent on supplemental income from investments or interest dividends.

In an effort to anchor itself in the West and, therefore, ensure its autonomy from Russia, Lithuania has sought to join a number of West European organizations, including NATO and the EU. It is also a member of the World Trade Organization (WTO) which has reduced trade barriers and tariffs among member states. As a small country, Lithuania sees membership in these institutions as a way to protect itself from foreign influences and enhance its economy.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Lithuania inherited a balanced transportation system (e.g. roads, aviation, merchant marine) from the Soviet period. However, the (broad gauge) railway system was

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Lithuania	1.048 M 1997)	297,500 (1998)	AM 3; FM 112; shortwave 1	1.9 M	20 (1995)	1.7 M	14	225,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Russia	30 M (1998)	2.5 M (2000)	AM 420; FM 447; shortwave 56	61.5 M	7,306 (1998)	60.5 M	35	9.2 M
Latvia	748,000	77,100	AM 8; FM 56; shortwave 1	1.76 M	44 (1995)	1.22 M	42	234,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

built to keep Lithuania integrated in the USSR and separated from the West. Privatization, modernization, and development of the priority transportation **infrastructure** is of particular importance for an east-west and north-south transit country like Lithuania, especially in view of the European Union accession process.

Lithuania has 71,375 kilometers (44,352 miles) of roads of which 64,951 kilometers (40,360 miles) are paved. There are 417 kilometers (259 miles) of expressways. All of the 2,002 kilometers (1,244 miles) of railways are broad gauge. Although Lithuania is a small nation, it has a substantial merchant marine fleet with 52 ships, including 23 cargo ships, 2 petroleum tankers, 3 passenger cruise ships, and 11 refrigerated cargo vessels. Lithuania has 600 kilometers (373 miles) of waterways that are navigable year-round. The nation's main ports are Kaunas and Klaipeda. Klaipeda is the largest port in the Baltics and handles 20 percent of all cargo imported to or exported from the region. In 1998, the port handled 16.1 million tons of cargo, and expansions will allow the facility to handle 30 million tons by 2004. There are 96 airports in Lithuania, but only 25 of them have paved runways. Vilnius, Kaunas, and Palanga have international airports. All told, Lithuanian Airlines carried 230,000 passengers in 1997. The United States supplied Lithuania with US$30 million to upgrade the airport at Siauliai which is now one of the largest cargo airports in Europe. Moreover, there are 105 kilometers (65 miles) of crude oil pipelines and 760 kilometers (472 miles) of natural gas pipelines.

The government is engaged in a variety of infrastructure improvement projects. By 2005, some 55 individual projects are scheduled for completion. These projects are in response to dramatic increases in land, sea, and air transport. For instance, since 1994, automobile traffic has increased by an annual rate of 15 to 20 percent per year. The nation's largest airport at Vilnius and the seaport of Klaipeda are both undergoing expansion and renovation projects. The other major project is the construction of the Via Baltica highway which will connect all the Baltic republics (Lithuania, Latvia, and Estonia). The EU would like to construct 2 major highways through Lithuania to allow the organization access to Russia and the other countries of the former Soviet Union. Although work has not begun on the road systems, the EU has already pledged aid for the projects.

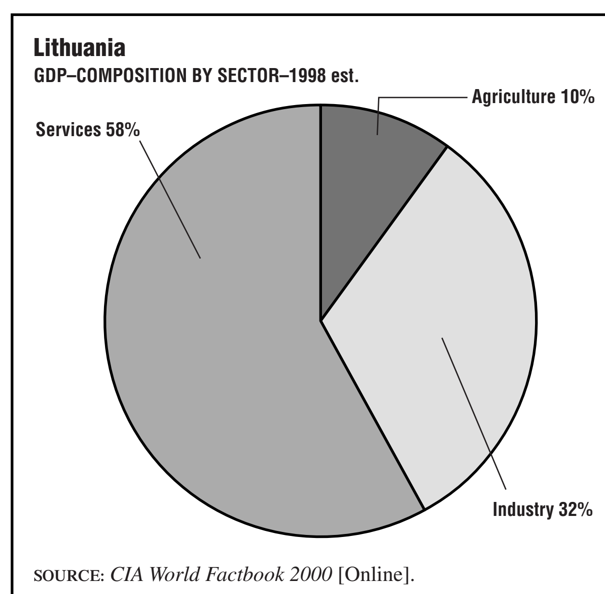
Lithuania is also in the midst of constructing a power line to supply electrical exports to the West. Lithuania produced 15.58 billion kWh of electricity in 1998. Some 13 percent of this came from fossil fuels and 4.3 percent came from hydroelectric sources, but the overwhelming majority, 82.61 percent, came from nuclear power plants. The nation consumed 7.829 billion kWh of electricity in 1998 and exported 7 billion kWh while it imported 340 million kWh.

Lithuania's energy sector needs modernization as well. Post-Soviet Russia's supply network is unreliable and subject to political manipulations resulting in cuts of oil to Lithuania. The opening of the Butinge oil terminal on the Baltic Sea in 1999 allows Lithuania to diversify its supply of crude oil by sea. Currently, the nation has about 10 million barrels of proven oil reserves. Other sources of power, such as Ignalina nuclear power plant (of the Chernobyl type), are controversial for safety reasons. Electric power generation needs to be modernized and privatized, while new and profitable supply networks to Western Europe via Poland need to be established. Lithuania's power complex experiences substantial problems with generation, distribution, and sales. The capacity in the system is about 2 to 3 times higher than the national demand for power generation and gas distribution. As a result of inherited Soviet-style inefficiencies, losses amounted to about one-third of supply and were made worse by non-payment of debts by some clients, for example, in Belarus.

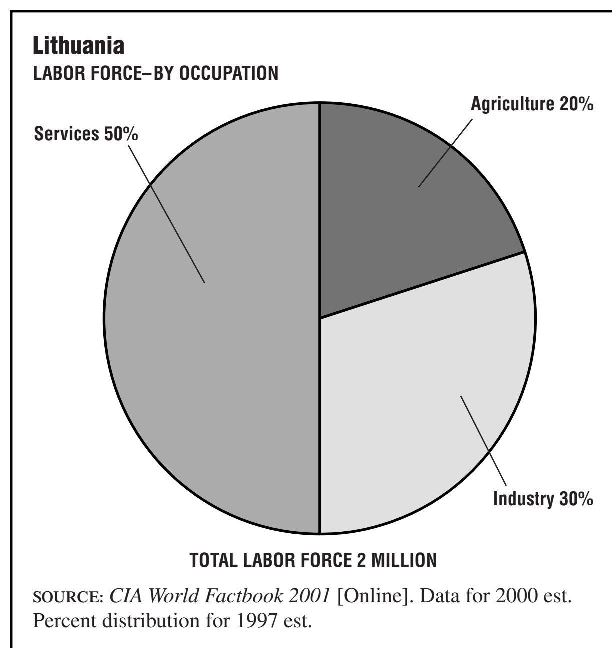
The telecommunications market in Lithuania is liberalized except for fixed-line telephony where Lietuvos Telekomas enjoys a **monopoly** until the end of 2002. A national fiber-optic cable system is nearing completion, and rural exchanges are being improved and expanded. By 1997, there were 1.1 million main telephone landlines in use. Mobile cellular systems are functioning and rather widely accessible. In 1997, about 297,500 mobile phones were in use. Access to the Internet is growing, and by 1999, there were 10 Internet service providers.

ECONOMIC SECTORS

After regaining independence in 1990, Lithuania underwent tremendous, regionally trend-setting changes in



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1997 est.

the sectoral structure of its economy as measured by the percentage of the individual sectors' contribution to the GDP and/or employment. As a result of the Soviet occupation and the imposition of the communist central planning, Lithuania's economy was distorted compared to Denmark, Finland, or other comparable, free Western countries. In 1990, agriculture still occupied a special place in the Lithuanian economy, providing about a quarter of jobs and about half of the GDP. Above all, however, Lithuania was industrialized in a heavy, distorted way reflecting the communist orthodoxy and Soviet imperialistic priorities which was to the detriment of services (especially modern services) and the modern welfare-increasing economic development in general. During the independence decade (1990–2000), the normal structure of a modern economy was largely restored in Lithuania, with the services dominating (58 percent) GDP, followed by industry (32 percent) and agriculture (10 percent). About 30 percent of Lithuanian workers are employed by industry, while 20 percent work in agriculture, and 50 percent work in services.

AGRICULTURE

With three-quarters of its **labor force** employed in agriculture, Lithuania was a predominantly agricultural economy in 1940. Half a century later, agriculture still occupied a special role in the Lithuanian economy, providing about a quarter of jobs and about half the national product. By 1990, Lithuania reached roughly one-fourth of the U.S. labor productivity in agriculture. Generally, Lithuanian agricultural production costs were 2 to 3 times higher than in Western countries at the end of the communist era.

Lithuanian agriculture remains inefficient by Western standards. Most small farmers do not have the capital or resources to acquire new equipment, and few utilize new forms of fertilizer and soil-management techniques. In 1998, agricultural production decreased by 4.3 percent, and in 1999, it decreased by 13.6 percent. However, increasing competition and access to new technology have slowly increased the efficiency of some farms (mainly the larger operations). In 2000, Lithuania had 67,800 family farms and 1,244 corporate-owned farms. Since 1990, about 2,000 family farms have gone out-of-business as unprofitable operations have been unable to survive the free market economy. Currently, the nation loses about 0.03–0.04 percent of its agricultural land each year. Agricultural workers are among the lowest paid laborers in Lithuania. In 2000, on average they only earned US$177 per month while the national average monthly wage was US$267.

About 3.37 million hectares are used for agriculture, and the average farm size is 12.6 hectares. In 1998, agricultural exports had a total value of US$564.1 million while imports totaled US$697.6 million. The main exports were butter, cheese, fish, milk, and pet food. Almost 80 percent of agricultural exports go to Russia. The main imports include processed foods and fruits. The main supplier of agricultural imports is the EU with some 52 percent of imports. The largest crops were potatoes at 1.7 million metric tons, sugar beets at 890,000 metric tons, and wheat at 837,000 metric tons. The main livestock products are beef and veal, chicken, lamb, pork, and horse.

INDUSTRY

During the period of Soviet control of Lithuania, the government tried to change the economy from one based on agriculture to one based on industry. However, in the post-Soviet era, industry has declined significantly in relation to the other segments of the economy. In 1999 alone, industrial production declined by 14 percent. There have also been deep cuts in employment in industry. For instance, in 1990 there were 25,000 workers in the electronics industry, but by 1997, that number had declined to 10,000. Lithuanian industry suffers from outdated equipment and a reliance on unstable markets in the nations of the former Soviet Union.

Industrial workers on average earn less than the national average of US$267 per month. Workers in manufacturing earn an average of US$260 per month, while construction workers earn about US$242 per month. Ironically, the low wages have been somewhat helpful for Lithuanian industry. Foreign companies have relocated manufacturing plants in the country precisely because labor costs are so inexpensive. Examples of such foreign

industrial companies include Siemens of Germany, Samsung of Korea, Farimex of Switzerland, Shell Chemical of the United Kingdom and the Netherlands, and Wilhelm Becker of Germany. Hence while most areas of industry are in decline, there are several segments that have grown.

The chemical industry remains one of Lithuania's most profitable sectors. In 1997 it accounted for almost 10 percent of all Lithuanian exports. The main elements of the chemical sector include nitrogen and phosphate fertilizers which in 1997 made-up 41 percent of chemical exports. Other segments of the industry are pharmaceuticals, cosmetics and soap, and glues, oils and resinoids. Most chemical exports (about 50 percent) go to Russia and the former communist bloc nations of Europe. The textile industry also remains profitable. The segment has attracted US$40 million in foreign investment since 1990. In 1997, textiles accounted for 3.3 percent of the GDP and employed some 60,000 people in 100 large companies and 300 medium and small companies. About 75 percent of all textiles are exported. By 2000, almost 90 percent of textile production was done by either international firms or **joint ventures** between foreign companies and Lithuanian companies. Of the exports, 65 percent go to the EU and 20 percent go to the countries of the former Soviet Union. Although the electronics sector has declined, in 1997 it was responsible for US$120 million in revenue. Among the main electronic products are televisions, electronic measurement equipment, semiconductors, and other computer equipment.

Lithuania also has a significant wood and paper processing industry. In total, Lithuanian plants processed some 3 million cubic meters of timber. These products account for about 5.4 percent of exports. Some of the main wood-based products include furniture, cardboard, and printed boxes. The main export markets are France, Germany, and Denmark. Two international companies, Ochocco Lumber of the United States and Terminal Forest Products of Canada, have established several plants in Lithuania.

The rest of the industry produces diverse goods including consumer durables, e.g. refrigerators, consumer electronics, etc. There are small but growing and technologically advanced biotechnology, computer and Internet industries. Most of the industrial production is exported to the European countries.

SERVICES

Services now account for the bulk of the Lithuanian economy. Workers in this sector are among the highest paid in the country. For instance, workers in the financial service sector earn an average of US$517 per month while workers in general business and real estate earn US$375 per month. The low pay of Lithuanian workers has constrained the **retail** sector of the economy, since most workers have little excess money to spend on consumer items. However, the renewed economic growth which began in 2000 has already caused an increase of 5 percent in the retail sector.

FINANCIAL SERVICES. The first private commercial banks in Lithuania since the period between World War I and II were established in 1989. The nation's banks underwent a period of consolidation in the mid-1990s during which several banks went out of business while others were acquired by larger banks through mergers and acquisitions. In response, the government passed a series of laws which placed additional regulations on banks in an effort to ensure their **solvency**. A number of international banks have a presence in Lithuania. These include Société Générale of France, Svedfund Financial Markets of Sweden, and DE GmbH of Germany. However, these banks only account for 3.1 percent of the banking market. About 42 percent of total banking assets were controlled by just 2 banks—both of them state-owned (although both are scheduled to be privatized by 2002). The nation's largest private bank, Vilniaus Bankas, is the largest bank among the Baltic nations. The insurance sector of Lithuania is vibrant with 31 different firms, including major multinational firms such as Lloyd's of the United Kingdom and Coris of France. From 1997 to 1998, insurance revenues increased by 40 percent.

TRAVEL AND TOURISM. Since the end of Soviet control in 1990, tourism has increased significantly in Lithuania. Since 1996, tourist revenues have increased by 50 percent to over US$420 million in 1999. That same year, Lithuania received 3.7 million visitors or more tourists than there were people in the population. In 1997, tourism accounted for 4.2 percent of the GDP. The main tourist destination was the nation's capital, Vilnius, which received 58 percent of all visitors. This has led to the construction of 15 new hotels in the capital since 1996, including ones owned by Sheraton and Radisson. The increased number of tourists has led to a doubling of restaurants, clubs, and tourist shops since 1996.

INTERNATIONAL TRADE

For smaller countries like Lithuania, international trade and economic cooperation in general is of predominant importance for economic development. The forced reorientation of Lithuania's trade after its incorporation into the USSR resulted in a complete destruction of Lithuania's economic ties with the West (mainly United Kingdom and Germany). As a result of occupation, Lithuania was forced to forego multiple benefits flowing from foreign trade in general and the cooperation with the advanced market economies in particular.

Only about 2 percent of its trade was with the West at the start of the post-Soviet independence in 1990.

With the international trade-to-GDP ratio at the level of some 90 percent, Lithuania is a strongly outward-oriented economy as of 2000. Its foreign trade is liberalized and regulated largely via market economy instruments known in the West and approved by the World Trade Organization (WTO) of which Lithuania is a member. The earlier licensing and foreign exchange surrender requirements have been repealed. Over two-thirds of the Lithuanian imports enter duty free; the rest face 5 to 15 percent duties, becoming more and more uniform as required by the WTO. By 2000, Lithuania maintained economic relations with over 160 countries. The country has bilateral trade treaties with 22 nations. However, accounting for almost one-quarter of Lithuania's trade **turnover**, Russia remains a major trade partner. Part of the Lithuanian output decline during transition was due to too slow a reorientation of trade away from the former Soviet Union (FSU) and towards the West. **Foreign direct investment** into Lithuania is still rather modest due to this and related factors having to do with instability in Russia and elsewhere in the FSU but also shortcomings of the Lithuanian reforms and some communist legacies.

From 1997 to 1999, the nation's imports increased by 27 percent, and its exports increased by 10.6 percent. Lithuania's main exports in 1998 included machinery and equipment (19 percent of exports), mineral products (19 percent), textiles and clothing (19 percent), and chemicals (10 percent). The nation's main export markets were Russia at 17.4 percent, Germany at 15.8 percent, Latvia at 12.7 percent, Denmark at 5.9 percent, and Belarus at 5.2 percent. In 1998, Lithuania's main imports were machinery and equipment at 30 percent, mineral products at 16 percent, chemicals at 9 percent, and textiles and clothing at 9 percent. In 1999, the country's major import partners were Russia with 20.4 percent of imports, Germany with 16.5 percent, Denmark with 3.8 percent, Belarus with 2.2 percent, and Latvia with 2 percent. Lithuania has consistently had a **trade deficit**. In 1996, the nation imported US$1.2 billion more than it exported, and by 1998 that deficit had increased to US$2.1 billion.

There seems to be a trend to go deeper into **external debt**. The external debt amounted to over US$2 billion at the end of 2000, balancing around the level of Lithuania's **hard currency** reserves. However, the increasing levels of foreign investment have helped offset the debt by providing inflows of capital for new investment. The Swedish-Finnish company, Amber Consortium, is the largest single investor in Lithuania with US$510 million in investments, followed by Williams International of the United States with US$150 million and Telia-Sonera, also a joint Swedish-Finnish firm, with US$66 million. By 2000, total foreign investment in Lithuania was US$2.66 billion. Investments in telecommunications accounted for 28.8 percent of total foreign investment while manufacturing accounted for 25 percent, and wholesale and retail trade accounted for 19.5 percent.

In an additional effort to attract foreign trade, in 1995, the Lithuania government established 3 **free trade zones**, located in Siauliai, Klaipeda, and Kaunas. Companies that locate themselves in these zones receive incentives of up to 30 percent of the cost of building or relocating to the areas.

The entry of Lithuania into the EU will greatly expand the nation's international trade. It will give Lithuania access to the markets of 15 countries which will also be able to use Lithuania as a gateway for entry into the markets of the former Soviet Union. Already, trade between Lithuania and the EU members has dramatically increased. Since 1997, exports to the EU have increased by 21.8 percent. Meanwhile imports from the EU increased by 13.3 percent. Lithuania is also a member of the Baltic free trade zone, a 1994 agreement between the 3 Baltic countries which abolished tariffs on all industrial goods traded among Lithuania, Latvia, and Estonia.

MONEY

As a result of Soviet legacies, Lithuania suffered rather severe price and monetary instabilities following independence in 1990. By 1995, inflation had reached 35.6 percent. In response, the Lithuanian government undertook a series of reforms that were assisted by the International Monetary Fund (IMF), an organization that lends money to governments to help them protect their national currency. By 1999, inflation had been reduced to 3 percent.

As part of the post-Soviet macroeconomic transformation, the Bank of Lithuania (B of L) was established as the main financial institution with both the currency **exchange rate** management and bank supervision functions. In 1994, Lithuania adopted a **currency board**

Exchange rates: Lithuania

litai per US$1	
2001	4.000
2000	4.000
1999	4.000
1998	4.000
1997	4.000
1996	4.000

Note: Currency has been at a fixed rate since May 1, 1994; litai is the plural of litas.

SOURCE: CIA *World Factbook 2001* [ONLINE].

which means the value of the Lithuanian litas is fixed at the level of US$0.25 or 4 litai per U.S. dollar and guarantied by Lithuania's **foreign exchange reserves**. So the value of litas travels with the value of the U.S. dollar and no exchange rate policy is currently being conducted.

The Bank of Lithuania's main function is to protect the nation's currency. However, it also regulates the private commercial banks in Lithuania and sets interest rates. It also sells government bonds and **treasury bills** which help finance the debt. Interest rates vary between 6 to 10 percent per year. High interest rate levels largely reflect higher risk and volatility in the domestic capital markets. Foreign banks must receive approval before they are allowed to purchase more than 10 percent of the shares of a local bank.

Overall, the Lithuanian banking sector is rather small but operating smoothly as of 2000. It consists of 10 commercial banks, 1 special purpose bank, and 3 foreign bank branches. The share of the **public sector** in the capital of commercial banks continues to decline, to some one-third by 2000. At the same time, the share of domestic privately owned assets rose; the role of foreign private owners increased only slightly. The stability of the nation's banking sector was such that in 1996, Lithuania became the first country of the former Soviet Union to be granted a credit rating by such international firms as Standard & Poor's and Moody's. Because the government's bonds are rated as trustworthy by these firms, these bonds are more attractive to foreign investors.

The role of non-bank financial markets is still rather weak. While a relatively large number of firms are listed on the well-organized National Stock Exchange of Lithuania (NSEL) modelled after the Paris Bourse, trading is rather low and suffers from the shortages of **liquidity**, a condition affecting most stock exchanges in the post-communist economies.

POVERTY AND WEALTH

The legacy of Soviet control in Lithuania is one of poverty and deep disparities in income. Many Lithuanians have not adjusted well to the market economy. These phenomena left most people of Lithuania quite poor at the beginning of the independence in 1990. True, **nomenklatura** lived well under the Soviets in the narrow material sense and the social security sense. But even nomenklatura were separated from the world and for that and other reasons were unable to make their lives richer in many respects.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Lithuania	N/A	N/A	N/A	3,191	2,197
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Latvia	2,382	2,797	3,210	3,703	2,328

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Lithuania

Lowest 10%	3.1
Lowest 20%	7.8
Second 20%	12.6
Third 20%	16.8
Fourth 20%	22.4
Highest 20%	40.3
Highest 10%	25.6

Survey year: 1996

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

In 1993, the wealthiest 10 percent of the population controlled 28 percent of the country's wealth, while the poorest 10 percent only controlled about 3 percent of the nation's wealth. Increases in Lithuania's unemployment rate have added to the nation's poverty. In 1996, unemployment was 6.2 percent, but by 2000, the rate had increased to 15 percent.

Those in Lithuania who earn or survive on US$28 per week or less are considered to be below the poverty line. In 1999, the poverty rate in Lithuania was 16 percent, but that wealth varies considerably. For instance, the rural poverty rate is 28 percent because of lower pay rates and higher unemployment rates among agricultural workers. Overall, some 55.1 percent of those living in poverty were aged 15 or younger.

The transition period is bringing its own opportunities and problems. An undisputed achievement of the transition period is the equilibrium on the **consumer goods** markets and the resultant wide choice of imported and domestic consumer goods available to those who can afford them. And the possession of some goods (e.g. cars, phones) increased tremendously compared to the Soviet period. As usual in a market economy, some people (younger, better educated) are able to live financially very well. Newly rich Lithuanians are not numerous but they are able to live lifestyles comparable to those of the average middle class members in the West or even better. However, some of Western ills (e.g. drugs) are making their way to Lithuania as well. Part of new wealth came from shadowy international dealings organized by the KGB (the notorious Soviet political police) and other

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Lithuania	33	5	13	4	27	9	8
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Latvia	30	5	16	6	23	11	10

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

post-Soviet mafia. Other people (older, less educated or educated but more influenced by the communist system) suffer from higher levels of unemployment and the shortages of the social safety net. While they are able to subsist on usually rather small plots of land, most people living in rural areas are poor, old, and plagued by social ills (e.g. alcoholism) inherited from the Soviet period. They present one of the gravest problems. The Lithuanian government is trying to help people who find themselves below the poverty line, but the budgetary resources are very limited. The state provides unemployment insurance and both old age and disability pensions. It also provides limited assistance for housing. In addition, the efficiency of social assistance is low by international standards. It will take years of economic growth before the majority of the Lithuanian people are able to feel appreciable and broader-based improvements in their living standards.

WORKING CONDITIONS

There was nominally **full employment** in Soviet-occupied Lithuania except that there was some hidden unemployment and some forced "employment" characteristic of totalitarian regimes.

The Lithuanian constitution gives workers the right to establish and join unions, although there are limitations on the ability of security and law-enforcement personnel to strike. About 10 percent of businesses are unionized, and about 15 percent of workers belong to unions. Children may work at age 14 with parental consent or at age 16 with or without consent. The nation's minimum wage is US$107.50 per month. However, most workers earn more than the minimum wage, and wages vary considerably. Workers in the financial services sector earn an average monthly wage of US$517, while construction workers earn an average of US$242 per month and retail workers US$181. The standard work week is 40 hours, and there is overtime pay for hours worked in excess of 40. National laws mandate a minimum 28 days of vacation per year.

By 2000, unemployment reached 13 percent and is still growing. In 1999, the Lithuanian workforce numbered 1.8 million. About 18 percent of the workforce has a college degree, while an additional 44 percent have some specialized or technical degrees.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

200 B.C. Baltic people settle in the area that is now Lithuania.

1200s A.D. The Lithuanian tribes become united in a loose political confederation.

1236. The Lithuanian state is founded by Duke (later king) Mindaugas.

1386–1795. Lithuania and Poland are united as a single country.

1387. Christianity is established in Lithuania.

1410. Teutonic knights are defeated by joint Lithuanian-Polish forces.

1569–1795. The Lithuanian-Polish Commonwealth (Lublin Union) occurs.

1579. The University of Vilnius (the oldest university in the Baltics) is founded.

1795–1915. Lithuania is under tsarist Russian rule.

1915–18. Lithuania is occupied by Germans during World War I.

1918. Modern Lithuania's independence is declared.

1921. Lithuania is admitted to the League of Nations.

1939. The Nazi-Soviet Pact divides Eastern Europe between Germany and the USSR.

1940. Lithuania is occupied by the USSR.

1941–44. Lithuania is occupied by Nazi Germany.

1944. Soviet occupation and re-imposition of the Soviet rule on Lithuania occurs.

1944–56. Armed resistance occurs against the Soviet occupation of Lithuania.

1957–87. Covert resistance occurs against communism with religious and secular dissent.

1990. Lithuania declares re-establishment of independence, a mortal blow to the USSR.

1991. Lithuania is admitted to the United Nations.

1993. Last Soviet troops withdraw from Lithuania.

1994. Lithuania becomes a member of NATO's Partnership-for-Peace Program; the nation becomes an associate member of the EU.

1997. The government undertakes a wide-scale privatization program.

1999. The EU agrees to initiate discussions to allow Lithuania to enter the organization.

FUTURE TRENDS

Despite a decade of determined and radical efforts at transforming the economy and society away from communism and other USSR-imposed distortions, Lithuania still faces challenges of further transformation to bring it into the European Union and NATO.

The so-called second generation reforms to be undertaken center on the modern role of the state in the European country and especially the interaction of public and **private sectors** in the process of economic development, given Lithuania's strategic economic interests and the nature of modern global economy.

Thus, further privatization of strategically important enterprises in the energy, transportation, and other infrastructure branches is required. Very important are the processes of **enterprise exit** of unviable enterprises from the Lithuanian economic system so they do not act as a burden to the state budget and release precious human and other resources for more productive uses, e.g. in the new economy. As of 2000, enterprise exit processes have been rather inefficient as about half of unviable firms in the bankruptcy stage stayed in that stage for 2 to 3 years, prolonging the negative consequences of the Soviet legacies. In the coming years, some 16,000 unviable enterprises will have to go bankrupt, hopefully using much more efficient processes. This will still be painful as some 180,000 employees need to be laid off in the process, temporarily pushing the unemployment rate even higher from its 13 percent level. These people will have to be either retired or trained for new jobs in the emerging modern economy.

The emergence of a modern economy will require liberalization of labor laws and other elements of the business environment so the new investments are attracted, especially from Western countries, and the **enterprise entry** is facilitated. In the digital age, new business models are emerging, and Lithuania badly needs to re-integrate the global economy using such modern approaches and Western investments. Further development of the Lithuanian market economy institutions (e.g. financial) is needed, especially in light of the transparency (e.g. in public **procurement**) and other requirements of the European Union. Development steps should include the improvement of the social security finances and putting them on a more sustainable basis. This and other steps will help improve the efficiency of the social safety net and help fight poverty, a big problem especially in the rural areas. Above all, Lithuania needs to put a major effort into preserving and upgrading its very considerable human resources through appropriate reforms of health care and education. Last but not least, Lithuania needs to develop a strategy for long-term development of its competitive advantages within the European and global (digital) economies.

While during 1990–2000 Lithuania made valiant trend-setting efforts to shed the legacies of communism and the Soviet occupation, the next decade will be marked by no less determined efforts to join and work within the European Union, a totally different kind of union than the USSR.

DEPENDENCIES

Lithuania has no territories or colonies.

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—Val Samonis

INTRODUCTION TO WORLD CURRENCY

The following insert contains color photographs of paper currency from around the world. Where possible, the most recent issue and lowest denomination was selected to show the bank notes of the countries represented in this encyclopedia. As of the year 2002, approximately 169 countries issued their own paper money.

Bank notes are more than a measuring system for value to be used as payment for goods and services. In many instances a banknote is a graphic reflection of a country's history, politics, economy, environment, and its people. For example, many bank notes depict plant life such as flowers and trees, as well as birds and other animals native to that geographic region. The 5-lats note of Latvia has a giant oak tree on the front, while the 25-rupee note of Seychelles and the 5-guilder note of Suriname both show flowers from the homeland. Birds adorn notes from São Tomé and Príncipe, Papua New Guinea, and Zambia. Large animals such as the mountain gorillas on the 500-franc note from Rwanda, the white rhinoceros on the 10-rand note from South Africa, and the bull elephant on the 500-shilling note of Uganda are commonplace.

Famous rulers and political figures from history are prevalent. Sir Henry Parkes, a famous 19th-century statesman, graces the front of the 5-dollar note from Australia; and Canada's Sir John Alexander MacDonald, a noted Canadian prime minister from the same time period, appears on the front of the 10-dollar Canadian note. Mieszko I, a medieval prince credited with being the founder of Poland in 966, is on the 10-zloty note from that country. Bank notes also reflect the power of more contemporary rulers, as exemplified by the image of Iraq's current president, Saddam Hussein, on that country's 50-dinar note, issued in 1994. Malaysia's paramount ruler and first chief of state, Tunku Abdul Rahman, is on the front of that country's 1-ringgit note and all notes of all denominations issued since 1967.

Architectural vignettes are common on world notes. Islamic mosques with minarets can be found on the 5000-afghani note from Afghanistan, as well as the 25-piaster note from Egypt, indicating the prevalent Islamic religious influence in those 2 countries. The 5-pound 1994 regular issue note from Ireland shows the famous Mater Misericordiae Hospital in Ireland, where Sister Catherine McAuley, founder of the Sisters of Mercy religious order, served in the area of health care. The depiction of religious figures is common on European notes. Examples include St. Agnes of Bohemia on the 50-koruna note of the Czech Republic, St. John of Rila on the 1-lev note of Bulgaria, and the Archangel Gabriel on the 50-denar note of Macedonia.

Artists, authors, scientists, and musicians are also honored on many bank notes. James Ensor (1860–1949), an innovative painter and etcher, is shown on the 100-franc note from Belgium, while Baroness Karen Blixen (pen name Isak Dinesen), the famed Danish author of *Out of Africa* is found on the 50-krone note of Denmark.

Several notes commemorate the new millenium, significant local events, or anniversaries. The front of the 2000-leu commemorative note from Romania has an imaginative reproduction of the solar system as a reference to the total solar eclipse of 11 August 1999. Another example of a commemorative note is the 200-rupee note from Sri Lanka. The note was issued 4 February 1998 to commemorate the 50th anniversary of independence as a self-governing Dominion of the British Commonwealth.

As of 2002, 15 countries did not issue or use their own paper currency, but allowed the bank notes of neighboring countries as well as U.S. currency to circulate freely in their local economies. Many of these countries are relatively small in size with economies to match. Countries such as San Marino, Monaco, Liechtenstein, and Vatican City are tourist-oriented and do not see a need to issue their own homeland currency. Five of these fifteen countries—namely Marshall Islands, Micronesia, Palau, Panama, and Puerto Rico—all use the U.S. dollar as their monetary unit of exchange. As of March 2001, Ecuador and El Salvador had joined the above-mentioned countries in adopting the U.S. dollar. Countries struggling with hyperinflation (uncontrolled inflation marked by the sharp devaluation of the homeland currency) may choose to use the U.S. dollar in place of their own currencies in an attempt to stabilize their economy by linking it directly to the strength and stability of the

U.S. economy. Countries that use U.S. dollars in conjunction with sound economic policies can usually expect to control and/or minimize inflation. The complete adoption of the U.S. currency has been more successful than the practice of pegging the value of local currency to the U.S. dollar according to a fixed ratio, an approach attempted recently by Argentina to disastrous effect. Even those countries that have not completely adopted the U.S. dollar as their currency often have economies operating freely with both their own national and the U.S. currencies. The strength of the U.S. dollar has also made it the currency of choice in the global black market.

Another trend that will probably continue into the future is the joining together of several neighboring countries to form a central bank issuing a common currency. The primary objective of these economic and monetary unions is to eliminate obstacles to free trade, creating a single unified marketplace. This grouping together tends to strengthen the economy and currency of the member countries as well as providing a cost savings in currency production. While such economic partnerships have occurred throughout history, more recent examples began in the early 1950s with the union of the East Caribbean States, followed by the Central African States, French Pacific Territories, and West African States. The most recent and highly publicized example is the European Monetary Union (EMU), composed of 12 European member countries—namely Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. On 1 January 2002, the EMU, through its newly formed central bank, replaced the participating countries' homeland currencies with a new common currency called the *euro*. An example of the 10-euro note is shown on the following currency insert pages. Those countries that had pegged their currencies to an EU member's currency prior to the euro's adoption (as several Francophone countries in Africa did with the French franc) now peg their currency to the euro.

It should be mentioned that, in contrast to this recurring trend of country unification for economic and monetary purposes, there are several countries with isolationist governments that have done just the opposite in order to limit the influence of the international community on their economies and populations. For example, Iraq and Syria have made it illegal to use or export their currency outside of their homelands. Several other nations embraced this isolationist attitude through the use of trade voucher and tourist certificates in place of currency, thus keeping their national circulating bank notes from being used or exported by visitors to their country. China, Bulgaria, and Poland are examples of countries that issued what they termed "foreign exchange certificates" for this specific purpose. However, this practice has largely been discontinued, with the exception of Cuba, which still uses a similar certificate first issued in the mid-1980s.

So what does the future have in store for the economies of the world? Trends indicate most countries in the world want free, open, and balanced trade with a strong, stable, and growing economy, free of hyperinflation. More countries are achieving this goal by unifying in regional economic partnerships such as the European Union, or by clearing the barriers to free trade through agreements such as NAFTA (North American Free Trade Agreement). As the use of the U.S. dollar increases throughout the Americas, some economists predict that this region will follow in the footsteps of Europe in terms of establishing a common currency under a central bank. The Asian and Middle-Eastern regions are also likely candidates for similar regional economic partnerships given the prevalence of established trade agreements already in existence among those countries. As the globalization of trade necessitates closer economic ties between countries, it is not inconceivable that a single central bank and common currency will eventually unite the countries of the world. While that development is still only a remote possibility at this point, there is little doubt that nations' increased dependence on international trade for economic prosperity will promote a currency policy conducive to closer trade ties and cross-border partnerships.

—Keith S. Bauman, professional numismatist
International Bank Note Society
American Numismatic Association
Professional Currency Dealers Association

Afghanistan

Albania

Algeria

Andorra
(used both Spanish and French currency until the adoption of the euro in January of 2002)

Angola

Antigua and Barbuda
(shares currency with other East Caribbean States)

Argentina

Armenia

Aruba

Australia

Austria
(adopted the euro as of January 2002)

Azerbaijan

The Bahamas

Bahrain

Bangladesh

Barbados

Belarus

Belgium
(adopted the euro as of January 2002)

Belize

Benin
(shares currency with other West African States)

Bhutan

Bolivia

Bosnia and Herzegovina

Botswana

Brazil

Brunei Darussalam

Bulgaria

Burkina Faso
(shares currency with other West African States)

Burma (Myanmar)

Burundi

Cambodia

Cameroon
(shares currency with other Central African States)

Canada

Cape Verde

Central African Republic
(shares currency with other Central African States)

Chad
(shares currency with other Central African States)

Chile

China

Colombia

Comoros

Democratic Republic of the Congo

Republic of the Congo
(shares currency with other Central African States)

Costa Rica

Côte d'Ivoire
(shares currency with other West African States)

Croatia

Cuba

Cyprus

Czech Republic

Denmark

Djibouti

Dominica
(shares currency with other East Caribbean States)

Dominican Republic

Ecuador

Egypt

El Salvador

Equatorial Guinea
(shares currency with other Central African States)

Eritrea

Estonia

Ethiopia

European Union (EU)

Fiji

Finland
(adopted the euro as of January 2002)

France
(adopted the euro as of January 2002)

French Guiana, Martinique, and Guadeloupe
(used the Fench currency until the adoption of the euro in January 2002)

French Polynesia

Gabon
(shares currency with other Central African States)

The Gambia

Georgia

Germany
(adopted the euro as of January 2002)

Ghana

Greece
(adopted the euro as of January 2002)

Grenada
(shares currency with other East Carribbean States)

Guatemala

Guinea

Guinea-Bissau
(shares currency with other West African States)

Guyana

Haiti

Honduras

Hong Kong

Hungary

Iceland

India

Indonesia

Iran

Iraq

Ireland
(adopted the euro as of January 2002)

Israel

Italy
(adopted the euro as of January 2002)

Jamaica

Japan

Jordan

Kazakhstan

Kenya

Kiribati
(uses the Australian currency)

North Korea

South Korea

Kuwait

Kyrgyzstan

Laos

Latvia

Lebanon

Lesotho

Liberia

Libya

Liechtenstein
(uses the Swiss currency)

Lithuania

Luxembourg
(adopted the euro as of January 2002)

Macau

Macedonia

Madagascar

Malawi

Malaysia

Maldives

Mali
(shares currency with other West African States)

Malta

Marshall Islands
(uses the U.S. currency)

Mauritania

Mauritius

Mexico

Micronesia
(uses the U.S. currency)

Moldova

Monaco
(used the Frency currency until the adoption of the euro in January 2002)

Mongolia

Morocco

Mozambique

Namibia

Nauru
(uses the Australian currency)

Nepal

The Netherlands
(adopted the euro as of January 2002)

Netherlands Antilles

New Zealand

Nicaragua

Niger
(shares currency with other West African States)

Nigeria

Norway

Oman

Pakistan

Palau
(uses the U.S. currency)

Panama
(uses the U.S. currency)

Papua New Guinea

Paraguay

Peru

Philippines

Poland

Portugal
(adopted the euro as of January 2002)

Puerto Rico
(uses the U.S. currency)

Qatar

Romania

Russia

Rwanda

San Marino
(used the Italian currency until the adoption of the euro in January of 2002)

São Tomé and Príncipe

Saudi Arabia

Senegal
(shares currency with other West African States)

Seychelles

Sierra Leone

Singapore

Slovakia

Slovenia

Solomon Islands

Somalia

South Africa

Spain
(adopted the euro as of January 2002)

Sri Lanka

St. Kitts and Nevis
(shares currency with other East Caribbean States)

St. Lucia
(shares currency with other East Caribbean States)

St. Vincent and the Grenadines
(shares currency with other East Caribbean States)

Sudan

Suriname

Swaziland

Sweden

Switzerland

Syria

Taiwan

Tajikistan

Tanzania

Thailand

Togo
(shares currency with other West African States)

Tonga

Trinidad and Tobago

Tunisia

Turkey

Turkmenistan

Tuvalu
(uses Australian currency)

Uganda

Ukraine

United Arab Emirates

United Kingdom

United States

Uruguay

Uzbekistan

Vanuatu

Vatican City
(used the Italian currency until the adoption of the euro in January of 2002)

Venezuela

Vietnam

Yemen

Yugoslavia

Zambia

Zimbabwe

LUXEMBOURG

Grand Duchy of Luxembourg
Grand-Duché de Luxembourg
Grossherzogtum Luxemburg

CAPITAL: Luxembourg.

MONETARY UNIT: Luxembourg franc (LUF). One franc equals 100 centimes. There are coins of 25 and 50 centimes and 1, 5, 10, and 20 francs. There are notes of 50 and 100 francs. Belgian currency is also legal tender in Luxembourg, and bills of 500, 1,000, and 5,000 Belgian francs also circulate. On 1 January 1999 the European Union began using the euro for non-currency financial transactions, and euro-denominated coins and notes will replace the franc as the currency in 2002.

CHIEF EXPORTS: Machinery and equipment, steel products, chemicals, rubber products, glass.

CHIEF IMPORTS: Minerals, metals, foodstuffs, quality consumer goods.

GROSS DOMESTIC PRODUCT: US$15.9 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$7.6 billion (f.o.b., 2000). **Imports:** US$10 billion (c.i.f., 2000).

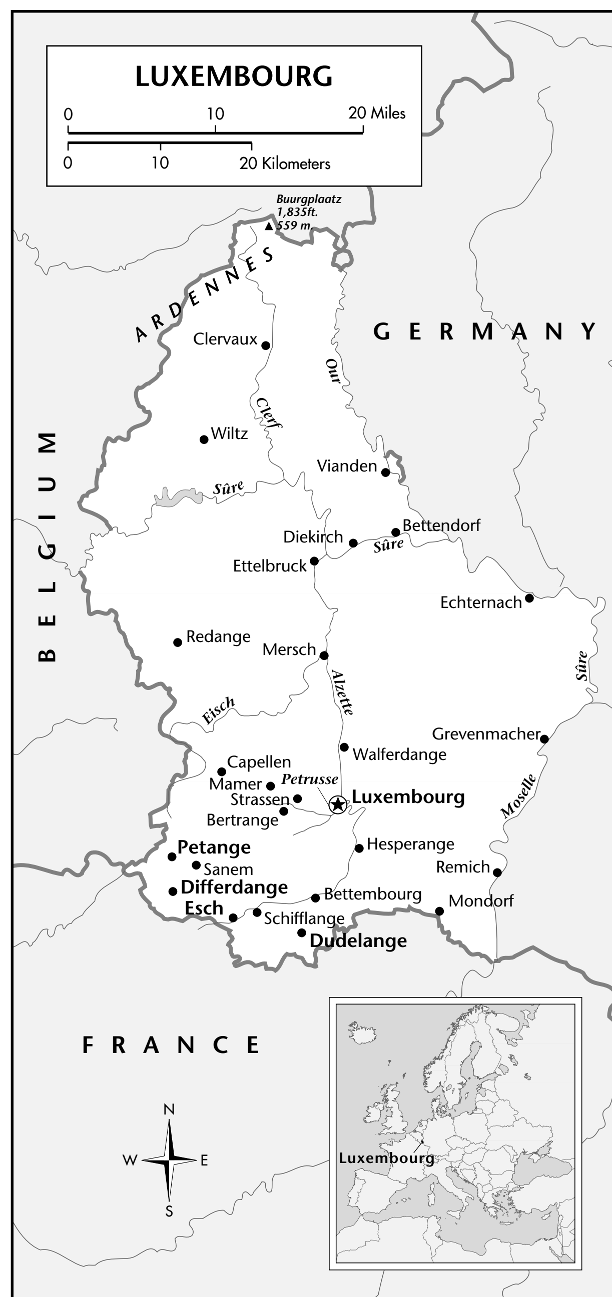
COUNTRY OVERVIEW

LOCATION AND SIZE. Luxembourg is a landlocked nation in Western Europe, at the intersection of Belgium, France, and Germany. It is one of the smallest nations in the world with an area of 2,586 square kilometers (998 square miles), which makes it slightly smaller than Rhode Island. The nation has 359 kilometers (223 miles) of borders, including 148 kilometers (92 miles) with Belgium, 73 kilometers (45 miles) with France, and 138 kilometers (86 miles) with Germany. Luxembourg, the capital, is in the southern region of the country. The nation's second and third largest cities, Esch-Alzette and Differdange, are in the southwest.

POPULATION. In July of 2000, the population of Luxembourg was estimated to be 437,389. While the overall fertility rate is below replacement levels (1.7 children per woman, or 12.45 births per 1,000 people), the population continues to grow because of **immigration**. There were 9.21 immigrants per 1,000 inhabitants in 2000. The death rate was 8.91 deaths per 1,000. In 2000, the population growth rate was 1.27 percent because of the influx of refugees and immigrant workers.

Immigration has been encouraged because of the need for workers. As much as 35 percent of the population is foreign, which gives the nation a higher proportion of foreigners than any other European country. The government has implemented different programs to integrate foreign residents into society. For instance, foreigners with resident status have the right to vote and run for office in municipal elections and may be employed in **public sector** jobs. Given the aging population, the need for workers continues. About 14 percent of Luxembourgers are over the age of 65, while 19 percent are 14 or younger. Average life expectancy is 73.8 years for males and 80.6 years for women. Besides **guest workers**, Luxembourg has also opened its borders to refugees. In 1998, there were 4,548 refugees in the nation, making up just over 1 percent of the population. Many of these refugees came from the former Yugoslavia. As the conflicts in the Balkans subside and refugees return home, population growth is expected to stabilize. However, the continuing need for workers will bring a corresponding growth in the population, which is expected to reach 700,000 by 2025.

Most Luxembourgers are descended from Celtic stock, with German and French influences. The largest minority group is the Portuguese, who account for 13 percent of the population. There are also significant numbers of Italians and other southern Europeans. Most people live in the southwest, and two-thirds of the population are urban. During the 20th century there was increasing migration from the countryside to urban areas. The population of the capital is 76,440, while 24,255 live in the



second largest city, Esch-Alzette. To maintain the declining rural population, the government has relocated some industries to the countryside. The Luxembourg language is an amalgamation of German and French, with French also used for official purposes and German—which is commonly spoken—as the language of the press. English is also widely used.

OVERVIEW OF ECONOMY

Since World War II, the economy of Luxembourg has been marked by high income levels and low unemployment. For most of this period, the iron and steel industry dominated the economy, accounting for as much as 80 percent of the nation's wealth during the 1960s. Banking and financial services are now the main considerations in the economy. In 1999, the unemployment rate was the lowest in Europe at 2.9 percent, and the **inflation rate** was only 1.1 percent. Meanwhile, the nation's GDP has grown about 5 percent per year since 1985.

Luxembourg's economic success has been due to its adaptability and the skills of its people. As the steel industry declined, the economy shifted to other enterprises, and current prosperity is based on a combination of industry, a small agricultural sector, and a growing import-export economy based on financial services. Economic diversification has resulted in the expansion of small to medium-sized companies.

The nation has one of the world's most educated **labor forces**, and the multilingual ability of most of the population is an incentive for foreign companies to invest or relocate there. While there are no 4-year universities in Luxembourg, there are 6 major universities in the region and 500 laboratories, and the government subsidizes those students who go abroad to complete their education. The nation's superb **infrastructure** also adds to its attractiveness, as do the sound relations between labor and industry.

As the steel industry declined in the 1970s, Luxembourg **restructured** its steel producers into a single entity, ARBED, a multinational group which is among the most important steelmakers in the world. Steel still accounts for 29 percent of the exports, 1.8 percent of the GDP, and 3.9 percent of employment. The government owns just under one-third of ARBED, and since 1974, it has set up reforms and modernization initiatives and assumed parts of the group's debt. The company is the second largest steel producer in Europe and one of the most productive in the world.

With the decline of the steel industry in the 1970s, the government undertook several programs to diversify the economy. A significant aspect of this diversification effort was the promotion of the financial sector. By the 1980s, the nation emerged as one of the world's premier banking centers, and by 1996 there were 222 banks in the country with 21,458 employees (9.5 percent of the workforce). Total assets exceed US$200 billion, with 81 percent of funds in foreign currencies. U.S. dollars and German marks are the primary denominations held in Luxembourg banks. Luxembourg's attractiveness as a financial center has prompted companies, such as Goodyear, Du Pont, and General Motors, to build factories there. The nation's investment fund sector is the second largest in the world (behind the United States) and accounts for 20 percent of Europe's total investments. This sector is at the forefront of new services, such as **e-commerce**. There are also more than 9,000 foreign **hold-**

ing companies in Luxembourg, and the European Investment Bank, the main financial institution of the European Union (EU), is located there.

Successive governments have enacted policies and adopted many programs to encourage foreign investment and attract foreign businesses. Examples of such policies include cuts in company tax, abolition of corporate capital gains tax, and tax credits for new products and services. Administrative reforms have reduced bureaucratic impediments to business, with relevant agencies and bureaus placed under one coordinating body. This arrangement hastens paperwork and permits, making it easier for new companies to establish themselves. The nation's banking secrecy laws also appeal to foreign investors, but problems with **money laundering** have led to efforts to compromise between privacy and the need to prevent criminal activity. The laws continue to allow Luxembourg to remain a **tax haven** for foreign investors. These government programs have been successful. For instance, outside of North America, Luxembourg has the largest U.S. **foreign direct investment** on a per capita basis.

The government has encouraged the development of audio-visual and communications sectors, and media services have become the second most significant sector in the diversification program. The government-backed company, Société Européenne des Satellites (SES), operates 5 satellites, and Radio-Television Luxembourg is 1 of the continent's leading private radio and television broadcasters.

A continuing problem for the economy of Luxembourg is energy. The nation has few sources of energy other than timber, and 95 percent of electricity is imported. The country chooses not to construct nuclear energy plants. Oil, coal, and natural gas fuels are imported. Thus, Luxembourg is dependent on foreign sources of fuel.

Luxembourg has been a strong supporter of economic integration. For 80 years, Luxembourg and Belgium have been joined under the Belgian-Luxembourg Economic Union (BLEU) which provides for an interchangeable currency and a joint customs union. Along with the Netherlands, these 2 nations also form the Benelux Economic Union which integrates cross-border trade. The most significant aspect of Luxembourg's pro-integration policies has been the nation's support for the European Union (EU). The EU has eliminated trade barriers, such as **tariffs**, among its member states (numbering 15 in 2000), and helped to coordinate external trade practices. Luxembourg also supports the European Monetary Union (EMU), which will replace the national currencies of the EU with a common currency, the euro.

Luxembourg is a net donor of foreign aid, to which it contributed US$160 million in 1999.

POLITICS, GOVERNMENT, AND TAXATION

Luxembourg is a constitutional monarchy, known formally as the Grand Duchy of Luxembourg. The nation's head of state is the grand duke, a position based on heredity. Since October 2000 the country has been led by Grand Duke Henri. The grand duke's powers are mainly formal and ceremonial, with real power resting in the hands of the prime minister, whom he appoints from among the leading party members in the elected Chamber of Deputies. The prime minister appoints a cabinet known as the Council of Ministers. There is a **unicameral** (single house) legislative body, the Chamber of Deputies, which has 60 members elected by direct popular vote every 5 years. Voting is compulsory. There is also a 21-member Council of State whose members are appointed for life and whose main purpose is to advise the Chamber of Deputies and the grand duke on issues such as judicial appointees. The nation's government is based on the constitution of 1868 and its subsequent amendments. Local government consists of 3 districts, which are subdivided into smaller cantons and communes. These bodies are responsible for public works, health care, and education.

The country is a member of the North Atlantic Treaty Organization (NATO). In 1998, the government spent US$131 million on defense. Luxembourg has an army, but no navy or air force. The 500-member military force is made up entirely of volunteers and its troops have served in NATO peacekeeping operations in the former Yugoslavia.

The Grand Duchy has been one of the most stable democracies in Europe. There are 3 main parties (the Christian Socialists, the Socialists, and the Democratic Party), and governments are usually formed from a coalition of 2 of the major parties. All parties, including the Socialists, have supported pro-business policies.

There is a close relationship between the nation's government and business and workers. Before legislation is passed, 1 of 3 advisory bodies is consulted. Labor legislation is discussed before 6 confederations, representing business, guilds, farmers, unions, and civil servants. The Social and Economic Council examines broad economic policies, and the Immigration Council advises the government on issues such as immigration or housing.

A strict fiscal and **monetary policy** has delivered a yearly **budget surplus**. In 2000 government revenues were US$4.73 billion, while expenditures were US$4.71 billion, making for a strong economy that allows Luxembourg to avoid significant debt while providing generous social policies. Luxembourgers enjoy the highest standard of living in the EU. Medical fees are low, and the national social security system covers sickness and

maternity benefits, retirement pensions, family allowances, and accident and unemployment insurance. Each category of coverage is overseen by public institutions independent of the government and supervised by an elected board of representatives. There have been shortages of housing for immigrant workers, but government programs have been implemented to increase affordable homes.

Government policies are pro-business and favor tax reductions. In 1998, the total tax rate was 37.45, composed of a 30 percent corporate tax and municipal business tax. This system included a personal **income tax**, a corporate tax, a corporate capital gains tax, and municipal business taxes. Later, the government eliminated the corporate capital gains tax, decreased personal income tax by 15 percent, and plans to reduce the company tax to 35 percent by January 2002. A potential problem for Luxembourg involves EU policy that calls for the standardization of national taxes and economic policies. If adopted, these measures would force Luxembourg to **levy** corporate taxes that it previously did not impose. Furthermore, the Grand Duchy has already agreed to repeal laws on banking secrecy, which may lessen its attractiveness as an international banking center.

Conversely, continued EU integration offers advantages to Luxembourg. The country has supported the establishment of a common retirement fund for all EU member states and, because of its financial status, would be the likely beneficiary of such a policy. The government also advocates increased use of the Internet for business purposes and financial transactions. It has championed EU efforts to promote the World Wide Web, offering tax incentives for the creation of new Internet companies. Luxembourg was the first EU nation to meet the standards for adopting the euro, the common European currency that will make currency conversions unnecessary between member nations and result in less complicated financial transactions.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Luxembourg has an excellent road system, communications network, and power supply system. The government spends a higher percentage of its GDP on infrastructure than any other European nation. There are 5,166 kilometers (3,210 miles) of paved roads, including 166 kilometers (103 miles) of expressways. The nation's railways are fully electrified, and the government is spending 12 billion francs on further improvements to the system. Railroads provide a main method to transport goods to and from Luxembourg. The Moselle River has canals which link it to the Rhine River. This waterway provides links between Luxembourg and ports on the North Sea. The Grand Duchy has a small merchant marine fleet with 56 commercial vessels. The nation's main port is the river port of Mertert, which, along with the smaller port of Bech-Kleinmacher, handled 1,868,230 tons of freight in 1994.

Findel Airport is the nation's only international airport, but it has become a major air terminal. The airport is 5 miles from the capital. The government has engaged in a continuing effort to expand the airport's capacity. Luxembourg has an open-skies agreement with the other EU members and with the United States that allows unrestricted flights between the nations. The Grand Duchy's largest airline, Cargolux, is among Europe's top 10 air cargo carriers. The state-owned airline provides 3 percent of the government's annual revenue. Luxair is the national passenger airline and transports over 1 million people annually.

Communications

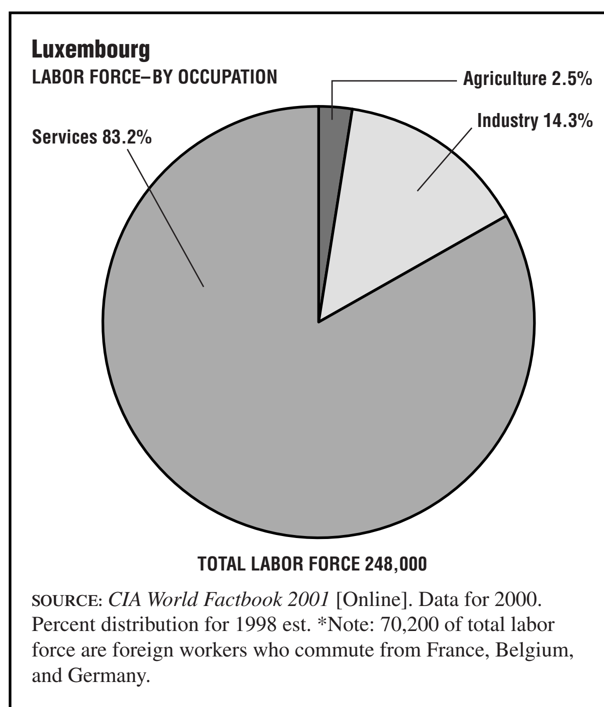
Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Luxembourg	314,700 (1999)	215,741 (2000)	AM 2; FM 9; shortwave 2 (1999)	285,000	5 (1999)	285,000 (1998 est.)	8	86,000 (1999)
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Germany	45.2 M	15.318 M (1999)	AM 51; FM 767; shortwave 4	77.8 M	373 (1995)	51.4 M (1998)	123	18 M
Belgium	4.769 M	974,494	FM 79; AM 7; shortwave 1	8.075 M	25	4.72 M	61	2.7 M

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

The Grand Duchy has also engaged in a broad effort to improve its already superior communications network. This effort, known as E-Luxembourg, significantly increases the financial resources devoted to expanding Internet access and the use of information technology. Half the households have personal computers, and 1 in 3 Luxembourgers have access to the Internet. Currently, 40 percent of elementary schools and all secondary schools have Internet access. There are 5 communications satellites owned by Luxembourg and 2 more will be in orbit by 2002.

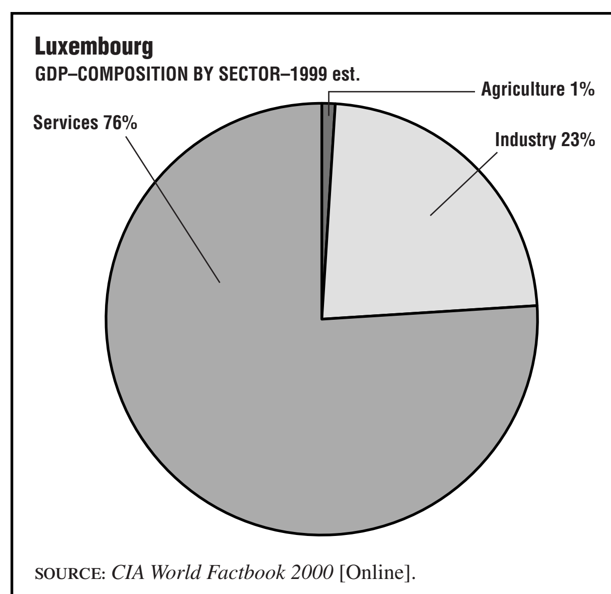
The communications infrastructure is among the best in the world which has aided the growth of the financial and banking sectors. The government is **privatizing** the telecommunications sector. The telephone system is extensive and half of Luxembourgers have mobile phones. Most of the power and telephone lines are underground, as are the nation's petroleum pipelines. Although most of the nation's electricity and power is imported, 1 percent of its energy is produced by local hydroelectric plants. The nation consumes 5.9 billion kilowatt hours (kWh) of electric power per year.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1998 est. *Note: 70,200 of total labor force are foreign workers who commute from France, Belgium, and Germany.

ECONOMIC SECTORS

Since the Industrial Revolution of the 1800s, agriculture has been in decline in Luxembourg, and most farms are small, family-owned operations. Most foodstuffs consumed in Luxembourg are imported, while many of the country's agricultural products are exported. Only a small percentage of the population remains engaged in agriculture and the number of farms continues to decline. In 2000 agriculture contributed just 1 percent of the nation's GDP, and in 1998 it employed 2.5 percent of the workforce.



SOURCE: *CIA World Factbook 2000* [Online].

For most of the 20th century, industry provided the nation's wealth, with steel production forming the core of Luxembourg's economy. However, during the 1970s, it became difficult for local steel manufacturers to compete with companies from around the world who were producing steel more cheaply. This difficulty led to a period of restructuring and reform, during which smaller companies were consolidated into a single major steel group, ARBED, which is a highly productive steel maker. Thus, despite declining, the steel industry remains a major feature in the Grand Duchy's economy.

Efforts at diversification in industry have had some success. Major chemical and rubber manufacturing companies have built plants in Luxembourg. Significantly, these include foreign-owned companies, such as DuPont Chemicals, Goodyear Tire, and the Guardian Glass Company. Industry contributed 30 percent of the GDP in 2000 and employed 14.3 percent of the workforce in 1998.

The real growth in Luxembourg's economy has been in the services sector, especially in banking and financial services, which have experienced dramatic growth, making the nation one of Europe's top financial centers. Information services have also grown dramatically, making the nation one of the world's largest satellite service providers, while its development as a major Internet service provider continues to grow quickly. The services sector contributed 69 percent to the GDP in 2000 and employed 83.2 percent of the workforce in 1998.

AGRICULTURE

The main agricultural areas are situated around the flood plain of the Moselle River, but having suffered a marked decline, agriculture accounts for only a small percentage of the Grand Duchy's economy—just 1 percent in 2000. While the climate is conducive to several crops, poor or marginal soil limits production in many areas. The main agricultural products are barley, oats, potatoes, wheat, fruits, and grapes for wine production. Approximately 42 percent of the land is arable, with 1 percent used for permanent crops. About 10 square kilometers of the nation is irrigated, and about three-quarters of the nation's farms are smaller than 200 acres (50 hectares).

Extensive livestock production accounts for 80 percent of agricultural profits, resulting in many farmers raising crops and livestock. Meat production exceeds 15,000 tons annually. Because the nation produces 40 percent more beef than it consumes, meat is one of the few agricultural products in which Luxembourg is self-sufficient. Although farming cattle has increased in importance and profitability, sheep and pig farming have declined. About 70 percent of farms had pigs in 1970, but by 1993, this number had dropped to 15 percent. The growth of the cattle industry has led to an increase in dairy products and to the production of corn as livestock feed. The dairy industry in Luxembourg is organized differently from other agricultural enterprises, being in the hands of 2 major, and 6 minor, dairies. The dairy industry contributes approximately 55 percent of agricultural profits.

There are also 788 small vineyards along the Moselle River, covering 1 percent of agricultural land (1,200 hectares). These vineyards produce 15 million liters of wine annually. Almost four-fifths of the wine produced is consumed by Belgium and the Netherlands, with most of the remainder exported to France and Germany. Luxembourg imports 3 times as much wine as it exports. Vineyards have been the recipients of significant government aid. There are 6 independent breweries in the country, who use much of the locally grown grain in the production of their beer. There is a small tobacco firm employing 350 people, but their cigarettes are made from imported tobacco.

Forestry plays only a tiny part in the economy and accounts for 0.2 percent of the GDP. The annual production of rough timber is approximately 330,000 cubic meters. Furthermore, while wood exports amount to 980 million francs per year, imports exceed 2.8 billion francs.

INDUSTRY

From the Industrial Revolution through the 1970s, the steel industry was the backbone of the Grand Duchy's economy. In 1974 the nation produced 19 tons of steel for each inhabitant, and metal exports accounted for two-thirds of exports. However, lower demand and the energy crises of the 1970s caused a dramatic decline in the industry. By 1992, steel exports made up only one-third of Luxembourg's exports.

The government-supported conglomerate ARBED, formed to combat the steel crisis in the 1970s, shifted from producing general bulk steel to manufacturing high-quality specialized products such as galvanized metal sheet and metal wire, resulting in the replacement of older blast furnaces with sophisticated electric furnaces. In 1970, there were 30 blast furnaces; by 2000, there were none, but there were 3 electric furnaces. Reforms continue, and ARBED has set aside an 18 billion-franc investment fund for continuing modernization. Despite reductions in the industry, ARBED is the largest private employer in Luxembourg with 7,300 employees. The company remains the fourth largest producer of steel in the world and exported 22 million tons of steel products in 1999.

The Luxembourg government has aggressively tried to diversify and attract other industries. Goodyear has built several plants to produce tires and has become the second largest private employer in the nation with 3,500 employees. Many chemical companies have also built factories in Luxembourg. The Du Pont company has 1,160 workers at plants which produce polyester filaments (mylar) and another 150 workers at a plant which manufactures photographic film. Other major chemical or plastics companies in Luxembourg are Rubbermaid, T.D.K., and Recording Media Europe. The rubber, chemical, and plastics industry accounts for 10 percent of total employment in the Grand Duchy.

SERVICES

The backbone of Luxembourg's economy is the services sector. Financial services, communications, and media services form the core of this sector. Currently home to over 200 banks and 9,000 holding companies, Luxembourg has experienced the biggest growth in recent years in this sector. Employing 20,000 people, the banking sector accounts for 15 percent of the nation's GDP, while the services sector overall contributed 69 percent of the GDP in 2000.

During the 1970s, Germany and Switzerland adopted legislation that made it difficult for non-residents to deposit money in their national banks. However, Luxembourg maintained laws that encouraged foreign investment, and these led to its emergence as a banking center where foreign individuals and companies could easily deposit funds. In the 1980s, this trend accelerated as the country's banks diversified into a wide array of other financial services. By 1994, the banking sector was worth

over 17.6 trillion francs. The largest banking group is Cedel, which had an operating income of US$587.6 million and returned profits of US$92.1 million in 1999.

Well into the 1980s, the insurance business in Luxembourg was concentrated on local markets, but EU economic integration opened the markets of other nations to companies in the Grand Duchy. This led to a doubling of the insurance companies by 1993. Besides life and other personal insurance, Luxembourg's companies have gained a place for themselves in maritime insurance, which now accounts for 39 percent of non-life-insurance policies. Including independent insurance brokers, there are as of 2001 approximately 6,200 people employed in insurance.

COMMUNICATIONS. With a superb communications infrastructure providing a strong platform for new information technologies, Luxembourg is a major communications center. The company, Europe-Online, was an early Internet service in Europe. The company offers multimedia services to consumers throughout Europe. The government has adopted new regulations, including rules for online shopping, to protect consumers who do business on the Internet.

With support from the government, the communications company, SES, operates ASTRA satellites. The first satellite, launched in 1991, provided television programming for 32 million homes in Europe. The launch of 8 subsequent satellites expanded the coverage to over 74 million homes, bringing a corresponding expansion of television broadcasts. The satellites also transmit 39 different radio programs. By 1999, the ASTRA satellites had captured 83.4 percent of Europe's satellite and cable market. Profits from SES exceed 4 billion francs annually.

The government began several investment incentives to promote the audiovisual sector, leading to rapid expansion in the field, which now employs 750 people in production companies. However, the real growth in this sector has been the commercial broadcasting company, CLT. From 1989 to 1994, the revenue of CLT tripled to 82 billion francs per year, and revenues have continued to increase by over 20 percent per year. The CLT group owns 12 television channels and 12 radio stations, and employs 3,089 people. A 1999 merger between CLT and the German media giant, Bertelsmann, created Europe's largest television and radio group, CLT-UFA. The combined company has also created an alliance with the Walt Disney Corporation.

RETAIL. There are 5,300 trade and **retail** sales enterprises in Luxembourg, employing 31,000 people. Retail businesses have taken advantage of the Grand Duchy's lower tax rate to attract buyers from neighboring countries. There are 2 major chain stores, Cactus and Match, and 60 other supermarkets.

TOURISM. Luxembourg has 2,350 hotels and restaurants, employing 11,000 people. Hotels declined by 70 in the 1990s, but total room numbers increased by 328 as hotel chains have built larger units. About 2 million tourists visit Luxembourg annually. But about half of these stay at campsites around the nation. The largest number of visitors come from the Netherlands, followed by Belgium, Germany, France, and the United Kingdom.

INTERNATIONAL TRADE

While Luxembourg has had a **trade deficit** since the 1980s, the strength of the financial sector has meant that the Grand Duchy maintains a surplus in earnings. Although the nation had trade deficits of 84 billion francs in 1997, 81.4 billion francs in 1998, and 106 billion francs in 1999, it had account surpluses of 86 billion francs in 1997, 84 billion francs in 1998, and 59 billion francs in 1999. The overwhelming majority of the nation's trade has been with its EU partners. The 3 main trading partners are Germany, Belgium, and France. EU nations received 75 percent of Luxembourg's exports and provided 81 percent of its imports in 1999. In 1999, Germany received 25 percent of Luxembourg's exports, France 21 percent, Belgium 12 percent, the United Kingdom 8 percent, Italy 6 percent, the Netherlands 5 percent, and 4 percent went to the United States. Meanwhile, 35 percent of Luxembourg's imports came from Belgium, 26 percent from Germany, 12 percent from France, 9 percent from the United States, and 4 percent from the Netherlands. In 2000 exports totaled US$7.6 billion while imports totaled US$10 billion.

The country has traditionally imported most of its **consumer goods** and exported industrial products (steel). The Grand Duchy continues to import manufactured consumer products, but its exports have become more diversified. Besides steel, exports now include chemical and rubber products, and finished glass, but the most profitable export is financial services. The nation remains dependent on energy imports.

While Luxembourg's economy is traditionally geared toward its immediate neighbors, the government is supportive of free trade. About 90 percent of the nation's GDP is related to foreign trade. To expand internationally, successive governments have supported regional economic integration and worldwide efforts to promote free trade. Beginning with currency integration with Belgium in 1921, Luxembourg has looked for participation in regional bodies. It was a founding member of the European Community (later the EU), and its EU membership has opened markets for itself in other member states. The population of the EU is currently 370 million, and Luxembourg hopes increasingly to market its financial services to EU citizens. The adoption of common trade

rules and practices has eased the ability to conduct foreign trade. Within the EU, Luxembourg coordinates with Belgium and the Netherlands to promote their national interests and to bolster the Grand Duchy's standing within the EU. Luxembourg is also a member of the Schengen Group, which promotes the free movement of citizens within the EU. With greater freedom of movement, the government of Luxembourg hopes to continue encouraging the influx of workers necessary to maintain the economy.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Luxembourg	21,650	23,926	26,914	35,347	46,591
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Belgium	18,620	21,653	22,417	25,744	28,790

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

MONEY

Linking of its currency to that of Belgium in 1921 has helped Luxembourg maintain its financial stability. Despite the demand for labor, the government managed to keep **inflation** low through the 1990s. However, the Luxembourg franc has declined in relation to the U.S. dollar but has maintained its value against major European currencies. In 1995, 1 U.S. dollar was equal to 29.48 francs, but by 1999, 1 dollar equaled 34.77 francs. In 1999 Luxembourg joined the EU which created a single currency, the euro, for the EU nations. The exchange rate is fixed at a rate of 40.3399 francs per euro. Since its introduction, the euro has been weak against the dollar. In 2000, 1 U.S. dollar equaled 0.9867 euros.

Luxembourg's 200-plus national and international banks place few restrictions on operations and lend money to consumers and businesses around the world. There are no regulations on the transfer of funds or profits. Bank confidentiality, prompt payment of interest, and the Grand Duchy's political stability have combined to make Luxembourg a banking haven.

The Luxembourg Stock Market has also performed well since the 1980s. It lists over 15,000 international securities. In 1999, the total volume of trade was 1 trillion francs. By 1994, investment companies in the Grand Duchy had assets of over 100 trillion francs. Luxembourg ranks fourth in the world for asset management and second in Europe.

POVERTY AND WEALTH

Luxembourgers enjoy one of the highest standards of living in the world. The UN *Human Development Report 2000* ranks Luxembourg number 17 in the world in its human development index. Luxembourg has the world's highest per capita income of US$46,591 per person. (Figured at **purchasing power parity**, Luxembourg still led the world with a per capita income in 2000 of US$36,400.) This figure reflects the growth in the nation's economy, as the nation has overtaken the economies of Japan and Switzerland since 1990.

Low unemployment and the need for workers have prevented poverty. Generous social benefits also contribute to this healthy situation. Laws prohibit discrimination against women, ethnic minorities, and people with disabilities, and women enjoy equal rights, including property rights, with men. However, there are differences in pay because of gender, with women often earning between 9 and 25 percent less than men in comparable jobs. Companies with more than 25 employees have a quota for hiring the disabled. According to the U.S. State Department's *Country Reports on Human Rights Practices,*

Exchange rates: Luxembourg

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	36.299
1997	35.774
1996	30.962

Note: Rates prior to 1999 are in Luxembourg francs per US$; the Luxembourg franc is at par with the Belgian franc, which circulates freely in Luxembourg.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Luxembourg

Lowest 10%	4.0
Lowest 20%	9.4
Second 20%	13.8
Third 20%	17.7
Fourth 20%	22.6
Highest 20%	36.5
Highest 10%	22.0

Survey year: 1994

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Luxembourg	17	8	9	3	7	5	52
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Belgium	17	6	8	3	1	7	57

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

2000: Luxembourg, the government pays **subsidies** to companies that construct "disabled-friendly" buildings. The government also provides support for programs that integrate foreign residents into the mainstream of society.

Luxembourg has a first-rate education system and a literacy rate of 100 percent. School is mandatory until the age of 16, although students may continue their education in post-secondary schools (with some government financial support). The well-educated workforce of the nation has contributed to its attractiveness to foreign companies and investors.

WORKING CONDITIONS

In 1999 the unemployment rate was estimated at 2.7 percent, the lowest in Europe. Efforts to attract foreign businesses have been aided by the good labor relations in the country. Since the 1930s, there has been little labor unrest. About 57 percent of workers belong to unions, with membership highest among industrial workers. The 2 largest unions have links to political parties, but maintain their independence. Businesses with more than 15 employees must allow their workers to organize. The constitution allows employees the right to strike, except the police, army, and hospital workers. Labor negotiations are conducted cooperatively between government, business, and unions.

National laws prohibit children under the age of 16 from working, and employees under the age of 18 have special limits on overtime and the total amount of time worked. There are minimum wage laws that vary with age. For those over 18, the minimum wage is 278 francs (US$7.32) per hour. The working week is limited to 40 hours, and employers must pay special overtime rates. Most employees cannot be made to work on Sunday, except those in the steel, chemical, and glass manufacturing industries, and security personnel. Workers receive a minimum of 5 weeks of vacation.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

450 B.C. Luxembourg is settled by 2 Belgic tribes, the Treveri and the Mediomatrici.

53 B.C. The Romans conquer the territory.

963. Luxembourg gains independence under Siegfried, the Count d'Ardennes.

1354. Luxembourg is made a duchy by the Holy Roman Emperor, Charles IV.

1555–56. The Duchy is incorporated into the Spanish Netherlands.

1618–48. During the Thirty Years War, the territory of Luxembourg is devastated by warfare, famine, and disease.

1684. France conquers Luxembourg but returns the Duchy to Spain in 1697.

1714. Luxembourg is ceded to Austria and undergoes an economic boom, especially after 1735.

1795. The Duchy is again conquered by France.

1815. At the end of the Napoleonic Wars, Luxembourg becomes a Grand Duchy under the king of the Netherlands, William I.

1830. William's heavy taxation leads the people of Luxembourg to support a Belgian revolution against his rule, and the French-speaking areas of the nation become part of Belgium.

1842. Luxembourg joins a Prussian-led customs union.

1867. Luxembourg gains full independence, with its neutrality guaranteed by the great European powers.

1879. The introduction of new methods of steel production leads to the rapid expansion of the steel industry.

1914. Germany invades Luxembourg at the start of World War I.

1919. All adults are granted the right to vote.

1922. The Belgium-Luxembourg Economic Union (BLEU) is formed.

1929. The government introduces legislation encouraging holding companies to relocate to Luxembourg.

1940. Germany occupies the Grand Duchy during World War II.

1947. Luxembourg joins the Benelux Economic Union, formed between Belgium, the Netherlands, and the Grand Duchy.

1949. The nation joins NATO.

1951. A Goodyear tire plant is built near Colmar-Berg.

1952. Luxembourg joins the European Coal and Steel Community.

1957. The Grand Duchy becomes a founding member of the European Community.

1965. Du Pont opens a chemical plant in Contern.

1974. The nation's steel industry is consolidated into a single company group, ARBED.

1986. The government-backed satellite company, SES, is created.

1991. The first ASTRA satellite is launched, marking the emergence of SES as Europe's most prominent satellite and cable television provider.

1999. Luxembourg is the first nation to meet the requirements for entry into the European Monetary Union, which it joins in January.

FUTURE TRENDS

Luxembourg is well positioned to continue its economic transformation from an industrial to a diversified economy with financial services as the base of the country's wealth. The close relationship between government and corporations and the pro-business stances of major political parties ensure that there will be little economic instability in the coming years. The continued economic integration of the EU will open new markets for the Grand Duchy's financial services, especially for pension plans.

The main danger facing the economy of Luxembourg is the possibility of labor wage inflation caused by a shortage of labor. However, the continuing momentum toward open borders and the free movement of people within the EU should ensure a steady supply of new workers. A second danger is that the harmonization of EU banking and tax laws may mean that the Grand Duchy will lose its special status as a tax haven. The concentration of banking and financial services may compensate for this trend, especially if U.S. companies and financiers continue to invest in the nation.

DEPENDENCIES

Luxembourg has no territories or colonies.

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—Tom Lansford

MACEDONIA

Former Yugoslav Republic of Macedonia
Republika Makedonija

CAPITAL: Skopje.

MONETARY UNIT: Macedonian Denar (MKD). One denar equals 100 deni. There are coins of 1, 2, and 3 denars and 50 denies; there are bills of 10, 50, 100, 500, 1,000, and 5,000 denars.

CHIEF EXPORTS: Food, beverages, tobacco, miscellaneous manufactures, iron, steel.

CHIEF IMPORTS: Machinery and equipment, chemicals, fuels, food products.

GROSS DOMESTIC PRODUCT: US$7.6 billion (1999 estimate).

BALANCE OF TRADE: **Exports:** US$1.317 billion (1998). **Imports:** US$1.715 billion (1998).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in southeastern Europe, the Former Yugoslav Republic of Macedonia (generally referred to as Macedonia) is a completely landlocked country, covering an area of 25,333 square kilometers (9,781 square miles). It is bounded on the north by Serbia and Montenegro (collectively the Federal Republic of Yugoslavia)—mostly by the province of Kosovo—on the east by Bulgaria, on the south by Greece, and on the west by Albania. Comparatively, the country is slightly larger than the state of Vermont. The capital, Skopje, is situated in the north-central part of the country; other cities of importance include Bitola, Kumanovo, and Tetovo.

POPULATION. According to the 1994 census, the population was 1,945,932, or 88,000 fewer than the previous census recorded in 1991. This decline resulted from the **emigration** of ethnic Serbs after the breakup of Yugoslavia, and by a boycott of the census by ethnic Albanians. By July 2000, the population had risen to 2,041,467. Its birth rate is 13.73 per 1,000 population, and the death rate is 7.69 per 1,000 population, resulting in one of the highest rates of population growth in Europe. The population is expected to reach 2.2 million by 2010. The population density is nearly 79 persons per square kilometer (205 per square mile).

Macedonian Slavs constitute two-thirds of the population, with ethnic Albanians the second largest group, accounting for 22.7 percent. Turks make up 4 percent, Roma (Gypsies) 2.2 percent, and Serbs 2.1 percent. Several other small groups round out the total. Albanians dispute census results, claiming to represent one-third of the population. While Macedonia received many Kosovar Albanian refugees during the Kosovo war of 1999, most of them have since returned to their country. The population is young, with 23.8 percent below the age of 14 and 10 percent older than 65. Over 60 percent of the population live in urban areas, 23 percent of them in the capital city Skopje, and 5 percent in its suburbs.

OVERVIEW OF ECONOMY

An agricultural economy before World War II, Macedonia was the least developed of the 6 former republics of Yugoslavia. The country inherited a poorly located state-owned industry, predominantly heavy, from the Yugoslav **socialist** period (1945–91), which is now largely seen as a deterrent to foreign investment. The breakup of Yugoslavia in 1991 deprived the country of protected markets and federal funds. In the first half of the 1990s, the economy suffered additionally from the United Nations (UN) **embargo** against Yugoslavia (Serbia and Montenegro) as all exports to Serbian markets, especially of agricultural produce, were terminated, and land corridors to western Europe through Serbia were cut. Many violations of the **sanctions** occurred, fueling organized crime and corruption, and generating some huge illicit fortunes. Worse yet, when Macedonia declared independence in 1991, Greece imposed an economic blockade that was not lifted until

1995 and badly impaired foreign trade. Finally, in 1999, the country was affected by the Kosovo war and the influx of ethnic Albanian refugees.

In 1991, the **gross domestic product (GDP) per capita** was US$1,140; between 1991 and 1994 it shrank by over 10 percent annually; by 1997 it had rebounded slightly to US$1,100 a person, signaling a period of growth. The country's isolation and underdevelopment, and the instability generated by the conflicts in neighboring Serbia, have made it unattractive to investors. Money transfers from Macedonian workers abroad and foreign aid have helped towards a recovery, and the Stability Pact—a U.S. and European Union (EU)-backed regional plan for economic development, democratization and security—may generate new investment opportunities. Most importantly, the toppling of Yugoslavia's dictator, Slobodan Milosevic, is perceived as a major advantage towards achieving stability and growth in the region.

The decision of the EU in late 2000 to open up its market to imports from southeastern Europe, including Macedonia, brought up to 95 percent the proportion of industrial and farm goods not subject to EU customs fees. To the disappointment of the Macedonian government, however, the country was still regarded as a "potential" EU member when it had expected firm guarantees that it would be considered a membership candidate like Slovenia or neighboring Bulgaria. Macedonians expect their country to be more highly favored for its record of cooperation with the international community and are unimpressed with current EU plans to spend $2.4 billion of Stability Pact funds in the region as a whole, anticipating that they would receive only a minor portion of the money.

Economic progress depends on the Macedonian government's ability to attract foreign investment, redevelop trade with its neighbors and the EU, and **liberalize** the economy by disbanding loss-making state enterprises and **privatizing** those that might be profitable in the long term. Implementation of such structural reforms is vital for economic growth and integration with the European Community.

Macedonia's **external debt** was $1.13 billion in 1997. Although quite moderate by international standards, without substantial support the cash-stripped country could not meet its short-term financial obligations. Financial aid has been forthcoming in the late 1990s and early 2000s, with $10.5 million received from Taiwan, and an EU grant of $100 million to be split with Albania. The World Bank also granted an adjustment loan worth $50 million, of which $20 million came under conditions applying to the poorest countries and is interest-free for 35 years with a 10-year grace period, and the balance—on terms for credit-worthy but poorer countries—for 17 years, with an 8-year grace period.

POLITICS, GOVERNMENT, AND TAXATION

Following its declaration of independence in 1991, Macedonia developed a consensual democratic multiparty system. Main parties include the ruling Internal Macedonian Revolutionary Organization-Democratic Party for Macedonian National Unity (VMRO-DPMNE), a moderate nationalist and reformist party with deep historic roots and liberal positions on economic and international issues; the Democratic Alternative (DA), a liberal party and former VMRO-DPMNE coalition partner; the Social Democratic Alliance of Macedonia (SDSM, reformed communists); and the 2 ethnic Albanian-dominated organizations, the Democratic Party of Albanians and the left-wing Party for Democratic Prosperity. Unlike other parts of the former Yugoslavia, Macedonian politics are not polarized along ethnic lines. Although there have been tensions between the Albanian minority and the government, the kind of ethnic violence seen elsewhere is rather unlikely, and Macedonia has occasionally com-

pared itself with Switzerland as a land of peaceful ethnic co-existence.

The state still has considerable influence over the economy, but, since independence, the government has made progress in boosting private initiative and creating a viable **private sector** through its restitution and privatization program and by attracting **foreign direct investment**. The first step was the restitution (return) of **nationalized** property to former owners, considered a serious political gain by the VMRO-DPMNE, the first center-right reformist government since the country's independence. The privatization agency, a body overseeing both restitution and privatization, reserved a large cash fund to compensate the heirs of former property owners if restitution proved physically impossible. Out of 94 firms that were nationalized (claimed by the state) by the **communist** regime, restitution of physical assets was possible in 38 cases, and shares were distributed to the heirs in another 24 firms. Privatization of state assets is another, much more time-consuming, priority of the government, and it is being carried out through capital market offerings, mass privatization, and cash deals. The offerings on the capital market are very limited; in mass privatization, citizens and company employees are eligible to receive free vouchers for company shares; cash deals are by far the most attractive proposition for foreign direct investors. Taxes constitute 41 percent of the total government revenue, and continuing tax reform is aimed at reorienting taxation from direct towards **indirect taxes** and the **value-added tax** (VAT), which are believed to be more business-friendly.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Macedonia's transportation **infrastructure** includes 5,540 kilometers (3,450 miles) of paved roads with 133 kilometers (83 miles) of expressways and 699 kilometers (417 miles) of railroads, with a new 56-kilometer (35-mile) railroad line under construction to the Bulgarian border in 2000. Due to the old Yugoslav policy of keeping Macedonia economically dependent on Serbia and isolated from Bulgaria, most infrastructure runs north-south, while the improvement of the east-west transport corridor connecting Italy and Albania with Bulgaria and Turkey has only been included since the introduction of EU infrastructure development programs. The government claimed US$106.9 million in compensation from NATO for the use of its infrastructure during the 1999 Kosovo crisis and is planning to spend the money on new infrastructure projects. International airports operate in Skopje and Ohrid.

Macedonia has only 10 kilometers (6 miles) of oil and gas pipelines. The energy sector is state-owned and produced 6.664 billion kilowatt-hours (kWh) of electricity in 1998 in thermal plants (85.37 percent) and hydroelectric facilities (14.63 percent). Electricity consumption was estimated at 6.198 billion kWh in 1998. Privatization is planned for ESM, the national electric utility, and in September 2000 the government began passing it into shareholder ownership. Talks have also been held with 2 potential foreign purchasers, Enron (U.S.) and RWE (Germany).

Of the international telecommunications operators interested in the privatization of the state-owned **monopoly** Makedonski Telekomunikacii (MT), the favorites are OTE (Greece), Matav (Hungary, owned by Deutsche Telekom), and Telekom Slovenije (Slovenia). A final decision on the bid was due to be made in 2001, with Matav considered the front-runner.

Growth in demand for transport and telecommunications services reflects the continuing logistical requirements of the international operations in Kosovo. The deployment of the North Atlantic Treaty Organization (NATO) peacekeepers and the UN Interim Administration Mission in Kosovo in 1999 required huge spending on transportation, energy, and telecommunications (as did the presence of the UN preventive deployment force in 1993).

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Macedonia	21	200	250	N/A	15	1.5	N/A	4.40	30
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Yugoslavia	107	297	259	N/A	23	1.9	18.8	7.65	80
Albania	36	217	109	0.0	1	3.6	N/A	0.24	3

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

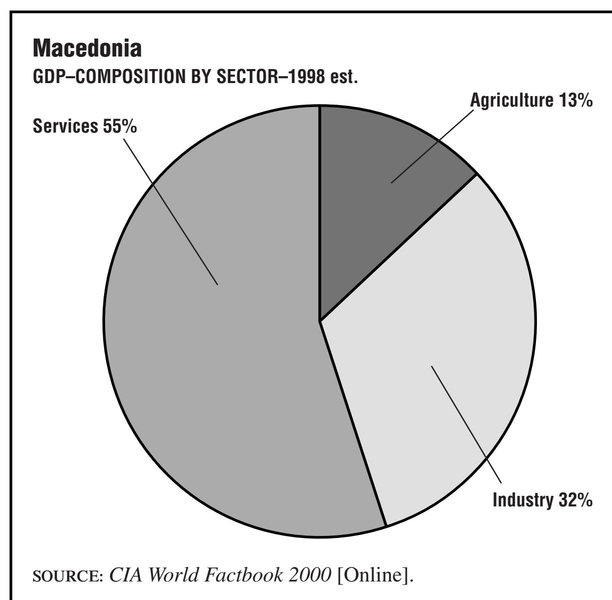
SOURCE: World Bank. *World Development Indicators 2000.*

ECONOMIC SECTORS

The largest sectors in terms of GDP contribution are services; light industry and mining; trade, tourism, and catering; agriculture, forestry and water management; transport and communications; and construction. Since independence, heavy industries have declined, while services have grown dynamically. In 1999, the economy recorded **real GDP** growth of 2.7 percent, the third consecutive year of moderate growth. In the first quarter of 2000, industrial production rose by 10.6 percent, and services (transport, communications, and **retail**) expanded, mostly due to the continuing logistical requirements of the international operation in Kosovo. In 1998, the agricultural sector contributed 13 percent to GDP, industry contributed 32 percent, and services contributed 55 percent.

AGRICULTURE

Macedonia produces a wide range of crops and other foodstuffs. Farmers grow rice, tobacco, wheat, corn, millet, cotton, sesame, mulberry leaves, citrus, and vegetables; beef, pork, poultry, mutton, and dairy products are also produced, and the country has traditionally been an exporter of sugar beets, fruits, vegetables, cheese, lamb, and tobacco. As elsewhere in the former Yugoslavia, farmland was only partly collectivized under communist rule, while in other eastern European countries such as Bulgaria, collectivization was almost complete (collectivization was the process by which communist countries coordinated production through state planning). The farming sector has, however, been hit by drought, and the wheat harvest was down by 16 percent in 2000.



SOURCE: *CIA World Factbook 2000* [Online].

The government has come under pressure from private farmers, who have threatened to organize protests unless it pays what it owes them for the 1999 harvest and compensates them for the rising price of fuel. They have also demanded **subsidies** for their agricultural exports and a cut in the rate of the new value-added tax for agricultural products from 19 percent to 5 percent.

INDUSTRY

Industry (including mining) contributed 32 percent of GDP in 1998 and employed about 40 percent of the workforce. While the coal industry provides for the needs of the country, all other fuels, machinery, transportation equipment, and manufactured goods are imported. Manufacturing is dominated by metallurgy (iron, copper, lead, zinc, and chromium), chemicals, and textiles. Many companies have been able to keep operating despite losses and delayed payments to workers and business partners. But the VMRO-DPMNE government has planned the sale or liquidation of seriously insolvent companies by 2002. Feni, a ferro-nickel plant in Kavadarci, was sold for $2.3 million to France's Société Commerciale de Métaux et Mineraux, which will invest $36 million, while retaining all 880 employees and selling metals to Krupp Thyssen of Germany. The privatization agency is trying to support the selling of other loss-making companies, such as the Okta oil refinery, by cutting selling prices substantially.

Increased demand for post-war reconstruction in Kosovo has improved the situation in the iron and steel, construction materials, and chemicals industries, and, ironically, neighboring EU member Greece, which imposed a crippling trade embargo in the early 1990s, is now the top source of foreign cash directed to banking, fuels, brewing, tobacco processing, and construction materials.

SERVICES

The growing services sector of the Macedonian economy accounted for 55 percent of the country's GDP in 1998 and was expected to continue to grow in importance in the coming decades.

FINANCE. As in the rest of the former Yugoslavia, most banks in Macedonia were not controlled directly by the government during the communist era but by the state enterprises, their largest customers. Large firms could force banks to lend them money even when they were not credit-worthy, an ineffective and risky system. The banking sector was badly hurt in the early 1990s when many firms defaulted on their loans. To make things worse, in the wake of the Yugoslav crisis, the cash-stripped National Bank of Yugoslavia in Belgrade refused to return the Macedonian foreign exchange deposits

it was holding, thereby depriving the republic of **hard currency**. Because of the high **inflation** of the denar, most people in Macedonia used to save in foreign currency and this move severely undermined confidence in the banking system. Although the Macedonian government assumed the debts, all foreign-currency deposits had to be frozen and were paid out only over time. Confidence in banks was further shaken in 1997 with the collapse of TAT, a pyramid savings firm. The authorities have since tightened regulation of the sector and have initiated projects to rebuild confidence.

TOURISM. Tourism was an important factor when the republic was part of Yugoslavia. There are several major tourist destinations—resorts and beautiful historical towns situated mainly along the Ohrid lake and in the mountains. The wars reduced tourist trade in the early 1990s, but the industry subsequently began a recovery, with income from tourism totaling $27 million in 1997. NATO troops and international staff stationed in Macedonia and Kosovo often spend their leave in Macedonia, and the number of foreign visitors to the country averaged 18,485 per month in the first half of 2000, compared with 12,060 during the same period in 1999.

RETAIL. Retail in Macedonia is predominantly private and comparatively well developed, although foreign investment is still limited. Informal retail is sizeable, and small stores prevail. Figures in 2000 showed a massive yearly increase in real terms of 57.1 percent in retail revenue. This is partly explained by the Kosovo effect (the presence of NATO and international staff), and partly by a rise in consumer spending, driven by government's payments to **pensioners**, the unfreezing of foreign-currency accounts, and payments to TAT depositors.

INTERNATIONAL TRADE

In 1998, Macedonia faced a slightly negative **balance of trade**. In that year the country exported $1.317 billion in goods and services while importing $1.715 billion. However, several issues promised to ease this trade imbalance in the future. In late 2000, EU markets were opened to Macedonian industrial and agricultural goods (but not beef and wine) as part of a new EU policy towards the region. Macedonia shipped almost 50 percent of its exports to the EU in 2000. Wine, one of the more successful export categories, was excluded from the liberalization in response to active lobbying from EU domestic winegrowers.

The greatest current rise is in exports to Yugoslavia (Serbia-Montenegro), with which Macedonia has a free-trade agreement. It is the largest single-state Macedonian export market, taking 23.7 percent of total exports in 2000. This state of affairs is likely to be reinforced by the political changes in Belgrade in 2000. In 2000, the head of the UN Interim Administration in Kosovo (UNMIK) agreed to assist in opening Kosovo further to Macedonian products. Macedonian firms secured construction contracts in Kosovo to rebuild the road between Pristina and Kosovska Mitrovica, and to a bus and truck terminal in Pristina. The contracts are worth $172 million. With the lifting of trade sanctions, Macedonia could expect to win similar contracts in Serbia proper, and to see a revival of traditional Serbian demand for their exports.

Principal Macedonian exports in 1998 included manufactured goods (34.2 percent); iron and steel (19.3 percent); drinks and tobacco (11 percent); machinery and equipment (7.5 percent); and food and livestock (5 percent). Imports in 1998 included machinery and transport equipment (19.1 percent); miscellaneous manufactured goods (14.5 percent); food products (13.4 percent); chemicals (10.6 percent); and fuels and lubricants (8.5 percent). Principal trade partners included Germany with 19.0 percent of all exports and 12.3 percent of all imports; Yugoslavia, with 23.7 percent and 8.8 percent, respectively; the United States with 15.2 percent and 3.0 percent; Greece with 5.9 percent and 7.9 percent; and Italy with 8.1 percent and 5.4 percent. Ukraine accounts for 11.7 percent of imports, and there is some trade with Russia, Slovenia, Bulgaria, and Croatia.

MONEY

As in much of Eastern Europe, the monetary and public finance sectors of Macedonia remained underdeveloped during the era of the Yugoslav communist regime. After independence, the banking sector was plagued by the collapse of the old Yugoslav finance system, the insolvency of most companies, the freezing of hard currency deposits in Belgrade (the capital of the former Yugoslavia), and the **pyramid schemes** that captured the savings of thousands of citizens. With serious reforms needed in the monetary, foreign-exchange, and banking sectors, the government launched a scheme in 1995 to **restructure** the banks by removing **bad loans** (granted to loss-making state firms or insolvent private concerns) from their balance sheets. The first step taken to regain

Exchange rates: Macedonia

denars per US$1	
Jan 2001	64.757
2000	65.904
1999	56.902
1998	54.462
1997	50.004
1996	39.981

SOURCE: CIA *World Factbook 2001* [ONLINE].

investor confidence was payment of compensation to the holders of foreign-exchange accounts frozen by the central bank, with small depositors receiving cash and larger depositors given government bonds. A new banking law is expected to be passed providing for strict supervision by the National Bank of Macedonia to ensure that banks are adequately capitalized, but legislation on foreign exchange, foreign trade, and foreign credit is also needed to introduce stringent and transparent rules to the sector.

Reforms in the public finance sector include the introduction of a value-added tax; the reduction of excessive employment in the **public sector**; the privatization of non-essential ministerial activities; the creation of a controlled treasury system; pension reform adding a private pension system to the present public one; the establishment of a **macroeconomic** and budget planning unit in the finance ministry; and a continuing movement towards indirect taxation.

The largest commercial bank, Stopanska banka, has been successfully restructured and privatized by selling a majority stake to the National Bank of Greece. The European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) also agreed to take stakes in Stopanska. The second largest bank is the privately owned Komercijalna banka, which was spun off from Stopanska under the communist regime. The EBRD has a stake in Komercijalna. Tutunska banka (Tobacco Bank), the third largest, was sold to Nova Ljubljanska banka of Slovenia.

Throughout the late 1990s and into the 21st century the denar has been declining in value compared to the U.S. dollar. In 1995, US$1 was exchanged for 37.882 denars. The rate has weakened since, with US$1 equal to 39.981 (1996), 50.004 (1997), 54.462 (1998), 56.902 (1999), and 59.773 denars (January 2000). By November 2000, the currency was trading at 71.22 denars to the dollar.

POVERTY AND WEALTH

The state provides health and social benefits, including pensions, to all citizens, but inflation and economic hardship over the 1990s have dramatically reduced most such payments. Market reforms of the 1990s created both increased poverty and new wealth. Many new entrepreneurs, corrupt politicians and other officials, and politically protected smugglers exploiting channels through Greece and Bulgaria, amassed spectacular fortunes, particularly benefiting from breaches of trade sanctions against Yugoslavia. No specific data on the distribution of consumption and income is currently available. Income levels render Macedonia a poor country with education, health, life expectancy, and consumerism low by European standards. Nevertheless, the country enjoys greater economic equality than neighboring Greece.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Macedonia	N/A	N/A	N/A	N/A	1,349
United States	19,364	21,529	23,200	25,363	29,683
Albania	N/A	916	915	842	795
Romania	1,201	1,643	1,872	1,576	1,310

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

WORKING CONDITIONS

The unemployment rate increased after independence, reaching 35 percent in 1999 and totaling 313,900 people out of work (out of a total estimated **labor force** of 890,000). The situation worsened in the first half of 2000, especially in manufacturing, due to the government's commitment to privatize or liquidate 12 large loss-making factories. Another cause of job losses was legislation requiring all employers to pay social security and pension contributions on newly hired staff, which forced many insolvent employers to lay off workers and freeze recruitment. The still weak economy does not generate new jobs fast enough to outweigh the loss of old ones.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Macedonia	33	5	15	6	9	9	23
United States	13	9	9	4	6	8	51
Serbia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Albania	62	3	13	3	10	5	4

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

To counter unemployment, in 2000 the Macedonian parliament allowed the early retirement of state employees, but the Constitutional Court ruled that the law was unconstitutional in discriminating between state and private-sector employees, and treating people differently according to gender. Early retirement was stopped, and those already retired were offered the option of returning to their jobs. Teachers demanded a 20 percent pay raise that was unlikely to be granted because the court ruling upset plans to cut jobs in education. The cash-stripped government also decided to offer public employees a 40-kg (90 lb) food package worth $85 instead of annual holiday pay, but trade unions protested.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1912–13. Serbia occupies and annexes what is now Macedonian territory, then part of the Ottoman Empire.

1913–41. The Slav majority in Macedonia, considered ethnic Bulgarian by themselves and by the international community prior to 1913, is regarded by the Serb government as "southern Serbs" and is subjected to brutal pressure to assimilate. The economy remains agricultural and underdeveloped.

1943. Yugoslav Communist leader Josip Broz Tito's Anti-Fascist Council for People's Liberation of Yugoslavia recognizes what is now Macedonia as a distinct ethnic and political entity.

1945. A standard grammar of the new Macedonian language is compiled upon instructions by the Yugoslav government. Belgrade actively promotes Macedonian nationalism.

1946. The People's Republic (later Socialist Republic) of Macedonia is included in the Federal People's Republic (later Socialist Federal Republic) of Yugoslavia and participates in socialist economic development.

1991. Yugoslavia breaks up and Macedonians vote for independence. Serbia does not interfere and Bulgaria recognizes the new republic, but Greece refuses to acknowledge it, claiming that its name, symbol, and constitution imply territorial claims to the neighboring Greek province of Macedonia. Greece imposes a trade embargo that damages the country's economy.

1993. Macedonia is admitted to the United Nations as the "Former Yugoslav Republic of Macedonia," until a further settlement with Greece is reached. The U.N. sends 1,000 troops (including 500 U.S. soldiers) to Macedonia to prevent the Bosnian conflict from spreading.

1995. Macedonia and Greece sign an interim accord, confirming the border and establishing diplomatic relations. Greece lifts the embargo, Macedonia agrees to remove the symbol and the articles of the constitution to which Greece objects. Negotiations continue regarding the country's name. Macedonia becomes a member of the Organization for Security and Cooperation in Europe, the Council of Europe, and NATO's Partnership for Peace program.

1999. NATO begins air strikes against neighboring Serbia as Serb assaults on Kosovo force ethnic Albanians to flee to Macedonia. An international peacekeeping force is dispatched to Kosovo to help ensure the safe return of Albanian refugees from Macedonia.

2000. The EU opens its market to industrial and some agricultural goods from Macedonia, as recognition of its record in the Kosovo crisis.

FUTURE TRENDS

The Macedonian government has a long way to go before EU membership—which will fully integrate Macedonia with the developed economies of western Europe—can become a reality. However, the country has much to gain from the victory of Vojislav Kostunica at the Yugoslav presidential election in 2000 and the dismantling of the Serbian dictatorial regime. Peace in Kosovo will be particularly beneficial to the stability and, significantly, to the economy, of Macedonia. Foreign investors will be encouraged to enter the market, following the lead of the Greek investors, and, over time, traditional Yugoslavian demand for Macedonian goods and services should increase. Transit trade along the north-south corridor (connecting Serbia with Greece) and the west-east corridor (connecting Italy and Albania with Bulgaria and Turkey) should also benefit the country. Agreement may now also be reached on the Yugoslav succession—the division of the assets and liabilities of the former Socialist Federal Republic of Yugoslavia between its former republics. Finally, the expected EU membership of neighboring Bulgaria should be of major assistance to Macedonia's future efforts to join the union as a full member.

DEPENDENCIES

Macedonia has no territories or colonies.

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—Valentin Hadjiyski

MALTA

The Republic of Malta
Repubblika Ta' Malta

CAPITAL: Valletta.

MONETARY UNIT: Maltese lira (LM). One Maltese lira equals 100 cents. Each cent is subdivided into 10 mils. There are coins of 2, 3, and 5 mils and of 1, 2, 5, 10, 25, and 50 cents. There are notes of 2, 5, 10, and 20 lira.

CHIEF EXPORTS: Machinery and transport equipment, manufactured goods.

CHIEF IMPORTS: Machinery and transport equipment, manufactured and semi-manufactured goods, food, drink, tobacco.

GROSS DOMESTIC PRODUCT: US$5.6 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$2 billion (f.o.b., 2000). **Imports:** US$2.6 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Malta consists of a series of small islands in the Mediterranean Sea, 97 kilometers (60 miles) south of the Italian territory of Sicily and 288 kilometers (179 miles) north of Africa. It is at the crossroads of Africa, Europe, and the Middle East. While Malta is an archipelago (a group of islands), only the 3 largest islands—Malta, Gozo, and Comino—are inhabited. Malta's land area is just 316 square kilometers (122 square miles), and the coastline of the Maltese islands is 140 kilometers (87 miles). Malta is about twice the size of Washington, D.C. The largest city is Valletta, which is also the nation's capital, and the second largest is Sliema.

POPULATION. The population of Malta was estimated to be 391,670 in July of 2000. The Maltese people are mainly descendants of ancient Phoenicians and Carthaginians who originally settled the islands. There are also descendants of Italians and other Mediterranean people in Malta, in addition to British influences from the colonial period. Nonetheless, the population is mainly homogeneous and overwhelmingly Roman Catholic (91 percent).

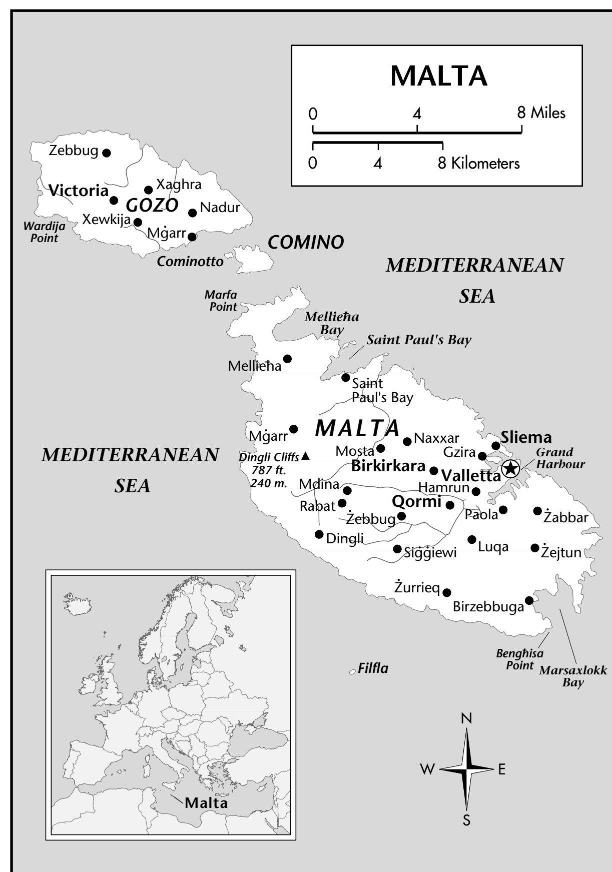
Malta's population growth rate is low (0.74 percent) and the population is aging. In 2000, 13 percent were over the age of 65, while only 20 percent were under the age of 15. The birth rate is 12.75 births per 1,000 people or 1.92 children born per woman. In 2000 the death rate was 7.7 deaths per 1,000, but the infant mortality rate was low at 5.94 deaths per 1,000 births. Life expectancy is 75.49 years for males and 80.62 for females. The Maltese **emigration** rate is low. Each year there are 2.39 migrants per 1,000 inhabitants.

The country is one of the most urban and densely populated nations in the world. The United States has 21 people per square kilometer (55 per square mile) compared to Malta's population density of 1,160 people per square kilometer (3,000 per square mile).

OVERVIEW OF ECONOMY

Malta has few natural resources. Most of its foodstuffs (almost 80 percent) must be imported, as must its energy needs. Its economy is based on the export of manufactured products and tourism. The majority of Malta's trade is with the European Union (EU). Malta has applied for membership in the EU and can expect to be among the next nations to join the trade organization in 2003–05. The government has based most of its future economic policies on EU membership. Trade between Malta and the United States rose substantially during the 1990s. For some time, Malta has had a **trade deficit**, which has increased steadily over the past decade.

Maltese wages are low when compared to other European nations. In 1998 the average annual wage was equal to US$18,620, but **inflation** has traditionally been low (1.9 percent in 1999), allowing workers to enjoy a fair to high standard of living. Unemployment has stood at about 5 percent for the past 5 years, while **gross domestic product** (GDP) rose steadily through the 1990s, increasing by 4 percent in 1999.



However, the nation's debt increased dramatically in the 1990s as the government began a series of large **infrastructure** programs. In 1999 debt was 56.1 percent of GDP, or US$765 million. This was an increase from 33 percent of GDP in 1994. Because of the government programs, the construction industry has become a major economic sector in Malta. Partly in an attempt to lessen the debt and partly to improve the country's competitiveness, the government has begun a large-scale program to **privatize** state-owned businesses. Now the government is responsible for about half of Malta's GDP and actively pursues outside investment, offering foreign firms full ownership of commercial enterprises. Because wages are substantially lower than those of most EU countries, foreign firms have begun relocating to the islands. This is especially true of companies that produce footwear and clothing. Foreign investment now accounts for 50 percent of all new investment in Malta.

Tourism is the mainstay of the Maltese economy, but manufacturing and financial services are the fastest growing economic segments. Ship repair and support is the country's main industrial sector, but there is also a growing electronics sector. Agriculture remains only a small fraction of the economy.

POLITICS, GOVERNMENT, AND TAXATION

Malta was a British colony from 1814 until independence in 1964. After independence, the country became a member of the British Commonwealth, with Queen Elizabeth II as the head of state. In 1974 Malta became a fully independent republic and replaced the queen with an elected president.

Malta is now a constitutional democracy, governed by the **unicameral** (one chamber) House of Representatives, whose 65 members are popularly elected to 5-year terms of office. The chief of state is the president, who also serves a 5-year term but is elected by the House of Representatives. The leader of the majority party in the legislature is appointed prime minister by the president. Because of the small size of the islands, there are no local or regional government bodies, and all police, education, and postal services are administered from the capital city of Valleta. The exception to this is the Isle of Gozo, which has a separate ministry.

Malta has 2 main political parties: the Nationalist Party and the Labor Party. The nation's political loyalty is evenly divided between the two. The Maltese people are passionate about politics and voter turnout for elections often exceeds 96 percent.

The Maltese government is deeply involved in the nation's economy. It accounts for almost half of the nation's GDP and employs 10 percent of the **workforce**. Because of several major infrastructure projects, the government has been forced to borrow to finance the resulting deficit. In 1999 Malta borrowed US$275 million. Major programs include a fiber optic telecommunications system, a new international airport, and improvements to port facilities. Loans are also used to support unprofitable government-owned businesses such as the Malta Drydocks, which cost the government US$15 million in 1999 to cover shortfalls.

The government wants to privatize several state-owned enterprises. In 1997 partial privatization of the national telecommunications company, Maltacom, began, and in 1999 the government sold 70 percent of its ownership of the Mid-Med Bank (now known as HSBC Ltd.) to a Hong Kong company for US$200 million. Plans are in place to privatize the international airport, the Public Lotto (Lottery), the Bank of Valletta, and the Malta Freeport Terminal. There are also negotiations with Tunisia over oil exploitation in the Mediterranean Sea between the 2 countries.

The armed forces are small, composed of land troops, an air squadron, and a naval squadron. In 1999 the government spent US$201 million, or 5.5. percent of the nation's GDP, on defense.

Even though Malta is on the path to membership in the EU, there is long debate over the benefits of such a move. The Labor Party froze Malta's membership efforts after taking control of the government in the 1996 elections, but the Nationalist Party restarted the application process after its return to power in 1998.

The government of Malta offers several incentives to stimulate foreign investment. Most attractive among these is a 10-year **tax holiday** to industries that export over 95 percent of their goods. **Income tax** cutbacks, **duty**-free imports of machinery and equipment, plus deduction on training, research, and development entice foreign companies. The government earns its revenue through a variety of taxes. Approximately 23 percent of revenues came from income tax, 25 percent from **social security tax**, 17 percent from consumption taxes, and the remainder from licenses, taxes, and fines; customs and excise duties; and other forms of revenue collection.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

During the 1990s, the government started several programs designed to make the infrastructure of Malta comparable to other EU nations. The centerpiece of these efforts is the new telecommunications system, and a new international airport that can handle increased passenger and cargo traffic. There are 4 Internet service providers in Malta and the islands are serviced by 1 satellite earth station and 2 undersea communication cables from Europe. There were 187,000 main phone lines in use in 1997. Significant road construction has been completed, but plans call for US$200 million in new highway improvements. The government also spent US$200 million to improve the Freeport cargo terminals, which now handle an average of 1.2 million containers per year. Much of this freight is trans-shipped from Europe to other markets globally.

Malta's energy needs are met through imported fossil fuels, mainly oil. In 1998 the nation produced 1.62 billion kilowatt-hours (kWh) of electricity and consumed 1.507 billion kWh. The country has 1,742 kilometers (1,082 miles) of roadways, of which 1,677 kilometers (1,042 miles) are paved. There are 2 major ports, in Valletta and Marsaxlokk, and a major airport. In 1999 the Maltese merchant marine included 1,484 ships. Many ships were actually owned by foreign firms from 49 different countries, notably Greece with 445 ships.

Maltacom, the nation's telecommunications company, has established GoMobile to provide cellular phone service. In 1999 there were about 15,600 mobile phones in use in Malta. Several international companies have established Internet and **e-commerce** businesses in Malta.

ECONOMIC SECTORS

Malta has few natural resources and its small population makes for a limited domestic market. Consequently, Malta is dependent on foreign trade, and the government has supported export-based companies through tax breaks and other incentives. It has also looked for foreign investment by offering similar incentives. A prolonged period of economic growth through the 1990s and continued government spending on infrastructure programs has kept unemployment low.

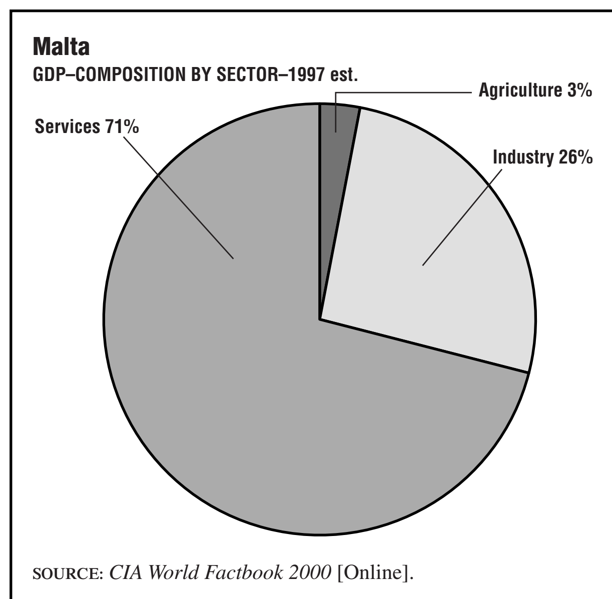
Malta's economy is diverse. There is a small agricultural sector, which contributed 2.8 percent of GDP in 1999, but the poor soil of the islands prevents wide-scale crop cultivation. The industrial sector experienced some growth in the 1990s, as the low cost of labor attracted light industries such as electronics, textiles, and

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Malta	187,000	17,691	AM 1; FM 18; shortwave 6 (1999)	255,000	6 (2000)	280,000	2	40,000
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Italy	25 M (1999)	20.5 M (1999)	AM 100; FM 4,600, shortwave 9	50.5 M	358 (1995)	30.3 M	93	11.6 M
Cyprus	488,162 (1998)	138,000 (1999)	AM 10; FM 71; shortwave 2	366,450	8 (1995)	300,300	6	80,000

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].



SOURCE: *CIA World Factbook 2000* [Online].

footwear. The government-owned drydocks provide the main heavy industry in the islands, and industry made up 25.5 percent of Malta's GDP in 1999. The service sector dominates the Maltese economy, accounting for 71.7 percent of the nation's GDP and providing 71 percent of employment. Tourism is one of the mainstays of the service sector.

AGRICULTURE

Malta's agricultural sector is small and only accounts for about 2.8 percent of GDP, but it is diverse. In 1999 only 5 percent of workers were employed in agriculture and there were only about 10 square kilometers (3.9 square miles) of land under irrigation. In 1998 agricultural exports totaled US$42.1 million, but imports totaled US$304 million. Since 1995 agriculture has declined annually. In 1997 the decline was 10.3 percent, and in 1998 the decline was 11.6 percent.

Most farms are small and privately owned. Most of the crops and foodstuffs produced are consumed domestically. The main crops are potatoes, cauliflower, grapes, wheat, barley, tomatoes, citrus, and green peppers. Potatoes are by far the main crop and accounted for 32,000 metric tons of the total agricultural output of 38,000 metric tons. Medigrain, a Maltese company, annually imports about 50,000 tons of wheat, which is then sold to local bakeries and restaurants. It has silo capacity to hold 86,000 metric tons of grain. The company also acts as a trans-shipment agent for the distribution of imported grain to other countries. Livestock production includes beef, chicken, lamb, pork, rabbit, and turkey. The main livestock exports are prepared meat products and fish.

INDUSTRY

Several industries have experienced growth in Malta since the early 1990s. The principal growth industries include shipbuilding and repair, construction, electronics, and textiles. Industry provides 24 percent of employment and manufactured products account for 90 percent of Malta's exports. The Malta Development Corporation (MDC) is a government venture that works to attract foreign industry to the island. The MDC also oversees the management of Malta's 12 industrial parks and provides low-interest loans for foreign companies moving to the islands. There are now about 200 foreign manufacturing firms in Malta of which the largest is SGS Thomson, a French company that employs 1,800 people in Malta and has annual sales of US$1 billion.

Malta's location along major commercial sea lanes in the Mediterranean has made it a major port area and gateway for products being shipped to Europe from Africa and the Middle East. The government has developed extensive storage facilities for goods, including grain silos and an oil terminal. Goods are shipped to Malta and then transported throughout the Mediterranean region. All aspects of marine services, including shipbuilding, repair, loading, and unloading of goods, have experienced growth in the past decade. The government has promoted the island as a major port by eliminating all taxes and **tariffs** on goods that are imported by companies licensed to trade in the Malta Freeport terminals.

New construction of homes and businesses is a steady benefit of economic growth. The construction industry has been bolstered by heavy government spending on massive road-building projects. The electronics industry has experienced dramatic growth since several computer manufacturing companies have opened plants in Malta. There are several manufacturing companies in Malta, producing everything from footwear to machine products, and automobile parts to cigarettes.

SERVICES

Services represent the fastest growing sector of the Maltese economy, employing 71 percent of Maltese workers and producing 71.7 percent of GDP in 1999. Wholesale and **retail** services account for about 11 percent of the nation's GDP, against financial services at 8 percent.

Tourism is a major component of the services sector. Each year Malta receives about 1.2 million tourists, and the tourist industry is the country's main source of foreign currency. In 1998, to attract new visitors, the government began a US$40 million project to improve the waterfront of Malta, the largest island, with new hotels and improvements to existing buildings. There is also a US$25 million project to construct a new cruise line ter-

minal. The country's mild climate and relatively low prices are the main attractions for tourists, who also enjoy the historical sites where many castles of the Knights of Malta remain intact.

Maltacom, the nation's telecommunications company, has established GoMobile to provide cellular phone service. In 1999 there were about 15,600 mobile phones in use in Malta. Several international companies have established Internet and e-commerce businesses in Malta.

Many international firms have established franchises in Malta. North American fast-food chains such as McDonald's, Burger King, T.G.I. Fridays, and Pizza Hut have done well. In 2000 work began on a Hard Rock Café, which will be part of a local hotel. The government also chose a company from the United States to provide cable services for the nation.

The retail sector operates under some important restrictions. Shops are only open from 9:00 a.m. to 7:00 p.m., and there is a 3–4 hour break or "siesta" in the afternoon, as is customary in many Southern European countries. In addition, almost all shops are closed on Sunday.

Financial services are a big growth area in the Maltese economy. Since 1995, financial services have grown by 40 percent. Malta's banking system has assets of US$6.2 billion, and the nation has a small stock market, which lists mainly local companies. In 1999 total trades equaled 107.3 million Maltese liri.

INTERNATIONAL TRADE

Malta's economy is dependent on foreign trade and generally runs a trade deficit. In 1998 the export value of Maltese goods was US$1.8 billion, compared with imports of US$2.7 billion. Around 65 percent of the country's imports come from the EU, while 50 percent of its exports go to the EU. However, trade with the United States has increased over the past 8 years. In 1999 Maltese exports to the United States were worth US$422 million and imports from the United States totaled US$240 million.

Malta's main export markets are France, which in 2000 received 20.7 percent of Malta's goods, the United States (18.1 percent), Germany (12.6 percent), the United Kingdom (7.7 percent), and Italy (4.8 percent). In 2000 the nation's main import partners are Italy (19.3 percent), France (17.8 percent), the United Kingdom (12.4 percent), Germany (10.5 percent), and the United States (8.9 percent).

MONEY

Over the last several years the value of the Maltese lira has fallen in relation to the U.S. dollar. In 1995 1 U.S. dollar equaled 0.3529 Maltese liri, but by 2000 1 dollar equaled 0.4086 Maltese liri. Malta's entry into the EU may ultimately mean that the nation will replace the lira with the euro, the common currency of the EU.

The Maltese Central Bank issues currency and sets interest rates. It also regulates **monetary policy** and controls the nation's financial reserves. There are 2 main commercial banks in Malta: HSBC Ltd. and the Bank of Valletta, each with 40 branches in Malta. Together, the 2 banks control 80 percent of the consumer banking market. There are also 2 smaller banks: Lombard Bank and APS Bank. Local merchant banks have a difficult time competing against foreign competition despite **liberalized** lending policies in recent years.

POVERTY AND WEALTH

While wages are low in Malta, the nation's low cost of living allows workers to enjoy a comfortable lifestyle. In addition, the government provides housing **subsidies** for low-income families. Education and health care are free and available for most Maltese, though medical services are limited. With unemployment low (4.5 percent in 2000) and the standard of living relatively high, Malta is ranked 27th in the world in the United Nations *Human Development Report 2000*. The standard of living doubles every 13 years.

Trade (expressed in billions of US$): Malta

	Exports	Imports
1975	.164	.375
1980	.483	.938
1985	.400	.759
1990	1.133	1.964
1995	1.861	2.890
1998	1.820	2.686

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Malta

Maltese liri (LM) per US$1	
Jan 2001	0.4370
2000	0.4376
1999	0.3994
1998	0.3885
1997	0.3857
1996	0.3604

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Malta	2,996	4,659	5,362	7,019	18,620
United States	19,364	21,529	23,200	25,363	29,683
Italy	11,969	14,621	15,707	18,141	19,574
Cyprus	3,619	6,334	7,818	10,405	12,857

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

WORKING CONDITIONS

Maltese wages are low by comparison with other European nations. The nation's minimum wage is US$2.96 per hour, or US$118.50 per week. The average wage for skilled workers is US$175 per week. There are legally enforced annual bonuses and generous vacation periods. Bonuses average US$10.58 per week and vacations average 4 weeks per year. Employers underwrite the cost of workers' health care. The standard working week is 40 hours, but some industries are allowed to operate 43 to 45 hours per week. The Maltese labor force numbers 145,590 people.

The Maltese workforce is well-educated and productive. Foreign firms are attracted to Malta because of the low labor costs and the educated workforce. Most Maltese speak English, and worker productivity compares favorably to that of most European nations. The result is that even foreign-owned businesses are usually staffed and managed by Maltese employees. Workers have the right to unionize and to strike, but the islands have one of the lowest strike rates in Europe. There are 35 registered unions in Malta, and about half of the workforce belongs to a union. National laws require unions and companies to meet each year with government officials to draft annual agreements on wages and working conditions.

Employment of children under the age of 16 is prohibited, although many children work part-time in the tourist trade during the summer. Children under the age of 17 may be paid US$108 per week, while 17-year-olds can make US$111 per week. Women are under-represented in the workforce, especially in management positions. In addition, women are often paid less than men in similar occupations. Furthermore, the traditional nature of Maltese society leads many women to stop working after marriage.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

4000s B.C. A religious culture develops in Malta even before that of Egypt.

218 B.C. Malta becomes part of the Roman Empire during the Second Punic War.

60 A.D. Saint Paul brings Christianity to Malta after he is shipwrecked on the island.

433. The Byzantine Empire acquires Malta.

870. Malta is conquered by the Arabs.

1090. The Arabs are driven out by Normans under Count Roger of Normandy, who had established a kingdom in Sicily. Malta remains under Sicilian control for 440 years.

1523. Malta is ceded to the Knights of St. John, a religious order of fighting monks that had participated in the Crusades, but were based in Italy after being driven out of the Middle East by the Arabs. The Knights become known as the Knights of Malta and build towns and settlements throughout the islands.

1798. Malta is conquered by France under Napoleon Bonaparte.

1800. With British support, the Maltese overthrow the French.

1814. Malta voluntarily becomes a British colony. Under the British, the islands become an important naval and trade center in the Mediterranean.

1939–45. Malta suffers an intensive air and sea assault by German and Italian forces during World War II.

1964. Malta is granted independence by Great Britain. The island joins the British Commonwealth of Nations.

1974. Malta becomes a republic and adopts a new constitution.

1979. The last British military forces depart from Malta.

1987. Tourism in Malta reaches its height, with 60 percent growth over the previous year.

1996. The Labor government halts Malta's application process for EU membership.

1998. After winning early elections, the Nationalist Party restarts the process for EU entry.

FUTURE TRENDS

Malta is well positioned to continue its economic growth over the next decade. The favorable labor situation should continue to attract foreign companies and investment, while low prices for goods and accommodations will continue to draw tourists to the islands. Because the nation is dependent on tourism and foreign trade, it is vulnerable to slowdowns in the economies of its major trading partners.

Entry into the EU will expand Malta's economic opportunities since it will cut tariffs and taxes on Maltese goods imported by EU member states. It will also make it easier for EU companies to relocate to Malta. The most important issue for Malta is the need to lessen the role of the government in the economy. Therefore, the continuing privatization efforts are crucial for long-term growth.

DEPENDENCIES

Malta has no territories or colonies.

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—Tom Lansford

MOLDOVA

Republic of Moldova
Republica Moldoveneasca

CAPITAL: Chişinău

MONETARY UNIT: Moldovan leu (MDL; plural lei). One leu equals 100 bani. There are coins of 1, 5, 10, 25, and 50 bani, and notes of 1, 5, 10, 20, 50, 100, and 200 lei.

CHIEF EXPORTS: Foodstuffs, wine, and tobacco (66 percent); textiles and footwear, machinery.

CHIEF IMPORTS: Mineral products and fuel (31 percent); machinery and equipment, chemicals, textiles.

GROSS DOMESTIC PRODUCT: US$9.7 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$470 million (f.o.b., 1999). **Imports:** US$560 million (f.o.b., 1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in southeastern Europe and bordered on the west by Romania and on all other sides by Ukraine, landlocked Moldova has an area of 33,843 square kilometers (13,067 square miles), making it slightly larger than Maryland. Moldova's border totals 1,389 kilometers (864 miles). The capital, Chişinău, is situated in its central part.

The portion of the country that lays east of the Nistru River is known as the Transnistria. Populated primarily by Slavs and economically and culturally oriented toward the Ukraine, the Transnistria has been in revolt against the Moldovan majority in the country (see below).

POPULATION. The population of Moldova was 4,430,654 in 2000 and its average density was 129.1 inhabitants per square kilometer (334 per square mile) in 1994. In 2000, the birth rate was 12.86 per 1,000 population, while the death rate equaled 12.58 per 1,000. With a net migration rate of -0.31 per 1,000 and a fertility rate of 1.63 children born per woman, the population growth rate was about zero in 2000. Over the 1990s, the population declined because of net economic **emigration**.

Moldova's population is youthful by European standards, with 23 percent below the age of 14 and 10 percent older than 65. Ethnic Moldovans (Romanians) account for 64.5 percent of the population, Ukrainians for 13.8 percent, Russians for 13 percent, Gagauz (a Turkic-speaking people of Christian faith) for 3.5 percent, Bulgarians for 2 percent, Jews for 1.5 percent, and other groups for 1.7 percent, according to 1989 estimates. In the early 1990s, interethnic violence occurred between the Moldovans and the Slavic majority in the Transnistria region (east of the Nistru [Dniester] River, with a population of 750,000) and the Gagauz in the country's south. The official language is Moldovan (Romanian) but Russian is widely spoken and is the second official language in Transnistria. About 98.5 percent of the population belong to the Orthodox Church. Moldova is predominantly rural, with about 54 percent of the population living mostly in large villages in 1999. The population in the capital of Chişinău was 667,000 in 1992; other major cities include Tiraspol and Tighina (Bender) in the east, and Balti in the north.

OVERVIEW OF ECONOMY

Moldova is among Europe's poorest countries. Before Moldova gained its independence from the USSR in 1991, the Soviet regime developed some of Moldova's industries, but Moldova's favorable climate, rich farmland, and lack of mineral resources defined its role as the USSR's primary supplier of fruits, vegetables, wine, tobacco, and processed foods. Soviet planners forced Moldova to develop those economic sectors, and Moldova imported its oil, coal, and natural gas from other USSR republics. The loss of Soviet markets and cheap energy sources with independence in 1991 caused a steep economic decline, energy shortages, and unemployment. Interethnic war, the Russian crisis of 1998, the problems

of Ukraine and Romania (which, with Russia, receive 70 percent of Moldova's exports), and record droughts combined for the sharpest **gross domestic product** (GDP) decline seen in a former Soviet republic; in 1998, the economy reached only 33 percent of its size in 1989. By 1999, GDP was $2,033 per capita.

Since independence, Moldova has followed a path toward reform, introducing a convertible currency, freeing prices from state control, ending **subsidies** for state-owned enterprises, **privatizing** the formerly collectivized farmland, removing export controls, and freeing bank interest rates with assistance from the International Monetary Fund (IMF) and the World Bank. (Taken together, these corrections are called structural reform because they change the structure of the economy.) Mass privatization in 1994 transferred to the **private sector** 1,142 large and medium and 1,093 small enterprises. Cash privatizations were less successful; tenders for the Moldtelecom (the telephone company) in 1998 and the tobacco firm Tutun in 1996 were canceled, and other privatization deals were disappointing. In 1997 and 1998, 223 enterprises were sold at auctions, generating $4.45 million; **foreign direct investment** reached $7.6 million.

The country's **external debt** was estimated at $1.3 billion (December 1999) and posed a major challenge to the economy. The country handed 50 percent of its gas pipelines to Russia's gas **monopoly** Gazprom, its biggest creditor (Moldova owes it $320 million and Transnistria another $400 million). The country is dependent on economic aid, and the International Monetary Fund (IMF) and the World Bank have granted $547 million between 1992 and 1999.

POLITICS, GOVERNMENT, AND TAXATION

Independent since 1991, Moldova is a republic with a multiparty system. Moldova's **unicameral** parliament is elected by universal suffrage. In February 2001, the Communist Party of Moldova (CPM) won 71 of the 101 seats, the formerly ruling centrist Alliance got 19 seats, and the right-wing nationalist Christian Democratic Popular Party (CDPP) won 11 seats. Popularly-elected President Vladimir Voronin of the CPM appointed a cabinet led by independent ethnic Bulgarian Prime Minister Vasile Tarlev. The CPM has generally opposed privatization and independence for Transnistria, and advocated reorientation towards Russia, but it is highly unlikely that market reforms will be reversed. With its absolute majority in parliament, the CPM will be able to pursue reform without distraction. It is expected that poorer voters will more readily accept austerity policies if they come from a leftist administration such as the CPM. The CPM retained key ministers from the previous reformist cabinet to stress continuity and it maintains rigorous **inflation** and budget targets, but it focuses on restoring industrial and agricultural output through policies that may antagonize the IMF. Also on the CPM agenda are reforming the public pension system by linking contributions to benefits and raising the retirement age; **restructuring** the public health care system by partially privatizing health services; and reforming the social assistance system. The IMF expressed satisfaction with its stabilization and privatization plans.

The Democratic Convention (DCM) is a right-of-center, pro-Western bloc, and the Democratic Party of Moldova (DPM) is a centrist group that developed from the older Movement for a Democratic and Prosperous

Moldova, the Popular Democratic Party, the New Forces, and the National Youth League. There are also a variety of small and relatively insignificant parties.

The government's role in the economy is large but declining as the size of the private sector has grown considerably over the 1990s. In 1999, an estimated 60 percent of the economy was in the private sector. Industries were more than 60 percent private, agriculture 86 percent private, **retail** and services 70 percent, and construction and transport almost 44 percent. The private sector accounted for 45 percent of GDP in 1999. The tax system is considered business-unfriendly, particularly with the introduction in 1998 of **value-added tax** (VAT) of 20 percent on imported goods and services, and of **excise taxes** in 1992. The business environment, legal framework, regulation, licensing, inspection, investment climate, access to bank credits, and business **infrastructure** have been deemed unfavorable to western investment.

Moldova has faced 2 major political conflicts since gaining independence in 1991. The most pressing of these conflicts was in the Transnistria region. The Transnistria region is a narrow strip of land laying east of the Nistru River (also known as the Dniester or Dniestr River). More heavily industrialized than the rest of Moldova, and populated primarily by Slavs, the region identifies itself more closely with Ukraine than with Moldova and has sought independence. Russian forces remained east of the Nistru River after 1991, supporting the self-proclaimed Transnistria Republic, which the government in Chişinău has not recognized. Russia and Ukraine are acting as mediators between Chişinău and Transnistria; the parties have observed a cease-fire since 1992, but progress to a settlement on the status of Transnistria has been slow. The region is still used for tax and customs evasions. The government in 2001 seems more willing to accept a Russian presence in return for greater pressure on Transnistria to discard sovereignty claims. Russia's influence will likely be acknowledged, and chances of political and economic union with Russia and Belarus may grow. Less pressing is the conflict in Gagauzia, a small region in the south of the country that is populated primarily by a Christian Turkic minority known as the Gagauz. Gagauzia has been granted a great deal of autonomy, including the right to control the privatization of assets in the region and the right to determine trade relations.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Moldova is landlocked and depends on railroad and road networks for trade. Soviet-built railroads are of decent quality and comprise 1,318 kilometers (824 miles) of tracks; 10,531 kilometers (6,582 miles) of roads account for most local transport and 80 percent of passenger travel. The major rivers—the Nistru (Dniester) and the Prut—are used for local transport. In 1995, the government established Terminal S.A., a joint Moldovan-Greek venture to build and maintain an oil terminal in Giurgiulesti on the Danube with the assistance of the European Bank for Reconstruction and Development (EBRD). The country is served also by pipelines for natural gas from Russia (310 kilometers, or 192 miles, in 1992). Air traffic is served by the state-owned carrier, Air Moldova, and by 2 smaller airlines.

Moldova's electricity production was 5.661 billion kilowatt-hours (kWh) in 1998, 93 percent of which were generated in thermal plants and 7 percent in hydropower facilities. The country imported 1.8 billion kWh in 1998. Domestic sources account for 2 percent of primary energy supply, and gas accounts for 61 percent of the imports, oil for 20 percent, and coal for 10 percent. A large gas power plant in Transnistria produces 85 percent of the electricity. Moldova remains reliant on Russian gas, and Gazprom periodically cuts off supplies due to chronic non-payment, as do Romania, Ukraine, and Transnistria for unpaid electricity. Mounting bills result from non-payment by consumers, electricity theft, and wastage. The sector has been restructured into 2 generators and 5 distributor companies, and in 2000, Moldova completed

Communications

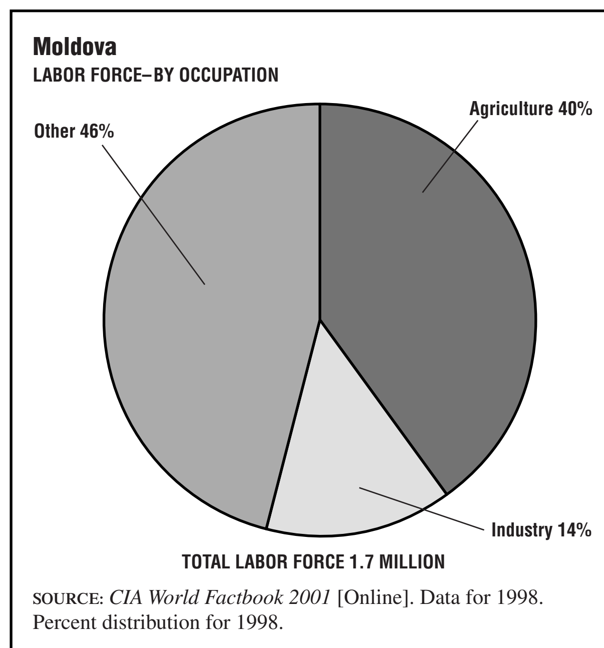
Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Moldova	60	740	297	17.6	2	0.2	6.4	2.42	25
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Romania	300	319	233	119.2	29	N/A	10.2	9.01	600

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

the first round of electricity privatization, selling 3 of the distributors to Union Fenosa of Spain.

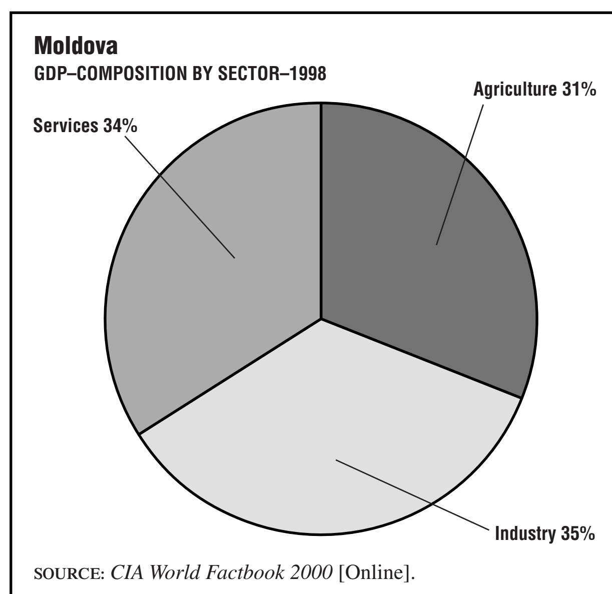
Moldova has an antiquated telephone system with 15 lines per 100 inhabitants in 1997, very few pay phones, many villages without service, and a mobile phone penetration rate of just 0.3 percent in 1998. Moldtelecom, the national telecom, is currently upgrading and has signed agreements with Denmark's Great Northern Telegraph (GNT), which is investing $10 million in a digital switch system and fiber-optic technology. The government intends to sell 51 percent of Moldtelecom following a failed attempt at privatization in 1998 to a Greek company. In 1998, Voxtel, a consortium comprising 1 French, 1 Romanian, and 2 Moldovan companies, launched mobile service in the GSM standard. In 2000, Moldova awarded a second GSM license to Moldcell, a **joint venture** between Turkish Turkcell (77 percent) and Chişinău-based Accent Electronics (23 percent). In 1999, the Internet usage was 5.8 per 1,000 of the population, there were 16 Internet service providers, and Moldova leased out its "md" domain name to inhabitants of the state of Maryland in the United States.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998. Percent distribution for 1998.

ECONOMIC SECTORS

The entire economy of Moldova has been in decline since independence in 1991. In 1998, the contributions to GDP of the 3 major sectors were as follows: agriculture, 31 percent; industry, 35 percent (mostly from food processing); and services, 34 percent. Agriculture employed 40.2 percent of the **labor force**, while industry employed 14.3 percent, and other sectors employed 45.5 percent. Over the 1990s, industrial output declined 2.5 times due to the loss of markets and the drop in domestic farm production. The country has a development strategy focusing on light manufacturing (textiles, consumer electronics) and cement.



SOURCE: *CIA World Factbook 2000* [Online].

AGRICULTURE

Agriculture provides employment for over 40 percent of the population and contributes nearly a third of GDP. Some 75 percent of Moldovan territory is fertile Chernozem (black earth) and agricultural products account for 75 percent of all exports. Twenty-one percent of Moldovan agricultural land was held as individual farms, 61 percent as cooperative farms, and 18 percent by state-owned farms in 1999; in all, 85,000 private farmers were operating throughout the country. Privatization of former cooperative farms has been slow (almost nonexistent in Transnistria) and the land market has been small, not least because foreigners are not allowed to purchase land. Farm consolidation is taking root as approximately 10,000 larger farms were formed in 1998 and 1999.

Cereals, sunflowers, sugar beets, potatoes, vegetables, tobacco, fruits, and grapes are grown, but plantings of capital-intensive crops—tobacco and vegetables—have declined due to the loss of markets and limited domestic consumption. The number of livestock decreased considerably over the 1990s due to high costs and low demand. The agricultural sector has been affected over the 1990s by droughts, frosts, floods, and shortage of materials, machines, and fertilizers once supplied by the USSR. More intensive farming techniques have lowered productivity by 35 percent. The sector still receives subsidies and tax incentives, but recent command measures

(such as the attempt to ban wheat exports) continue to repel potential investors.

INDUSTRY

Food processing (including sugar and vegetable oil) is the largest domestic industry, followed by power generation, engineering (mostly agricultural machinery, foundry equipment, refrigerators, freezers, and washing machines), hosiery, shoes, and textiles. Industrial production decreased by 10 percent in 1999 and the sector, which accounts for less than 15 percent of GDP, has been declining ever since independence, devastated by rising energy prices, the decline in agriculture, and the loss of markets. The conflict with Transnistria has had a significant effect on this sector since all production of electric machines, power transformers, gas containers, slate, 95 percent of the cotton fabrics, 87 percent of the electricity, and a large part of the cement industry are located there.

The food industry accounted for 58.2 percent of the manufacturing output in 1997, far ahead of energy production (18.4 percent), the second largest industry. The importance of the third largest sector, engineering and metal processing, declined from almost 18 percent in 1990 to 5.9 percent in 1997. Similarly, the importance of light industry, which was the second biggest sector after food-processing in 1990, has also declined, from 21.1 percent in 1990 to 5.8 percent in 1997. Efforts to produce exports for more stable and lucrative markets such as those in the European Union (EU) have been difficult due to the lower product quality of Moldovan firms. Wine represents a major product of Moldova's economy, with exports in a good year accounting for up to 50 percent of the total export income. The wine industry has attracted some western investment and loans from the EBRD, but in 1998 Russia still accounted for 85.6 percent of wine export sales. The tobacco processing industry remains one of the country's most important; during Soviet times, the republic produced 40 percent of the USSR's annual crop. Moldova plans to privatize Tutun, the country's largest tobacco concern. Some new industries, such as scrap metal processing, chemicals, and medical equipment, have also emerged since independence. The construction materials industry is expanding through exports of cement, gypsum, and ceramics, and through investment in civil engineering.

SERVICES

The banking system includes the independent National Bank of Moldova (NBM) and 21 commercial banks. Although small, the banking system has functioned well over the 1990s. Banking laws and accounting standards correspond to international standards, and there are no restrictions on foreign banks. There were 21 commercial banks in 2000; 3 others closed down in 1998. The largest banks, accounting for two-thirds of all assets and deposits, are Agroindbank, Petrol Bank, Banca De Economii, Moldindconbank, Banca Sociala, and Victoriabank. Victoriabank, a private commercial bank, has been most active in supporting small industry and retail. A network of savings and credit associations is being developed in villages, and insurance is becoming important, with 40 companies providing services.

Chişinău shows signs of developing a retail sector with several private Western-style shops and restaurants. Outside town, options are limited. The Green Hills is the largest of the supermarkets, while the Ninevia and the Fidesco supermarkets carry many imported supplies. High prices on imported goods make them unavailable for the majority of the population. Tourism is underdeveloped with a few Soviet-era hotels in Chişinău and no efforts to attract foreign visitors.

INTERNATIONAL TRADE

Exports amounted to $470 million in 1999 and included foodstuffs, wine, and tobacco (which accounted for 66 percent of total exports), textiles and footwear, and machinery. Most exports in 1998 were shipped to Russia (53 percent), while Romania took 10 percent, Ukraine 8 percent, Germany 5 percent, and Belarus 4 percent. Imports in 1998 were worth $560 million and included mineral products and fuel, machinery and equipment, chemicals, and textiles. The majority of imports originate from Russia (22 percent); other major importers were Ukraine (16 percent), Romania (12 percent), Belarus (9 percent), and Germany (5 percent). In 1998, the collapse in the value of the leu brought the **trade deficit** to $389.1 million from $297.3 million in 1997, due to lower exports and higher import costs.

Prospects for increased trade grew by the turn of the century. In 2000 alone Moldova's foreign trade rose 22 percent to US$1.27 billion dollars. Moreover, Moldova joined the World Trade Organization (WTO) in 2001, an action which held the promise of opening trade beyond the limited confines of former Soviet countries.

MONEY

The National Bank of Moldova (NBM) was established in 1991 and is responsible for **monetary policy** and banking supervision. The first years following independence were a difficult time for Moldovan finances. Inflation hit 2,700 percent in 1993, but prudent **fiscal policies** brought the inflation level down to 11.2 percent in 1997. The Russian crisis led to intense pressure on the Moldovan currency, and after the **devaluation** of the Russian rouble, the NBM abandoned support of the leu

Exchange rates: Moldova

lei (MDL) per US$1	
Jan 2001	12.3728
2000	12.4342
1999	10.5158
1998	5.3707
1997	4.6236
1996	4.6045

Note: Lei is the plural form of leu.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Distribution of Income or Consumption by Percentage Share: Moldova

Lowest 10%	2.7
Lowest 20%	6.9
Second 20%	11.9
Third 20%	16.7
Fourth 20%	23.1
Highest 20%	41.5
Highest 10%	25.8

Survey year: 1992

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

in order to conserve its **foreign exchange reserves**, and it was devaluated at 100 percent. **Inflation rates** that peaked at 40 percent during the Russian financial crisis were expected to drop to 10 percent in 2001.

Other elements of the financial sector are less developed but include the National Commodity Exchange, established in 1991; the Moldova Interbank Currency Exchange; the Moldovan Stock Exchange, established in 1995; 15 investment funds; and 8 trust companies. The National Commission on the Securities Market supervises the market participants. The Moldovan Stock Exchange (MSE) was established in June 1995 as an electronic, screen-based, order-driven system. Only 20 companies are listed, but the trade volume increased from US$2.5 million in 1996 to US$52.6 million in 1998. The unregulated over-the-counter market accounted for 48 percent of the transactions in 1999.

POVERTY AND WEALTH

Under the Soviet regime, employment was almost total and provided modest livelihoods for nearly everyone in a relatively egalitarian society (with the exception of the more affluent groups of the communist elite and the underworld). But independence and the reforms of the 1990s generated unemployment, crime, corruption, poverty, and illicit fortunes. The population below the poverty line was estimated in 1999 at a stunning 75 percent (in Romania, it was 30 percent; in Russia and Ukraine, 25–50 percent). Moldova's **Gini index** (measuring economic equality, with 0 standing for perfect equality and 100 for perfect inequality) in 1992 was 34.4, far lower than in the United States (40.6), but considerably higher than in Bulgaria (28) and Greece (32).

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Moldova	N/A	1,453	1,572	1,776	614
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Romania	1,201	1,643	1,872	1,576	1,310

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

The social cost of market reforms has been greater than was assumed, and the state has proved incapable of ensuring support for the poor. It failed to stimulate the private sector as a compensation for unemployment or to reorganize the social services. Mass privatization turned unworthy assets over to poor owners and funneled high-quality assets to the well connected. The reach of the **underground economy** (which was estimated at 35 percent of GDP in 1999), leads to corruption, reduced public revenues, and widening income inequality. Poverty is causing stress, particularly in rural areas, and limiting private economic initiative. To relieve poverty, the Moldovan government has relied on international aid, such as IMF's $142 million poverty reduction facility, and on plans to decentralize social services in order to boost social sector reform.

WORKING CONDITIONS

The labor force numbered 1.7 million in 1998, and the unemployment rate was about 31 percent in 2000. Economic instability, according to **United Nations Development Program** reports, makes it difficult for the government to uphold adequately the right to social insurance and protection (guaranteed by article 47 of the constitution), the right to work and labor protection (Article 43), the right to health protection (article 36), and the right to a favorable working environment (article 37). The state does not meet its commitments to protect family and orphans (article 49), the interests of mothers, children and youth (article 50), or the interests of persons with disabilities (article 51). The average monthly wage in 1999 reached $25, insufficient to provide a decent standard of living. Many workers were using outdated tech-

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Moldova	31	5	11	3	15	12	23
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Romania	36	7	9	3	20	9	16

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

nology without adequate safety regulations, and workplace conditions were poor and often dangerous. Under the Soviet regime, unions were government-controlled; independent ones began to emerge in 1991, but their influence is limited partly due to the increasing size of the private sector.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

14TH CENTURY. The principality of Moldavia is founded by the Vlachs, inhabitants of the Carpathian Mountains and other parts of the Balkan Peninsula.

15TH CENTURY. The Ottoman Empire absorbs Moldavia and develops a feudal agricultural society.

1812. Russia annexes the eastern portion of Moldavia, historically known as Bessarabia.

1856. European powers grant Moldavia and Bessarabia independence from the Ottoman Empire and Russia, respectively, and they are united with independent Walachia in 1859, assuming the newly-minted name of Romania.

1878. Russia regains Bessarabia.

1918. After the 1917 Russian revolution, Russian Bessarabia decides in favor of unification with Romania. Western powers recognize the incorporation at the Paris Peace Conference of 1920.

1924. The Soviets establish the Moldavian Autonomous Soviet Socialist Republic (ASSR) east of the Nistru (Dniester) River within Ukraine.

1939. A German-Soviet Nonaggression Pact forces Romania to cede Bessarabia to the USSR.

1940. The Soviet government proclaims the Moldavian Soviet Socialist Republic (SSR), including the territory of the former Moldavian ASSR (Transnistria), with a capital in Chişinău.

1941. Romania, an ally of Nazi Germany, declares war on the USSR and invades Bessarabia with German assistance during World War II.

1944. The USSR reestablishes the Moldavian SSR toward the end of World War II. Over the next 50 years its economy is integrated into the Soviet system with collective and state farms on expropriated farmland. The country remains rural, although new industries appear in urban areas, and Russians become the majority in the cities.

1985. Soviet leader Mikhail Gorbachev introduces political and economic reforms in the USSR.

1989. The Popular Front of Moldova (PFM), the first opposition group, is formed.

1990. A local referendum approves autonomy for the predominantly Slavic Transnistria region, giving rise to a lasting controversy over the status of the region.

1991. The Moldavian SSR changes its name to the Republic of Moldova and declares its independence from the USSR.

1992. Moldova joins the International Monetary Fund.

1994. First multi-party elections; the first post-Soviet constitution is adopted.

2001. Moldova joins the World Trade Organization.

FUTURE TRENDS

The economic future of Moldova depends on the successful completion of its reforms, the future strength of the Russian and Ukrainian economies, and the successful accession of Romania to the European Union, since these 3 countries receive 70 percent of its exports and supply almost all its energy. Prior to elections in 2000 Moldova appeared to be heading toward greater trade relations with the international community, but the ascension to power of the Communist Party of Moldova (CMP) puts such engagement in doubt. The CMP's control of government may reduce political instability, particularly

regarding the Transnistria stand-off, but any slowing of economic reforms could limit GDP growth to 3–3.5 percent a year while possible fiscal and monetary **liberalization** may cause 20 percent inflation in 2001. The more pro-Romanian and pro-European direction of centrist foreign policy may give way to closer ties and even integration with the Russian-Belarusian union.

The CPM may also run contrary to the IMF agreement with its renewed **price controls** and state monopoly over the wine and tobacco sectors; it is unlikely, however, that the general direction of reform toward a market economy will be reversed. Moldova has good long-term growth prospects in terms of geographical location, resources, and a skilled workforce, but has a long way to go before an operational market economy could create the sustainable ground for improved living standards for the majority of the people.

DEPENDENCIES

Moldova has no territories or colonies.

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—Valentin Hadjiyski

MONACO

Principality of Monaco
Principauté de Monaco

CAPITAL: Monaco-Ville.

MONETARY UNIT: French franc (F). One French franc equals 100 centimes. The franc comes in bank notes of 20, 50, 100, 200, and 500-franc denominations. There are coins of 1, 2, 5, 10, and 20 francs and 5, 10, 20, and 50 centimes. Monegasque coins, having the same value as the French coins, are also minted and circulated. Monaco is scheduled to switch to the new European currency, the euro, in January 2002.

CHIEF EXPORTS: Cosmetics, pharmaceuticals, glassware, precision instruments, fine processed foods, cards and postal stamps, and various re-exported commodities (estimate, no official statistics are published).

CHIEF IMPORTS: Energy, automobiles, equipment, and consumer goods (estimate, no official statistics are published).

GROSS DOMESTIC PRODUCT: US$870 million (1999 est., no official statistics are published).

BALANCE OF TRADE: **Exports:** US$415,272 (1999 est.). **Imports:** US$415,272 (1999 est.). [Estimate by Monegasque government sources; no official statistics are published.]

COUNTRY OVERVIEW

LOCATION AND SIZE. Monaco, a small independent hereditary principality in Western Europe, is located on the Mediterranean Sea along the southern coast of France, which is also known as the French Riviera or Côte d'Azur. Monaco is 18 kilometers (11 miles) east of the French city of Nice, near the border with Italy. The second smallest independent state in the world (after Vatican City), and almost entirely urban, it forms an enclave in southeastern France, surrounded on the north, east, and west by the French département (administrative division, or region) of Alpes-Maritimes. The country is only 1.95 square kilometers (0.75 square miles) in area, or about 3 times the size of the Mall in Washington, D.C. The terrain is hilly, rugged, and rocky, but very highly urbanized. The principality, a famous maritime resort, is composed of 4 quartiers (quarters): Monaco-Ville, the capital (an ancient fortified town located on a rocky promontory extending into the Mediterranean); La Condamine (the section along the port); Monte Carlo (the principal residential and resort area); and Fontvieille (a newly constructed industrial park reclaimed from the sea). The name "Monaco," derived from the ancient Greek Monoikos (meaning "of the old town"), is usually associated with the mythical hero, Hercules.

POPULATION. The population of Monaco was estimated at 31,693 in July 2000, with an average growth rate of 0.48 percent in the same year. The 2000 birth rate was estimated at 9.94 births per 1,000 population, the death rate at 13.06 deaths per 1,000 population, and the net migration rate was approximately 7.89 immigrants per 1,000 population.

With high life expectancy at birth, the Monegasque population is among the oldest populations in the world. The average life expectancy was 74.88 for men and 83 for women in 2000, indicating an overall life expectancy of 78.84. The total fertility rate in 2000 was 1.76 children born per woman. Approximately 15 percent of the population is younger than 15 years of age and 23 percent is age 65 or older. Monaco has also one of the highest population densities in the world, at 16,428 persons per square kilometer (42,549 per square mile).

Monegasques represented a mere 16 percent of the population in 2000. Other ethnic groups include the French (47 percent), Italian (16 percent), and other nationalities (21 percent). French is the official language; English, Italian, and Monegasque (a blend of French and Italian) are also widely spoken. The traditional Monegasque language is used by the older people and is taught in the schools. The economy of Monaco offers more than

30,000 jobs. Immigrant labor, especially from France and Italy, is heavily relied upon because the number of jobs available outnumbers the number of citizens in the **labor force**. Many affluent Americans, as well as French, Britons, Swiss, Belgians, and other Europeans, live in the principality. The prevailing religion is Roman Catholicism, accounting for 95 percent of the population. Roman Catholicism also is the official religion, though freedom of religion is guaranteed by the constitution. Education is free and compulsory for children ages 6 to 16.

OVERVIEW OF ECONOMY

Renowned as a **tax haven** for the rich, Monaco is thought to have one of the most affluent and **liberal economies** in the world, though the government does not publish economic figures or other relevant statistics. A tiny territory with few natural resources—in some places stretching no more than 180 meters (600 feet) inland from the Mediterranean—the Monegasque economy is primarily geared toward tourism, modern manufacturing, finance, and commerce. From the end of the 19th century, the government of Monaco has very actively encouraged economic growth and provided the framework for the development of private enterprise. It has successfully sought to diversify into services and small, high **value-added**, nonpolluting industries.

Low corporate taxes (and no personal income or other **direct taxes**) have drawn many foreign "letter box" companies, which operate overseas but have established their head offices nominally in Monaco because of the more favorable tax treatment. These types of companies account for about 50 percent of the $586 million annual government revenue in 1997. The residential real estate market also provides some considerable income for the principality; many wealthy aliens are actively pursuing Monegasque permanent residence and/or citizenship for tax purposes and are in constant need of local property for that matter. Similarly, tourism accounts for close to 25 percent of the principality's annual income, and Monaco has been a major tourist center ever since its famed gambling casino was established in 1856. The tourist industry is still considered the economic foundation of the state. The sale of picturesque postage stamps and tobacco, the banking and insurance sectors, and the manufacture of pharmaceuticals, chemicals, electronic equipment, cosmetics, paper, textiles, and plastic goods are also of economic importance. Customs, postal services, telecommunications, and banking in Monaco are governed by the economic, monetary, and customs union with France and European Union (EU) rules. Although not an EU member, Monaco is closely associated with the economic structures of the EU. Some 1999 estimates placed the per capita **gross domestic product** (GDP) at about US$27,000, one of the highest in the world. The total **turnover** of the principality rose from the estimated 3.25 billion French francs in 1975 to 21.3 billion in 1988, 25.4 billion in 1989, 29 billion in 1990, 31 billion in 1991, 32.4 billion in 1992, and 33.2 billion in 1993.

POLITICS, GOVERNMENT, AND TAXATION

Monaco has been governed as a constitutional monarchy since 1911, with the hereditary prince (presently, Prince Rainier III) as the head of state. Unlike other European monarchies, the Monegasque sovereign is the actual, and not symbolic, head of state. In the constitution of 1962, it is clearly stated that the executive power is responsible to the supreme authority of the reigning prince. The succession to the throne passes to the direct descendants of the prince under the principle of primogeniture (inheritance of the first born), with male descendants taking precedence over female descendants of the same degree of kin. The sovereign represents Monaco in its relations with foreign powers and signs and ratifies treaties. In 1956, Rainier III married American film star Grace Kelly, who died in a car crash in 1982. They have 2 daughters and a son, who is the heir apparent to the throne.

The executive branch consists of a minister of state (head of government, presently Michel Leveque), who presides over a 4-member cabinet, the Council of Government. The minister is primarily responsible for foreign relations and is traditionally a French citizen appointed by the prince for a 3-year term from among several candidates proposed by the French government. As the prince's representative, the minister also directs the executive services, commands the police, and presides (with voting powers) over the Council of Government. The 3 other members of the Council are locals, responsible for financial and economic affairs, internal affairs, and public works and social affairs, respectively.

Monaco is a parliamentary monarchy ruled according to its 1962 constitution, which stipulates that the hereditary prince shares his power with the **unicameral** National Council. There are 18 members of this legislative body, elected by universal suffrage (by citizens over age 21) for 5-year terms. They usually meet twice annually to vote on the budget and endorse laws proposed by the prince. If the prince dissolves the National Council, new elections must be held within 3 months. Ordinances passed by the National Council are debated in the Council of Government, as are the ministerial decrees signed by the Minister of State. Once approved by the Council, the ordinances are submitted to the prince within 80 days for his approval. Once approved, the ordinances become legally valid. If no opposition is voiced on his behalf within 10 days of receipt, they become enforceable.

Legal power is also vested in the monarch, who delegates all legal procedures to the courts dispensing justice in his name. The independence of the judges, however, is guaranteed by the 1962 constitution. Monaco's legal system is closely related to the French system and is designed after the French Napoleonic Code. Local affairs—the administration of the 4 quarters—are directed by the Communal Council, which consists of 15 elected members and is presided over by a mayor. Monaco has its own local political groups that are not a part of the French political system and include the National and Democratic Union (UND), the Campora List, and the Medecin List.

The most crucial political issue in Monaco is, understandably, its bilateral relation with France. The geographical situation of Monaco as an enclave within France justifies the traditional customs and monetary union between the 2 countries, which dates back to 1861. Two major treaties in 1918 and 1919 established a reciprocal contractual basis for the relations between the 2 independent states (France recognized Monaco as a sovereign entity and undertook to build its relations on an equal footing with a limited protection over the principality). Under these arrangements, France is obligated to defend the independence and sovereignty of the principality and the integrity of Monegasque territory. In return, the government of Monaco is obligated to exercise its rights only in conformity with French interests. New bilateral agreements were signed in 1945, 1951, and 1963 with the aim of amending the earlier provisions in order to adapt them to the new economic and social conditions. Further changes and amendments arose from the development of European integration and the decision made by France in 1999 to adopt the single European currency, the euro.

Although small in size, Monaco actively participates in the United Nations (UN), which it joined in 1993, and maintains a permanent mission to the UN in New York. Monaco also is a member of many other international and intergovernmental organizations. The International Hydrographic Bureau (IHB) is headquartered in the principality. The country has 10 diplomatic missions in Europe and maintains honorary consulates in 106 cities in 45 countries. Sixty-one countries have consulates general, consulates, or honorary consulates in or accredited to Monaco.

The government's role in the economy has been traditionally one of active promotion of private enterprise and creating the necessary **infrastructure** for development. The state and the ruling Grimaldi family personally own considerable real estate assets and **equity** in the economy. Monaco's tax policies concerning its citizens are among the most liberal ones in the world, as there is no direct taxation for local residents. In 1869, land tax, personal and goods taxes, and the business tax were abolished. Since that time, Monegasque citizens or foreigners residing in the principality have not been subject to any tax on their personal income, whatever its origin. For French citizens moving to the principality after 1962, an exception was introduced in 1963 under pressure from the French government. Under the new arrangement, French nationals who moved their residence to Monaco, or who could not prove 5 years of residence in Monaco before October 1962, were subject to French taxes under the same conditions as if they had their residence in France. Since 1963, companies of any type are required to pay a corporate tax rate of 33.33 percent on profits when at least 25 percent of their turnover comes from operations outside Monegasque territory. A **value-added tax** (VAT) of 5.5 percent and a real estate added value tax of 20.6 percent were also introduced, along with some special arrangements concerning banking and financial activities and **indirect taxes**.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Monaco, as a small, highly urbanized enclave in the French territory, is part of the well-developed French infrastructure. Electricity is provided almost entirely by France. There are 1.7 kilometers (1.1 miles) of railroads

Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
Monaco	31,027 (1995)	N/A	AM 1; FM NA; shortwave 8	34,000	5 (1998)	25,000	2	N/A
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
France	34.86 M (1998)	11.078 M (1998)	AM 41; FM about 3,500; shortwave 2	55.3 M	584 (1995)	34.8 M	62	9 M
San Marino	18,000 (1998)	3,010 (1998)	AM 0; FM 3; shortwave 0	16,000	1	9,000	2	N/A

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

and 50 kilometers (31 miles) of paved roads, including the highway and railroad connecting southern France with Italy along the Mediterranean. There are 2 ports, including a busy merchant harbor and several tourist marinas, although the principality has no merchant fleet of its own. There is also a helicopter shuttle line between the heliport at Fontvieille and the nearby international airport in Nice, France. Telecommunications are incorporated within the French telephone system, and there were 9 radio stations and 5 television stations in 1997, while 4 Internet service providers were offering customers their services in 1999. The access to cellular phones and to the Internet was similar in numbers and quality of service to that of French urban areas. The cable television services were comparable to the highest western European standards.

ECONOMIC SECTORS

The backbone of the Monegasque economy is formed by high-end tourism and the services related to it, construction and the real estate market, small-scale industrial and consumer products manufacturing (chemicals, food products, plastics, precision instruments, cosmetics, and ceramics), and international trade. Of the 32,691 employed, as estimated in 1999, the **private sector** was responsible for 29,311 and the **public sector** for 3,380. Approximately 46 percent of the labor force was in services (other than tourism), 7 percent in banking, 17 percent in tourism and hotels, 12 percent in **retail**, 7 percent in construction and public works, and 11 percent in industry. No official data as to the distribution of GDP were available.

AGRICULTURE

There are no arable lands or other agriculturally suited areas in the principality; virtually 100 percent of the Monaco territory is heavily urbanized. Accordingly, there is no commercial agriculture in the country. All foods are imported and some of them are further processed and exported.

INDUSTRY

Industrial activity, often little known in Monaco, is an area that has undergone considerable development over the past century. From 1906, when the state financed the construction of the first industrial platform in Fontvieille, industrial firms such as the Monaco Brewery and companies involved in flour milling and the manufacture of chocolate began to develop. Currently, the chemical-pharmaceutical-cosmetics manufacturing sector appears to be the most widespread, but companies working in the areas of plastic materials processing and the manufacture of electrical and electronic equipment are also present. Other sectors, while not on the same scale as these, are the manufactures of mechanical engineering, packaging, printing, and clothing. Since 1980, nearly 1,859 square meters (20,000 square feet) of new industrial floor-space has been built, mostly on areas reclaimed from the sea. The lack of space has led to the establishment of industrial premises in buildings that rise up to 13 floors. The government of the principality has adopted an industrial policy that operates in favor of the institution of enterprises having a high capital gain factor but that do not create any pollution. Industrial activity occupies about 4,000 members of the workforce. In 1993, they represented approximately 11.6 percent (excluding the construction and public works industry) of the total revenue in the principality.

SERVICES

The service sector has undergone spectacular growth in recent decades. It produced 49.1 percent of the total

revenue of the country in 1993 and included banking, insurance, consulting agencies (technical, commercial, and financial), auxiliary services, and commercial middlemen. Banking and financial activities and business services, including those associated with the establishment of head offices and offices of non-financial companies of international size, are growing in importance in Monaco. The retail sector includes small, privately held stores, luxury boutiques, and international retail chains. Retail contributed approximately 21 percent to the principality's total revenue in 1993. The banking and retail sectors are closely integrated with the French economy through the monetary union between the 2 countries and the local branches of large French and international banks, insurance firms, and stock markets. Despite the increased competition resulting from the **liberalization** of financial services in the EU, the introduction of the single currency, and the revolution in information technology, the economic relationship between France and Monaco remains strong. Real estate activity plays a very important role in the economy, justifying the principality's extensive research and decision-making process in the field of city planning.

TOURISM. Monaco is a popular world luxury resort, attracting affluent tourists to its casino, rich cultural schedule, and pleasant climate. Situated in the heart of the Riviera—the narrow coastal strip extending along the Mediterranean from Hyeres, France, to La Spezia, Italy—it benefits from the proximity of the renowned French resorts of Saint Tropez, Antibes, Cannes, Nice, and Menton. The latter 2 cities are connected by 3 scenic highways, which run through or near the Monaco territory and its chief tourist quarter of Monte Carlo along the sheer cliffs of the Maritime Alps. Both private and business tourism are thriving in the principality, and there are about 2,500 hotel rooms, most of which are in the 4-star category or higher. In 1993, 601,111 rooms were occupied overnight, resulting in an average annual occupation rate of 48.3 percent. For several years, the government has been making considerable efforts to attract more business tourists in order to increase hotel occupation, since occupation by the private clientele is essentially seasonal. Among the points of interest in Monaco are a cathedral, a palace in the medieval and Renaissance styles, and a world-renowned oceanographic museum established in 1910. A major source of revenue is the famous gambling casino. The Monte Carlo Opera and Philharmonic Orchestra offer ballet and music events, and the museums, spas, beaches, flower gardens, marinas, fine dining spots, luxury boutiques, and vistas all contribute to the attractions of the principality. The Monaco Grand Prix and the Rally Monte Carlo are popular annual automobile-racing events. The Societe des Bains de Mer, a company partly owned by the government, operates the casino and most of the hotels, clubs, beaches, and other places of entertainment. There are also notable **foreign direct investments** in the Monaco tourist industry.

INTERNATIONAL TRADE

Monaco is a hub of international commerce, importing and exporting products and services from all over the world. It is in full customs integration with France, which collects and rebates Monegasque trade **duties**. Monaco participates in the EU market system through France. No recent trade statistics for the principality have been made available.

MONEY

As an integral part of the French monetary and banking system, the country has a balanced budget with revenues of US$518 million and expenditures of US$531 million, including capital expenditures (1995 est.).

Recent **exchange rates** for the euro per US$1 are 1.1 (February 2001), 1.20 (November 2000), 0.99 (January 2000), and 0.94 (1999). French francs (F) were exchanged at a rate of F7.22 (August 1999), 6.16 (1999 average), 5.65 (January 1999), 5.8995 (1998), 5.8367 (1997), 5.1155 (1996), and 4.9915 (1995) per US$1.

POVERTY AND WEALTH

Living standards in Monaco are high, comparable to those in the most prosperous French urban areas. Since one of the principality's priorities is to attract wealthy individuals from all over the world to acquire real estate and live and spend in the country, the government constantly uses its economic advantages to improve the quality of life and to combine work and leisure. Indeed, many of the world's rich buy property in Monaco to take advantage of Monaco's tax regime, although they seldom abide by the legal requirement to live 6 months of every year in the country, and often hire locals to maintain their

Exchange rates: Monaco

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	5.8995
1997	5.8367
1996	5.1155

Note: Rates prior to 1999 are in French francs per US$.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Monaco	25,000	N/A	N/A	27,000	N/A
United States	28,600	30,200	31,500	33,900	36,200
France	20,900	22,700	22,600	23,300	24,400
San Marino	N/A	20,000	N/A	N/A	32,000

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

property instead. There are many large local private fortunes in the principality as well and extreme poverty is virtually non-existent. The number of jobs in the country (32,691 in 1999; 29,311 in the private sector) outnumbers its total population (31,693 in 2000), and the majority of the workers, particularly in the lower-paying jobs, commute daily from neighboring France and Italy. Their scale of pay and benefits are commensurable with the ones in France, and the French workforce is reckoned to be among the most privileged in the world.

WORKING CONDITIONS

Economic prosperity and the proportionally large number of jobs available, along with the government's sensitivity to safety and environmental protection, create favorable working conditions in the principality. The unemployment rate, compared to French and EU standards, is very low at 3.1 percent in 1998. No major labor unrest has been reported recently.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1215. Monaco is founded as a colony of the Italian trade and seafaring city, Genoa.

1297. The Grimmaldi family of Genoa and their supporters establish their rule over Monaco. A thriving economy based on trade develops.

1489. King Charles VIII of France recognizes the independence of Monaco.

1789–1814. During the French Revolution, Monaco is attached to the territory of the French Republic under the name of Fort Hercules. It becomes the chief town of the canton of Alpes-Maritimes.

1815. Monaco is made a protectorate of the Italian Kingdom of Sardinia.

1861. Monaco's sovereignty is recognized by a Franco-Monegasque Treaty.

1863. The Seabath Company is founded, which establishes a casino and several hotels in the quarter of the Spelugues, known as Monte-Carlo since 1866. Economic development is boosted in the late 19th century with a railroad link to France.

1911. Absolute monarchy gives way to the first constitution.

1918. A new treaty with France provides for limited French protection over Monaco. New agreements with France are signed in 1945, 1951, and 1963.

1962. Adoption of the current, more liberal constitution.

1993. Monaco joins the United Nations.

1999. Monaco and France both join the Euro Monetary Zone (EMZ).

FUTURE TRENDS

The Monegasque economy is closely related to that of the French, and therefore is dependent on the development trends of the EU. The liberalization of commerce, financial, and other services in the EU, the introduction of the single European currency, and the revolution in information technology will gradually increase competition, but the increasing wealth and dynamism of the EU economies will also boost demand for Monaco's unique services. Due to its size, the country is limited in its opportunities for extensive growth, but its strong ties to high-class tourism, services, and modern technology make it unlikely to endure any major negative changes in the near future. It is likely that the principality will preserve its sound economy, particularly in the areas of tourism, services, commerce, and modern manufacturing. The maintenance of its high living standards will continue to attract foreign companies, investment, and affluent tourists and residents in the foreseeable future.

DEPENDENCIES

Monaco has no territories or colonies.

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—Valentin Hadjiyski

THE NETHERLANDS

Kingdom of the Netherlands
Koninkrijk der Nederlanden

CAPITAL: Amsterdam is the constitutional capital; the official seat of the government is The Hague.

MONETARY UNIT: Netherlands guilder (Dfl or Fl), also known as gulden or florin. One guilder equals 100 cents. Coins are in denominations of Dfl1, 2.5, and 5, and 5, 10, and 25 cents. Paper currency is in denominations of Dfl10, 25, 50, 100, 250, and 1,000. The euro, the currency of the European Union, replaced the guilder on 1 January 2002.

CHIEF EXPORTS: Machinery and equipment, chemicals, fuels, foodstuffs.

CHIEF IMPORTS: Machinery and transport equipment, chemicals, fuels, foodstuffs, clothing.

GROSS DOMESTIC PRODUCT: US$365.1 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$169 billion (f.o.b., 1998 est.). **Imports:** US$152 billion (f.o.b., 1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Once known as Holland, the Netherlands is located in Western Europe. It borders Belgium to the south, Germany to the east and north, and the North Sea along its western coast. The country has a total area of 41,526 square kilometers (16,485 square miles). This includes 33,889 square kilometers of land (13,084 square miles) and 7,643 square kilometers (2,950 square miles) of water. The coastline of the Netherlands is 451 kilometers (280 miles) long. Its land borders are 1,027 kilometers (638 miles) in length. The border with Germany is 577 kilometers (358 miles) long and that with Belgium is 450 kilometers (280 miles) long. The country is about the size of Maryland. The Netherlands is located at the crossroads of 3 of Europe's major rivers: the Rhine, the Meuse and the Schelde. The nation's 2 largest cities are Amsterdam, with a population of 1.1 million, and Rotterdam, also with 1.1 million people. Other major cities include The Hague (700,000 people) and Utrecht (554,000 people). Both the capital and the seat of government are located in the west-central region of the country, near the coast. The Netherlands still has 2 colonies, Aruba and the Netherlands Antilles (both are located in the Caribbean).

POPULATION. The population of the Netherlands was estimated to be 15,892,237 in July of 2000. In 2000, the nation's population growth rate was 0.57 percent. The birth rate was 12.12 births per 1,000 people. The fertility rate was 1.64 children born per woman, which is below the replacement level (this term refers to the number of children a couple must have to replace both parents, which is roughly 2 children). However, a large number of immigrants move to the Netherlands each year. Annually, there is an average of 2.3 new immigrants in the country for every 1,000 citizens. The mortality rate is 8.72 deaths per 1,000 people. The infant mortality rate is 4.42 deaths per 1,000 live births. Like many of the advanced industrialized nations, the population of the Netherlands is aging. The fastest growing segment of the population is the elderly. Those over the age of 65 make up 14 percent of the population, and this group is expected to double in size over the next 20 years. The average life expectancy for males in the Netherlands is 75.4 years and 81.28 years for females.

The majority of the people of the Netherlands are of Dutch ancestry (91 percent). The Dutch are primarily of Germanic and Gallo-Celtic origins. The remaining 9 percent of the population is split between people of Moroccan, Turkish, and Surinamese backgrounds. The society of the Netherlands is open, but in recent years there has been increasing anti-immigrant sentiment among some groups. During the 1990s, a number of new laws were passed which restricted **immigration**. The year 1998 was a peak time for political asylum seekers; some 45,217 political refugees settled in the Netherlands. Unemployment is higher among minority groups and some discrimination

exists in regard to housing, hiring, and wages. Incidents of police brutality in the 2 Dutch Caribbean colonies have led the national government to undertake a variety of reforms in the territories, including retraining of police and reforms of the prison systems.

Dutch is the official language of the nation, but English is also widely spoken. The population is highly educated and skilled. There is mandatory education through age 16 and the literacy rate is near 100 percent. The Netherlands has a relatively low rate of religious affiliation. Roman Catholics make up 34 percent of the people, Protestants 25 percent, and Muslims 3 percent. About 36 percent of the Dutch are unaffiliated with any formal religion.

The majority of people live in urban areas and the country is one of the most densely populated in the world. Its average population density is 369 per square kilometer (958 people per square mile). In comparison, the population density of Japan is 320 per square kilometer (830 per square mile), while that of the United States is 27 per

square kilometer (70 per square mile). The most densely populated area of the country is known as the Randstad and includes the coastal regions of Amsterdam, Rotterdam, and Utrecht.

OVERVIEW OF ECONOMY

The Dutch have a long history as merchants and traders. From the 1600s through the 1700s, Dutch ships carried spices and other raw materials from India, Asia, and the West Indies to Europe and then carried manufactured products back to these areas. Dutch merchants were responsible for opening seaborne trade with China and Japan. Their success was based on the design of their ships which had large cargo holds and small crews. This reduced the costs of transporting goods. It was not until the late 1700s that the British displaced the Dutch as the world's main trading nation. Today that tradition continues as the nation remains dependent on foreign trade.

The Dutch economy is a private **free-market system**. The main impact of the government on the economy is through regulation and taxation. The Dutch have long been renowned as merchants and almost two-thirds of the economy is now based on foreign trade. Along with the United States, the country has consistently been one of the main proponents of international free trade and the reduction of **duties** and **tariffs** on goods and services. A member of the European Union (EU), the nation is set to replace its currency with the euro, a common currency that will be used by 11 of the 15 members of the EU. This process, known as European Monetary Union (EMU), is expected to expand the already large volume of trade between the EU member states and link the economies of these nations to a degree never seen before. The Dutch have been among the strongest supporters of EMU. The Netherlands is home to some of the world's largest corporations, including Royal Dutch Shell and Unilever. Despite its small size, the Netherlands ranks number-seven in the world in total value of its corporations.

The nation is in the midst of a long-term economic expansion that began in the 1990s. The Dutch economy grew at an average rate of 2.8 percent during the 1990s, while the rest of Europe averaged only 1.6 percent growth rates. In 2000, the kingdom's **gross domestic product** (GDP) per capita was US$25,695. The Netherlands ranks number 20 out of 191 nations in GDP and number 16 in **GDP per capita**. The Dutch workforce contains about 7 million people. The current economic expansion is based on increased foreign trade, consumer spending, and investment. By 2000, unemployment in the Netherlands was the lowest since the 1970s, and the nation's economy averaged over 4 percent growth per year. The economic growth of the past decade raised the GDP from US$299.4 billion in 1995 to US$365 billion in 1999. The success of the economy is the result of adjustments and transformations that Dutch businesses underwent in the late 1970s through the 1980s. The government cut its role in the economy by **privatizing** many public corporations, and a substantial number of Dutch companies began incorporating advanced technology and communications into their business practices. In doing so, the Dutch reformed their economy before most of their European neighbors and became far more competitive than those countries. The low level of unemployment and the rising economy have spurred **inflation**. In 2000, the kingdom's **inflation rate** was 2.6 percent and that figure is predicted to rise to 3.4 percent in 2001 (this is compared with the EU average rate of 1.6 percent).

Like many of the other industrialized European nations, the Dutch economy has been marked by the growth of the service sector and the relative decline of agriculture and industry as percentages of GDP. Despite the lessening importance of agriculture, the sector continues to be highly profitable. The modern Dutch agricultural industry is highly technological and sophisticated. Although it only employs about 4 percent of the workforce, agriculture produces enough food to feed the nation and provide a significant number of exports. The Netherlands is the world's number-three producer of agricultural goods.

Although industry has declined as a proportion of the overall economy, it remains a major factor in the Dutch economy. For centuries, the Dutch economy was based on maritime trade; however, shipping and fishing are now only minor components of trade. The main industries include chemical and metal processing. The nation is also one of the world's main producers of natural gas. The rise in global energy prices has produced high profits for Dutch energy companies. The energy company Royal Dutch Shell is the fifth-largest corporation in the world, worth US$191.3 billion in 1998, with operations throughout the globe. Other areas of industry include mining, food processing, and construction. The geographic location of the country, at the crossroads of Northern Europe, has allowed it to emerge as a major port of entry into the continent for goods and services. Many goods are shipped first to the Netherlands and then transported by land, air, or sea to other nations in Europe. Two of its ports, Rotterdam and Amsterdam, are among the busiest in the world.

Services dominate the economy and 73 percent of employees work in this sector. The primary services are transportation, the distribution of goods, and business services. There is also a strong financial sector that includes banking and insurance. The Dutch are major investors in foreign countries and foreign businesses (investment abroad is 3 times the level of foreign investment in the Netherlands). The Dutch have US$160 billion invested in other countries.

POLITICS, GOVERNMENT, AND TAXATION

The government of the Netherlands is a constitutional monarchy. The head of state is the monarch, presently Queen Beatrix, but the sovereign's powers are now mainly ceremonial. The chief of the government is the prime minister who is appointed by the queen. The prime minister is usually the leader of the majority party in the nation's parliament or the leader of the largest coalition of parties. The country also has an advisory committee, known as the Council of State, which develops and coordinates policy. Members of the council are appointed by the queen on the advice of the prime minister.

The legislative branch, or parliament, of the nation is known as the States General. The States General is a **bicameral** (2 chamber) legislative body. The 2 houses are called the First Chamber and the Second Chamber. The Second Chamber is the more influential of the 2 bodies. It initiates legislation and may amend bills that are developed by the Council of Ministers. The chamber has 150 members who are elected for 4-year terms by the general population. Unlike the American system, representatives are not elected to represent individual districts but the nation as a whole. During elections, the people do not vote for individual candidates but for a particular party. The election results are proportional so that a party that received 60 percent of the votes would have 60 percent of the seats in the Second Chamber. There are 75 members of the First Chamber. These representatives are elected by the legislatures of the nation's 12 regional governments, known as provinces.

Because of the proportional system of elections, even small parties are often able to have representation in the States General. Hence, unlike the United States, the government of the Netherlands is usually made up of a coalition of a number of small parties, and politics is not dominated by 2 major political parties. Since 1998, the government has been led by the "Purple Coalition" which is made up of 3 parties: Labor, Liberal, and Democrats '66. All of these parties support free enterprise **capitalism**, but the Labor Party and Democrats '66 tend to be more supportive of government efforts to establish social and economic equality by redistributing wealth through taxes on the wealthy and middle-class. The Liberal Party stresses individual political and economic freedom and is much more conservative on economic issues than its 2 coalition partners. The main party that opposes the coalition is the Christian Democratic Appeal or Christian Democrats. This party was initially formed from the merger of 3 religious parties and is generally one of the more conservative Dutch political groups. The party opposes most government involvement in the economy. The last major party is the Green Party which is pro-environment and advocates strict restrictions on pollution and economic activity which might harm the environment.

The government of the Netherlands does not play a major role in the nation's economy. It does not own a large number of businesses or attempt to control economic ventures. Furthermore, since the 1980s, there has been an ongoing program to turn those few government-controlled companies and businesses over to the **private sector**. An example of this would be increasing private control over telecommunications and public transport services. Public spending, including **infrastructure** projects, social spending, education, and health care amounted to 46 percent of the nation's GDP in 2000 and is expected to decline over the next decade. In 2000, the government announced tax reductions, including a cut in the **direct taxes** paid by most Dutch citizens.

The impact of the government is most significant on 3 different levels. First, there are numerous regulations and restrictions on economic activity which include the need to obtain permits for certain types of businesses and controls on product safety and advertising. Second, the government takes an active approach to managing the nation's credit supply and the value of its currency. Since the 1980s, the government has consistently pursued policies to keep inflation low. The government has also allowed the value of the currency to decline in an effort to make Dutch products less expensive and therefore more competitive in global markets. Third, and finally, the government takes an active role in managing the nation's environment. The centerpiece of Dutch environmental policy is the National Environmental Policy Plan known as the NMP. This plan seeks to cut pollution by 80 percent by 2010. Much of the nation is under sea level, and therefore prone to flooding, so the government also plays a major role in land management, including determining what types of structures can be built on different terrain.

In 1999, the government had revenues of US$163 billion and expenditures of US$170 billion, but in 2000 the government had a small surplus which equaled 0.5 percent of GDP. The government debt amounts to 63.7 percent of GDP. This is higher than the EU average of 60 percent of GDP, but the debt has declined from 67 percent of GDP in 1998.

One of the economic and foreign policy objectives of the Netherlands has been European economic and political integration. In the aftermath of World War II, the Dutch formed the Benelux Customs Union with Belgium and Luxembourg. This organization reduced tariffs between the 3 nations and set the stage for the later formation of the European Community, which itself later led to the establishment of the EU. The nation also helped develop the plans for EMU, which strives to fully integrate the economies of the EU, including replacing national currencies with the euro. Because of their experi-

ences during World War II (when they were conquered by the Germans), the Dutch have supported political cooperation as a way to prevent new conflicts in Europe. Since the Netherlands is a small country, its government has found that the best way to achieve its foreign and economic policy goals is by cooperating with other nations in international organizations such as NATO, the EU, and the UN.

Each year the Dutch spend about US$6.9 billion on defense. The kingdom is a member of the North Atlantic Treaty Organization (NATO—a military alliance of several European nations plus the United States and Canada) and a staunch U.S. ally. For instance, Dutch military forces fought alongside American troops in both the Persian Gulf War and the military operations in Bosnia and Kosovo. The Dutch are among the world's leading providers of foreign aid. In 1999, they gave US$3.4 billion in aid, or about 1 percent of the nation's GDP. They have provided aid for victims of hurricanes in Central and South America and for refugees in places such as Africa, Bosnia, and East Timor. The Dutch are also supportive of international environmental programs.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The Netherlands has an excellent infrastructure of ports, airports, and roadways. It also has a highly developed telecommunications system. Since the Netherlands is one of the main points of entry for goods imported into Europe, it is very important for the nation to maintain its transport system in order to move products into the interior of the continent. In order to improve the infrastructure, the government plans to launch a range of new projects over the next decade. A minimum of US$35 billion has already been budgeted to pay for a variety of projects including a high-speed rail link between Amsterdam and Brussels. There are also plans for a special rail system to connect Rotterdam and areas of Germany. Work is ongoing to improve the existing highway and rail network, and, by 2010, the government expects to spend an additional US$5.5 billion on these projects. Among these funds are US$2.4 billion to expand highways and US$500 million for improvements of regional roadways. The new work will concentrate on helping ease traffic congestion in the heavily urbanized areas of the west, including Amsterdam and Rotterdam. One of the main ongoing infrastructure projects in the Netherlands is the effort to prevent flooding. Over half of the country's territory is protected from flooding by an extensive system of dams and dikes.

In order to pay for current and future projects, the government established a special infrastructure fund. This fund is designed to provide supplemental money for infrastructure works without having too great an impact on the national budget. The fund is made up of proceeds from the sale of natural gas and any surplus tax funds. There are also plans to gain additional revenues by building toll roads and special pay lanes.

The nation has 125,757 kilometers (78,145 miles) of roads, 113,018 kilometers (70,229 miles) of which are paved. There are 2,235 kilometers (1,388 miles) of expressways that link the major cities and facilitate transportation from the coast across the country. All of the major Dutch cities have widespread and inexpensive public transportation systems. The high degree of urbanization has also led many Dutch cities to build comprehensive bicycle pathways that allow people to bike instead of using cars or other vehicles. Still, 79 percent of the Dutch use their personal cars for transportation.

The nation has 2,739 kilometers (1,702 miles) of railways. Transportation is also aided by an extensive network of waterways and canals. In total, there are 5,046 kilometers (3,135 miles) of waterways in the country, and 47 percent of these are usable by watercraft of 1,000 tons or larger. The main Dutch ports are Amsterdam, Dordecht, Groningen, Haarlem, Maastricht, Rotterdam, and Utrecht. Rotterdam is the world's largest seaport and handles more tonnage than any other harbor. Some 70 percent of all imports that go into the Netherlands come through Rotterdam. In 1996, the port set a record of 293.4

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Netherlands	306	978	543	378.3	213	38.4	317.6	403.49	3,000
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Belgium	160	793	510	367.3	173	18.7	286.0	266.90	1,400

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

billion tons of goods received. Because of a trench that extends into the North Sea, supertankers and other large ships with capacities of up to 350,000 tons can access the port. The Dutch merchant marine includes 563 ships of at least 1,000 tons. These ships range from cargo and petroleum tankers to passenger cruise ships. There are 28 airports in the Netherlands, 19 of which are paved. Amsterdam Airport is Europe's fifth busiest airport. The country also has 1 heliport. The kingdom's main airline, KLM Royal Dutch Airlines, is one of the largest in the world and has partnership agreements with a number of other international air carriers.

In order to provide energy resources throughout the country, the Netherlands has a well-developed pipeline system. There are 418 kilometers (260 miles) of crude oil pipelines, 965 kilometers (600 miles) of pipelines for other petroleum products, and an overwhelming 10,230 kilometers (6,356 miles) of natural gas pipelines. In 1998, the nation produced 88.7 billion kilowatt hours (kWh) of electrical power. Some 400 million kWh of electricity were exported that year, but since the nation consumed 94.3 billion kWh of power, it had to import 12.2 billion kWh of electricity. Over 91 percent of electricity is produced by fossil fuels, while atomic energy provides 4 percent. Hydroelectric plants and solar energy provide most of the rest of the nation's energy needs. The kingdom is dependent on imports of oil and coal. However, the nation is a net exporter of natural gas, and it has extensive oil and natural gas fields in the North Sea. The government is highly supportive of efforts to develop solar energy resources. By 2020, the government plans to have solar energy account for 10 percent of energy consumption (this would supply the energy needs of 400,000 homes). In theory, the Netherlands could supply all of its energy needs through solar power. It would need 800 square kilometers (308 square miles) of surface for solar panels. This area is already available on the roof surfaces of houses and buildings.

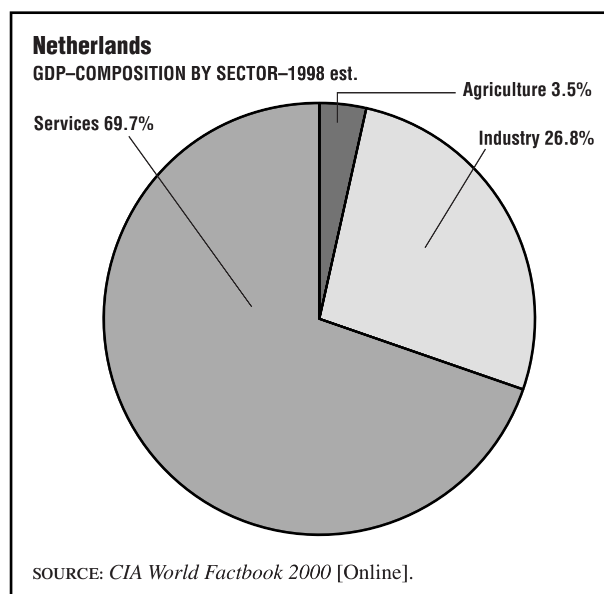
The nation's telecommunications system is also highly developed. The government began privatizing the telecommunications industry in 1989. By 1997, service for all fixed line telephones was privatized. The country has 5 underwater cables for transatlantic communications and 3 earth stations which receive satellite transmissions. The nation maintains 2 communications satellites. There is a program underway to replace the existing communications cables with fiber-optic cable. Over 90 percent of homes in the Netherlands are serviced by cable television systems. Concurrently, there have been dramatic increases in the use of mobile phones. By 2000, there were 6.8 million mobile phones in use. The Dutch are among the first people in Europe to begin using the third-generation mobile communications systems which allow mobile phone users access to high-speed data (such as e-mail and the Internet) and video communications via their phone. In 1999, there were 70 Internet service providers in the Netherlands.

ECONOMIC SECTORS

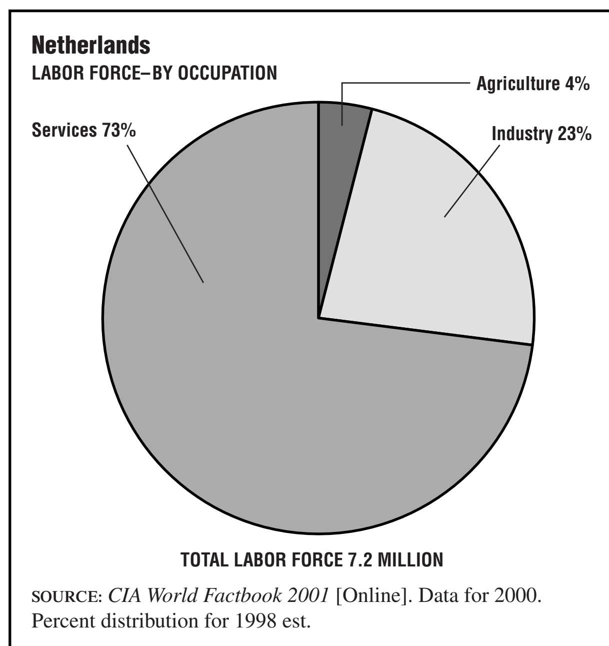
The Dutch economy is dependent on foreign trade. Like most developed nations, during the second half of the 20th century the Dutch economy underwent a transformation in which agriculture and industry declined in importance while services came to dominate the economic activity. Nonetheless, the nation's fertile soil and deposits of natural gas and oil mean that both agriculture and industry remain competitive with similar sectors in other nations.

Agriculture and fishing are highly profitable even though they account only for a small percentage of employment and of the nation's GDP. Since the 1940s, Dutch agriculture has become highly mechanized and technologically sophisticated. Dutch farmers use the latest technology to maximize crop yields and livestock production. Techniques such as scientific soil analysis and increased use of fertilizers and pesticides have been largely responsible for doubling crop yields during the century. Crops and livestock provide both exports and products which fuel the nation's domestic food-processing industries. Despite the small size of the country, the Netherlands is the world's third-largest exporter of agricultural products.

The main industries in the Netherlands are **agribusiness**, metal and engineering products, electrical machinery and equipment, chemicals, petroleum, construction, and microelectronics. The Dutch have significant oil and natural gas fields in the North Sea. This forms the basis for the nation's large energy industry. With such re-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1998 est.

sources, companies such as Royal Dutch Shell have gained markets around the globe. Most of the kingdom's energy resources are exported to EU countries. Other major industrial employers include the Dutch State Mines and the Royal Netherlands Blast Furnaces and Steelworks (both of which are partially-owned by the government). Construction accounts for about 6 percent of GDP and is partially propelled by government spending on infrastructure projects.

Services dominate the Dutch economy. The main segments of the service sector are transportation, goods distribution, financial services, and tourism. One of the areas of greatest growth, however, is telecommunications, especially personal communications services. Computer services are also experiencing dramatic growth. Small companies which specialize in various types of service have done the best in the nation's economy over the past decade, but there is increasing consolidation in some areas of the service sector as large corporations buy or merge with the more profitable firms.

AGRICULTURE

In 1998, agriculture accounted for 3.5 percent of the kingdom's GDP. Employment in agriculture has actually been increasing slightly over the past decade. In 1995, there were 109,000 people employed in the sector, but by 1999 that number had grown to 116,000. Much of this increase has been the result of growth in the dairy and horticulture segments of agriculture. As in many other countries, Dutch agriculture has been marked by the decline of the small, family-owned farm and the rise of large corporations that specialize in agriculture. Many Dutch agricultural firms have also become increasingly international and do a significant amount of their business overseas or in other European nations.

Dutch agriculture is divided into 3 broad areas: crop production, dairy and livestock production, and horticulture. The nation's agricultural land is also divided into 3 broad types: grasslands, farmlands, and horticultural lands. The nation's extensive waterways and network of dams and dikes allow for easy irrigation and have produced very fertile soils. On the other hand, the increased use of chemicals in agriculture has created environmental pressures and led to new ecological policies that are designed to reduce damage to the kingdom's environment. Partially because of pollution concerns and partially because of health considerations, the consumption of organic foods (crops and livestock that are raised without chemical fertilizers or pesticides) has increased. While these foods now account for 2 percent of total production, by 2010 they are expected to comprise 5–10 percent of total production.

The main food crops are barley, corn, potatoes, sugar beets, and wheat. Potatoes are the main crop by volume, and in 1999 Dutch farmers produced 8.2 million metric tons of the crop. That same year, the Dutch harvested 5.5 million metric tons of sugar beets, 1 million metric tons of wheat, 240,000 metric tons of barley, and 58,000 metric tons of corn. Despite its wheat and barley production, the nation is a major importer of wheat for animal fodder and cereal production. After suffering a significant drop in production in 1998 because of flooding and bad weather, agricultural harvests were up 23.9 percent in 1999. In 1998, the value of exports was US$18.7 billion, while in 1999 it was US$31.7 billion. The major agricultural processed product was cigarettes. The Netherlands is one of the least forested countries in the world. Over 90 percent of its forest products have to be imported.

Dairy and livestock production is highly specialized and technologically sophisticated. Extensive grasslands provide grazing for dairy cows and beef. Dutch farmers have some of the highest yields of beef and milk in the world (behind only the United States and Great Britain). The nation is self-sufficient in dairy production and most dairy goods are exported. The main dairy exports include butter, cheese, and condensed milk. The number of dairy cows has remained relatively constant in the kingdom. In 1994, there were 1.69 million dairy cows and in 1998 there were 1.61 million. In 1997, the nation produced 11 billion kiloliters of milk, about half of which was used to produce cheese.

Many of the small, independent Dutch dairy farms have been bought by large corporations. One of the largest dairy corporations in the Netherlands is Campina Melkunie. In 1999 this large, multinational company did only

36 percent of its US$5 billion business in the Netherlands, with the rest centered in various EU nations. The Dutch food and beverage company Unilever is one of the world's largest corporations. The Dutch also have a large brewing industry. Firms such as Heineken and Grolsch export beer around the world and have operations in 170 nations.

Besides dairy cows, the other main types of livestock are beef and veal, chicken, duck, lamb, pork, and turkey. Eggs and beef are the main livestock exports. Total livestock numbers have declined slightly over the past few years. For instance, in 1994 there were 7.7 million head of cattle, but by 1998 that number had declined to 4.3 million. Likewise, there has been a similar decline in the number of pigs. In 1994 there were 14.56 million pigs; however, by 1998 that number had fallen to 13.45 million.

Seafood consumption has risen substantially in the Netherlands over the past 2 decades. Dutch fishermen harvest some 407,000 metric tons of seafood each year. About half of this is consumed locally and the rest exported. The Dutch also import significant amounts of seafood, including squid, prawns, shrimp, and crab.

Horticulture, especially the growing of ornamental plants and flowers, is a major factor in Dutch agriculture. The Dutch export significant amounts of cut flowers and bulbs, and the nation is world-renowned for its tulips. About 75 percent of flowers are exported, and there has been dramatic growth in exports to the United Kingdom, Italy, and Russia. This amounts to some 9 billion flowers per year. Horticulture is conducted in both open fields and through the use of glass greenhouses. The Netherlands now contains over half of all of the greenhouses in Europe, and there is a total of 44,000 acres of flowers under cultivation. Over 3,000 companies are engaged in horticulture in the kingdom.

INDUSTRY

Although it has declined as a percentage of the nation's GDP, industry remains a viable component of the Dutch economy, contributing 26.8 percent to GDP in 1998. Dutch industry is diversified and includes a variety of businesses that range from manufacturing, mining, and energy production to construction and chemical manufacturing. The government has undertaken a variety of programs to encourage the development of new industries in the kingdom and to bring industry to areas of the country that are economically depressed. Specifically, the government has encouraged growth in the aerospace industry, biotechnology, and microelectronics.

MANUFACTURING AND CONSTRUCTION. The Dutch manufacturing sector is dominated by the production of chemicals and pharmaceuticals, metals and electronics, food processing, and tobacco. Over the past decade, the chemical industry has declined slightly (by 2 percent), while metals and electronics and food processing has expanded by 8–10 percent. In 1999, total manufacturing in the kingdom grew by 9 percent. In 1998, there were 847,591 people employed in manufacturing. The largest number, 144,645, were employed in food and tobacco processing. The number-two industry in terms of employment was metal processing with 99,753 workers, and the number-three field was machinery manufacturing with 89,688 employees.

Electronics manufacturing in the Netherlands is dominated by the **multinational corporation** Philips. The company makes lighting, consumer electronics, appliances, semiconductors, and communications systems. Philips is the ninth-largest manufacturer of semiconductors in the world. Of the 100,000 people employed in the Netherlands in the electronics field, Philips employs 44,000. Worldwide, Philips employs 265,000 people. Other major Dutch electronics firms include ASML, CMG, and Origin. The largest computer chip factory in Europe is in the Netherlands.

The most dramatic declines in employment and output were in the textile manufacturing sector and in shipbuilding and repair. Many of the manufacturing industries are based on the processing of raw materials or semi-finished materials into finished products. In other words, companies in the Netherlands import materials such as metal or chemicals and turn these items into products that consumers can use such as car parts or cleaning chemicals.

The Dutch chemical industry produces a variety of goods including synthetic rubber, plastic **consumer goods**, and polyester yarns for industrial purposes. Major Dutch chemical companies include Shell, Akzo Nobel, and DSM. Shell and Akzo Nobel are the eleventh- and twelfth-largest chemical companies in the world. DSM produces 70 percent of the polymers and rubber that the European automobile industry uses to produce new cars. Meanwhile, Dutch pharmaceutical companies have an annual output of about US$4 billion.

Ship building and repair continue to be significant factors in the Dutch economy. However, competition from countries where workers are paid less has caused drastic cutbacks in the field which is only about one-half the size it was previously. Still, the Netherlands is the world's seventh-largest producer of ships and the fourth-largest in Europe. Ship building and repair employ about 10,000 workers and are concentrated in the large ports on the western coast. The industry had revenues of US$1.66 billion in 2000, most of which were from ship building. In 2000, Dutch ship builders received orders for 88 new vessels and 45 percent of these orders were from foreign firms.

Over the past 30 years, construction has had a major impact on the Dutch economy. Because the nation is

so small in geographic size and has a high population density, real estate is very valuable in the kingdom. On several occasions this has led to a bubble (a rapid increase in value that is unsustainable over many years) in the housing market. The collapse (or bursting) of the housing bubble in the 1970s led to a widespread economic **recession**. During this recession, real estate prices declined by 45 percent by 1982. Nonetheless, the construction field is aided by government spending on infrastructure projects. In 1999, there were 31,459 construction companies and 416,000 people employed in the field. During the 1990s, the sector averaged 2 percent growth per year.

MINING AND MINERAL EXTRACTION. Although there was once a vibrant coal mining industry in the Netherlands, the discovery of oil and natural gas led to the demise of the coal companies during the 1970s. By the 1990s, the only mining operations left in the kingdom were small companies that extracted salt, peat, and some sand and gravel for construction uses. In 1998, there were only about 9,000 people employed in mining. All metal ore used in manufacturing or other industries has to be imported.

The Dutch do produce a limited amount of oil. However, oil production peaked in 1986 at 66,500 barrels of oil per day. Since that time, production has declined to an average of about 60,000 barrels per day. Many of the kingdom's former oilfields in the North Sea are now in the process of being decommissioned. Energy production employed about 6,670 people in 1998, but produced considerable profits for the nation.

On the other hand, the kingdom is Western Europe's number-one supplier of natural gas. In 1958, the Geneva Convention on the Law of the Sea gave the kingdom the rights to a 56,980 square kilometer (22,000 square mile) area in the North Sea. This region contains the kingdom's main reserves of natural gas and is actually larger than the country itself. The main company in the sector is the Netherlands Natural Gas Company which is owned by Dutch and American energy firms and by the Dutch government. About half the natural gas produced is used within the country, with the rest exported to EU nations. The main export destinations are Germany, Belgium, France, Switzerland, and Italy. In 1999, the total natural gas production of the kingdom was 80 billion cubic meters. The proven reserves of natural gas exceed 2 trillion cubic meters. Government revenues from natural gas were US$1.2 billion in 2000.

SERVICES

The services sector of the economy has experienced the greatest level of growth among the major Dutch businesses over the past 2 decades. Services now account for 69.7 percent of GDP according to a 1998 estimate. The most prominent fields within the service sector are banking and financial services, telecommunications, **retail**, and tourism.

BANKING AND FINANCIAL SERVICES. The banking and financial sectors of the Dutch economy have increasingly come to be dominated by large firms. In order to compete with international banks, companies have had to merge so as to reduce costs and maximize efficiency. The 2 largest banks in the country—the General Netherlands Bank and the Amsterdam-Rotterdam Bank—merged in 1990 to become ABN Amro. ABN Amro is now one of Europe's largest banks. Recently, Postbank and the Netherlands Traders' Bank merged to create the kingdom's second-largest bank. In 1998, the Dutch insurance company Fortis merged with the large Belgian firm De Generale Bank. Financial services account for about 7.2 percent of the service sector. Other business services account for 10.5 percent of the sector.

In 1999 the banking sector of the Dutch economy was worth 1.33 trillion euros. The nation's banking sector employed 120,000 people in the Netherlands and 220,000 people worldwide. There are 115 banks in the nation. This number includes all major credit-granting institutions and foreign-owned banks. In 1999 there were 6,121 bank branches in the Netherlands, and Dutch banks had an additional 2,575 branches abroad. However, 3 large banks—ABN Amro, Rabobank and ING Bank—account for about 75 percent of lending in the kingdom.

TELECOMMUNICATIONS. In 1999, the telecommunications market in the Netherlands amounted to US$10.3 billion. Over the next 5 years, the sector is expected to grow by 5–10 percent per year. About 85 percent of the market is based on telecommunications services, and the remaining 15 percent is equipment. In 1989, the government passed legislation which privatized telecommunications services. Nonetheless, the former state-owned telecommunications company KPN Telecom continues to dominate the sector. For instance, in the field of mobile phones, KPN Telecom controls 52 percent of the market. The next largest company, Libertel, controls 32 percent, and the third-largest firm, Telfort, controls 7 percent. The government is in the process of auctioning licenses for the next generation of mobile equipment. Despite the dominance of KPN Telecom, international corporations have gained an increasing share of the telephone market. Among the major international companies that are now in the Dutch market are MCI WorldCom, Global One, and Esprit Telecom.

A growing segment of the telecommunications sector is information technology or IT (computer-based information systems and communications). In 1999, the IT market in the Netherlands was worth US$11 billion. This represented a growth rate of 15 percent from the

previous year. Over the next few years, forecasts predict that the field will continue to expand at a rate of 15 to 20 percent per year. The 2 largest Dutch IT firms are Baan and Exact. The government has attempted to promote the establishment of new IT companies under a program known as "Twinning." This program provides government funds for housing, business start-up, and financial advice. Despite this and similar programs, more than 60 percent of IT products and services are imported. The United States is the main supplier of IT goods and services to the kingdom. With more than 3 million Internet users, the Dutch have the highest rate of Internet usage per person in Europe. By 2002, there will be 7.5 million Dutch Internet users. **E-commerce** (the use of the Internet to purchase goods) was worth US$325 million in 1998, but this figure grew to US$1.1 billion in 1999, and is expected to be worth US$11.5 billion by 2002. Experts rank the Netherlands as being 12–18 months behind the United States in Internet usage and e-commerce.

RETAIL. The Dutch retail sector is highly developed and diversified. In many ways it is similar to that of the United States. Supermarkets comprise 68 percent of grocery stores, while specialty stores make up 22 percent and the remainder includes food stores, local farmers' markets, department stores, and convenience stores. The Netherlands has about 12,600 clothing stores with combined sales in 1999 of US$5.3 billion. Over 60 percent of these are small retail units, and the rest are department stores or chain outlets. Employment in retail and clothing stores is 61,010. Nonetheless, as in the United States, there has been a steady trend toward larger retail units and a decline in small specialty stores.

TOURISM. In 1999, the Dutch spent US$10 billion on tourism, but US$8 billion of this was spent outside of the country. The Dutch tend to travel extensively, and 4 out of 5 have traveled on vacation at some point in their lives. In 1999, there were 30.5 million overnight vacation trips, of which 16.3 million were within the Netherlands. Tourism accounts for 5 percent of all employment in the Netherlands and includes 45,000 companies. Over 95 percent of these companies have fewer than 10 employees. In 2000, tourism was one of the 4 fastest-growing sectors of the Dutch economy, and by 2010 there will be an additional 5,000 hotel rooms built. Within tourism, short trips (those of 2 to 4 days) are becoming the most popular form of vacation. The United States is the most popular destination for Dutch tourists and accounts for about 25 percent of the total overseas tourism market. The most popular destinations for Dutch tourists are New York, Los Angeles, San Francisco, and Miami. Of those who visit tourist destinations in the Netherlands, 52 percent are Dutch and 48 percent are foreign. Germans are the main tourist group to visit the kingdom, followed by the British.

INTERNATIONAL TRADE

Almost 160 million people live within a 300-mile radius of Rotterdam. This includes more than half of the population of the EU. As a result, the Netherlands is perfectly positioned as a gateway for goods being imported into the EU. In addition, Dutch goods are easily exported throughout the region. In all, 80 percent of Dutch exports go to other nations within the EU and 70 percent of goods imported into the Netherlands come from the EU. Asia accounts for only 17 percent of the nation's exports and 7 percent of its imports. The largest individual destination for Dutch goods is Germany at 27 percent, followed by Belgium-Luxembourg at 13 percent, France at 11 percent, the United Kingdom at 10 percent, and Italy at 6 percent. Imports are divided between Germany with 20 percent of the total, Belgium-Luxembourg with 11 percent, the United Kingdom with 10 percent, the United States with 9 percent, and France with 7 percent. The Dutch are the ninth-largest trading partner with the United States and the third-largest in Europe. The United States has its largest **trade surplus** with the Netherlands, averaging US$10 billion per year.

The Netherlands leads its EU partners in issues such as trade **liberalization** and the privatization of key industries such as telecommunications and transportation. Thus, it is in a good position to continue its trade surplus. In 1999, its trade surplus in both goods and services amounted to US$18 billion. This represented a 6 percent growth rate over the previous year and accounted for 6 percent of the kingdom's GDP. Dutch exports are concentrated in products that tend to do well even during periods of recession. These exports include food and agricultural products and energy resources.

In 1998, the Dutch exported US$169 billion worth of goods and services and imported US$152 billion. This represented a 5 percent increase in exports over the previous year and continued a trend of positive growth in exports which extends back into the 1980s. Services were the fastest growing exports and increased 6.9 percent in 1998, while the export of manufactured goods increased by 3 percent.

Trade (expressed in billions of US$): Netherlands

	Exports	Imports
1975	39.939	40.854
1980	85.046	88.392
1985	78.008	73.268
1990	131.775	126.098
1995	196.276	176.874
1998	199.624	185.104

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Because of the importance of trade and the impact of foreign sales on the Dutch economy, the government is a staunch supporter of global free trade. The Netherlands has worked closely with the United States to open markets around the world and reduce tariffs and other impediments to international commerce. The country works through international organizations such as the World Trade Organization (WTO) and the International Monetary Fund (IMF).

The main international organization which has aided the Dutch economy has been the European Community, now known as the EU. Before the formation of this regional organization, about 40 percent of Dutch trade exports went to the nations of Europe. However, exports to Europe now account for about 80 percent of Dutch exports. The Netherlands was one of the founding members of the organization and has consistently supported increased economic integration among its members, including the establishment of a common currency, the euro. Because the use of the euro will reduce transaction costs between countries by eliminating differences in currency **exchange rates**, the implementation of the euro is expected to add US$3.5 billion in new business to the Dutch economy. It is also expected to increase foreign investment in the Netherlands by US$2.5 billion.

Since the end of the Cold War and the opening of Central and Eastern Europe to free-market capitalism, the Dutch have aggressively sought to gain access to the **emerging markets** in countries such as Poland, Hungary, and the Czech Republic. They have also supported international efforts to reform the economies in the region in order to facilitate increased trade, and they support EU expansion to bring countries in the area into the trade organization.

The geographic location of the Netherlands and its highly skilled and productive workforce has attracted numerous international companies. By 2000, there were 6,400 foreign businesses with operations in the kingdom. These companies employed 357,000 Dutch workers. In order to encourage new investment and attract foreign companies, the Dutch government established the Foreign Investment Agency. This agency has overseen the implementation of 85 different projects with a combined value of US$531 million. These projects also resulted in 5,000 new jobs. The Dutch government offers grants of up to 20 percent of the start-up costs of new companies. The bulk of foreign investment in the Netherlands is from the United States (in 2000 the U.S. accounted for 80 percent of new investment). Total American investment in the kingdom is US$106 billion. The majority of U.S. investments were in financial services and real estate. The Netherlands is the third largest recipient of U.S. investment in the world.

MONEY

The Dutch guilder or florin has fallen in value in relation to the U.S. dollar and other major European currencies. In 1995, 1 U.S. dollar was equal to 1.6057 guilders; however, in 1999, one U.S. dollar equaled 1.8904 guilders. The weakness of the Dutch currency has actually helped the nation's economy since it has made Dutch products cheaper and therefore more marketable. In 1999, the kingdom was one of the founding members of EMU. EMU created a single currency, the euro, for the EU nations which replaced national currencies in 2002. The euro is fixed at a rate of 2.20371 guilders per euro. Since its introduction, the euro has been weak against the U.S. dollar. In 2000, 1 U.S. dollar equaled 0.9867 euros (when the euro was introduced it was equal to US$1.1789). The low value of the euro is expected to continue to help Dutch exports when the nation adopts the currency.

Banks in the Netherlands manage the transfer of funds and securities and handle savings and checking accounts. They also assist companies in stock offerings. The banking system is overseen by the government-owned Dutch national bank, De Nederlandsche Bank, or DNB. The bank also oversees **monetary policy**. As a member of the European System of Central Banks, DNB coordinates with other European national banks on issues of monetary policy and national economies, as well as the implementation of EMU. Foreign-owned banks are allowed to operate in the kingdom according to the same rules and regulations as Dutch banks.

In 2002, the Amsterdam Stock Exchange will celebrate its birthday as the world's oldest stock market. The exchange has developed close ties with stock markets in Belgium and Luxembourg, and almost half of the investments in the Amsterdam Exchange come from foreign investors. The Amsterdam Exchange lists 972 different companies or investment institutions, of which 604 are Dutch and the rest foreign-owned. In 1999, the total value of the exchange was 1.497 trillion euros.

Exchange rates: Netherlands

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	1.9837
1997	1.9513
1996	1.6859

Note: Rates prior to 1999 are in Netherlands guilders per US$.

SOURCE: CIA *World Factbook 2001* [ONLINE].

POVERTY AND WEALTH

Like most of the West European nations, the Dutch have a high standard of living. In 2000, the nation's GDP per capita was US$25,695. According to the United Nations *Human Development Report 2000,* the Netherlands ranks number-eight in the world in human development, ahead of nations such as Japan and the United Kingdom, but behind countries such as the Canada, Norway, and the United States. This report measures such features as income, literacy, and life span.

The wealthiest 10 percent of the population control 24.7 percent of the kingdom's wealth while the poorest 10 percent only control 2.9 percent. There are also regional differences in wealth and standard of living. People who live in the southern and western regions of the country tend to have higher incomes as the higher-paying industrial and new technology companies are concentrated in these regions. The northern area of the kingdom is the most rural and least prosperous area of the Netherlands.

While unemployment is low in the Netherlands, at 3.5 percent, as many as 100,000 people have simply dropped out of the **labor force**. The nation has generous social benefits and this has prevented the widespread expansion of poverty. The Dutch national drug policy continues to have an impact on poverty. The Dutch government differentiates between "hard" drugs, such as heroin or cocaine, and "soft" drugs such as marijuana. The sale and use of small quantities of soft drugs is legal, under certain guidelines. However, the use of hard drugs has risen over the past 2 decades. The government now spends about US$150 million per year on rehabilitation programs for the estimated 28,000 hard drug users in the kingdom (most of whom are unemployed and live below the nation's poverty line).

The poverty rate in the Netherlands is 4.7 percent of families. This gives the nation one of the lowest poverty rates in Europe, second only to nations such as Sweden, and well ahead of countries such as the United Kingdom, Germany, France, and the United States. However, the main reason for this low rate is generous social payments. If government aid is excluded, the poverty rate in the Netherlands rises to 18.9 percent. The highest rates of poverty are among individuals, but single-parent households account for almost 75 percent of all poor families.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Netherlands	18,584	20,443	21,256	24,009	28,154
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Belgium	18,620	21,653	22,417	25,744	28,790

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Netherlands

Lowest 10%	2.8
Lowest 20%	7.3
Second 20%	12.7
Third 20%	17.2
Fourth 20%	22.8
Highest 20%	40.1
Highest 10%	25.1

Survey year: 1994

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

WORKING CONDITIONS

In 1999, the Dutch labor force numbered 7.13 million. Of this total, 4.02 million were men and 3.11 million were women. Full-time workers numbered 4.12 million, while part-time employees numbered 3.01 million. The large number of part-time workers reflects the growth of the service sector as many jobs in this segment of the economy are part-time. This is especially true of retail workers. Of the total number of employees, 805,000 had seasonal or temporary jobs. The nation had an unemployment rate of 3.5 percent in 1999. However, this figure does not truly represent those out of work in the kingdom, since an estimated 50,000 to 100,000 former or potential workers have simply dropped out of the labor force and decided to rely on the Netherlands' generous social benefits rather than try to find employment.

Dutch workers have the constitutional right to join unions. This includes all workers, even members of the military, police, and civil service. Although only about 28 percent of the workforce are active members of unions, collective bargaining agreements cover 75 percent of workers. Currently, union membership among professional workers is expanding. Organized strikes are rare in the country, and labor relations are generally regarded as harmonious. Discrimination against union members is illegal. Several major unions are presently undertaking widespread efforts to reduce the national work week to 36 hours.

Unions and private employers negotiate work contracts, known as social partnerships, which establish wage levels and benefits for workers and production targets for the companies. These contracts are renegotiated in the fall of every year and cover all workers, even those who do not belong to the union. Worker relations and union issues are

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Netherlands	17	7	7	2	13	8	46
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Belgium	17	6	8	3	1	7	57

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

overseen by the national Social and Economic Council which also advises the government on labor matters. As in many other nations, there are disparities between male and female workers in terms of hiring, salary, and promotions. Although gender discrimination is forbidden by law, women continue to earn less than their male counterparts in similar occupations. In 1999, women on average made only about 75 percent of what men earned in equal jobs.

Child labor is forbidden by law, but each year there are minor violations, especially around the Christmas holidays when children are often employed for holiday-related work. The minimum age for a person to begin work is 16 years old. But at 16, people may work only 8 hours per week. Anyone under the age of 18 may not work at night or work overtime. They are also prevented from working in hazardous occupations. Full-time employment for those 18 years old or younger is dependent upon their completion of 10 years of mandatory education. All employees must be given a 30-minute break after they complete 4.5 hours of work.

The nation's minimum wage can be changed every 6 months to adjust for inflation. However, only about 3 percent of workers earn the minimum wage, since most workers are covered by union-employer contracts. The minimum wage is US$1,172 per month. Those employees who earn minimum wage receive social security benefits and medical insurance which is paid for by the employer. These costs work out to approximately US$3,750 per worker. Employees under the age of 23 receive a percentage of the national minimum wage. This percentage ranges from 34.5 percent of the adult minimum wage for workers who are 16 years old to 85 percent of the wage for workers who are 22 years old. Labor costs in the kingdom have risen slower than inflation. In 1999 average wages rose by 2.5 percent which was only slightly higher than the inflation rate of 2.1 percent. In addition, advances in productivity offset wage increases as Dutch workers produced more goods per hour than they had the year before. This helped businesses maintain their profits and prevented an acceleration of inflation.

Under the law, the national work week is 40 hours. However, social partnership contracts have reduced the average work week for most employees to 37.5 hours per week. In addition, an increasing number of employees work non-traditional schedules. Telecommuting (working from home, using a computer or other equipment) is growing in popularity. Worker safety and working conditions are overseen by the Labor Commission. Under Dutch law, employees may refuse to work in hazardous occupations if they feel their safety is in jeopardy.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

300 B.C. Germanic and Celtic tribes settle in the region that is now the Netherlands.

1018. Dirk III, Count of Holland, is the first to use the name Holland in his title.

1205. Amsterdam is founded.

1323. Holland gains control of Zeeland from Flanders.

1428. Holland is conquered by the Burgundians of France.

1477. The Hapsburgs gain control of Holland.

1515. Charles I incorporates Holland into the Holy Roman Empire.

1555–79. Charles I turns Holland over to his son Phillip II, King of Spain. The Dutch rise in revolt against the Catholic Spanish as Protestantism spreads throughout the region.

1581. The next 200 years is considered to be the "Golden Age" of Holland as trade flourishes and the country becomes one of the most prosperous and wealthy nations in the world. This prosperity is based on the nation's merchant fleet which transports goods around the globe.

1602. The Dutch East India Company is founded to expand trade with India and Asia. An early stock market is established.

1609. A bank is established in Amsterdam to exchange currency and to provide a safe place to deposit money.

1621. The Dutch West India Company is established to trade with North and South America. The nation again goes to war with Spain (1621–48).

1625. New Amsterdam is founded on Manhattan by the Dutch West India Company.

1648. Trade increasingly shifts away from Antwerp and Ghent to Amsterdam.

1795. The Netherlands is conquered by the French. The French establish the Batavian Republic and initiate a period of governmental and economic reforms.

1806. Louis Bonaparte is made king of Holland by his brother Napoleon Bonaparte.

1806–13. Napoleon attempts to make Holland the central economic power of the "Continental System" which was designed to cut off trade with Great Britain.

1814. After liberation from the French, the country becomes the Kingdom of the Netherlands under King William I. Under William a number of economic reforms are enacted, including a reorganization of the nation's international trade companies.

1815. Dutch troops help defeat Napoleon at the Battle of Waterloo. Belgium is made part of the Netherlands by the Treaty of Versailles. The Dutch attempt to encourage industrialization in Belgium.

1831. Following a revolt, Belgium is granted independence over a 10-year period.

1848. After liberal revolutions that sweep across Europe, the constitution is revised.

1849–90. The reign of William III. During this period, the modern system of political parties is established. Also during William's reign, revelations about harsh treatment of natives lead to reforms in the kingdom's East Indies colonies. Revolts in these colonies drain the national treasury and lead to questions over the economic value of the territories.

1870. Widespread industrialization begins in the Netherlands, much later than in the rest of Europe.

1914–18. The Dutch remain neutral during World War I. The government acts to maintain the nation's economy during the war in the face of naval blockades by both Great Britain and Germany.

1920. KLM Royal Dutch Airlines begins regular air service between Amsterdam and London.

1930s. The economy of the Netherlands is damaged by the Great Depression.

1939–45. When World War II breaks out, the Netherlands tries to maintain its neutrality but it is invaded by Germany in 1940. The Dutch colonies in Asia are conquered by the Japanese. The Allies liberate the kingdom and its colonies at the end of the war in 1945. However, after liberation the colonies in Indonesia begin a revolt and are granted independence in 1949.

1944. The Netherlands joins a customs convention with Belgium and Luxembourg. This association will evolve into the Benelux Economic Union in 1958.

1949. The kingdom is one of the founding members of NATO.

1952. The Netherlands joins the European Coal and Steel Community.

1957. The country becomes one of the founding members of the European Community. Disastrous flooding leads to the development of a comprehensive plan to control waterways and prevent future flooding.

1974. The last coal mines in the south of the kingdom close.

1980. The global recession, caused by the oil crisis of 1979, leads to a collapse of the housing market. Queen Juliana abdicates in favor of her daughter Queen Beatrix (the present monarch).

1982. The nation undergoes a severe economic recession.

1993. The Netherlands begins a period of dramatic economic growth which lasts into the next century.

1999. The Netherlands joins EMU.

FUTURE TRENDS

The most important event for the Dutch economy in the 21st century is the introduction of the euro and the subsequent discontinuation of the use of the guilder in 2002. With EMU, the Dutch will gain a number of advantages, including even lower transaction costs for importing and exporting goods with its EU partners. However, EMU will also mean that the Dutch have less control over their monetary policy, since a new European Central Bank will control most aspects of policy surrounding the euro. This might be problematic for the Dutch since the government has traditionally used monetary policy to help trade. EMU will probably mean that the Dutch will have to make a stronger effort to control inflation. This could potentially slow down the economy's rapid growth.

One potential domestic problem for the Dutch economy is that prosperity across the nation is not uniform.

The northern regions tend to be less affluent and have less industry than the southern and western regions. In light of this problem, the government has initiated a variety of programs to attract new business to the less-prosperous regions. However, these programs have not had a major impact on the regions' economy yet.

The kingdom's abundant natural gas supply and its strong agricultural sector will help the nation do well even in case of an economic recession among the EU nations. Although the Dutch economy is dependent on foreign trade, exports of energy supplies and foodstuffs tend to remain strong even during economic downturns. In addition, the presence of a number of large, multinational firms in the country means that foreign trade is likely to continue to expand as these corporations persist in opening new markets for Dutch goods and services and provide access to new or less expensive products and services for Dutch consumers.

The expanding trade between the United States and the Netherlands also bodes well for the future of the Dutch economy. The United States remains the largest single market for products and services in the world. Because of their volume of trade with the EU and the United States, the Dutch have access to both of the globe's main consumer markets. Dutch trade with Asia continues to lag, however, and efforts to improve exports to the region have not been successful because of the competitive nature of the market and the area's economic slowdown in the late 1990s.

DEPENDENCIES

The Netherlands has no territories or colonies.

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—Tom Lansford

NORWAY

Kingdom of Norway
Kongeriket Norge

CAPITAL: Oslo.

MONETARY UNIT: Norwegian krone (NOK; also known as Kr). One krone equals 100 øre. There are coins of 1, 5, 10, and 20 krone, and 50 øre, and notes of 50, 100, 200, 500, and 1,000 krone.

CHIEF EXPORTS: Petroleum and petroleum products, natural gas, raw materials, metals, chemicals, ships, fish.

CHIEF IMPORTS: Machinery and equipment, automobiles, chemicals, metals, foodstuffs.

GROSS DOMESTIC PRODUCT: US$111.3 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$47.3 billion (f.o.b., 1999 est.). **Imports:** US$38.6 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Norway is situated in the western and northern parts of the Scandinavian Peninsula in northern Europe. It is bordered on the north by the Barents Sea (an arm of the Arctic Ocean), on the northeast by Finland and Russia, on the east by Sweden, on the south by Skagerrak Strait and the North Sea, and on the west by the Norwegian Sea. The Norwegian coastline extends for about 2,740 kilometers (1,700 miles) and with all its deeply cut fjords and islands it totals about 21,930 kilometers (13,620 miles) in length. These islands form an internal waterway protected from the ocean, and Norway's name, meaning "northern way," reflects the importance of that route for linking the country's large number of small isolated fjord and valley settlements separated by icy rugged mountains. Norway has a land area of 324,220 square kilometers (125,182 square miles), making it slightly larger than New Mexico. Located in the south, Oslo is Norway's capital and largest city; Bergen is the cultural center of western Norway and the second-largest city with a population of 225,439. Other important urban centers include Trondheim and Stavanger.

POPULATION. The population of Norway was estimated at 4,481,162 in 2000; in 1998 it was 4,419,955. Due to its far northern location and mountainous landscape, the country has the lowest population density in continental Europe, with only 11 persons per square kilometer (28.5 per square mile). However, the population is very unevenly distributed across the country, with over half concentrated in the southeast, in and around the capital of Oslo. In contrast, the northernmost Finnmark and other remote districts have very small populations. The migration from the countryside and the increasing urbanization of the population, despite heavy regional governmental spending, have become a source of concern in Norway in recent years. More than three-quarters of the population live within about 16 kilometers (about 10 miles) of the sea, and some 74 percent live in urban areas.

The population of Norway is growing very slowly, with an annual rate of increase of only 0.44 percent in 1998. Norway's life expectancy was among the highest in the world in that year: 79 years for all—82 years for women and 76 years for men, up from 76 years for women and 71 for men in 1965. Like much of Europe, the population is aging. One-third of the people were aged under 20 in 1971, but by 1999 the number had fallen to just over a quarter while the percentage over the age of 70 increased from 8.4 percent to 11.6 percent. In 1999, the population grew by 0.7 percent, the biggest population increase since the early 1950s. This was, however, due to a large net **immigration** of around 19,000 people, mostly Danes and Swedes, who filled in gaps in the employment market for medical professions and others. The fertility rate is currently around 1.8 children per woman, up from a low of 1.7 in 1985 but still far below the replacement level of 2.1. (Replacement levels help determine population growth. If one couple has 2 children, this is enough to "replace" themselves. So if a replacement level for a society is significantly above or below 2, then the society may be

growing or shrinking in overall population.) In line with the increase in the overall population size, the **labor force** has also expanded. In 1999, it was 2.33 million, compared to 2.19 million in 1995.

Much like the other Nordic countries (Denmark, Finland, Iceland, and Sweden), the proportion of foreign citizens living in Norway is still relatively low by western European standards. The population is ethnically homogenous, and most Norwegians are Scandinavians of Germanic descent. Almost all Norwegians are fluent in English, and most of them have some cultural and family ties to the United States. Apart from about 20,000 Saami and some people of Finnish origin in the north, the country has no other significant minority groups, although there are also small numbers of Danes, Swedes, Britons, Pakistanis, Americans, Iranians, and former Yugoslavs.

At the beginning of 1999, there were 178,686 foreign citizens living in Norway (or around 4 percent of the total population), about one-third of these having come from the other Nordic states. One-sixth of all for-

eign citizens were registered as refugees, the largest group of them coming from Bosnia and Herzegovina's civil war in 1991–95. There were slightly more than 67,000 persons who had arrived initially with refugee status, but nearly half of them opted for Norwegian citizenship. Instances of racially and ethnically motivated violence have been growing in number in recent years despite the relatively low numbers of foreigners. Religious groups in Norway include Evangelical Lutherans, at 86 percent (state church); other Protestants and Roman Catholics, 3 percent; no religion, 10 percent; and others, 1 percent, all in 1997.

OVERVIEW OF ECONOMY

Given the country's size, Norway's economy is small by western European standards but is nevertheless considered among the healthiest in the world, largely due to its positive trade balance and lack of **foreign debt**. The country is widely hailed as an exemplary and prosperous combination of a social **welfare state**, dynamic free market activity, and active government intervention. Its **gross domestic product (GDP) per capita** is among the world's highest, at US$28,100 in 1999, or about 18 percent higher than the western European average, ranking second only to tiny Luxembourg's in western Europe.

The country is rich in natural resources, including offshore oil and natural gas fields in the North Sea, abundant hydropower in the mountains, fish, forests, and minerals. It is a major exporter of oil and natural gas, other raw materials, and semi-processed goods—all of which make it highly dependent on international oil and gas prices for its revenues. In 2000, only Saudi Arabia exported more crude oil than Norway. But other major industries are prospering too, such as information technologies, fishing, pulp and paper products, and shipbuilding. The latter industry is under increasingly heavy competition from overseas (mostly Asian) shipyards, and fishing is heavily subsidized by the state. Norway's overall trade balance is characterized by an unusually large traditional surplus (of over US$18 billion in 1999–2000), it has no foreign debt, and is a major international net creditor and donor to the developing countries. Total **foreign direct investment** in Norway was estimated at about US$22.7 billion in 1998, according to the central bank of the country. The United States is Norway's leading foreign investor, followed by neighboring Sweden and other European Union (EU) members.

For quite some time, Norway was preparing for EU membership, but, contrary to its Nordic neighbors Sweden and Denmark, Norway's citizens decisively opted to stay out of the EU in 2 referenda held in 1972 and 1994. In doing so, Norway apparently hopes to preserve in relative isolation its unique economic advantages and high living standards. Norway is still linked to the EU, however, through the European Economic Area (EEA) agreement that granted favorable access for most Norwegian non-agricultural products to the EU markets. Norway is improving its access to the European markets also by adopting internally most of the EU regulations. But its major focus at the turn of the century is rather on curbing extensive welfare spending and planning for the time when petroleum and natural gas reserves will be depleted. This is expected in less than 20 years for oil and less than 90 years for natural gas reserves at the present level of extraction and if no new fields are located.

POLITICS, GOVERNMENT, AND TAXATION

Norway, like its Nordic neighbors Sweden and Denmark, has preserved its traditional political system of a constitutional hereditary monarchy. The parliament (Storting) is elected through a proportional system every 4 years in September (the most recent parliamentary elections occurred in 2001). In recent years, there have been 3 major factions of the 165-seat Storting. First is the Labor Party, historically the largest local party, with a social democratic and internationalist character, supported by the Socialist Left Party (the 2 groups have a total 74 seats). Then there are the 3 centrist parties: the Christian Democrats, the Center Party, and the Liberals (with a total of 42 seats). Finally there are 2 right-wing parties: the Conservative Party and the Progress Party (with a total of 48 seats). The centrist parties—historically associated with particular, often contradictory, group interests and constituencies (such as the remote rural regions)—have acquired greater political clout. But Norwegian parliamentary politics has a strong tradition for consensus and continuity, and minority governments usually seek and strike legislative agreements with several different opposition parties regarding the specific political issues at stake. Because of the conflicting interests their members and supporters represent, center-right parties have generally found cooperation difficult, both in government and in opposition.

The prime minister, the head of government, is selected by the majority in the parliament and is only formally appointed by the king. The prime minister appoints his cabinet, composed of 18 ministers. The most influential ministerial offices are traditionally those for finance, industry, shipping, petroleum and energy, and foreign affairs. The administrative structure of the ministries changes frequently from one administration to the next. The fact that the Labor government of Jens Stoltenberg, the ambitious young prime minister chosen in 2000, does not have a clear parliamentary majority has contributed to its centrist political course along the lines of most previous Norwegian administrations. The son of a well-known political family, Stoltenberg is a former oil and energy minister expected to accelerate the **privatization** of state-held offshore oil and gas concerns.

In a November 1994 referendum, Norwegians decisively rejected (for the second time) EU membership simply because the net benefit of joining appeared to the majority dubious, considering Norway's petroleum wealth and strong ties with the EU through the EEA. The majority in 1994 was of the opinion that the country had more to lose than to win from a full EU membership that would, in their view, jeopardize the heavy **subsidies** for the Norwegian fishing industry, agriculture, rural regions, and welfare system. EU membership, however, is attractive for the Labor government in the long term, especially given the depletion of oil and gas fields, and the membership issue may be reviewed after the September 2001 election, particularly if the party stays in power. The population remains dramatically split, as is the Labor party itself, with the national leadership more in favor of joining the EU than the rank-and-file party members and the regional bodies. Norway has already had some negative political experiences arising from not being an EU member. As a member of NATO (a military alliance of several western European countries along with the United States and Canada), it has voiced concerns after the EU's decision taken at the summit in Nice, France, in 2000, to develop the much-debated European rapid reaction force. Norway requested to be consulted on equal terms with the rest of the EU members on the issue, fearing that it might not be properly integrated into the negotiations and troop deployment process and alienated from decision-making regarding the European force.

Norway's economy remains an essentially mixed one, with economic policies and, particularly, income distribution patterns strongly influenced by government intervention. There is still a very significant state ownership component in petroleum, telecommunications, and commercial banking. The state extensively subsidizes agriculture, fishing, some large manufacturing companies, and remote northern and mountainous regions with scarce resources. An extensive government welfare system redistributing incomes through taxes remains at the core of the Norwegian economic model. The government also heavily stresses curbing unemployment and maintaining economic opportunities in remote and undeveloped areas. The **private sector** dominates in industries such as shipping, services outside the banking sector, and small to medium-scale manufacturing facilities. In 1999, the contribution of the private sector in GDP was one of the lowest in western Europe, at just 48.5 percent, compared to an average of 56.6 percent. There is indeed some political discussion about the future reduction of **public sector** ownership, and a government privatization program has been set up.

The most significant privatization deals in Norway by 2000 were probably the sale of 21 percent of the stock of the state-owned Telenor telecommunications firm, the sale of 91 percent of the **equity** of the state-controlled Christiania Bank (Kreditkassen) to Swedish-Finnish banking operation MeritaNordbanken, and the planned partial privatization of the government-owned oil giant Statoil. The Labor Party's plan involves the privatization of about one-third of Statoil, about 10 percent via the stock markets and about 20 percent through alliances with foreign companies, most likely with large western European utilities like Ruhrgas of Germany or Gaz de France. Norway may also offer foreign investors over half of the State Direct Financial Interest fields contributing for some 40 percent of the offshore petroleum production in the country. In 1999, Statoil was roughly estimated to be worth about 120 billion Norwegian kroner but it may be more highly valued in the future if international oil prices remain higher than the level they were at in 1999. Norsk Hydro, the second large oil company in which the government also has a controlling share, is reckoned to be worth considerably less than Statoil. The government, however, seems determined to keep the most profitable oil fields under its control.

Although a social welfare economy, Norway's tax rates are generally lower than the EU average. Companies and their branches are subject to both income and capital tax. **Income tax** of 28 percent applies to all forms of income of the corporate bodies and all other entities liable to taxation. The **value-added tax** (VAT) was increased to a 24 percent rate as of 1 January 2001, and an 11 percent dividend tax for shareholders may be introduced in 2002 to support generous domestic welfare spending. Norway has no foreign debt and is a major net external creditor.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The quality of the Norwegian transportation **infrastructure** is quite good, although its high mountains and deeply cut valleys and fjords combined with a severe northern climate make inland transportation difficult during the winter months. Railroads are located mostly in the south while most of the northern regions are accessible only by ship, car, or aircraft. The importance the government attaches to regional issues and to investments in transport and communications is significant since many tunnels, bridges, and ferryboat services are indispensable in many parts of the country.

In 1999, the road network totaled 90,741 kilometers (57,000 miles), the majority being concentrated in the more populated areas, especially in and around Oslo. The 4,023 kilometer-long railroad system is also concentrated in the south of the country, connecting Oslo with the larger towns, notably Bergen and Stavanger, and leading to neighboring Sweden. A high-speed railroad connects the new international airport at Gardemoen with down-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Norway	588	915	579	160.1	474	50.0	373.4	754.15	2,000
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Sweden	445	932	531	221.4	464	50.9	361.4	581.47	3,666

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

town Oslo. The state railroad company, Norges Statsbaner, also provides local commuter services in the urbanized areas of Oslo, Bergen, and Trondheim.

Air transport is very popular and there are 58 airports in the country, 22 of which are the properties of the state. In the 1990s, sizeable public investment was invested in modernizing the larger airports, and in 1998 a new international airport opened at Gardemoen, 50 kilometers north of the capital. The new air terminal, conceived as a showcase for the country's new oil prosperity, had severe financial problems in its first year of service and the plans for a second terminal have been suspended for the time being. The government (along with Sweden and Denmark) holds a 29 percent stake in the pan-Scandinavian air company Scandinavian Airline Systems (SAS). SAS is partnering with, among others, Lufthansa (Germany), New Zealand Air, and United Airlines (U.S.) to form the Star Alliance, competing successfully in the global aviation markets. There are also a number of smaller private Norwegian airlines, the best known of which is the Braathens, serving both domestic and international destinations.

Norway relies on shipping as a vital component of its transportation system. Ports are securely built, and there are many ice-free harbors on the coastline. The west and north coasts from Bergen to the Russian border form an important international shipping route for passengers and cargo from the Atlantic into the Arctic Ocean, and many ferry lines carry automobiles from Norway to Denmark, Germany, the United Kingdom, and the Netherlands. Dependence on local ferryboat services remains very significant, including in the Oslo and Bergen urban areas.

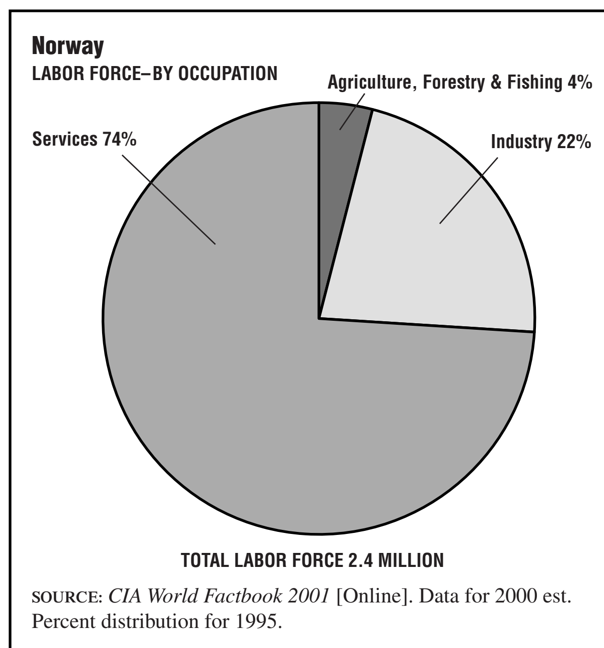
Norway is still one of the foremost shipping nations in the world, and it offers extensive shipping and shipbuilding services, notably ship owning, brokerage, and shipyards. Norwegian merchant shipping companies own some 10 percent of the world's total fleet, and the fleet of offshore service ships is the world's second-largest in tonnage due mostly to the country's huge oil and gas industry. Norway is especially influential in the sphere of specialized and complex vessels, as Norwegian companies, among other things, control about 25 percent of the world's passenger cruise boats and close to 20 percent of all the world's chemical tankers and gas carriers.

Norway's energy production, as well as its usage per capita, ranks steadily among the highest in the world. Industry (especially the very energy-intensive aluminum and ferro-alloy industries) consumes 66 percent of all energy. Norway is one of the largest oil-producing countries in the world, yet hydropower accounts for almost all electricity generation. About 60 percent of all exploitable water resources have already been utilized. Other renewable energy sources in the country are rather limited, and there is a single atomic power plant which has not yet been used for large-scale electricity generation. The domestic energy market was **deregulated** in 1991, boosting the already significant competition for large power consumers. Power is now sold by the utilities directly to the large-scale users or is instead traded on the NordPool, a fully developed international electricity market, covering Norway, Sweden, and Finland, the first one of its kind in Europe. Domestic electricity production, however, has been insufficient to meet rising demand, forcing Norway to import energy, mostly from Denmark. Over the 1990s, Norway planned to construct 2 new gas power plants in the west, but the debate over the increased pollution from these literally brought down one of the previous governments. The cabinet in office in 2001 supports the plans but still has to offset strong public opposition. It is also considering other possibilities, however, such as recycled and renewable energy sources, and plans to sharply curb electricity consumption.

Norway's telecommunications infrastructure is one of the most developed in the world, with a complete digitization of the telephone network. The number of fast Internet connections, such as Integrated Services Digital Network (ISDN) subscriptions, is rising very rapidly, reaching around 460,000 in 1999. Norway is a world leader in the development and use of mobile phone

technologies. In 1999, the number of mobile phone lines surpassed that of the fixed ones, the former amounting to 2.6 million compared with 2.3 million for the latter. This rapid development comes partly from the country's **liberalized** telecommunications market, which has been open to foreign competition since 1998. Despite this competition, the state-owned telecommunications group, Telenor, has managed to maintain a large share of the market. Attempts to merge the group with its Swedish counterpart, Telia, were aborted in late 1999, forcing the government to consider alternative plans. In 2000, the Norwegian government said it would privatize between 15 percent and 25 percent of Telenor in 2001, reducing its holding to 51 percent of the company.

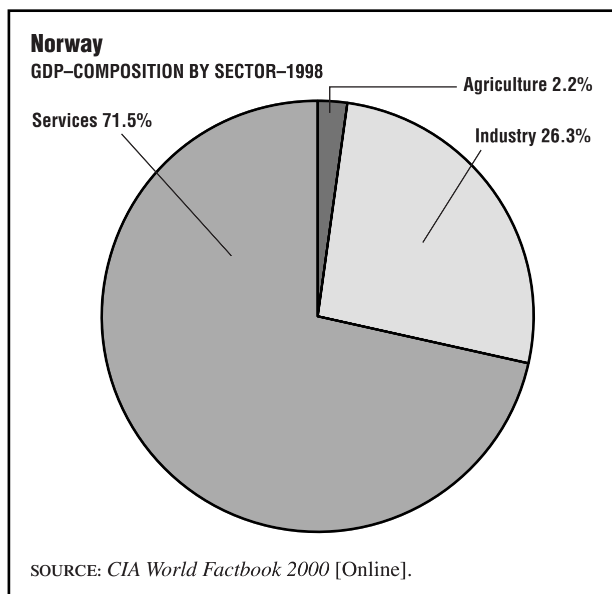
Electronic commerce and use of the Internet are also on the rise and by 2000, 63 percent of the Norwegians had access to the Internet and about 340,000 customers bought goods and services online every month.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 1995.

ECONOMIC SECTORS

Like most of its Western European counterparts, the Norwegian economy has undergone significant structural changes over the last decades of the 20th century. It has become increasingly services-oriented, while the once leading sectors of agriculture, forestry, fishing, and manufacturing have gradually declined in terms of contribution to GDP. In 1999, agriculture, forestry and fishing—although still employing 4 percent of the labor force—accounted for 2.2 percent of GDP in 1998. Industry as a whole accounted for 26.3 percent of GDP while services, including those provided by the government, accounted for 71.5 percent of GDP. This distribution is much like that of other Western European countries, except that the offshore oil and gas sector is much larger in Norway.



SOURCE: *CIA World Factbook 2000* [Online].

In 1995, the labor force was distributed by occupation as follows: services, 74 percent; industry, 22 percent; and agriculture, forestry, and fishing, 4 percent. The capital-intensive offshore oil sector absorbs only 3 percent of the labor force.

AGRICULTURE

Agriculture in Norway accounts for about 2 percent of annual GDP, and only 3 percent of the land is cultivated—which seems natural, given the cold climate, thin soils, and mountainous terrain. Grains are grown only in the south while western Norway has some livestock raising and dairy farming. The leading crops in 1998 were cereals—particularly barley, wheat, and oats (total output of 1.3 million metric tons)—and potatoes (400,320 tons). In 1998, there were 2.5 million sheep, 998,400 cattle, and 768,400 hogs in the country. Norway is still a major fishing nation and is self-sufficient in many agricultural products, but fruits, vegetables, and most grains are all imported. Agriculture and fishing remain heavily protected by the Norwegian government.

INDUSTRY

MINING. Mining was of relatively little importance in Norway before oil and natural gas fields were found in the North Sea and offshore drilling began in the early 1970s. In 2000, this sector accounted for about 13 percent of GDP (compared with a peak of 18.5 percent in 1984), and the

percentage in any year depends mostly on world oil and gas prices. The sector is still largely state-owned, yet as a consequence of **restructuring** in the global oil industry in the late 1990s, the government has announced plans to allow some partial privatization of its assets.

Oil production started on an experimental basis in 1971, and in 1974 the first seabed pipeline was installed to bring crude oil to the United Kingdom. In 1997, annual oil output was 1.15 billion barrels and gas production was 45.3 billion cubic meters (1.6 billion cubic feet). Natural gas is now piped to Germany and Scotland. Norway also has several modern petroleum refineries. With the high world oil prices in late 2000, its external trade account remained very strong. The oil and gas sector will continue to play a leading role in the economy over the next several decades although its prominence will decline gradually with the progressive depletion of the deposits. According to the Norwegian state petroleum directorate, the remaining oil and gas resources were expected to last 19 and 87 years, respectively, from 1998 at that year's rates of extraction.

Other raw products mined and processed in Norway include iron ore, lead concentrates, titanium, iron pyrites, coal, zinc, and copper. Major iron mines are located in the far north at Sydvaranger, near the Russian border, and a large integrated iron and steel plant is situated at Mo i Rana, near the Arctic Circle. All the coal is mined in the Svalbard (Spitzbergen) archipelago beyond the Arctic Circle where a coal mining concession is also given to neighboring Russia.

MANUFACTURING. Manufacturing accounts for 1 percent of annual GDP. The electrochemical and electrometallurgical industries form the leading manufacturing sector. They need an abundance of inexpensive electrical power, which Norway can easily supply. Although all raw materials for the aluminum industry must be imported, Norway produces about 4 percent of the world's output of refined aluminum. It is also a major ferroalloy supplier.

Norway has traditionally been a major shipbuilding nation, but its share of the world's newly built tonnage was less than 1 percent in the mid-1980s. Shipbuilding declined dramatically in the late 1970s as the industry encountered financial problems and Asian competitors carved out larger market shares worldwide. Many shipyards have since shifted capacity to the manufacture of equipment for the oil and gas offshore drilling industries and to transportation. Other manufactures include confections and other food products, chemicals, pulp and paper, and machinery.

SERVICES

FINANCE. The Norges Bank (the central bank) is the executive body for monetary, credit, and exchange policies. It is also the **bank of issue**. It is a joint-stock company with the government holding all the shares. Major players in the Norwegian banking sector include some large full-service banks active in the wholesale and **retail** sectors and many small private retail institutions. Commercial banks are influential and have close relationships with trade and industry, but merchant banks have not reached the prominent position they enjoy elsewhere in Europe. There is also a wide range of savings banks with a long tradition, serving a substantial part of the local credit market. The Norwegian Post Office also keeps its own banking network. There are several specialized smaller banks serving the fisheries, agriculture, shipping, industry, house building, and export trades. The government participates in all of them to various degrees. Banking in Norway is very modern, automated, and computerized. Banking activities are regulated by several pieces of legislation such as the Commercial Banking Act, the Savings Bank Act, and the Act on Financing and Finance Institutions. The liberalization of the sector in the 1990s allowed foreign banks to operate in the country.

TOURISM. Tourism accounts for around 15 percent of total service revenues. In 1998, there were 1,176 hotels with a total capacity of over 137,000 beds, and nearly 1,000 registered campsites existed. In 1998, foreigners accounted for 32 percent of hotel guest nights, much less than in previous years. The country's main attractions are its picturesque coastline and its fjords, and it boasts a number of well-known ski resorts (Norway has hosted winter Olympic games and other major international sporting events).

RETAIL. Mainly as a result of Norway's relatively small domestic market, retailers have been unable to develop into major international players and have remained small even by the modest Nordic standards. In retail, the best-known companies include Rimi, Rema 1000, Kiwi, and ICA. Direct marketing is gaining some ground, and **e-commerce** is particularly robust as almost two-thirds of the population had access to personal computers in 2000.

INTERNATIONAL TRADE

Norway's economy is comparatively small and highly dependent on international trade and oil and gas prices, yet it seems less open than the western European average. In 1998, its exports and imports of goods and services accounted for only 38.9 percent and 33 percent of GDP, respectively. Chief export partners include the EU countries with 77 percent of exports (United Kingdom, 17 percent; Germany, 12 percent; Netherlands, 10 percent; Sweden, 10 percent; France, 8 percent), and the United States at 7 percent. Imports were shipped mostly from the EU with 69 percent (Sweden, 15 percent; Germany, 14 percent; the UK, 10 percent; Denmark, 7 percent), the United States at

Trade (expressed in billions of US$): Norway

	Exports	Imports
1975	7.232	9.705
1980	18.562	16.926
1985	19.985	15.556
1990	34.047	27.231
1995	41.992	32.968
1998	39.645	36.193

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

7 percent, and Japan with 4 percent (1998). Norway has a strongly positive balance of trade , and its surplus increased in 1999 and 2000 due to the increase in the volume of oil exports and the higher average international oil prices. Exports in 1999 stood at US$47.3 billion while imports stood at US$38.6 billion.

Energy and raw and semi-processed goods (oil, metals, and chemicals) still account for some 80 percent of Norwegian exports. The rest consists of exports of machinery and equipment, and various manufactured goods. In 1998, petroleum accounted for some 40 percent of exports, followed by metals and metal products, chemicals, and foodstuffs (mostly fish and fish products). The bulk of imports (55 percent) consisted of machinery, automobiles, equipment, and various manufactured items, followed by industrial raw materials, notably ores for the aluminum industry (40 percent) and food and beverages (6 percent).

MONEY

Norway's financial and banking industries are following the general consolidation trend characterizing the global and the Nordic financial sector in the 1990s, yet with greater reluctance than elsewhere, largely due to its independent, somewhat insular, mindset that has kept Norway outside the EU for so long. In the late 1990s, for example, the centrist coalition government did all it could to prevent the sale of the second-largest Norwegian commercial bank, Christiania Kreditkassen, to the Scandinavian (Finnish-Swedish) conglomerate MeritaNordbanken. The government preferred a domestic Norwegian solution to the problem, potentially involving the country's largest bank, Den Norske Bank, the majority of which is state-owned.

Exchange rates: Norway

Norwegian kroner per US$1	
Jan 2001	8.7784
2000	8.8018
1999	7.7992
1998	7.5451
1997	7.0734
1996	6.4498

SOURCE: CIA *World Factbook 2001* [ONLINE].

Norway's financial system is still afflicted by a banking crisis of the early 1990s. The origin of that crisis dated back to 1984, when the dropping of lending limitations combined with very low interest rates led to a vast expansion of debt among Norwegian households and businesses. Households were not able to meet their repayments, and bankruptcies among companies increased when **macroeconomic** policies were tightened in response to rising **inflation**. In 1990 Christiania Kreditkassen and the third-largest commercial bank, Fokus Bank, were almost brought to insolvency. In 1991, to prevent a confidence crisis, the government created a bank insurance fund that provided resources for the country's largest commercial banks. As a result, the state became a major shareholder in these banks.

The Oslo Stock Exchange (OSE) is still very small by international standards, with 215 listed companies and an annual **turnover** of US$57.1 billion (1999), but it performs well mostly due to the interest in information technology and high-tech stocks in recent years. Yet the largest companies in terms of **market capitalization** still originate from the "old economy": Norsk Hydro (oil), Orkla (consumer products), and Den Norske Bank and Christiania Kreditkassen (banking). Foreign investors held 31 percent of the equity listed on the OSE in 1999, and their share has been relatively constant since 1994. Equity (stock) ownership has become popular in Norwegian society, although to a lesser degree than it is in the United States, with 7 percent of the population holding shares. The OSE is a partner in the Norex alliance, consisting of stock exchanges from Denmark and Sweden, and these 3 indexes—plus Iceland's—plan to begin trading on a new electronic system in 2001.

Government finances and external trade balance are both in surplus, and Norwegian interest rates are higher than the euro area rates. The Norwegian krone's appreciation against the euro throughout 1999 and 2000 was largely due to these factors.

POVERTY AND WEALTH

Norwegians enjoy a healthy economy with strong **socialist** traditions in equitable income distribution and generous welfare spending. Living standards are high, but so is the cost of living. Norway's **Gini index** score (which rates social equality in a country, with a score of 0 indicating perfect equality and a score of 100 indicating per-

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Norway	19,022	23,595	27,113	28,840	36,806
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Sweden	21,157	22,283	24,168	26,397	27,705

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Norway

Lowest 10%	4.1
Lowest 20%	9.7
Second 20%	14.3
Third 20%	17.9
Fourth 20%	22.2
Highest 20%	35.8
Highest 10%	21.8

Survey year: 1995

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

fect inequality) in 1995 was 25.8, far below those of other affluent economies such as the United States (40.8), the United Kingdom (36.1), and Switzerland (33.1), which means that there are few very large private fortunes and virtually no blatant poverty in the country. The unemployment rate was estimated at 2.9 percent in 1999, and consumer price inflation was 2.3 percent in 1998, both much lower than the western European averages. The extensive welfare system helps keep public expenditures steady at more than one-half of GDP.

Despite high per capita income and generous welfare benefits, many Norwegians worry about the time when oil and gas begin to run out in the next 2 decades. As in other Nordic countries, many young and educated Norwegians consider moving abroad partly in pursuit of greater personal challenge.

WORKING CONDITIONS

The Norwegian economy is characterized by strong socialist and labor union traditions. The annual wage growth averaged 6.3 percent in 1998, and manufacturing workers' hourly wages were 30–40 percent higher than in the United States. Safety at work and environmental protection are among the most advanced in the world, and the average working time is 37.5 hours per week. Senior executives in Norway, however, are paid considerably less than their U.S. colleagues.

In 1999, unemployment dropped to 2.9 percent (from 4.1 percent in 1997) due to the continuing economic growth. While skilled and semi-skilled labor has been traditionally available, strong economic expansion since 1992 has led to shortages of some categories of professionals (mostly medical doctors and nurses) and construction workers. The government has a practice of imposing mandatory wage mediation in the event strikes threaten to disrupt the economy seriously. In 1998, for example, the cabinet ordered striking air traffic controllers' and health workers' unions to return their members to work.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

9TH CENTURY. King Harald I the Fairhair reigns over the first Norwegian kingdom, which is later disbanded into small feudal states. Vikings begin exploration and invasions all over Europe, settling in the late 9th century in Ireland, Britain, Iceland, the Orkney Islands, the Faeroe Islands, and the Shetland Islands.

985. King Eric the Red leads an expedition to Greenland. His son, Leif Ericson, is among the first Europeans

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Norway	16	7	11	5	4	6	51
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Sweden	17	5	12	4	14	6	41

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

to explore North America. Other Vikings settle in France, becoming ancestors of the Normans.

995. King Olaf I, a scion of Harald I, takes to Christianizing Norway and is later canonized as Norway's patron saint.

1035. Olaf's son, Magnus I, returns from Russia to the throne and unites Denmark and Norway. For 3 centuries, native kings rule Norway, which begins to emerge as a nation, enjoying a comparative prosperity due to its merchant fleet.

1397. Norway becomes a neglected part of Denmark when Denmark, Sweden, and Norway are put into a single administrative unit. Prosperity and culture decline in Norway as the plague decimates the population. For 4 centuries under the Danish rule the country remains largely stagnant.

1799–1815. Norwegian nationalism starts to rise. In 1814 Denmark cedes Norway to Sweden. The Norwegians declare independence, but European powers force them to accept Swedish rule. They are allowed in return to retain their new constitution and have autonomy with a legislature, army, navy, and customs within their boundaries.

1905. The Norwegians vote for independence from Sweden. The new liberal Norwegian government becomes one of the most advanced in Europe in the area of unemployment, insurance benefits, old-age pensions, and liberal laws on divorce and illegitimacy.

1913. Norwegian women are given the right to vote, and the government promotes equality in the workplace and other progressive policies. Women begin to play an important role in politics.

1914. Sweden, Norway, and Denmark agree to stay neutral in World War I.

1935. The Labor Party is elected to office and continues the policies of moderation and political liberalism dominating domestic politics since 1905.

1940. Norway's traditional neutrality notwithstanding, German forces invade the country in World War II, and a resistance movement in the country cooperates with the government-in-exile in London.

1945. The Labor Party takes office (after Germany surrenders) and remains in power for 20 years. Norway develops a social democratic welfare state as the government takes over the planning of the economy, reinforcing positions in international markets, redistributing wealth more equally, and introducing social welfare legislation.

1959. Norway becomes a founding member of the European Free Trade Association (EFTA).

1967. Norway starts a comprehensive social security program.

1970. Norway applies for membership in the European Community (now the EU), but in a referendum in 1972 the voters reject the government's move.

1970s. Oil and gas exploitation in the North Sea fields by a state company begins.

1981. The first woman prime minister, Gro Harlem Brundtland of the Labor party, takes office.

1994. The European Parliament endorses membership for Norway in the EU, but in a referendum, Norwegians reject joining by about 52 percent to about 48 percent, fearing that it would affect farm subsidies and fishing rights.

FUTURE TRENDS

Norway will most likely preserve its healthy economy and high living standards over the next decades, although the EU membership controversy will, no doubt, continue to be a major issue in domestic politics.

Privatization will enter the oil industry as Statoil is expected to be partly privatized in 2001. The Labor government will further sell a part of the State Direct Financial Interest in offshore oil production and will continue to invite major foreign investors to the industry. Gradual liberalization of offshore oil licensing policy will attract smaller foreign companies to the sector. Foreign trade—except in agriculture, fishing, and energy—will gradually become more and more regulated by the EU through the EEA.

Norway is seriously planning for the time when oil and gas will become depleted and is not very likely to experience significant economic disruption and social hardship once this happens. Yet a serious restructuring of the economy is expected to occur, and social welfare spending may be put to some considerable strain. The perspective of losing the oil wealth may also convince the majority of Norwegians to opt for EU membership in the long run.

DEPENDENCIES

Norway has no territories or colonies.

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—Valentin Hadjiyski

POLAND

Republic of Poland
Rzeczpospolita Polska

CAPITAL: Warsaw.

MONETARY UNIT: Polish zloty (Z). One Polish zloty equals 100 groszy. There are coins of 1, 2, 5, 10, 20, and 50 groszy, and 1, 2, and 5 zlotys. There are notes of 10, 20, 50, 100, and 200 zlotys.

CHIEF EXPORTS: Machinery and transport equipment, intermediate manufactured goods, miscellaneous manufactured goods, food and live animals.

CHIEF IMPORTS: Machinery and transport equipment, intermediate manufactured goods, chemicals, miscellaneous manufactured goods.

GROSS DOMESTIC PRODUCT: US$327.5 billion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$28.4 billion (f.o.b., 2000). **Imports:** US$42.7 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in Central Europe, Poland is bordered on the west by Germany, in the north by the Baltic Sea, in the north-east by Russia and Lithuania, in the east by Belarus and Ukraine, and in the south by Slovakia and the Czech Republic. Poland covers a total area of 312,685 square kilometers (120,728 square miles), making it slightly smaller than the state of New Mexico. The capital city, Warsaw, is situated in the center of the country.

POPULATION. The population of Poland was estimated at 38,653,912 in July 2001. In 2001 the birth rate stood at 10.2 per 1,000 and the death rate at 9.98 per 1,000. After a period of uninterrupted growth that began in 1946, the population registered a slight decrease of 0.03 percent in 2001, reflecting a net migration rate of 0.49 people per 1,000. Negative population growth is expected over the next few years, before an upward turn that should see the population reach 39,065,000 in 2015. These projections could change with the arrival of immigrants of Polish descent from central Asian countries such as Kazakhstan, a law having been passed in 2000 to facilitate such **immigration**.

In 1990, Poland's population was primarily of Polish European descent (97.6 percent). Small minority groups included Germans (1.3 percent), Ukrainians (0.6 percent), and Byelorussians (0.5 percent). Prior to World War II (1939–45) the population of Poland was multiethnic, but 5 years of Nazi occupation resulted in heavy loss of life, and it is estimated that more then 6 million Polish citizens—soldiers and civilians combined—were killed. The heaviest losses were suffered by Poland's Jewish population, the vast majority of whom perished in extermination camps. Many citizens of Polish descent also died in concentration camps, labor camps, prisons, or during forced labor. The demographic profile of Poland at the end of World War II demonstrated the effect of the war on population distribution: by 1945, the number of young men and women who could have been expected to produce children was considerably diminished, although a subsequent baby boom partially improved the situation.

In 1999, approximately 19 percent of the total population was aged 14 or younger, while 12 percent were older than 64. The majority of people live in urban areas. Life expectancy for men is 69.1 years, significantly shorter than for women (77.7 years). Thus, while the genders are more or less equal in number between the ages of 14 and 64, among people aged 65 and older women outnumber men. Despite a well-organized health care service, compulsory vaccination programs against major childhood diseases, and public health information, substantial numbers of Poles die prematurely of smoking-related illnesses. Alcohol consumption has decreased in the past decade, with low alcohol beverages preferred to spirits, but the Polish diet favors red meat, dairy products, and

animal fats. Accordingly, Poles are subject to coronary heart disease, diabetes, and certain types of cancer, all of which are thought to relate to the nation's eating habits. In recent years, emphasis has been placed on the development of healthy eating and physical exercise as a preventive measure against such illnesses.

OVERVIEW OF ECONOMY

The main revenue-producing sector of the Polish economy is the service sector, which generated approximately 60 percent of the **gross domestic product** (GDP) in 2000. Industry, much of it connected to the mining of mineral wealth, is next in importance at nearly 37 percent of GDP. Except for the rivers traversing Poland from the mountains in the south to the Baltic Sea in the north, the country's topography is free of any major obstacles to freedom of movement and the country has provided a natural network of east-west trade links for Europe dating back to ancient Roman times. Polish cities benefitted from trade for centuries, though numerous wars and military campaigns repeatedly destroyed the **infrastructure** and depleted the country's periodically accumulated wealth. The last wave of devastation was caused by World War II (1939–45).

Traditionally, Poland has been a large agricultural producer, with the broad, open valleys of the Oder and Vistula rivers providing excellent farmland. However, in recent years, due to a combination of changing farming methods, stiff competition, and environmental hazards such as soil erosion and water pollution, agricultural activity has declined significantly and accounted for only 3.8 percent of GDP in 2000.

In the 1600s, Poland was the main grain supplier in Europe and the country prospered considerably through the grain trade. By the late 1700s, however, the country fell victim to aggressive treaties between its neighbors, Russia, Austria, and Prussia, and ceased to exist as an independent state. The country was divided into thirds, annexed by its neighbors, and absorbed into their territories. Consequently, for 123 years, until the end of World

War I in 1918, Poland was developed within separate economic and political entities. Reconstituted as an independent nation under U.S. President Woodrow Wilson's peace plan in 1918, the country had to deal with the legacy of 3 foreign economic systems and uneven levels of infrastructure.

The worldwide effects of the Great Depression of the 1930s and the devastating consequences of World War II hampered Polish economic growth in the first half of the 20th century. Freed from Nazi occupation by the spring of 1945, the country then fell into the sphere of the Soviet Union's influence. From the late 1940s until 1989, Poland's economy was again controlled by foreign dictate, which poured the country's resources into the creation of a huge industrial complex. Coal mining, steel manufacture, and other capital-intensive enterprises were built to satisfy the needs of the centrally planned system imposed by the Soviet Union on countries of Central and Eastern Europe. The Soviet program deprived other economic sectors of resources, caused environmental pollution, and lowered the quality of life in Poland. The unpopularity of the economic policies led to organized protests by the Solidarity labor movement that began in the summer of 1980 and resulted in the eventual defeat of the pro-Soviet government in 1989. Subsequent negotiations between the authoritarian regime and the democratic opposition brought political and economic change, and the non-democratic state-controlled economy gave way to the free market system.

Widely known as "shock therapy," the economic policy adopted by the newly elected democratic government early in 1990 was directed at balancing the national budget. A number of simultaneously implemented reforms **liberalized** prices and international trade, eliminated political censorship, restored private ownership, and began the **privatization** of state-owned assets. After an initial period of accelerated **inflation** in early 1990, the economy stabilized by the end of 1992. Between 1993 and 2000, Poland experienced a run of robust economic growth, offsetting the effects of economic contraction suffered in the 1980s and the early 1990s.

The **private sector** is now the country's primary job provider and, by 1999, employed 71 percent of the **labor force**, compared with 1990 when state-owned enterprises employed 52.1 percent of workers. However, the 1999 employment total of 16.069 million workers showed a drop of about 2.5 percent from 1990, although the number of self-employed people had grown by 12.8 percent to 5.6 million. Also, the number of farmers increased by about 10 percent, reflecting structural changes in the economy that reduced the labor force engaged in heavy industry and providing employment in some rural areas, particularly in southern and southeastern Poland.

In general, the Polish labor force is relatively well educated and literacy rates are high (99 percent for men and 98 percent for women). Only 15 percent of the total Polish population have had no more than a primary education, and a significant proportion of those are aged 55 and above. Among the 55–64 age group, nearly 19 percent have had a college education. In recent years, the demand for higher education has increased dramatically and about a third of those in their early twenties are enrolled in public or private colleges.

Sustained economic growth has continued despite frequent changes of government since 1989. Though governments have alternated between conservative and leftist, they have all shared a strong commitment to democracy and free market principles. Unemployment has remained relatively high, about 15 percent in 2000, largely because of the continuing structural adjustments to the economy that are necessary after decades of Soviet mismanagement. The government now attempts to focus on maximizing the use of the country's resources to assure the highest possible standard of living. For example, with the closing of a number of coal mines and a slowing down of heavy industry, with a consequent loss of jobs, new sectors such as telecommunications, banking, and insurance are developing. Growth is nonetheless steady, and this factor, combined with a large domestic market, attracts **foreign direct investment**. Recent years have witnessed rapid growth in retailing, food and hotel services, and communications.

Poland is negotiating for membership in the European Union (EU), but the question of agricultural **subsidies** is proving one of the most difficult areas on which to reach agreement. Although a date had not yet been set for joining the EU by 2001, the majority of Poles expect to become EU citizens within the first decade of the 21st century.

POLITICS, GOVERNMENT, AND TAXATION

Since the change to the political system in 1989, Poland has been governed by alternating periods of right and left-oriented governments. Tadeusz Mazowiecki became prime minister in September 1989, leading the country's first democratic government since the end of World War II. In January 2001, a minority government took power, led by Election Action Solidarity (EAS), an umbrella organization of right-wing parties and the Solidarity trade unions. Despite several changes of government since 1989, democratic, free market, and pro-Western policies have remained unchanged. The large number of political parties established around 1990 has been reduced to 4 major players. The EAS, the moderate Freedom Union (FU), the Polish Peasant Party PPP),

and the Liberal-Democratic Alliance, or SLD. From 1997 until late 2000, the SLD, a conglomerate of left wing and social democratic parties, formed a coalition government with the PPP, supporting private ownership, democratic principles in political life, and freedom of expression.

The executive branch of Polish government consists of the prime minister, the cabinet, and the president of the Republic of Poland. The president signs all bills passed by parliament, participates in formulating the annual government budget, and is the commander-in-chief of the armed forces. The president serves a 5-year term and can only be elected to 2 terms of office. Presidential appointees represent the office in numerous government agencies, including the Council of Monetary Policy, an autonomous body that sets targets for the money supply and for interest rates on loans made by the central bank to commercial banks, and establishes guidelines for foreign **exchange rates**. The former Solidarity leader and Nobel Peace Prize laureate, Lech Walesa, was the first president of post-Soviet Poland.

Poland's parliament consists of a lower and an upper chamber (the Sejm and the Senate) which, together, form the National Assembly. There are 460 members of parliament in the Sejm and 100 in the Senate, all of whom are elected to serve a 4-year term. Candidates for the Senate must be at least 25 years old. The voting age is 18.

The third branch of government is the judiciary, which consists of the courts of law and a number of specially constituted bodies such as the Constitutional Tribunal. The Tribunal monitors and rules on matters alleged to be unconstitutional, protects the rights of individuals, and interprets the laws passed by the National Assembly with respect to rights defined by the Constitution. Labor disputes between employee and employer are heard by the Main Administrative Court, which was established exclusively to deal with non-criminal labor issues and deliver speedy judicial decisions. Cases considered in these courts cannot be considered in other courts.

The Criminal Code and the Civilian Code regulate the conduct of individuals and companies. The European-style legal system is strongly rooted in rules and regulations established by the National Assembly. Poland has abolished the death penalty and the longest prison sentence is 25 years, with life sentences an option only for crimes of particular gravity. However, because of public anxiety over crime, new laws were passed in 2000 approving stiffer penalties in a number of instances. The Civilian Code regulates contractual agreements and presides over divorce cases. It assigns parental custody and sets alimony payments, which are mandatory for all children up to age 18 and for those aged 18 and over who are still enrolled full-time at school. The amount of alimony is based on parental earnings.

In recent years, the Polish government has undertaken several major reforms needed to ensure both economic growth and efficient government administration. Such reforms include redrawing the boundaries of administrative districts, reducing the country's 50 provinces to 16, and the reintroduction of counties. Executive powers have been delegated from the central government to the provinces where elected legislative bodies have been established, thus reducing the number of government departments. This administrative streamlining has coincided with education reform, placing responsibility for the school system in the hands of local authorities. The Polish school system consists of grade, middle, and high schools. Important reforms in health care and social security have decreased government involvement in the provision of medical services and brought in the privatization of pension funds.

Taxes are the major source of government revenue in Poland. Businesses pay a tax of 28 percent on profits, while individuals are taxed on earned income calculated in bands of 19, 30, or 40 percent. Personal **income tax** accounted for 20.5 percent of all tax revenues in 1999. Over the past several years, tax rates have changed several times. Despite strong pressure from business-oriented leaders, including Leszek Balcerowicz who implemented the economic "shock therapy" of the early 1990s, the rates have not been lowered for some time. Parliamentary debate on this vital economic issue is expected to continue for some time. **Excise taxes**, representing 22.4 percent of all tax revenue, are collected on tobacco, alcohol, and lottery winnings, while a **value-added tax** (VAT), introduced some years ago in line with EU countries, supplies 43.3 percent of total tax revenue. The VAT is set at different rates for differing commodities.

The legislative and executive branches of government influence the economy through fiscal and monetary policies. The annual government budget is formulated by discussion of proposals put forward by the prime minister and the president, with additional policies introduced by legislators. Once approved, the budget sets short-term goals related to estimated income and expenditure and the project budgetary deficit or surplus. The economy is managed in line with these projections and, if the deficit figure is exceeded, the shortfall must be covered either through additional public borrowing or increased revenues. However, additional borrowing must have parliamentary approval, not always easily obtained, while additional taxation is limited by public opposition to increases. Consequently, the government may resort to raising excise taxes on selected goods such as alcohol, but more often obtains extra revenue by reducing or liquidating its ownership of companies owned by the Treasury. The privatization of such assets is implemented by opening the companies to bids from all interested parties. The selling off of state-owned enterprises to private

companies is fiscally prudent, strengthening the private sector and reducing the necessity for government to compete directly in the financial markets.

The last Soviet troops left in 1994 and Poland, which had actively pursued membership in the North Atlantic Treaty Organization (NATO) since the restoration of democracy, became an official member in March 1999 and joined the NATO peacekeeping forces in Kosovo shortly afterwards.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Poland has a good road and rail network, although its density varies across regions. Although the country had 251,004 kilometers (156,000 miles) of paved roads by 1999, these proved insufficient to cope with the explosion of car ownership and trucks in the country. The number of vehicles traveling on Polish roads increased to 13.2 million between 1990 and 1999, a growth of 47 percent (76 percent for passenger cars). The dated infrastructure is being modernized, but is not keeping pace with the acceleration in road traffic. Because of its location and topography Poland serves as a major route between western and eastern European countries. In recent years, trucks have become major carriers of goods from France, the Netherlands, Germany and other EU members, through Poland to Russia, Belarus, Lithuania, and Ukraine.

New multi-lane limited access highways are under construction across Poland and will increase the efficiency of the transport system. The construction of the limited access highway linking Berlin with the Polish capital, Warsaw, and extending to the border with Belarus, has been given priority. In southern Poland, a similar highway will link the western border with Germany through the city of Wroclaw in the Silesian region, and Cracow to the eastern border with Ukraine. A north-south link between Gdansk and the southern border crossings into the Czech Republic and Slovakia is also planned.

By 1999, Poland had 230,087 kilometers (143,000 miles) of well-developed railroad networks. With the increasing competition from buses and trucks, many unprofitable rail routes (12.7 percent between 1990 and 1999) have been closed. The state-owned railroad **monopoly** is being privatized, and the modernization of major railway lines undertaken in recent years has begun to reap benefits in shortened travel time. With the price of gasoline increasing, railways are once again becoming a competitive mode of passenger transport.

Poland has several well-known seaports. Starting from the northwest corner, the ports of Szczecin and Swinoujscie handle cargo, including coal exports and imports of fertilizer. The smaller ports of Kolobrzeg and Ustka mostly serve fishing fleets and coastal shipping, and handle cargo originating from, and destined for, other Baltic Sea ports. Further east, several small ports are used by fishermen and recreational sailors. Gdansk is the largest seaport. In 1999, 18.8 million tons of cargo—37 percent of all Polish cargo both incoming and outgoing—was loaded or unloaded at Gdansk. Next to Gdansk is Gdynia, Poland's youngest port, which was built as a matter of economic necessity in the 1920s. It handles various cargoes, including container shipping. East of Gdansk, the port of Elblag can only be accessed by a narrow strait belonging to Russia, and ships bound for Elblag can only pass through without delay by negotiated agreement with the Russians.

Several major rivers, including the Vistula, Oder, Warta, and Notec, are used for barge navigation. The total length of rivers and channels suitable for barge navigation was 3,813 kilometers (2,370 miles) in 1999. Through its system of channels and rivers, Poland is linked with the inland waterways of Western Europe. The economic importance of the west-east barge traffic is small because it cannot compete effectively with truck and rail shipments. However, the north-south barge traffic is competitive, plying goods between Poland's southern industrial towns and farms and the Baltic ports of Szczecin, Swinoujscie, and Gdansk.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Poland	113	523	413	83.3	50	N/A	43.9	40.86	2,100
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Romania	300	319	233	119.2	29	N/A	10.2	9.01	600

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Warsaw's Okecie airport is the largest in Poland. All major European air carriers operate services to Warsaw, while the Polish national airline, Lot, connects the capital with many cities in Europe, North America, the Middle East, and Asia. Airports in Gdansk, Poznan, and Cracow also offer international connections. Airports of domestic importance are located in Szczecin, Katowice, and Wroclaw.

About 95 percent of the country's electricity is generated by burning fossil fuels. Public opposition in the early 1990s put an end to the construction of a proposed nuclear power plant in Zarnowiec, which was converted to conventional fuels instead. Hydroelectric power is also generated, mostly in southern Poland, where the mountainous topography offers opportunities to construct dams. Since much of the country's terrain consists of open plains, there is some expectation of being able to harness wind power in the future. In 1999, Poland generated a total of 134.351 billion kilowatt-hours (kWh) of energy, enough to meet domestic needs and export demand.

The country operates a very well-established postal service with 8,380 post offices in 1999, 58.8 percent of them located in rural areas. There is no weekend mail delivery, but many post offices in towns stay open in the evening and large cities typically have one 24-hour post office. Nearly 26,000 mailmen are employed in the daily delivery of mail. Courier services are provided by the post office and by private companies, which include branches of international couriers DHL and Federal Express.

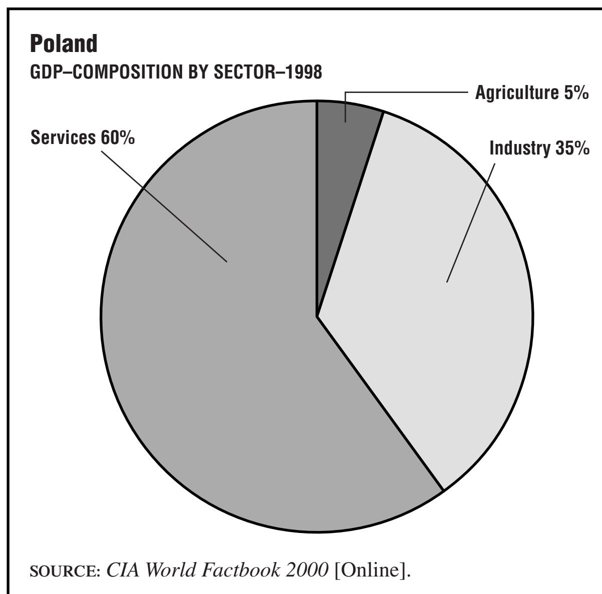
Telecommunications services are undergoing rapid modernization. After years of neglect, new switchboards are constantly being installed and the number of telephone subscribers has increased substantially. The nation has enthusiastically adopted wireless communications and cellular phones, with the number of wire telephone subscribers exceeding 10 million in 1999 (more than treble the figure in 1990), while cellphone users increased from 75,000 in 1995 to almost 4 million in 1999.

ECONOMIC SECTORS

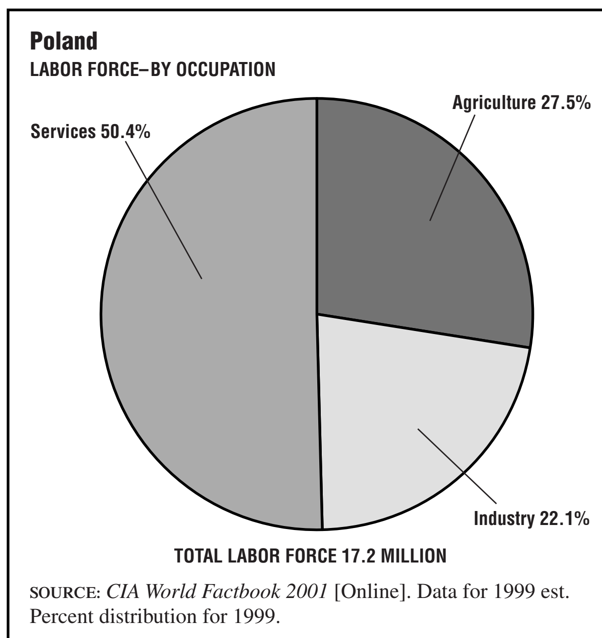
Agriculture is the smallest of Poland's 3 major economic sectors, contributing just 3.8 percent of GDP in 1999. The industrial sector is significant and wide-ranging and contributed 36.6 percent of GDP, but the largest and fastest-growing economic sector is services, which provided 59.6 percent of GDP in 1999.

The total labor force in Poland stood at 17.2 million at the end of 1999, an increase of 1.2 percent since 1995. Men make up 64.3 percent of the workforce as against 49.7 percent of women, and the share of the working population is slightly higher in rural areas (57.2 percent) than in urban areas (56.3 percent), reflecting some increase in the number of farmers during the 1990s. In 1999, 1.434 million women and 1.207 million men were unemployed. Overall, 44.4 percent of Poles were employed in 1998, more than in Italy (40.7 percent) or Spain (41.6 percent), but less than in Germany (48.7 percent) or the United Kingdom (49.4 percent). The majority of Poland's workers—50.4 percent—were employed in the services sector in 1999, while 27.5 percent were employed in the agricultural sector and 22.1 percent in industry.

The value of foreign direct investment (FDI) amounted to US$26 billion in 1999, a 332 percent increase since 1995. Many foreign companies operate in



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999 est. Percent distribution for 1999.

Poland. Hormel is investing in the meat processing industry, Coca-Cola and Pepsico have expanded their operations, and fast food chains including McDonald's, Burger King, Pizza Hut, KFC, Taco Bell, and Dunkin' Donuts are now familiar names. Other major international corporations operating in Poland include GM, Daewoo, Volkswagen, and Fiat in the automotive industry. Power generation, petrochemicals, and telecommunications are other sectors that attract foreign investors since demand is high. While economic **restructuring** had already modernized a number of industries (paper and packaging, for example), foreign direct investment has led to a sizable increase in imports of technologically advanced machinery and equipment designed to speed up modernization.

AGRICULTURE

About 2 million family farms, employing approximately 27.5 percent of the labor force, supply Poland's agricultural output. As a result of land reforms in the 1940s, when the country's large estates were divided up under **communist** rule, Polish farms are generally small, averaging about 15 acres. This is changing as much bigger farms are being developed, but the majority of farmers are unable to earn sufficient income through agriculture and must take outside jobs in order to support their families. Agriculture contributed only 3.8 percent of GDP in 1999, a major change in a country that, before World War II, was primarily an agricultural economy.

Poland is among the world's leading producers of rye, potatoes, and apples, as well as pork and milk. The length of the growing season varies regionally according to climate, being much shorter in the northeast where a harsh continental climate prevails. Although the exports of certain produce (potatoes, apples and other fruits, frozen ducks and geese, and sugar) has declined over the years, Poland exports grains, sugar, pork, processed meats, and dairy products. The upwards of 150-year-old sugar industry faces stiff price competition from overseas producers and is under pressure to restructure itself as the quantities of unsold sugar mount. Similarly, the once enormous potato production has been substantially reduced by changes and improvements to the feeding of livestock. Farmers face tough competition from imported commodities and food products, and are dissatisfied by the lack of sufficient export markets. It is expected that, within a decade, there will be no more than 700,000 farms in Poland. They will be large, specialized, and commercially geared, replacing the small, diversified, but often inefficient agricultural producers. Restructuring of the farming sector is a major issue in negotiating Poland's access to the EU.

Pork and dairy farmers remain competitive. Milk and pork production have recovered from the transition from the centrally planned system of fixed prices to the market economy. Dairy plants that had been organized as cooperatives have successfully adopted modern processing and packing technologies, and planned development of dairy products has helped maintain market demand.

Even before the 20th century, deforestation occurred as a result of clearing trees in order to expand the land available for farming. This has led to problems of soil erosion caused by winds blowing across the treeless land. In recent years, the government has offered reforestation incentives to farmers, granting them exemption from land tax if they plant trees on their least productive land. Polish farmers only use pesticides in conditions of extreme necessity and the use of chemical fertilizer is also comparatively low, but there is always the threat of water pollution, mainly caused by nitrogen and phosphorus runoff in livestock production. Farmers are being educated to the dangers, and practices are changing. Local governments, too, have been using central government grants to plant trees along streams and creeks to establish a biological barrier between fields and surface water. Further progress in farming techniques will require additional investment in manure storage facilities, and the government will continue to support environmental programs relating to agriculture in order to meet EU standards.

INDUSTRY

MINING. The mining sector employed 271,000 workers in 1999, representing 2.8 percent of the workforce. Since 1995, however, the employment decreased in this sector by 27.5 percent. Mining accidents were a constant threat and resulted from gas explosions, gas poisonings, or rock collapsing on miners working underground.

Coal mining has been a traditional employer of thousands living in the regions of Upper and Lower Silesia. Poland has long produced in excess of 140 million tons of coal annually. In 1999, the country mined 112 million tons, placing it seventh among the top 10 world coal producers. New coal fields were brought into production in eastern Poland in the 1980s, but the decreasing importance of steel production and coal exports led to the reduction of the number of mines. In 2000 the government offered coal miners an incentive program encouraging early retirement and re-training because of the diminishing profitability and efforts to reduce the environmental degradation in Silesia, the primary coal mining region.

Poland is also mining lignite, used as a fossil fuel for power generation. The 1999 production was 60.8 million tons, about 10 percent lower than in 1990. Large lignite deposits have been mined in central Poland around the town of Konin and in the southwestern corner of Poland near Turoszow, where the borders of Poland, Germany, and the Czech Republic come together. Because

lignite contains less energy per unit of weight than coal it is chiefly used in the immediate vicinity of the mine for power generation. Poland was the world's fourth largest lignite producer in 1999.

Sulphur mines are located in the area of Tarnobrzeg, northeast of Cracow, near the Vistula river. Poland is the third largest sulphur producer in the world and produced 1.247 million tons in 1999, roughly a quarter of what was produced in 1990. Sulphur and sulfuric acid are major exported commodities. In western Poland, around the town of Lubin, copper is mined. In 1999, the region produced 28.388 million tons of copper ore. High quality copper is smelted there as well as other ores typically found with copper such as silver. Poland was the world's eighth largest copper producer in 1999 and copper is a major export commodity, but the slowing world demand does not encourage further expansion of mines in Poland. Sodium chloride, or salt, has been mined for centuries in Poland and some of the world's oldest salt mines can be found in Wieliczka near Cracow. Today Poland continues to mine salt mostly in the central plains. In 1999, Poland produced 4.128 million tons of salt. Natural gas reserves are significant and several fields are being operated on plains in central and western regions. Oil reserves are limited and satisfy only a fraction of the domestic demand.

MANUFACTURING. The manufacturing sector has been undergoing major restructuring since 1990. Following the changes in the political and economic system, many industries were forced to compete on the market rather than having their production and prices set by the government. Many plants found it difficult to compete on the basis of quality and cost-effectiveness. After a period of attempts to adjust, many plants closed because they were using obsolete technology or because they lost their primary markets. The closings most affected the heavy industry producing machinery and equipment for the mining industry, steel mills, smelting, shipbuilding, and railroad equipment.

Steel manufacturing continues at modernized mills near Cracow and in Silesia in southern Poland. Demand for steel comes from the automotive industry and shipbuilding. Several car plants including the Italian Fiat and GM are located in Silesia. Daewoo operates a plant in Warsaw, while Volkswagen operates a new plant in Poznan. Between 1990 and 1999, car production increased by 244 percent. The shipbuilding industry, although considerably smaller than in decades past, continues to build vessels in Szczecin, Gdynia, and Gdansk located on the Baltic Sea. After a period of adjustment in the mid-1990s, the shipbuilding industry increased production in the late 1990s. The rail car industry shrunk substantially, but a plant continues to produced modernized equipment in Wroclaw. Large demand for steel is represented by the construction industry. Besides steel, Poland also produces aluminum, lead, and zinc.

Silesia is also the center for coke produced from coal and crude petroleum processing. Plock, located in central Poland, refines crude oil imported from Russia, and a refinery in Gdansk processes oil imported by sea from the Middle East and Africa. Fuel oil, gasoline, and lubricants are some of the products produced by the oil processing industry.

Fertilizers are produced at several locations. Phosphorus fertilizers are produced near Szczecin, while a plant in the town of Pulawy, southeast of Warsaw, produces nitrogen fertilizers. Another fertilizer plant is in Tarnow, east of Cracow in the southern part of the country. Fertilizer production increased in the late 1990s despite a decrease in the domestic demand for fertilizers caused by the decrease in food consumption and imports of competitively priced feed components.

The chemical industry produces a number of goods, including sulfuric acid, synthetic fibers, synthetic organic dyes, and caustic soda. The production of plastics increased by about 50 percent between 1995 and 1999, while synthetic rubber production decreased slightly. Chemical industry plants are located in Silesia and several major cities. Lacquer product production increased substantially during the 1990s. The production of tires for cars more than tripled between 1990 and 1999 in response to the increased demand resulting from increased car ownership.

The production of construction materials showed mixed trends in the 1990s. This is the result of dramatically changing technology using different materials, lighter constructions, and new insulating materials. Although the production of cement increased, plate glass production shrunk. Also, brick production decreased by nearly one-half.

Lodz and surrounding towns in central Poland have been for more than a century producing high quality yarn, fabrics, and ready-to-wear clothing. However, once **price controls** were lifted and the large market represented by the Soviet Union disappeared, the industry was forced to reduce production and employment. Many female workers were laid off because, with the outdated technology and relatively high labor costs, some textile factories were unable to compete with goods from Asia and Central America. Textiles are also produced in the city of Bialystok in the northeastern part of Poland.

The production of consumer durables is located in major cities. Poland increased the production of refrigerators, automatic washing machines, computer systems, and electronic calculating equipment and television sets in the 1990s. The increase in the production of television sets amounted to 687 percent between 1990 and 1999.

The production of furniture increased by 334 percent during the same period.

SERVICES

RETAIL. Poland's **retail** sector had been severely underdeveloped by central planners. The allocation of resources by the Soviet-backed regime gave priority to industrial development and, under the fixed-price system, made retailing a secondary concern. Furthermore, with private property ownership perceived as highly undesirable, the only companies that could operate retail stores were state-owned or cooperative enterprises. Three major organizations were virtual oligopolists (businesses which greatly affect the market by virtue of the scarcity of other businesses) in the retail sector. Two of them were transformed cooperatives: one operated grocery stores in towns and cities, and the other dominated retailing in rural areas. The government planners distributed goods according to priorities set by the government administration and in response to political influence rather than in response to the needs and actual demand.

The transition to a market-oriented economy at the end of 1989 led to the rapid re-birth of the private retail sector. Within a couple of years almost all retail trade was privatized. The old distribution system collapsed, and a new system slowly emerged. The instant effect of price liberalization and the introduction of private property was the increase in the number of retail outlets. Initially, new outlets were mostly small grocery stores, but over time specialty stores appeared, including clothing stores, shoe stores, drug stores, books and paper product outlets, stores with electronics, home furnishings, and others. The number of grocery stores continued to increase in the late 1990s, although at a decreasing rate. In 1999, the number of grocery stores was 16 percent higher than in 1995, but in 1998 the number of new stores increased by only 159, reaching a total of 147,366.

The newest trend in the retail food sector is the emergence of supermarket chains. In the first half of the 1990s, large supermarkets located in the largest cities. Although some of them were established by foreign retail corporations, others were operated by Polish entrepreneurs. Knowing the needs and preferences of Polish consumers, Polish chains located in residential neighborhoods or in areas of dense housing. The stores were medium size, offered self-service areas and serviced meat, fish, and bakery departments. In recent years, a number of large supermarkets has been constructed on the outskirts of large urban areas. They located at the intersections of major highways and depend heavily on shoppers traveling in their own vehicles. Given the rapid increase in car ownership, these new stores appeal to the new and growing middle class. Because these stores are largely operated by chains from Germany, France, Belgium, and other countries, they also brought with them the new concept of the hypermarket, which sells both groceries and non-food items ranging from cosmetics and detergent to clothing and household items.

Retail shops employed 1.35 million workers in 1999, or 13.9 percent of all employed in the economy. The employment in this sector increased by 20 percent between 1995 and 1999. However, the next few years will bring a restructuring of the food retail segment because large supermarkets operating for long hours had begun to force the closure of small shops in their area. Therefore, some jobs will be transferred from small owner-operated shops to large corporate-owned supermarkets. The process will vary across regions reflecting variability in population density and income.

CAR SERVICE INDUSTRY. The rapidly increasing number of cars in Poland led to the development of a new service sector that includes car dealerships, repair services, and gasoline stations. Car dealerships numbered 13,453 in 1999 and increased by 28.6 percent between 1995 and 1999. However, the growth rate decreased substantially over this period, reflecting the saturation of the market and the slackening demand for new cars. Although Poland's new car demand was the highest in Europe in 1998 and 1999, sales figures for 2000 were substantially lower. Increasing gasoline prices caused by higher energy prices worldwide and excise taxes made ownership less attractive. Furthermore, the increase of the short-term interest rates by the National Bank of Poland to curb inflation increased the cost of credit used by the majority of buyers to finance a purchase.

The number of gasoline stations continues to increase at a healthy pace. Between 1995 and 1999 the number increased by 42 percent. The growth in 1999 alone was almost 5 percent. With the construction of new highways and the establishment of new shopping centers on the outskirts of towns, the demand for gasoline will continue to grow. Also, the anticipated growth in cross-country transit traffic will encourage the construction of new gasoline stations in the near future. Many of the new stations are built by international corporations, e.g., Shell and BP, and include a convenience store and a fast food restaurant. McDonald's Corp. in particular joins many gasoline retailers located at major highways.

BANKING AND FINANCIAL SERVICES. The banking industry was underdeveloped at the end of the 1980s. Credit was used to finance government investment projects and was provided by state-owned banks. Credit for consumer spending was very limited. Housing cooperatives constructing and maintaining apartment complexes received government-subsidized credits. Since the change in government, the private banking industry has emerged and foreign banks opened branch offices.

The financial sector employed 287.4 thousand people at the end of 1999, 2.9 percent of the workforce and more than the mining industry. Employment grew by about one-fifth between 1995 and 1999. Revenues from operations increased for the comparable period of time by 268 percent. The gross profit rate of financial service businesses amounted to 15.5 percent in 1995 and dropped to 7.1 percent in 1999. However, the net profits were 9.9 percent in 1995, 4.2 percent in 1998, and 4.5 percent in 1999. Credit and debit card use has increased dramatically and ATMs have been installed in public access areas, facilitating customer use of their money.

In 1999 and 2000 a number of foreign banks increased their presence in Poland. Also, several major mergers were concluded strengthening the banking sector and increasing its capital. Foreign portfolio investment in Poland increased from US$9.4 billion in 1995 to US$14.2 billion in 1999. The foreign portfolio investment can choose between the bond and the stock market. In recent years, because of the growing economy, the stock market offered very good returns.

RESTAURANTS AND CAFETERIAS. This sector was particularly underdeveloped prior to 1989. The government was not interested in such investment because, under the system of controlled food prices, there was no economic incentive to operate restaurants. Instead, the government-owned companies, schools, universities, and hospitals operated cafeterias. Eating privileges were tied to employment or enrollment in the school program. The majority of cafeterias served the main meal of the day at mid-day. The food was often perceived as lacking taste, but it was convenient, saving the trouble of shopping and cooking upon returning home.

The restoration of private ownership encouraged a large number of entrepreneurs to open eating establishments. At the end of 1999, the number of restaurants was 73,099, and about 95 percent of them were privately owned. The distribution of restaurants by type indicates that the most popular among consumers and entrepreneurs were self-service restaurants, which represented 44.3 percent of all restaurants at the end of 1999. Food stands were the second most prevalent type of food service facility, representing 39.1 percent of all establishments, but their number grew very slowly between 1995 and 1999. Tablecloth restaurants represented 8.8 percent of all restaurants, but their number increased by 24.4 percent between 1995 and 1999. This growth is most visible as these restaurants locate in prime shopping or tourist areas. The fastest growth was among cafeterias, whose numbers expanded 36.4 percent between 1995 and 1999. The revenues in the food service sector as a whole doubled between 1995 and 1999. The growth was generated mostly by food sales rather than by alcohol sales.

TOURISM. Slightly over 89 million foreigners visited Poland in 1999. The growth was fully attributable to the growth in visits of citizens of neighboring countries, who represented 95.4 percent of foreign tourists. However, the short-term trends in the direction from which tourists arrive is changing. In the second half of the 1990s, the number of Ukrainian, Lithuanian, and Belarusian visitors increased, while the number of tourists from Slovakia, the Czech Republic, and Russia decreased. Czech and German tourists dominate the tourist traffic in Poland. In 1999, 53.8 million tourists came from Germany and 13.5 million tourists from the Czech Republic. The number of visiting German tourists steadily increases.

Tourists arriving from countries not bordering with Poland come mostly from the Netherlands, the United States, Sweden, Hungary, Italy, and Great Britain. Among them, the number of American tourists showed the largest gains between 1995 and 1999. Although Poland offers great tourist sites for those interested in history or nature, the climate is not conducive to all types of activities sought by tourists. The large, sandy beaches of the Baltic Sea are wonderful for walking, but sun bathing and swimming are reserved only for summer months.

The expanding hotel sector and improved quality of accommodations and service will eventually attract more tourists. The hospitality industry (hotels and restaurants) employed a total of 158.3 thousand people in 1999, or 1.6 percent of the workforce. This figure grew by more than 24 percent since 1995, showing a robust expansion of the sector. With improving access through a better highway system, faster train service, and more air connections, the tourist industry is poised for moderate growth.

INTERNATIONAL TRADE

During the last decade of the 20th century, international trade was fully liberalized. The direction of Poland's trade has changed substantially as the result of the breakup of the Soviet bloc of countries. Today, Poland's major trading partners are located mostly in Western Europe and North America and not in the for-

Trade (expressed in billions of US$): Poland

	Exports	Imports
1975	10.289	11.155
1980	14.191	16.690
1985	11.489	11.855
1990	13.627	8.413
1995	22.895	29.050
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

mer Soviet bloc states. Prior to World War II, the main trading partner in both exports and imports was Germany, receiving 31.2 percent of Polish exports and providing 27.3 percent of imports in 1928. The second and the third trading partners were the United States and Great Britain.

Following World War II and the installation of the Soviet Union-controlled regime in Poland, trade flow patterns changed. In 1950, the Soviet Union was the largest importer of Polish goods (28.8 percent) and the largest exporter to Poland (24.3 percent). Czechoslovakia and the German Democratic Republic (East Germany) were the other 2 most important trading partners. By 1990, the trade flow patterns continued to reflect the economic reorientation of Poland. The 2 main trading partners were East Germany (20.1 percent and 25.1 percent of imports and exports, respectively) and the Soviet Union (19.8 percent and 15.3 percent of imports and exports, respectively).

After 1990, however, trade patterns changed dramatically. The Soviet Union peacefully disintegrated and was replaced by Russia and 14 other independent countries. By 1999, a re-unified Germany had become the major trading partner, taking 36.1 percent of Poland's exports and providing 25.2 percent of its imports. Other major markets for Polish exports were Italy (6.5 percent), the Netherlands (5.3 percent), France (4.8 percent), the United Kingdom (4.0 percent), and the Czech Republic (3.8 percent). Major importers to Poland in 1999 include Italy (9.4 percent), France (6.8 percent), Russia (5.8 percent), the United Kingdom (4.6 percent), and the Netherlands (3.7 percent).

Poland formed together with Hungary, Slovakia, and the Czech Republic a free trade area in the early 1990s and became a member of the European Free Trade Association (EFTA). However, the main goal has been to gain access to the European Community (EC) market because of its size and the demand structure. Poland's agricultural products had particularly difficult access to EC markets because of the quota system imposed by the EU. An agreement between the 2 parties signed in September 2000 opened the trade in agricultural products and set the pace leading to full liberalization of agricultural trade between Poland and the EU within the next few years. It is expected that Poland will increase exports of milk and dairy products, pork, some fruits and vegetables, potato products, confections, and, perhaps, sugar, while increasing imports of poultry, fresh fruits and vegetables, wine, and processed foods.

Imports are associated with the rapid growth and direct foreign investment. Among some of the main types of goods imported to Poland are machinery and industrial equipment, electronics, cars and car parts, and construction materials. Oil and gas are large import items. Oil is imported from Russia and Middle Eastern countries, while gas is imported from Russia. Poland wants to import gas from Norway, but not until a pipeline link is constructed. In recent years Poland's appetite for imported goods exceeded exports. In 2000, the value of imports stood at US$42.7 billion while the value of exports stood at US$28.4 billion.

MONEY

From the end of World War II until 1990, the exchange of the Polish currency, the zloty, was suspended. The government established an elaborate system of several exchange rate regimes. The Polish zloty was valued differently against the same foreign currencies depending on the type of a transaction. For example, western tourists were forced to exchange their currency at a rate making the zloty very expensive, but foreign importers were attracted by competitively priced goods in zlotys. This system of multiple exchange rates ended in the late 1980s.

The liberalization of economic controls during the early 1990s caused the zloty to lose much of its value. By the mid-1990s, US$1 was worth in excess of 10,000 zlotys. Therefore, the National Bank of Poland decided to exchange the banknotes by introducing new coins and banknotes on 1 January 1995. The new Polish zloty was equal to 10,000 old Polish zlotys. The original exchange rate was posted at US$1:2.434 Polish zloty in January 1995. For a time, both the new and the old banknotes were in circulation. Today, old banknotes are no longer accepted for payment.

The National Bank of Poland (NBP) is the sole supplier of money in the economy. Its mission is to implement the **monetary policy** consistent with maintaining the low **inflation rate** needed for sustained economic growth. The primary tool used by the NBP was the manipulation of the short-term interest rate charged on loans made to commercial banks. The NBP is independent from the executive branch of government. Its leadership received high praise for its focused approach and has been credited with the high levels of economic activity.

With the adoption of the market economy, Poland opened its stock exchange. The Warsaw Stock Exchange

Exchange rates: Poland

zlotys per US$1	
Dec 2000	4.3126
2000	4.3461
1999	3.9671
1998	3.4754
1997	3.2793
1996	2.6961

SOURCE: CIA *World Factbook 2001* [ONLINE].

was, ironically, located in the building built specially as the headquarters of the Polish United Workers Party (a Soviet-style communist party). The increasing popularity of the stock exchange, the growing number of traded stocks, and the volume traded have forced it to move to a new, bigger facilities in recent years. Besides stocks of individual companies, several mutual funds have been established. Their popularity has increased because capital gains and dividends are tax-free in Poland.

At the end of 1999, the number of companies listed on the Warsaw Stock Exchange was 119, more than twice the number of those traded in 1995. The value of transactions more than tripled in the same time period. An average number of transactions per session on the main market was about 4,100 in 1999. The main market requires that companies exist for a minimum period of time and meet standard capital requirements. The parallel market trades shares of companies unable to meet the main market requirements, but which issue enough shares to guarantee **liquidity**. A total of 61 companies were listed on this market at the end of 1999. Finally, the free market trades shares of companies which meet similar, but less rigorous requirements than those expected from companies traded on the other 2 markets. At the end of 1999, this market listed 26 companies after 2 years in existence.

The Warsaw Stock Exchange Index (WIG) relates the current market value of companies listed on the main market to the value of companies quoted on the first session of the stock exchange on 16 April 1991. The initial level of the index was 1,000 and rose to 18,083.6 at the end of 1999.

Poland also has an active bond market. The government began issuing securities to finance the **budget deficit** in the early 1990s and gradually introduced short-, medium-, and long-term fixed rate treasury bonds. Variable rate bonds have been also introduced. Over time, the government has been issuing mostly variable rate bonds. This trend is reflected in changes in volume traded. In 1995, for example, the majority of transactions involved 5-year fixed rate bonds, but in 1999 the majority involved 3-year variable bonds. Overall, during that period, the government issued less bonds and the value of traded bonds in 1999 was roughly one-fourth of that in 1995. Traders and the public preferred trading at the stock exchange.

POVERTY AND WEALTH

Although not a poor country, the amount of wealth accumulated by Poland's citizens is limited. The loss of independence, the control by foreign powers of economic and political life, and 2 world wars brought destruction and depleted any accumulated wealth. Since the end of World War II misguided economic policies further wasted the efforts of millions of people. Only since 1990 has the country had its first real opportunity to utilize its talents and skills. It will take time, however, before the effects will be widely visible.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Poland	N/A	2,932	2,819	2,900	3,877
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Romania	1,201	1,643	1,872	1,576	1,310

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

The implementation of market-oriented reforms caused the whole nation to suffer during the period of transition. The previous system of widely spread subsidies for food consumption, transportation, and other areas of life could not be sustained because of the gaping hole in the government budget. Particularly hard hit by budget cuts were places of culture including museums, galleries, theaters, symphony orchestras, and other artists who had benefitted from government sponsorship. Slowly, as the economy has improved, private sponsors increased their contributions and the government budget has allocated more funds to support arts and sciences.

The new economic system offers unemployment benefits. The benefits expire after several months. However, local governments operate offices assisting the unemployed in finding jobs. In some parts of the country it is difficult to match the person with given skills to the job. Retraining programs are offered for those who lack job skills, such as high school graduates who pursued general education, or those whose skills are obsolete because of the changing economy.

Poland's health care system has been recently reformed, but everybody has access to medical services. A

Distribution of Income or Consumption by Percentage Share: Poland

Lowest 10%	3.0
Lowest 20%	7.7
Second 20%	12.6
Third 20%	16.7
Fourth 20%	22.1
Highest 20%	40.9
Highest 10%	26.3

Survey year: 1996

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Poland	28	4	19	6	1	8	34
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Romania	36	7	9	3	20	9	16

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

person must register with a family doctor of his or her choice. This general physician is the primary care provider. Should any additional services be required, the primary care provider directs a patient to a specialist. The health care system is organized into several regional organizations which receive government grants to finance their services. The organizations negotiate contract prices with hospitals and clinics, both private and operated by local governments. Destitute people also receive health care services and the cost of treatment is paid by grants from local or central governments. Although the system pays for psychiatric help, it does not include dental care services.

Poland has a public school system. All citizens are guaranteed education through grade 12. In recent years, private schools have been permitted, but their number remains small. Schools are operated by local governments, but the central government provides grants on a per-pupil basis. Because schools often lack funds for periodic maintenance services such as painting or decorating classrooms, parents often either collect additional funds or provide labor to complete these tasks. Fund raisers are also held to finance class trips and other special projects.

High school graduates who would like to pursue a university degree can choose from a number of private colleges and public universities. Many of these schools focus on educating students in a single area, for example, insurance, journalism, marketing, or economics and management. They offer a baccalaureate degree after 3 years of studies. Two additional years and a thesis are required to complete an MS degree. The government provides low-interest loans for students lacking funds to study at a university. Public universities do not charge tuition, but to be accepted the candidate must pass an entrance exam or graduate from high school with a high GPA.

Because economic conditions vary across regions, the government developed some programs focusing on the needs of areas lagging behind the general level of development. These areas receive additional funds for the construction of local infrastructure projects including water and sewage treatment facilities, school construction and renovation, etc. A portion of the funds is provided by the EU.

Although lifestyles between the poor and the wealthy have not yet had time to fully differentiate, some differences are visible. Besides differences in food consumption, some of the noticeable differences are in the use of vacation time. Although the number of people participating in tourist trips increased from 53 percent in 1990 to 63 percent in 1999, the percentage of those spending 5 or more days on a trip stayed roughly the same. In 1990, 34 percent spent 5 or more days on a trip, while in 1999 36 percent did so. However, the number of non-travelers decreased from 47 percent to 37 percent in the same time period. The length of a typical vacation tends to be shorter now than the standard 2 weeks prior to 1989.

The change of the economic system to one rewarding the suppliers of labor negatively affected families with a large number of small children. These families tend to spend particularly large amounts of their income on food and basic necessities, while having fewer opportunities to allocate more time to work. Government welfare programs provide additional support, but it seems that the needs of large families are increasing. Whether this situation discourages childbearing and contributes to the stagnation of the population growth has not yet been determined.

WORKING CONDITIONS

Government policy aims at sustaining economic growth as the way to solve the problem of unemployment. In 1999 an estimated 12 percent of Poland's workforce of 17.2 million were unemployed. Poland is a member of the International Labor Organization (ILO) and participates in all major world and European treaties protecting personal freedoms, rights of expression, and free association. The tradition of independent trade union organization started with Solidarity, which was a major force behind the transition to democracy and a market-oriented economy.

Workers continue to be organized in 2 major trade union organizations: Solidarity, which continues the traditions of the organization born in the summer of 1980; and the trade union organizations formed from the former government-sponsored and controlled unions that predated Solidarity. There is also a very aggressive teachers' union, which was opposed to the government-sponsored school reforms and the associated performance-based evaluation. Part of the reform included the change of the retirement age from 55 years of age to 60 years. However, none of the changes violated any domestic or international legal standard.

Disputes resulting from employment contracts are handled by special courts. These courts deal only with conflicts between employers and employees. Children under 16 years of age are not allowed to work. On farms, however, some children may help parents with regular chores or at harvest. However, no widespread use of underage children is required because many farms are small and they are relatively well equipped with machinery. Pregnant women receive special treatment. After delivery, a woman can take up to 12 months of unpaid leave, while her job is protected.

Increasingly, education influences the type of job and pay a person receives. The link between education and pay explains the increasing demand for education and the rapidly growing number of college and university students.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

966. Poland's Duke Mieszko I is baptized and Poland accepts Christianity.

1025. Boleslaw is crowned the first king of Poland.

1385. The commonwealth of Poland and Lithuania is created through a treaty.

1683. King Jan Sobieski III defeats the army of the Ottoman Empire in the battle of Vienna.

1772. Poland is partitioned (divided) by Russia, Austria, and Prussia.

1795. Polish-American hero Tadeusz Kosciuszko leads an insurrection against Russia, one of many that occur as Poland loses all the functionings of an independent state as it is subsumed into the partitioning countries. Poland ceases to exist as an independent nation until 1918.

1918. Poland is reborn at the end of World War I; Ignacy Paderewski becomes the first prime minister.

1920. Poland fights a war with the Soviet Union and successfully defends itself against the Red Army.

1939. On 1 September Nazi Germany invades Poland signaling the beginning of World War II; on 17 September Russian leader Josef Stalin orders the Red Army to enter Poland in accordance with the secret treaty between the Soviet Union and Germany; Poland is occupied until 1945.

1940. The Polish government-in-exile formed in the United Kingdom organizes a system of military and civilian communication in occupied Poland.

1945. Warsaw is liberated and Poland is freed of Nazi occupation.

1948. The Soviet Union installs a communist government in Poland, leading to over 40 years of **centrally-planned economic** organization.

1956. In June, protests against Soviet control in the city of Poznan end with nearly 80 dead; by October, the ruling regime installs new leadership and temporarily relaxes some controls.

1970. The December protests of shipyard workers against food price increases lead to violent action by government security forces in the Baltic cities of Szczecin, Gdynia, and Gdansk.

1976. Following another wave of protests, the Polish opposition forms the Committee for Workers' Defense and begins to organize the underground publication of officially banned writers and intellectuals.

1979. Polish Cardinal Karol Wojtyla, the Roman Catholic Archbishop of Cracow, is elected Pope John Paul II.

1980. The independent trade union "Solidarity," led by Lech Walesa, is born in Gdansk.

1981. Martial law is introduced on 13 December, and there are widespread arrests of Solidarity activists.

1989. Negotiations lead to a peaceful transfer of power to the opposition; the first free elections are held in Poland since the end of World War II.

1997. A new constitution is adopted in a nationwide referendum.

1999. Poland joins the North Atlantic Treaty Organization (NATO).

FUTURE TRENDS

Poland entered the 21st century as a member of NATO and a candidate for the early accession into the European Union. The country has been firmly committed to democracy and a market economy after the implementation of economic, political, administrative, and social reforms following the collapse of communist control in 1989. The pace of changes during the 1990s moved the country from stagnation to a period of steady economic growth. The

country is posed to continue its growth. Although the unemployment rate will, at least in the short run, remain relatively high, the government's **macroeconomic** policies are intended to assure long-term economic growth. The primary objective will remain the need to manage the supply of money to the economy so as to balance the need for growth with the need to assure stable prices.

In the coming years the most important economic issues facing Poland will likely include efforts to lower unemployment, while keeping inflation at bay. Furthermore, issues in regional differences in economic activity will come to the forefront. Although **labor mobility** in Poland is low because of prevailing attitudes, those who want to move to an area where the demand for labor is high face the problem of finding affordable housing.

Political stability has been achieved as governments alternate between right and left orientation, but within constitutionally defined boundaries. Although not all reforms have been popular, all of them have been necessary to assure the sustainable growth in decades to come. The transfer of many responsibilities from the central to local government strengthens the participatory democracy, allowing the people to voice their opinions and influence policies.

Within the next few years, a young, well-educated labor force will enter the labor market. Because the quality of human capital is increasingly important in today's economy, future graduates are expected to be productive and competitive contributors to further economic growth.

DEPENDENCIES

Poland has no territories or colonies.

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—Wojciech J. Florkowski

PORTUGAL

Portuguese Republic
República Portuguesa

CAPITAL: Lisbon (Lisboa).

MONETARY UNIT: Escudo (Esc). One Portuguese escudo equals 100 centavos. There are banknotes in denominations of 10,000, 5,000, 2,000, 1,000, and 500 escudos. Coins come in denominations of 200, 100, 50, 20, 10 and 5 escudos. The escudo will remain in circulation until February 28, 2002, when it will be completely be replaced by the new European currency, the euro.

CHIEF EXPORTS: Clothing and footwear, machinery, chemicals, cork and paper products, food and beverages, and hides.

CHIEF IMPORTS: Machinery and transport equipment, chemicals, petroleum, textiles, and agricultural products.

GROSS DOMESTIC PRODUCT: US$151.4 billion (1999 est.).

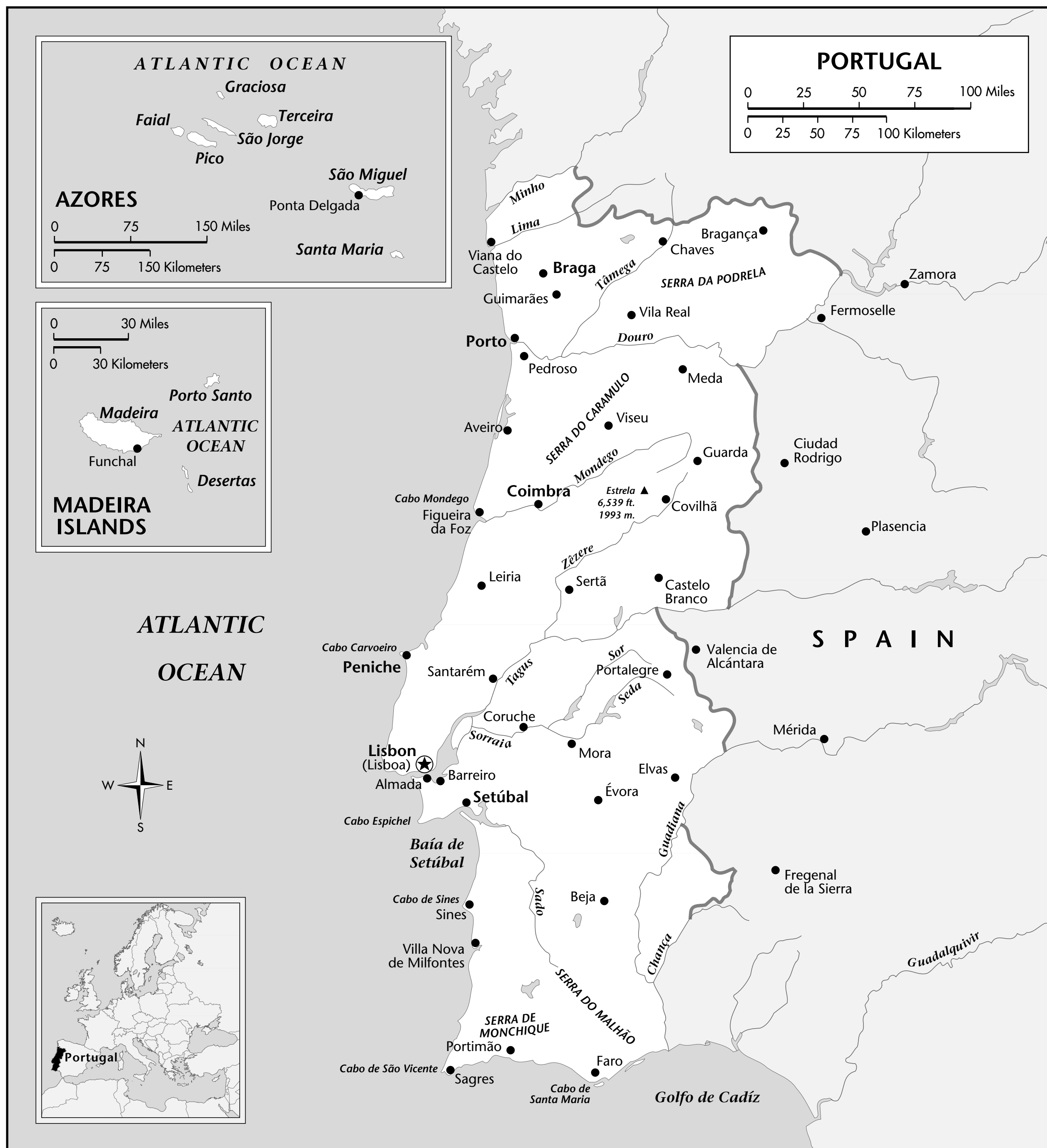
BALANCE OF TRADE: **Exports:** US$25 billion (1998 est.). **Imports:** US$34.9 billion (1998 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in southwestern Europe in the western part of the Iberian Peninsula, Portugal borders Spain to the north and east and the Atlantic Ocean to the south and west. The total area of the country—including the overseas territories of Azores (2,247 square kilometers/868 square miles) and the Madeira Islands (794 square kilometers/307 square miles), both autonomous regions of Portugal—is 92,345 square kilometers (35,655 square miles). The area of Portugal is thus slightly smaller than the U.S. state of Indiana. The capital and largest city is Lisbon, a major seaport situated in the west-central part of Portugal at the mouth of the Tejo (Tajo) River. Other major cities include Oporto (Porto) situated in the northwest at the mouth of the Douro (Duero) River; Coimbra, an industrial and university city on the Mondego River in central Portugal; and Faro, located in the renowned Algarve beach resort area in the south.

POPULATION. The population of Portugal numbered 10,048,232 in July 2000. The population growth rate was estimated at a rather low 0.18 percent in 2000, and the net migration rate was 0.5 immigrants per 1,000 population in the same year. The Portuguese population declined slightly in the late 1980s due to a rapid reduction of the birth rate and steady **emigration**. The figures somewhat stabilized during the 1990s, and in 1999 the population was 1 percent higher than it was in 1991. Portugal still has one of the lowest fertility rates in Western Europe with approximately 1.4 children born per woman. In 1999, the number of births rose by 2.3 percent, but this increase was still insufficient to ensure long-term population growth. According to Portuguese demographic projections (assuming a recovery in the fertility rate to 1.66 per woman in 2020), the Portuguese population is expected to peak in 2015 at 10.18 million and then again begin to decline. As in many other European countries, Portugal has an aging population with 15.2 percent over 65 years of age in 1998 (up from 13.8 percent in 1991) and only 16.8 percent aged 14 years or younger (compared with 19.4 percent in 1991). Life expectancy was 72.24 years for men and 79.49 years for women in 2000. Aging will inevitably increase the strain on Portugal's already over-stretched health-care and social security systems.

The Portuguese population has been strongly influenced by migration processes. Many nationals emigrated in the 1960s, 1970s, and to a lesser extent in the 1980s in search of higher living standards in the more affluent economies of Western Europe and elsewhere. About 4.5 million Portuguese now live abroad, or almost one-half of the domestic population, but better domestic economic conditions in recent years—particularly since the country joined the European Union (EU) in 1986—have changed this. By 2000, Portugal experienced a net **immigration**



of 0.5 people per 1,000 population. In 1998, there were fewer than 178,000 immigrants legally residing in Portugal. These immigrants originated mainly from the country's former African and South American colonies and from EU countries.

The Portuguese are primarily of Mediterranean descent, as their ancestry can be traced to ancient Iberians, Romans, Visigoths, and Moors (Arabs). Black African citizens who immigrated to the mainland during the decolonization in the 1970s are fewer than 100,000 in number. Portuguese is the official language. Roman Catholicism is the religion of about 94 percent of the population, although a number of Protestants and followers of other denominations also live in the country. The main urban centers are concentrated around the Lisbon and Tejo Valley area on the Atlantic coast and in the vicinity of the city of Oporto. These 2 conurbations (zones) are home to nearly 69 percent of the population. The shift from inland rural areas to the cities was fueled by the

agricultural crisis and the post-World War II industrial boom, which again gained momentum in the 1970s. The nation is still experiencing heavy migration to urban centers, along with the gradual depopulation of villages in Portugal's rural provinces.

OVERVIEW OF ECONOMY

In 2000, Portugal's economy was to a large degree modern and market-oriented, enjoying steady, although not spectacular, economic growth, decreased interest rates, comparatively low unemployment, and improved living standards. Nevertheless, it remained Western Europe's least developed country with a per capita **gross domestic product** (GDP) of US$15,975, or approximately two-thirds that of the large Western European economies. Portugal's GDP was the second lowest in the EU after that of Greece, which was estimated to have the lowest production on the basis of market **exchange rates** in late 2000. Portugal also continued to have a large trade and **balance of payments** deficit.

Following its past glory as an influential world power and the leading maritime and colonial nation in the 15th and 16th centuries, Portugal experienced economic decline, particularly after the loss of its Brazilian colony in 1822. After more than 6 decades of oppressive dictatorship, economic stagnation, and international isolation during the 20th century, Portugal was considered by many to be the laggard of Western Europe by the early 1970s. Following the country's return to democratic rule in 1974, the economy grew by an average of 5.3 percent annually during the period from 1975 to 1980.

Portugal joined the EU in 1985, and its GDP growth slowed down to less than 1 percent annually during the period of EU adjustment. After 1990, it achieved a satisfactory annual growth average of 2.1 percent, reaching 2.7 percent in 2000. In 1998, Portugal successfully qualified for the European Monetary Union (EMU) and joined with 10 other European countries in launching the European currency, the euro, on January 1, 1999. The euro will fully replace Portugal's currency unit, the escudo, in February 2002. EU and EMU membership should be considered a major success, given the condition of the Portuguese economy in the early 1970s.

EU membership has been particularly beneficial for Portugal, allowing the country access to development funds and creating favorable conditions for its economy to compete, integrate, learn from, and get closer to the advanced economies of Western Europe. The government is working to modernize the country's economic capacity and increase its competitiveness in the increasingly integrated European and world markets. Improvement in the education sector is critical to this process.

These successes notwithstanding, industrial development and **restructuring** in Portugal generally has been slower than in other EU countries. Its industrial base is still quite limited, often facing hardship from having to compete in the single European market. But driven by the pressing competition of lower-cost East and South Asian imports, some traditional Portuguese exporting industries, such as footwear, clothing, and textiles, have rapidly modernized since the 1990s. Growth has been also strong in services, especially in the financial and **retail** sectors, and in construction. Tourism has also been historically important, with its focus in the late 1990s moving from traditional mass-market beach holidays to high-end, quality, cultural tourism.

Portugal, like its EU neighbors, has developed a service-based economy, while agriculture and fishing—once major sectors—have become much less important. Although the agricultural sector represented just 3.3 percent of GDP in 1998, it still accounted for 13.5 percent of total employment, much higher than the average for EU countries. The slowness of farmers to adopt more productive agricultural technology has led to a loss of market share to the more efficient producers of Spain and France.

An important factor setting Portugal apart from the leading EU economies is its lower labor costs, with an average annual cost of US$13,084 per worker, compared, for example, with US$33,196 per worker in Germany. Cheap labor has attracted substantial foreign investment in several new industry projects, particularly in the automotive and electronics manufacturing sectors. A new technology park outside of Lisbon has attracted several high-profile computer software and hardware companies. However, alternative low-cost manufacturing locations are also growing across Central and Eastern Europe, at locations often better suited geographically to supply the main European markets. They too are becoming increasingly attractive for investors, and Portugal is aware that it can no longer rely on low wages alone to attract new investment. Preparations for EU enlargement in 2001–02 and beyond will be of crucial significance to Portugal. The country will have to strive to protect its interests in accessing the EU's development funds and protecting its market shares in competition with the new, poorer, and sometimes smaller EU members.

POLITICS, GOVERNMENT, AND TAXATION

For much of the 20th century, Portugal has been ruled by an oppressive right-wing dictatorial regime and has maintained, often by force, control of its large colonial empire. In 1974, Portuguese revolutionaries initiated broad democratic constitutional reforms. In 1975, the

country granted independence to its African colonies—Angola, Mozambique, Guinea-Bissau, Cape Verde, and São Tomé and Príncipe. Its constitution was further amended several times, most notably in 1992 when the treaty that created the EU, known as the Maastricht Treaty, was ratified, reflecting the new political and economic conditions of a united Europe.

The political system that emerged from the democratic reforms in the 1970s is parliamentary, with the role of the president being largely ceremonial, although certain reserve powers are also vested in this institution. The president is directly elected for a term of 5 years by popular vote and a person can hold the office for a maximum of 2 consecutive terms. In the Portuguese executive branch, the leadership role of the prime minister is much more important. The prime minister is the head of government and is elected by parliament on a motion by the largest parliamentary party or coalition.

Legislative power is vested in the **unicameral** (one house), 250-member Assembleia da Republica (parliament). Members are elected for terms of 4 years by **proportional representation**, but elections can also be called by the president at an earlier date (the next parliamentary election is due in October of 2003). There are 20 constituencies (electoral districts) in Portugal and the electorate chooses between numerous competing party lists.

The most influential Portuguese political parties include the center-left Socialist Party (PS), the center-right Social Democratic Party (PSD), the Communist Party (PCP), and the conservative Popular Party (PP). The PS returned to power in October 1995 after 10 years in opposition and was reelected in October 1999 with 115 parliamentary seats—not a majority, but significantly more than any other party. Its major dissent on economic policy with the PSD (81 seats), the main opposition party of the PS, is the greater stress that the PS places on social welfare spending. Both parties support a market economy, **privatization**, and European integration. The PCP (17 seats, in coalition with the smaller Green Party), which used to be the most effective party in clandestine (secret) opposition to the dictatorship before 1974, is one of the few remaining hard-line leftist parties in Europe. The PCP still advocates an extensive role of the state in the economy. Its once strong base in the industrial suburbs of large cities and the rural south was weakened during the 1980s and 1990s as the economy improved and poverty diminished radically. The PP (15 seats), previously known as the Center Democrats (CDS), underwent a number of transformations in the 1990s. These were accompanied by acute internal crises, and the party finally emerged in the late 1990s as the voice of the new right, holding a populist and anti-European stance.

In January 2001, the **socialist** president, Jorge Sampaio, was reelected with 55.8 percent of the popular vote, but roughly a year into its second term, the PS government, led by socialist Prime Minister Antonio Guterres, came under controversy. The economic climate was deteriorating, GDP growth was expected to slow from 2.7 percent in 2000 to 2.3 percent in 2001, and acute budgetary disputes and depressing corruption charges plagued the government. Another major confusion was caused by the findings of the of the long-running "Camarate Affair" investigation into a 1980 plane crash that killed the then Prime Minister Francisco Sa Carneiro of the PSD, as it is now widely believed that Sa Carneiro was in fact deliberately murdered.

The government's role in the economy became very significant in the decade following the 1974 revolution. One of the chief results of the upheaval was the takeover of many important industries by the state. Following its joining of the EU in 1985, however, Portugal adopted, partly as an adjustment measure, an active privatization program aimed at making the **public sector** more limited and more profitable. As a result, the Portuguese public sector accounted for 19.7 percent of GDP and for 5.5 percent of the country's total employment in 1988, and by late 1997, the numbers had been further reduced to 8 percent and 2.6 percent, respectively.

The privatization of state companies has been generally very beneficial for the country. The approaches towards accomplishing privatization have been quite varied, including selling shares in selected companies through a public stock offering in the capital markets, private sale, or often by using both methods combined. On a number of occasions, however, the government has kept a controlling share for itself that gives it the right to overrule strategic corporate decisions in the privatized companies. From 1989 to 1998, approximately 150 sales involving the shares of nearly 100 companies generated proceeds of more than US$21 billion, and 52 percent of the revenue was used for the repayment of existing public debt.

In 1998, 58 percent of the total **market capitalization** in the Lisbon Stock Exchange (BVL) was accounted for by the market capitalization of these privatized firms. In addition to some further expected sales of the stock of state-owned companies such as the telecommunications firm, Portuguese Telecom (PT), and the electricity company, Electricidade de Portugal (EDP), there are other major state firms still in the initial stages of privatization. These include the state airline, TAP, and a new energy **holding company** that combines the government's interest in petroleum refining and natural gas transmission.

In taxation, the government is trying to bring the Portuguese system closer to those established in other EU countries. A major reform of **direct taxation** took place in 1989 to that effect, but it was widely believed that occasional gaps remained between the law and its actual

enforcement practices. The 1989 tax code defined taxable income as the profits of firms involved in commerce, industry, or agriculture. All income gained by local companies abroad is taxable, but tax liability may be cancelled or decreased by various tax treaties. The income of resident corporations and branches of foreign (nonresident) companies is taxable at a rate of 32 percent. The actual tax rate in many regions of Portugal is in fact 35.2 percent because some local surcharges exist, usually at a rate of 10 percent of the base tax.

The government intends, however, to cut corporate taxes by nearly one-eighth before 2003, and companies with revenues of less than Esc100 million would be granted even more preferential treatment. The introduction of the **value-added tax** (VAT) in 1986 helped the tax authorities detect and prevent widespread tax evasion by individuals and companies who were still plaguing the economy at that time. Tax evasion has been further reduced since the government was forced to dramatically improve its tax collection efficiency and to reduce its **budget deficit** without introducing new taxes. The government was forced to do this in order to qualify for the requirements of the EMU in 1998. A 20 percent **advance tax** is applied to all payments by businesses to independent contractors and all self-employed individuals with an annual income of Esc2 million or higher.

Portugal has an **external debt** estimated at US$13.1 billion in 1997. The debt is not considered disproportionate or burdening for the economy, and Portugal handles its financial obligations properly.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Portugal's membership in the EU was beneficial for the country's **infrastructure**. This was so not only because of the economic improvement due to European integration, but also because the country received support in financing its infrastructure projects from the union's funds. The greatest portions of these funds were raised through the European Regional Development Fund. Between 1987 and 1998, Portugal received approximately US$24 billion in development funds from the EU. Economic growth over the 1990s has been accompanied by some ambitious infrastructure improvements, most notably by the completion of an extensive system of modern highways.

Additional infrastructure projects are expected to be launched between 2001 and 2005, including additional roads, dams and ports, a new international airport (to be built at Ota, north of Lisbon), a new metro (subway) system at Oporto, modernization of the country's railroad system, and an upgrade of the natural gas pipeline system. As a result, the country has a well-developed transportation network with 59,110 kilometers (37,000 miles) of paved roads, including 797 kilometers (498 miles) of expressways, 2,850 kilometers (1,780 miles) of railroads, and some 820 kilometers (513 miles) of navigable inland waterways (of relatively little importance to the national economy). Once a great maritime nation, Portugal has many ports and harbors in Aveiro, Funchal (the Madeira Islands), Horta (the Azores), Leixoes, Lisbon, Porto, Ponta Delgada (Azores), Praia da Vitoria (Azores), Setubal, and Viana do Castelo. The country also runs a sizable merchant fleet of 151 ships totaling 1,061,267 deadweight tons (DWT). Portugal is served by nearly 40 airports and by its major national airline, TAP.

The energy industry is largely state-controlled, but energy output in Portugal is still quite low. Its dependence on foreign energy sources is thus correspondingly high. No oil or natural gas has been exploited in the country, known reserves of coal are limited (only about 30 million tons), and there are no nuclear power facilities. With financing from the EU, Portugal allocated Esc470 billion to the construction of a natural gas network to connect with the pipeline from Algeria to Europe, which opened in November 1996. The country expects the connection to the pipeline to support one-tenth of its energy

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Portugal	75	304	542	59.8	309	7.0	81.3	59.40	700
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Spain	100	333	506	11.8	179	17.8	144.8	76.75	4,652
Greece	153	477	466	1.2	194	3.8	51.9	59.57	750

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

needs. In 1998, electricity was generated mostly by thermal plants, using fossil fuel (63.14 percent), hydropower (33.46 percent), and other (not nuclear) sources (3.4 percent). The country is a major net importer of energy.

The Portuguese energy market in the 1990s was served by 4 government-controlled companies: the partly privatized oil company Petrogal, the partly privatized electricity utility Electricidade de Portugal (EDP), and the 2 gas companies, Transgas (operating the new natural gas pipeline) and Gas de Portugal (GdP). In 1999, the government created a new state-controlled holding company, Gas e Petroleos de Portugal (Galp) by merging Petrogal with the 2 gas companies. This process was aimed at developing an energy group that would be able to compete effectively with larger Western European utility companies in the increasingly **liberalized** market.

In telecommunications, Portugal is a small market lacking a culture that is particularly technology-oriented. Furthermore, Portugal has a relatively low saturation in terms of consumer telecom services compared with other, more developed EU countries. In 1996, 3.72 million fixed telephone lines were in use, and there were 887,216 mobile phone subscribers in 1999. For comparison, these statistics are quite lower than in Scandinavia, but still higher than in Germany. Portugal joined Finland and Venezuela as one of the only countries where, for various reasons, mobile phone penetration has overgrown the fixed phone market. About 23 percent of Portuguese homes had cable TV in 2000. Although 20 Internet service providers operated in 1999, the Portuguese still lagged well behind most other Europeans in using the Internet. Business and consumer broadband and data faster-access Internet services, popular elsewhere in Europe, are still almost non-existent.

The legacy of the decades-long Portuguese dictatorship with its nationalistic, isolationist economic policies, combined with its comparatively late entry into the EU, has resulted in Portugal's reputation as the EU's telecommunications laggard. The country started implementing the EU services directives to harmonize its telecommunications industry with the markets of its larger, more developed neighbors for the first time in the early 1990s. Portugal liberalized its basic telecommunications services in January 2000, becoming the second-to-last EU member to open its market to foreign competition, and its regulatory regime was set to manage the transition period to free competition. By early 2001, the state-run Portugal Telecom (PT) had kept its **monopoly** control on traditional segments such as fixed telephony, leased lines, and multi-channel television. The cable television market is still dominated by the PT's cable division (under the brand names of PT, Multimedia, and TV Cabo), which operates a nationwide fiber optic cable network covering nearly 95 percent of the consumer base.

However, PT faces robust competition in newer telecom services in the liberalized market environment. While PT's basic fixed line telephone market is considered rather dysfunctional, under-developed, and shrinking, its strongest competitive advantage is TMN, its mobile service operator and only serious business presence in non-traditional markets. Competition in new service segments started gaining ground when the second mobile phone operator, using the European GSM system, was launched in 1992. The liberalization of the data services market in 1994 led to several new data service entrants. Competition in non-traditional services has forced PT to reinvigorate its efforts to secure its thinning margin of leadership in market share in these segments. In January 2000, with the entry of 8 new basic services operators, competition entered the traditional market.

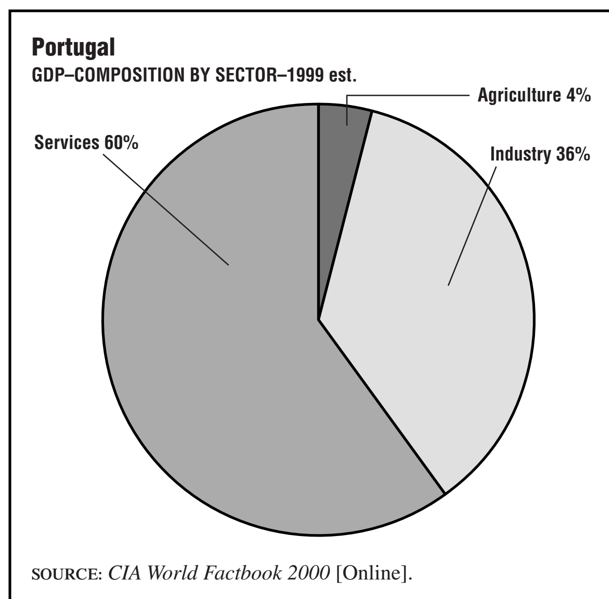
In 2000, the government filed for EU approval to privatize a 34 percent stake in the TAP airline, demonstrating its intention to sell it to Swissair. Other deals in the government's ambitious infrastructure privatization program include a 20 percent share in the state electricity giant EDP and the last 10 percent of state-owned stake in national telecommunications company PT, which was sold to foreign investors in 2000. In 2001, the privatization of the state's remaining 15 percent stake in the expressway operator holding, Brisa, is expected, as well as the partial privatization of the energy holding company Galp, one-third of which has already been bought by the Italian energy group ENI. However, the government's handling of the TAP, EDP, and Galp privatizations has turned highly controversial, and political and legal inquiries into the matter could delay further privatization steps.

ECONOMIC SECTORS

In 1998, the largest contributor to the Portuguese economy, as elsewhere in Western Europe, was the services industries. This sector is responsible for nearly two-thirds of the GDP, while industry, utilities, and construction together contributed more than one-third, and agriculture, forestry, and fishing contributed about 3.3 percent. By European standards, however, a disproportionately high percentage of the **labor force** was employed in agriculture. The 13.5 percent of the population that works in this industry apparently still lag behind their counterparts in other EU nations in using modern technologies and enhancing effectiveness.

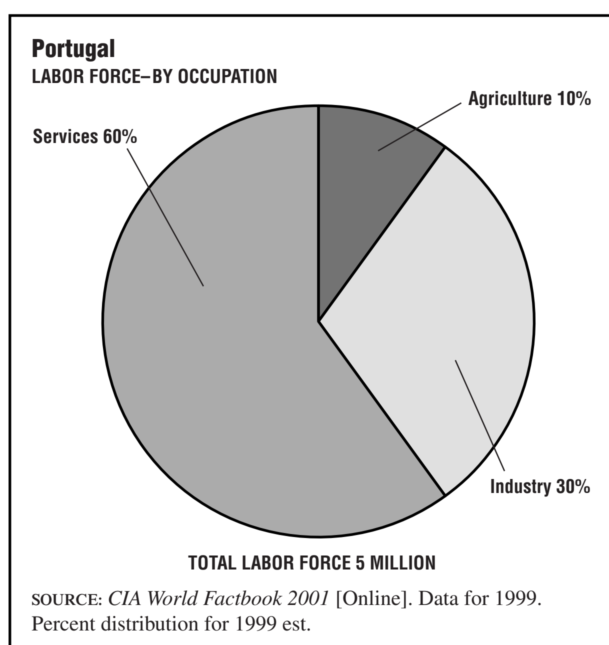
AGRICULTURE

Although its contribution to GDP is very small, agriculture still employs a considerable number of Portuguese. Chief crops and production figures for 1998 include vegetables (including tomatoes, 2.2 million metric tons), fruit (including grapes and olives, 1.7 million tons),



SOURCE: *CIA World Factbook 2000* [Online].

root crops (including potatoes, 1.1 million tons), and cereal grains (including corn and wheat, 1.3 million tons). Portugal is traditionally one of the world's leading producers of wine (including the world-renowned Porto and Madeira wines) and olive oil. Livestock in 1998 numbered 1.3 million cattle, 6.3 million sheep, 2.2 million pigs, and 33 million poultry. Fishing is also a major industry. Portuguese farmers and fishers—like their colleagues elsewhere in Europe—rely heavily on EU **subsidies**, but their slowness to adopt more productive technology has resulted in a loss of EU market share to competitors from Spain, France, and Italy.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1999 est.

INDUSTRY

Although the country's economy is progressively shifting its weight to the services sector, manufacturing retains significant importance in Portugal, employing (with construction and mining) more than one-third of the labor force. Major traditional manufactures include processed food, textiles, metals, machinery and ship repair, chemicals, wood (particularly cork), glass and pottery items, refined petroleum, and building materials. Annual production in the late 1980s included about 27,400 metric tons of processed sardines, 285,900 metric tons of refined sugar, 1.3 million metric tons of chemical fertilizers, and 386,900 metric tons of steel products. The products of Portuguese cottage industries, such as lace, pottery, and tiles, are world famous, and the shoe industry also performs particularly well. Some new sectors, such as automobiles and automobile components, electronics, and plastics, have also become increasingly important over the 1990s. The prosperity of the manufacturing sector generally improved during the 1990s, with output expanding by a yearly average of 3.1 percent. This was due in part to the presence of a new generation of Portuguese entrepreneurs and the appearance of major foreign investors. Industrial policy in the 1990s focused on attracting foreign capital, mostly by way of privatization, but also by offering state and EU subsidies and assistance to investors. The government intends to further privatize several manufacturing facilities, notably in power generation, chemicals, and construction materials (cement). Not all foreign investments have been successful, however, and the government has been criticized for not properly securing guarantees for the future performance of many of them. Between 1995 and 2000, for example, 2 automobile manufacturers, Ford and the French company Renault, have terminated production in Portugal.

A considerable number of Portugal's more traditional manufacturing businesses are still run by the most powerful families. Nonetheless, a new generation of family management has been successful in meeting the challenges of the European single market through technological innovations, developing export markets, and making use of the country's low wage structure. However, many of these industries face increasingly tough competition from the Asian economies, where wage levels are even lower and where currency **devaluations** in the 1990s have increased their competitive edge. Many firms have been unable to adapt to these new market realities, resulting in a decline in the production of textiles, clothing, and footwear between 1995 and 2000. Difficult economic conditions are expected to continue until 2005, as companies shift their output to more **value-added** products. Raising productivity is an important priority for Portuguese manufacturing, but its record in research and

development is weak. In 1997, it spent only 0.63 percent of its GDP on research and development, less than one-third of the average amount of EU nations.

Nevertheless, the 1990s saw positive developments in the newer manufacturing sectors as well. A **joint venture** with Ford and Germany's Volkswagen (VW), Auto-Europa, was launched in April 1995 with the purpose of building multi-purpose passenger cars for export. At the time, it was Portugal's largest manufacturing operation. This US$2.6 billion investment package received the highest level ever of union subsidies in the EU at nearly US$1 billion. From the beginning, however, company executives admitted that production and employment would not meet forecasts because of weaker than expected European demand for the vehicle being produced. Ford gradually pulled out and VW acquired full ownership of the venture. Despite these setbacks, this modern plant has had a very positive impact on the economy, producing nearly 130,000 cars per year. They are almost all produced for export, generating sales of US$2.3 billion and accounting for some 12 percent of the total worth of Portuguese exports (1997 est.). The plant employs 3,000 workers and has helped to create more than 5,000 other jobs. At its full capacity, it could add as much as 15 percent to the value of Portugal's total exports and 6 to 7 percent to its import bill. The AutoEuropa plant is situated in a new industrial park outside of Lisbon in Palmela, where many of its main suppliers are located as well. Taguspark, also located outside of Lisbon in the city of Oeiras, is a science and technology park built in 1992 that housed about 100 new technology companies in 2000.

SERVICES

FINANCE. As Portugal's economy moved towards a focus on services, particularly on banking and finance, this sector gained importance in the 1990s. Following the gradual but thorough privatization of state banks begun in the late 1980s, the Caixa Geral de Depositos (CGD) remained the only state-controlled financial services firm in 2000 (the government has ruled out its privatization for the time being).

The privatization of the sector has been followed by a wave of bank mergers and acquisitions. Coping with a relatively small but increasingly crowded market as a result of the European banking liberalization policies, Portuguese banks took the opportunity to form larger and more efficient groups. In 1995, Banco Comercial Portugues (BCP) and the insurer Imperio jointly bought the country's largest private bank, Banco Portugues do Atlantico (BPA). Industrialist Antonio Champalimaud acquired half of the second largest bank, Banco Totta e Acores, and added it to his Banco Pinto e Sotto Mayor (BPSM). In 1999–2000, the banking sector underwent further consolidation when the major Spanish bank, Banco Santander Central Hispano (BSCH) tried to acquire a controlling stake in the Champalimaud group. Because it was in violation of EU legislation, the deal was banned by the government, but a compromise led to the split of the Champalimaud group and a new reorganization of the sector. BSCH acquired 2 of the splinter Champalimaud banks, Banco Totta e Acores and Credito Predial Portugues; CGD acquired the group's most valued assets, BPSM and the insurance group Mundial Confianca. This reorganization concentrated 70 percent of the country's retail banking market in 4 institutions: CGD, BCP, Banco Portuguese do Investimento (BPI), and Banco Espirito Santo (BES). BSCH of Spain controls 11 percent of the market share. Insurance firms are strongly connected to the banking groups, and 3 of them dominate the market: Mundial Confianca, acquired by CGD; Imperio, controlled by BCP; and Tranquilidade, in which BES has a major stake.

By 2000, banking services in Portugal were modern and mature. Yet as the competition from foreign banks increased with the implementation of the EU banking liberalization policies, profit margins of Portuguese banks began to shrink. Even though the Internet offered the possibilities of cost advantages such as online banking, no Portuguese bank was in a position by 2000 to use fully the Internet for significant cost savings. None had close enough ties to a major foreign bank that would have been able to provide adequate support. Decreasing lending margins in the late 1990s, on the other hand, have prompted most Portuguese retail banks to raise their commissions on customer transactions in order to stay profitable. For example, debit cards in Portugal have an annual charge of US$9.25 a year and credit cards have an even higher annual charge. As a result, commissions vary radically from bank to bank, and it is often the poorer customers who are actually bearing the burden of such dubious banking policies.

Shrinking bank profit margins, increasing bank commissions, and allegations that banks frequently gave misleading information on their charges or applied the charges after the accounts had been opened prompted the government to introduce new voluntary regulations on banking services. These regulations allowed for even the poorest citizen to have a bank account without depositing a minimum amount and to pay only low predictable charges. Only the state-owned CGD, the country's largest financial group, had previously provided a full table of its prices for any visitor to its web page to see. Several major banks adopted the new rules in 2000, but others declined for reasons of commercial secrecy.

Although Internet banking hardly exists in Portugal, its national system of automated teller machines (ATMs),

Multibanco, is a leader in Europe. The new Netpin electronic technology, compatible with the system, offers unprecedented security against fraud. Netpin's developer, the Portuguese technology-based company Grupo de Apoio a Industria Nacional (GAIN), manufactures most of the terminals distributed across the SIBS (Sociedade Interbancaria de Servitos) system, parallel to Multibanco. The Netpin system offers the services available at a regular ATM (withdrawals; balance inquiries; payment of tax, water, and energy bills; recharging of electronic "purse cards") and could serve as the basis for development of electronic commerce in Portugal. The company is considering marketing the product in foreign markets, concentrating on those where the Multibanco system already has a foothold, such as Brazil, Colombia, Spain, and Costa Rica.

Between 1994 and 1998, due to very easy and active mortgage financing, household debt (in home mortgages) rose from 28.6 percent to 60.8 percent of the **disposable income** in the country and from 21.1 percent to 44.1 percent of GDP. While the Portuguese government believes that such levels are not dangerous, the rapid growth of the debt is hardly sustainable. If household income suddenly drops, a banking crisis could be triggered by households unable to make payments. There are thus some worries that these high debt levels could worsen any future **recession**. Furthermore, household disposable income can be rapidly affected even if no recession occurs, simply due to changes in interest rates by the European Central Bank. Finally, the easy availability of home mortgage loans has contributed to an exaggerated and burdensome increase in real estate prices.

TOURISM. Tourism is one of the most important sectors of the Portuguese economy, with foreign currency earnings accounting for an estimated 4.8 percent of GDP in 1999 and employing 6 percent of the active population. Foreign exchange revenue from tourism amounted to US$2.4 billion in 1997. Nearly 25 million foreigners visit Portugal every year, and about half of them are tourists. Most of the visitors are Central and Northern Europeans attracted by the sun and beaches of the southern Algarve region and Madeira. In the mid-1990s, as mass beach tourism declined worldwide, the sector went through a sluggish period, in contrast to the tourist boom in neighboring Spain. The authorities launched a program to diversify attractions by promoting sports, culture, and conference facilities, and public investment in the late 1990s was directed into providing facilities in undeveloped areas to encourage investment by the **private sector**. The government is restoring historical and cultural assets such as castles and monasteries, with the EU meeting one-third of the costs. A renewed tourism promotional campaign helped increase revenue in 1997 and 1998. The favorable exchange rate for visitors from Britain (Portugal's most important tourist market) and the celebration of the World Fair Expo '98 in Lisbon brought in additional visitors as well. The World Fair alone contributed a 20 percent increase in foreign visitors in 1998 and a 17 percent increase in tourist revenue.

RETAIL. Portugal is slowly following general European retail trends, with a proliferation of hypermarkets and shopping malls gradually replacing small traditional retailers. These new forms of retailing thrived during the consumer boom of the late 1990s. Both foreign and domestic investors have participated in the retailing revolution, with principal domestic investors being the Oporto-based group Sonae Investimentos and Lisbon's Jeronimo Martins.

Portugal's franchise retail market, after the boom period of the 1990s, entered a phase of consolidation in 1999. At that time, 357 franchisers were already operating in the market. Of the total number of brands, 35 percent were Portuguese and 42 percent were Spanish. Banks specializing in small and medium-sized businesses, like the state-owned Banco Nacional Ultramarino, help franchises get started. Famous franchise names include Printemps and Carrefour (French supermarket chains); McDonald's, Pizza Hut and Baskin-Robbins (U.S. fast-food chains); Goody's, a Greek fast-food chain claiming to be the third largest in Europe; and Italian and French apparel stores like Massimo Dutti and Faconnable. Ready-to-wear clothes account for more than one-third of all franchised outlets. A series of new retail centers, such as the large Colombo Center in Lisbon that opened in 1997, have provided excellent opportunities for retail licensing and franchising. The company Sonae Imobiliaria, a unit of Sonae Investimentos, accounts for more than half the market for new retail centers. The next phase of retail development will most likely be the emergence of retail parks or factory outlets, and Sonae Imobiliaria, as well as its rival Mundicenter, are preparing to develop this market.

Since the late 1980s, mail order and TV sales have become popular direct marketing methods. Between 1996 and 1997, sales growth was calculated at 15 percent, and there are presently around 50 direct marketing firms. The most popular sectors are cultural, instruction and training, and amusement materials (33 percent of sales) and apparel and clothing (17 percent of sales). Other strong areas are housewares, perfumes, cosmetics, art, and collectibles. The success of direct marketing is more impressive given that Portuguese mailing expenses are considered high.

E-commerce is still lagging behind most of Europe, but several companies have emerged in the late 1990s that offer online shopping for office supplies, computer accessories, and groceries. Consumer protection regulations and laws in Portugal are considered generally adequate for online shopping, although inspections often are ineffective.

Trade (expressed in billions of US$): Portugal

	Exports	Imports
1975	1.939	3.839
1980	4.640	9.309
1985	5.685	7.652
1990	16.417	25.263
1995	22.621	32.339
1998	24.220	37.049

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

INTERNATIONAL TRADE

In 1996, Portuguese imports totaled US$34.1 billion and exports US$23.8 billion. Principal imports typically were mineral fuels, machinery and transportation equipment, and food and livestock. Principal exports included clothing, textile yarns and fabrics, and wood and paper products. Leading purchasers of exports were Germany, Spain, France, the United Kingdom, the Netherlands, the United States, Italy, Belgium, and Sweden; chief sources for imports were Spain, Germany, France, Italy, the United Kingdom, and the Netherlands. Foreign exchange revenue from tourism, amounting to US$2.4 billion in 1997, helped to compensate for the nation's chronic **trade deficit**. The World Fair Expo '98 in Lisbon considerably enhanced the country's profile in this respect.

MONEY

Portugal and 10 other members of the EU have started changing over from their national currencies to the single European currency, the euro, for all transactions as part of their participation in the EMU. Use of the euro began in January 1999, although only for electronic bank transfers and for accounting purposes. Euro coins and bills will be issued in 2002, at which time the Portuguese escudo will cease to be legal currency. The EU members have established the European Central Bank (ECB) in Frankfurt, Germany, responsible for all EU **monetary policies**. Since 1999, the control over Portuguese monetary issues, including interest rates and the money supply regulation, has been also transferred to the ECB.

Exchange rates: Portugal

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	180.10
1997	175.31
1996	154.24

Note: Rates prior to 1999 are in Portuguese escudos per US$.

SOURCE: CIA *World Factbook 2001* [ONLINE].

Although Portugal qualified for the initial stage of the EMU in 1998, its public finances are still considered quite unstable. In 2000, the ECB decision to hold interest rates steady was welcomed in Portugal, but financial policy challenges were still very serious. The late 1990s, years of rapid economic growth and increasing tax revenues, allowed the government to boost public spending growth in 1998 and 1999 and still meet its deficit reduction targets. But revenue growth slowed dramatically in 2000 due to the domestic economic slowdown and the government's highly controversial energy policy.

By allowing the rate of the petrol tax to fluctuate disproportionately to oil prices, the government hoped to prevent a dramatic rise in oil prices that might fuel consumer price **inflation**. That policy, however, turned into a massive drain of the public finances while budgeted revenue targets were missed by about 0.7 percent of GDP. The government, quite luckily, met its budget deficit target of 1.5 percent of GDP in 2000, as required by the EU standards, but that was only thanks to the boost of US$360 million from the sale of 4 operating licenses for third generation mobile phone operators. It was otherwise estimated that the deficit would have been almost 2 percent of GDP.

The weaknesses of Portugal's public finances were analyzed in 2000 in reports by the European Commission (the EU executive body), the International Monetary Fund (IMF), and the Organization for Economic Cooperation and Development (OECD), all of which offered a gloomy account of the situation. The government admits that, with the economy entering a period of slower growth, it has few options but to implement structural spending reforms (public spending cuts) if it is to meet future deficit reduction targets. A new public finance committee was scheduled to present proposals on spending cuts in the first half of 2001.

Financial markets in Portugal are doing considerably well by most accounts, although important pieces of legislation regarding their development are still pending in parliament. The Lisbon Stock Exchange's (Bolsa de Valores de Lisboa, or BVL) capitalization and **turnover** have grown rapidly in the late 1990s, fueled by the government's massive privatization program and by the Portuguese people's growing enthusiasm for share ownership. The privatization of a 30 percent stake in the electricity utility EDP in June of 1997 substantially increased the exchange capitalization and **liquidity**, and the number of shareholders increased from 1 percent to 6 percent of the Portuguese population. This considerable growth in activity, value, and capitalization transformed

the exchange from an **emerging market** into a developed one. The launching of a new market in Oporto in 1996, which merged with the Lisbon one in 1999, gave an additional impetus to stock market trading.

After dropping slightly in 1995, the BVL **price index** (the Portuguese counterpart for the United States' Dow Jones) increased by 32 percent in 1996, by 65 percent in 1997, by 26 percent in 1998, and by 10.2 percent in 1999. It reached its record high of 6,511 on March 3, 2000. The increase was driven by the soaring prices of a limited number of telecom, media, and Internet stocks, although concerns in Europe and the United States about overvaluation of Internet-related stock has since led to a dramatic cooling of market enthusiasm for the "new economy" stocks. The stock market also experienced a still rising tide of public offerings in this sector in 2000, including PT Multimedia and PT.com (the media and Internet subsidiaries of PT), Sonae.com (the Internet division of the other major domestic telecom operator, Sonae), and Impresa (a major media group). Nonetheless, the Portuguese stock market suffers from a lack of liquidity similar to that of other European exchanges, reflecting its disproportionate dependence on a small number of blue-chip (large and profitable company) stocks, the most influential of which, PT and EDP, are still largely controlled by the government.

The long expected New Market (Novo Mercado) for small, high-growth companies, a replica of the American Nasdaq market, failed to launch by its planned deadline of December 2000. The disappointment in Portugal was considerable as this failure was largely regarded as a sign that the BVL was lagging behind at a time of rapid transformation of European securities markets. BVL executives decided that an alliance with other exchanges would keep it from being left out of this period of European expansion. Negotiations were started for an association with the Euronext exchange group, which serves to unite stock exchanges in Amsterdam, Brussels and Paris, although there were no guarantees that the larger markets would agree to accept Portugal's much smaller exchange as an equal. In late 2000, the BVL also struck an agreement with the Spanish derivatives market, MEFF, to launch trading in financial products listed in each other's markets. The Portuguese stock market commission declared that in January 2001 the exchange would adopt several new indicators, with the current index, the BVL 30, being replaced by the Portuguese Stock Index 30. It would also be joined by other existing indexes. The indexes planned to be included in the deal are PSI 20, PSI General, PSI TMT (technology, media, and telecommunications), PSI NM (New Market, as soon as it becomes operational), and another new index for medium-sized service and industrial companies. This change has been seen largely as a cosmetic measure, however. There have been many discussions of fundamental change at the BVL, but little has been decided upon, and the market continues to suffer from large gaps between the intentions of its executives, the needed but still pending legislation, and actual achievements.

POVERTY AND WEALTH

After long decades of relative poverty for the rural and urban masses during the dictatorship, Portugal's living standards have been on the rise since the mid-1970s. Conditions particularly improved after the country joined the EU and aligned its social policies with the Union's regulations. Poverty and social exclusion, characteristic of the country earlier in the 20th century, are presently almost non-existent. Many remote, depopulated rural areas benefit vastly from EU programs on regional development. After the democratic revolution in 1974, the government implemented, under socialist and **communist** influence, a number of measures for more equitable distribution of income and land ownership.

One measure of economic inequality, the **Gini index**, gives Portugal a ranking of 35.6, lower than that of the United States (40.8) or the UK (36.1), though it is still much higher than those of Nordic EU members such as Denmark, Sweden or Finland. Yet Portugal's per capita GDP is still comparatively low by European standards, and the bank indebtedness of ordinary households is remarkably high.

Portugal's rate of inflation rose through much of 2000, exceeding the ECB price stability limit of 2 percent and the Portuguese government's original inflation target of 2 percent for the year (later revised to 2.7 percent). The actual **inflation rate** for 2000 was double the euro-zone average. The inflation rise reflected rising food prices, the effect of the euro's weakness against the U.S. dollar on 2000 import prices, and the impact of higher energy bills. Despite the government's decision to freeze the prices of retail oil products in April 2000, both producer and consumer prices continued to increase. The extremely tight labor market and rising inflation notwithstanding, average wage growth (based on collective pay agreements for non-public-sector workers) showed very

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Portugal	6,024	7,193	7,334	9,696	11,672
United States	19,364	21,529	23,200	25,363	29,683
Spain	10,040	10,512	10,943	13,481	15,644
Greece	8,302	9,645	10,005	10,735	12,069

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Portugal

Lowest 10%	3.1
Lowest 20%	7.3
Second 20%	11.6
Third 20%	15.9
Fourth 20%	21.8
Highest 20%	43.4
Highest 10%	28.4

Survey year: 1994–95

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

little increase in 2000. **Real wages** were likely to decline by the end of 2000. As a result of this, ordinary Portuguese felt rather pessimistic about their current economic prospects.

WORKING CONDITIONS

By 1997, the total labor force in Portugal was approximately 5 million. Although unemployment still averaged about 4 percent (one of the lowest in the EU), many considered Portugal to have almost achieved **full employment** and that there was little opportunity left for redirecting **underemployed** workers from agriculture to more productive sectors. The proportion of working women was already higher than in most other EU countries. Since the late 1980s, powerful syndicates (labor unions) controlled more than 55 percent of the labor force. The labor market is accordingly tight and many industries are suffering from a labor shortage.

According to the available data from the third quarter of 2000, 30,000 new jobs were created in Portugal during that period, and the rate of employment growth accelerated to 1.8 percent. New job creation was boosted mainly through the traditionally unstable construction sector, where employment rose by 11.5 percent, while service sector jobs increased by only 2.1 percent, and industrial employment fell by 3.3 percent. Growth in the number of employees reached 2.6 percent, of which fixed-term contract employees were responsible for 1 percent and permanent contracts for 0.7 percent. The tightness of the labor market was somewhat lessened by a rise in the number of persons who applied for a job for the first time. Nevertheless, the economy continued to operate in conditions of near full employment. Portugal's **participation rate** still remains well below the EU average, increasing the heavy strain on overburdened social security and health-care systems.

Although Portugal is ruled by a socialist government and enjoys friendly relations between the government and the unions, labor disputes are often quite passionate. In May 2000, after a series of nationwide railroad strikes, the government ordered 1,700 state-employed train operators back to work, claiming their actions were harming the economy and the people's lives. Legislation provides grounds for such an order as a rarely used emergency measure if key public services are at risk. The loss-making national railroad company, Caminhos de Ferro Portugueses, is Portugal's only train service provider. Once the period covered by the order expired, however, train operators decided to resume their action.

Earlier in 2000, the socialist government was shaken by the worst wave of public sector protests since it took office in 1995, when a general strike by civil service and transport unions hit services in Portugal. Schools, health centers, buses, and the Lisbon Metro were affected by the stoppages. The main communist and socialist-led union federations called upon labor opposition to push for higher wages. The strike was the latest in a series of events that had been gathering momentum since annual wage talks were aborted in March 2000, and the government fixed a 2.5 percent wage increase for public administration workers. When the government later announced an average increase of more than 11 percent in fuel prices, unions feared that real wage increases would erode. Antonio Guterres, the prime minister, warned that public sector wage increases had to be kept moderate to prevent higher inflation that could threaten Portugal's compliance with the EMU stability pact.

The dire economic forecasts in early 2001 suggest that hidden wage pressure may be still growing. Public-sector unions have demanded wage increases between 4.5 percent and 6 percent in 2001, expressing their serious concern about the fact that the government may miss the inflation target (on which wage negotiations are based) for the third consecutive year. The government, which has resisted these pressures, is still expected to agree upon an average pay raise in the public sector of about 3.7 percent for 2001 (up from 2.5 percent in 2000), which, on the other hand, may over-stretch the already very fragile public finances and fuel higher inflation.

Furthermore, with labor market conditions remaining very tight, there is a risk of even greater pressure for wage increases on the private-sector, raising the threat that even higher inflation could become inevitable. The traditional loyalty between the government and the trade union federation could, in the event that this happens, come under additional strain. Good labor relations, nonetheless, will most likely continue to be the norm. On the other hand, improvements in the quality of the workforce through education and training, which have been generously funded through EU programs, will be conducive to wage growth.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

2ND CENTURY B.C. Present-day Portugal territory becomes a part of the Roman province of Lusitania.

5TH CENTURY A.D. The area is conquered by the Visigoths.

8TH CENTURY. The region is conquered by Muslim Moors.

997. The land between the Douro and Minho rivers is taken over by Bermudo II, the Spanish Christian king of Leon.

1064. The lands to the south of the Douro and Minho rivers, including Coimbra and including several Spanish fiefs, are united into a feudal entity by Ferdinand I, Spanish king of Castile and Leon. The northernmost of the fiefs, the Comitatus Portaculensis, situated around the old Roman seaport of Portus Cale (Oporto), later gives its name to Portugal. A feudal, agriculture-based economy develops.

1093. Henry (Henrique) of Burgundy becomes Count of Portugal.

1139. Alfonso Henriques, son of Henry of Burgundy, declares Portugal independent from the kingdom of Castile and Leon and becomes king. Aided by the Templars and other knights' orders, he extends the kingdom southward to the Tejo River.

1185. Portuguese settle in the reconquered area in self-governing municipalities. The Cistercian monks promote more efficient agricultural methods.

1248–79. The Moors are driven out of the southern province of Algarve, and the capital of Portugal is moved from Coimbra to Lisbon. The king starts governing with the help of a Cortes (a representative assembly of the nobility, clergy, and citizens).

LATE 13TH CENTURY. Diniz, "the Farmer King," encourages agriculture, founds the first university at Coimbra, develops the Portuguese navy into the strongest in all of Europe, and negotiates a commercial treaty with England.

LATE 14TH CENTURY. Under the lead of Prince Henry the Navigator, son of King John I, a century of exploration and conquest begins with exploring the African coast for a route to the Indies. Portugal later becomes a great colonial power as its navigators explore Madeira, discover the Azores Islands, and take a foothold in Africa.

MID-15TH CENTURY. Using the caravel, a tall ship adapted for Atlantic voyages, Portuguese sailors reach present-day Cape Verde, Sierra Leone, Ghana, and Angola.

1488. Bartholomeu Dias becomes the first European to sail around the southern tip of Africa, opening the sea route to the East Indies.

1494. After Christopher Columbus's voyage to America, Portugal and Spain sign the Treaty of Tordesillas, which allocates to Portugal all undiscovered lands east of a line 370 leagues west of the Cape Verde Islands.

1497–99. Vasco da Gama reaches India by the Dias route and starts a lucrative trade in spices and other luxuries. The Portuguese later conquer Goa (in present-day India), Malacca (in present-day Malaysia), the Moluccas Islands (in present-day Indonesia), and Hormuz Island in the Persian Gulf. Under pressure from Spain, Portugal expels all Jews and Muslims, depriving Portugal of much of its enterprising middle class. Trade is begun with China, and Portugal later acquires the trade colony of Macao from China.

16TH CENTURY. Portugal settles Brazil and introduces the Inquisition at home to enforce Roman Catholic loyalty. Political decline follows internal struggles for the throne, and Portugal is subdued by the Spanish Habsburgs and gradually loses its positions in the East Indies to the Dutch and the English.

1640. With help from France, Portugal restores its independence, and John IV of Braganza takes over the throne and renews ties with England. British merchants gradually come to dominate Portuguese trade, monarchy becomes more despotic, and the Cortes lose their significance.

1750–77. Chief Minister Sebastiao Jose de Carvalho e Mello encourages industry and education and ends the foreign monopoly of trade.

1807. The armies of French Emperor Napoleon threaten Portugal, and the royal family withdraws to Brazil, making Rio de Janeiro the seat of government. In 1811, Portugal is free of French influence, but the royal family remains in Brazil and makes it a separate kingdom in 1815. Brazil proclaims its independence in 1822.

1826. Pedro IV (former Pedro I of Brazil) takes over the throne in Lisbon and introduces a parliamentary regime subordinated to the monarchy. Acute internal political strife more than once requires the intervention of other European powers and popular dissatisfaction with the monarchy grows.

1910. The army and navy lead a revolution establishing a republic. A liberal constitution is then adopted, and Manuel Jose de Arriaga is elected president. Portugal is shaken by political turmoil and in 1916 begins participation in World War I fighting for the Entente.

1926. An army coup deposes the 40th successive cabinet since the founding of the republic. Antonio de

Oliveira Salazar, professor of economics, is appointed minister of finance.

1932. Salazar becomes prime minister and dictator, and Portugal becomes a incorporated state with a planned economy, called the Estado Novo (New State).

1943. Portugal remains neutral in World War II but allows the Allies to use the Azores as a naval and air base. The planned economy collapses as the fishing industry declines, refugees fill the country, and the East Indies colonies are threatened by Japan.

1945. Unemployment and poverty are rampant after the war, but opposition to the Salazar regime is suppressed.

1960s. India annexes Portuguese Goa in 1961. Uprisings start in Angola, Guinea, and Mozambique and fighting continues into the 1970s. The United Nations (UN) blames Portugal for waging colonial wars. Loans help finance domestic irrigation and construction projects and some economic growth occurs.

1974. Led by Antonio de Spinola, a 7-man junta takes power and promises democracy at home and peace in Africa.

1974–75. Guinea-Bissau, Mozambique, the Cape Verde Islands, São Tomé and Príncipe, and Angola become independent.

1975. The Movement of the Armed Forces (Movimento das Forcas Armadas, MFA) assumes a formal role in the government by establishing a single trade union confederation and starting to reform economic and social life. Heavy industry and banking are **nationalized** and large agricultural holdings are expropriated and redistributed. The Socialists win elections for a constituent assembly, but after a series of clashes between Socialists and Communists, the MFA assumes control. In the same year, Portuguese Timor is occupied by Indonesia.

1976. New parliamentary elections bring the Socialists into office and Mario Soares becomes prime minister.

1979. The Conservative Democratic Alliance wins elections and its leader, Francisco Sa Carneiro, takes office as premier but is killed in a plane crash a year later. The military Council of the Revolution is dismissed by a constitutional amendment.

1983. Socialist Soares comes back into power as prime minister. He introduces an austerity program and conducts negotiations for joining the European Community (now the EU) that are finalized in 1986.

1992. Mass student demonstrations are followed by strikes involving public employees demanding wage increases and doctors protesting plans to privatize some health services.

1996. Portugal and its former colonies of Angola, Brazil, Cape Verde, Guinea-Bissau, Mozambique, and São Tomé and Príncipe form the Commonwealth of Portuguese-Speaking Countries (CPLP), an organization seeking to preserve the language, coordinate diplomatic efforts, and improve cooperation between the countries.

FUTURE TRENDS

The Portuguese economy is very closely dependent on the overall developmental trends of the EU and its efforts to match the requirements of the single European economic space. Over the first decade of the 21st century, it will continue to progress towards more private enterprise and competition. Privatization will continue to be an important issue in telecommunications, manufacture, and the other utilities, although the government is likely to retain special rights in key companies. It will also seek international strategic partners for those companies. Incentives to attract **foreign direct investment** will receive more attention, and Portugal may attract some new additional investment from its close links with Spain and Latin America. Gradual discarding of EU quotas on imports of textiles and clothing will create conditions for increase in Portugal's exports to the union members. The possibility of further negotiations on multilateral trade liberalization within the World Trade Organization (WTO) may also contribute to the future reinvigoration of the Portuguese export sector.

Trade with non-EU countries, including its former African, Asian and Latin American colonies, should continue to increase. A major simplification of corporate taxation is expected before 2003, and the corporate tax rate might be reduced to 30 percent (although **indirect taxes** may rise). Improved investment incentives may come under further EU scrutiny while stock market liquidity and capitalization will increase, boosted by further privatization. Due to the limited size of the domestic capital markets, more medium-sized businesses will increasingly seek funding in the international markets. A further consolidation in the financial sector and the emergence of more powerful banks, able to better realize economies of scale, compete in the single European market space, and make use of the Internet revolution, is also expected.

Work on the government's ambitious road building program and the new urban rail networks in Oporto and Lisbon will continue. The main seaports will be upgraded, and Lisbon is expected to receive a new international airport.

Portugal will experience more serious problems as new Central and Eastern European members of the EU with more pressing needs start competing for development funds. Agriculture and fishing may face a corresponding decrease in subsidies. It is logical to expect that Portugal, along with Greece, would not be overzealous in the process of the new members' accession to the EU. No major dan-

gers for the economy have been envisaged (projected) and growth is forecast to decrease only slightly below the EU average in 2001 and 2002. Yet the current high levels of household indebtedness and the recent rise in house prices suggest there could be a risk of a severe decrease in consumer spending, particularly if interest rates go higher than expected. Such developments may significantly harm retail and domestic **consumer goods** manufacturers.

DEPENDENCIES

Portugal has no territories or colonies.

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—Valentin Hadjiyski

ROMANIA

CAPITAL: Bucharest.

MONETARY UNIT: Romania leu (L). One leu equals 100 bani, though bani are seldom used, thanks to devaluation. There are notes of 1,000, 2,000, 5,000, 10,000, 50,000, 100,000, and 500,000 lei (plural of leu), and coins of 1, 5, 10, 20, 50, 100, 500, and 1,000 lei.

CHIEF EXPORTS: Textiles and footwear, metals and metal products, machinery and equipment, minerals, fuels.

CHIEF IMPORTS: Machinery and equipment, minerals and fuels, chemicals, textiles, footwear.

GROSS DOMESTIC PRODUCT: US$36.7 billion (2000). [*CIA World Factbook 2000* reports GDP at purchasing power parity to be US$87.4 billion (1999 est.).]

BALANCE OF TRADE: **Exports:** US$10.4 billion (2000). **Imports:** US$12.0 billion (2000). [*CIA World Factbook 2000* reports exports to be US$8.4 billion (f.o.b., 1999 est.) and imports to be US$9.6 billion (f.o.b., 1999 est.).]

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in southeastern Europe on the Black Sea, Romania covers an area of 238,500 square kilometers (92,085 square miles), making it slightly smaller than Oregon. It borders Hungary, Yugoslavia, Bulgaria, Moldova, and Ukraine, and has a coastline of 225 kilometers (140 miles). The capital, Bucharest, is towards the south of the country.

POPULATION. The population of Romania was estimated at 22,334,312 in July 2000, having fallen 2.6 percent since its peak in 1988. The population is expected to continue falling for the next decade thanks to net **emigration** and low birth rates, a fact that worries the government. But improved health care should slow the rate of decline as infant mortality falls from its current 19.8 deaths per 1,000 live births.

Meanwhile, the proportion of retired people is rising. By 2005, 14.6 percent of the Romanian population will be aged 65 or over, compared to 11.8 percent in 1995. For this reason, Romania has recently reformed its state pension system because rising unemployment has combined with the aging population to make the former pay-as-you-go system unaffordable. The plan is to encourage complementary private pensions, allowing younger citizens to save for their own old age while maintaining payments to those that are already **pensioners**.

Romania's population is remarkably homogenous. Almost 90 percent are ethnic Romanians, claiming descent from Latin-speaking Romans who settled among the local Dacians in 100–200 A.D. As a result, Romanian is a Romance language related to French and Italian, in contrast to the Slav languages spoken in surrounding countries. Around 70 percent of Romania's population is Romanian Orthodox.

The biggest minority group is Hungarian, which is particularly strong in the western region of Transylvania. Hungarian-Romanians have automatic rights to parliamentary representation and Hungarian-language education. There are also sizeable Roma, Turkish, and Croat populations, as well as Ukrainians, Greeks, Russians, Armenians, and Serbs. Romania used to have a Jewish population of around 300,000. Most of them survived World War II but emigrated to Israel, leaving only a few thousand now. During the 1990s, two-thirds of Romania's German population also emigrated to Germany.

OVERVIEW OF ECONOMY

Romania is well-endowed with minerals, natural fuels, and rich agricultural land, and has a good trading location on the Black Sea. But a turbulent history, culminating in the repressive **communist** regime of 1947 to 1989, have kept it from turning its natural advantages into profit. Originally settled by the Dacian tribe, the region now known as Romania fell under Roman rule in the 2nd century A.D. The Romans abandoned the area less than 2 centuries later, and Romania was split between local fiefdoms until the medieval period, when it fell under Ottoman rule.

Over the next few centuries, Hapsburg forces from Austria-Hungary took over the northwestern region of Transylvania and gradually pushed the Ottoman Empire south. But it was not until the 19th century that the Ottomans finally left Romania. Europe's other powers were anxious to stop Austria-Hungary and Russia from dominating the region, and their pressure led to Romania being declared a nation in 1878 under the German prince Carol of Hohenzollern. For the next 50 years, the country struggled to establish a liberal democracy. It cultivated links with the West, particularly France, and fought with the Allied forces in World War I. But, by 1938, it had become a dictatorship, and the country entered World War II on the side of Nazi Germany.

The country fell under full communist control at the end of 1947 after Soviet troops moved into Eastern Europe. The country's first communist leader, Gheorgiu-Dej, was originally a Stalinist but gradually loosened ties with Moscow. That process was completed by his successor, Nicolae Ceaucescu, who started to improve relations with the West. During the 1970s, he borrowed heavily abroad to build up Romania's **infrastructure** and heavy industry, often building plants without any commercial rationale. Then, in the 1980s, he adopted a policy of isolationism and self-sufficiency. Industry and infrastructure was starved of investment as Romania strove to repay all of its **foreign debts**.

Nicolae Ceaucescu was overthrown and killed in 1989 in a revolution that officially cost 689 lives. He was replaced by his former aide, Ion Iliescu, who called elections in 1990. Despite protests, these resulted in Iliescu being elected president, while his party headed the government. Since then, Romania has worked towards becoming a democratic, Western-style economy. This has involved breaking up and **privatizing** its huge industrial plants, reviving foreign trade, and allowing the growth of small businesses.

The process has been difficult, and Romania has not progressed as fast as some of its Eastern European neighbors. A decade of stop-and-go reforms meant that Romania's first post-communist **recession** was followed by another 3-year slump in the mid-1990s. By 1999, the country's GDP was just 76 percent of its 1989 level, according to the Development Ministry. Romania has struggled to maintain its infrastructure and **restructure** its outdated heavy industry. Agricultural output has fallen, largely because the land has been split up into tiny **subsistence farms**. Many of the country's largest companies are still state-owned and loss-making.

With the help of the World Bank, Romania has drawn up a list of state companies to be closed or sold in an attempt to improve the government's finances. But progress has been slow because of the job losses involved. The transition to a market economy has also put an enormous strain on the country's social support systems. Unemployment has risen rapidly and the World Bank estimates that 22 percent of the population lives in poverty.

The year 2000 may be the start of a turnaround, however. Romania's economy started growing again and is expected to continue growing for the next 2 years at least. High world commodity prices in the past 2 years have boosted exports. Meanwhile, the service sector has expanded quickly, with new private shops and trading companies springing up. Romania's tourism industry, centered around the Black Sea coast and the beautiful mountain resorts, is reviving. There has also been some limited foreign investment, notably the acquisition of the Dacia car plant by France's Renault in 1999.

Romania's main aim for the next few years is to reduce **inflation** (45.7 percent in 2000) and boost growth, partly by attracting more foreign investment. Longer-term, the country hopes to join NATO and is 1 of the 10 Eastern European countries negotiating to join the European Union (EU). Romania's own target date for EU entry is 2007, but the latest progress report from the EU Commission in October 2000 was not encouraging. It put Romania in last place out of all the current candidates, saying that the country did not yet have a functioning market economy, a prerequisite for entry. Most analysts expect it to take Romania at least another decade to pass the reforms necessary for EU entry, even if the political will is there.

POLITICS, GOVERNMENT, AND TAXATION

Since the overthrow of communist leader Nicolae Ceaucescu in 1989, Romania has been ruled by a succession of new or reformed parties, each claiming that they will be able to revive the economy. The most dominant has been the Party of Social Democracy in Romania (PDSR), a leftist party that developed out of the former Romanian Communist Party. It is headed by Ion Iliescu, a former communist who took over from Ceaucescu in 1989 in what many see as an insiders' coup.

Iliescu recognized the need to turn Romania into a democratic market economy and called elections in 1990 and 1992. These resulted in his being declared president and the PDSR becoming the main party in the governing coalition. The PDSR advocated a slow reform program and started to **liberalize** the economy, restitute land to its pre-Communist owners, and privatize smaller companies. But it kept state controls over some prices, particularly in the energy sector, and over foreign exchange markets. It also failed to break down many of the big state **monopolies**. The economy, after a recession in the early 1990s, revived on the back of government **subsidies**. But Romania's economic problems and allegations of corruption led to Iliescu and the PDSR losing the presidential and government elections in 1996.

They were succeeded by a multi-party coalition that promised more rapid reforms, including faster privatization and liberalization. Unfortunately, this new government, headed by the Democratic Coalition, proved too inexperienced and quarrelsome to push through many of the necessary measures. Others proved unexpectedly painful. Price liberalization pushed up inflation and a credit crunch boosted unemployment, while privatization was slow and scandal-ridden. The coalition went through 3 prime ministers in 3 years as politicians squabbled and the economy went into a 3-year recession.

By November 2000, when new government and presidential elections were held, the coalition government had become deeply unpopular. Romanians voted overwhelmingly for the return of Iliescu and the PDSR. However, the PDSR did not receive a majority of the votes. The ultra-nationalist Greater Romania Party received the 2nd highest percentage of votes, which generated anxiety in many national and international circles because of the party's isolationist and xenophobic rhetoric. Instead of forming a coalition with other parties to create a majority government, the PDSR formed a single-party minority government. The party claims to have changed since its previous term in office and is now presenting itself as a European-style social democratic party. It has announced its support for Romania's bids to join the EU and NATO and is trying to woo foreign investors by pushing through reforms recommended by the EU and International Monetary Fund.

In general, the elections confirmed that democracy in Romania is on a stronger footing than the economy. The European Commission says that substantial progress has been made in establishing political parties, a pluralistic media, and civilian control of the army. None of

these things is yet assured, however. Parties often have similar platforms and are continually splitting, while the media is under pressure from both politicians and business lobbies. Meanwhile, corruption is widespread, according to a report published in March 2001 by the World Bank. Romania passed new anti-corruption legislation in May 2000 establishing several agencies and tightening up rules on public administration, but it will take years for the effects to show.

The trade unions, particularly in the mining industries, form a powerful and potentially disruptive lobby group. In the past decade, notably in 1991 and 1998, the miners and other unions have stepped in at moments of crisis by marching on Bucharest. Rival politicians are often accused of triggering these miners' marches for their own ends, and disagreements with the unions was one reason for the problems faced by the Democratic Coalition and its partners in government. The PDSR enjoys closer ties with the unions and is trying to use this relationship to contain wage increases. In February 2001, it struck a key social pact with the unions and employers, trying to set a framework for all 3 sides to work together.

One perennial source of political and economic problems is taxation. Weak administration and collection, the collapse of several big tax-paying firms, and widespread tax avoidance have led to a sharp decline in revenues. Some 30 to 40 percent of the real economy is probably not registered in the official figures, and the government runs a persistent deficit (7 percent of GDP in 2000) as it struggles to fund social security systems, health care, and education. In 2000, the government tried to boost its tax take partly by lowering tax rates and broadening the tax base, in a bid to lure non-payers back into the system. Despite all this, government spending still accounts for 40 percent of the economy because of slow privatization of state industry.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Romania's infrastructure is fairly extensive, with 103,671 kilometers (64,276 miles) of road, 11,385 kilometers (7,058 miles) of rail, and 3.84 million main telephone lines. But most of it is in a poor state of repair, due to decades of underinvestment. This is a situation that successive governments are eager to rectify, though they have had difficulty finding the necessary funding. Most hopes rest on foreign aid, particularly from the EU, and on attracting foreign investment.

Since 1989, every government has instituted a road-building program, partly in an attempt to generate employment. The EU has helped, but its money has mainly gone towards improving border posts and building the major trans-European corridor routes that run through Romania. Critics say the money would be better spent on improving smaller roads, particularly in ensuring that donkeys and carts are kept off major routes. Railway services, meanwhile, are still provided by the state-owned rail company SNCFR and are loss-making, despite government subsidies. Only a third of the tracks are electrified, and speed restrictions are widespread. In March 2001, the Japanese government lent Romania US$220 million to upgrade the Bucharest-to-Constanta railway.

Romania has 6 major ports, of which Constanta is seen as the most important to the country's future. It is located where the River Danube flows into the Black Sea. The Danube itself is the country's most important trade route, but, in 1999, was blocked thanks to NATO's bombing of Serbia. It has recently reopened, but problems remain. Romania also has 3 international and 16 domestic airports. The dominant carrier is the country's national airline, Tarom. It is currently state-owned, and the government has been trying to find a strategic investor to provide financing and connect the airline into the rapidly forming global alliances. But the latest at-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Romania	300	319	233	119.2	29	N/A	10.2	9.01	600
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Poland	113	523	413	83.3	50	N/A	43.9	40.86	2,100

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

tempt to sell Tarom, in late 2000, failed thanks to a lack of interest.

Investment into Romania's energy sector is also badly needed. The country currently generates 22.6 gigawatts of power from a combination of thermal, hydroelectric, and nuclear power plants. But most of the plants are over 20 years old, and about 60 percent of Romania's power capacity will have to be replaced within the next 10 years. The power market is dominated by the state monopoly Conel. To meet EU expectations and attract investment into the power market, Romania plans to liberalize the power market, break up Conel, and privatize parts of the sector. The government is also pushing for an oil and gas pipeline to be built through the country to transport fuel from the Caspian Sea region to the West. But with several countries competing to become a transit route, the outcome is uncertain.

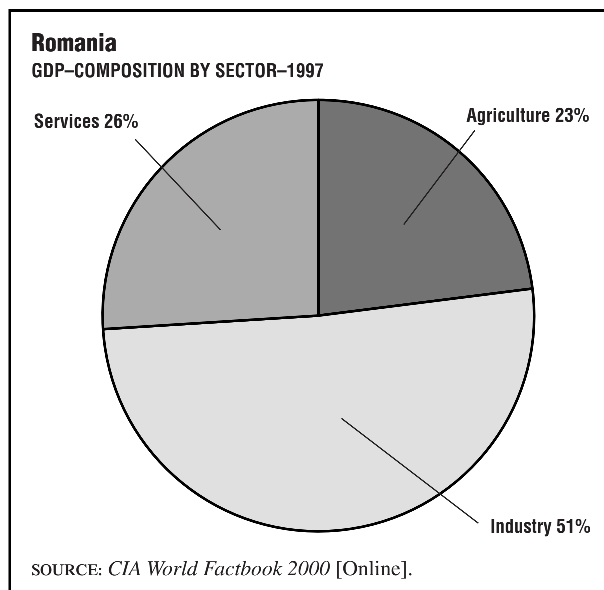
Romania's telecommunications system is extremely outdated, with poor service. But there has been some progress in recent years. In 1998, Greece's OTE bought a 35 percent stake in the state fixed-line monopoly, Romtelecom. OTE plans substantial investment, while the government has raised US$7 to 8 billion through a 15-year telecoms program supported by the World Bank and the European Bank for Reconstruction and Development. Meanwhile, mobile telecoms have grown rapidly, led by private companies such as Mobifon and Connex. Over 1 million Romanians are now thought to have mobile phones, with 60 percent of the country covered. Internet access has been slow to develop because of poor phone lines. Internet accounts penetration is now 0.25 per 100 inhabitants, compared with 1.25 in neighboring Hungary, according to the Economist Intelligence Unit.

ECONOMIC SECTORS

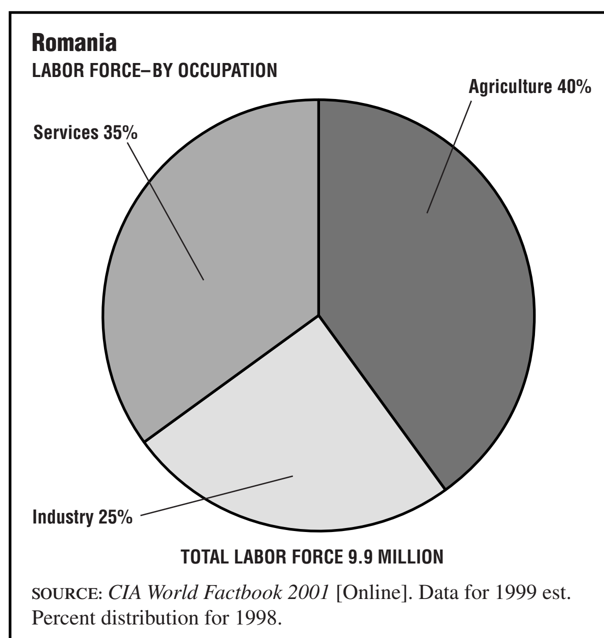
Romania's economy was designed for self-sufficiency under the communist regime, and great emphasis was placed on building up manufacturing industry to supply the population's needs. This resulted in a fairly diversified economy. But the 1980s scramble to repay foreign debts led to chronic underinvestment. Then, during the 1990s, the transition to a market economy and the liberalization of foreign trade exposed many of the country's products as obsolete. Two deep recessions in the past 10 years have added to the problems afflicting many of Romania's companies.

Industry's share of GDP has fallen from 41 percent in 1990 to 28 percent in 1999. Much of the slack has been taken up by services, which were underdeveloped during the communist era. Services now account for 48 percent of GDP, largely because of a growth in trade. Agricultural production also slumped heavily during the 1990s, and the inefficient structure of farming, as well as export barriers, means it will not rise markedly in the future. Instead, Romanian growth—predicted at 3 to 4 percent in each of the next 4 years—is expected to come from reviving industry and services.

Foreign trade has developed rapidly during the 1990s, despite the disruption caused by war in former Yugoslavia, and now accounts for 64 percent of GDP. The previous Romanian government put great emphasis on encouraging exports, cutting the profit tax on exports at the start of 2000. The new government says it will continue this policy. Nevertheless, with 22 million people, the domestic market is still the main focus for most companies. It is also



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999 est. Percent distribution for 1998.

the main reason why foreign investors such as France's Renault have moved to the country.

AGRICULTURE

Agriculture employed 42 percent of Romania's **labor force** in 1999 but generated just 16 percent of GDP. Improving this ratio is one of the biggest challenges facing Romania as it tries to raise living standards and to enter the European Union. One reason for the low productivity of farming is the agricultural reforms started in 1991, which restituted land **nationalized** under the communists to its former owners or their heirs. A limit was put on the amount of land that could be restituted, in the interests of social equality. The result is that Romania now has the most fragmented agricultural land in Eastern Europe.

The agricultural sector has 2 main components: informal and formal. On the one hand are the estimated 4 million subsistence farmers, which own 60 percent of farmland but produce mostly for their own consumption. These are deemed a social, rather than economic, problem and efforts are focused on improving their living standards, largely by persuading them to move into other jobs. The sheer number of them is a big barrier to European Union entry because, under current EU rules, they would each be entitled to income support. The formal agricultural sector consists of the large farms, which produce for domestic and export markets. Privatization of these began in 1997, though a substantial number are still state-owned.

Agricultural production fell sharply in the early 1990s, followed by a slow recovery. According to the World Bank, total production dropped 20 percent between 1989 and 1998, though gross **value-added** in the sector has only dropped 1 percent. Droughts in 2000 cut production further, but the underlying problem is the agricultural sector's inefficiency.

The small size of the plots of land makes them uneconomic to farm. In addition, Romania's self-sufficiency drive in the 1980s meant that it started producing crops like rice, which were unsuitable for local conditions. These crops disappeared as soon as agriculture was opened to market forces. Romania also suffered from the Yugoslav wars, from a drop in world commodity prices, and from export barriers imposed by the EU and its Central European neighbors.

These trade barriers have gradually been lifted throughout the 1990s, while the Yugoslav wars have calmed down and prices have risen. But, if Romania is to exploit the new opportunities, it has to increase the efficiency of its farms and of its distribution. The country should be a natural exporter of agricultural goods. It has some of the richest land in the region, with 80 percent of its territory suitable for arable farming. Yet, in 1999, agriculture accounted for just 3.4 percent of the country's exports.

INDUSTRY

MINING/NATURAL RESOURCES. Romania is well-endowed with natural resources. It has large reserves of petroleum, timber, natural gas, coal, iron ore, and salt, as well as facilities for hydropower. But lack of investment is causing the output of everything from coal to oil to fall.

The coal sector has been among the hardest-hit by the transition to a market economy. Coal production fell by 57 percent between 1989 and 1998, to 28.6 million short tons, as the economy shrank and use of other, less-polluting fuels increased. Over the past 5 years, the World Bank and the International Monetary Fund have pushed Romania to close inefficient mines, in order to stop the sector from gobbling up state subsidies. The social impact of this has been huge, with tens of thousand of miners losing their jobs, pushing unemployment in some regions to 70 percent. The current leftist government has promised that the pit closures will soon stop. It is hoping to boost electricity exports, which will mean more demand for coal.

Romania has proven oil reserves of 1.4 billion barrels, the largest in Eastern Europe. The country used to be a major oil exporter, but lack of investment has caused production to steadily fall over the last 2 decades. Romania now relies on imports to cover half its domestic needs. The government has started to attract foreign investment for oil exploration and production, both on land and in the Black Sea. There are also long-standing plans to privatize the state oil company SNP Petrom, although the attitude of the government remains unclear. Gas production has also fallen, with little money for exploration. Proven reserves of natural gas stood at 13.2 trillion cubic feet in 1998, but Romania still imports gas from Russia.

MANUFACTURING. Romania's manufacturing sector is dominated by machine-building, metals, chemicals, and textiles, all of which have had to turn from supplying the domestic market to finding export markets. Investment has been a key issue, as they try to update the outdated equipment many of them were left with when communism fell. Many of the previously state-owned firms have also been sold to private owners in an attempt to bring in money and improve management. Some of the biggest firms, seen by the government as strategic, have still to be sold, however.

The textile and footwear industries have been among the most successful in the past decade, as Western European and U.S. clothes-makers subcontract work to Romanian firms. As a result, textile exports accounted for

24.2 percent of 2000 exports, while footwear accounted for 7.6 percent. But such work depends on low wages, which is why Romania is anxious to progress from subcontracting to selling its own clothing designs. At present, the gross monthly wage in the textiles sector is just US$130 a month.

The metals sector has enjoyed a boom in the past 2 years, thanks to high world prices. The aluminum plant Alro is now Romania's biggest exporter and tripled its net profits in 2000. The country's biggest steelworks, Sidex, has also benefitted from the high prices, despite its outdated equipment and competition from stronger steel firms in Slovakia. Sidex is said to employ, directly and indirectly, over a million Romanian workers, both in and outside its home town of Galati. Both Alro and Sidex are still mainly state-owned and are expected to be sold to private owners by 2003.

During the 1990s, many of the largest firms in the machine-building sector were split up into smaller units in an attempt to boost efficiency and speed up their privatization. The disruption has been immense, and Romanian firms, long protected in an isolated market, have also found it hard to raise their production to the standard needed for export. Nevertheless, there has been some recovery in the sector. Exports rose nearly 50 percent during 2000, and it accounted for 14 percent of the total.

Romanian firms in both the metals and machine-building sectors lay great hopes on becoming subcontractors for major European manufacturers. That is why the 1999 acquisition of the Dacia car plant by France's Renault is seen as so important to Romania's future. Renault plans to use Dacia to develop, for **emerging markets**, cars selling for around US$5,000 apiece. To do that, it will have to build up a network of local, cheap suppliers such as the Sidex steelmaker. Renault's entry into Romania has also brought in other foreign investors, among them its international suppliers, such as the United States's Johnson Controls.

Romania's chemicals sector consists of both petrochemicals, based on its oil industry, and on pharmaceuticals. The pharmaceutical firms, such as Terapia, have found a niche for themselves in producing cheap versions of international drugs to sell both to Romanian hospitals and to EU countries. But they face problems as Romania moves towards EU membership because its patent laws will have to be made stricter, which will limit the drugs they can produce. Like the oil sector, the petrochemicals sector has revived in the past year due to rising world prices.

SERVICES

TOURISM. Tourism has always been an important part of Romania's economy. A combination of beautiful mountain regions, a warm sea coast, and Dracula's castles lure tourists. But the development of the industry has been hampered by a lack of money for infrastructure and tourist facilities. Service is still patchy in several parts of the country.

These factors, combined with the wars in neighboring Yugoslavia, mean that tourism numbers more than have halved since communism ended. In 1990, some 6.5 million foreigners visited the country; by 1998, that figure was down to 2.9 million. The collapse of the state tourism monopolies are partly to blame, combined with Romania's rising reputation for corruption. The number of domestic tourists has also slumped, with many Romanians no longer able to afford holidays.

Nevertheless, there are signs of a revival since the mid-1990s. Some limited foreign investment has come into the sector, particularly into Bucharest. Privatization of tourism facilities has speeded up. And the government has made development of the industry one of its prime medium-term objectives.

FINANCIAL SERVICES. The development of Romania's banking sector is seen as crucial to economic growth, because it will determine whether companies can get the loans and investment they need to become competitive. In 1990, the market was dominated by a handful of state banks. In 2000, there were 54 banks registered in the country, many of which were subsidiaries of foreign banks.

But Romanian financial services remain small in international terms. And the locally-owned banks in particular are also vulnerable to collapse because of a lack of experience in selecting borrowers, the effects of the 2 recessions, and their limited access to international capital. Several banks and funds collapsed during 2000, leaving thousands of deposit-holders demanding compensation from the government. Altogether, the government has had to spend US$3 billion in the past decade propping up the country's banks.

To overcome these problems, Romania is in the process of privatizing its remaining state banks. The aim is to find foreign strategic investors who can provide both capital and expertise and stop the banks from collapsing. The Romanian Bank for Development was sold to France's Societe Generale, while several financial investors, including America's GE Capital, have bought into Banc Post. In April 2001, Banka Agricola, the agricultural bank, was sold to the Romanian-American Enterprise Fund and Austria's Raiffeisen bank.

TRADE. Much of the growth of Romania's service sector stems from the growth of trade, both international and domestic. Trade employed 9.5 percent of Romania's workforce by 1998, compared with 5 percent in 1990. And it accounts for an estimated 90 percent of small

businesses in the country, many of which operate in the **grey economy**. Many of these firms are one-person companies with a van to ship goods. Others are small shops or even street-traders.

The **retail** trade in particular was underdeveloped in the communist era when all shops were state-owned. Now a multitude of small shops have sprung up and are increasingly having to compete with the new supermarkets. Some of the investment has come from foreign countries, with retailers such as Austria's Billa, Germany's Metro, and France's Carrefour building supermarkets and hypermarkets in the major towns. The investors seem unconcerned by the low purchasing power of Romanians. They see fast growth for the sector because it is so underdeveloped, and are keen to establish their position.

INTERNATIONAL TRADE

Foreign trade has grown rapidly during the 1990s, as Romania has quickly liberalized its trade regime. The country joined the World Trade Organization in 1995 and the Central European Free Trade Area in 1997. It also enjoys special trading rights with the European Union as a precursor to membership. Some 63.8 percent of exports go to EU countries, making Romania's economy dependent on that of major markets, particularly Italy. Great hopes are placed on the ending of the wars in the former Yugoslavia, the successor countries to which are natural trading partners for Romania.

Romanian companies have found it hard to take advantage of the new export opportunities, however. Meanwhile, imports have risen by 42 percent in dollar terms since 1990, as Romanians take advantage of their new access to **consumer goods** and as companies import investment goods such as computers. As a result, the country runs a persistent **trade deficit**.

Fortunately, export growth has accelerated in the past 2 years, thanks in part to high world commodity prices for Romanian exports such as steel, aluminum, and refined oil products. Nevertheless, 2000 exports rose 21.9 percent in dollar terms compared to the previous year, while imports rose 25.6 percent, according to the national statistics office. And the trade gap is expected to remain large for at least the next 4 years.

MONEY

The value of the Romanian leu has slowly declined on the world market for the past 10 years. In 1990, there were 24 lei to the U.S. dollar. By 2000, the average **exchange rate** was 21,693. The government and national bank have attempted to control this **devaluation** by defending the currency within a controlled band. Inflation averaged 45.7 percent in 2000, and, though the trend appears to be gradually downwards, the government's finances are still strained. There remains a slight risk of a return to the high inflation of the early 1990s (256 percent in 1993). For this reason, international rating agencies do not yet define Romania as an investment grade country.

Romania has 2 stock exchanges: the Bucharest Stock Exchange, which handles the biggest companies; and the Rasdaq, intended for smaller companies. Both exchanges peaked during the mini-boom of 1997, but confidence and **turnover** is now low. The Bucharest Stock Exchange is capitalized at US$11.5 billion, while the Rasdaq is capitalized at US$826 million.

POVERTY AND WEALTH

Under communism, Romania was a comparatively egalitarian society, and this has remained the case. Nevertheless, inequality has increased in the past 10 years. In 1989, the top 10 percent of the population earned around 2.1 times more than the bottom 10 percent. By 1998, the ratio was 3.0, around Western European levels.

At the same time, the rapid rise of inflation during the 1990s and the collapsing power of the Romanian currency have left many in poverty. Cornelia Tesliuc, in a study for the World Bank, estimates that poverty has risen

Trade (expressed in billions of US$): Romania

	Exports	Imports
1975	5.341	5.769
1980	11.209	13.843
1985	12.167	11.267
1990	5.775	9.843
1995	7.910	10.278
1998	8.300	11.821

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Romania

lei (L) per US$1	
Jan 2001	26,243.0
2000	21,708.7
1999	15,332.8
1998	8,875.6
1997	7,167.9
1996	3,084.2

Note: Lei is the plural form of leu.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Romania	1,201	1,643	1,872	1,576	1,310
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Poland	N/A	2,932	2,819	2,900	3,877

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Romania

Lowest 10%	3.7
Lowest 20%	8.9
Second 20%	13.6
Third 20%	17.6
Fourth 20%	22.6
Highest 20%	37.3
Highest 10%	22.7

Survey year: 1994

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

six-fold since 1989. That has left some two-thirds of the population (14.7 million people) living on the international equivalent of less than US$4 a day. Yet nearly all these people can still afford a basic food basket, and malnutrition is still rare.

Poverty is far greater in rural areas than in the towns. The northeastern regions, near the border with Moldova, have suffered most, thanks to the collapse of badly located industrial plants placed in these regions in the 1970s. Southern regions, near the Bulgarian border, are also poor. Meanwhile, the wealthiest regions are around Bucharest and in the western regions around Timisoara. But even in wealthier regions, pockets of poverty remain.

One major reason was the break-up and restitution of agricultural land, which left many people living on small subsistence farms. Unemployment has risen to over 10 percent from zero in communist times, thanks to struggling industry. A comprehensive government safety net is in place, providing a wide range of payments to pensioners, the unemployed, and large families. But strained government finances means the social payments have become tiny in real terms. Meanwhile, the average gross salary was just US$136.60 a month in January 2001.

As yet, the growing inequality has not had a noticeable effect on education levels. As in other ex-communist countries, Romania's literacy rate is relatively high, at 97 percent for women and 98 percent for men. The government accepts that it is vital to maintain these standards if Romania is to overcome poverty in the future. Unemployment is already affecting the less well-educated disproportionately. And there are worrying, if unsubstantiated, reports that school attendance is falling rapidly in some of the poorest rural areas and particularly among the Roma minority.

Maintaining health standards is also important. Romania's health-care system provides for universal access to care, funded from a state insurance fund. But it has proved difficult to maintain standards in the face of rising health-care costs. Many patients report that they have to make unofficial payments to doctors and nurses in order to get treatment, which makes access difficult for the poor. Health-care workers argue that low wages force them to accept such tips.

One of the key problems facing Romania is its orphanages. Abortion and contraception were made illegal in 1966, in an attempt to build up a communist workforce. The result was thousands of unwanted births. Some 150,000 children now live in orphanages, and though Westerners' attempts to adopt some of these children or donate money have helped, they have also brought new problems. A system of illegal adoption agencies has

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Romania	36	7	9	3	20	9	16
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Poland	28	4	19	6	1	8	34

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

grown up around the orphanages, and the foreign aid has encouraged corruption. In 1999, the European Union told Romania that it would have to stamp out this corruption and improve conditions in the orphanages before it could be admitted to EU membership.

A poor family in Romania is likely to be one with 6 or more members, including 4 or more children. It will probably be headed by a woman (particularly an elderly woman), with only primary education. The head of the household will be either unemployed, self-employed, or a subsistence farmer with less than 2 hectares of land. The family is also likely to be a Roma family—Roma are 3.5 times more likely to be poor than other Romanians.

A wealthy family in Romania is likely to be an urban couple with no children and high education. They are likely to be young and employed in a high-paying sector such as financial services.

WORKING CONDITIONS

Between 1994 and 1998, Romania's labor force has fallen from 10 million to 8.8 million. Part of the drop came from growing unemployment. But even more people simply fell out of the labor force by taking early retirement or invalid benefits. Agriculture has also soaked up a huge proportion of the spare labor force as industrial firms collapsed and land was restored to its owners. In 1990, agriculture used to account for 28 percent of the workforce. It now accounts for 42 percent.

Working conditions are regulated by various laws, most importantly the Labor Code of 1991. It sets a working week of 40 hours per week, and paid holidays of 18–24 days a year. It also stipulates redundancy payments and higher pay for workers in dangerous sectors. Nevertheless, workers still complain that working conditions are worsening in Romania. Wages have been slow to recover from a slump in 1997, when they fell 22.6 percent in real terms. And accidents at work are still one of the biggest causes of death for men aged 30 to 50.

The bargaining power of Romanian workers is limited in most sectors, thanks to the weak economy. The huge unions of the communist era have collapsed as the country turned to democracy, and their successors are far weaker. Unions and strikes are both allowed under the 1991 law, but workers complain that there are restrictions on their activity. Politicized sectors, like the miners, have frequently held large street protests. But these have often had political aims rather than pushing for improvements to working conditions.

The current leftist government views relations with the unions as key to its ability to govern the country. That is why it formed a social pact with unions and employers in February 2001. The unions have agreed that wage increases should keep pace with productivity in order to make the country's exports competitive. In return, the government has promised to keep unemployment below 10 percent, improve workplace safety, reduce the grey economy, and stop appointing political managers to state-owned firms.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

106 A.D. Roman troops defeat the local Dacians, and Dacia becomes a province of the Roman empire.

271. Goth attacks force the Romans to withdraw.

4TH CENTURY. Christianity arrives in the region and is adopted by the Latin-speaking Daco-Romans. The area gradually coalesces into 3 regions: Wallachia, Moldavia and Transylvania.

1415. The ruler of Wallachia is forced to recognize the suzerainty of the Ottomans, who go on to conquer and unite all 3 regions.

1686. Hapsburg forces from Austria-Hungary take over Transylvania and annex parts of Moldavia over the next 200 years.

1859. After the Turko-Russian war, Wallachia and Moldavia are united and become independent.

1878. Romanian independence is recognized by the UK, France, and Germany. The country later chooses Carol I of Prussia as its first king.

1916. Romania declares war on Hungary and invades Transylvania, which it eventually wins.

1919. The Treaty of Versailles, which ends the First World War, sees Romania double in size, taking over Bukovina and parts of Bessarabia as well as Transylvania. Even now, this Greater Romania is still seen as the country's rightful territory by some politicians, e.g. those in the Greater Romania Party.

1938. King Carol II declares a royal dictatorship to stem a wave of fascist terror sweeping through the country. At the onset of the Second World War, Romania loses many of its northern territories under the Molotov-Ribbentrop pact between Germany and Russia. Carol II steps down.

1941. Under General Ion Antonescu, Romania forms a pact with Nazi Germany and fights to regain its territories. Thousands of Jews are deported.

1944. A royal coup topples Antonescu, and Romania fights the rest of the war on the Allied side.

1947. Romania is declared a People's Republic after communists gain 80 percent of the vote in rigged elec-

tions the previous year. Russia takes over northern Bukovina and Bessarabia.

1965. The country's first communist leader, Gheorghe Gheorghiu-Dej, dies. His successor, Nicolae Ceaucescu, continues to draw Romania away from Russian influence and towards the West.

1980s. Romania adopts a policy of isolationism and scrambles to pay off its US$10 billion in foreign debts. The clampdown on trade results in widespread shortages of goods, including gasoline. The debt is repaid by 1989.

1989. Nicolae Ceaucescu is overthrown and is shot, together with his wife, Elena. The National Salvation Front (NSF), headed by former Ceaucescu aide Ion Iliescu, takes over the government.

1990. Parliamentary elections are held, resulting in an overwhelming victory for the NSF. Iliescu becomes president. But he has to bus hundreds of miners into Bucharest to quell public demonstrations against the NSF.

1992. Parliamentary elections are won by Iliescu's National Democratic Salvation Front, an offshoot of the NSF. This later becomes the Party of Social Democracy of Romania (PDSR).

1993–95. Romania joins the Council of Europe and the World Trade Organization, and becomes an associated member of the European Union and a member of NATO's Partnership for Peace.

1996. Centrist opposition parties win a majority in parliamentary elections and come to power promising faster economic reforms. But the economy subsequently goes into a 3-year recession.

1997. Romania joins the Central European Free Trade Area.

1999. The European Union officially invites Romania, together with 6 other candidates, to negotiate for membership.

2000. The PDSR regains power and promises to continue Romania's progress towards EU and NATO membership.

FUTURE TRENDS

As Romania enters the 21st century under a new government, its immediate troubles seem to be behind it. The recession is over and growth is predicted for the next 4 years. This is partly for unhealthy reasons, with the government trying to stimulate the economy. But it is also for more healthy reasons. The country's exports are rising as Romanian firms learn to compete in international markets, and more foreign investment is coming into the country.

But for the long term, a lot depends on whether Romania progresses towards membership in the European Union. Even now, the goal of EU membership forces the government to tackle some of the uncomfortable reforms still needed if the economy is to thrive, such as closing down uneconomic factories and rooting out corruption. It also encourages much-needed investment in the country. Meanwhile, the EU itself is contributing billions of dollars in aid to help Romania repair its infrastructure.

These benefits can only increase if Romania achieves its goal and joins the EU within the next decade. EU aid should increase, along with the investment. And trade will be eased, raising living standards. It is the country's best chance for economic security and of achieving some kind of political security. NATO membership would be an added boon, bringing military security.

But there are plenty of risks along the way. One is that Romania's governments will fail to do the work they need to do to persuade the EU and NATO to let them join. Existing EU and NATO members could block Romania's entry to both organizations if the potential problems seem too big. Worst of all, Romania's attempts to establish democracy could fail if there is a backlash against some of the job cuts and austerity measures needed to revive the economy.

DEPENDENCIES

Romania has no territories or colonies.

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—Ana Nicholls

RUSSIA

Russian Federation
Rossiyskaya Federatsiya

CAPITAL: Moscow.

MONETARY UNIT: Ruble (R). R1 equals 100 kopeks. Coins are in denominations of R1, 2, and 5. Paper currency is in denominations of R10, 50, 100, and 500.

CHIEF EXPORTS: Petroleum and petroleum products, natural gas, wood and wood products, metals, chemicals, and a wide variety of civilian and military manufactures.

CHIEF IMPORTS: Machinery and equipment, consumer goods, medicines, meat, grain, sugar, semi-finished metal products.

GROSS DOMESTIC PRODUCT: US$1.12 trillion (purchasing power parity, 2000 est.).

BALANCE OF TRADE: **Exports:** US$105.1 billion (2000 est.). **Imports:** US$44.2 billion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. In terms of territory, Russia is the world's largest country. With a total area of 17,075,200 kilometers (6,592,735 square miles), Russia covers about one-eighth of the world's land surface. Russia is 60 percent larger than the world's second-largest country, Canada. But, like Canada, much of Russia's territory is located above the 50th parallel, where subarctic and arctic weather conditions are prevalent. Until the disintegration of the Union of Soviet Socialist Republics (USSR or "Soviet Union") in 1991, the Russian Soviet Federated Socialist Republic was the largest and dominant administrative component of the Soviet Union. In August 1991, the Russian Republic was one of the 15 countries that declared independence from the Soviet Union.

Russia stretches from its westernmost point in the city of Kaliningrad, just north of Warsaw, Poland, to its easternmost point at Big Diomede Island in the Bering Strait. Within eyesight is Little Diomede Island, belonging to the United States just off the coast of Alaska's Seward Peninsula. Russia's great breadth of territory includes many different geographical regions. These include areas of permafrost (areas of eternal ice) in Siberia and the Far North as well as taiga and steppes (vast grassland). Much of Russia's northern and eastern coastline is hemmed in by ice for much of the year, complicating navigation. However, Russia has year-round warm water seaports at Murmansk on its northwestern coastline of the Barents Sea and at Vladivostok at the far eastern coast on the Sea of Japan.

POPULATION. The population of Russia was estimated at 146,001,176 (July 2000 est.) by official U.S. government sources. According to official figures, the Russian population growth rate is negative, declining at a rate of 3 percent a year. The birth rate was at 9 births per 1,000 persons per year in 2000. The death rate was at 13.8 deaths per population per year. The declining population in Russia is taking place in the presence of a net in-flow of migrants. Migration to Russia averaged 1.38 migrants per year per 1,000 persons during 2000. The migration into Russia is composed heavily of migrants from the 14 countries of the former USSR that adjoin Russia but became independent states in late 1991.

Roughly 80 percent of Russia's population is ethnic Russian. The remaining 20 percent is made up of a wide variety of ethnic groups including Tatar, Ukrainian, Belarussian, Moldavian, Kazakh, and many others. About three-fourths of the population of Russia is urban. Moscow, Russia's capital and largest city, is home to some 9 million people. Russia has a well-educated population with near universal literacy.

Previously Russia was the world's sixth most populous country, following China, India, the United States, Indonesia, and Brazil. The Population Reference Bureau, one of the world's leading professional demographic organizations, differs with the official U.S. government

estimates regarding the size of Russia's population, and estimated Russia's population in July 2000 to be 145,231,000. At the same time, the bureau estimated Pakistan's population to be 150,648,000. This differs with the U.S. Central Intelligence Agency's (CIA) *World Factbook,* which estimated Russia's population to be 146,001,176 and Pakistan's to be 141,553,775. Despite the difficulties in measuring population accurately, it is clear that Russia's population is declining and Pakistan's is growing rapidly. If the estimates of the Population Reference Bureau are accurate, Pakistan has already overtaken Russia. This would mean that Russia, previously the world's sixth most populous country, has fallen to seventh place behind Pakistan. Even if the figures are not exactly accurate, the population trends suggest that this transition is not far away.

The USSR was a multinational country with a population of 289 million people. The country was made up of more than 100 ethnic or "national" groups. Today's Russian Federation (or simply "Russia") emerged from the USSR with roughly one-half of the USSR's population. In the aftermath of the Soviet breakup, millions of people relocated from the parts of the USSR in which they lived to new homes in the 15 countries that resulted. This migration involved many of the citizens of the USSR relocating to their native homelands. Even after these population adjustments, however, Russia is still a large and varied country. Dozens of different language groups and ethnic groups occupy Russia today.

Many of the minority groups within Russia have asserted their right to greater cultural autonomy and, sometimes, political autonomy. A minority area within Russia inhabited largely by the Chechen people proclaimed independence from Russia in 1994. Russian troops crushed the separatist movement. Russia proclaimed victory over the breakaway area of Chechnya in 1996, but the war erupted again in 1997. The brutal Chechen war has left much of this corner of Russia in ruins and has contributed to an ethnic terrorist campaign against Russia. Chechnya lies in one of Russia's most economically strategic regions, across which passes oil and gas pipelines carrying energy resources to European and world markets. Independence in Chechnya would result in these pipelines falling under the control of Chechnya rather than Russia.

OVERVIEW OF ECONOMY

Russia today has a diversified economy, but its most important sector is the sale of raw materials and **primary commodities** such as oil, timber, and gold. Russia is well-endowed with natural resources and raw materials. Russia ranks among the world's leading producers of petroleum and gas, copper, manganese, bauxite, graphite, uranium, titanium, gold, silver, and platinum. The former Soviet Union was a leading international producer of manufactured items such as chemicals, weapons, and military and aerospace equipment. Much of the industrial base of these manufacturing sectors was located within the Russian Republic itself. However, the disintegration of the USSR led to significant interruptions in commercial relationships.

During its 73 years of existence, the USSR grew to be a great military superpower. Measured in terms of crude output, the USSR created the foundation for massive production possibilities. The USSR became one of the world's largest producers of numerous processed materials and manufactured items, ranging from foodstuffs to nuclear warheads. But efficiency of production—that is the ratio of inputs to outputs for any given product—was not a major objective of the Soviet economic system. Great emphasis was put on outputs. Accordingly, the USSR developed an economic system that was focused almost exclusively on the achievement of production targets. The system proved to be extremely bureaucratic and highly resistant to technological change. The Soviet economic system was not capable of meeting the requirements of the dynamic international markets of the 21st century. Even before the Soviet Union broke up, the Russian government began initiating reforms to move the economy from a centrally-planned to a market-based **liberal economy**. This process of change has come to be known as the transition to a market economy.

Soon after independence, the Russian government announced a much more ambitious program of political and economic reform. The program included a transformation of the economy from the principles of state planning and administrative direction to market-based economics. **Price controls** were lifted. Government **subsidies** were eliminated or reduced. The government budget was organized along new lines so that it could be balanced through bringing tax revenues into line with government spending. A restrictive **monetary policy** was adopted. Foreign trade was **liberalized** through the lifting of export and import controls. The Russian currency, the ruble, was allowed to devalue to bring it into line with market rates. **Privatization** and **restructuring** of state **monopolies** was undertaken. Efforts were commenced to establish the legal and regulatory structure for a market environment. New legislation was passed to establish laws and procedures for the banking industry, capital markets, civil and contract law, adjudication of commercial disputes, and the development of a social safety net to cushion the social impact of economic structural transformation.

But the first years of transition proved very difficult for Russia. In its first decade as a market-oriented economy, the Russian economy suffered a contraction of nearly 60 percent over pre-independence levels as measured by GDP. Sharp declines in production in key industries and exports led to a continuously contracting economy between 1990 and 1997 as industrial production went into a "free fall," dropping more than 50 percent during the decade of the 1990s. The Soviet military-industrial complex, suppliers of goods to the state sector, and light industry were the hardest hit by the structural adjustment to a market-oriented economy and the withdrawal from superpower status.

In 1997 the economy began to show the first signs of post-transition recovery, posting a growth rate of slightly less than 1 percent. Despite the "shock therapy" of a rapid transition and the decline in industrial production, increase in poverty and unemployment, and the weakening of the social service **infrastructure**, Russia was beginning to show signs of an economic turnaround. **Inflation**, which skyrocketed in 1993 and 1994, finally had been brought under control. The ruble was stabilized. An ambitious privatization program had transferred thousands of enterprises to private ownership. Important market-oriented laws had also been passed, including a commercial code governing business relations and the establishment of an arbitration court for resolving economic disputes.

However, in the summer of 1998, a powerful wave of financial instability that originated in the Asian financial crisis of 1997 swept through the Russian financial community. The Russian economy has undergone tremendous stress as it has moved from a **centrally-planned economy** toward a **free market system**. Difficulties in implementing fiscal reforms aimed at raising government revenues and a dependence on short-term borrowing to finance government **budget deficits** led to a serious financial crisis in 1998. Lower prices for Russia's major export earners (oil and minerals) and a loss of investor confidence due to the Asian financial crisis exacerbated financial problems. The result was a rapid decline in the value of the ruble, flight of foreign investment, delayed payments on government and private debts, a breakdown of commercial transactions through the banking system, and the threat of runaway inflation. In August 1998 the Russian government allowed the ruble to fall precipitously and postponed payment on US$40 billion in treasury bonds. In the wake of the financial crisis, billions of dollars of **foreign direct investment** were swept out of the country, investor confidence fell, and Russia moved into a sharp economic contraction.

The 1998 financial crisis produced a steep and sudden decline in personal incomes, as **GDP per capita** in Russia dropped from US$3,056 in 1997 to US$1,867 in 1998. The sharp decline in per capita income and contraction of the financial markets also had some benign effects, however. In some economic sectors, Russian economic performance improved as higher world prices for fuels—world oil prices nearly tripled in 1999—and some metals facilitated improvement in exports. The Russian ruble was devalued in connection with the financial crisis. The devalued ruble rendered Russian-made products relatively cheaper than imports. This contributed to increased purchases of domestically produced goods and services as well as facilitating exports.

In 1999 output increased for only the second time since 1991, by an officially estimated 3.2 percent, regaining much of the ground lost during the 4.6 percent drop of 1998. The 1999 increase was achieved despite a year of potential turmoil that included the ousting of 3 premiers and culminated in the New Year's Eve resignation of President Boris Yeltsin. Of great help was the tripling of international oil prices in the second half of 1999, raising the export surplus to US$29 billion. On the negative side, inflation rose to an average 86 percent in 1999, compared with a 28 percent average in 1998. Average citizens found their **real wages** fall by roughly 30 percent and their pensions by 45 percent. The new Russian government, under the leadership of Vladimir Putin, gave high priority to supplementing low incomes by paying back wage and pension IOUs. However, many investors, both domestic and international, remained on the sidelines, scared off by Russia's long-standing problems with **capital flight**, widespread corruption, and newspaper articles on organized crime and the Russian mafia. The international press gave sensational coverage to investigations of **money laundering** schemes designed to move ill-gotten gains into safe havens out of Russia.

The rebound continued in 2000 as the Russian economy grew briskly throughout the year, far exceeding expectations. Buoyed by the **devaluation** of the ruble and a sharp increase in average oil export prices over 1999 levels, **real GDP** surpassed its pre-1998 crisis level, growing by over 8 percent in 2000. Growth in industrial output, which reached 8 percent in 1999, further increased in 2000. The increase in industrial production led to a reduction in the unemployment rate, with recorded unemployment falling to just over 10 percent by the end of 2000.

On the negative side, it must be noted that Russia's economic growth was still largely concentrated in a few sectors. Nor were the benefits of growth widely distributed throughout the society. More than one-third of the population of the Russian Federation continued to live below the poverty line. The social assistance provided by the government was not sufficient and was not successfully targeted to the poor and those most in need. In sum, the general quality of the government's services has deteriorated since 1991. The poor and the most vulnerable were the most directly affected by this deterioration.

The declines in industrial production have taken place simultaneously with a modest but steady growth in the trade and service sectors. These sectors were underdeveloped during the years of the USSR's central planning. The majority of Russian manufacturing enterprises remain uncompetitive if judged by world standards. Output has continued to fall at medium and large Russian enterprises, while many small companies and **joint ventures** have grown in output and efficiency. Overall, services have grown to account for more than 50 percent of GDP, with manufacturing contributing just slightly less than 40 percent and agriculture accounting for just under 10 percent. Overall trends indicate that the portion of GDP accounted for by services and taxes was increasing while industrial production and manufacturing were decreasing in importance as contributors to GDP. In December 2000, the Russian parliament (the Federal Assembly) passed Russia's first post-Soviet balanced budget.

POLITICS, GOVERNMENT, AND TAXATION

Until 1991 Russia was the largest republic in the Union of Soviet Socialist Republics, born out of the Russian Revolution that took place in 1917–18. Russia was ruled by a monarchy headed by a tsar until 1917 when, following Russia's disastrous participation in the First World War, the tsar abdicated the throne, leaving a provisional government in power. In the harsh Russian winter of 1917 a band of **Marxist** revolutionaries seized power. The Marxists called themselves the *Bolsheviks* (*bolshe* in the Russian language means "larger," and this group of Marxists claimed to be in the majority, hence "Bolsheviks").

The Bolshevik Revolution introduced a new form of government and economics to the world. The Bolsheviks promised that they would create a humanitarian Marxist form of economics. The Bolsheviks championed the labor theory of value, claiming that all value was derived from the importance of the human effort that went into creating a good or service. They promised to create a new economic system that would eliminate economic exploitation of people, would substitute cooperative production for boom and bust cycles of production under **capitalism**, and would free people to take only what they needed from society and contribute whatever they could. The Soviet government followed this economic policy throughout its 73-year rule.

Political and economic discord brought the USSR to a critical juncture in the 1980s, when a new and dynamic political leader, Mikhail Gorbachev, introduced plans for economic restructuring and political reform. Gorbachev announced major political changes at the 19th Conference of the Communist Party of the Soviet Union (CPSU) in June and July 1988. Gorbachev invited the leaders from the 15 Soviet Socialist Republics of the USSR to announce that free elections and economic reform were on the country's agenda.

There were those who thought that the reform efforts would allow the system to release some steam. In reality, once the lid was off, the situation quickly boiled over into a massive change of political and economic systems. A group of high party leaders from 11 of the 15 Soviet republics met in December 1991 in Alma-Ata, Kazakhstan, to pass an agreement that declared the "Union of Soviet Socialist Republics shall henceforth cease to exist." The leading countries in the world rapidly acknowledged this declaration. The Alma-Ata Declaration sealed the fate of the Soviet Union and created a successor, the **Commonwealth of Independent States** (CIS). The CIS—a loose affiliation of the former Soviet states—has not proved to be a viable political entity, and today exists largely in form. Without a popular referendum or mandate, without parliamentary advice or consent, and without judicial review, the Soviet state simply was declared a thing of the past. USSR President Mikhail Gorbachev, acknowledging the inevitable, resigned on 25 December 1991. The Soviet flag ceased to fly over the Kremlin.

Today, the Russian Federation is a constitutional democracy with 3 branches: executive, legislative, and judicial. The Russian Constitution, which came into effect on 12 December 1993, recognizes a separation of powers. The constitution describes the purposes of government, outlines the rights and responsibilities of citizens, and defines the structure of public institutions in the Russian Federation. The legal framework is based on a civil law system, and there is judicial review of legislation.

Despite the separation of powers, in terms of process, the Russian Federation functions as a presidential style of government, which concentrates most authority in the president as the head of state. The first president of the Russian Federation was Boris Nikolaevich Yeltsin, who was succeeded by Vladimir Putin. The Russian president is elected for a 4-year term. There is no vice-president. In the event of the incapacity of the president to carry out the constitutional mandate, the prime minister succeeds the president. The legislative branch consists of the Federal Assembly, made up of an upper house—the Council of Federation, made up of 1 representative from each of Russia's 89 federal constituent units—and a lower house—the State Duma, made of up 450 seats.

The executive branch includes: 1) the Presidential Administration, which drafts presidential decrees and provides staff and policy support to the entire executive branch; 2) the Security Council, which was established as a presidential advisory body in June 1991 and restructured in March 1992, when it was given responsibility for managing state security; 3) the Cabinet, which includes the ministers—the heads of the government ministries, who are appointed by the president; 4) the Council of Heads of Republics, which includes the leaders of the 21 ethnic-based republics; and 5) the Council of Heads of Administrations, which includes the leaders of the 66 autonomous territories and regions, as well as the mayors of Moscow and St. Petersburg.

Since 1991 the Russian government has frequently tried to minimize its budget deficits by failing to pay for wages and pensions. Weak tax administration, a cumbersome tax system with high rates that invite tax evasion, falling industrial output, the use of **barter** in the economy, and blunt refusal to pay by large, politically powerful firms has weakened the government's ability to meet its obligations. Under the new leadership of President Vladimir Putin, overcoming the travail of the collapse of the financial markets in Russia in August 1998 is high on the government's agenda. A comprehensive program to transform the Russian economy was approved on 26 July 2000. The Putin government has sought to establish a prudent **fiscal policy** in part by collecting significantly higher tax revenues than anticipated under the state budget and managing to restrain spending. The government placed considerable emphasis on reforms of the tax code.

But there are other weaknesses in the structure of the government. The Russian state bureaucracy is still at an early stage of its adjustment to the needs of a modern market-oriented economy. The objectives, functions, and competencies of the different governance structures are poorly defined, leaving substantial space open for discretionary action by bureaucrats. Civil servants are underpaid and inadequately monitored, which creates a strong incentive for the use of public office for private gain. Government decisions, privileges, and regulatory exemptions in Russia are routinely and quite openly influenced by bribes to public officials. While there are many civil servants who maintain high professional standards, the institutions within which they serve are poorly equipped to regulate a market-oriented economy.

Fair and impartial adjudication of disputes is a key to an effectively functioning market economy. Russia's judiciary and justice system remain weak. Numerous matters that are dealt with by administrative authority in European countries remain subject to political influence in Russia. The 1993 constitution empowers the courts to arbitrate disputes between the executive and legislative

branches and between Moscow and the regional and local governments. The court also is authorized to rule on violations of constitutional rights, to examine appeals from various bodies, and to participate in impeachment proceedings against the president. The July 1994 Law on the Constitutional Court prohibits the court from examining cases on its own initiative and limits the scope of issues the court can hear. President Yeltsin reconvened the Constitutional Court in March 1995 following its suspension in October 1993. The Russian government has begun to reform the criminal justice system and judicial institutions, including the reintroduction of jury trials in certain criminal cases. Despite these efforts, judges are only beginning to assert their constitutionally-mandated independence from other branches of government.

Public accountability is complicated by the existence of a substantial **informal sector**. One of its features is the practice of barter arrangements. Many enterprises, being unable to meet their commercial or their tax obligations, turn to barter transactions. Because these barters are not always denominated in currency, their true value for purposes of taxation is often obscure. Moreover, many local and regional governments have been willing in the past to sometimes accept barter payments or "in-kind" payments in lieu of taxes from enterprises that could not pay but had an important social role as a major employer in the community.

When Russia liberalized its economy, explicit budgetary subsidies for enterprises were drastically curtailed. However, industrial enterprises have continued to be supported by "implicit subsidies" channeled largely through the energy sector and lax tax enforcement. These implicit subsidies have taken the form of non-cash settlements for energy and tax payments. Sometimes these non-cash settlements were "payments-in-kind," such as when a factory could not pay its tax bill in rubles because it was not selling its goods. It would then agree with the local tax authorities to pay in production of the goods it makes. This might mean that a tire factory, for instance, would pay its local tax bill in the form of tires supplied to the local tax authority. The tires, in turn, would be used or traded by the tax authorities. These forms of payment were also used to pay energy companies for electricity and gas, which are critical for the operation of factories.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The transportation infrastructure in Russia is underdeveloped. The transport system is heavily Moscow-centered, with virtually all transportation channels of economic significance emanating from Moscow. Commercial transportation relies heavily on rail. Roughly 90 percent of commercial haulage is rail-based and insufficiently integrated into world transport systems. The Russian trucking industry is only minimally developed, and roads are not designed to carry heavy and long-distance truck traffic.

The Russian railway system includes a total of 150,000 kilometers (93,210 miles) of broad gauge rail, making it one of the most extensive railway systems in the world. However, of this total only 87,000 kilometers (54,061 miles) is in "common carrier" service. The remaining 63,000 kilometers (39,148 miles) serve specific industries or are dedicated railways lines and are not available for common carrier use. Following decades of insufficient investment in maintenance and capital improvement, the railway infrastructure has badly deteriorated. About 30 percent of freight cars, 40 percent of passenger cars, and nearly half the locomotives are of such poor quality that they should be replaced immediately.

The Russian highway system includes a total of 948,000 kilometers (589,087 miles) of road including 416,000 kilometers (258,502 miles) that serve specific industries or farms and are not maintained by governmental highway maintenance departments. Of the total road system, only 336,000 kilometers (208,790 miles) are paved. Russia's great territorial expanses and rugged terrain have hindered the development of a nation-wide high-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
China	N/A	333	272	40.0	19	1.6	8.9	0.50	8,900
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.

[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

way system. The European parts of the country are much better served than the areas east of the Ural mountains.

The Russian waterways system is an important component of the transportation infrastructure. Total navigable routes in general use by the Russian River Fleet amount to 101,000 kilometers (62,761 miles). Among Russia's most important ports are Arkhangelsk, Kaliningrad, Kazan, Krasnoyarsk, Moscow, Murmansk, Novorossiysk, St. Petersburg, Rostov, Sochi, Vladivostok, Volgograd, and Vyborg. The Russian merchant marine includes some 700 ocean-going vessels, but its fleet is twice as old as the global average.

Russia has some 630 improved airport facilities, 50 of which are capable of accommodating international flights. The country also has an extensive oil and gas pipeline system, with some 48,000 kilometers (29,827 miles) of pipelines for crude petroleum, 15,000 kilometers (9,321 miles) designed for shipment of refined petroleum products, and 140,000 kilometers (86,996 miles) designed for shipment of natural gas.

There are serious capital and operating inefficiencies and poor financial performance in what should be cost-recovery sectors, that is, sectors that should be able to pay their own way through user fees rather than through central government subsidies or direct administration. These include public utilities (called "natural monopolies" in Russia) such as public transportation, water, gas, and electricity, as well as some commercial transportation systems such as river and lake navigation. Transportation **tariffs** (user fees) have not kept pace with inflation.

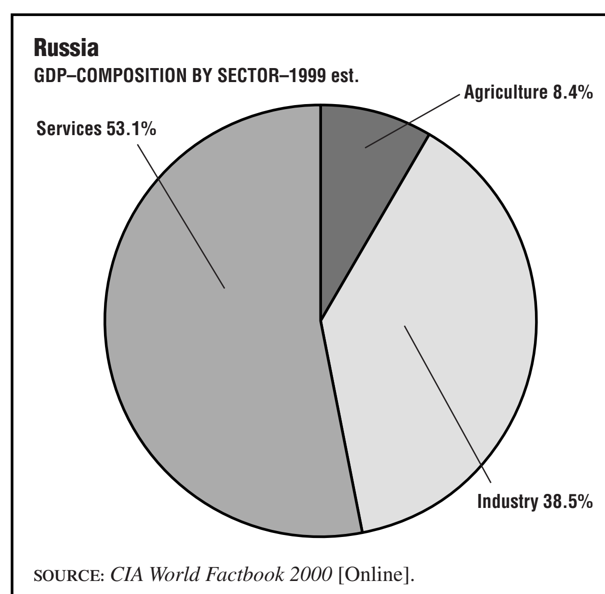
Russia's overall electricity production (1998) was 771.94 billion kilowatt hours (kWh). Of this amount, some 69 percent was produced through burning fossil fuel, 20 percent resulted from hydroelectric generation, and roughly 13 percent was produced at commercial atomic generating stations. Electricity consumption amounted to 702.71 billion kWh, while 21 billion kWh was exported and 5.8 billion kWh was imported.

Effective wholesale gas and electricity tariffs have been at only around one-tenth of the Western European level for the past decade, with the ratio even worse in distribution to households. The problem has been exacerbated by low rates of cash collection. In the power sector, cash collection rates stood at less than 20 percent in 2000. Due to its financial unattractiveness but also due to the lack of an appropriate legal and regulatory framework to facilitate **private sector** participation, infrastructure services are generally provided by state and local government-owned entities. Progress in the corporatization (turning utility systems into corporate entities) and commercialization of infrastructure has been poor. There has been some separation of publicly-owned service providers from government, transforming them into legally autonomous corporate entities. However, there continues to be a high degree of government (federal, regional, and local) interference in their management and financial operations.

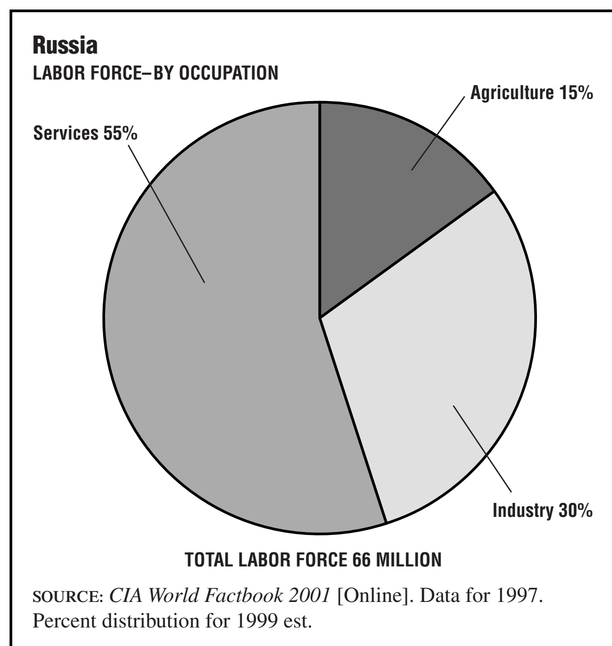
Russia's telecommunications system is in the midst of the global telecommunications revolution. The country's phone system has undergone significant changes since the breakup of the state phone monopoly in 1990. By 2000, there were over 1,000 companies licensed to offer communication services. During this period access to digital lines has improved, particularly in urban centers. Internet and e-mail services are now widespread and rapidly improving. In a few short years, Russia made significant progress toward building the telecommunications infrastructure necessary for a market economy. Cross-country digital trunk lines run from Saint Petersburg in the northwest to Khabarovsk in the Russian Far East and from Moscow in the country's European center to Novorossiysk in the south. The telephone systems in over 60 regional capitals had installed modern digital infrastructures by 2000. Cellular services, both analog and digital, expanded rapidly in 2000 and 2001. Three undersea fiber-optic cables connect Russia to the international phone system. Digital switches in several cities provide more than 50,000 lines for international calls. Satellite earth stations provide access to Intelsat, Intersputnik, Eutelsat, Inmarsat, and Orbita.

ECONOMIC SECTORS

The chief sectors of the Russian economy are natural resources, industry, and agriculture. The natural resources sector includes petroleum, natural gas, timber, furs, and precious and nonferrous metals. The agriculture



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997. Percent distribution for 1999 est.

sector includes grain, sugar beets, sunflower seeds, meat, and dairy products. Manufacturing and industry includes a complete range of manufactures, notably automobiles, trucks, trains, agricultural equipment, advanced aircraft, aerospace, machine and equipment products, mining and extractive industry, medical and scientific instruments, and construction equipment. Trade exports emphasize petroleum and petroleum products, natural gas, woods and wood products, metals, and chemicals. Major markets include the countries of the European Union, the other former Soviet countries, China, and Japan, as well as countries of the Middle East. Imports include machinery and equipment, chemicals, **consumer goods**, medicines, meat, sugar, and semi-finished metal products. The trading partners for imports are the same as those for exports.

The Soviet economy created distorting policies and reduced the interest of firms and individuals to use natural resources carefully. The costly and destructive environmental legacy of the Soviet economy is still very much evident in Russia. There is a high risk of environmental accidents and emergencies. Environmental policy at both the federal and regional levels is not always consistent or clear. Enforcement of regulations to protect the environment is often left to the discretion of the firms that create the problems. The merging of the independent environmental agency into the Ministry of Natural Resources in 1999 created a further cause for concern given the potential conflicts of interest of the institutions involved.

Russia is the most industrialized of the former Soviet Republics. However, much of its industry is antiquated and highly inefficient. Besides its resource-based industries, it has developed large manufacturing capacities, notably in machinery. Russia inherited most of the defense industrial base of the Soviet Union. Efforts have been made with little significant success over the past few years to convert defense industries to civilian use.

Most major industry sectors showed an increase in output in 1999 over 1998. However, this was not true of **agribusiness** and the power and fuel sectors, which showed improvements over 1998, but declines compared to 1997. The sub-sectors showing declines in output in 1999 over 1998 include heating oil, machine tools, television, and sausage production. Some sub-sectors that fared poorly in the mid- and late 1990s, such as light industry and the pulp/paper, chemical, and building materials sector, showed increased output in 1999 over 1998. Sectors that fared the worst in 1998 included light industry, metallurgy, chemicals, and agribusiness. Despite across-the-board improvements in recent years, many Russian enterprises remain uncompetitive. In addition, output through 2000 continued to decline at medium and large Russian enterprises, while small companies and joint ventures were responsible for increased output. The CIA *World Factbook* estimated that agriculture accounted for 7 percent of GDP, industry 34 percent, and services 59 percent in 1999.

AGRICULTURE

Employment in agriculture and forestry remained relatively constant in recent years. Agriculture and forestry employment accounted for about 14 percent of total employment in 1999, about the same level as a decade earlier. Russia comprises roughly three-quarters of the territory of the former Soviet Union, but only a small amount of this vast area is suited for agriculture because of its arid climate and inconsistent rainfall. Nevertheless, with 133 million hectares of arable land, a large agrarian **workforce** (14 percent of the total), and 146 million inhabitants to feed, Russia is a major regional and global agricultural producer and consumer. The Russian fishing industry is the world's fourth-largest, behind Japan, the United States, and China. Russia accounts for one-quarter of the world's production of fresh and frozen fish and about one-third of world output of canned fish. Russia has a major forestry industry, possessing one-quarter of the world's forests.

Northern areas concentrate mainly on livestock and the southern parts and western Siberia produce grain. Restructuring of former state farms has been an extremely slow process, partially due to the lack of a land code allowing for the free sale, purchase, and mortgage of agricultural land. Private farms and garden plots of individuals account for more than one-half of all agricultural production. Much of the agricultural sector has been almost unaffected by the transition to the free market. Ac-

cordingly, the output performance of agriculture has been very weak. This has tended to strengthen the arguments of those who oppose economic reform in favor of a return to the state-managed economy of the past.

Primary agriculture in Russia continues to be dominated by inefficient, Soviet-type collective farms with outdated technologies and management skills and strong political connections, especially at the regional level. Household plots and small private farms comprising only 3 percent of the agricultural land account for over 40 percent of the country's food production. The business infrastructure for the agriculture sector is especially underdeveloped including support services, transportation, distribution networks, and financial services. For agriculture in Russia to go through the transformation to a modern system, the key step will be establishing and enforcing farmers' rights to use land. The first step in this process is to develop an efficient system of issuing and protecting title to land rights. This will also require a more reliable and enforceable framework for secured financial transactions so that farmers can buy and sell their land or use the land as collateral for obtaining loans.

The economic reform that began in Russia in the early 1990s reduced Russia's livestock sector. The downsizing of the livestock sector ended the need for imports of feed grain, soybeans, and meal. At the same time, imports of meat and other high-value products such as processed foods, fruit, and beverages grew considerably. The 1998 economic crisis reduced Russia's ability to import food. After plunging to extremely low levels in late 1998, agricultural imports rebounded in 1999. Imports of most agricultural and food products grew to roughly 60 percent of the level of the pre-crisis period. Imports dropped because the crisis reduced consumer incomes, thereby decreasing demand for food in general, and the severe crisis-induced depreciation of the ruble made imported food more expensive compared to Russian domestic output.

The large former state and collective farms control most land. Farm workers can branch off as private farmers by obtaining a grant of land from their parent farm, though they lack full ownership rights. The land code proposed by the Russian legislature (the Duma) does not change existing law—that is, it does not allow the free purchase and sale of land for agricultural use. Rather, it would allow land to be bought and sold solely for economically insignificant purposes, such as building a summer cottage, a *dacha.*

INDUSTRY

Russia has a range of mining and extractive industries. These include coal, oil, and gas extraction as well as the chemicals and metals industries. Russian enterprises take part in all forms of machine building from rolling mills to high-performance aircraft and space vehicles. Russian enterprises are involved in shipbuilding, manufacturing of road and rail transportation equipment, communications equipment, agricultural machinery, tractors, and construction equipment. Russian firms produce electric power generating and transmitting equipment, medical and scientific instruments, consumer durables, textiles, foodstuffs, processed food products, and handicrafts.

Russia is a leading producer and exporter of minerals, gold, and all major fuels. Oil and gas exports continue to be the main source of **hard currency**. Russia has vast reserves of oil, gas, and timber. Siberia and the Russian Far East are particularly rich in natural resources. However, most deposits of resources are located in remote areas with challenging climate conditions.

The most important export sector is energy. Russia is the world leader in natural gas production, third in oil, and fourth in coal. Gazprom, the large natural gas monopoly, inherited from the former USSR a massive network of production and distribution facilities that was built over a period of decades. The energy industry is significant also in its intricate ties with political elites. Energy monopolies are thus able to enjoy special privileges such as subsidies of various kinds. However, much of the physical infrastructure is in a state of disrepair. Gazprom will require billions of dollars to upgrade its physical systems. Declining energy prices hit Russia hard in the mid-1990s. The rebound in energy prices in the late 1990s was a great benefit to Russia's foreign trade account.

The oil sector has undergone substantial liberalization and now is primarily restructured and privately held. The oil industry, unlike gas and electricity, was broken up into a dozen companies as it was privatized. Oil prices have therefore moved very quickly toward world prices. Oil export tariffs were phased out entirely in July 1996. Simultaneously, however, oil production **excise taxes** were increased.

Russia has an estimated 49 to 55 billion barrels of oil in proven reserves, but aging equipment and poorly developed fields are making it difficult to develop these reserves. The depletion of existing oilfields, deterioration in transport infrastructure, and an acute shortage of investment—aggravated by the country's August 1998 financial crisis—may lead to further declines in oil production unless these trends can be reversed.

Natural gas is the predominant fuel in Russia, accounting for nearly half of the country's domestic consumption. With 1.7 quadrillion cubic feet (TCF) in proven gas reserves, Russia has more than enough for itself, allowing it to export significant amounts of gas. In fact, Russia is the world's largest gas exporter. Europe is a major consumer. Although the country's natural gas

production has dipped only slightly (8 percent from 1992 to 1999) during the transition to democracy, low investment has raised concerns about future production levels. Gas production in the established West Siberian fields that account for 76 percent of Russian gas output is declining. At the same time, the planned development of new fields continues to be delayed as a result of lack of investment resources.

SERVICES

Russia's previously underdeveloped services sector has played an important role in containing the social calamity of the collapse of the USSR, manufacturing and industrial sectors. The service sector employed 55 percent of the workforce and contributed 59 percent of GDP in 1999, according to the CIA *World Factbook.* Important service industries include financial services; advertising, marketing, and sales; tourism; and **retail** trade.

TOURISM. Foreign and domestic tourism was centrally managed during the Soviet Union. In 1991 the tourism industry was reorganized and today is one of the most important branches of the service sector, both in terms of total revenue and numbers of employees. The number of tourist companies has grown from several state tourist organizations in 1991 to several hundred in the larger Russian cities today. Most tourist firms are small, employing fewer than 15 people, and function as both operators and agencies. Operators are those firms that develop their own tourist routes. Tourist agencies market the existing routes established by operators. Most travel transactions involve the domestic market, offering travel services within Russia either for foreigners or for domestic travelers. Providing services for Russians traveling abroad is a smaller but more lucrative market.

The August 1998 financial crisis in Russia had a major impact upon the tourist industry. The number of Russian tourists traveling to foreign countries dropped off sharply and the number of foreign tourists visiting Russia also declined. According to the Russian Statistical Committee, the number of Russians visiting the United States in 1999 fell by nearly half between 1998 (175,660) and 1999 (95,280). The number of Americans visiting Russia also fell considerably between 1998 (216,976) and 1999 (177,120).

In the old USSR domestic tourism was one of the largest industries. There were many resorts, recreational centers, tourist bases, and summer camps for children. Large enterprise and labor unions provided people with inexpensive package tours. During the first years after the breakup of the Soviet Union, domestic tourism declined sharply, but has regained ground since then. Russian tourists travel abroad to Europe, the countries of the Mediterranean, and the United States—a popular tourist destination for young people. Local foreign language schools often offer English language training in the United States to teenagers and young people. Obtaining visas to travel to the United States, however, involves complicated regulations and is often a hindrance.

Russia is a popular destination for foreign tourists, primarily because of its cultural attractions. Over 80 percent of foreign tourists come to Russia with the intention of visiting Moscow and/or St. Petersburg. However, in recent years the country's natural environment has attracted a growing proportion of foreign travelers. Russia may one day become a popular destination for eco-travel, attracting adventure travelers and tourists looking for something out of the ordinary. Travel to Russia is particularly well-represented by travelers from Germany, China, the United States, Japan, Italy, Poland, Turkey, and Israel.

A legacy of Soviet-era infrastructure neglect, oppressive paperwork, high costs, and lack of local marketing know-how have limited attractiveness of travel to Russia for many foreigners. Despite improvements in the first decade since the Soviet breakup, the Russian travel industry continues to be hindered by the lack of accommodations and travel-related services that are in accordance with international standards. Recent years have witnessed improvements in the quality of services. In addition, new programs have been instituted that provide training in hotel and restaurant management services. At the same time, new hotel, restaurant, and recreational equipment and expertise have become more widely available.

FINANCIAL SERVICES. The Russian government has put considerable emphasis in recent years on restructuring and stabilizing the banking system and the financial services industry. A legal framework was adopted, establishing procedures for forming statutory capital, specifying procedures for starting and terminating commercial bank activities, procedures of issuing and recalling licenses for bank audits, establishing procedures for bank bankruptcies, and establishing procedures for the operation of non-banking financial organizations that offer financial services and were licensed and regulated by the National Bank.

But the Russian banking system is still in a state of transition. Banks do not have the resources, capability, or the population's trust to attract substantial savings and channel them to productive investments. While ruble lending doubled in the 2 years following the August 1998 financial crisis, loans remained at the pre-crisis level of 30 percent of total bank assets. The Russian Central Bank reduced its refinancing rate 3 times in 2000, to 33 percent, signaling an attempt to lower lending rates. However, banks still perceived commercial lending as risky, and some banks were inexperienced at assessing credit risk. The Russian Central Bank announced that it

was developing a procedure to finance banks for promissary notes, rights of claim under credit agreements, and mortgages.

INTERNATIONAL TRADE

Russia's foreign trade consisted of US$75 billion in exports and imports of US$48.2 billion in 1999 and then to US$105.1 billion in exports and US$44.2 billion in imports by 2000. Russia sells a broad range of commodities and manufactures including petroleum and petroleum products, natural gas, wood and wood products, metals, chemicals, and a wide variety of civilian and military manufactures. Russia's largest trading partners for exports are Ukraine, Germany, United States, Belarus, the Netherlands, and China. Russia imports machinery and equipment, consumer goods, medicines, meat, grain, sugar, and semi-finished metal products. Russia's largest trading partners for imports are Germany, Belarus, Ukraine, the United States, Kazakhstan, and Italy.

Real GDP growth in Russia in 1999 was over 3 percent. The main contributing factors were the devaluation of the ruble, which made Russian products competitive abroad and at home; high commodity prices on international markets, particularly oil (while domestic costs were substantially lower); low inflation and a consensus that inflation must be controlled; and a relatively healthy fiscal situation based on strict government budget discipline. The major contributor to growth was trade performance. Exports rose to US$74.3 billion while imports slumped by 30 percent to US$41.1 billion. As a result, net exports ballooned to US$33.2 billion, more than double the previous year's level. Higher oil prices had a major effect on export performance, particularly in the latter half of the year. Even though volumes of crude oil exports (to non-CIS countries) were down by 3 percent, prices jumped 46 percent. Fuels and energy comprise 42 percent of Russian exports. Other exports performed better in 1999; fertilizer exports were up 16.7 percent, forestry products up 38 percent, copper up 17.6 percent, and aluminum up 10 percent.

Trade (expressed in billions of US$): Russia

	Exports	Imports
1975	N/A	N/A
1980	N/A	N/A
1985	N/A	N/A
1990	N/A	N/A
1995	81.096	60.945
1998	74.160	58.996

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Trade with other former Soviet states is overwhelmingly in energy and industrial products, and in many instances has been, until quite recently, conducted by barter. Russia's **trade surpluses** eroded over the course of 1998. Imports to Russia grew by 10–15 percent per year between 1995 and 1997, as consumers benefited from an appreciating ruble and rising average wages. At the same time, export revenues were falling, due in particular to sharply lower prices for oil and gas (accounting for 43 percent of merchandise exports in 1997). Moreover, Russia's manufactured exports compete poorly on the world market, especially since Asian goods have become less expensive following steep currency devaluations. The devaluation of the ruble and difficulties in completing transactions through the Russian banking system reduced imports substantially. Frequent changes in customs regulations also have created problems for foreign and domestic traders and investors.

Russian oil companies have been rushing to export their oil (resulting in a windfall of hard currency coming into the country) to such an extent that Russian officials have set export quotas in order to maintain an adequate domestic supply of oil. In 2000, Russian net oil exports totaled 4.3 million metric barrels a day (MMBD). In addition to export quotas and higher taxes levied on oil exports, a serious problem facing exporters is the lack of export routes. Russia is maneuvering to become a major player in the exploration, development, and export of oil from the Caspian Sea. Transneft is the **parastatal** responsible for Russia's extensive oil pipeline system. Many of these pipelines are in a poor state of repair. The Russian Fuel and Energy Ministry notes that almost 5 percent of crude oil produced in Russia is lost through pipeline leaks. Transneft lacks the funding to repair or upgrade many of these malfunctioning pipes. The company's focus has been on building new pipelines rather than repairing the old. In addition to those in the Caspian Sea Region, Russia has a number of new oil and gas pipelines planned or already under construction.

MONEY

At the start of the economic transition, key reform-oriented policy makers in the Russian government sought to get market price mechanisms working as quickly as possible. These reformists argued that price liberalization and policies designed to bring about **macroeconomic** stabilization could be expected to impose some economic hardship for a period of time, but that it was better to live with temporary difficulties than to be burdened by distorted prices and unsound policies that might endure for years or even decades. This pro-reform perspective became known as "shock therapy." The reformists took their inspiration in large measure from Western monetarist doctrines that maintained that

Exchange rates: Russia

rubles per US$1	
Jan 2001	28.3592
2000	28.1292
1999	24.6199
1998	9.7051
1997	5,785
1996	5,121

Note: The post-January 1, 1998 ruble is equal to 1,000 of the pre-January 1, 1998 rubles.

SOURCE: CIA *World Factbook 2001* [ONLINE].

sound monetary policy should be the basis of a government's economic programs.

The Russian post-**communist** economic transition thus started with prices being rapidly liberated from artificially low levels. This led to a rapid rise in prices for many basic commodities. It also led quickly to an immediate burst of inflation. The pent-up demand for consumer goods that had been suppressed during the period of Soviet central planning gave additional impetus to inflation as consumers rushed to buy previously unavailable goods, thereby bidding up prices. Early in the transition, inflation averaged over 1,000 percent per year in Russia. As inflation ate away at the value of the ruble, the amount of money necessary to buy a loaf of bread, for instance, appeared to grow inordinately large. While the size of the numbers on a country's currency should be arbitrary—that is, no one should care if the cost of a loaf of bread is 1 ruble or 1,000 rubles—what matters is what proportion this represents of a person's income. The fact that it had become necessary in Russia to hand over large amounts of rubles to buy simple, everyday necessities was psychologically unnerving for the public. To address this problem, on 1 January 1998 Russia "redenominated" its ruble, introducing new bills with 3 fewer zeros than pre-1998 rubles.

Redenomination is a process by which a country's money is reissued but assigned a different number. The Russian bank authorities simply decided to remove the "excess" 3 zeroes after the numbers on the face of the currency. For instance, a 1,000 ruble note was reissued as a 1 ruble note. At the same time, Russia re-introduced the traditional coin, the kopek, valued at 1/100th of a ruble.

These redenomination measures were primarily for convenience. They were designed to have no technical effect on the value of the currency. However, they did have an effect on the public. These measures tended to contribute to the erosion in public confidence in the currency and an increase in the use of foreign currencies, particularly the dollar, as an alternative to saving.

Russia has undertaken a number of different approaches to **exchange rate** policy. These included establishing a "currency corridor" in 1995 and a "crawling band" mechanism from 1995 to 1997. For the most part, these measures were viewed as part of an effort to establish a more "natural" ruble-to-foreign currency rate. From 1994 until 1998, falling inflation, slow money supply growth, and the effective functioning of Russia's ruble-dollar mechanisms contributed to a period of relative ruble stability. In January 1998, with the ruble trading at just over 6 to the dollar, Russia replaced the crawling band mechanism with a more freely floating but still semi-managed ruble. The exchange rate policy allowed the ruble to fluctuate within 15 percent around a central exchange rate, which Russia intended to maintain at between 6.1 and 6.2 rubles to the U.S. dollar between 1998 and 2000. In July 1998, the ruble was trading at R6.2 to the U.S. dollar. In August of 1998, Russia widened the band within which the ruble was allowed to fluctuate, resulting in an unofficial but real devaluation of the ruble. In total, the ruble lost 71 percent of its value in 1998, closing the year at R20.65 to the dollar. The ruble fell to R25 and lower to the dollar in April 1999, mildly appreciated in value through early summer, but began to decline again at the height of summer. The ruble ended 1999 at R27 to the dollar.

The monetary authority in the former Soviet Union was the Soviet Central Bank. The Soviet Central Bank functioned as an investment mechanism to achieve social objectives, not as a bank in the Western sense of provider of specific financial services. Soviet practice emphasized financial stability and the assignment of prices not on the basis of relationships of scarcity (that is, supply and demand) but on the basis of social criteria. Prices were established at levels that the government thought would achieve the most social good. Typically, necessities such as bread and housing were extraordinarily cheap to the consumer while luxuries, such as cars and foreign vacations were extremely high or unavailable altogether. Prices of foreign goods were established indirectly through the exchange rate that was stipulated by the Central Bank for foreign currencies. When the transition started, price liberalization implied that buyers and sellers should be able to establish their own agreed-upon prices. New laws were passed to allow the functioning of private banks, but initially these banks did not have provisions for inter-bank settlement of accounts. Consequently, the private banks begin to function less as banks and more as investment funds.

Spurred on by the potential gains of the initial waves of privatization of state enterprises between 1993 and 1995, these private banks in fact offered few financial services but served mainly as **holding companies** for large investors and conglomerates. The unevenness of supply and demand in the transitional markets created

opportunities for great profit-taking and great risk-taking. This led to a serious problem of capital flight. As investors and speculators captured gains from buying and selling, they sought to park their earnings in stable investments. For the most part, this meant foreign currencies, particularly the American dollar. For a period of time in 1992 and 1993, Western currencies were in popular use in Russia and were preferred to the ruble. Massive amounts of money moved out of the Russian economy to Europe and America. To address this problem of capital flight, the government imposed a series of frequently changing regulations on the financial services industry between 1993 and 1994. In 1994, the Central Bank imposed new currency controls, requiring all exchanges of foreign currency to go through licensed currency traders who were closely regulated by the government.

After the financial markets collapsed in 1998, the Russian central bank, aided by increased technical assistance from the international financial institutions and Western countries, developed a considerable amount of autonomy from the Russian government. This allowed the central banking authorities to resist the attempts of the government to call upon the bank's assets to solve short-term problems or address the demands of important political constituencies. Gradually, the role of the Russian Central Bank came to resemble that of most market economies, a role in which the bank functions as a neutral and independent manager of financial functions, not as a personal banker to the government or government officials.

POVERTY AND WEALTH

The transition from communism to a market-based economy did not create poverty in Russia, but it certainly made life more difficult for many groups of people. Poverty became widespread in 1992 and grew in 1993, widening from not more than about 10 percent of the population in the 1980s to nearly 30 percent by 1993. Poverty, often associated with family size, was concentrated increasingly in families with children, as well as in families with unemployed or handicapped persons. Poverty grew especially quickly in the rural areas. Certain geographical regions of Russia were disproportionately affected by poverty, reflecting increasing disparities in wages. The Russian Far North and Far East were hard hit. Poverty was strongly associated with single-parent status, and the majority of such households were female-headed.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Russia	2,555	3,654	3,463	3,668	2,138
United States	19,364	21,529	23,200	25,363	29,683
China	138	168	261	349	727
Germany	N/A	N/A	N/A	N/A	31,141

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Russia

Lowest 10%	1.7
Lowest 20%	4.4
Second 20%	8.6
Third 20%	13.3
Fourth 20%	20.1
Highest 20%	53.7
Highest 10%	38.7

Survey year: 1998

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Measuring poverty is difficult. Nevertheless, it is undisputed that a large share of the Russian population lives below the poverty line. The social assistance provided by the Russian government has not been sufficiently targeted to the poor. According to surveys of the standard of living, the share of eligible households who did not receive social benefits increased from 60 to 80 percent. Further, the share of the households that were legally entitled to public benefits and received them has decreased dramatically as local governments have "postponed" payments. Measures of public satisfaction indicate the quality of government services has generally deteriorated since 1991, and the poor, particularly the elderly poor, have been the most directly affected.

The economic transition also witnessed the "feminization" of poverty. Single-mother families and single elderly women make up a group with the highest poverty risk. In the case of single-mother families, poverty factors include the low individual income of the mother. Added to this is the insufficient amount of private and public transfers designed to partly offset the absence of other income sources such as alimony after divorce or pensions for the benefit of children after the death of their father.

The elderly also suffer from insufficient pensions, of which 90 percent go to women, according to a World Bank report. The average pension allowance is two-thirds of a retiree's cost of living. This means that pensions cannot meet even the most basic necessities of the elderly population. The problem for women retirees is compounded by the fact that pensions, which for this age group is largely the only source of income, are higher for men of retirement age than for women.

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Russia	28	11	16	7	15	8	16
United States	13	9	9	4	6	8	51
China	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Germany	14	6	7	2	10	7	53

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

WORKING CONDITIONS

Russia has paid a high social price for its rapid progress in the transition from communism. Under communism, economic growth was restrained but there was a very low level of inequality. Most workers made roughly the same income. Extremes of high and low incomes were rare. Since embarking on a market economy, Russia's rapid macroeconomic and political reforms created anxiety among the citizens who came to expect a modest but dependable lifestyle. Russia's abandonment of subsidies for Soviet-era industries permitted a steep industrial decline, throwing millions of citizens out of work. Today the Russian labor force is undergoing tremendous change. Although well-educated and skilled, it is mismatched to the rapidly changing needs of the Russian economy. Millions of Russian workers are **underemployed**. Unemployment is highest among women and young people. Many Russian workers compensate by working other part-time jobs.

Russia's financial crisis had a severe effect on wages in the country. Many employees were helpless as ruble devaluation and price increases drastically eroded the buying power of their salaries. Meanwhile, both foreign and Russian companies, faced with their own challenges stemming from the crisis, resorted to pay cuts in order to maintain what staff they felt able to keep. As a result of the financial crisis, although nominal wages in Russia continued to climb, real wages in the country continued to fall. The average nominal monthly wage in January 1999 was approximately 1,200 rubles. In January 2000, the nominal wage was roughly 1,575 rubles, or about US$58 at the prevailing exchange rate at the time. According to official figures, real wages and real **disposable income** had fallen roughly 30 percent by the end of 1999 compared to 1997.

According to a minimum wage law signed by President Putin in June 2000, the minimum wage increased to 300 rubles per month by mid-2001. In December 1999, the average monthly subsistence minimum was 943 rubles, or approximately US$36 at the prevailing exchange rate. Therefore, approximately one-third of Russia's population is living below the subsistence level. As of 1 February 2000, Russian pensions increased 20 percent. The minimum Russian pension is 410 rubles per month. The average pension is 650 rubles per month, which is still below the subsistence minimum.

Although the Russian government has been using International Labor Organization (an arm of the United Nations) statistical methods to determine unemployment, officially reported unemployment levels in Russia, as with other official statistics, have often been lower than figures determined by the international community. Russia reported several years of very slowly growing unemployment, which temporarily peaked at 9.6 percent in the spring of 1997 before dropping to a low of 9 percent at the end of 1997. During this time, alternative estimates of unemployment suggested a combined unemployment and underemployment rate of between 12 and 15 percent. In 1998 unemployment levels resumed their climb. In the wake of Russia's financial crisis, both Russian and foreign companies resorted to layoffs and salary cuts. In November 1998, when the official unemployment rate was 11.6 percent, the Russian Ministry of Economy predicted that unemployment would grow 70 percent by 2001. In early June 1999 the Russian government reported that unemployment had reached 14.2 percent of the country's workforce, or 10.4 million people, the highest level ever officially reported by Russia. For much of 1999 the unemployment rate hovered at 12.4 percent, or 9.12 million people. Russia closed 1999 with an official unemployment level of 11.7 percent.

Russia's well-educated but relatively inexpensive labor force has been a leading attraction for foreign firms. While in the early 1990s many Western firms initially found it challenging to find employees educated in Western business concepts and practices, there is a growing pool in Russia of individuals with Western business exposure, education, and experience. Russian law requires that wages be paid in rubles.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

945. Treaty of Igor with Byzantium (Constantinople) establishes first claim to government in the many lands of Russia, known as the many "Russias."

1237. Mongol tribesmen, invading from the East, conquer Russia and impose foreign rule for over 240 years.

1565–72. Ivan the Terrible's "reign of terror" establishes a precedent of strong, unaccountable central government.

1802. Formation of the first government ministries, establishing a strong principle of government control of the private economy.

1864–85. Conquest of Central Asia.

1891. Beginning of the Trans-Siberian railway.

1906. First Duma (parliament) established; first written constitution adopted.

1914. World War I begins.

1917. Russia pulls out of World War I; Bolsheviks take power and begin communist era.

1918. The period of "war communism" with emphasis on administrative direction of the economy is introduced.

1921. Retreating from tight control of the economy, the government introduces the "New Economic Policy" (NEP). The policy favors market-based economic relations in lieu of administrative measures.

1928. Return to communism and top-down direction of the economy as the first "Five-Year Plan" is adopted. Joseph Stalin (Iosef Dhugashvili) assumes control of the communist party organization. Agriculture is collectivized. A massive industrialization campaign begins.

1932–33. A severe famine in Ukraine is testimony to the effects of the agricultural collectivization program.

1937–41. The Stalin-era purges of political opponents take place.

1941. German invasion of USSR (June 22) and Second World War.

1957. First Soviet "Sputnik" (satellite) is launched. The "space race" begins.

1973. United States and the USSR embrace "Détente," a policy of relaxation of tensions, and adopt a new bilateral trade agreement, but implementation is not successful.

1979. In December, Soviets invade Afghanistan. This futile war drains Soviet resources and creates negative sentiment toward communist party rule. This eventually plays an important role in the collapse of communism.

1985. Mikhail Gorbachev becomes communist party leader, calling for economic reforms (*perestroika*) and greater openness (*glasnost*).

1986. 26 April disaster at Chernobyl nuclear generating station debunks myth of Soviet technological superiority.

1989. Political reforms begin in Central Europe; Berlin Wall comes down.

1991. On 19 August, a group of Communist Party hardliners announces takeover of the Soviet government. The takeover fails. Boris Yeltsin emerges as the most popular politician.

1991. On 21 December, 11 high leaders of USSR meet in Alma-Ata, Kazakhstan, to sign the "Alma-Ata Declaration" ending the USSR and establishing the "Commonwealth of Independent States" (CIS).

1992. On 2 January, Russian prime minister frees prices; ruble value plummets; prices skyrocket.

1992. On 1 October, **voucher privatization** begins in Russia.

1993. On 21 September President Yeltsin dissolves the parliament. On 22 September a breakaway parliament appoints Vice President Alexander Rutskoi as president. On 4 October, government forces loyal to Yeltsin storm the parliament building and arrest Rutskoi and the disloyal parliament.

1998. Following a massive sell-off of Russian bonds, securities, and rubles, the prime minister announces a ruble devaluation; financial markets are paralyzed by **liquidity** shortages, and share prices plunge. Unable to pay its creditors, Russia defaults on foreign loans.

1998. Yeltsin fires the prime minister and the entire government cabinet. He appoints Victor Chernomyrdin as interim prime minister, but parliament refuses to confirm him.

1999. After months of political turmoil, Yeltsin appoints Vladimir Putin as prime minister.

2000. On 31 December, Yeltsin resigns the presidency (with a full pardon), leaving Vladimir Putin as head of state.

2000. Vladimir Putin is elected president.

FUTURE TRENDS

The Russian economy faces serious challenges. Russian industry is not likely to regain an important role in a global economy that demands peak efficiency. Consequently, the export of primary commodities and raw materials is likely to remain the bulwark of economic development. Primary commodity markets are relatively more susceptible to fluctuations than are industrial markets.

Russia is likely to continue to be influenced by economic trends that it cannot control. International investors, including the major investment banks, commercial investors, and companies interested in expanding their businesses in world markets have remained on the sidelines, scared off by Russia's long-standing problems with capital flight, reliance on barter transactions, corruption of government officials, and fears of organized crime.

The Russian government and leading economists in the country have developed a consensus on the need for various kinds of administrative changes. Failures such as corruption are not moral failures, but a failure of administrative structure. There is a consensus that the country needs to strengthen the institutional and legal underpinnings of a market economy. Improving the legal and regulatory structure would provide a reliable framework for improving governance, strengthening the rule of law, reducing corruption, and attracting the long-term capital needed for deep restructuring and sustained growth. The country also needs to improve its tax system to encourage greater tax compliance and a realistic appreciation in the population that the people must pay for the costs of a modern society. The government must avoid pressures to use central bank money to finance its budget deficit. Further reforms are needed in the banking sector, including a legal framework to make it easier to close down troubled banks.

Any measures aiming to reduce poverty levels among workers are primarily associated with the increase in the official wages drawn by the lower paid workers, the majority of which are women, and also with the identification and taxation of income in Russia's informal sector.

A positive sign was that in mid-year 2000, the Russian government adopted an official development strategy for the period 2000–10. The strategy identified economic policy directed at ensuring equal conditions of market competition, protecting ownership rights, eliminating administrative barriers to entrepreneurship, making the economy more open, and carrying out tax reform. The strategy identified the creation of an effective state performing the function of a **guarantor** of external and internal security and also of social, political, and economic stability. The strategy spoke of a "new social contract" between the more active sections of Russian society and the reformed government.

Russia's economy remains very vulnerable to external shocks and has not yet been able to develop a stable base for continued growth and poverty reduction. While the data are not yet sufficient to carefully assess the impact of the economic recovery on the enterprise sector, it appears that the rebound in the non-oil/gas traded goods sector has so far been driven by the real depreciation of the ruble and the greater availability of capital. Furthermore, there are indications that industrial growth is beginning to slow. Therefore, maintaining a realistic exchange rate, while controlling inflation, must remain a policy priority for sustaining the recovery and future growth of the real economy. Strong fiscal discipline needs to be maintained. A large swing factor is, of course, the level of capital flight, the reduction of which depends on progressive improvement in the investment climate in Russia. Finally, over the longer-term, Russia's deteriorating infrastructure is a matter of concern. Russia's basic public infrastructure—including roads, bridges, railways, ports, housing, and public facilities such as schools and hospitals—was built during the Soviet period. After independence, investment in maintenance and new construction of public infrastructure has fallen dramatically. Russia's aging physical plant is likely to become an increasing constraint to growth unless an improved investment climate can ensure substantially higher levels of investments than is presently the case.

DEPENDENCIES

Russia has no territories or colonies.

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—Gregory Gleason

SAN MARINO

Republic of San Marino
Repubblica di San Marino

CAPITAL: San Marino.

MONETARY UNIT: Italian lira (plural is lire). One Italian lira (L) equals 100 centesimi. There are notes of L1,000, 2,000, 5,000, 10,000, 50,000, and 100,000, and coins of L50, 100, 200, and 500. San Marino also mints its own coins, having the same value as the Italian ones. San Marino has a customs union with Italy, and it switched to the new European unit, the euro, along with Italy and other members of the European Union (EU) in 1999 for all forms of "written money"—checks, bank transactions, and credit cards. In January 2002, the euro will be issued as coins and notes, and the lira will be phased out.

CHIEF EXPORTS: Building stone, lime, wood, chestnuts, wheat, wine, baked goods, hides, ceramics, furnishings, textiles, apparel.

CHIEF IMPORTS: Energy, automobiles, equipment, a wide variety of consumer manufactures, clothing, food.

GROSS DOMESTIC PRODUCT: $860 million (purchasing power parity, 2000 estimate).

BALANCE OF TRADE: All San Marino foreign trade data are included with the statistics for Italy and no separate statistics are available.

COUNTRY OVERVIEW

LOCATION AND SIZE. San Marino is an enclave lying wholly within northern Italy. It surrounds the 3-peaked Mount Titano (739 meters/2,425 feet) in the central Apennine Mountains, east of the city of Florence, Italy, and southwest of the city of Rimini, Italy, near the Adriatic Sea. With a total area of only 61.2 square kilometers (23.6 square miles), or about one-third the size of Washington, D.C., San Marino is one of the smallest countries in the world. The republic is also arguably the oldest in the world. It is named for its legendary founder, the 4th-century, Christian stonecutter and Catholic Saint Marinus. The capital is San Marino, a small town on the slopes of Mount Titano with a population of 4,498 (1996 estimate). Other population centers include Borgo Maggiore, Serravalle, and Domagnano.

POPULATION. The population of San Marino was estimated at 27,336 in July 2001; it was less than 25,000 two years earlier. The growth rate was estimated at 1.49 percent in the same year, with a birth rate of 10.88 births per 1,000 population, exceeding the death rate of 7.65 per 1,000 population, all estimated in 2000. There is a high migration rate of 11.62 per 1,000 population (2000), mostly of people from adjacent Italian towns and villages. The population is somewhat less elderly than other European countries, and the percent of people under 15 years of age, 16 percent, is equal to that of people 65 or older. San Marino has a very high life expectancy at birth—81.14 years for the total population, 85.02 years for women and 77.57 years for men. The fertility rate is estimated at 1.3 children per woman, which is comparable to Italy's rate. The **workforce** in 1999 included about 15,600 persons. The people of San Marino are distinctively Italian in their language, appearance, and culture; they use the Italian currency, and are mostly Roman Catholic, but are very proud of their independent political heritage. In addition to the native Sammarinese, there are also Italian immigrants.

OVERVIEW OF ECONOMY

The economy of San Marino is tiny but, nevertheless, it is stable and quite prosperous, particularly when compared to other Southern European countries. More than half of the country's **gross domestic product**'s (GDP) total worth of about $860 million has been traditionally produced in the tourism industry. On the average, close to 3.5 million visitors travel to San Marino annually, a huge number compared to the country's population of about 27,000.

Interestingly, one of the most reliable sources of income within tourism, apart from hotels, restaurants, shops, and other facilities, is the sale of collectibles and souvenirs such as historic coins and the world famous Sammarinese picturesque postage stamps, which are produced by the government. San Marino issued its first commemorative stamps in 1894 and, since then, these have become part of a notable and sustainable source of income. All 10 of the post office branches in San Marino sell such stamps and collectable coins, including some legal gold tender coins (lawful money).

Besides the tourism industry, San Marino makes most of its income from the manufacture and export of ceramics, tiles, building material, furniture, clothing, fabrics, paints, and some quality brands of spirits and wines. San Marino's bank system forms an integral part of the Italian banking system. Other key sectors are electronics and Internet-related activities.

Traditional economic activity in San Marino in the past relied mostly on stone quarrying, agriculture, sheep breeding, and wine and cheese making. Most Sammarinese families historically made their living as farmers and/or stone cutters. Building stone is the most important of the natural resources, as in much of Italy. Today's tiny agriculture sector focuses mostly on grains, grapes, and other fruits, as well as on animal husbandry, mostly cattle and pigs.

The per capita level of output and standard of living in San Marino are reasonably high and comparable to those of surrounding Italy, with a **GDP per capita** of about $32,000 (2000 estimate). GDP growth for the same year was 8 percent. San Marino is closely associated with the economic structures of the EU through the Italian economy and monetary and customs systems, with which it is closely integrated. San Marino also receives payments from the Italian government in exchange for permitting its **monopolies** on tobacco and other commodities on its territory.

POLITICS, GOVERNMENT, AND TAXATION

San Marino is a republic that has preserved some very ancient traditions that additionally attract tourists to the country. Although it has been greatly influenced by modern political developments in surrounding Italy, it also has been spared some of the turbulent moments in its larger neighbor's contemporary history. It is democratic and neutral, and even more sensitive than ever to the importance of liberty. San Marino is governed according to a constitution adopted on 8 October 1600. A newer electoral law of 1926 and a "Manuscript of Rights" of 1974 also serve some of the functions of a constitution. San Marino claims to be the world's oldest surviving republic, founded by Saint Marinus in 301 A.D. Its foreign policy is aligned with that of Italy, and the social trends in the republic also follow closely with those of its neighbor.

The executive authority comprises the 2 Captains Regent, the traditional co-heads of state, who are both members of the parliament and elected by that body; a Congress of State (cabinet), also elected by the parliament; and a senior Secretary of State for foreign and political affairs, who acts as the traditional head of government. In their tenure, the Captains Regent preside over the deliberations of the executive body, the Congress of State. Every 6 months, the Sammarinese parliament elects new Captains Regent—traditionally from opposing parties to provide checks and balances. Their investiture (inauguration ceremony) takes place on 1 April and 1 October of every year and is accompanied by a centuries-old ceremony. Once their term is over, Sammarinese citizens have 3 days in which to file any complaints about the in-office activities and behavior of out-going Captains Regent. If so warranted, judicial proceedings against the ex-heads of state may be initiated.

The legislative power is vested in a **unicameral** (having 1 chamber) parliament, a 60-member house

named the Grand and General Council that is elected by universal suffrage for a term of 5 years. The electoral body once comprised the heads of the Sammarinese families exclusively, but it was gradually extended to include all citizens over 18 years of age.

Italian magistrates, for both historical and social reasons of impartiality, have staffed the judicial system. The only native Sammarinese judges are the several Justices of the Peace, who may handle only civil cases in which disputed sums do not exceed 25 million lire (about $15,000). The traditional local Council of the Twelve serves as the highest court of appeals. It is elected by the Grand and General Council for the duration of the legislature.

The political parties in San Marino are traditionally very close to those in Italy, particularly the Christian Democrats, Socialists, and Communists. In the 1990s, however, among a series of disruptive political scandals, the Italian post-war political system was discredited and finally collapsed. A more complex and diversified system of new parties and alliances emerged from its debris. The centrist Christian Democratic Party, part of all ruling coalitions after 1948, dissolved and its members formed 2 new organizations, the Popular Party and the Christian Democratic Center. The new Democratic Party of the Left became the major left-wing party, including the majority of the reformed communists and many socialists. A smaller leftist group, the Communist Refoundation, retained some of the traditional **Marxist** policies, characteristic of the old communist party. The numerous Sammarinese political groups of the late 1990s accordingly included the conservative Democratic Christian Party (PDCS), the Progressive Democratic Party (PPDS), the Popular Democratic Party (APDS), the left-of-center Socialist Party (PSS), and the Communist Refoundation (RC), plus several other smaller groups, such as the Democratic Movement, the Popular Alliance, and the Socialists for Reform. Due to the small size of San Marino's population and electorate, no party has gained an absolute majority, so the government is usually run by a coalition. The parties sharing power currently are the Democratic Christian Party and the Socialist Party, but for several decades after World War II, San Marino was the only European country outside the Soviet sphere of influence ruled by a **communist-socialist** coalition. The elections held on 31 May 1998 (the next elections are to be held in May 2003) gave PDCS 40.8 percent of the popular vote, PSS received 23.3 percent, and PPDS had 18.6 percent. The composition of the current parliament and the Captains Regent reflects the stable economic situation in San Marino arising from having one of the lowest unemployment rates in Europe, a stable **budget surplus**, and zero **national debt**.

The role of the government in the economy is significant, although San Marino has developed a mature market economy. In the late 1980s, annual government revenue and expenditure were balanced at about $183 million, and since then the budget has accumulated a surplus. The state executive congress (cabinet), composed of 3 secretaries and 7 ministries, oversees the most vital economic activities, including those of the state-run Philatelic and Numismatic Office (stamps and coins). The government relies not only on tourism, taxes, and customs for revenue, but also on the sale of coins and stamps to collectors from throughout the world. In addition, the Italian government pays San Marino an annual budget **subsidy** provided under the terms of its basic treaty with Italy. The main issues facing the current government include economic and administrative problems related to San Marino's status as a close financial and trading partner with Italy while at the same time remaining officially separated from the EU.

Despite the tiny size of San Marino, it is an active player in the international community, with diplomatic ties to more than 70 countries. San Marino is a full member of the United Nations (UN), the International Court of Justice, the UN Educational, Scientific and Cultural Organization (UNESCO), the International Monetary Fund (IMF), the World Health Organization (WHO), the World Tourism Organization (WTO), the Council of Europe, the International Red Cross Organization, and the International Institution for the Unification of Private Law (UNIDROIT), among others. It also cooperates with the UN Children's Fund (UNICEF) and the UN High Commissioner for Refugees, and has official relations with the European Union. From May to November 1990, San Marino held the rotating presidency of the European Council of Ministers.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Italy supplies virtually all of San Marino's electricity, and the domestic automatic telephone system is completely integrated into the Italian telecommunications system. Main (fixed) phone lines (nearly 20,000) and cellular phones are ubiquitous, yet in 1999 there was only 1 local Internet service provider. The country has its own local television station and 3 local FM radio stations, although Italian broadcasting and cable TV is available everywhere. The republic has only a 1.5-kilometer (1 mile) cable railway, which connects the city of San Marino to the community of Borgo Maggiore. Virtually all of the 220 kilometers (138 miles) of roads in San Marino are paved. The country has no naval ports or airports, relying instead on Italy's extensive and advanced transportation facilities.

ECONOMIC SECTORS

The traditional foundation of San Marino's economy was agriculture and stone quarrying, while tourism and

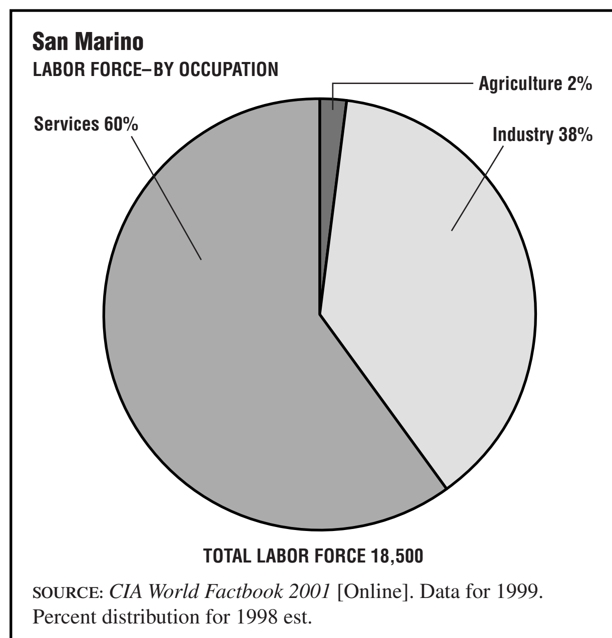
Communications

Country	Telephones[a]	Telephones, Mobile/Cellular[a]	Radio Stations[b]	Radios[a]	TV Stations[a]	Televisions[a]	Internet Service Providers[c]	Internet Users[c]
San Marino	18,000 (1998)	3,010 (1998)	AM 0; FM 3; shortwave 0	16,000	1	9,000	2	N/A
United States	194 M	69.209 M (1998)	AM 4,762; FM 5,542; shortwave 18	575 M	1,500	219 M	7,800	148 M
Italy	25 M (1999)	20.5 M (1999)	AM 100; FM 4,600; shortwave 9	50.5 M	358 (1995)	30.3 M	93	11.6 M
Monaco	31,027 (1995)	N/A	AM 1; FM N/A; shortwave 8	34,000	5 (1998)	25,000	2	N/A

[a]Data is for 1997 unless otherwise noted.
[b]Data is for 1998 unless otherwise noted.
[c]Data is for 2000 unless otherwise noted.

SOURCE: CIA *World Factbook 2001* [Online].

light industry have grown in importance. Wheat, barley, maize, olives, wine, and livestock and dairy products dominate agricultural output. Some building stone is still quarried. Manufactures include textiles, cement and building materials, leather goods, synthetic rubber products, and ceramics. Other important sources of income are the sale of postage stamps and collectible coins. In 1998, 60 percent of the labor force worked in the services sector, 38 percent in industry, and 2 percent in agriculture. In terms of industries, most workers were employed in tourism, banking, textiles, electronics, ceramics, cement, and wine production. No exact figures for sales of any industry are available, as the figures for San Marino are recorded as part of Italy's output.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1998 est.

AGRICULTURE

Arable land comprises some 17 percent of San Marino's rugged territory, and agricultural products include wheat, grapes, corn, olives, cattle, pigs, horses, beef, cheese, and hides. Italy supplies much of the republic's food, while main export products are wine and cheeses, renowned in Italy and abroad. Woods also cover a part of the land.

INDUSTRY

The government has a sound policy of promoting local producers. Electronics and Internet related activities have been added to the traditional Sammarinese construction materials manufacture, which includes building-stone quarrying, cement, ceramics, and tiles fabrication. Wood processing and fine furniture manufacturing are also well developed. Minting of coins and medals, printing of stamps and cards, and fine local handicrafts are the largest contributors to the economy in terms of revenue. Construction and the real estate market are another important source of income and occupation. Chemical industries, textiles, and apparel manufacturing also contribute to the country's exports.

SERVICES

The tourist sector is estimated to contribute over 50 percent of San Marino's GDP. In 1997, San Marino's rich history, charming mountain views, fine dining, and shopping attracted 3.4 million tourists. The republic's proximity to major maritime tourist resorts on the Adriatic Sea at Rimini and and to world centers of sophisticated tourism such as the museum cities of Florence and Venice also stimulated tourism. In finance, apart from the major Italian banks and insurance firms, there is only 1 local

credit institution, the Istituto di Credito Sammarinese, which performs the functions of a central bank. Among other duties, this institution coordinates the country's banking system and performs treasury and tax collection services. Given the small size of the **retail** market, small, family-owned stores prevail. The Sammarinese also shop in larger retail establishments in Italy, however.

INTERNATIONAL TRADE

International trade is light in volume. About 85 percent of exports and imports are shipped to, or come from, Italy. Energy, automobiles, equipment, and most manufactured goods and food are imported. Besides Italy, primary trade partners include some EU members, eastern European and South America countries, China, and Taiwan.

MONEY

The Sammarinese economy is closely integrated with the Italian monetary and banking system. The Banking Act in Italy of 1990 introduced major changes as a part of the EU policy for free capital movement within the member states and a currency union, creating conditions for the reduction of public ownership of banks and **liberalizing** the regulations on foreign capital. In 1999, Italy and 10 other members of the EU switched from their national currencies to the single currency of the euro, as a part of the European System of Central Banks (ESCB). The euro has been in use since 1 January 1999, initially for electronic transfers and accounting purposes only, while euro coins and bills will be issued in 2002. At that time the Italian currency will cease to be legal tender. On 1 January 1999, control over Italian **monetary policy**, including the issues of setting the interest rates and regulating the money supply, was transferred to the European Central Bank (ECB). The need to adjust to the centralized European monetary and banking system requirements without being officially a member of the EU will be a serious challenge for the Sammarinese government in the near future. The benefits from the single European economic space, however, are expected to outweigh the drawbacks.

POVERTY AND WEALTH

With a high measure of GDP per capita, a low **inflation rate** (in terms of consumer prices) of 2 percent (1997 estimate), and the benefits of the monetary and economic union with Italy, the tiny republic offers its citizens a high standard of living. No data as to San Marino's economic equality index (**Gini index**) are available, but if Italy's index is used, the degree of economic equality in the republic should be characterized as outstanding compared with that of the United States and the United Kingdom. The size of the republic and its economic activity render little space for the accumulation of large private fortunes, but extreme poverty is not an issue in the country either. This is no wonder given the influence of socialist politics in the country's history. In this and other ways, San Marino more closely resembles the above-average economic and social structures of industrialized northern Italy

WORKING CONDITIONS

The small but affluent Sammarinese economy, the close popular scrutiny over the government's deliberations, the long tradition of socialist control, and one of the lowest unemployment rates in Europe almost rule out labor unrest in the republic. The new, more environmentally friendly industries that are gradually supplanting traditional stone quarrying are also more conducive to enhancing safety at work. Of a workforce of some 18,500, only 3 percent were unemployed in 1999.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

301 A.D. According to legend, San Marino was founded by the Christian stonecutter Marinus who sought refuge on Mount Titano from religious persecution.

Exchange rates: San Marino

euros per US$1	
Jan 2001	1.06594
2000	1.08540
1999	0.93863
1998	1,736.2
1997	1,703.1
1996	1,542.9

Note: Rates prior to 1999 are in Italian lire per US$.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
San Marino	N/A	20,000	N/A	N/A	32,000
United States	28,600	30,200	31,500	33,900	36,200
Italy	19,600	21,500	20,800	21,400	22,100
Monaco	25,000	N/A	N/A	27,000	N/A

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

4TH TO 13TH CENTURIES. San Marino retains its independence despite the ambitions of the neighboring rulers and as new political entities develop and disappear throughout the land. The economy is based on agriculture and stonecutting.

1291. Roman Pope Nicholas IV officially recognizes San Marino's independence.

1503. Italian general Cesare Borgia briefly occupies the republic until his death several months later.

1739. Italian Roman Catholic Cardinal Alberoni uses military force to occupy San Marino, but civil disobedience against the invader and letters of protest to the Pope are answered by renewed papal recognition of San Marino's rights and restoration of independence.

1797. French leader Napoleon Bonaparte offers to expand the territory of San Marino as a gift and as a sign of friendship with the republic, but the Sammarinese authorities refuse.

1849. San Marino offers refuge to Italian revolutionary leader Giuseppe Garibaldi.

1862. San Marino signs a treaty of friendship (revised several times since) with Italy.

1943–45. During World War II, neutral San Marino hosts about 100,000 refugees from the embattled neighboring zones of Italy.

1945. A coalition of Communists and Socialists wins elections and rules for 12 years, creating the base of the **welfare state** and modern economic development.

1957. The Christian Democratic Party, aided by Communist dissidents, takes control of the government.

1978. A Communist coalition regains power and retains it for 14 years.

1992. San Marino becomes a member of the United Nations, while the Christian Democrats form a coalition government with the Socialists, a regime that continues to govern after the 1993 general elections.

1999. Control over the Italian monetary and banking system, used in San Marino, is transferred to the European Central Bank (ECB).

FUTURE TRENDS

The Sammarinese economy is closely related to Italy's and is highly dependent on the developmental trends of the EU. It is likely that the country will preserve its economy—particularly in the areas of tourism, services, and modern manufacturing—maintain its high living standards, and continue to attract tourists and collectors for the foreseeable future. The number of foreign visitors may even increase as the movement of people, particularly from Central Europe, becomes easier with their gradual integration in the EU and the positive changes concerning the wealth and leisure of their people.

The government's desire to maintain the republic's autonomy and independence may be challenged, however, by the advance of European integration, the increasing competition following the liberalization of commerce and services, and notably by the coming of the single European monetary system. The benefits of the unified European economic space, however, will almost definitely outweigh the problems and possible drawbacks. It is not likely that Sammarinese bank revenues will significantly decline without the exchange fees they charged before San Marino adopted the euro: the monetary union with Italy and the location of the republic as an enclave in Italian territory never generated a large foreign exchange **turnover** even before the European monetary union took effect.

DEPENDENCIES

San Marino has no territories or colonies.

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—Valentin Hadjiyski

SLOVAKIA

Slovak Republic
Slovenska Republika

CAPITAL: Bratislava.

MONETARY UNIT: Slovenská koruna (Sk). One koruna equals 100 hellers. There are coins of 10, 20, and 50 hellers, and 1, 2, 5, and 10 korunas. There are notes of 20, 50, 100, 500, 1,000, and 5,000 korunas. The koruna came into being with the division of Czechoslovakia into the Czech and Slovak Republics in 1993 and is now valued at a different rate than the Czech currency.

CHIEF EXPORTS: Machinery and transport equipment, intermediate manufactured goods, chemicals, raw materials.

CHIEF IMPORTS: Machinery and transport equipment, intermediate manufactured goods, fuels, chemicals.

GROSS DOMESTIC PRODUCT: US$45.9 billion (purchasing power parity, 1999 est.).

BALANCE OF TRADE: **Exports:** US$10.1 billion (f.o.b., 1999 est.). **Imports:** US$11.2 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The Slovak Republic is a landlocked nation in the eastern portion of Central Europe, with access to the Black Sea via the Danube River. Its neighbors are the Czech Republic to the northwest, Poland to the north, Ukraine to the east, Hungary to the south, and Austria to the west. The country's total area is 48,845 square kilometers (18,859 square miles). Much of its northern and central terrain is composed of striking mountains, similar to the American Rockies. Terrain in southern Slovakia consists of plains in the west and rolling hills. Slovakia is about the size of South Carolina, and it does not border a sea. The capital, Bratislava, is located near the country's western border and is not far from Vienna, Austria. Other major cities include Košice in the east and Banská Bystrica in the center of the country.

POPULATION. The population of Slovakia was estimated to be 5,407,956 in July 2000, an increase of 3.25 percent over the 1980 population of approximately 4,996,000. The birth rate stood at 10 per 1,000 in 2000, and the death rate was 9.29 per 1,000, resulting in a growth rate of .12 percent for 2000. Following this trend, the population for 2010 is projected at 5,473,203. The population has become increasingly urbanized, with 56.7 percent of Slovaks living in cities in 1999, up from 49.2 percent in 1980 and 32.8 percent in 1960.

Several ethnic groups make up the population. About 85.7 percent of the people are Slovak, and 10.6 percent are ethnic Hungarians. Although the census data registers 1.6 percent of the population as Romany (Gypsy), this figure is believed to be an underrepresentation, with some experts estimating as many as 500,000 Romany living in Slovakia. There are also small numbers of Czechs, Moravians, Silesians, Ruthenians, Ukrainians, and Poles. Approximately 60 percent of the population is Roman Catholic, about 10 percent is atheist, 8 percent is Protestant, 4 percent is Orthodox, and 17.5 percent list their religion as "other."

OVERVIEW OF ECONOMY

The nation that is now known as Slovakia was part of the Hungarian portion of the Austro-Hungarian Empire until the end of World War I in 1918. It then became a part of the new nation of Czechoslovakia. During the 1930s, Czechoslovakia was an industrial powerhouse in Europe. After World War II, Czechoslovakia fell under the political and economic influence of the Soviet Union, and Czechoslovak economic performance began to stagnate under **communist** rule, which mandated state ownership of enterprises, state-led central planning of economic activities, and artificial **price controls**. In 1968, after some Czechoslovak leaders attempted to introduce some political, cultural, and economic **liberalization**, the country was invaded by the Warsaw Pact troops of neighboring

communist countries under the direction of the Soviet Union. This intervention put a stop to liberalization and introduced a period of "normalization" in which the government attempted to increase production of **consumer goods** in exchange for political compliance by the people. In spite of these efforts, the economy continued to decline, culminating in an economic crisis by the late 1980s that sparked more popular protests.

By late 1989, the more liberal policies of the Soviet Union toward Eastern Europe, as well as the weakening of communist governments in neighboring East Germany, Hungary, and Poland, made it harder for the Czechoslovak communists to retain power. In November and December of 1989, the communist government stepped down. Free elections for parliament were held in 1990, and Václav Havel was elected president. The government quickly embarked on a series of economic reforms aimed to reorient the economy towards free market principles. These reforms included economic **restructuring** and the elimination of government price controls. In addition, the government began the process of **privatization**.

From 1990 to 1992, these reforms were more popular in what is now the Czech Republic, which had a larger industrial base, than in what is now Slovakia, where several factories that had produced arms during the Cold War had been shut down. Under the country's federal structure, which gave each republic a measure of independent powers, the 1992 elections resulted in a governmental deadlock, and the newly-elected prime ministers of the Czech and Slovak republics began to negotiate the separation of Czechoslovakia into 2 independent states. The Czech Republic and the Slovak Republic became separate sovereign states on January 1, 1993.

Compared to the pre-1993 economic reforms in Czechoslovakia, the economic reforms that took place in Slovakia between 1993 and 1998 occurred at a slower pace. While the country registered continued growth in GDP during this time, international investment did not reach desired levels. In 1998, a more reformist government was elected and began to accelerate the pace of economic reforms. For example, as part of the privatization process, property was now being sold to qualified individuals at regular prices, putting a halt to the previous government's attempts to sell off property to unqualified friends of government officials at artificially low prices. Reforms also improved conditions for foreign investment in Slovakia, paving the way for increased employment and for future accession to the European Union.

Slovakia's strongest economic sectors are industry and services. Its primary industrial products include iron and steel, machinery and equipment, motor vehicles,

manufactured goods, plastics, chemicals, and armaments. The country's primary agricultural products are wheat, potatoes, barley, sugar beets, and grapes for wine-making. The Slovak Republic's primary mineral products include copper, iron, lead, lignite, manganese, and zinc. The vast majority of the country's energy is imported from outside sources, although there is some hydroelectric and nuclear power.

The Slovak Republic has applied for membership in the North Atlantic Treaty Organization (NATO) and is a prospective member of the European Union (EU). Its largest trading partners are the EU and the Czech Republic. It has received some aid, in the form of grants and loans, from international organizations such as the European Investment Bank, the European Bank for Reconstruction and Development, the International Monetary Fund (IMF), and the World Bank. Slovakia's **external debt** for 1999 was US$10.6 billion. Organized crime has been a negative factor in the development of the economy, as occasional violence between organized crime factions, such as car bombings, have deterred potential foreign investors. These gangs, composed of Slovaks and immigrants from the former Soviet Union, have in some cases also extorted payments from some small business owners.

POLITICS, GOVERNMENT, AND TAXATION

Slovakia is a parliamentary democracy with a directly-elected president. A **unicameral** (one-house) National Council of 150 members is elected via a proportional system in which voters indicate a preference for parties rather than for specific candidates. Each party that receives at least 5 percent of the vote is assigned a number of seats in parliament according to the percentage of ballots it receives. Terms are for 4 years. Judicial power is vested in a Supreme Court, elected by the National Council and a Constitutional Court appointed by the president from nominees approved by the National Council.

Although the president was initially elected by the parliament, the office of president has been chosen by direct election since 1999. The 1st president to be chosen by direct election, Rudolf Schuster, was elected in 1999 for a 5-year term. He succeeded Michal Kovac, who served as the 1st president after being elected by the parliament in 1993.

The 1st elections in the independent Republic of Slovakia took place in 1994. At that time, the Movement for a Democratic Slovakia (HZDS) emerged as a clear victor, as it had in 1992. This party, which is a weak supporter of free-market reforms, formed a governing coalition with the xenophobic (anti-foreign involvement) Slovak Nationalists (SNS) and the Slovak Workers (ZRS). In spite of a very slight victory for the HZDS in the 1998 elections, the party's inability to form a governing coalition gave power to a broad-based coalition that included the free-market reformist Slovak Democratic Coalition (SDK). Other significant political parties include the Slovak Communist Party (KSS) and the reformist Democratic Union (DU). There is also a new, centrist party called Smer (Direction).

The government has played a significant role in the economy during the process of changing from a centrally planned communist system to a market-based system. The HZDS-SNS government in power from 1994 to 1998 not only slowed economic reforms but also did some damage to the privatization process by selling direct shares of state industries instead of distributing shares through a voucher process (in which all citizens obtained vouchers to purchase shares in formerly state-run industries), as had been initiated under the Czechoslovak state. It had originally been intended that these sales would take place via public auction, but the HZDS-SNS government made the transfers independently of public discussion or knowledge. There have been allegations that the transfer of many of these enterprises occurred under dubious circumstances, especially between 1996 and 1998.

In spite of these setbacks, the economy is currently dominated by private activity, and the vast majority of economic activity originates in the **private sector**. The reformist government that took power in 1998 has actively attempted to implement numerous reforms at a rapid pace, with the goal of having Slovakia enter the European Union in the near future.

The Slovak Republic adopted the Commercial Code that was initially formulated in 1991 under the Czechoslovak state. It outlines legal protections for private property and business activities for both Slovaks and foreign persons. Government reforms have also stabilized the Slovak currency and made it convertible to other currencies on the world market. The government has effectively reoriented trade towards Western partners in an attempt to integrate with EU markets.

The government obtains revenue through several different forms of taxes. There is a progressive personal **income tax** with 7 rates that ranges from 12 to 42 percent. The corporate income tax is 29 percent, although **tax holidays** or specific tax breaks for some businesses are offered as part of an effort to attract foreign investment. Other taxes include property taxes, road taxes for business vehicles, inheritance tax, and fees for administrative services. There is also a **value-added tax** on goods; **excise taxes** on alcohol, tobacco, and some fuels; customs **duties**; and real-property transfer taxes. The court system enforces the commercial code, but as it is often overloaded, plaintiffs may experience significant delays. The military has little or no role in controlling economic development, except for the armaments industry.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Slovakia	185	580	402	105.1	87	10.0	65.1	38.79	600
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Czech Republic	254	803	447	77.1	94	10.4	97.3	85.58	700

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Given the former communist emphasis on public goods, Slovakia inherited an extensive network of public transportation, in the form of bus and train routes, from Czechoslovakia. Even some of the most remote locations may be reached by bus. One of the most significant changes of the post-communist era has been an increase in independent auto ownership. There are 17,710 kilometers (11,005 miles) of highways, including 288 kilometers (179 miles) of expressway, with only 177 kilometers (110 miles) remaining unpaved. A large-scale improvement is planned for the highway system with a cross-country expressway slated for construction. Continued improvements are planned for the railway system in order to bring it more in line with EU standards. The country now has 3,660 kilometers (2,274 miles) of railways.

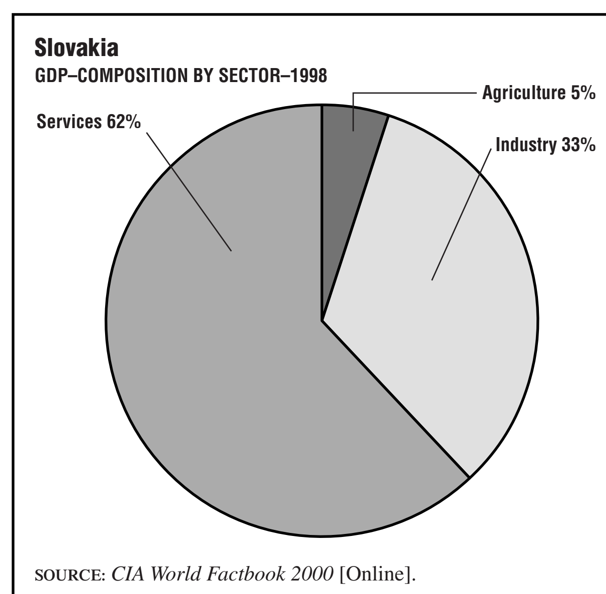
There are 18 airports in the country. The largest public airports are in Bratislava and in Košice, the second-largest city. Many visitors also enter Slovakia via the Vienna airport, which is only 25 miles away from Bratislava. The 172 kilometers (107 miles) of waterway are provided by the Danube River, which gives Slovakia access to the Black Sea via ports in Austria, Hungary, the former Yugoslavia, and Romania. The 2 port cities are Bratislava and Komárno, both of which host shipping companies.

Electricity production stands at 20 billion kilowatt hours (kWh), and the country relies on a 220-volt power system. Most electricity is generated by nuclear power (56 percent), followed by imported fossil fuels (24 percent) and hydroelectric power (20 percent). One of the 2 nuclear plants was being upgraded as of 2000, and the construction of an additional hydroelectric power plant on the Danube has been delayed by a dispute with Hungary.

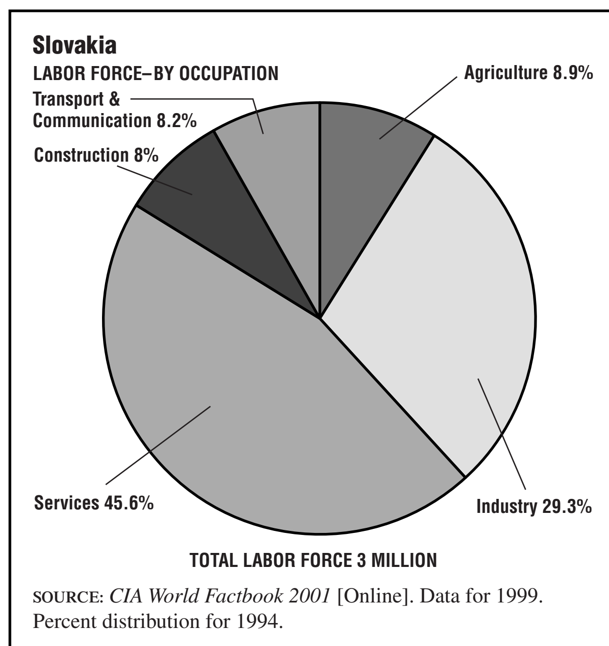
Slovakia's communications **infrastructure** is rapidly modernizing. In 2000, Slovak Telecom, the former state-owned communications **monopoly**, was largely privatized, and access to telephone service is easier. The increased entry of private telecommunications providers and the growing popularity of mobile telephones now provide more competition in this industry. There are 87 mobile phones per 1,000 people in the Slovak Republic, compared to 50 per 1,000 in neighboring Poland, and there are 2 providers of cellular phone service and 5 large Internet service providers. Internet cafes are readily available, which make up for the fact that relatively few Slovak households contain computers (65.1 per 1000 people in Slovakia, compared to 97.3 per 1,000 in the Czech Republic and 457 per 1,000 in the United States). Slovakia also lags behind the Czech Republic in the proportion of radios and televisions but is on a rough par with Poland in these categories.

ECONOMIC SECTORS

Since the 1990s, Slovakia has experienced a drastic production shift away from the industrial sector and to-



SOURCE: *CIA World Factbook 2000* [Online].



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1994.

wards the services sector. In 1998, the proportion of contributions to GDP from services, industry, and agriculture were 62 percent, 33 percent, and 5 percent, respectively. This change has not merely resulted from the 1993 separation of Czechoslovakia, since the Czech Republic has been experiencing similar dramatic shifts. Rather, it is a side effect of the transformation from the central planning of the communist system to a market-based system. The communist system created several large monopoly industries in specific sectors, such as pharmaceuticals and machine production. Once privatized, only some of these industries have been competitive in a free-market environment. While the service sector was given a low priority under the communist system, the free-market environment has demonstrated a strong demand for growth in this sector.

GDP showed generally continuous growth during the 1st decade of the transition. However, some irregularities in the privatization process were among the factors that prevented Slovakia from attaining levels of **foreign direct investment** (FDI) comparable to that of its neighbors. A restructuring of the government and economic policies in 1998 has brought renewed investor interest in Slovakia. The most famous Slovak industry to survive the transition process is the VSŽ Steel company in Košice, now a partnership with U.S. Steel. Volkswagen also set up operations in Slovakia in the late 1990s.

Under the communist system in Czechoslovakia, Slovakia produced 80 percent of the state's armaments, many of which were exported to eastern-bloc allies. With the end of the Cold War, these factories were shut down. This sector had at one time contributed 5 percent of total industrial production and 12 percent of exports, employing 80,000 people. The closing of the factories was highly unpopular in Slovakia, and played a contributing role to the eventual breakup of the Czechoslovak state. Some Slovak arms production has now been resumed.

The sectors that are projected to have particular growth potential are pharmaceuticals, infrastructure, information technology, equipment and equipment services, business services, and tourism.

AGRICULTURE

The agricultural sector is the smallest in the Slovak economy, making up approximately 5 percent of the GDP, although some sources argue that this proportion is higher. According to 1994 figures, the agricultural sector employs 8.9 percent of the **labor force**, or 295,480 people. More than one-third of Slovakia's territory is cultivated, and the primary agricultural products are sugar beets, potatoes, wheat, barley, fruit, forest products, corn, pigs, cattle, poultry, and sheep. Grapes for wine production are grown in some hilly areas, and tobacco is cultivated in valleys. Animal products, including oils, represent over 80 percent of all agricultural receipts.

Under the communist economic system, much of Slovakia's agriculture, particularly on the plains, was collectivized, meaning that small private farms were taken by the government in order to create state-owned cooperatives. Under this setup, individuals who lived in a village would be employed by the nearby collective farm. After the collapse of communism in 1989, these cooperatives were transferred to private owners, often by the direct sale of the farm as a unit, though some lands were also restored to their former owners. The government has embarked upon a long-term agricultural policy in an effort to modernize this sector for the world market.

Food consumption has diversified with the introduction of the **free market system**, and food items that are not produced domestically, such as tropical fruits, are easily imported. These items were more difficult for individuals to obtain under the communist economic system.

INDUSTRY

Industry is a large but declining sector of the economy of Slovakia. According to 1998 data, industrial production made up 33 percent of the country's GDP and employed 37 percent of the labor force, or 1,238,360 people, in 1994. Slovakia is experiencing a long-term decline of industrial production as fewer unnecessary products are being produced under **capitalism** as were produced under communism. There has also been a reduction of heavy and light industry and a move toward services. In the first decade of the free-market economy, employment

in the industrial sector shrank, with the most significant job losses in the areas of construction, machinery and equipment, metals and fabricated metal products, and mining and quarrying. The only increase came in the area of textile production. In spite of this decline, industry continues to produce a significant portion of exports from Slovakia to other countries.

While the majority of large and medium-sized enterprises have been privatized, some companies remained in government hands until as late as 1999 and 2000. Some of these companies had significant debts, making their privatization politically unpopular because of potential job losses. Other companies were initially categorized as strategic enterprises and were left out of the first efforts of privatization. In 1998, Slovak Telecom and SPP, the Slovak gas company, were privatized.

MANUFACTURING. Many of the remaining manufacturing plants that were privatized after communism included outdated equipment. Thus, foreign direct investment has been extremely important in determining which industries survive the transition to a market economy. Foreign investment was particularly helpful in the areas of transport machines, auto production, and steel production. The most sizable investments were made by the German company Volkswagen and by U.S. Steel, which purchased the large East Slovakia VSŽ Steel plant in the late 1990s. Automobiles and steel are among Slovakia's most successful exports. Chemical production has recently averaged approximately 18 percent of total industrial output and includes chemical fibers and plastics. Other important sectors are the production of textiles, clothing, and leather products such as footwear, fuel and power production, and construction.

The late 1990s saw some decreases in the production of manufactured products, as well as in chemicals, while exports of crude materials remained at steady levels. According to employment figures for 1999, employment trends in various manufacturing sectors varied widely. There have been significant declines in employment in the areas of basic metals and fabricated metal products, machinery and equipment, and construction. The following manufacturing areas registered positive increases between 1998 and 1999: textiles, electrical and optical equipment, pulp and paper products, leather products, and transport equipment.

MINING. Approximately 4.6 million tons of coal are mined in Slovakia each year. Other significant minerals include iron, copper, lead, manganese, zinc, mercury, and lignite. Employment in the mining sector declined during the 1990s.

CONSTRUCTION. Construction levels initially increased dramatically after 1989, and building materials represent over 3 percent of industrial output. However, at the end of the 1990s, construction began to experience some fluctuations in employment.

SERVICES

As part of the general transformation of the economy in the transition from a communist to a capitalist system, the service sector in Slovakia has experienced sizable growth while the industrial and agricultural sectors have declined. In 1998, the services sector accounted for 62 percent of total GDP, and, as of 1994, it employed 54 percent of the labor force, or 1,786,160 workers. Significant increases in employment in the late 1990s were located in the service sector, in the areas of wholesale and **retail** trade, repairs, and hotels and restaurants.

FINANCE, BANKING, AND INSURANCE. As insurance was not provided under the communist system, there was significant growth in this area during the 1990s. Financial services and consulting companies experienced similar growth. Although foreign companies initiated growth in this sector, they now have some domestic competitors. An increasing number of commercial banks are under private and/or foreign ownership.

RETAIL. The retail portion of the service sector has undergone dramatic changes since 1989. Under the communist economic system, retail was limited to state-owned shops where product shortages were common and the displays unattractive. In an effort to promote **full employment**, these stores maintained a complicated point-of-purchase system that required several steps with different clerks at each level (selecting the product, paying for it, and receiving it). Retail stores were privatized as part of the process that took place under the Czechoslovak state before 1993. The current retail sector consists of privatized, restructured stores as well as completely new stores that have adopted capitalist marketing methods. Among the most popular products for consumer consumption are automobiles and foreign-produced appliances, such as televisions, VCRs, and stereos. The repair sector is also growing.

TOURISM. Tourism has increased significantly since 1989, and it is targeted as a primary sector of growth. Slovakia's chief urban attractions are its largest cities, the capital city of Bratislava and Košice. The country's best known feature is the striking High Tatra mountains, comparable to the American Rockies, which offer numerous opportunities for outdoor tourism such as skiing, hiking, mountain climbing, and cave exploration. Visitors are also attracted by the region's historic spas and castles. Slovakia hopes to make a bid to be a site for a future Winter Olympics.

The number of tourists visiting Slovakia steadily increased after 1989, with the majority of visitors coming

from Western Europe and neighboring countries. The dramatic increase in tourism has led to an increased need for tourist services, particularly hotels, and hotel accommodation income increased from 1.1 billion korunas in 1993 to 1.8 billion korunas in 1995. In 2000, some 2.8 million tourists spent US$431 million in Slovakia. Unlike the situation under the communist system, which featured a state-run, monopolistic tourist bureau, the majority of tourist facilities have now been privatized.

INTERNATIONAL TRADE

Since it became an independent state in 1993, Slovakia has had a **trade deficit**, meaning that it imports more than it exports. The former Czechoslovak state also consistently registered a negative trade balance between 1975 and its separation into the Czech and Slovak Republics. In 1999, it exported US$11.2 billion worth of goods and services while importing US$10.1 billion.

Slovakia's primary industrial exports are various manufactured goods, among them metal products and wood products, such as paper, as well as machinery and transport equipment. In 1998, these categories comprised 43 percent and 37 percent of all commodity exports, respectively. Other significant exported commodities were chemicals, which made up 9 percent, and raw materials, which amounted to 4 percent. Of the EU countries, Germany and Austria are the primary consumers of Slovak exports (at 29 and 7 percent of exports, respectively), but the Czech Republic (with 20 percent) also consumes a significant volume of Slovak products.

Some 40 percent of all of Slovakia's imports for 1998 were classified as machinery and transport equipment. Other imports included intermediate and miscellaneous manufactured goods, which comprised 28 percent of imports, chemicals (11 percent), and fuels (11 percent), although increasing fuel demand makes this a rapidly-growing import sector. The primary sources of imports from EU countries are Germany (26 percent) and Italy (6 percent), with the Czech Republic (18 percent) and Russia (10 percent) also serving as important importers.

In the early 1990s, the Czechoslovak state made a concentrated effort to shift trade away from the former Soviet Union and former Soviet Bloc countries and to the European Union and the United States. In contrast to the previous Slovakian government, the government elected in 1998 began to actively encourage this shift in an effort to improve the country's chances for entry into the European Union. Trading patterns now show increased volume in trade with the European Union and the United States and decreased volume with other eastern European countries and the former Soviet Union. As one result of this shift, trade with the Czech Republic has been in decline, in spite of a favorable customs union between the 2 countries. The Czech Republic made up 39 percent of Slovakia's foreign trade **turnover** in 1993, but, by 1999, it was about half that (18 percent). Both countries have instead been registering increased trade with the European Union, which now accounts for approximately 56 percent of Slovakia's foreign trade.

MONEY

Since 1995, the Slovakian koruna has been generally convertible to other currencies on the world market for trading purposes. In January 2000, it was being exchanged at the rate of 42.059 korunas to the U.S. dollar, up from 29.713 in 1995. The Slovak National Bank serves as the country's central bank and sets **monetary policy**. It is designed to be autonomous from political structures. In spite of the bank's generally responsible policies to curb **inflation**, the currency has been in a slow state of decline for several years. As a result, imported products are becoming increasingly harder for Slovaks to afford. In addition to the central bank, there are 2 agencies to assist banks and companies through the bankruptcy process.

The privatization of banks in Slovakia has been a complicated process, and the state retained shares in the 3 strongest banks as of 1999. In that year, the government began a program to reduce the amount of state ownership in the banking sector (a holdover from the communist system) and to increase the amount of private ownership of banking. This restructuring is understood as a crucial step in the transition to a market economic system. There is also a growing amount of foreign investment and ownership in the banking sector. This process corresponds with the country's efforts to prepare for future integration into the financial structures of the European Union.

The Bratislava Stock Exchange is the seat of much of the securities trading in the Slovak Republic. There is also an electronic exchange market called the RM-system, also for the trade of securities. A database of all listed companies is maintained by the Center of Securities of the Slovak Republic, a joint-stock company.

Exchange rates: Slovakia

koruny (Sk) per US$1	
Mar 2001	48.09
2000	46.395
1999	41.363
1998	35.233
1997	33.616
1996	30.654

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Slovakia	N/A	N/A	3,630	3,825	3,822
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Czech Republic	N/A	N/A	4,884	5,270	5,142

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Slovakia

Lowest 10%	5.1
Lowest 20%	11.9
Second 20%	15.8
Third 20%	18.8
Fourth 20%	22.2
Highest 20%	31.4
Highest 10%	18.2

Survey year: 1992

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

POVERTY AND WEALTH

In 1998, **GDP per capita** was US$3,822 in Slovakia, as compared to $5,142 in the Czech Republic, US$2,900 in Poland, and US$23,200 in the United States. Four decades of communist rule in Czechoslovakia (1948 to 1989) had a strong and enduring effect on the distribution of incomes in Slovakia. Under communism, wages were artificially kept at similar levels, so professionals such as doctors earned wages similar to those of factory or construction workers. Because property had belonged to the state and housing was distributed through state channels, those individuals who obtained large homes often did so through political means, such as good standing with the Communist Party.

By 2000, with the privatization of property, home ownership is increasingly becoming a privilege of financial success. However, the Slovakian government that administered the privatization process throughout most of the 1990s did so in a non-transparent (secretive) way, making it clear that political affiliation mattered for the acquisition of property at reduced rates. Such instances of corruption have allowed a few individuals to improve their economic standing through dubious means.

Although the social structure is rapidly moving toward a hierarchical class system, as of the late 1990s, income distribution and consumption in Slovakia remained more equalized than in the United States. In the United States, the richest 20 percent of people earn and consume 46 percent of available wealth, as compared with Slovakia, where the richest 20 percent earn and consume only 31 percent of available wealth. In the United States, the poorest 20 percent earn and consume only 5 percent of available wealth, but in the Slovakia, the poorest 20 percent earn and consume nearly 12 percent.

Under the communist system, higher education and health care were freely provided by the state. Slovakia has been implementing reforms that require individuals to pay for these services. These reforms have been difficult for average individuals because institutions such as a comprehensive student loan system or health insurance have not yet been fully developed. The state does provide a social security system and some social assistance.

WORKING CONDITIONS

Slovakia's labor force is 3.32 million. Because the previous communist system required women to work outside the home, many are now choosing to remain at home when they have children, in contrast to trends in the United States. In 1999 and early 2000, the rate of unemployment, which registers those actively looking for work, reached

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Slovakia	26	7	16	5	12	10	24
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Czech Republic	24	5	14	5	12	16	24

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

nearly 20 percent. It now appears to be declining, with unemployment for late 2000 at 16–17 percent. Many experts believe that high levels of unemployment are difficult to avoid in the ongoing transition period. The government has focused its energies on improving foreign investment and business possibilities in an effort to promote new jobs, and unemployment benefits are available, as well as progressive provisions for paid maternity leave.

Unemployment is at the lowest level in the capital of Bratislava, where wages are at the highest level in the country, and in the eastern region of Košice. In 1994, the majority of those employed, 53.8 percent, worked in the service sector. Industry employed 37.3 percent of the workforce, and the remaining 8.9 percent worked in agriculture. Given the importance of foreign investment in the economy, those workers who speak English and German have an advantage in the labor market.

There is an active confederation of trade unions, with the largest single union being the Engineering and Metal Union. The majority of all workers are union members. Slovakia has instituted a system of laws that prohibits employment discrimination on the basis of race, sex, language, religion, faith, and political views. However, discrimination against the hiring of Romany people (Gypsies) persists in practice.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

500 A.D. First Slavonic tribes appear in region.

830–900. Period of the Great Moravian Empire.

863. Christianity enters the region, brought by the monks Cyril and Methodius.

907. The Moravian Empire is overthrown by the Hungarians (Magyars), leading to rule by various Hungarian kings.

1526. The defeat of Hungarians by the Turks in a battle moves the administrative seat of Hungary northward, to what is now Slovakia. This situation lasts until the late 1600s.

MID-1800s. Increasing Slovak national identity is particularly centered around language.

1867. The Austro-Hungarian Empire is divided into 2 parts. The Slovaks remain under the rule of the Hungarians, based in Budapest, while the Czechs are under Hapsburg rule.

1918. The Austro-Hungarian Empire disintegrates at the end of World War I and Czechoslovakia becomes an independent nation.

1938. Adolf Hitler's Germany is given a piece of Czechoslovakia by the Munich Agreement.

1939. Germany attacks Czechoslovakia at the start of World War II. Czechoslovakia is dissolved and Slovakia becomes a puppet state allied with Hitler's Germany. Many Jews perish in camps during the war.

1944. Approximately 60,000 Slovak troops engage in the Slovak National Uprising against German rule, a resistance that is put down by the Nazis.

1948. The Communist Party takes over Czechoslovakia's parliament. A communist political and economic system dominates for the next 4 decades.

1968. The Soviet Union and Eastern Bloc nations invade Czechoslovakia to counter reform attempts during the "Prague Spring" of Premier Alexander Dub ek.

1970s. Strict repression and control of the population by the Communist Party.

1977. Some political dissidents, emboldened by principles of human rights, begin to visibly resist the communist leadership.

1980s. Worsening economic conditions lead to increasing numbers of protests against communism.

1990. The first post-communist parliamentary elections are held in Czechoslovakia, and the new government embarks on a series of reforms to replace the communist economic system with a capitalist system.

1992. The second post-communist elections result in a leadership stalemate between the Czech and Slovak republics under the federal Czechoslovak state.

1993. The Republic of Slovakia is constituted on January 1. In February, it establishes a separate Slovakian currency.

2000. Slovakia is invited to begin accession talks with the European Union, of which it is already an associate member.

FUTURE TRENDS

Slovakia has come a long way since its founding in 1993 and its first decade of transition from a communist to a capitalist economic system. It is a member of several international organizations, including the United Nations, the IMF, the World Bank, and the World Trade Organization (WTO). It is also an associate member of the European Union. It aspires to become a member of NATO and is working to update its military infrastructure for this purpose. The government's primary focus in recent years has been the preparation of legislative and regulatory structures for future EU membership, for which it has made a formal application.

In spite of the enormous changes that Slovakia has successfully undergone in its first few years of independence,

and particularly since 1998, more remains to be done. Some areas for improvement include: some restructuring of the enterprise sector after the negative results of corrupt “insider” privatization by the first Slovak government, increased foreign investment, a reduction of high unemployment levels, and further reforms of legislation to incorporate EU standards. Although the Slovak economy faces many difficulties, the EU has responded favorably to the economic reforms initiated by the reformist government. Whether the country is able to complete its reform process and attain membership in the EU will depend largely upon the fate of the reformist government in the next elections.

DEPENDENCIES

Slovakia has no territories or colonies.

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—Sherrill Stroschein

SLOVENIA

Republic of Slovenia
Republika Slovenije

CAPITAL: Ljubljana.

MONETARY UNIT: Slovene tolar (SIT). One tolar (SIT) equals 100 stotins. There are coins of 50 stotins, and 1, 2, and 5 tolars, and notes of 10, 20, 50, 100, 200, 500, 1,000, 5,000, and 10,000 tolars.

CHIEF EXPORTS: Manufactured goods, machinery and transport equipment, chemicals, food.

CHIEF IMPORTS: Machinery and transport equipment, manufactured goods, chemicals, fuels and lubricants, food.

GROSS DOMESTIC PRODUCT: US$22.9 billion (2000 est.).

BALANCE OF TRADE: **Exports:** US$8.9 billion (f.o.b., 2000). **Imports:** US$9.9 billion (f.o.b., 2000).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in southeastern Europe, bounded on the north by Austria, on the northeast by Hungary, on the southeast and south by Croatia, and on the west by Italy and the Adriatic Sea, Slovenia has an area of 20,253 square kilometers (7,820 square miles), slightly smaller comparatively than New Jersey, and a coastline of 46.6 kilometers (29 miles). The capital city, Ljubljana, is situated on the Sava River in the central part of the country; the second major city is Maribor on the Drava River in the northeast.

POPULATION. The population of Slovenia was estimated at 1,930,132 in July 2001. At the 1991 census, it was 1,962,606, giving it an overall population density of 97 persons per square kilometers (252 per square miles). In 2001, the birth rate was estimated at 9.32 per 1,000 population, while the death rate stood at 9.98 per 1,000, giving Slovenia a negative rate of natural increase. In 2001, however, a positive population growth rate was estimated, partly due to **immigration** from other former Yugoslav republics. Unlike many Eastern European countries, Slovenia has not been seriously affected by economic **emigration** in the 1990s.

Slovenes, a Slavic ethnic group, constitute about 88 percent of the republic's population; ethnic Croats (about 3 percent), ethnic Serbs (about 2 percent), and several other ethnic groups (about 7 percent) constitute the remainder. Slovenian culture has been strongly influenced by Austrian and German culture. Languages include Slovenian and others, corresponding to the ethnic breakdown. Most Slovenes (about 69 percent) are Roman Catholics, with smaller numbers of Lutherans and others. In the mid-1990s, Slovenia was home to some 20,000 refugees from the war in Bosnia and Herzegovina. About 52 percent of the population lives in urban areas, particularly in Ljubljana. The population is aging, with 16 percent below the age of 14 and 19 percent older than 60.

The aging of the population was spectacularly illustrated by the success of the Democratic Party of Slovene Pensioners (Desus) in the late 1990s. Having entered parliament in 1996, this retiree party achieved a record 5.2 percent share of the popular vote in 2000, pledging to put off pension reform. The Slovenian government has been consistent in its commitment to supporting families and youth, yet unable to reverse the aging trend, characteristic of Europe as a whole.

OVERVIEW OF ECONOMY

Slovenia had been a part of Austria for many centuries before joining the former Yugoslavia as its most prosperous part in 1918. After the breakup of Yugoslavia in 1991, newly independent Slovenia was the richest (although the smallest) country in central-eastern Europe; it is also considered one of the easiest to be absorbed in the enlarged European Union (EU), made up of, as of early 2001, 15 European countries joining together to form a more competitive economic and political force in the region and the world. Slovenia's foreign policy since independence has focused on strengthening relations with

western Europe while weakening its ties with the rest of the former Yugoslavia, which, through much of the 1990s, suffered from the devastation brought by war.

Slovenia's economic record is among the best in Eastern Europe; the budget is under control, the currency is stable, and the economy has been growing for 10 years. In 1989 (the last year in which Slovenia was part of **communist** Yugoslavia), its **gross domestic product (GDP) per capita** was US$11,510, putting it considerably ahead of smaller EU members such as Portugal and Greece, and in 1999, after a good performance in the 1990s, it had risen to US$13,283, which came just under 60 percent of the EU average. In 1999, **real GDP** rose by 4.9 percent, making Slovenia the fastest growing country in central-eastern Europe. In the second half of the 1990s, however, its average growth rate was 4.2 percent, leaving it behind Poland, Slovakia, and Croatia during the same period, largely because Slovenia, unlike its neighbors, experienced only a limited decline at the beginning of the decade and had a somewhat slow approach to **privatization**.

The real output level in Slovenia in 1999 was 9.3 percent above 1989, while most countries in Eastern Europe are still far below their 1989 level, and only Poland's 1999 output of 21.8 percent was higher than Slovenia's. Slovenia's openness to trade, with total trade equivalent to about 115 percent of GDP, has been instrumental in sustaining economic growth, and maintaining export competitiveness has consistently been the focus of government attention. Slovenia's dependence on Eastern European markets before 1989 was also small compared to that of most of its neighbors.

Slovenia competes with Hungary for 1st place in the line of formerly communist countries wanting to join the EU, which will make it a more attractive venue for foreign investment than most other ex-Yugoslav republics. Although the government was criticized in the mid-1990s for slow structural reforms and a comparatively rigid economy, it has fulfilled the EU entry criteria of developing a functioning market economy and is getting closer to meeting the second requirement of being capable to withstand competitive pressure in the single European market.

Yet the EU complains that large banks and utilities are still in state hands, which means that Slovenia has one of the lowest shares of **private-sector** activity in GDP among the EU applicant countries. Moreover, the EU believes that the Slovenian economy in general, and labor markets in particular, are over regulated and leave little ground for new investment and innovation. Consequently, much work remains yet to be done in the areas of privatization and capital market reform. Privatization

is expected in banking, telecommunications, and public utility sectors. Government and corporate restrictions on foreign investment are slowly being discarded, and direct investment is expected to increase in the 21st century.

Although Slovenia's **external debt** rose from $4 billion in 1996 to $6.1 billion in 2000 (estimate), the increase is considered proportionate to the GDP; a **trade deficit** has contributed to its accumulation as imports steadily outgrow exports. The strong banking sector and the steady growth of GDP, however, are generally offsetting any possible negative effects on the economy and living standards.

POLITICS, GOVERNMENT, AND TAXATION

Slovenia emerged from the former communist Yugoslavia in 1991 as a parliamentary republic with a multiparty democratic system, remarkably moderate and consensus-oriented. The center-left Liberal Democracy of Slovenia (LDS) won the parliamentary election in October 2000, securing 34 seats in the 90-member National Assembly, which gave it a wide edge over the largest center-right group, the Social Democratic Party (SDS), which took 14 seats. The left-of-center United List of Social Democrats (ZLSD) won 11 seats, while the Democratic Party of Slovene Pensioners (Desus) and the Slovene National Party (SNS), 2 other left-of-center formations, made their way back into the Assembly. The election ended in defeat for the 3 main center-right parties of the Slovene Spring movement—the SDS, the Slovene People's Party, and the New Slovenia-Christian People's Party, which together got only 31 seats, one-third down from the 45 deputies that they had after the 1996 election—a result that destroyed their ambitions of reviving the coalition government that they formed in June 2000. All major parties (with the possible exception of SNS) firmly support EU membership and (with the possible exception of ZLSD) entrance into the North Atlantic Treaty Organization (NATO), both of which are expected in the 1st decade of the 21st century.

The LDS positioned itself as a party equipped to guide Slovenia through the challenges likely to be encountered on the path to EU membership and globalization. It demonstrated its commitment to modernization, along with its **liberal economic** agenda, including plans to privatize banking, insurance, and the energy sector. The electorate swung to the LDS primarily because of its record for competence. This party in fact ran the country from early 1992 until April 2000, playing the leading role in 3 coalition governments, all of which were headed by the party leader, Janez Drnovsek. Convincing evidence has not backed up innuendoes from the right that the LDS has grown corrupt. The LDS government is expected to fulfill its pledges for privatization of state assets, **deregulation**, reducing the time needed to set up a company, technology development, and boosting the GDP growth rate to 5 percent. Also expected is expansion of post-graduate study programs, computerization of schools, increased social assistance to the poor by 60 percent, cutting of unemployment by 20 percent, and an active social housing policy.

The state still has considerable influence in the economy, with the **public sector** accounting for roughly 50 percent of the output and public consumption over 20 percent of the total. The continued dominance of the financial sector by state-owned banks is said to hold back development and competition. The slow progress on privatization and somewhat rigid business conditions are keeping **foreign direct investment** at a low level. Progress in improving the economic climate, combined with a full and timely completion of privatization, structural reforms, and market **liberalization**, would attract more foreign investors and provide better conditions for sustained future growth. Privatization deals in Slovenia, however, have been largely a success, unlike the ones in Bulgaria, where many enterprises went to management-employee ventures in deals largely seen as politically motivated, ineffective, and even corrupt.

Public accounts show that the overall tax burden in 1998 stood at 40.5 percent of GDP. **Income taxes** are progressive, and a **value-added tax** was recently introduced at a standard rate of 19 percent and a lower rate of 8 percent. Parliament passed a law in 1998 taxing motor vehicles, which had frequently been discussed but never adopted. The new tax rate depends on the price, varying from 1 to 13 percent. A new law governing taxation of the insurance business was also recently passed, providing for premiums to be taxed at a rate of 6.5 percent. No tax will be paid on certain insurance products, including mandatory pension and health insurance.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Slovenia's **infrastructure** is relatively developed, and the government is investing ever more in it to take advantage of its geographic, trade, and cultural potential. There is a good transportation network, containing 19,586 kilometers (12,143 miles) of roads (1998), including good quality expressways. Construction of highways is a priority, with US$4 billion in funding for 700 kilometers (435 miles) of highways to be completed by 2000. There are 3 major airports. Upgrading rail links will cost US$2.5 billion by the year 2005, with priority given to the east-west and northwest-southeast corridors. The Adriatic port of Koper, near Trieste in Italy, serves as a principle port for Austrian and Hungarian exports and is essential for Czech and Slovak exports.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Slovenia	199	406	356	150.5	84	9.8	250.9	99.34	250
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Yugoslavia	107	297	259	N/A	23	1.9	18.8	7.65	80
Hungary	186	689	437	145.5	105	17.7	58.9	93.13	600

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

Slovenia's energy sector is state-owned and derives most of its output from nuclear plants (38.2 percent), thermal plants burning fossil fuels (37.1 percent), and hydroelectric facilities (24.7 percent). Electricity production was 13.18 billion kilowatt hours (kWh) and consumption stood at 10.661 billion kWh in 1998. Slovenia also exports some energy. The German Siemens and the French engineering group Framatome have won a $38 million contract to replace 2 steam generators at the Krsko nuclear power plant, jointly owned by the Slovenian and Croatian electricity companies. American-owned Westinghouse has also announced its contracts to supply fuel assemblies to the plant.

In communications, Slovenia has been at the leading edge of the Internet revolution, with the highest concentration in Eastern Europe of Internet connections per inhabitant (and per server), and it offers a promising ground for emerging electronic commerce players. It has a well-developed modern telecommunications infrastructure and ranks second in Eastern Europe, after Hungary, in terms of cellular telephone penetration (4.5 percent) and telephone density is 36 percent. A second cellular service provider, Simobil, a **joint venture** between Telia of Sweden (25 percent) and 8 Slovene companies, including Intereuropa (15 percent) and switching manufacturer Iskratel (15 percent), that is using the pan-European Global System for Mobile Communication (GSM) standard, has recently joined the leading cellular company, Mobitel. At the end of 1997, Mobitel had a total of 100,000 cellular subscribers, out of which approximately 60 percent were GSM users. In traditional telecommunications, the national **monopoly**, Telekom Slovenije (ST), will invest about $700 million to expand and modernize in preparation for its full privatization. ST will retain its fixed-line monopoly until 2000. Slovenia's ambition is to become a transit area for Balkan communications connections and talks are under way with several countries in the region. Competition in this area, however, may come from Hungary.

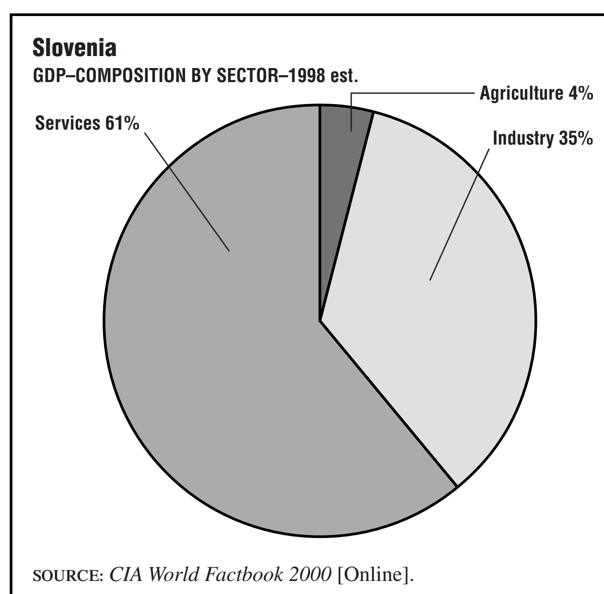
ECONOMIC SECTORS

Most major sectors reported growth in 1999. Industry constituted 35 percent of GDP in 1998. Agriculture accounted for a modest 4 percent, although its contribution to the market value of products rose by 2.2 percent, and services were by far the largest sector in the economy with 61 percent of GDP and almost half of the **value added** to all commercial companies.

AGRICULTURE

Given the mountainous terrain of the country, with forests accounting for more than 50 percent of the territory, agriculture accounted for just about 4 percent of GDP in 1998, with dairy farming and livestock (cattle, sheep, and poultry) dominating this sector. Major crops include cereals such as corn and wheat, potatoes, sugar beets, and fruits (particularly grapes). Agriculture in

Slovenia
GDP–COMPOSITION BY SECTOR–1998 est.



SOURCE: *CIA World Factbook 2000* [Online].

Slovenia was much less collectivized (state-owned) than in other Eastern European countries, and consequently did not suffer greatly from market reforms. The country exports some beverages, particularly wine, and food, mainly to EU markets.

INDUSTRY

Chief Slovene industries produce electrical equipment, electronics, trucks, chemicals, processed food, textiles, paper and paper products, and wood products. Ferrous metallurgy and rolling mill products, aluminum reduction and rolled products, and lead and zinc smelting are also developed. In the third quarter of 2000, industrial production grew by 6.2 percent, although there was a slowdown in the largely loss-making coal-mining sector and in power output. Net profits in manufacturing, however, have soared from SIT 2 billion in 1997 to SIT 28.7 billion in 1998, all due to an increase in production, as opposed to previous years in which job cuts had played the primary role in boosting productivity.

Foreign strategic investors are allowed under Slovene law to acquire stakes of up to 60 percent in the formerly government-owned entities being sold. The state fund retains 20 percent stakes, while the remaining 20 percent are sold in **voucher privatization** or used to pay wage **arrears** (unpaid and overdue wages) to workers. Several major foreign companies have recently acquired stakes in Slovene manufacturing firms. Tire manufacturer Goodyear (U.S.) invested US$120 million in a 60 percent stake in Sava tire unit and 75 percent in its engineered rubber division. The government plans to sell the entire steel industry by accepting bids for its 3 main steel producers, Store, Ravne, and Jesenice. Inexa (Sweden) has recently expressed an interest in Store. Renault (France), BASF, Hoechst and Siemens (Germany) are among the top foreign investors.

Slovene homes abound with consumer durables such as electrical household appliances, due in part to the strong position of the local manufacturer Gorenje. The company holds about a 40 percent market share in refrigerators, kitchen ranges, washing machines, and related items, and output rose by 9.8 percent in 1999. Its products are cheaper and compete well in terms of quality with popular Italian imports like Candy. In addition, the company has started moving into more expensive high-end household products that have captured part of the market once reserved for German and Austrian brands.

SERVICES

TOURISM. Tourism is a significant source of foreign currency, accounting for US$1.22 billion in revenue in 1996, a record for independent Slovenia, but still far behind the results before 1991, when many more foreign tourists visited its famous mountain resorts (around Lake Bled) and coastal areas. The authorities have been somewhat slow in recognizing the earning potential of that sector. Even now, opinions are divided on this activity whose fortunes depend sometimes on circumstances beyond the country's control. More recently the view has prevailed that tourism deserves more support, given the potential in a country combining an Alpine setting and a Mediterranean coast within a short distance, as well as numerous places of historical and architectural interest and broadly acclaimed health spas located in resort towns along the coast.

Germans (782,128), Italians (537,412), Austrians (483,472), Croats (212,676), Dutch (151,470) and British (135,269) made most overnight stays in 1999. The government plan is to achieve some 9 million overnight stays of foreign guests by 2005 in order to surpass the level of nearly 8 million in 1990, but few in Slovenia are relying on a return to mass-market tourism—which is rather unlikely, given the overall decline of the industry in Europe and the country's relatively high labor costs. Casinos, which bring in 30 percent of all tourism earnings, will also be encouraged. But foreign involvement in this sector has been limited so far, and some foreign tour operators sometimes get a hostile reception by domestic firms.

FINANCIAL SERVICES. With 25 banks, 6 savings institutions, and 70 commercial credit houses at the end of 1999, Slovenia is considered to be rather over-banked. The role played by financial institutions in the economy is in line with other leading Eastern European transition economies but still lags below levels found in Western Europe. The 3 largest banks, Nova Ljubljanska Banka, SKB banka, and Nova Kreditna Banka Maribor, hold more than half of the total banking assets, but are still state-owned despite long-standing privatization plans. The Slovene banking sector has avoided the calamities that have plagued other east-central European countries. Slovene banks tend to be more profitable and efficient than their counterparts there, but they are still behind those in the EU, owing to a large extent to the lack of competition. Credit card companies have been active throughout the 1990s, and their market is steadily growing.

RETAIL. Slovenia's retailers, especially the chains with near monopolies in their regions, have been growing throughout the 1990s. Mercator, the largest Slovene retailer, presently accounts for some 40 percent of the entire **retail** sector, the structure of which is now much closer to that in Austria or Switzerland than to Croatia or Hungary. There are also about 11,000 small stores, with an average size less than one-third of the European average. About half of them have less than 5 employees, and sales per vendor are less than 50 percent of the European average number. The sector is considered ripe for consolidation and for heavy foreign investment. The

arrival of heavyweight western-European retailers such as Interspar (Austria) and Leclerc (France) has helped focus interest on higher-volume and lower-margin sales. Competition from such large chains, building hypermarkets (large supermarkets) with western European standards of layout and service, will likely drive many of the smaller retailers out of business.

In Slovenia, direct marketing is quite a serious business as many large direct sales companies, including Amway, Avon, Tupperware, Golden Neo-Life Diamite, Stanhome, Kirby (of the United States), and AMC (of Switzerland), have established their presence. Some, such as Amway and Golden Neo-Life Diamite, have direct representation in the Slovenian market while others, like Avon and Tupperware, use independent agents. Direct marketers complain, however, that their business is made unnecessarily difficult by the many restrictive regulations. A reason for this is the occurrence of many fraudulent **pyramid schemes** in the early 1990s, which has led to the annihilation of millions of dollars in personal savings and has generated broad government skepticism about direct sales, particularly multi-level marketing ventures.

INTERNATIONAL TRADE

Slovenia's total trade equivalent is estimated at about 115 percent of the country's GDP, and both imports and exports are currently growing, thanks to the improved foreign demand and the rise in domestic manufacturing production. In 2000, according to the CIA World Factbook, exports stood at US$8.9 billion and imports at US$9.9 billion. Robust exports growth has more than offset weaknesses in domestic demand. The EU is the leading market for Slovenia's trade, with an over 65 percent share of exports and almost 70 percent of imports. Slovenia's top trading partners include Germany (31 percent of exports and 21 percent of imports), Italy (14 percent of exports and 17 percent of imports), France (6 percent of exports and 11 percent of imports), and Austria (7 percent of exports and 8 percent of imports).

Apart from the EU countries, the other important market for export growth has come from Eastern European markets, especially from countries belonging to the Central European Free Trade Agreement (CEFTA). There has also been a continuing revival of exports to former Yugoslav neighbors Croatia, Bosnia and Herzegovina, and Macedonia—which amounted to US$1.2 billion in 1999, or 14 percent of total revenues—while exports to Russia, although also growing, remain low in absolute terms.

Although Slovene exports to Yugoslavia (Serbia-Montenegro) totaled just $85 million in 1999, they have risen quickly after the Kosovo war, reaching $92 million in the first 8 months of 2000. Although the low level of Yugoslav living standards, compounded by the poor state of the Yugoslav banking system, will present serious barriers to foreign trade, Slovene exports to that country will probably continue to expand relatively rapidly. There is likely to be strong growth in exports of **consumer goods** by companies such as Tobacna Tovarna (cigarettes), Gorenje (household appliances), Mura (clothes), and Droga Portoroz (teas and spices). Serbia was an important market for these companies before the break-up of Yugoslavia, and their brand names are still well known. They should also be in a good position to compete in what will definitely be an even more price-sensitive market.

Slovene exports include electrical machinery, road vehicles, chemicals and chemical products, footwear, furniture, food, cigarettes, and components and semi-finished goods. Tourism is also a major source of revenue. Exports of services have also exhibited relatively solid growth, reflecting a mixture of strong growth in transport services and other services. The expansion of the latter category has been propelled by the information technology sector, which has displayed strong growth in sales to the rest of the former Yugoslavia.

Imports include machinery and transport equipment, manufactured goods, chemicals, fuels and lubricants, and food. The strongest growing category of imports has been that of **intermediate goods**, partly because the strength of export growth has spurred demands for imported components and raw materials. Rising oil prices, coupled with the weakness of the euro, have been the main reasons for the increase in imports of mineral fuels and lubricants.

MONEY

The Bank of Slovenia (BS, the central bank) is the bank that issues money and handles government funds. In October 1991, it released its own currency, the tolar, to replace the former Yugoslav dinar. Despite its consistently tight **monetary policy**, banks in Slovenia are relatively strong because of a decrease in consumer lending and also because many banks have received strong foreign currency inflows. This has been a reason for the growth in

Exchange rates: Slovenia

tolars (SIT) per US$1	
Jan 2001	225.93
2000	222.66
1999	181.77
1998	166.13
1997	159.69
1996	135.36

SOURCE: CIA *World Factbook 2001* [ONLINE].

corporate lending. The tightening of monetary policy has a significant impact on keeping interest rates low.

Slovenia's stability and high per-capita GDP make its stock market an attractive ground for foreign institutional investors. Brokerages hold that Slovene voucher-privatization funds offer one of the most attractive investment opportunities in the region. But tight restrictions on foreign capital have sent many investors looking elsewhere, and even the recent relaxation of the rules is not certain to bring them back. Foreign investors in Slovenia must choose between 2 types of investment accounts. The first one allows the player to participate in local trading and transact with local entities, but requires a fee that is in fact a foreign currency forward. The second type is fee-free, but there is a holding period of 7 years during which any such shares could be traded among foreign investors, but not sold to the local market. This scheme was aimed at creating a parallel foreign market, but trading volumes at first failed to generate the amount of cash needed. As restrictions took effect, money inflows decreased dramatically, and the main index of the Ljubljana Stock Exchange fell by 20 percent. But soon after the scheme was put to this test, it started working as intended. Slovenia welcomed this as a victory over the changeable nature of international capital flows. However, it is expected that the restrictions could become an obstacle in Slovenia's negotiations to join the EU.

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Slovenia	N/A	N/A	N/A	9,659	10,637
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Hungary	3,581	4,199	4,637	4,857	4,920

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Slovenia

Lowest 10%	3.2
Lowest 20%	8.4
Second 20%	14.3
Third 20%	18.5
Fourth 20%	23.4
Highest 20%	35.4
Highest 10%	20.7

Survey year: 1995

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

POVERTY AND WEALTH

Before 1991, Slovenia was the most prosperous of the former Yugoslav republics and, arguably, of all Eastern European countries. Since independence, it has stayed away from political and economic disturbances that have plagued the region and has been cautious in its reform policies, displaying continuity as well as an affinity to consensus. Although unemployment is still an issue, the new government has pledged to cut it by 20 percent, while increasing social assistance by 60 percent and pursuing an active social housing policy. Pension funds have generally run a balanced budget, as any shortfalls in revenue (mostly derived from payroll contributions) have been covered by government transfers. Privatization, although slow, has been more transparent than elsewhere in the Balkans and has not led to serious charges of corruption and illicit fortunes. The rule of law has kept crime on lower levels, thus contributing to social stability and justice. Slovenia has avoided poverty of the proportions of other economies in Eastern Europe.

The structure of consumption in Slovenia is closer to central European models than to its Balkan neighbors, and private consumption per capita is more than twice the level in Bulgaria. Due to its **socialist** legacy, in 1995,

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Slovenia	27	8	14	4	16	11	20
United States	13	9	9	4	6	8	51
Serbia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hungary	25	5	17	6	20	12	15

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

Slovenia was still considerably more egalitarian than Greece or the United States. The poorest 20 percent controlled 8.4 percent of the nation's consumption (compared to 7.5 percent in Greece and 5.2 percent in the U.S.) while the wealthiest 20 percent consumed 35.4 percent (40.3 percent in Greece and 46.4 percent in the U.S.). Slovenia's **Gini index** in 1995 was 26.8, while Greece's was 32.7, and the United States' was 40.8. Economic growth over the next decade and the accession to the European Union will further increase living standards for the Slovenes.

According to the United Nations Development Programme, Slovenia is a leader among Eastern European countries measured by its human development index, almost equaling those of the poorer members of the EU.

WORKING CONDITIONS

Working conditions are considerably better in Slovenia than in many other Eastern European countries. The rate of registered unemployment decreased from 14.5 percent in 1998 to 11.7 percent in 2000, its lowest level for 8 years. The official figures may overstate the level of unemployment since periodic surveys, conducted according to the International Labor Office methodologies, have reported lower estimates, and Slovenia may in fact be approaching **full employment**. Of greater concern to the government, however, in the light of EU employment directives, is **structural unemployment**. An impediment to job creation is the apparent lack of **labor mobility**, which has prevented workers from moving from rural higher-unemployment areas in the poorer east of the country to areas such as Ljubljana, where full employment has in effect already been attained. This is one of the reasons for the high number of vacancies, at around 11,500 in July 2000, compared to the number of the unemployed.

A minimum wage agreement reached in 1999 between the government, employers, and trade unions linked rises in base wages to the pace of **inflation** as of the December 1999 level. Once prices reach at least 4 percent above that level, base wages will rise by 85 percent of the price rise. If prices rise 5 percent above that level, base wages would be fully reindexed in line with inflation. Public-sector wages are strongly correlated with base wages, but manufacturing wages are less responsive to their changes. In September 2000, the government granted doctors' wage demands that may prompt other public-sector employees to demand increases. Inflation has also convinced the government to tie pensions to the base wages and raise them accordingly over time. The EU has been concerned about the "inflexibility" of the Slovenian labor market, which allegedly will impair the ability of the country to compete in the single European market. However, the government has been extremely careful not to jeopardize the existing consensual support for market reforms by putting too much strain on workers and **pensioners**.

Slovenia has signed all major universal and regional legal instruments regarding labor, including as the International Covenant on Economic, Social, and Cultural Rights, the Convention on the Elimination of Discrimination Against Women, the Convention on the Rights of the Child, as well as treaties on the right to equal compensation and collective bargaining and against employment discrimination.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

6TH CENTURY A.D. Slavs settle in present Slovene lands, comprising parts of the ancient Roman provinces of Pannonia and Noricum, driving out Avar tribesmen. Bavarian domination brings most of the population into Roman Catholicism.

623. Chieftain Franko Samo creates the first independent Slavic state, stretching from Lake Balaton (now in Hungary) to the Adriatic Sea, but it later disintegrates.

8TH CENTURY. The region is taken over by the Frankish Empire, and a feudal agrarian economy takes root.

10TH CENTURY. The Duchy of Carantania is formed in the region, which is included in the Holy Roman Empire.

1335–1918. Slovenes are governed by the Habsburgs of the Austrian (later Austro-Hungarian) Empire. The majority of them live in parts of the Austrian crown lands of Carinthia, Carniola, and Styria. A minority of Slovenes along the coast of the Adriatic Sea remain in the republic of Venice, which later, too, is incorporated into the Habsburg Empire.

1918. Austria-Hungary collapses at the close of World War I, and the Kingdom of the Serbs, Croats, and Slovenes (later Yugoslavia) is formed with much enthusiasm, but soon many Slovenes find themselves disenchanted with the new regime.

1918–1929. Dissatisfaction with the Serb-dominated centralist policy of the kingdom grows as a political crisis brings about a dictatorial Serbian monarchist regime and the abolishment of the traditional provinces. The country is renamed the Kingdom of Yugoslavia in 1929.

1941. Yugoslavia collapses in World War II, and Germany (which has annexed Austria in 1938), Italy, and Hungary divide the territory of Slovenia and force the transfers of population.

1945. Slovenia is liberated and Josip Broz Tito's communist government proclaims the Federal People's Republic of Yugoslavia. The Slovenian republic is then created as a member of the new federation and included in Yugoslavia's socialist economy. Heavy industry develops, but, since the late 1950s, economic control is decentralized, and some private initiative is allowed. Slovenes enjoy more affluent lives and more freedom of travel and communication than other Eastern European nations.

1947. Slovenia acquires Slovenian-speaking districts on the Adriatic Sea in Istria from Italy.

1980–1990. Slovenia's dissatisfaction with the Yugoslav federation after Tito's death increases sentiment for greater autonomy and later for independence. The economy opens further to neighboring Italy and Austria.

1990. Communist power collapses throughout Eastern Europe, and Slovenia holds the first multiparty elections in Yugoslavia since World War II in April, and votes for independence in a December referendum.

1991. Slovenia declares independence from Yugoslavia in June. The Serb-dominated Yugoslav People's Army (JNA) sends forces in an attempt to secure Yugoslavia's borders. In a 10-day war, Slovene forces defeat the JNA, allowing Slovenia to quickly secure independence and international recognition. It later displays a steady pattern of political and economic continuity, almost unseen in other parts of Eastern Europe.

1991. The new democratic constitution is adopted.

1992. The European Union and the United States acknowledge the independence of Slovenia, and it joins the United Nations and the Council of Europe. Milan Kucan, president of the republic since 1990, is reelected to the office by 64 percent of the vote. The center-left Liberal Democracy of Slovenia (LDS), headed by Janez Drnovsek, wins a plurality of seats in parliament.

1993. Slovenia joins the International Monetary Fund.

1996. Slovenia signs the association agreement and applies for membership to the European Union.

1997. President Kucan reelected to a third term; Slovenia is invited to EU accession.

FUTURE TRENDS

Slovenia's economic policy after 2000 will be mostly determined by government negotiations for full EU membership. Slovenia will be included in the first wave of the EU enlargement, along with Hungary, Poland, the Czech Republic, and Estonia. But the government will have to speed up structural reforms in order to maintain the momentum of its drive for accession. It will probably focus initially on the long-delayed privatization of the banking sector. The 2 largest state-owned banks, Nova Ljubljanska Banka and Nova Kreditna Banka Maribor, may be sold in the second half of 2001. The government may also come under pressure from the EU to deregulate more actively. However, the principal immediate challenge facing the new government will be to take control of the budget, following some excesses in spending in 2000. The Bank of Slovenia will have no serious problems in maintaining its tight monetary policy in order to oppose concerns fueled by the rise of inflation in 2000 and the risk of a possible wage hike.

The relative strength of the global economy and particularly of the EU will boost Slovenia's growth prospects over the next several years. Its trade deficit may remain large but will imply a decrease relative to GDP, reflecting a gradual improvement in the terms of trade, as fuel prices fall and the euro recovers. The current-account deficit may still rise because of the gradual deterioration in the services balance as Slovene businesses become more dependent on foreign services, as well as in the income balance in response to its rising **debt-service** costs. This will pose no serious threats to Slovenia's economic stability and living standards.

Although Slovenia's foreign policy since independence has focused on building up relations with Western Europe, the country stands to benefit if, as seems possible, Vojislav Kostunica's victory in the Yugoslav presidential election of 2000 leads to peace in the Balkans. Slovenia's political risks will certainly decrease as the probability of a resumption of fighting in Bosnia and Herzegovina will be further reduced. Kostunica's victory also increases the chances of a final agreement being reached on the issue of Yugoslav succession. But Slovenia's main benefits are likely to come through increased trade and **equity** investments in the rest of former Yugoslavia. Many local companies, ranging from retailer Mercator to brewery Pivovarna Lasko, have invested primarily in Bosnia and Herzegovina, Croatia, and, to a much lesser extent, in Macedonia. Some Slovene companies, such as SKB Banka, have negotiated to go into Montenegro as well. Most of the deals have so far been relatively small, but, with the larger reconstruction efforts in the framework of the regional Stability Pact, new investment opportunities may occur.

DEPENDENCIES

Slovenia has no territories or colonies.

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—Valentin Hadjiyski

SPAIN

Kingdom of Spain
España

CAPITAL: Madrid.

MONETARY UNIT: Peseta (Pta). There are coins of 1, 5, 10, 25, 50, 100, and 500 pesetas and bills of 1,000, 2,000, 5,000, and 10,000 pesetas. Similar to other Western European countries which comply with the European Union's Economic and Monetary Union (EMU), the Spanish currency will no longer circulate after January 2002 when it will be replaced by the euro, the new unified currency of 12 European Union member states. The fixed exchange rate is 1 euro will be worth 166.667 pesetas. Since January 2000, transactions on the Spanish stock market have already been done in the new currency.

CHIEF EXPORTS: Production machinery, motor vehicles, transport equipment, foodstuffs, leather products, and minerals.

CHIEF IMPORTS: Machinery and heavy equipment, fuels, chemicals, semi-finished goods, foodstuffs, and consumer goods.

GROSS DOMESTIC PRODUCT: US$677.5 billion (purchasing power parity, 1999 est.).

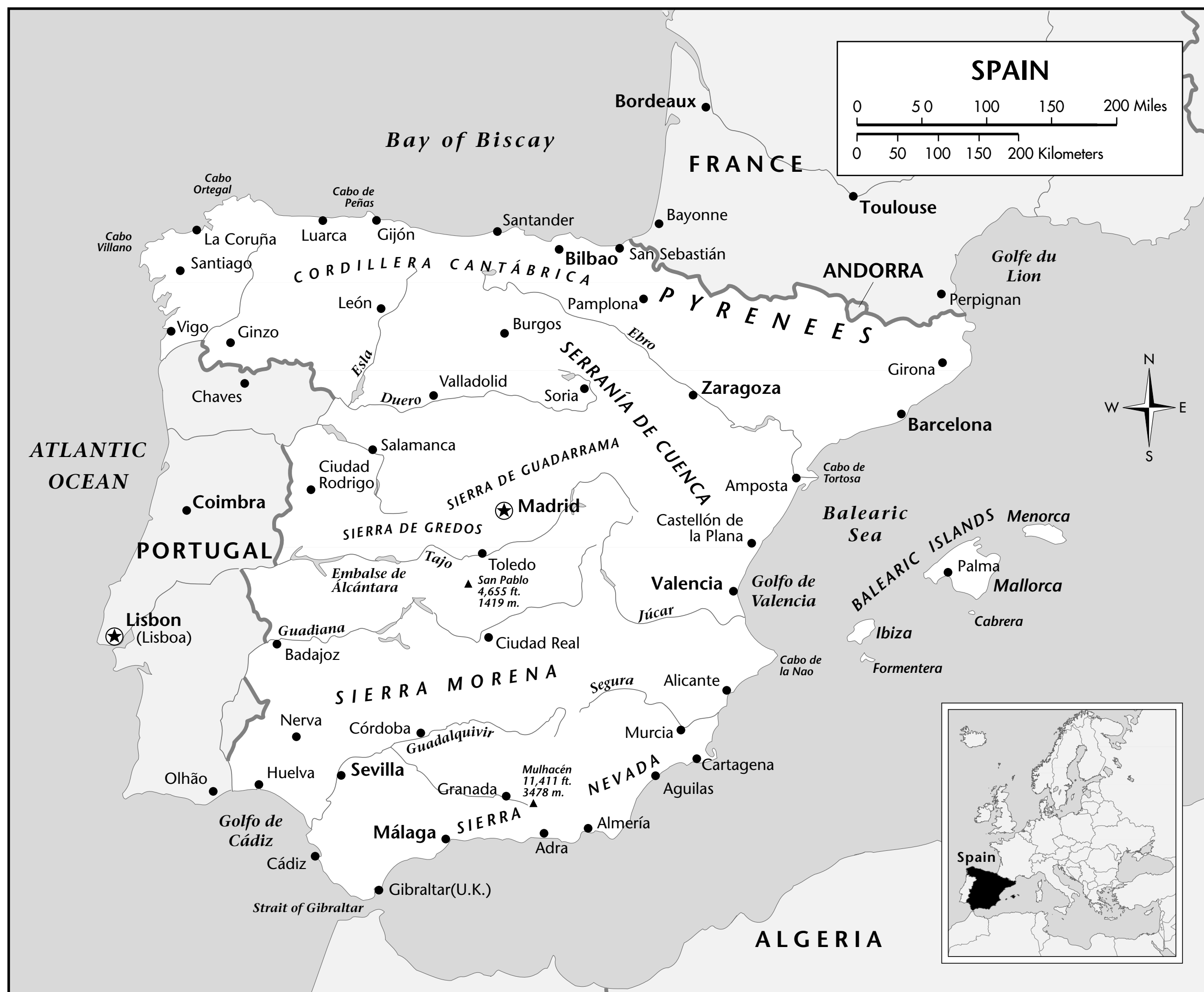
BALANCE OF TRADE: **Exports:** US$112.3 billion (f.o.b., 1999 est.). **Imports:** US$137.5 billion (f.o.b., 1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Spain is located in southwestern Europe. It is bordered by the Atlantic Ocean and the Bay of Biscay in the northwest and by the Mediterranean Sea in the east and the south. It has a 1,214 kilometer (754 mile) land border with Portugal in the west and a 623 kilometer (387 mile) border with France and a 63.7 kilometer (39.5 mile) border with the tiny city-state of Andorra in the northeast, characterized by the Pyrenean Mountains. In the south it has a 1.2 kilometer (.75 mile) border with Gibraltar (which legally belongs to the United Kingdom) and a 96 kilometer (59.6 mile) border with Morocco (Ceuta, Melilla). All together Spain's 504,782 square kilometer (194,896 square mile) territory, including the Balearic Islands in the Mediterranean, the Canary Islands in the Atlantic, Ceuta, and Melilla, has 1,917.8 kilometers (1,191.7 miles) of land boundaries and 4,964 kilometers (3,084.6 miles) of coastline. Spain is slightly bigger than twice the size of Oregon. Its capital, Madrid (with 2,866,850 inhabitants), is situated on the Central Plateau, and Barcelona (with 1,508,805 inhabitants), another major city, is in the northeast by the Balearic Sea (Western Mediterranean). Madrid and Barcelona are the only Spanish cities with a population over a million.

POPULATION. The population of Spain was 39,996,671 in July 2000. This compares to 37.7 million in 1981 and 38.7 million in 1984. Population growth was encouraged by the totalitarian regime of General Francisco Franco (1939–1975) through different state-sponsored programs that financially rewarded families with more than 5 children. Moreover, Spain experienced an urban boom in the 1960s and as a consequence over half the population lived in towns of at least 50,000 inhabitants by 1970. This boom was primarily a consequence of the "economic miracle" of the late 1950s and early 1960s spurred on by the stabilization plans led by the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD). There was rapid industrialization, agriculture was transformed, the industry and service sector came to dominate, and subsequently, there were major migratory shifts from rural to urban centers.

During the Spanish transition to democracy that followed Franco's death in November 1975 and after the establishment of the Spanish constitution in 1978, population growth decreased. The population growth was a meager 0.11 percent in 2000. According to the last census (1998), the population density is 201.3 per square kilometer (521.4 per square mile). Similar to other western European nations, this lack of growth can be attributed to



the increase in the cost of living, increasing housing prices, and the incorporation of women into the workforce. The main growth centers today are Madrid, Barcelona, Bilbao, Valencia, Sevilla, Zaragoza, Malaga, and Murcia. This reflects the importance of the Spanish "sub-cultures," in particular the importance of the Catalans and the Basques. Despite the fact that church attendance has been progressively waning, the population of Spain is predominantly Roman Catholic.

The projected population for 2010 is 39,917,000. Like other Western European nations Spain will have to face the challenge of a decrease in the proportion of active population due to the aging of the nation. Moreover, it remains to be seen how tighter **immigration** laws can be reconciled with the fact that the projections show that without the influx of foreign immigrants, the population of Spain will in fact decline much more significantly. This immigrant population, which has increasingly entered Spain since the mid-1980s, is concentrated from Northern Africa (Morocco) and South America (Colombia, El Salvador, and Argentina).

OVERVIEW OF ECONOMY

Spain's economy in the latter half of the twentieth century developed under the shadow of General Franco's authoritarian regime, which had ascended to power at the end of the Civil War in 1939. However, unlike the self-enclosed, state-dominated economies of other authoritarian governments, Franco integrated Spain's economy into the western capitalist framework through a series of **liberalization** initiatives. Begun in 1957, these initiatives included the **devaluation** of the peseta, the introduction of a single **exchange rate**, a program of monetary and fiscal restraint, and a liberalization of **price controls** and trade restrictions. As a result, Spain's economy underwent a rapid industrialization that affected every segment of society. The ascension of the industry and service sectors resulted in migratory shifts from rural to urban centers as

people sought jobs, and also opened the borders to foreign interests. Foreign machinery boosted Spain's modernization process, and foreign products competed with Spain's domestic offerings. Franco also permitted investors and banks from other countries to work within Spain's borders. In 1970, a preferential agreement with the European Community further boosted trade liberalization.

It is important to note that Franco's liberal approach to the economy was not duplicated in his approach to labor issues. Franco's policies enforced hierarchy, military obedience, strong centralism, and police-state suppression of human rights which resulted in the imprisonment and execution of thousands of dissident citizens over the course of Franco's rule. Workers agitating for political freedom to complement Spain's economic freedom were quickly suppressed.

By the mid-1970s, Spain enjoyed a strong, modern capitalist economy. Spain's annual growth rate in the first half of the 1970s held steady at 6 percent, ranking it eighth in the world in terms of GDP measured at current prices and current exchange rates, according to the Organization for Economic Co-operation and Development (OECD). Only the United States, Japan, West Germany, France, the United Kingdom, Canada, and Italy placed ahead of Spain in 1975. Of all the OECD capitalist countries with strong economies, Spain was the only one without a democratic government. The existence of free-market **capitalism** without democratic legitimacy made Spain an anomaly (a deviation from the common rule) in a world where the economic transition from command to free-market economy was expected to take place only after the political transition from authoritarian to democratic rule.

King Juan Carlos, Franco's successor, inherited Spain's robust economy and fascist legacy after Franco's death in 1975. He began moving the country towards democracy shortly after ascending to power. The appointment of Adolfo Suárez as president in late 1976 was one of his first transition moves, followed by general elections the next year. Spain's newfound freedom on the political front opened up further opportunities for labor and business, including the legalization of trade unions in 1977. One of the key initiatives of this transition period was the formulation of the Moncloa Pacts that same year. The Moncloa Pacts endeavored to bring Spain fully into the **free-market system** through the moderation of wages and the elimination of favoritism between the government and specific businesses. The Pacts favored the consolidation of a market economy and recognized that business activities should be pursued within the free-market framework. They also laid the framework for a more comprehensive policy on unemployment and pension benefits, previously lacking under Franco. These political and economic reforms—which included the creation of a Constitution in 1978, as well as various other legislative agreements guaranteeing the functioning of democratic institutions—placed Spain squarely on footing with other Western European capitalist states by 1980.

The Spanish Socialist Workers Party (PSOE) came to power in 1982. Contrary to generally-accepted socialist economic policies, the Party worked to increase **privatization** and competition within Spanish markets during its 14-year rule. The time period is oftentimes referred to as the post-consolidation period of Spanish politics. Economic policies pursued by PSOE included privatization of state companies which belonged to the National Industry Institute in 1986 and the passing of legislation to end the state telecommunications **monopoly** in 1987. PSOE accomplished the latter by abolishing Telefónica's right to supply customer apparatuses and allowing other firms to run such systems. The Party also liberalized the energy sector by allowing Repsol's pipeline network to be used by competing suppliers wishing to transport gas in 1987. In late 1986, PSOE introduced the IVA (Impuestos sobre Valor Añadido) which is a 6 percent **value-added tax**; by late 1991, the party announced decreasing employers' tax payments by roughly 8 percent as a means to increase competitiveness and profits in Spanish business.

In the 1990s, the PSOE moved even further from **socialist** policy through a series of budget cuts aimed at decreasing the role of government in health and human services. In 1987 and in 1992 cuts to the pension system were made by decreasing payments to both contributory and non-contributory programs; by 1993, the average maximum allowable payment from a public pension (measured in constant pesetas) was approximately 10 percent less than the value in 1986. Based on 1992 reforms to the education service, several secondary schools with falling enrollments were closed between 1992 and 1996; the percentage of the yearly budget devoted towards education fell from almost 9 percent in 1991 to approximately 5 percent by 1996. In 1994, PSOE pursued health reform, and the closing of several urban and rural hospitals resulted in a shortage of hospital beds. The PSOE mandated that users of the National Health Service (Insalud) pay for prescription costs (referred to as the medicamentazo), as well as some aspects of non-emergency treatment.

The PSOE instituted similar cuts and **deregulation** in its approach to labor issues. In early 1993, the PSOE decreed that minimum wages would fall by almost 5 percent in real terms from the year before. In 1994, the PSOE sought almost full deregulation of the labor market by passing legislation rescinding many of the rights, benefits, and guarantees of the Workers' Statute. As a result, less expensive contract types were introduced in the labor market, rules governing salaries of all workers were modified, workers could be more easily unilaterally fired without state interference, indemnity benefits

were decreased, a worker was no longer guaranteed basic working conditions such as a 40-hour work week, fewer workers became eligible for unemployment insurance benefits, and basic functional and geographical mobility rights were rescinded. This overall policy pursued by the Socialists has been followed more recently by further liberalization, deregulation, and privatization by the Partido Popular (Popular Party, or PP) that has ruled since 1996. Some neo-liberal critics suggest that more liberalization, including that of deregulating the labor market, is still required in order to make the economy competitive.

The reasons behind Spain's **liberal economic** policies are most clearly rooted in its membership in the European Union (EU). Spain joined the EU in 1986, when it was still known as the European Community (EC). While membership opened up a host of opportunities in the greater European markets, it also came with strict regulations that required significant adjustments of member countries to ensure standardization with EU's Economic and Monetary Union (EMU). The problems associated with the introduction of a common currency among the member countries (known as the euro, slated for circulation in 2002) were especially formidable. The Maastricht Treaty of 1992 established strict objectives concerning decreasing **inflation** and interest rates, as well as decreasing **budget deficits** and government debts which were necessary for EMU entrance. In effect, domestic strategies had to be pursued in order to qualify for the EMU club, ultimately allowing for the single European currency to be used in Spain. The country successfully qualified for EMU entrance in 1998. Spain also receives funding from the EU to finance varied programs, reducing the current account deficit and improving infrastructures.

Industrial production continues to be the driving force of the Spanish economy, although in recent years the service sector has gained importance. Metalworking, shipbuilding, and data-processing equipment are particularly important in the industrial sector, while automobiles remain the main export item. Private consumption, investment, increased agricultural exports, and construction are spurring growth. At the same time, virtually all service sectors—especially tourism and finance—are expanding. With regard to the latter, Spanish banks have some of the highest capitalization of all banks in Europe, thanks to a series of mergers permitted in the late 1980s and early 1990s. The 2 main banks today in Spain are BBVA (Banco Bilbao Vizcaya Argentaria) and BCHS (Banco Central Hispano Santander). Spanish mining is among the most important in Europe. Wine production—about 30 to 40 percent of which is destined to export markets—is also among the largest worldwide. Spain's abundant arable land and long coastline make agriculture, maritime transport, and fisheries all important industries. Spain possesses hardly any petroleum and only limited amounts of natural gas. This problem has been tackled with a large-scale nuclear energy program, the realization of which has, however, been delayed because of an accident in the Vandellos nuclear power plant in 1989.

Spanish industries were small in scale until the liberalization of the economy in the late 1950s and early 1960s when foreign investment and large multinational companies arrived on Spanish soil. Although almost two-thirds of the workforce is still estimated to work for what are defined as small- and medium-sized enterprises, more workers are increasingly working for large multinationals which have roots in Western Europe, including those such as VW (Germany), Fiat (Italy), and Correfour (France). Spain is an attractive location for foreign companies for 2 reasons. First, Spanish workers' salaries are some of the lowest in Western Europe, higher only than those in Greece and Portugal. From a Western European business perspective, therefore, the cheap Spanish labor market keeps costs of production low. Second, Spain's geographical location is strategic in marketing products to Southern European states such as Portugal, France, and Italy.

The Spanish government debt of US$90 billion in 1993 has declined in absolute terms since the late 1990s. The declining debt is a function of the tight economic policy pursued by Rodrigo Rato, the Minister of Economy and Finance under the center-right PP government since 1999. Rato pursued cuts to the health and welfare program. This, along with a foreseeable cut in interest rates, makes it likely that the downward trends will continue.

There are 3 main structural problems that the Spanish economy faces, despite recent liberalizing and modernizing efforts. The first is illegal immigration, which makes a particularly large impact on the agricultural labor market of southern Spain. The second problem is high unemployment compared to the rest of Europe. During the mid-1990s the official unemployment rate was at over 20 percent. Governmental reforms have sought to make the labor market more flexible for less-skilled workers, thereby decreasing the unemployment rate by almost 4 percent by 2001. Nevertheless, this is still high compared to most other western industrialized states. Many economists fear that the high rate has only contributed to the **black market** in labor, although there are no firm and credible estimates of what percentage of the economy this actually constitutes. The third main problem is terrorism that has a disturbing impact on the economy. In particular, the Basque terrorist organization, ETA, which seeks independence for the Basque region located in Spain and France, has claimed responsibility for hundreds of deaths over the last 20 years, including killings of military officials, politicians, and citizens caught in the crossfire. The terrorism has particularly stifled some business leaders' plans for future investment in the Basque region and,

more generally, made citizens throughout Spain fearful and cautious.

POLITICS, GOVERNMENT, AND TAXATION

Spain has been a parliamentary democracy since the celebration of the first general election in 1977, following the death of Franco in 1975. In addition to the multiparty system, Spanish government supports the royal family of Spain, headed by King Juan Carlos. Much like the Queen of England, the King of Spain is a figurehead who holds virtually no political power, but who nevertheless serves as a symbol for Spain.

There are 2 main legislative bodies, both of which are elected usually every 4 to 5 years. The first is the lower house, officially called the Cortes. The second is the upper house, referred to as the Senado. There are 350 members in the Cortes and 208 in the Senado. The party holding the majority in the lower house controls the government. In the absence of a majority, the party with a plurality of seats will govern in minority, either in coalition government (which has yet to happen in contemporary Spain) or, as occurred in 1993 and 1996, with the legislative support (apoyo legislativo) of another party. A coalition government is made up of ministers from 2 or more parties. In a legislative support government only the plurality party has ministers in government while all of its bills are passed with the support of smaller parties in the house (who have potentially gained adoption of some of their own policies in return). The leader of the government is first chosen in a leadership selection contest of the party in which card-holding members vote. The winning party's leader is the president of the state and the leading political figure in Spain. From this perspective, the Cortes remains the more important of the 2 houses. The method of election used is the D'Hondt method of election (based on the concept of **proportional representation**, where seats attained by a political party are proportional to the votes received). At the judicial level, the highest court of the land is the Constitutional Tribunal, which is independent. Judges on the Tribunal are nominated by the president of the government and appointments must be approved by the Senado. Judges remain on the Tribunal for life.

There have been 3 main political parties in contemporary Spanish politics: the Centre Democratic Union (UCD), the Spanish Socialists (PSOE), and the Popular Party (PP). In the first 2 general elections, Adolfo Suárez's UCD won minority government. However, due to internal fighting within the party's coalition of 14 smaller parties, it disbanded in the early 1980s.

The Spanish Socialist Workers Party (PSOE) won the 1982, 1986, 1989, and 1993 elections under the leadership of Felipe Gonzalez. Though originally committed to socialist policies, the PSOE pursued policies aimed at liberalizing the Spanish economy, much to the chagrin of its working-class electoral base. The PSOE had traditionally been affiliated with one of Spain's major trade unions, the UGT, but its efforts to improve Spain's international competitiveness in preparation for full European economic integration resulted in the distancing of trade unions from the party. The PSOE closed unprofitable state corporations which were in the state **holding company** INI (The National Industry Institute), downsizing most notably the coal, iron, and steel industries. It also reduced public spending in order to tackle the budget deficit. The PSOE abandoned socialist policies in its battle against inflation and for the modernization of the industry through support of a capitalist market economy. Spain's entrance to the European Community (EC) in 1986 was seen as a triumph of PSOE's policies. Not only had PSOE tied Spain to the influence of the greater European community, it had implemented the single market policies found in the Single European Act (1986) and the domestic-level policies consistent with the Maastricht Treaty EMU criteria (that is, reduction of deficits, debts, interest, and **inflation rates**), to do so.

However, the harsh budget and social-welfare cuts, along with the erosion of labor's trust, helped unseat the PSOE in the 1996 elections. The more conservative Popular Party assumed control that year as a minority government under the leadership of Jose Maria Aznar. Although the 2 parties were polar opposites on the political spectrum (with the PSOE on the left and the PP on the right), Spain's economic policy did not shift radically with the new government. The PP continued to pursue PSOE's policies of deregulation and liberalization, with the goal of a complete privatization of state-owned enterprises. To this end, Aznar and the PP liberalized the energy sector (electricity, gas, fuels), national telecommunications, and television broadcasting. In order to ensure the success of these liberalizations, the new Free Competition Tribunal (Anti-Trust regulators) was set up and strengthened in order to restrict monopolistic practices and to increase judicial oversight of leasing, factoring, and franchising contracts. Nevertheless, observers highlight that it remains to be seen if the Tribunal will be effective.

There are some factors which stand in the way of the PP's economic goals. While new legislation generally allows for foreign investment without limitations, inflexible labor laws and restrictive legislation on intellectual property rights both still present problems in attracting new foreign business. The high unemployment rate (which hovered around 20 percent throughout the mid-to-late 1990s and is presently at 16 percent) is another major issue for the government. Hiring practices have been liberalized, but the government has criticized dismissal

costs as too high and welfare benefits as too generous. The 1997 labor market reforms increased the number of temporary contracts by limiting the state's ability to interfere in business contracts. The PP government has attempted to deregulate the economy as much as possible in the belief that the less state involvement there is, and the more prevention of anti-competitive practices, the more efficient the economic system will be.

In the immediate future, the PP government hopes to eliminate the budget deficit by 2001 through the privatization of unprofitable state-owned companies. Aznar's government also encourages small enterprise by facilitating access to corporate finance and Spanish investment abroad as a way to diversify the economy. Investment in developing countries is supported by means of tied-aid credit and development assistance programs, but Spanish presence in the global economy is still modest. From this perspective, Spain attempts to promote investment and assistance in developing nations as a partner in initiatives taken along with other EU states.

The only party that has clearly distinguished itself from the PP and the PSOE is the United Left (IU). The IU is a coalition of several "left wing" parties and its main organizational party is the Spanish Communist Party (PCE). It was originally affiliated with the other main Spanish trade union, the CCOO (the Worker's Commission). Despite high expectations that the party would do well since its legalization in 1976 after 40 years of underground work, it has performed very poorly, at best gaining a little more than 10 percent of the popular vote.

Other parties which are of importance are the regional-based ones in Catalonia and the Basque Country: Convergence and Union (CiU) and Basque Nationalist Party (PNV). The CiU is a center-right and nationalist party (i.e. fights for the independence of Catalonia from Spain) that has been governing at the state (autonomous community) level in Catalonia since 1978. It came to importance at the national level after both the 1993 and 1996 general elections; although it did not participate in coalitions with the minority governing PSOE (1993) and PP (1996) governments, the CiU did offer its legislative support to both minority governments, basically allowing them to formulate policies unilaterally and easily pass them in the legislature. The PNV is a Christian democratic regionalist party seeking Basque independence. Its Basque middle-class support base has kept it in power at the regional level, either in majority position or as coalition partner, over the last 20 years. It is important to note that PNV is not associated with the terrorist organization ETA; whereas the PNV is a center-right party that uses peaceful means to pursue Basque independence, ETA is a terrorist organization (whose political wing is called Herri Batasuna, or HB) that prefers more violent and revolutionary means for independence.

Almost half of the Spanish government's tax income (46.8 percent) derives from **direct taxation**, 38.9 percent from **indirect taxation**, and 24.1 percent of which is accounted for by value-added tax (VAT). Other taxes on production constitute 14.3 percent of the tax income. Tax evasion is a major problem in Spain with the self-employed and black market workers (such as construction contractors) most often the guilty party. Because self-employed professionals (or, autonomous workers, as they are referred to in Spain, such as taxi drivers and free-lance writers) all have to make tax declarations themselves, there is no firm system by which revenue officials can verify or falsify their statements. It is therefore relatively easy to falsify tax declarations, a problem rampant in the 1990s. Although the Ministry of Economy and Finance led by Rodrigo Rato under the PP has attempted to clamp down on this practice in the last 2 years, the likelihood of evasion remains high and represents a potential drain of revenue that would otherwise be used for the **social-welfare system**.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The most developed part of Spain's **infrastructure** is the train system, which is one of the best in Western Europe. The National Network of Spanish Railroads (Renfe) operates the best part of Spain's 15,430 kilometers (9,588 miles, 1999) of railroads which originate from Madrid as the center point. Several lines were eliminated in the 1980s after the company experienced losses. However, in 1990 an ambitious long-term investment program was initiated with the goal of introducing super-speed trains on several lines. Similar to the TGV in France, Spain's AVE started high-speed train operations between Madrid and Seville. As a result, a trip that would otherwise last approximately 5 hours by car could be completed in almost 2 hours. A similar high-speed line linking Madrid and Barcelona is presently under construction and is expected to be completed by 2003. At the regional level, the Cercanias is a rail system that links smaller communities (or suburban areas) to the closest major city, being most fully operative in major urban centers such as Madrid, Barcelona, Bilbao, and Seville. For example, Madrid Cercanias links the southern part of Madrid (Getafe, which is about 20 kilometers south of Madrid) with the north (Tres Cantos, approximately 30 kilometers north), with trains running approximately every 10–15 minutes and generally always on schedule. At the urban level, all major cities have a metro (subway) system, which allows for quick travel within the city. Madrid has the most extensive metro at present with 10 lines operating.

With regard to roads, Spain's 343,389 kilometers (213,382 miles, 1999) of paved highway are similarly ra-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Spain	100	333	506	11.8	179	17.8	144.8	76.75	4,652
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
France	218	937	601	27.5	188	47.4	207.8	110.64	5,370
Portugal	75	304	542	59.8	309	7.0	81.3	59.40	700

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

dial in design and 9,063 kilometers (5,632 miles) of it is expressway (1997). Most of the road network has only been constructed in the second half of the 20th century, primarily due to the efforts of the Spanish Socialists in the early 1980s. Nevertheless, despite the major **restructuring** of roads over the last 30 years, many complain that it is not sufficient for the greatly increased traffic, which is very heavy both on the highways and in cities. Examples of the former can be seen in the over-congested highways between Barcelona and Madrid and Bilbao and Madrid. Congestion is especially problematic in larger urban centers such as Madrid and Barcelona where a 20-minute journey by car usually translates into 1.5 hours during rush hour.

With respect to airports, there are 99 usable airports in Spain and 42 of them receive commercial traffic. The busiest is Madrid's Barajas airport, which has been recently expanded with the addition of the infamous "third runway" that took several years to plan and finally complete. The second busiest is Prats Airport in Barcelona, and the third is the international airport in Palma de Mallorca, which is a popular tourist spot. Both Barajas and Prats enjoy daily flights from all EU capitals as well as the United States. The major carrier operating out of them is the national airline Iberia, which up until recently was state-owned; it was fully privatized (sold to private investors) in 2001. Although Iberia's fleet seems less modern than some other European carriers, a recent major purchase of several A-320s from Airbus will help in its drive to full modernization.

Due to its long coastline, Spain depends heavily on maritime transport for the import and export of goods to both European states as well as those outside of Western Europe. Its merchant marine and fishing fleet is among the largest and most important in the world. Traffic is heavily concentrated in the ports of Bilbao, Algeciras, Tarragona, and Barcelona.

Although Spain's infrastructure is similar to the rest of Western Europe, there is nevertheless an ongoing process of upgrading roads, airports, seaports, and railroads through public, private, and joint investment. The continuation of investment is necessary primarily because the government has made commitments to improving the infrastructure through EU funding conditions. In particular, part of the Maastricht Treaty earmarked funds towards the development of Spain's infrastructure through what are referred to as Cohesion Funds. Similarly, the European Commission's White Book on Growth Competitiveness and Employment stressed infrastructure development in order to make the economy more competitive.

Almost half of Spanish electricity is based on fossil fuels (48.23 percent), 31.23 percent on nuclear power, 19.16 percent on hydroelectricity, and 1.38 percent by other means (1998). In 1998 Spain produced 179.468 billion kWh of electricity and of that consumed only 170.306 billion kWh. National shortage of petroleum and gas is compensated with nuclear energy. The main electricity companies in Spain are Endesa and Iberdrola. Both are national companies, although full liberalization of the electricity sector has taken place in principle. Nevertheless, because both major operators have approximately 80 percent of the market, foreign investors are more seriously considering the strategy of buying parts of these 2 companies in order to enter into the Spanish market (as has been the case of German electricity companies seeking to buy Iberdrola).

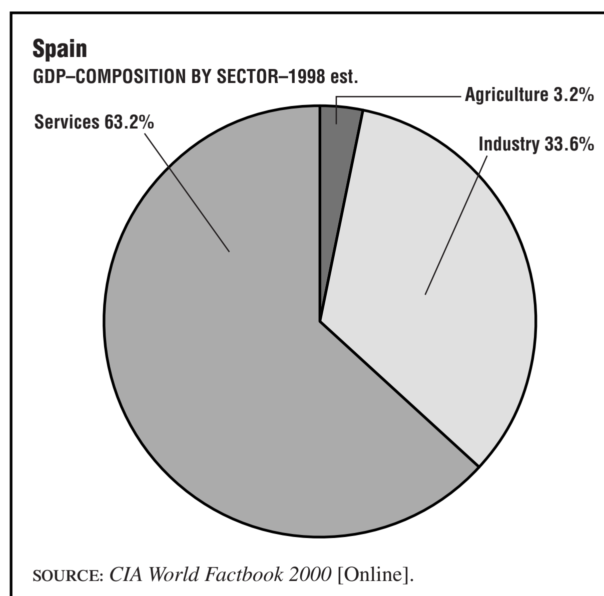
Spanish telecommunications facilities are generally modern and are experiencing dramatic economic growth. The main operator in Spain is Telefónica. At present, the mobile telephone business is flourishing. In 1999 there were 17.336 million main telephone lines and 8.396 million cellular phones. The popularity of mobile phones has risen with the aggressive marketing strategies of new telephone companies such as Airtel and Amena, which have sought to enter the communications market previously dominated by Telefónica. The number of Internet service providers (49 in 1999) was expected to grow beyond saturation point, after which competition is expected to root

out the weaker companies. Because local calls in Spain are not free, there is a push to establish an industry-wide regulation aimed at eliminating the price of calls associated with Internet connection time. Such efforts to promote Internet use would increase the number of personal computers in Spain, which is one of the lowest in the European Community.

Almost all Spanish homes have a television (99.7 percent) and 91 percent of Spaniards watch television every day. There is a comparable decline in newspapers: 10 to 15 percent of the population frequently buys and reads newspapers, a majority of which are actually sports newspapers (such as *Marca y As*) as opposed to those predominately concerned with current events (such as *El Pais, El Mundo, Diario 16,* and *ABC*). Most Spaniards receive the daily news from the television as opposed to the paper, with radio as their second choice; almost 60 percent listen to the radio daily, where talk shows are the leading radio programs. Until 1990 the Spanish only had the 2 channels provided by the state-run Television Española (TVE) and regional stations run by the autonomous governments (such as Telemadrid for the community of Madrid). Commercial television was authorized in 1989 and broadcasting fully liberalized in 1998. As a result, there are 4 main channels that can be freely viewed at the national level: La 1 (the main state station from RTE), La 2 (the second state channel which is dedicated to more cultural programming), Antena 3, and Telecinco. There are also 6 regional and over 75 local stations. TVE still runs large budget deficits and is accused by the opposition of favoring the government party in its news coverage. It has recently been absorbed into the state holding company, SEPI, in order to deal with its financial problems and help in its management. La 2 has the highest acclaimed nightly newscast. Two additional channels, Canal Plus and Via Digital, offer newly released movies as well as some major sporting events for a monthly fee by cable and satellite. Yet, only 10 percent of Spanish homes have either satellite or cable television. By 2010, it is estimated that all Spaniards should have access to Terrestrial Digital TV, and significant growth is predicted, especially for cable television.

ECONOMIC SECTORS

Over a 25 year span, the sector evolution of Spain's economy is similar to that of western liberal democratic states. Agriculture production has declined significantly (from contributing 16.7 percent of the GDP in 1974 to 3.2 percent in 1999), service has expanded (from 48.8 percent in 1974 to 63.2 percent in 1999), and industry has remained somewhat constant (hovering around 34 percent). Although these overall trends are similar to those found in western industrialized states, industrial production is comparatively higher in Spain.

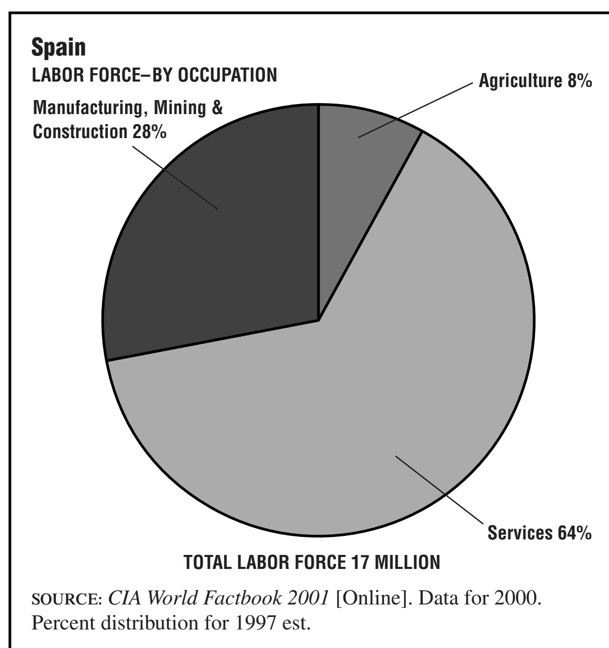


SOURCE: *CIA World Factbook 2000* [Online].

The decline of agriculture is rooted in several different factors. Spain aligned itself with the Common Agriculture Policy (CAP) as part of its membership with the EU, which placed limits on Spanish agricultural production. A drought in the 1990s—particularly in the South—further limited the growth of the industry. These factors, combined with the modernization of farming techniques, caused a significant drop-off in the number of agricultural laborers. In 2000 much-needed rainfall increased agricultural output but also lowered prices as the larger food supply lowered demand. The outlook for Spanish agriculture is not entirely grim, however. Spain's position as the most varied agricultural producer in the EU promises the sector increased growth in the greater European market.

The industry sector constitutes a large part of the GDP due to the strength of mining, manufacturing, and metalworking, which have been important to the economy since the 1960s. At present, Spanish industry has been recovering from the **recession** of the early 1990s, largely due to growth in the metalworking sector, which includes data-processing equipment and other transportation equipment. While Spain has continued involvement in traditional industries such as mining, it has also focused more on capital-intensive industries such as high technological equipment, which are also attractive for foreign investors.

The service sector is expanding in almost all areas, particularly finance, tourism, and telecommunications. Spanish banks, which constitute some of the largest and most powerful in Europe, have a dual-pronged strategy to enter into other sectors of the economy (such as telecoms) and to expand into foreign markets in both the EU



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000. Percent distribution for 1997 est.

and South America. Tourism—particularly in both Catalonia as well as the South of Spain—increasingly attracts tourists from the EU as travel costs to Spain decrease. The telecom market has also seen great expansion, especially with the onset of liberalizing legislation in the sector and the complementary popularity of mobile phones.

AGRICULTURE

Spanish agriculture has traditionally been most affected by the level of rainfall, since drought is always a threat. However, in recent years a much more decisive factor has been the Spanish membership in the EC/EU. While encouraging production in some agricultural sectors, the EU has discouraged it in others. Small farms have been closed down, with grape growers and dairy farmers the hardest hit. In 1999 a EU reform of the Common Agricultural Policy was approved as part of the "Agenda2000." The reform mandated that at least 10 percent of land be set aside until 2006 in order to avoid overproduction. In spite of this limitation, the abundance of Spain's agricultural resources guarantees overall growth.

LIVESTOCK, DAIRY, AND POULTRY. This sector has traditionally been financially the most important sector, accounting for 39 percent of overall agricultural output in 1999. However, the sector has suffered from increased competition from other EU countries, and the "Agenda2000" will gradually cut the beef support prices by 20 percent. Although economists predicted that livestock production would increase slightly in 2000 with improved pasture conditions and more rain, outbreaks of "mad cow disease" prevented such increase. BSE (bovine spongiform encephalopathy), which is also referred to as "mad cow disease," is a highly contagious, lethal disease of the central nervous system in cattle. There have been several cases, particularly in Britain in the 1990s, of people who have died after eating meat from cows infected with BSE. In Spain, the first cases of mad cow disease were detected in September 2000 in Galicia, with subsequent cases arising in other provinces in Spain. The cases in Spain can be traced back to Britain; the same feed that was given to cows that developed BSE in the UK was transported and used in other western European farms. Although there have been no human fatalities reported in Spain as a result of the contamination, consumer confidence in beef plummeted. By February 2001, consumption of beef had fallen by an estimated 80 percent. More consumers turned to other meats, including fish, pork, poultry, and lamb, in spite of the subsequent rise in prices. The price of beef, in the meantime, continues to slide, which leaves the future of Spain's beef industry in doubt.

HORTICULTURAL CROPS. This sector—which includes citrus, deciduous fruit, olives and olive oil, nuts, wine, and vegetables—is gaining importance to the point that its value of production now equals that of livestock, dairy, and poultry at 39 percent. This sector has greatly benefitted from access to EU markets and accounts for 70 percent of overall agricultural exports. Both Spanish olive oil and wine production were initially subject to the tough restrictions imposed by the Common Agriculture Policy during the 1990s. However, recent policy changes have allowed for Spain's quota for olive oil production to reflect the actual production capacity. Spain's vineyards have also benefitted from policy changes; previous programs which uprooted vineyards are now replaced with new programs that concentrate on restructuring vineyards to make the Spanish wine industry more competitive. Spain produces some of the best red wines in world, with the most famous being those from the Rioja region. More than 30 percent of such wines are destined to the EU, North American, and Latin American markets. Other regions producing fine wines include Catalonia, Ribera del Duero, Navarra, and La Mancha. These wines are generally made from the Tempranillo variety of grapes and offer a distinct taste to those from France, for example, which use the Merlot variety.

FIELD CROPS. This sector includes grain, tobacco, cotton, forage, sugar beets, and oil seeds. It covers a larger area than the horticultural crops, but accounted for only 15 percent of the total value of production in 1999. The most important sector of field crops is cereals, especially wheat and barley. However, Spanish cereal production has suffered from competition from the EU, and, under the "Agenda2000," support prices for all grains will be reduced by 15 percent. The most plentifully produced field crop is alfalfa, used for animal fodder. The "Agenda2000"

will also reduce area payments for oilseeds to the same level with grains, which is expected to reduce the production of the sunflower seed crop significantly.

FISHING. Even though the total catch declined in the 1980s, the fishing industry is still important in Spain. The main fishing ports are Vigo and La Coruna in the Northwest. Despite Spain's vast fishing waters, Spanish fishermen have several times been arrested for fishing illegally in Canadian and Moroccan waters. The most visible conflict of late has been the so-called "Turbot War" with Canada in 1995 when Canadian authorities fired on Spanish fisherman for trespassing in Canadian waters. Legal experts argue that the Canadian government clearly violated international law by firing upon a vessel which was, in fact, in international waters. Although there was a peaceful resolution to the conflict, the incident highlights concerns voiced by other countries in the past, such as Ireland and Morocco, about Spanish fishermen.

INDUSTRY

Ever since liberalization became a goal in the late 1950s, Spanish industry has been growing and becoming more diversified. This is particularly the case in mining, manufacturing, and metalworking. As a result, companies have grown bigger, and foreign investment has become more significant.

MINING. Spain has one of Europe's most important and diversified mining sectors. Over half the production is coal, while other major products are iron, pyrites, copper, lead, zinc, tungsten, uranium, mercury, potash, and chloride. Despite its strength, Spanish mining is not sufficient to satisfy domestic demand and, therefore, Spain continues to be a large-scale importer of minerals. Due to competition from other EU countries, the Spanish mining industry has been subject to restructuring and closures, especially in the Asturian coal industry, which has led to miners' protests. The mining sector remains stagnant but is expected to recover when Spain increases its gold production.

METALWORKING. The iron, steel, and shipbuilding of Asturias and the Basque Country experienced downsizing in the 1980s. However, the sector has been recovering strongly since 1996, thanks to increased production in shipbuilding, data-processing equipment, and transportation equipment.

MANUFACTURING. In the automobile industry, Spain's top exporters—Opel, SEAT, Volkswagen, Citroen, and Renault—set records in 1996 and 1999. The fact that all car producers in Spain are foreign multinationals is reflective of their strength in the economy. The German car company Volkswagen, for example, actually received large amounts of **subsidies** from the Spanish governments of the 1980s and 1990s to take over the (then) only native Spanish car manufacturer, SEAT.

In other manufacturing activities, however, foreign multinationals play less of a role. For example, the cotton, woollen textiles, and clothing industries have maintained their importance in the economy. Predominantly located in the Catalan area since the 19th century, they are characterized as being small- and medium-sized enterprises that are family-owned. Spain also manufactures toys, shoes, electrical appliances (televisions, refrigerators, and washing machines), and foodstuffs. Toys and shoes, in particular, have a reputation for high quality and constitute a main export for the manufacturing sector.

SERVICES

TOURISM. Spain overtook the United States recently as the world's second most important tourist resort. The tourist industry employs 12.5 percent of the Spanish **workforce** and accounts for 10 percent of GDP, with a 9 percent annual growth rate. The success of the industry stems from a variety of factors. It generally costs less to travel and vacation in Spain compared to many places in the world. Spain's already high-quality resorts are improving as aging accommodations are restored. The warm weather is another draw for tourists, especially in southern Spain. The main tourist areas are Mallorca, the Canary Islands, and the Costa Brava. The total number of tourists in 1999 was 58,588,944, and the total number of available accommodations in the country was 1,282,013. This booming industry's role in the Spanish economy does have a downside, however; some analysts worry that the seasonal nature of the tourist industry may add to the precariousness of the Spanish labor market.

FINANCIAL SERVICES. The largest Spanish bank is the BBVA (Banco Bilbao Vizcaya Argentaria), and the second largest is the BSCH (Banco Santander Central Hispano), both the fruit of mergers in 1999. BBVA is the product of the merger of the Banco de Bilbao (founded in 1857), Banco de Vizcaya (1901), and Argentaria (1983); the BSCH comes from the merger of Banco de Santander (1857), Banco Hispano-Americano (1900), and Banco Central (1919). Other important banks in Spain include Banco Urquijo, the Grupo March, la Caixa, and Caja de Madrid. The concentration of native Spanish banks in the sector stems from the *Ley de Ordenación Bancaria* of 1921 that disallowed foreign banks from operating in Spain for several years. Although foreign banks were allowed to enter into Spain in the early 1960s, the stronghold obtained by main Spanish players effectively prevented outside competition. In fact, when many of the foreign banks entered the Spanish market in the late 1960s and early 1970s—such as Deutsche Bank, Barclays, and Manufacturer's Hanover Trust—they did so only with the

cooperation of big Spanish financial players such as Banco Bilbao, Vizcaya, and Santander. Cooperation included the sharing of staff with members of Spanish financial institutions—especially important given the fact that many foreigners cannot speak Spanish. Despite liberalization of the financial sector, Spanish financial capital maintained its dominance.

Today, Spain's financial services are diversified and fully integrated in the international financial markets. The EU single market in banking and insurance services has intensified competition, brought down interest rates, and encouraged mergers. Spanish banks are well capitalized. Beyond the main players mentioned above (BBVA, BSCH), there are 103 domestic private banks—mostly headquartered in Madrid—and 53 foreign ones—34 of which are headquartered in the EU. There are also 50 confederated savings banks and 12 regional savings bank federations that are, in principle, non-profit making. They concentrate on private savings and loans and financing public and private projects. To this day, Spanish investment and brokerage entities have increased in number and in the volume of their investments. The credit market is structured around private banks.

TELECOMMUNICATIONS. The sector is registering spectacular increases. The main operator of telecommunications is Telefónica, but, given recent liberalization initiatives, other operators such as Airtel and Amena have gained significant market strength in a short period of time. The mobile telephone market increased from 14 million to 19 million users during the first half of 1999. Growth is also expected in the cable television sector, even though only 10 percent of the population subscribes to these services. Although the number of PCs per household is low in Spain compared to other industrialized states, it is projected that falling PC prices and cuts to prices on local calls will allow for PC consumption to triple within 5 years.

AVIATION. The EU liberalized the aviation sector due to increased demand for air transport services. As a result, many new local airlines are in competition with the main national airline, Iberia. Two major new competitors, Spanair and Air Europa, have daily flights between major cities in Spain as well as the rest of Continental Europe and the United Kingdom.

INTERNATIONAL TRADE

The EU accounts for 72 percent of Spain's exports and 67 percent of imports, the most important trading partners being France and Germany (1998). The share of EU states involved in Spanish trade has grown in importance since Spain joined the EC/EU in 1986, reflective of the goals of the EC's Single European Act of 1986, which stressed completion of the internal market and decreasing trade barriers between member states. Spanish trade with Latin America (7 percent of exports, 4 percent of imports) is explainable through the historical connections between the countries. Imports from OPEC (5 percent) reflect Spain's dependence on imported petroleum. Fifty years ago Spain exported agricultural products and minerals and imported industrial goods. The fact that the exports today are dominated by **consumer goods** and imports by machinery and equipment, fuels, chemicals, and semi-finished goods reveals how fundamentally the pattern has changed.

Trade (expressed in billions of US$): Spain

	Exports	Imports
1975	7.690	16.265
1980	20.720	34.078
1985	24.247	29.963
1990	55.642	87.715
1995	91.716	115.019
1998	109.228	133.149

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

The Spanish **balance of trade** has long been negative; despite rapid growth in trade in the 1980s, imports continue to outweigh exports. Due to increased petroleum prices, the weakness of the Euro, and loss of competitiveness, the Spanish trade deficit increased significantly in 1999. The dependence on imported petroleum makes Spain vulnerable to developments in the Middle East.

MONEY

Since the early 1990s, the Central Bank of Spain has pursued a **monetary policy** independent from the national government, similar to most other western European states. However, Spain's membership in the Economic and Monetary Union (EMU) means its rates are set by the European Central Bank (ECB). While submission to the ECB is required of all EMU states, some have argued that such a move detracts from the state's right to pursue autonomous monetary policy. Indeed, implicit in being an EMU state is that domestic-level actors cannot easily pursue macro-economic stabilization initiatives as they see fit. For example, as was the case during the 1980s for states that belonged to the EMS/ERM (the European Monetary System/**Exchange Rate Mechanism**, which was a fixed but adjustable parameter within which European currencies could fluctuate), states could not devalue their currency in order to boost their economies by promoting export-led growth. When the ECB sets long-term interest rates for all the EMU countries, states lose the ability to modify those rates in such

Exchange rates: Spain

euros per US$1	
Jan 2001	1.0659
2000	1.0854
1999	0.9386
1998	149.40
1997	146.41
1996	126.66

Note: Rates prior to 1999 are in pesetas per US$.

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Spain	10,040	10,512	10,943	13,481	15,644
United States	19,364	21,529	23,200	25,363	29,683
France	18,730	21,374	22,510	25,624	27,975
Portugal	6,024	7,193	7,334	9,696	11,672

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

a way as to control inflation. Spain's traditionally high inflation in comparison with the rest of western Europe makes this a special concern for the country. Certainly, based on the attempt to achieve convergence criteria which stressed that inflation rates be reduced, in 1999 inflation was low at 2.3 percent. Although it was expected to decrease to 2.0 percent in 2000, structural problems in the past, such as wage-push inflation that is partly driven by union demands for higher wages, may result in price increases in the next few years. In such a scenario, the country's powerlessness in controlling interest rates may make it difficult to counter the rise.

Between 1995 and 1999 the peseta weakened from 124.69 pesetas to US$1 down to 149.40 pesetas to US$1. Since 1 January 1999 the exchange rate of the peseta is fixed to the euro, which has been decreasing in value since it was launched. This is same for all currencies of the EU (save most especially the British Pound Sterling) that are tied to the euro. Even though the fall in the peseta/Euro may boost the export market to non-euro countries, it will be offset with increase in import prices (of goods from outside EMU states) and inflationary tendencies are thus likely to follow. In such a scenario, pressure to increase long-term interest rates will likely ensue.

There are 4 stock exchanges in the Spanish stock market; the major ones are in Madrid (Bolsa de Madrid, The Madrid Stock Exchange) and Barcelona (Bolsa de Barcelona, The Barcelona Stock Exchange). Major stocks are listed in what is referred to as the Ibex-35, and the most heavily traded recently include Telefónica, Terra, Endesa, and Iberdrola. Due to recent reforms, the Spanish stock markets have become safer and more transparent, and their ways of operating and types of financial assets more varied.

POVERTY AND WEALTH

Until the 1950s there was only a small industrial working class in Catalonia and the Basque Country, a traditional agricultural working class in the rest of the country, and a small middle class. Industrialization came relatively late to Spain and was concentrated in few areas. The social structure was polarized between a small upper class, consisting fundamentally of large landowners (latifundia) and a large rural proletariat (jornaleros). In the South agricultural day laborers were employed on a seasonal basis by the large landowners; in the North ownership was more evenly distributed and there were many small family farms. In 1957 1 percent of the population belonged to the upper class, 38.8 percent to the middle class, and 60.2 percent to the lower class.

By 1988 the figures were 4.8 percent, 59.4 percent, and 32.9 percent, respectively. The growth of the middle class had begun by 1970. The numbers of agricultural workers fell, eroding the power of the large landowners and the rural bourgeoisie and diminishing the problem of the rural workers' social conditions. Today, professional, technical, managerial, and administrative groups have increased significantly as levels of education and qualifications have improved. The service sector has grown while manufacturing and construction declined. The urbanization, modernization, and economic development of the country can be seen in the social structure of the 1990s.

Earnings differential have increased in recent years. In 1981 a blue-collar worker in manufacturing or service earned 67.7 percent of a white-collar worker's salary in

Distribution of Income or Consumption by Percentage Share: Spain

Lowest 10%	2.8
Lowest 20%	7.5
Second 20%	12.6
Third 20%	17.0
Fourth 20%	22.6
Highest 20%	40.3
Highest 10%	25.2

Survey year: 1990

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Spain	33	12	11	3	5	8	28
United States	13	9	9	4	6	8	51
France	22	7	9	3	8	12	40
Portugal	29	8	7	2	19	6	29

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

the same sector; in 1992 the figure was only 62.5 percent. The earnings ratio between an unskilled laborer and a university graduate in 1988 was 100 to 371. In 1991 the poorer half of the households received 27.42 percent of total income and the richer half 72.58 percent.

The standards of living have risen significantly due to the improvement of the education, health, and other social welfare programs over the last 25 years. Education is compulsory until the age of 16, and university education is no longer the privilege of a small elite; by 1990 almost half the university students had parents with only elementary education. Twenty-nine of the 33 universities are public and access is merit-based. In cases where the regional government has responsibility over education, regional languages such as Catalan and Basque are obligatory. There is a free, universal healthcare service for all citizens. There are both contributory and non-contributory unemployment benefits and pension provisions. It should be noted, though, that in the drive to decrease public spending, it is harder to qualify for unemployment benefits (for example, those holding temporary contracts are not eligible for unemployment payments). The amount given to those receiving non-contributory pensions (such as what is called the SOVI) received almost 10 percent less in real terms than 5 years ago. Vulnerable groups—the disabled, elderly, abandoned children, single mothers, battered wives, families without income, and the homeless—receive special attention through different state-sponsored funding programs. Nevertheless, these services were only properly organized in the 1980s and the 1990s and Spain still spends a smaller share of the GDP on them than the EU average. Interestingly, Spain has one of the highest life expectancies in the world. While some have argued that this is a benefit of the social welfare system that attempts to universally cover all, others argue that long life expectancy is a consequence of the generally healthier Mediterranean diet, characterized by olive oil, fruits, vegetables, and legumes.

Despite the apparent strength of the policies of redistribution (such as education, health, and other social welfare programs), regional differences in wealth persist. The 3 richest autonomous communities are Madrid, Barcelona, and the Basque Country, which are representative of the financial and industrial strongholds of the country. The poorer regions in the country remain in the North and South, where the larger part of the economy remains agriculturally-based. These include Galicia, Castilla la Mancha, and Extremadura.

WORKING CONDITIONS

With regard to working conditions, the Spanish government's emphasis is on increasing flexibility, deregulation, and training programs. Compared to American standards, some say that the labor law is inflexible and discourages new hiring. Also, many consider the severance payments to be very high. Compared to the rest of the EU, the Spanish labor market is one of the lowest-paying and precarious. More than 35 percent of the workforce is actually on temporary contracts which are generally low-paying and can be canceled unilaterally any time by employers.

The government pursued 2 major Labor Market Reforms to achieve this flexibility. The first was in 1994 under the socialists and the second in 1997 by the Popular Party. Both reforms rescinded the rights and guarantees enjoyed by workers as originally framed within the Workers' Statute (ET) of the early 1980s. The reforms to the ET included allowing temporary contracts, opening space for private companies (agencies) to place temporary workers, introducing low-paying apprenticeship contracts, scrapping concepts such as extra pay for overtime work or a 40-hour work week, decreasing severance costs, and allowing employers to move workers between different functions and geographic locations.

The government pursued these reforms with the participation of the main business organization, CEOE (Confederación Española de Organizaciones Empresariales,

the Spanish Employers Organization), which reflects the increasingly marginalized role of trade unions. Trade unions of the early 1980s actively participated in the formulation of the Workers' Statute. Originally the UGT was affiliated with the socialists and CCOO to the communists, but both unions distanced themselves from the parties. Although they have been cooperating with each other more closely since, membership in both unions is low (estimated to be around 15 percent of active workers) and their role in collective bargaining has diminished, especially since the labor market reforms of the 1990s. As a result unions are hampered by organizational and financial weakness, which reduces their ability to negotiate.

With unemployment at 16 percent today, it is one of the highest in the industrialized world. It is therefore not surprising that this issue continues to dominate the government agenda. Unemployment is highest in Andalucia, Extremadura, Ceuta, and Melilla. Catalonia and Madrid enjoy the highest employment figures. The reasons behind the high unemployment rate are the decline in agricultural employment, inadequate skills of the labor force, small companies' difficulties in an increasingly competitive environment, and previously high inflation. Some economists estimate that the black market actually employs some 10 percent of the active population, mostly younger workers with few qualifications to enter the regular labor market.

The presence of women in the Spanish labor market is below European average even after increases in the 1980s and the 1990s. In rural areas women always participated in agricultural work and in urban context they are concentrated in manufacturing (textiles, leather, footwear) and services (retailing, hotels, restaurants, catering, public administration, education, health services, domestic and personal services). The presence of married and older women in the labor market is increasing, and legislation to prevent discrimination is among the most progressive in western Europe. Since 1989 women are offered 16 weeks paid maternity leave. Despite legislation, inequalities remain; women's unemployment in 1996 was 30.4 percent and women's work contracts tend to be either part-time or temporary. An average woman earns 72 percent of the average man, and women are underrepresented in the higher status occupations. A significant exception to this trend remains the fact that many scientists in Spain, especially in natural science, are female. The state's Council for Scientific Investigation has a slight female majority.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

1492. On 12 October, Christopher Columbus discovers America.

1516. Carlos I of Spain and V of Germany assumes the Spanish Crown, following the death of Fernando of Aragon. Carlos I effectively unites the Spanish kingdoms of Castilla and Aragon, as well as the European and Italian dominions of the Habsburgs.

1700–14. The War of the Spanish Succession breaks out in 1700 (involving France, England and Austria) and ends in 1714. The French victors place Felipe V, who is the grandson of Louis XIV, as king of Spain.

1808–13. The War of Independence—Spanish citizens rise against French domination (1808) and help defeat Napoleon.

1898. Spain loses the last of its remaining overseas colonies in Cuba, Puerto Rico, and the Philippines. This officially marks the end of the Spanish empire.

1931–36. Second Republic. After the dictatorship of Primo de Rivera in the 1920s, the Second Republic is established in 1931. The Second Republic provided a democratic and stable system of governance whereby there were free elections (where women had the right to vote as well) and guaranteed rights and freedoms for all citizens for the first time in Spanish history.

1936–39. Civil War between the Republicans (backed by the workers, socialists, and communists), and the Nationalists (led by General Francisco Franco, with the support of economic elites, Hitler, and Mussolini). Upon victory, General Francisco Franco leads Spain's government as a fascist dictator until his death in 1975.

1957–59. Stabilization Plan is proposed by the OECD and the IMF. Economy is liberalized and foreign investment enters, opening up Spain to international markets in order to save the state's economy from collapse after the policy of self-sufficiency. Followed by economic boom in 1960s and 1970s, known as the "economic miracle."

1975. King Juan Carlos assumes control in November, after Franco's death.

1977–82. First General Elections held (1977), won by UCD (Center Democratic Union); signing of Moncloa Pacts which aim to moderate wages, and strengthen the social welfare system (1977). UCD second victory in 1979.

1978. Democratic constitution, which guarantees rights and freedoms and basic liberal democratic principles for Spain, is approved by referendum.

1982–96. Socialist Party in power in Spain for 14 consecutive years. The first Socialist victory was one of the largest majorities in contemporary western Europe (1982); Spain joins NATO (1986). Despite strengthening the **welfare state**, Spanish Socialists strongly pursue neo-liberal economic policies, including privatiza-

tion, deregulation, and labor market reform, especially between 1986–1996.

1986. Spain joins the European Community. Adoption of Single European Act solidifies Spanish commitment to the European Single Market Program (which highlights free movement of goods, persons, capital, and services). Unprecedented economic growth in Spain yields an annual increase in GDP of over 4 percent, 1986–1991.

1992. Spain agrees to Maastricht Treaty, which outlines criteria to be achieved by late 1990 for those EU states wanting to join the European single currency (Economic and Monetary Union, EMU). Spain therefore commits itself to deficit and debt reduction. Heavy cuts to the health, education, and pension systems ensue.

1996-PRESENT. Popular Party (Christian Democrats) comes to power for the first time in contemporary Spain. Commitment to deficit and debt reduction as well as controlling interest and inflation rates is reinforced. Second PP election victory, March 2000.

1999. Spain qualifies for EMU.

FUTURE TRENDS

Spain is likely to experience further liberalization of markets and privatization in the sectors of telecommunications, defense, energy, transportation, and aerospace. In order to attract more foreign investors, the government will likely institute more labor law reform with the aim of increasing the flexibility of the labor market. Such reforms would result in lower salaries and more precarious forms of employment, which may also have negative social repercussions. Given increased economic and monetary integration in the European Union, it is likely that Spain will benefit in terms of its growth. In fact, economists project growth in telecommunication equipment, service markets, environmental services, and equipment and agriculture. Moreover, linguistic and historical links to Central and South America could increase the influence of Spanish firms in these geographical areas, with reciprocal investment by Latin American business leaders in Spain. Spanish representatives in the European Commission will play a key role in negotiating trade agreements between the EU and Latin America.

There are 3 main challenges that Spain faces in the next decade: 2 are at the domestic level and one at the EU level. First, illegal immigration and the high unemployment rate will continue to offer serious problems. Illegal immigration from Northern Africa to the South of Spain has become an increased focus of attention, especially considering that many die in their attempt to come to Spain. This, coupled with the fact that many illegal immigrants work in the black market, will continue to increase social tensions in a country that already has one of the highest unemployment rates in the industrialized world.

The second main challenge deals with eradicating the Basque terrorist group ETA. The group's activities are not contained to the Basque Country, which means that businesses in targeted metropolitan areas like Madrid, Seville, and Barcelona, are significantly and negatively affected. The threat of terrorist activity may likewise discourage foreign investors from locating their business in Spain. Although the Interior Ministry has made recent attempts to crack-down on ETA's activities, the terrorists' strong infrastructure and continued activities make it doubtful that an indefinite ceasefire is on the horizon.

The third main challenge facing Spain relates to its compliance with future EU initiatives. Spain has generally accepted EU deregulatory policies (that is, policies which attempt to discourage barriers to trade and prevent anti-competitive practices in the free-market) and economic and monetary policies (that is, Economic and Monetary Union and the Single Currency). However, EU policies which attempt to replace national legislation in areas such as the environment may continue to offer challenges. Further, policies which attempt to increase the size of the Union may be met with caution by Spain; enlargement may mean a slow down in structural funds flowing into Spain and movement of foreign investors presently in Spain to other low-paying, better educated, labor markets in Eastern Europe. Notwithstanding these potential challenges, Spain will continue to be one of the engines behind deeper integration and, along with Germany and France, will attempt to ensure that the EU remains an important player in the world economy.

DEPENDENCIES

Spain has no territories or colonies.

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—Raj S. Chari and Suvi Iltanen

SWEDEN

Kingdom of Sweden
Konungariket Sverige

CAPITAL: Stockholm.

MONETARY UNIT: Swedish krona (SKr, plural is kronor). One krona is comprised of 100 öre. There are coins of 50 öre and 1, 5, and 10 kronor, and notes of 20, 50, 100, 500, 1,000, and 10,000 kronor.

CHIEF EXPORTS: Machinery, motor vehicles, electronics, paper products, pulp and wood, iron and steel products, and chemicals.

CHIEF IMPORTS: Machinery, petroleum and petroleum products, chemicals, motor vehicles, iron and steel, foodstuffs, and clothing.

GROSS DOMESTIC PRODUCT: US$184 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$85.7 billion (1999). **Imports:** US$67.9 billion (1999).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in northern Europe, in the eastern part of the Scandinavian peninsula, Sweden is bordered on the west and northwest by Norway, on the northeast by Finland, on the east by the Baltic Sea and its arm, the Gulf of Bothnia, On the southwest, Sweden is separated from Denmark by the Skagerrak, Kattegat, and Ôresund straits that connect the Baltic and the North Seas. The fourth largest country in Europe, Sweden has an area of 449,964 square kilometers (173,731 square miles), slightly larger than California. The area also includes 39,030 square kilometers (15,070 square miles) of inland water pools, mostly lakes. The capital city of Stockholm is situated in the southeast, on waterways and islands between Lake Malaren and the Baltic Sea. Other major cities include Göteborg in the southwest; Malmö in the south, and Uppsala, Linköping, Ôrebro, and Norrköping in the southeast.

POPULATION. The population of Sweden was estimated at 8,873,052 in July 2000 with an annual growth rate of 0.02 percent. The **immigration** rate is 0.86 per 1,000 population. Population density is one of the lowest in Europe, with about 20 persons per square kilometer (52 per square mile). Due to the cold northern climate, the great majority of the population lives in the south, especially in the central lowlands and the coastal areas. Large parts of the north and the mountains are very sparsely inhabited. Some 83 percent of Sweden's population is urban. The population, as in most of Europe, is aging, and with a high life expectancy of 79.58 years at birth (76.95 for men and 82.37 for women). The median age increased to 41 years in 1999 from 38.4 five years earlier. Some 17.2 percent of the population is 14 years old and younger, and 18.7 percent are 65 or older. The fertility rate was 1.53 children per woman, far below the replacement threshold of 2.1. In 1999, polls showed that more young and educated Swedes were prone to leave their country and settle elsewhere than were their counterparts in most of western Europe.

Like the other Nordic countries (Denmark, Finland, Iceland, and Norway), Sweden is still ethnically homogenous (similar). Its population is Scandinavian of Germanic descent. Most Swedes speak English and have cultural and family ties to the United States. Minorities include a small number of ethnic Finns and about 17,000 semi-nomadic Lapps (Saami) in the north; there are also more than half a million first generation immigrants, including Finns, Norwegians, Danes, former Yugoslavs, Greeks, Turks, Iranians, Chileans, and others. In the 1990s, Sweden received a large number of refugees from the war in Bosnia and Herzegovina and Kosovo (the former Yugoslavia), and since the mid-1980s, it also has received numerous ethnic Kurdish immigrants from the Middle East. Some 87 percent of Swedes are Lutherans, and there are small numbers of Roman Catholics, Orthodox Christians, Baptists, Muslims, Jews, and Buddhists.

Historically, Sweden's **social welfare system** has been extensive, insuring that all citizens receive old-age pensions, health and unemployment insurance, and

disability benefits. Special provisions include generous **subsidies** to families raising children, such as parental benefits, and subsidized low-rent housing. Higher living standards, as elsewhere, have restricted population growth over the 1990s.

OVERVIEW OF ECONOMY

Sweden is among the leading economies of the world. Once a major European military power, the Nordic country has not waged any wars for more than 180 years. Instead, while enjoying the fruits of peace and neutrality, it has achieved impressive economic and social results under a unique mixed system of high-technology **capitalism** and extensive social-welfare benefits. With an educated and highly efficient **labor force**, Sweden has developed a world-class manufacturing sector with advanced communications. The country provides excellent conditions for scientific innovation, and the size of its investments in research and development is about 4 percent of its **gross domestic product** (GDP), or more than twice the average in western Europe. Sweden is a world leader in terms of the number of patents it holds and of the relative weight of the technology sector in its economy. Timber, hydropower, and rich iron ore, with which Sweden is abundantly endowed, make up the traditional resource base of an economy that has been predominantly export-oriented. For a long time after World War II, the country has been considered as a perfect example of an economically prosperous democratic society with an equitable distribution of wealth, generous social benefits, and an enviable living standard for the majority of the population. Although the country encountered some economic difficulties in the early 1990s, by 1995 it was still second only to Switzerland in terms of its **GDP per capita**, and by the end of the decade it was growing faster than most of western Europe.

During the 1990s, this extraordinarily successful economy was somewhat disturbed by budgetary problems, a bank crisis, and rising **inflation** and unemployment, combined with high personal taxes and a gradual decline of its competitiveness in international markets. The lack of venture capital (money needed to start a business) to support new business ideas and the high tax rate on individual entrepreneurs are thought to have diluted Sweden's full capacity for economic innovation before the late 1990s. Also, low **labor mobility** (the willingness of the workers to relocate to areas with higher demands for labor) has been considered as an impediment to effectively combating unemployment. The government is trying to address these problems. Analyzing Sweden's economic problems in the late 1990s, the International Monetary Fund (IMF) and the Organization on Economic Cooperation and Development (OECD) have commended the country's overall economic management, its budget consolidation, and its **monetary policy**, but pointed out that structural reforms will still be needed particularly to increase labor market flexibility and to lower individual taxes.

After Sweden joined the European Union (EU) in 1995, its efforts to meet the group's rigorous standards caused some additional economic strains. Some political indecision over the country's role in the political and economic integration of Europe had prevented it from joining the EU at an earlier stage and from becoming a char-

ter member of the European economic and monetary union (EMU) in 1999. Sweden has not yet decided to switch to the single euro currency and transfer control over its monetary issues to the European Central Bank (ECB) as 11 other EU members did in 1999. It has harmonized, however, its economic policies and regulations with those of the EU, and Sweden's government plans to hold a referendum in the future on whether the country should join the EMU.

Sweden is one of the world's most attractive countries for foreign investors. Apart from offering a favorable business climate, a strong domestic market, an advanced high-tech sector, a qualified labor force, optimal management skills, and generous "**welfare-state**" benefits, it also offers the second lowest corporate tax rate in Europe. **Foreign direct investment** in the 1990s has increased more than elsewhere in Europe. Between 1990 and 1997, the number of foreign companies active in Sweden has increased by almost one-half. In 1997, foreign-owned firms (mostly from Finland and the United States) employed more than 14 percent of the labor force. Although Sweden's economy is relative small, in 1998 it had 29 out of the 500 largest companies in Europe—by far the highest number per capita in the continent. Swedish managers are also reckoned among the world's leaders in terms of their international experience and their language skills.

POLITICS, GOVERNMENT, AND TAXATION

Like its Nordic neighbors Norway and Denmark, Sweden is a constitutional monarchy. It is essentially a mature, multi-party parliamentary democracy, governed under a 1975 constitution that removed the last vestiges of royal power, included an extensive bill of rights, and declared that all power emanated from the people. Executive power is vested in the Cabinet, elected by parliament and consisting of the prime minister, the head of government, and 20 cabinet ministers. The monarch remains officially the head of state, an exclusively ceremonial post, but is no longer the commander-in-chief of the armed forces and does not chair the cabinet meetings. Succession to the throne was opened to women in 1980. Legislative power is vested in a **unicameral** parliament (Riksdag) with 349 seats whose members are elected for 4-year terms on a proportional basis by universal suffrage. After elections in September 1998, the seats were distributed as follows: Social Democrats (131), Moderates (82), the Left Party (43), Christian Democrats (42), the Center Party (18), the Liberal Party (17), and the Greens (16).

The Social Democratic Party, which had been Sweden's ruling party since World War II, regained office in the 1994 elections. With its traditional ties to the trade-union movement, it has made reducing unemployment a top priority, and stands for a strong **public sector**. Blue-collar workers and public-sector employees form its base. The conservative Moderate Party demands minimum involvement by the government, lower taxes, public assistance for private industry and business, and a strong defense. The Left Party has **socialist** and **communist** traditions and normally supports the Social Democratic government, but it opposes EU membership fearing that European integration and regulations would jeopardize benefits for Swedish workers. The Christian Democratic Party supports a traditional values-based government, is strongly anti-abortion, and pleads for greater support for families in order to fight youth problems, alcoholism, and crime. It demands more aid to developing countries and a more liberal immigration policy.

An important priority for Social Democratic prime minister Goran Persson and his party in 2000 was convincing the Swedish population of the benefits of the EMU. The party had officially adopted a pro-membership policy, but its argument that Sweden had to join the single currency on purely economic grounds sounded less convincing in late 2000, as the country's economy was growing faster than those who had joined the EMU in 1999. Other factors also discouraged a national consensus in favor of the EMU: Sweden's tradition of restricting alcohol use by administrative means conflicted with the EU's trade **liberalization** rules, and the EU's unhappiness with the intended merger between the 2 large Swedish truck makers, Volvo and Scania.

Denmark's decision to stay out of the EMU membership also weakened popular support for a similar move in Sweden. Many ordinary Swedes are suspicious about further European integration and worry about its impact on their generally healthy economy and its traditional welfare programs, as are the Danes. Businesspeople in Sweden, on the other hand, are unified in support of EMU membership, citing the benefits of a stable **exchange rate** for their trade with the euro zone (countries that have adopted the euro currency), which accounts for more than half of Swedish trade. They fear EMU would also force Sweden to harmonize its legislation, putting national business on an equal footing with its EU competitors.

Labor market regulations remain of particular concern for the government in the EMU debate. The current wage bargaining system sets the wages for a fixed period of 2 years. Consequently, a large part of the Swedish companies are bound by rigid wage costs over that period. In the event of an international economic slowdown and decreasing foreign sales, the export-driven Swedish industry would suffer from these high fixed wage costs. In similar situations in the past, its price competitiveness abroad has been restored by a depreciation of the krona. If Sweden joins EMU, however, such depreciation would

be ruled out (all monetary issues will be decided upon by the European Central Bank), and a more flexible system of wage fixing would be needed to avoid massive layoffs in times of low foreign demand. But Sweden's traditional commitment to wage stability and solidarity and its opposition to layoffs form the heart of the country's economic model. EMU membership is supported by trade-union leadership, but less so by its rank-and-file members (typical workers).

The government's role in the Swedish economy is larger than in other industrialized countries such as the United States. The state owns shares in an array of important industries, such as commercial banks, credit institutions, telecommunications, information technology, broadcasting, postal services, nuclear and hydroelectric power production, air transport, railroads, mining companies, drug chains, pharmaceuticals, and the defense industry. It provides also extensive educational, health, old-age, disability, unemployment, and other social services. The Swedish government is planning a new program aimed at establishing more market discipline and improving the performance of state-owned firms by publishing their quarterly reports as a manifestation of accountability.

Sweden's corporate tax rate is 28 percent, levied on the company's worldwide income. **Value-added tax** (VAT) applies to the sale of goods and most services; its basic rate is 25 percent of the pre-tax price for all goods (12 percent on food items since 1996). Although corporate taxes are low by western European standards, individual ones, although progressive, are reckoned quite high and the IMF advocates lowering them if the country is to continue its steady growth.

Sweden has an **external debt** of US$66.5 billion (1994) which is considered proportionate, and is a major economic aid donor with US$1.7 billion in direct aid (1997). The country has a significant foreign **trade surplus** (more than US$17 billion in 1999) due to its large and robust export sector.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Sweden possesses a modern transportation network, regarded as a vital component of equitable wealth distribution. The country's railroads have 12,821 kilometers (7,967 miles) of track, about a third of them privately owned. A rapid railroad link connects Stockholm's main airport, Arlanda, with the city center, and there is a 16-kilometer (10-mile) long bridge and tunnel across the strait of Ôresund from Malmö in Sweden to Denmark's capital, Copenhagen, opened in 2000. There are 163,453 kilometers (101,570 miles) of paved highways, including 1,439 kilometers (894 miles) of expressways. Sweden has 2,052 kilometers (1,275 miles) of navigable waterways and 84 kilometers (52 miles) of natural-gas pipelines. Major ports and harbors, all equipped with modern terminals, including container handling, include Gaevle, Göteborg, Halmstad, Helsingborg, Hudiksvall, Kalmar, Karlshamn, Malmö, Solvesborg, Stockholm, and Sundsvall, The Swedish merchant fleet comprises 165 modern ships. The Swedish marine carrier Stena Bulk AB has recently partnered with OceanConnect.com, an independent online marketplace, for the sale of marine products and services, but mostly to help buyers and sellers complete fuel transactions.

Since the **deregulation** of the domestic air market in 1991, several Swedish airlines, such as the Scandinavian Airlines System (SAS), Malmö Aviation, and Transwede, have been competing for passengers and cargo. The largest player is SAS, collectively owned by Sweden, Denmark, and Norway. Sweden holds a three-sevenths stake in it, of which the government owns half. SAS is a champion of air-transport liberalization (the "open skies" policy) and has struck many strategic partnerships. In 1998, there were 14 million international departures from the Stockholm airports alone. In 2000, the Swedish government was in the process of **privatizing** several enterprises in its transportation sector. Norway's Schoyen Gruppen and U.S. investment bank Goldman, Sachs ac-

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Sweden	445	932	531	221.4	464	50.9	361.4	581.47	3,666
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Norway	588	915	579	160.1	474	50.0	373.4	754.15	2,000

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

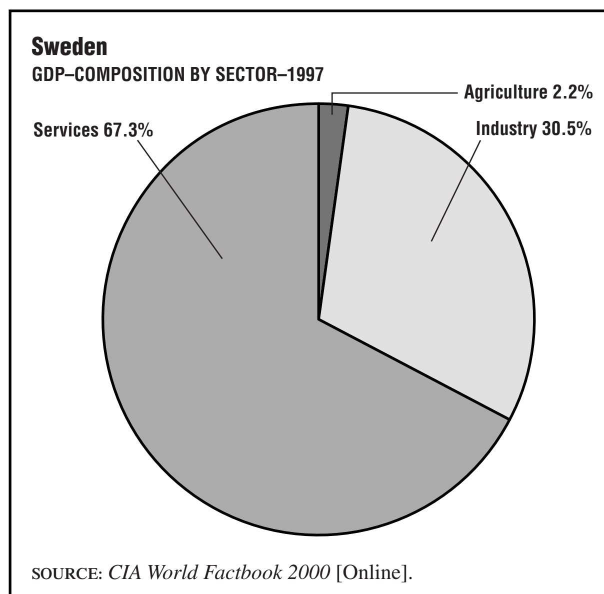
SOURCE: World Bank. *World Development Indicators 2000.*

quired the public transit company Swebus, including its bus operations in Finland, in 1999. Swebus serves about 30 percent of the market in Sweden with its 3,400 buses and 5,200 employees. In another similar privatization deal, the French company CGEA Transport bought 60 percent of the **equity** of the Stockholm subway system from the city of Stockholm.

Sweden's energy sector is strong, with energy production and usage per capita being among the highest in Europe. State-run Svenska Kraftnat runs the national electricity grid. The country is rich in water resources, and 46.5 percent of total power is generated by hydroelectricity; nuclear energy supplies 45.1 percent, and thermal plants provide the rest. In 1980, Swedes voted in a referendum to decommission its nuclear plants by 2010, but the law that was needed to enable the decision is still pending in the Riksdag. The parliamentary opposition has undertaken to reverse the law, alleging that there has been a change in public opinion. Sydkraft, a private company that owns a nuclear power plant, is threatening to contest its scheduled closure in the European Court of Justice. Deregulation of Sweden's electricity market began by 2000 with the intent of giving all households the freedom to choose among energy suppliers.

Sweden is among the world's leaders in information technology, computer hardware, software, and services. It has the highest number of phone lines (combined fixed and mobile) per capita, as well as the highest percentage of Internet users in the world. Some 74 percent of Swedish companies and 45 percent of households had Internet access in early 2000. In 2000, the phone **infrastructure** had 68 fixed lines per 100 inhabitants, and mobile phone penetration was approximately 48 percent. Sweden is also a leader in the implementation of new wireless phone and Internet technology. In 1993, the Swedish telecommunications market was one of the first in Europe to deregulate, and telecom investments in 2000 amounted to more than 6 percent of GDP. Virtually no restrictions protect domestic interests or restrict foreign operations from establishing themselves locally.

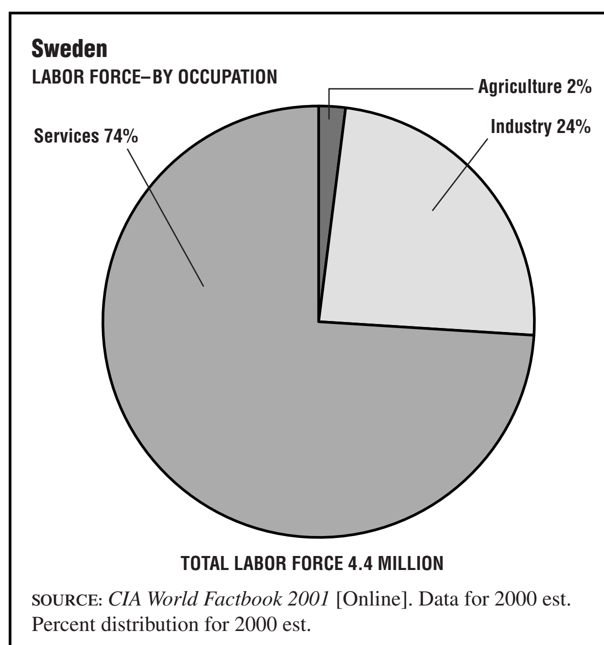
The Swedish government emphasizes electronic commerce, both in the consumer and business sectors, encourages state-owned companies to use electronic purchasing as a means for cost-cutting, and is committed to creating a national broadband network aimed at bringing high-speed Internet access to every household, even in the remotest parts of the country. Although the system will be open to all Internet providers, some municipalities have decided not to wait for the national system, expected to be completed in 2005, and have begun building their own networks. Much of the Swedish **e-commerce** revolution is also driven by the utilities. Faced with falling electricity prices in the deregulated market, they are trying to sell other services with higher profit margins to their existing customers and use their electricity grids more effectively.



SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

As in much of western Europe, the Swedish economy after World War II has gradually become service-oriented, and by 1997, the service sector accounted for 67.3 percent of GDP. Manufacturing contributes 30.5 percent to GDP, and agriculture 2 percent. Private companies account for about 90 percent of manufacturing output, of which the engineering sector accounts for half of



SOURCE: *CIA World Factbook 2001* [Online]. Data for 2000 est. Percent distribution for 2000 est.

both output and exports. Among the healthiest sectors of the Swedish economy are traditional export-oriented industries like automobiles and construction equipment, as well as services, information technology, and telecommunications.

AGRICULTURE

Sweden is almost self-sufficient in many agricultural products, although the sector employs no more than 2 percent of the labor force and contributes 2 percent of GDP. About 7 percent of Sweden's land is cultivated, mostly in the southern plains. Modern farming, including fertilization and mechanization, make high yields possible although soils are generally poor and the cold climate renders the growing season much shorter than elsewhere in Europe. Farms vary in size from large to small ones, many of which combine into various larger units and cooperatives. Traditionally important sectors such as dairies have declined in the 1990s compared to grain and vegetable production, but livestock and animal products remain among the main commodity items. Other crops include wheat, barley, oats, rye, potatoes, and sugar beets. In 1997, livestock included 1.8 million cattle, 2.4 million pigs, 470,000 sheep, and 11.2 million poultry. The country also exports some fur pelts, notably mink.

INDUSTRY

Sweden's world-class domestic industries originated in the 17th century from its vast natural resources of forests, rich iron ore and waterpower. Over the course of the 20th century, Swedish industry has evolved from traditional sectors with lower added value, such as wood and iron ore processing, to modern industries with a higher degree of skill and technology input, such as automobiles and precision and specialized engineering. The change of priorities became even more evident in the 1990s, with the emergence of new research-intensive industries, such as information technology and pharmaceuticals, which replaced the more traditional engineering industries as the driving force of growth and business activity.

During this transition, some sectors, like textiles and iron, contracted considerably while others, such as shipbuilding, have all but disappeared, but Swedish **restructuring** has been smooth in terms of economic and social stability. By 2000, major industries included information technology (telephone, radio, and computer equipment), communications, pharmaceuticals, precision equipment (bearings and armaments), high-quality steel, automobiles, electrical motors and other electrical equipment, printed and published goods (including software and popular music), home and office furnishings, and processed foods. Most of the manufacturing plants are private and small, though Sweden also accounts for 29 of the 500 largest companies in Europe, perhaps the highest number per capita in the world). Several of the world's most sophisticated and diversified engineering companies bear Swedish names, although many of them are now foreign-owned or in multinational cooperation. They include, among others, Volvo, Saab, Scania, Electrolux, SKF, and ABB. The most dynamic sector by the late 1990s was telecommunications and information technology, with Ericsson being the most outstanding company in that field.

The automotive sector, one of the most important industries, has lived through major changes in the 1990s due to global restructuring and consolidation. General Motors acquired a 50 percent equity stake in Saab in 1989, and GM acquired the remaining stake in 1999. In 1999, Volvo sold its car division to the Ford Motor Company. Volvo shifted gears to concentrate on commercial transport equipment, and in 1999 acquired 75 percent of Scania, the second major Swedish truck maker. Volvo thus became one of the world's largest manufacturers of heavy vehicles. Sweden also is a major manufacturer of pharmaceuticals; its Pharmacia company merged in 1995 with the U.S. group Upjohn, while Astra merged in 1998 with British Zeneca, to form AstraZeneca.

During the 1990s, the information technology industry has been by far the fastest-growing sector in Sweden. In 1999, the country had more than 250 information technology companies (including foreign-owned ones) with an annual revenue of more than US$10 million, and a huge number of smaller ones. By far the largest of them was Ericsson, with net sales of US$26 billion in 1999. Telia was its second largest company, in net sales and employees. Many important international information technology companies, including Intel, Microsoft, Hewlett-Packard and Nortel, have chosen Sweden as the base for their European operations or for advanced research and development.

SERVICES

As in most of the industrialized world, the Swedish economy is becoming increasingly service-based, with more than two-thirds of GDP formed in that sector, and the role of finance and banking dramatically increasing. **Retail** is a traditionally strong industry, and tourism is also gaining ground with the increasing affluence of the Swedes and the growing interest of foreign visitors in traveling in the country.

BANKING AND FINANCIAL SERVICES. Financial institutions in Sweden, both banking and capital-market ones, are well developed and stable. In addition to Riksbanken, the central bank, there are 2 types of banks, joint stock (commercial) and savings banks. Several "member-banks," formed as economic associations, also operate,

but generally all banks are entitled to activity in all areas of the industry. In 1986, Sweden opened its borders to 12 foreign commercial banks, allowing them to open branches offices in the country, and they have since focused on business services. In 1990, all restrictions concerning foreign ownership of Swedish bank stock were abolished, though the banks' activities are subject to close supervision to insure that all necessary standards are met. According to the law, financial statements are audited only by internationally recognized auditors. The largest banks in the mid-1990s were Nordbanken, Skandinaviska Enskilda Banken, Svenska Handelsbanken and Foreningssparbanken (Savings Bank Foundation). American institutions Citibank and GE Capital Bank were also in operation.

Many Swedish banks suffered losses in the early 1990s due to **recession**, the increased competition generated by deregulation of the sector, sharply expanded lending, especially for real estate (mortgages), plus high inflation in the second half of the 1980s. In 1992, the government guaranteed all commitments of banks and mortgage lenders to their depositors and investors, establishing a Bank Support Council to manage a bank assistance program. Following EU directives, the government guarantee was replaced in 1996 (after Sweden's accession to the EU) by a bank deposit guarantee.

Since the mid-1990s, following global consolidation trends, the number of banks in Sweden was reduced through mergers. The largest merger was the 1998 deal between Nordbanken and Finland's Merita that formed the huge MeritaNordbanken Group. The deregulation of financial markets encouraged many foreign banks to enter Sweden. Credit Lyonnais of France was one of the leaders, although competition in Swedish retail banking forced it to sell its operation to the Trygg-Hansa insurance group in 1997. There were 32 commercial banks doing business in 1999, 15 of which were foreign subsidiaries. Smaller "niche banks" have also emerged (like "dial-in" banks for services by telephone), and all major banks are offering virtual services through the Internet. In 1999, 3 out of the top 4 Internet banks were Swedish. All major banks offer online services, and almost 40 percent of the Swedes conducted their financial transactions at least partly online in 2000, making the country, along with its Nordic neighbors, a leader in Internet banking. Swedbank's Internet system was named the best in Europe in 1999 and proved so convenient that Swedbank was also able to sell it to Norway's Sparbank 1.

Four of Sweden's major commercial banks plan to start a joint system for electronic stock trading in the hope of taking some customers away from the well-established OM Stockholm Stock Exchange by offering trading services on weekends, and eventually, around the clock.

Long considered underdeveloped, the Swedish venture-capital sector finally began to grow dramatically in late 1998 and 1999 thanks to the Internet and high-tech stock boom. It was badly hit by the meltdown in information-technology stocks in late 2000. Probably one-fifth of the 140 venture capital firms existing in late 2000 will either merge, close down, or leave the country. The remaining venture-capital firms will shift resources, possibly meaning that less capital will be available for new startups and expansions in 2001–2002.

RETAIL. The Swedish retail sector has been traditionally strong. It is following European retail trends, with large stores and shopping malls replacing the small traditional retailers, although to a lesser extent than in Continental Europe, given the smaller size of the market. New forms of retailing have benefited vastly from improvements in consumer confidence, a rise in earnings, and an expansion of employment. Furthermore, the reduction in value-added tax (VAT) on food since 1995, and Sweden's entry into the EU the same year, led to a fall in many prices. In 1998 and 1999, consumer demand for cars and audiovisual and computer equipment boosted the volume of retail trade to nearly 6 percent higher than in the previous year. By far the best known name worldwide in Swedish retail is IKEA, the furnishing retailer that registers 53 percent of its sales and 26 percent of its purchasing in the euro zone. IKEA also has a very strong presence in the U.S. Another strong retailer is Apoteksbolaget, a state-owned chain of pharmacies with a **monopoly** on the sale of all prescription and non-prescription medication.

E-commerce is already widely established, and online revenue as a share of total retail revenue is the second highest in the world after the United States. A growing number of Sweden's online retailers, including Boxman, Europe's largest online CD music and video retailer, have expanded even beyond the domestic market and built up a presence in other countries in Europe. Direct marketing is also expanding, and well-established mail-order firms have emerged in the areas of beauty products (such as Oriflame), clothing, sporting goods and hardware. Telemarketing is still relatively rare, but the use of cable TV sales channels is increasing.

For decades, Sweden has had a tradition of government policy aimed at restricting alcohol consumption through a state liquor monopoly and high taxes at more than twice the British and more than 10 times the French and German rates. When Sweden joined the EU in 1995, the state import monopoly was discarded, but the distribution and retail market remained under government control and the Swedish government negotiated a temporary exemption from the EU regulations, restricting the amount of alcohol individuals can import into the country. The European Commission has objected to future extension

of this exemption, and Swedes take advantage of short trips to Denmark and Germany to import large quantities of alcohol for domestic consumption, especially after the bridge and tunnel link to Denmark opened in 2000.

TOURISM. Tourism is not a traditionally important sector in Sweden, but it has been growing throughout the 1980s and 1990s, with most foreign visitors coming from Germany, Britain, and the United States. The tourist season has traditionally been confined to the summer months, but winter skiing holidays began to attract foreign visitors during the 1990s. The first direct charter flight between Swedish ski resorts and Britain was launched in 1997. Still, about 80 percent of the guests were Swedes and about 6 percent were other Nordic nationals. Most Swedes continue to prefer traveling abroad during the obligatory 5 weeks of vacation and the increasing number of special holidays. The Norwegian hotel chain Norlandia plans to build up to 5 new hotel and conference centers in Sweden to add to the 6 it now has in the country.

INTERNATIONAL TRADE

Sweden has had a traditionally strong export sector and has recorded large surpluses on its trade since the mid-1990s (more than US$7 billion in 1999). The trade surplus is likely to increase in 2001, driven by an expected fall in oil prices. Principal exported commodities include machinery and equipment (35 percent), motor vehicles, paper products, pulp and wood, iron and steel products, and chemicals. Leading export markets in 1998 were the European Union (57 percent), Germany (11 percent), the United Kingdom, Norway, and the United States (9 percent each), Denmark (6 percent), and Finland (5 percent). Imported commodities include machinery, petroleum and petroleum products, chemicals, motor vehicles, iron and steel, foodstuffs, and clothing. Chief import partners in 1998 were the European Union (68 percent), Germany (19 percent), the United Kingdom (10 percent), Norway (10 percent), and Denmark, France, and the United States (6 percent each). Swedish export brands such as Ericsson, Volvo, Saab, Electrolux, IKEA, and Oriflame, are among the best known in the world.

In 2000, the increase in the imports of mineral fuels, lubricants and related products amounted to SKr18.7 billion, but this was easily offset by the growth in the value of Swedish exports. Electrical machinery was one of the rapidly growing export categories, and revenue increased also in wood pulp, iron and steel, while in manufacturing they remained flat. In 2000, the U.S. economy alone absorbed SKr47.7 billion of Swedish exports, or an increase of 20.6 percent, and Swedish deliveries to Japan also rose sharply. The price of Swedish imports remained relatively stable, although high oil prices produced a sharp increase in the value of Norwegian imports (Norway is the major exporter of oil and natural gas for many countries in the region).

Trade (expressed in billions of US$): Sweden

	Exports	Imports
1975	17.383	17.450
1980	30.906	33.438
1985	30.461	28.547
1990	57.540	54.264
1995	79.801	64.645
1998	84.730	68.413

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

MONEY

In 2000, the exchange rate for Swedish kronor stood at SKr8.4831 to US$1; it stood at SKr7.1333 in 1995 and SKr6.7060 in 1996. In the late 1990s, the Swedish government's budget balance improved dramatically. After a deficit of more than 12 percent of GDP in 1993, there was a surplus by 1998, and large surpluses are expected every year through 2002. Credibility improved with the introduction of new strict budget regulations with spending ceilings, and the establishment of a truly independent central bank, the Riksbanken. The government still has a high consolidated debt, although it declined from a peak of 79 percent of GDP in 1994 to 67.6 percent in 1999 and 62.2 percent in 2000. The Swedish Financial Supervisory Authority has established a close monitoring of household borrowing, fearing that rapid expansion in lending could lead to credit losses. Riksbanken is expected to be successful in meeting its EU-mandated 2 percent annual inflation target in the longer term. The government and the Social Democratic party remain split over whether Sweden should join the European Monetary Union, concerned that Swedish exports could be hurt, although local businesses are eager to join EMU. Many believe it will take another 2 to 3 years for Sweden to adopt the euro even if a decision to join EMU is made.

The respected though insignificant Stockholm Stock Exchange (SSE), formed in 1863, became the world's first for-profit exchange in 1992. In 1995, it merged with the OM Derivative Exchange (formed in 1985 to offer options trading) to form the new OM Stockholm Exchange; it maintains an investment exchange in London. The OM Stockholm Exchange has been one of the most successful in western Europe in the 1990s, and it ended 1999 with its SX General Index at a record high of 5,382, or 66.4 percent higher than in 1998. The dramatic rise in the share index and in the **market capitalization** were

Exchange rates: Sweden

Swedish kronor (SKr) per US$1	
Jan 2001	9.4669
2000	9.1622
1999	8.2624
1998	7.9499
1997	7.6349
1996	6.7060

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Sweden	21,157	22,283	24,168	26,397	27,705
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Norway	19,022	23,595	27,113	28,840	36,806

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

mainly due to the high-tech boom of the late 1990s, and the **turnover** in Ericsson's and Nokia's shares contributed to almost half of the total figure. Since 1999, the OM Stockholm and the Copenhagen stock exchanges have been part of the Norex alliance, in which all shares listed on both exchanges are traded on a joint electronic system. In late 1999, the Oslo stock exchange also joined Norex, and the stock exchanges of the Baltic states (Estonia, Latvia, and Lithuania) and Iceland have expressed interest in joining. The joint stock exchanges, along with several newly-opened Swedish online brokerages, help broaden the pool of capital available to businesses and make raising capital easier and cheaper while the economy becomes more dynamic, effective, and flexible.

As the OM was facing volatile stock prices and the Internet meltdown was plaguing world markets in late 2000, a number of Swedish companies, mostly from the information technology sector, started fundraising by targeting new share offerings directly to interested institutions, mostly to save time and money, but also to avoid the risk that their public offerings might not be successful, given the growing skepticism about information-technology stocks. Another advantage of direct offering was that it helped companies avoid the large price fluctuations of a new public offering and the administrative costs associated with it.

By 2000, the Swedish government was also considering a legal amendment aimed at making it easier for banks and other financial institutions to securitize (replace non-marketable bank loans with negotiable securities) some of their own assets. These would include mortgages, to be securitized by selling them to security brokerage firms who would issue them securities (bonds) against the loans, that, in turn, may be used as investment capital. Securitization is essentially a method of freeing up capital from long-term loans.

POVERTY AND WEALTH

Sweden is well-known for its system that combines a strong market-based economy with extensive social-welfare services. Central and local authorities play a dominant role in providing a wide variety of social services, such as education, health, old age, disability, and unemployment benefits. The governing Social Democratic Party has a platform that includes **full employment**, wage solidarity, and the maintenance of current living standards among its basic goals.

Swedes enjoy a traditionally high and stable standard of living, although at a high cost to individual taxpayers. Sweden is among the most equitable societies in the world, with a 1995 **Gini index** (an index that measuring economic equality in which 0 stands for perfect equality and 100 for perfect inequality) of 25. By comparison, the United States had a Gini rating of 40.8, the United Kingdom had a 36.1, and Switzerland had a 33.1). This means that there are no extremes of wealth and poverty in the country. Progressive personal **income taxes** and comparatively lower executive compensation (compared to that in the U.S.) contribute to maintaining equal social opportunity. Sweden's excellent distribution and transportation system, along with generous regional subsidies, work to prevent inequalities in living standards between urban and rural areas.

Social security programs are exceptionally comprehensive and are subsidized by the government, although some are administered by the trade unions. In response

Distribution of Income or Consumption by Percentage Share: Sweden

Lowest 10%	3.7
Lowest 20%	9.6
Second 20%	14.5
Third 20%	18.1
Fourth 20%	23.2
Highest 20%	34.5
Highest 10%	20.1

Survey year: 1992

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Sweden	17	5	12	4	14	6	41
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Norway	16	7	11	5	4	6	51

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

to the recession of the early 1990s, the government started reductions in the level and range of social programs. Still, some surveys have found that 62 percent of all young and educated Swedes have considered moving abroad, partly in pursuit of greater personal challenge.

WORKING CONDITIONS

Working conditions in Sweden are among the best in the world, thanks to sophisticated environmental and worker-safety regulations. Its labor force of some 4.3 million is disciplined, educated, and experienced in most modern technologies. About 87 percent of Swedish workers belong to a labor union, arguably the world's highest rate, and unions are active partners with businesses in implementing more efficient programs. Swedish legislation provides for labor representation on the boards of directors of large corporations and requires management to negotiate with the unions prior to implementing major changes. Management-labor cooperation is traditionally non-confrontational. There is no fixed minimum wage, and all wages are set by collective bargaining. Since 1991, **real wage** increases have exceeded those of most EU countries. As the EMU debate gains momentum, labor unions are calling for buffer funds, similar to those created in Finland, as a "cushion" for pension savings and other worker benefits during the transition period to the euro, in the event that there are any large currency fluctuations.

Many pro-business observers, including those from the International Monetary Fund (IMF), have recommended some fundamental labor market reforms, including wage differentiation (to reduce labor costs for low-skilled jobs), introducing an incentive to increase individual competence, strict eligibility requirements and limitations on unemployment benefits, the reduction of income taxes and non-wage labor costs, making the unions and their members bear the costs of the unemployment insurance system, and liberalizing employment protection legislation. Such measures are believed to increase efficiency and competitiveness, but labor representatives complain that they would place more burdens on workers.

Sweden's primary labor-related problem remains its level of unemployment. During a very short period in the early 1990s, the unemployment rate rose from levels among the lowest in the industrialized world to the average EU levels, where it remained until the business cycle improved in 1998–99. By 2000, the unemployment rate was less than 5 percent, but was 8.7 percent for those employees involved in training programs. Sweden's government plans to reduce the unemployment rate to 4 percent and to assure that 80 percent of the working-age population have a full-time job by 2004.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

700s. The present-day territory of Sweden is inhabited by Suiones and Gothones, Germanic tribes at war with each other.

800. Swedish Vikings start exploring the seas, establishing colonies in western Russia and eastern Europe and developing commercial ties with Byzantium, the Khazar Khaganate, and the Arab Caliphate.

9TH CENTURY. Frankish Christian missionaries penetrate Sweden, which is slowly Christianized.

1150–1160. Under king Erik IX, Sweden invades Finland and forces Christianity on the conquered Finns. A feudal economy based on agriculture and trade develops.

1397. The Union of Kalmar unites the 3 Scandinavian kingdoms of Denmark, Norway, and Sweden under a single (Danish) monarch but constant wars follow between the Danes and Swedes.

1521. A rebellion of Swedes led by Gustav Vasa, later king Gustav I Vasa, overthrows Danish influence in most of Sweden, which becomes a hereditary monarchy that establishes Lutheranism as the state religion.

MID-1500s. Sweden enters a century-long period of military expansion, waging wars against Poland and Russia, and acquiring many territories around the Baltic, including Estonia, Karelia, Ingria, and Livonia.

1630. King Gustav II Adolph (Gustavus Adolphus II), considered the greatest Swedish king and a champion of Protestantism, leads Sweden in the Thirty Years' War.

1648. By the Peace of Westphalia ending the Thirty Years' War, Sweden acquires a large part of Pomerania, the island of Ruegen, Wismar, the sees (bishoprics) of Bremen and Verden, and other German lands. Sweden participates in German affairs and makes an alliance with France but is defeated by the Prussians in 1675.

1700–1721. In the Great Northern War, king Charles XII invades northwestern Russia and defeats the Poles, but the Swedes are finally routed and replaced by Russia as the dominant power in the region. Sweden loses much of its German territory and cedes Livonia, Estonia, Ingria, part of Karelia, and several important Baltic islands to Russia.

1718. A new constitution is adopted, rejecting absolute monarchy and vesting the legislative power in a parliament (Riksdag) composed of 4 estates (nobles, clergy, burghers, and peasants). The executive power becomes the domain of a "secret committee" of the first 3 estates.

1805. King Gustav IV Adolph joins the European coalition of Britain, Russia, and Austria against France, but Russia later unites with France's Napoleon and attacks Sweden, which is forced to cede Finland and the Aland Islands.

1810. To appease Napoleon, the Riksdag chooses Marshal Jean Bernadotte, one of Napoleon's generals, as crown prince, heir to Sweden's childless king. Bernadotte fights against Napoleon in 1813–14 and Denmark is forced to yield Norway to Sweden in exchange for the Swedish lands in Pomerania. In 1815, the union of Norway with Sweden is recognized by the European powers.

1818. Bernadotte succeeds to the throne as Charles XIV John, and Sweden makes considerable progress materially, politically, and culturally under his reign. An early capitalist economy develops.

1867–86. Nearly 500,000 Swedes **emigrate** to America because of rising unemployment.

1905. Norway secedes from Sweden, without opposition from the Riksdag.

EARLY 1900s. Sweden adopts much progressive social legislation, notably in factory laws, accident insurance, and pension funds for workers, and limitation of working hours for women and children. Major developments in industry turn Sweden into a technologically advanced economy.

1914. Sweden declares neutrality in World War I and joins an agreement to protect the common economic interests of the 3 Scandinavian countries.

1920. Sweden joins the League of Nations.

1920s-1930s. The Social Democratic Party becomes the leading force in Swedish politics. Socialist governments in the 1920s and 1930s enact significant social reforms.

1945. Having been neutral throughout World War II, Sweden joins the United Nations and maintains its neutral stance during the Cold War, refusing to join NATO in 1949 but trying to upgrade its armed forces adequately.

1950s-1970s. Postwar Social Democratic governments vastly expand the welfare state while developing a strong export-oriented market economy based on engineering and research.

1972. Swedish opposition to the Vietnam war voiced by popular Social Democratic prime minister Olof Palme arouses indignation in the U.S. as many young American war resisters are given political asylum in Sweden.

1991. Social Democrats decline in authority, although they remain the largest parliamentary party. Carl Bildt of the Moderate Party forms a coalition cabinet with the Center, Liberal, and Christian Democratic parties, stressing deregulation of the economy, privatization of state companies, cuts in government spending, including welfare, and removing restrictions on foreign companies in Sweden.

1994. Social Democrats return to power.

1995. Sweden enters the European Union as a full member.

FUTURE TRENDS

Sweden is expected to preserve its healthy economy and high living standards into the foreseeable future, although the EMU membership controversy will continue to considerably influence domestic politics. In January 2001, Sweden took over the 6-month rotating EU presidency, but opinion polls showed that only half of the electorate wanted the country to remain in the European Union. Economic growth is likely to slow from 4 percent in 2000 to 3.5 percent in 2001 and 3.2 percent in 2002; inflation is projected to remain moderate and under control, while the unemployment rate will likely continue to

fall. The Swedish trade surplus is likely to increase in 2001 due to the expected decline in oil prices and continued growth in exports. A decrease in the U.S. consumer spending may reduce Swedish exports to that major market in 2001, but exports to the EU will continue to grow steadily.

In the longer run, the restructuring of the Swedish economy will give further priority to information technology and other high-tech industries and, increasingly, financial services at the expense of traditional engineering industries. The living standards of the Swedes will continue to rise, although more slowly than in the late 1990s, and the government will put major efforts in planning for its eventual entry into the EMU in order to avoid negative effects on employment and welfare. Sweden will also continue to provide an important economic and social model, especially for the new EU members.

DEPENDENCIES

Sweden has no territories or colonies.

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—Valentin Hadjiyski

SWITZERLAND

Swiss Confederation
Confédération Suisse
Schweizerische Eidgenossenschaft

CAPITAL: Bern.

MONETARY UNIT: Swiss franc (SwFr). One Swiss franc equals 100 centimes, or rappen. There are coins of 1, 5, 10, 20, and 50 centimes and 1, 2, and 5 francs, and notes of 10, 20, 50, 100, 500, and 1,000 francs.

CHIEF EXPORTS: Machinery, electronics, chemicals, pharmaceuticals, metals, watches agricultural products, textiles, and handicrafts.

CHIEF IMPORTS: Raw materials, machinery, chemicals, vehicles, metals, agricultural products, textiles.

GROSS DOMESTIC PRODUCT: US$197 billion (1999 est.).

BALANCE OF TRADE: **Exports:** US$98.5 billion (1999 est.). **Imports:** US$99 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Located in west central Europe, bordered on the north by France and Germany, on the east by Austria and Liechtenstein, on the south by Italy, and on the west and south-west by France, this landlocked alpine country has an area of 41,290 square kilometers (15,942 square mi), making it slightly less than twice the size of New Jersey. The capital, Bern, is situated on the Aare River in the north-western part of the country; the largest city is Zürich in the north; other major cities include Geneva and Lausanne in the south-west, Basel in the north, and Lugano in the south.

POPULATION. The population of Switzerland was estimated at 7,262,372 in July 2000; the population growth rate in that year was 0.3 percent, and the **immigration** rate was 1.38 per 1,000 population. Population density was among the highest in Europe, at about 176 persons per square kilometer (455 per square mile). The population is aging, and it has a high life expectancy—79.6 years for the total population (76.73 for men, and 82.63 for women). Consequently, the median age increased to 42.6 years in 1999 from 37.2 five years earlier. Some 15.4 percent of the population are 14 years old and younger, and 16.7 percent are 65 and older.

The majority of the population, about 62 percent, lives in urban areas, and with the exception of Zürich, Geneva, Basel, and Lausanne, mostly in small towns. Most of Switzerland is mountainous and the population is unevenly distributed, concentrated in the valleys and the plains.

Switzerland's ethnic composition is complex and includes 3 major traditional language communities: German (about 64 percent of Swiss citizens), French (about 19 percent), and Italian (about 10 percent), along with the traditional Romansch (Rhaeto-Roman) language community (about 1 percent). Other ethnic groups include Spaniards, Portuguese, Turks, Albanians, former Yugoslavs, and others. Religious groups include Roman Catholics (46 percent), Protestants (40 percent), others (7 percent), and no religious faith is reported by 7 percent. The very slow population growth and the sizeable surplus of jobs in the economy (particularly in the services sector) have brought in many foreign **guest workers** from Italy, Spain, Portugal, the former Yugoslavia, and elsewhere. Guest workers are now estimated, with their families, to constitute nearly one-fifth of the entire population.

Switzerland has been the destination for many economic immigrants and asylum seekers, which has led to growing internal tensions. The fear of being overrun by foreigners has been a persistent Swiss topic in domestic political debate for decades. There have been many attempts to limit the number of foreigners by legislative means. In 2000, the Swiss electorate voted on a referendum to impose an 18 percent quota on the number of foreign workers in the country. They decided against the

measure, although the supporters of the quota argued that the influx of foreigners in the 1990s was equal to the population of the 6 smallest (and politically most conservative) Swiss cantons (confederate units).

OVERVIEW OF ECONOMY

Switzerland, by all accounts one of the most prosperous and stable market economies in the world, has a **gross domestic product (GDP) per capita** of $27,100, roughly one-fifth higher than the average of the large Western European countries. Its per capita income remains the highest in Europe, even after a decade of comparative stagnation in the 1990s. Switzerland is traditionally considered a safe haven for foreign investors, because it has maintained political neutrality, an elaborate banking system with a high degree of bank secrecy, and it has maintained its currency's value through the instabilities of surrounding Europe's wars and crises. Switzerland is pursuing European Union (EU) membership only in the long run—over a ten-year period—because of the widely-held suspicions of many Swiss that effective involvement with the rest of Europe could jeopardize their unique economic stability. Yet the EU is by far its largest trading partner and Switzerland has signed several agreements to **liberalize** trade ties with the union. Switzerland has also brought its economy largely into conformity with EU regulations to improve its international competitiveness.

Swiss industries, notably engineering and machinery, electronics, metals, chemicals, and pharmaceuticals, are renowned for their precision and quality and contribute to more than half of the country's export revenues. In agriculture, Switzerland is self-sufficient for almost two-thirds of its food and exports several world-famous delicacies, yet it also imports about $6 billion

worth of agricultural commodities annually. Its mostly small-scale farmers are among the most highly protected and subsidized producers in the world. Tourism, banking, and insurance are traditionally leading sectors in the economy. Swiss trading companies have good expertise in many parts of the world, such as eastern Europe, the Far East, Africa, and the Middle East. Switzerland has a well-developed tourist **infrastructure** and the Swiss themselves are keen travelers. The country is the seat of many international inter-governmental and private organizations, from the United Nations (UN) and its associated organizations, to CERN, the European Laboratory for Particle Physics (which gave birth to the World Wide Web), to the International Red Cross, and is also host to numerous **multinational corporations**.

In the late 1990s, the Swiss economy emerged from several years without growth caused primarily by the strong Swiss franc, which made its exports too expensive abroad. The overall slowdown in Europe, which also hurt tourism, was another barrier to exports. Following the depreciation of the franc in 1997 and the stronger economic conditions in Europe since, Swiss growth reached 2.3 percent in 1998, fell off to 1.54 percent in 1999, and then hit 3.43 percent in 2000. Unemployment peaked at 5.2 percent in 1997 and was reduced to less than 2 percent by 2000. Domestic consumer spending is an important factor keeping the economy in good shape, and competitive pressures in the European markets are supporting extensive domestic capital spending.

After Swiss voters, doubtful of the benefits of more intimate ties with their neighbors, rejected the framework European Economic Area (EEA, providing for closer cooperation as a possible introduction to EU membership) in a referendum in 1992, the Swiss federal government started negotiating separate bilateral sectoral agreements with the EU. An agreement covering several sectors (including land and air transport and agriculture) was signed in 1998. The federal government has declared its commitment to EU membership as a long-term goal, although it is opposed by many citizens who fear such results as harm to heavily subsidized Swiss agriculture by letting in cheaper EU foods, increases in unemployment by flooding the country with more guest workers, and damage to the environment from heavier truck traffic through Swiss territory.

Yet a substantial majority of 67.2 percent in 2000 backed, in a referendum pushed through by anti-European nationalist groups, a new package of bilateral agreements with the EU. Only 2 of the 26 cantons, Ticino and Schwyz, voted against the package. The Italian-speaking Ticino was concerned about the influx of workers from neighboring Italy, and Schwyz, a German-speaking conservative stronghold, had stood in the way of every pro-European initiative. The agreements, which include the introduction of free movement of people between the EU and Switzerland and the removal of existing administrative barriers to EU trucking through Swiss territory, are designed to compensate for the country's non-membership in the EEA, with which it conducts over two-thirds of its trade. The prudent Swiss have negotiated a number of opt-out clauses in case the inflow of EU citizens and trucks gets higher than expected.

POLITICS, GOVERNMENT, AND TAXATION

Switzerland has developed a unique federal system with a weak collective federal government, local autonomy, and a strong, largely self-regulating civil society. Many powers are delegated to the 26 cantonal (confederate units) governments and the smaller communes (counties). For instance, it is the communes (and the population itself by referendums) that grant applying individuals Swiss citizenship.

The **bicameral** legislature, called the Federal Assembly, consists of a 46-member Council of States, or Standerat, whose members are elected in cantonal elections, and a 200-member National Council, or Nationalrat, whose members are elected by popular vote on the basis of **proportional representation** every 4 years. The members of the Federal Assembly select the 7 members of the Federal Council (cabinet), who lead the federal ministries for finance, foreign affairs, justice, economics, interior, transportation (with energy and environment), and defense (with sports). The mostly ceremonial position of president of the council (head of government) is rotated annually according to the seniority of the member councilors. Members sometimes exchange their responsibilities as new members are appointed, or new appointees may take over the portfolios of outgoing councilors. The council strives to present a collegial image and rule by consensus but its deliberations are private. Issues on which no consensus can be reached are determined by a secret cabinet vote and its results are not reported. The composition of the council parallels the traditional 4-party coalition that has ruled Switzerland since the late 1950s.

The 4 political groups, usually receiving 70–75 percent of the total popular vote at parliamentary elections, fill the seats on the council. These elections are held once every 4 years. These include the Free Democrats (FDP), the Christian People's Party (CVP), and the Swiss People's Party (SVP), all center-right parties, and the Social Democrats (SP), a left-of-center formation. The 3 largest parties by their popular vote, FDP, CVP, and SP, receive 2 seats each on the Federal Council; and the SVP gets one. In addition, there are at least 2 seats on the council reserved for French-speaking members from any party. This consensual combination of left and right wings and

ethnic elements has allowed the coalition to maintain political, ethnic, and social peace, although it has been criticized by supporters of more radical moves.

Since the 1990s, the need for a more streamlined executive branch has led to the consideration of some revisions to the Swiss constitution that may eventually result in a strengthening of the president's powers. Any revision of the legislation, however, is slow and is subject to a referendum challenge before coming into force. Treaties and agreements approved by the 200-seat Nationalrat (parliament) are also subject to challenge by popular vote in the unique Swiss system of people's initiative and referendum. Virtually every major decision in the country may be put to vote by all the citizens. Only 100,000 signatures are required by law for a people's initiative (petition) to be put to a referendum. The system allows strong popular involvement in the federal and local government and keeps both branches under a close and constant civic scrutiny.

The approval of the bilateral agreements with the European Union (EU) and the rejection of the initiative to limit the proportion of foreigners at the 2 referendums in 2000 were welcomed with relief by the federal government. Given the fresh controversy over the treatment of Holocaust victims by Swiss banks during and after World War II (1939–45), a vote in favor of foreigners' restriction and against the EU agreements would have presented a serious embarrassment for the government and would gravely damage the country's reputation abroad.

European integration policy remains an important focus of political debates, as the government remains convinced that strategic national interests would be best protected by a complete integration into the EU. Switzerland is not economically disadvantaged by staying outside the EU. In the late 1990s, it has been doing better than EU leaders Germany or Italy, growing at a rate unseen since the 1980s, when Switzerland was regarded as Europe's economic model. It also has an uniquely massive balance of foreign payments surplus equal to more than 8 percent of its GDP.

Switzerland lies in the center of Europe, and almost two-thirds of its exports are shipped to EU members, and four-fifths of its imports come from the union. Consequently, Switzerland's future prosperity is definitely related to the development of the EU. Many Swiss feel that their country is becoming isolated in Europe. The fact that Switzerland submitted 16 proposals for negotiation to the EU headquarters in Brussels and had to be satisfied with finalizing only 7 of them might indicate that it needs the EU more than vice versa.

Some feel Switzerland is also losing its position in international financial circles. In 1983, the world's leading industrial countries invited Switzerland, as an exception, to share membership in the Group of Ten—with the world's largest economies—but when the leading finance ministers decided in 1999 to form the Group of 20 of the "systemically most important countries," Switzerland's name was missing. Thus the Swiss no longer have a reserved seat at the top table of the world's economic deliberations. Furthermore, Switzerland, along with small countries like the Vatican and Tuvalu, has so far refused to join the United Nations (UN), although it is a big financial contributor to the organization and hosts the UN office in Geneva plus many other international organizations. It also refuses to be drawn into peacekeeping and peacemaking operations on the grounds that this would jeopardize its neutrality. Still, Switzerland's influence in the world is far higher than its size and even its economic capacity might suggest.

Switzerland has long since developed a market economy based on free initiative, and government participation in the economy is rather moderate. Freedom of trade and industry are guaranteed by the federal and the cantonal constitutions; state intervention is limited, primarily aimed at providing a favorable economic framework, stable currency and prices, efficient infrastructures, and training the workers. In most areas, the federal government legislates and supervises, but the 26 cantonal governments implement the decisions and enforce the laws. The cantons enjoy a high degree of administrative authority, and their own constitutions and laws. The communes (counties), over 3,000 in number, also have independence, control over all local issues, and collect their own taxes. All levels of government have little involvement in manufacturing and services, but their role is considerable in agriculture protection and in trade regulation. Indirect involvement is particularly reflected in the large number of government regulations, especially at the local level. Rules concerning labor laws, business hours, zoning rules, building codes, environmental and noise codes, and administered prices may seem quite pervasive opposed to the United States or even the EU. Obligatory health insurance is another example of the local approach to state involvement in the economy: insurance and health care are provided privately, but the law requires employees to have the insurance. The government subsidizes those who cannot afford it. In the area of competition, unlike the United States and the EU, legislation is loose and cartels in Switzerland have been openly permitted and only broken up when the government has been able to prove that they are socially and economically harmful, which has seldom been the case. In 1996, a new law strengthened the government's antitrust position in mergers, shifting the burden of proof from the court to corporations engaged in anti-competitive activities. Even by EU standards, the new law was relatively weak.

Swiss tax revenues accounted for 35 percent of GDP in 1998, far below the EU average of 41.5 percent and the

Organization for Economic Cooperation and Development (OECD) average of 37.2 percent. The level of taxation has risen somewhat during the 1990s, reflecting higher social security and medical insurance costs, as well as a lack of economic growth. But the Swiss tax system is widely known in the world business circles for its fairness and is characterized by moderate local and foreign operating **income taxation** and tax exemption of **holding-company** income. For this reason, many foreign companies have set up holdings or mixed Swiss subsidiaries to conduct international operations from Switzerland in order to take advantage of lower taxes on their foreign income. Branches of foreign corporations are liberally taxed at the same rate as domestic corporations, unlike many other nations more protective of their national capital. Switzerland has undertaken to make itself even more fiscally attractive for corporate investors, and a corporate tax reform at the federal level removed the annual federal tax on capital in 1998, setting a fixed federal tax on profits at a rate of 8.5 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Switzerland has a dense and efficient rail network and an extensive high-class road system with many tunnels to compensate for the mountainous terrain. Overall there are 4,492 kilometers (2,791 miles) of rail lines and 71,059 kilometers (44,156 miles) of roadways. There are 2 large international airports (at Zürich and Geneva) and a few smaller airports with international connections. Landlocked Switzerland also has a modern marine network with some 30 ocean-going vessels based abroad, and carries out river cargo services with connections to the North Sea via the Rhine river. The port of Basel on the Rhine is a major trading hub with efficient connections between rail, road, and water routes. Switzerland is located on strategic crossroads connecting some of the fastest-growing areas of the EU in France, Germany, and Italy.

The agreements with the EU, approved by the referendum in 2000, included the areas of air transport (providing for improved access for Swiss carriers in Europe and similar rights for EU carriers in Switzerland) and road transport (in return for better access to the EU's road haulage market, Switzerland's 28-metric ton truck weight limit will be relaxed in 2001, with full access for the EU's larger 40-metric ton trucks by 2004). Under the new system of taxing heavy trucks by weight, distance traveled, and pollution caused, big trucks will be required to pay a toll of up to US$200 to cross the country. The opening to bigger trucks prompts Swiss authorities to reexamine road infrastructure, and they have started installing electronic devices on trucks to record the mileage traveled in the country, so that tolls could be calculated correctly. In 2001, a 34-metric ton truck meeting the environmental standards is expected to pay about US$95 to travel from Basel on the German border to Chiasso on the Italian border (in 1999, the toll was about US$24).

Airlines also benefited after Swiss voters approved closer economic ties with the EU in 2000. SAirGroup, the holding company of the Swissair airline, got the opportunity to buy a controlling stake in Sabena Belgian Airlines. That will expand its scope of cooperation with foreign partners like American Airlines and boost its presence in France, where it also bought a 49 percent stake in a US$1.4 billion umbrella company that included 3 smaller domestic carriers (Air Liberte, Air Littoral, and AOM) that will have a 30 percent share of the domestic market and will be able to challenge the local giant Air France.

Switzerland has large resources of hydroelectric power in the mighty alpine rivers flowing down from glaciers; they are almost fully exploited. In 1996, hydroelectric plants supplied 54 percent of the Swiss electricity production of 55.1 billion kilowatt-hours (kWh), the lowest proportion for decades, while the country's 5 modern nuclear power stations provided 43 percent. Conventional thermal plants, burning fossil fuels, contributed for only

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Switzerland	337	1,000	535	352.7	235	29.2	421.8	371.37	1,427
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
Sweden	445	932	531	221.4	464	50.9	361.4	581.47	3,666

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

3 percent of the electricity. Switzerland usually exports and sometimes imports some electricity when in need, mostly from French nuclear power plants across the border from Geneva. During the 1990s, energy consumption declined slightly, relative to the population. This was possibly because of newer energy saving technologies. The government's 1991 "Energy 2000" program aims to stabilize overall energy consumption, following a referendum in 1990 in which the Swiss voted for a ten-year moratorium on the construction of nuclear power plants, but against abandoning nuclear power altogether.

In 2000, the government proposed the liberalizing of the electricity market (allowing many competing utilities to sell power directly to businesses and households), after an earlier reform version had been disapproved. The new plan envisaged a gradual liberalization of the sector starting in 2001, with complete liberalization 6 years later, at a faster pace than required by the EU rules. In the first 3 years of the reform, only the 110 largest Swiss electricity users (all large companies) will have a free choice of supplier, followed by smaller enterprises, and finally by individual consumers. The government holds that a single company must run the national electricity grid. However, critics of the reform, more suspicious of energy liberalization after the California blackouts in early 2001, stress that the new proposals do not provide remedies for the amortization (pay back) of existing sizeable investments in plant and equipment that may be made unprofitable by liberalization. The revenues from a new energy tax, the introduction of which is under consideration and has not yet been approved by parliament, however, may fund some of the required investments. Others may be funded by a surcharge on electricity bills for domestic consumers who are unable to change their suppliers and will be required to pay for the right to remain with their providers. Swiss industry captains pushed for a quick transition. This would cut their electricity bills, which are the highest in Europe, by as much as 25 to 30 percent. The liberalization program, nevertheless, makes a referendum challenge likely, given the political clout of the liberalization critics. The country has some 1,200-electricity producers, most of which are likely to go out of business when liberalization occurs. Many are small companies owned by mountain communes and still enjoy considerable political influence. In anticipation of liberalization, the electricity sector is already undergoing **restructuring**. In 2000, 3 electricity companies in western Switzerland struck a strategic alliance aimed mainly at providing electricity services to customers, including buying electricity for them in the European markets.

The Swiss telecommunications market was fully liberalized in 1998, in line with the EU telecom regulations. The state-owned telecommunications company, Swisscom, was split off from the postal service and partly **privatized** through stock market offerings in 1998. Private companies such as Diax and Sunrise compete with Swisscom in the full range of telecom services, though in early 1998 they were still arguing over the very high charges demanded by Swisscom to allow them to use its network. Rival private operators are not allowed to build competing networks for connection to private homes, and therefore the interconnection rates charged by Swisscom are crucial for them. By cutting rates for international long-distance calls, Sunrise has already begun to attract customers from Swisscom, which faces additional competition from numerous mobile phone operators.

There is still a growing demand for telecom services, but they are subject to an already very competitive environment as more than 40 local and international carriers are competing in all areas of telecommunication services. Swisscom tries to keep its grip on the most profitable sectors of growth, such as mobile communications, voice transmission, closed user groups, and particularly large business accounts, **value-added** services, including private virtual networks, and design and operation (with its partners Cisco, Siemens, Alcatel, Ascom/Ericsson) of asynchronous transfer mode (ATM) computer networks. Foreign investment in the Swiss telecom sector is heavy, as many international carriers, such as the American MCI/Worldcom and Sprint-Global One, have established themselves locally, followed by other large players like British Telecom, France Telecom, and Tele Denmark. Vodafone, the British wireless giant, is expected to invest about 5 billion euros in Swiss mobile phone operators. Vodafone has agreed to acquire a 25 percent stake in Swisscom's mobile division but is waiting for final approval from the government, which still has a 65.5 percent stake in the company; the deal will be worth up to 4 billion euros. France Telecom has increased its stake in the Swiss operator Orange Communications by buying (for approximately 1 billion euros) 42.5 percent of Orange's stock from Eon, a German energy group. Massive foreign investment is not only beneficial for customers, but also helps Swiss companies keep up with the latest trends in the market. The introduction of telephone cards by AT&T, MCI, and Sprint-Global One, for example, prompted Swiss companies to introduce their own telecom cards to Swiss subscribers and international travelers.

The International Telecommunication Union, based in Geneva, is an important facilitator in world telecommunications, issuing standard recommendations and organizing important conferences and trade events, such as the quadrennial Telecom exhibition, which is a forum for multinational debates.

Switzerland has high computer usage rates and a large percentage of the population uses computers on a regular basis. 57 percent of the Swiss households owned personal computers and 38 percent had access to the Internet by 2000. This was less than Sweden's 53.5 per-

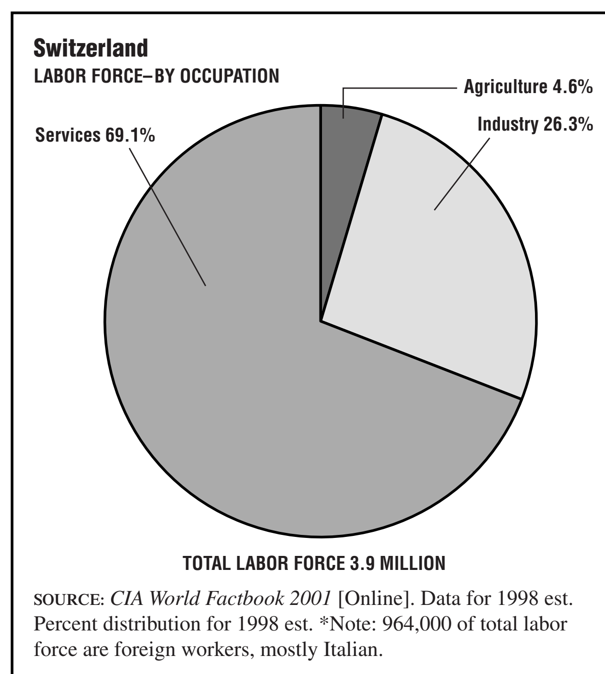
cent but more than Germany, France, or Italy, where only around 18.1 percent of the population had Internet access. There are more than 150 Internet service providers (ISPs) in Switzerland. Some of the major firms include Blue Window, Iprolink, Infomaniak, Compuserve, and AOL Switzerland. There are also many smaller free services. **E-commerce** is also increasing rapidly, but the cautious and conservative approach of European consumers has meant that growth will be slower than in the United States in 1998–1999, particularly after the U.S. and European dotcom meltdown in late 2000.

ECONOMIC SECTORS

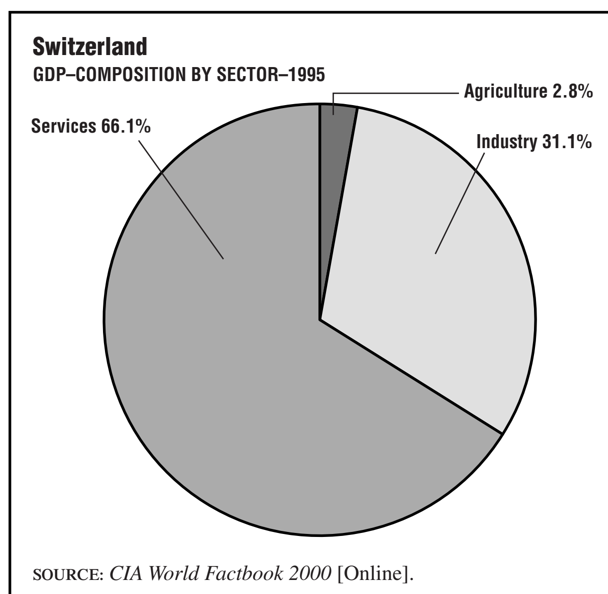
As a country deprived of large natural resources but abounding in skilled labor, Switzerland has concentrated on the financial services sector and on research-intensive engineering, world-famous for precision and quality. Both sectors together account for more than half of export revenues. In agriculture, Switzerland is about 65 percent self-sufficient and imports about US$6 billion of agricultural products annually. Swiss farmers, since World War II among the most heavily subsidized groups of producers in the world, are challenged as EU pressure mounts on Switzerland to liberalize food imports. Tourism is also a traditionally major economic powerhouse. International trade is a large contributor to the economy. In 1995, 2.8 percent of GDP was created in agriculture, 31.1 percent in industry, and 66.1 percent in services.

AGRICULTURE

The Swiss soils, terrain, and climate do not favor agriculture particularly and farms are usually family enterprises, mostly small in size. They produce cereals such as wheat and barley, root crops such as sugar beets and potatoes, and fruits such as apples and grapes. About 124 million liters (33 million gallons) of wine, at subsidized prices, are produced annually. Dairy products, such as cow's milk and world-renowned Swiss cheeses, make up a significant portion of the agricultural revenue. Livestock include cattle, pigs, sheep, horses, and poultry. After World War II, agriculture has lost its relative weight in the economy (though not its traditional clout in society or politics), and its preservation as a sector has been due largely to governmental intervention and support. To protect farmers and serve the national security goal to remain largely self-sufficient in food, the federal government has developed a complex system of protections effectively restricting imports of agricultural products, notably dairy and grains. High import **tariffs** and tariff rate quotas (limiting the merchandise quantities that can be imported from a certain country or generally) are maintained for most products which are domestically produced. Producers, particularly those in alpine and other difficult zones, are especially actively supported. Approximately 80 percent of gross farm income can be attributed to government intervention. Milk price supports are one of the principal staples of protectionism and that product's prices remain significantly higher than in the EU markets.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1998 est. Percent distribution for 1998 est. *Note: 964,000 of total labor force are foreign workers, mostly Italian.



SOURCE: *CIA World Factbook 2000* [Online].

Since 1993, the Swiss system for protecting farmers has slowly begun a fundamental reform, due to the need to reduce costs for the budget and to the pressure from consumers and trading partners. Trade liberalization agreements require Switzerland to eliminate import

barriers, reduce export **subsidies**, revise agricultural tariffs, and cut domestic support. Consequently, the Swiss agricultural sector will become less protected and more open to market forces and increasingly accessible to foreign goods. The government's position is that Swiss agricultural policy and regulations will be adjusted to be more in line with EU policies leading to reductions in administered prices. The process of agricultural policy reform started in 1993 when the prices of the politically sensitive dairy sector were first slightly reduced. The reform culminated in 1998, when the Parliament approved a new package of agricultural policy measures. According to the package, administrated prices will continue to decline and direct payments to farms will be gradually linked to their of use environmental production methods such as organic agriculture. On the other hand, trade agreements with the EU that lowered tariffs and other barriers to trade in agricultural goods will boost both exports of Swiss cheese and other delicacies and the imports of a range of EU-produced fruit, vegetables, and beverages into Switzerland.

INDUSTRY

Although raw materials are very limited in Switzerland, the country has a world-class manufacturing economy fabricating raw material imports into high-value added exports. The engineering industry, together with metals and electronics, employs about 9 percent of the country's workforce and contributes around 40 percent to Swiss export revenues. Leading areas in the sector include precision engineering, in particular the world-renowned Swiss clocks and watches (accounting for 8 percent of export revenues in the early 1990s); scientific instruments; heavy engineering and machine building, including specialized, custom-built equipment such as generators and turbines; food products, particularly specialized luxury goods such as chocolate and cheese; textiles; chemicals; quality pharmaceuticals; and fine handicrafts.

Moderate GDP growth, both domestically and in Europe, has been keeping manufacturing growth down over much of the early and mid-1990s, but restructuring efforts carried out over the late 1990s have left the sector in a better and more competitive position. The strong tradition for creativity and innovation demonstrated by the Swiss industry in the past continues to thrive, particularly in new materials technology, micromechanics, and microelectronics, and other research and development-based products. Environmental technologies are expected to have a very good growth potential. The entering into force of multilateral trade liberalization accords signed in the 1990s (under the former General Agreement on Tariffs and Trade, which was succeeded by the World Trade Organization, and also with the EU) will be very important for the Swiss machinery sector. Export-oriented engineering manufacturers will benefit from lower tariffs and the liberalization of public **procurement** procedures within the EU. They will also improve conditions for Swiss direct investments abroad, and bring better protection for Swiss patents and technical know-how in the international markets.

The chemical industry (including the valued Swiss pharmaceuticals) was one of the sectors in the Swiss economy that performed very well in spite of the 1991–1997 **recession**. As with the engineering sector, chemicals will also benefit from liberalization; the positive effects may be of even greater magnitude. Within the chemical branch, pharmaceuticals offer the biggest growth potential and they will benefit most from better patent protection abroad. Agreements with the EU on the elimination of technical obstacles to trade by mutual recognition of trademarks, technical regulations, other rules and procedures for the testing and certification of industrial goods, will also boost Swiss trade with the union.

SERVICES

FINANCE. Long regarded as the country of the bankers, Switzerland has a robust finance services sector and its most vibrant components are banking and insurance. Within the banking sector, commercial and private banks have the largest influence and growth potential. Swiss banks have been historically renowned for their stability, strictly enforced secrecy policies, privacy, personalized service, and reliability. The increase in world trade and industrial activity after World War II brought more business to commercial banks, particularly to their global operations. With the merger of the Union Bank of Switzerland and Swiss Bank Corporation in 1998, the new United Bank of Switzerland (UBS) is now Europe's second largest bank by total assets. Mutual funds and institutional investors have also vastly gained in importance, and represent very good growth prospects for commercial and private banks. The insurance industry is equally important for Switzerland, and the Swiss are by all measures the most heavily insured people in the world. There are over 100 insurance companies, approximately 10 percent of which specialize solely in the reinsurance business; of the latter, Rueckversicherung is the world's second-largest reinsurance company. Swiss insurance companies have been consistently very strong performers with steadily growing earnings.

TOURISM. A country of scenic landscapes and enterprising people, Switzerland has one of the most robust tourist industries in the world, with extensive facilities and centuries-old traditions, a sector that is one of the leading sources of foreign exchange and employment in the economy. Although the country is a humming crossroads between some of the fastest-growing regions in the

EU, foreign visitors usually enjoy lengthy stays instead of simply transiting through. Foreign tourists spent US$11.355 billion in 1998 and over 69 million overnight stays were recorded in the sector offering slightly more than 1 million hotel, chalet, campsite, and youth hostel beds. Foreign tourist positive credit balance reached US$1.046 billion in 1998, and revenue from domestic tourists exceeded US$9 billion. Expenditures in the foreign tourist sector, including investments, surpassed US$10 billion. The country attracted the widest possible range of guests, from affluent elderly people visiting the spas to low-budget young backpackers trekking or "canyoneering" across its numerous mountains. Switzerland has a long list of world-renowned alpine (skiing and hiking) and lakeside tourist resorts, spas, and casinos; world-class cultural events; and many important international organizations and conferences, drawing huge numbers of participants, activists, and observers.

RETAIL. The structure of **retail** trade in Switzerland has been changing since the 1980s. Independent retailers are decreasing in number, giving way to self-service and discount stores and supermarkets, and a tendency toward specialization in food distribution has been particularly noticeable. Department and chain stores, consumer cooperatives, discount stores, and supermarkets account for a large part of local trade. The tendency in those companies is to deal in a wide range of products and services. Their centralized buying gives them a competitive advantage over independent retailers (they are given a discount by suppliers due to the vast scale of their purchases). Retail traders continue to streamline their operations in order to counter their stiff competition. Scanner cash registers for bar-coded articles are ubiquitous, and the use of electronic cards to ease payment transactions is growing (cards are issued, among others, by the Swiss Post, where numerous Swiss have bank accounts, and are becoming increasingly popular). In 1987, Swiss retail groups united to form an Electronic Payment System Association.

Yet, faced with the competition of large retail establishments with nationwide coverage, individual retailers also set up organizations to provide wholesale purchasing, importing, and other services. Functioning as cooperatives, most of these small retailers' buying groups and associations operate in the foodstuffs business but also in textiles, leather goods, sports articles, pharmaceuticals, toys, and hardware. Home shopping, or the direct sale from a private location, is becoming increasingly popular and has recorded enormous growth. The **turnover** for direct sales companies has doubled after 1995. The home-shopping boom has reached a record high and products sold range from Tupperware to lingerie to new recipes and cleansing agents. More than 5,700 salespeople are members of the Swiss Association of Direct Marketing Companies (VDF), mail order companies not included. They can count more than 1 million client-contacts yearly, generating a turnover of US$195 million (in 1998). Most of the products sold at "Home Shopping Parties" are top quality and innovative and cannot be found at retail stores. The advantages of home shopping are the advice offered by the sales persons, the relaxed and friendly atmosphere of the private location, the combined shopping and meeting friends experience, and the possibility of testing the products on the spot.

INTERNATIONAL TRADE

International trade has long been the key to prosperity in Switzerland. Traditionally, its merchandise **trade deficit** has been generously compensated by a surplus trade in services. This surplus amounted in 1999 to US$18.7 billion or 7.5 percent of GDP. The country is heavily dependent on export markets to maintain its large export sector, supply raw materials for the domestic manufacturers, and diversify the array of goods and services available locally. Switzerland has traditionally very liberal trade and investment policies, its commercial law and legal system are highly developed, and foreign investments are protected by solid domestic policies. The Swiss franc is one of the strongest currencies in the world and the country is known for the soundness of its banking industry, so it has all the major factors benefiting international trade.

Chief Swiss exports include machinery, chemicals, metals, watches, textiles, agricultural products, and imports include raw materials, machinery, chemicals, vehicles, metals, agricultural products, and textiles. Principal economic partners in 1998 included the EU, 80 percent (Germany, 33 percent; France, 12 percent; Italy, 10 percent; the Netherlands, 5 percent; Britain, 5 percent); the United States, 6 percent; and Japan, 3 percent. Trade with the EU in 2000 fell below average by 9.9 percent, while exports to the U.S. went up by 15.9 percent and to Japan by 16.4 percent. Export growth was also impressive to the **Commonwealth of Independent States** (CIS, the former USSR), South Korea, China, and Turkey, each

Trade (expressed in billions of US$): Switzerland

	Exports	Imports
1975	12.958	13.305
1980	29.632	36.341
1985	27.433	30.696
1990	63.784	69.681
1995	78.040	76.985
1998	75.431	73.877

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

with growth of more than 40 percent, although from a low base in 1999. Irrespective of the fluctuations, the EU remained the crucial economic partner for Switzerland. The strong and flexible Swiss economy reacts to international market fluctuations with an elaborate precision, keeping itself competitive.

Contrary to its traditionally positive foreign trade balance, Switzerland accumulated a trade deficit of nearly US$554 million in the first 9 months of 2000, compared to more than a US$1 billion surplus for the same period of 1998. Such negative trade balance is typical, however, in periods of strong economic growth—like the one Switzerland went through between 1998 and 2000—when higher local incomes boost domestic consumption and imports consequently outgrow exports. The 2000 imbalance, however, was caused by foreign price changes rather than by the strong domestic demand. It is almost certain that if international crude oil prices had remained unchanged over that period, the Swiss trade balance would have accumulated probably a surplus of more than US$500 million. Import growth during the same period was 13.2 percent and the value of imports of energy rose by 87 percent also largely due to increasing oil prices. Export growth was driven by the expansion of the EU and other foreign markets, and strong export growth product categories included precision instruments, watches, and metals. The traditional Swiss watch industry in late 1990s was very successful in exporting mostly watch parts, while exports of ready-made watches were somewhat shrinking. Exports of food (notably cheese and chocolate) were rather weak, as were the international sales of the troubled Swiss textile industry.

Exchange rates: Switzerland

Swiss francs, franken, or franchi (SwFR) per US$1	
Jan 2001	1.6303
2000	1.6888
1999	1.5022
1998	1.4498
1997	1.4513
1996	1.2360

SOURCE: CIA *World Factbook 2001* [ONLINE].

MONEY

The Swiss National Bank, the central bank and the institution which issues currency, has been successful in maintaining the arguably most stable currency in the world but also very skeptical of the benefits of integrating Switzerland with the EU or with its euro currency. With its private banks and insurance companies active globally and rated among the world's best, the Swiss financial services industry is traditionally one of the largest employers and an important export revenue source. Swiss banks, with their firm reputation for financial solidity and respect for privacy, are leaders in global asset management. More than one-half of the US$1.76 trillion in assets managed by Swiss banks are thought to be of foreign origin (according to the Swiss National Bank).

The local banking scene, however, has undergone some serious structural changes in the 1990s, following global consolidation trends. Many small local banks closed or merged and many large ones streamlined their Swiss retail networks while expanding their overseas operations. The total number of banks dropped from 495 in 1990 to 403 in 1996 and the number of regional banks was cut by more than one-third. In 1990, the Swiss banks had also, under pressure from the federal government, to abandon a series of price-fixing arrangements they were indulging in, increasing competition for customers and funds. The domestic recession between 1991 and 1997 and the cuts in spending and borrowing it initiated helped send out of business a number of regional banks with limited deposit bases relying heavily on mortgage lending and loans for local businesses. All these developments have increased the concentration of the Swiss banking sector where the 4 largest banks, including the merged Union Bank of Switzerland (UBS) and Swiss Bank Corporation (SBC), account for half the total combined balance sheet. Nevertheless, Switzerland maintains a high bank density, with 1 branch for every 1,400 inhabitants (compared with 2,000 in Germany or 4,700 in the United States), although bank employment decreased from 127,626 in 1990 to 119,771 in 1996. In the long run, the Swiss Bankers' Association fears, up to one-third of the 1996 bank employment could be lost due to consolidation and the use of new technologies in the sector.

Zürich has traditionally been a major international banking center and its equivalent to the New York's Wall Street is the renowned Bahnhofstrasse where the headquarters of the UBS and the Credit Suisse, 2 of Europe's leading banks, as well as many smaller private banks, are located. Although the majority of the UBS staff is based in Switzerland, almost one-third of it is located internationally throughout the world; its global investment banking operations are in London, and its fund management head office is based in Chicago. Credit Suisse has an equally strong presence in both the United States and Europe. But the robust growth and restructuring of Zürich's 2 big banks has generated new opportunities for smaller competitors as well. For example, seasoned bankers that were laid off in the UBS's 1998 merger with SBC have helped the management teams of smaller banks build up their skills. Furthermore, Zuercher Kantonalbank (ZKB), the third-biggest bank in Zürich that subscribed 75,000 new customers in 1999, holds that over 30 percent of

those new customers were due to the effects of the merger. And many of the even smaller banks have performed at an even better rate. Julius Baer, for instance, the biggest independent private bank in Zürich, attracted the same amount of new funds in 1998 as did UBS, more than 16 times larger. Vontobel, Zürich's second-largest private bank, increased its profits almost 2 times in 1999 and its return on **equity** was over 30 percent. The numbers of bank employees, previously decreasing, have stabilized, the leading banks have enlarged their international market share, and a large number of small fund management and corporate finance boutique firms have flourished.

But, in the longer term, there still may be serious threats as Switzerland's big banks and insurance companies have long since outgrown the size of their country, and Zürich's relative importance as an international financial center has decreased as business has moved to major international centers like London, Frankfurt, and New York. A united Europe, with the emergence of the single European currency, the euro, also contributes to the country's increasing financial isolation. But it is still the world's top **offshore banking** center for private customers, attracting many offshore affiliates of major international firms that use Switzerland as a **tax haven**. Its success, however, receives the attention of European officials who believe that Switzerland's bank secrecy laws and loose tax rules give it an unfair competitive advantage in attracting offshore capital and also that it is harboring major tax evaders from other countries.

Money laundering allegations and related banking scandals have disturbed the Swiss public opinion throughout the 1990s. To combat transnational organized crime, abusing the liberal Swiss banking system, and partly responding to international pressures, Switzerland gradually relaxed its banking secrecy policies and allowed foreign investigators access to bank records in cases where illegal acquisition or use of funds were suspected. In 1998, new strict money laundering laws were introduced and a significant number of high-profile international money laundering cases were investigated by magistrates in many cantons, particularly in Geneva. In the late 1990s, Swiss prosecutors investigated some serious allegations of money laundering by former top Russian officials through the Swiss company Mabetex. In January 2001, Pavel Borodin, former head of Russian President Boris Yeltsin's administration, was detained by U.S. authorities in New York on request of the prosecution and may be turned over to the Swiss judiciary. Following the Mabetex scandal, the Swiss government launched a political campaign abroad over Switzerland's reputation as a financial center, defending banking secrecy yet emphasizing its willingness to join international efforts to fight transnational organized crime. The government has even quietly encouraged the new government of Nigeria to take legal action in Switzerland to recover national assets allegedly siphoned off by the previous government. It is not certain, however, how the Swiss government will react to pressures from the EU to fight tax evasion that is not a criminal offence in Switzerland. Although unwilling to change its tax and secrecy laws, it is reassuring to many that Swiss laws on fraud and money laundering are so extensive that they effectively cover cases of major tax evasion as well.

In the mid-1990s, the Swiss Banking Association, under pressure from world Jewish organizations, agreed to search its vaults for unclaimed bank deposits allegedly containing assets belonging to Jewish victims of the Holocaust during the World War II. In 1997, the Swiss government endorsed a proposal by several leading banks and businesses to establish a memorial fund for compensating Holocaust survivors and their descendants, although many individuals and groups claimed Switzerland was not doing enough to aid the victims and their descendants. In 1998, class action suits and potential U.S. **sanctions** against Swiss banks prompted 3 large private banks to agree to participate in a global settlement of all claims and suits against them. The banks agreed to a settlement of US$1.25 billion, allowing Holocaust survivors and their descendants to receive compensation.

The Swiss Exchange was 1 of the 8 European exchanges to sign a memorandum of understanding, formally confirming a commitment to work towards a pan-European equity market with one single electronic trading platform for blue-chip stocks (of large and creditworthy companies renowned for the quality and wide acceptance of their products or services, and for their ability to make money), with common rules and regulations. In addition, the exchange is strengthening ties to London, Europe's leading financial center. In 1999, the exchange granted remote membership for the first time to an institution based in Britain. From its London office, the American securities firm Donaldson, Lufkin & Jenrette (DLJ) International Securities became a remote member that can participate in trading on the Swiss electronic exchange from outside the country. DLJ's remote membership followed the admission of Germany's Mees Pierson and Hull Trading. The exchange is trying to make its membership more attractive and to promote the country as a trading area, lowering its admission fee for new members to SwFr25,000 (from SwFr350,000) as the old fee was prohibitive for many brokers. The high fees were intended to pay off the expenses for installing an electronic exchange system in the 1990s.

The Swiss government sees eventual membership into the EU as a core foreign policy target over the next 10 years. However, the SNB has been skeptical of the rewards of integrating with the euro currency. Many Swiss believe that such a move would result in Switzerland

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Switzerland	36,154	39,841	41,718	45,951	44,908
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
Luxembourg	21,650	23,926	26,914	35,347	46,591

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Switzerland

Lowest 10%	2.6
Lowest 20%	6.9
Second 20%	12.7
Third 20%	17.3
Fourth 20%	22.9
Highest 20%	40.3
Highest 10%	25.2

Survey year: 1992

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

importing the risk of instability associated with the eastward enlargement of the EU. Others hold that linking the Swiss franc to the euro would be risky. If the Swiss franc remained independent, they suggest, it would gain in importance as a diversification currency for international investors.

POVERTY AND WEALTH

The Swiss traditionally enjoy one of the highest living standards in the world although they also have an exceptionally high cost of living. Although there are many large private fortunes of local and foreign persons, Switzerland's **Gini index** score (which measures economic equality, with 0 standing for perfect equality and 100 for perfect inequality) of 33.1 is quite a bit lower than that of the United States (40.8) or the United Kingdom (36.1). The structure of consumption and the quality of life are also among the world's most advanced, according to UN studies. Switzerland's government is working hard to improve its environmental policies and to fight organized crime, reducing the impact of these 2 threats to modern life everywhere in the world.

But there is also some growing sense of insecurity in Switzerland, manifesting itself in a rising concern about immigration, unemployment, and the higher levels of foreign ownership of Swiss property and firms, although such concerns are largely overstated. An in other affluent countries in which unemployment is very low (less than 2 percent), the perception of job insecurity is much greater than unemployment itself. The average period employees remain in a job hasn't changed since 1980, and moreover, labor shortages, rather than high unemployment, are likely to be more prevalent in Switzerland, at least over the next 5 years. Likewise, the concern about the influx of refugees is grossly exaggerated. Eastern European countries remain the main source of potential refugees, but as they narrow the GDP per head gap with western Europe, the already quite low levels of migration are likely to be decreased further. The political processes in the former Yugoslavia after the toppling of Slobodan Milosevic in late 2000 may also contribute to a more stable condition and less immigrants from the Balkans region.

Recent takeovers of Swiss firms by large foreign companies have also led to misplaced concerns. As firms denationalize, becoming increasingly international and global in character, the competitiveness of the business environment as a location for firms becomes more important. With Switzerland's highly educated workforce and other positive assets, the result may rather be a long period of high value industrial development and there is little reason to believe that foreign ownership will lead

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Switzerland	19	6	9	3	18	8	36
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
Luxembourg	17	8	9	3	7	5	52

Data represent percentage of consumption in PPP terms.

[a]Excludes energy used for transport.

[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

to money flight from the country. If feelings of economic insecurity grow, there may be further calls for protection for Swiss industry in order to preserve domestic employment. Also, there may almost certainly be further tightening of legislation to curb immigration, with the potential for a backlash against government's plans to integrate the Swiss and EU labor markets.

WORKING CONDITIONS

The educated and skilled Swiss workforce, the elaborated laws promoting labor flexibility and safety, and the agreements between the influential trade unions and employers' associations have protected Switzerland from significant labor unrest. The unemployment rate dropped to 1.7 percent in September 2000 and the rate is likely to stabilize, as the principal component of unemployment was caused by the disparity between the required and offered qualifications and mostly unskilled workers continued to have problems in finding jobs. This rate of unemployment was the lowest one since December 1991 and substantially below levels prevalent in EU countries (the most favored of which, Luxembourg, had a rate of 2.2 percent in July 2000, while the preliminary EU rate for August was 8.3 percent).

The economic stagnation from 1991 to 1997 had a major impact on the labor market. Over this period, 255,000 jobs (in full-time job equivalents) were lost. Surprisingly, however, the unemployment situation improved dramatically from a rate of 5.7 percent in February 1997 (the highest in decades) to the low level found in 2000. Indeed, statistics tend to underestimate the real level of unemployment, and if the number of persons in active labor market programs, retraining schemes, and temporary jobs are added, that would raise the underlying rate of unemployment by probably 1 percentage point. Rising employment has also enabled the government to almost halve the number of publicly sponsored jobs, to 7,106 in August 2000 from 13,095 just a year earlier. The ratio of long-term unemployed among all unemployed remained relatively high at 20.9 percent in August 2000, and this number did not include those who fell out of the statistics after reaching the end of the benefit entitlement period (a total of 1,078 persons).

Mutual recognition of academic degrees, diplomas, professional certifications, and social security entitlements was an important element of the recent agreements with the EU aimed at increasing **labor mobility**. The government envisages the scrapping, over a 6-year period, of the Swiss quota system for work permits for EU and European Free-Trade Association (EFTA) citizens, although limits may be introduced again if inflows of immigrants are stronger than expected. After 7 years, Switzerland can opt out of the pact or continue with it for another 7 years. At this point, freedom of movement for EU and EFTA citizens will become permanent.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

4TH CENTURY A.D. Germanic tribes conquer ancient Roman Helvetia, the site of present-day Switzerland.

9TH CENTURY. Most of Switzerland joins the Duchy of Alemannia (Swabia), one of the feudal units of the German kingdom; the southwestern part of the area is taken over by the feudal kingdom of Transjurane Bourgogne.

1033. The Bourguignon part of Switzerland is taken over by Emperor Conrad II and becomes a part of the Holy Roman Empire of the German Nation, consisting of small feudal states ruled by lords, bishops, and abbots, and many independent city-states, which later become cantonal commonwealths.

1276. Emperor Rudolf I Habsburg of the Holy Roman Empire attempts to assert his feudal rights in a threat to the traditional liberties of the Swiss. Three forest cantons—Schwyz, Uri, and Unterwalden—based around the Lake of Lucerne form a league for mutual defense in 1291. During the 14th century, the cantons of Zürich, Glarus, Bern, Lucerne, and Zug join the league, and in the 15th century Fribourg and Solothurn follow suit.

1474. The Habsburgs, unable to tame the militant Swiss mountaineers, abandon their attempts to acquire their territory, and their confederation becomes directly dependent on the empire.

1499. Emperor Maximilian I attempts to abrogate various Swiss rights; he is later defeated, and, by the Treaty of Basel of the same year, recognizes the virtual independence of the Swiss.

1513. The cantons of Appenzell, Schaffhausen, and Basel enter the confederation and send 2 delegates each to the federal assembly. Swiss mercenaries gradually become famous throughout Europe (and still constitute the papal guard in the Vatican City). Swiss troops annex Italian towns that now form the canton of Ticino in the south of Switzerland. In 1536, Bernese Swiss take Lausanne on the Lake Geneva and various other territories from the duchy of Savoy.

1515. Swiss troops are defeated by the French in 1515 and Switzerland's neutrality policy is then adopted.

1648. Swiss cantons preserve their neutrality in the Thirty Years' War of 1618 to 1648 and achieve formal recognition as a completely independent state by the Peace of Westphalia in 1648. The union of the cantons

is still quite weak, but a modern market economy develops as Swiss craftsmen win reputation across Europe for quality and skill, and financial services develop.

1798. French-backed revolutionaries occupy Swiss territory. Napoleon Bonaparte, the future emperor of France, unifies the country under the name Helvetic Republic and imposes a written constitution, which, like the French military occupation, is bitterly resented by most of the Swiss.

1803. Napoleon withdraws French troops and by the Act of Mediation grants a new constitution with Swiss approval.

1815. The Congress at Vienna recognizes the perpetual neutrality of Switzerland, and Swiss territory is expanded to include 22 cantons (Geneva is ceded by France), acquiring its modern form.

1847. Political struggles between autocratic and democratic elements and between Roman Catholic and Protestant areas culminate in a civil war between the Sonderbund, a Catholic league, and the federal government, which takes the upper hand. The new constitution of 1848 greatly increases federal power.

1874. A new constitution is passed, which, with modifications, is still in force; it completes the development of Switzerland from a group of cantons to a unified federal state.

1940s-1950s. Switzerland develops its powerful modern economy and, although maintaining its neutrality, becomes a member of the General Agreement on Tariffs and Trade (GATT), the international trade organization replaced in 1995 by the World Trade Organization (WTO), headquartered in Geneva. Also joins the Organization for European Economic Cooperation (1948), the European Free Trade Association (1959), and the Council of Europe (1963).

1971. Switzerland grants women the right to vote in federal elections and to hold federal office.

1992. Switzerland joins the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF). However, Swiss voters reject joining the European Economic Area, a **free-trade zone** linking many Western European countries.

1994. A referendum declares racial discrimination, racist propaganda, and denial of the Nazi Holocaust illegal.

1995. Under international pressures, Switzerland begins to relax its banking secrecy policies to help fight organized transnational crime.

1997. The Swiss government endorses a proposal to establish a memorial fund to compensate Holocaust survivors and their relatives for funds allegedly retained by Swiss banks.

1998. In December, the parliament elects Social Democrat and former labor union leader Ruth Dreifuss as Switzerland's first woman and first Jewish president.

2000. The Swiss voters approve by referendum a bilateral agreement with the EU and turn down a proposal to limit the quota of foreigners allowed in the country to 18 percent.

FUTURE TRENDS

By all accounts, Switzerland is likely to maintain and develop its stable and prosperous economy in the foreseeable future but its role in the changing world is likely to be strongly dependent on its gradual integration with the EU. The debates between Euro-skeptics and Euro-enthusiasts will most likely dominate domestic policies, along with the foreign workers controversy. The Swiss economy and society will be trying hard to reformulate their unique identity in the globalizing world.

EU integration will benefit the leading Swiss industries, particularly in manufacturing, but offshore banking and agricultural firms may suffer, which, given their strong political clout, may further disturb the integration process. The participation of the Swiss in the European political process may generate new domestic controversies over time. But in the long run, the benefits of the single European market of goods, capitals, persons, and ideas will outweigh the drawbacks for Switzerland.

The Swiss financial industry will overcome the scandals that have been plaguing in throughout the 1990s, and although a radical change in the tax laws is not likely, will cooperate with the EU and other countries in combating organized transnational crime and tax evasion. The Swiss will preserve their unique system of self-governing and their high standard of living with rising level of employment but the fear of unemployment and of being "overrun" by foreigners will continue to influence the domestic political debate and will often raise the issue of solidarity with the people of less fortunate countries.

DEPENDENCIES

Switzerland has no territories or colonies.

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—Valentin Hadjiyski

UKRAINE

CAPITAL: Kiev.

MONETARY UNIT: Hryvnya. One hryvnya (UAH) equals 100 kopiyok. There are coins of 1, 5, 10, 25 and 50 kopiyok, and notes of 1, 2, 5, 10, 20, 50, and 100 hryvnya.

CHIEF EXPORTS: Ferrous and non-ferrous metals, fuel and petroleum products, machinery and transport equipment, and food products.

CHIEF IMPORTS: Oil and gas, machinery and parts, transportation equipment, and chemicals.

GROSS DOMESTIC PRODUCT: US$189.4 billion (2000 est.).

BALANCE OF TRADE: **Exports:** US$14.6 billion (2000 est.). **Imports:** US$15 billion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Ukraine is situated in Eastern Europe. It shares borders with Hungary, Slovakia, and Poland to the west; Belarus to the north; Russia to the north and east; and Romania and Moldova to the south. It also has a coastline of 2,782 kilometers (1,729 miles) on the Black Sea and the Sea of Azov. The total border length of Ukraine is 4,558 kilometers (2,832 miles) in length. The country's total area is 603,700 square kilometers (233,000 square miles), making Ukraine about the size of Texas. The capital of Ukraine is Kiev, which is located in the north-central region of the country and is also the largest city in Ukraine with a population of 2.6 million.

POPULATION. The total population of Ukraine was estimated at 48,760,474 in July 2001. The most notable recent demographic trend has been the decline in population. According to the Human Development Report (HDR) of 1996, the total population of Ukraine in 1994 was estimated at 51.7 million people. Hence, since 1994, the population has dropped by more than 3 million people, or more than 5 percent. According to estimates of July 2001, the population growth rate is -0.78 percent, the birth rate is 9.31 birth per 1,000 people, and there is a high mortality rate of 16.43 deaths per 1,000 people.

In 2001, 17.3 percent of the population was younger than 15 years, 68.57 percent was between the age of 15 years and 65 years, and 14.13 percent were over 65. The life expectancy at birth of the total population is 66 years—for males it is 60.62 years, and for females it is 71.96 years. The total fertility rate is 1.29 (which is below replacement level), and the infant mortality rate is 21.4 (per 1,000 children born). The leading factors of the country's low fertility are environmental pollution, poor diet, widespread smoking and alcoholism, and deteriorating medical care.

The ethnic distribution among the Ukrainian population is 73 percent Ukrainian; 22 percent Russian; 1 percent Jewish; and 4 percent are of other ethnic groups. The major religious groups are the Ukrainian Orthodox under the Moscow Patriarchate, the Ukrainian Orthodox under the Kiev Patriarchate, the Ukrainian Autocephalous Orthodox, the Ukrainian Catholic (Uniate), Protestant, and Jewish. The official state language of the Ukraine is Ukrainian, but in 1991, the Law on National Minorities gave individual citizens the right to use their ethnic language, and ethnic groups may establish their own schools. Other languages spoken in the Ukraine are Russian, Romanian, Polish, and Hungarian. However, potential students have to pass a Ukrainian language test, which is seen as a form of discrimination by the Russians.

OVERVIEW OF ECONOMY

As a former member of the Union of Soviet Socialist Republics (USSR), Ukraine was once deeply integrated into the former Soviet economy, particularly in the agricultural and military industries. Ukraine's fertile black soil accounted for an estimated one-quarter of Soviet agricultural output. Its farms provided substantial quantities of meat, milk, grain, and vegetables to other republics. Similarly, Ukraine's diversified heavy industry supplied equipment and raw materials to industrial and mining sites in other republics of the former USSR.

Ukraine was the second most important economic component in the former Soviet Union.

Since gaining independence in 1991, Ukraine's economy has contracted substantially. The **gross domestic product** (GDP) has fallen steadily over the past decade, and only recently has it begun to rebound. Overall, Ukraine's GDP fell more than 60 percent since it declared independence from the Soviet Union in August 1991. However, these official figures overstate the fall in output, since the **informal economy** has been expanding beyond the reach of government regulations and taxes. Estimates for the informal sector or **black market** (whose economic activities are unregulated and untaxed) economy range as high as 60 percent of the total GDP.

As in the Soviet days, the government remains the dominant player in the economy. It still pays **subsidies** to the agricultural, transport, telecommunications, and housing sectors. These subsidies are paid to keep **full employment**, and the slow speed of **privatization** allocates substantial resources to state-owned enterprises, which are still quite prevalent in the economy. In 1999, government expenditures were $8.8 billion.

The year 1998 saw moderate economic growth of 0.2 percent in the first half of the year. However, financial crises in both Asia and Russia had a strong influence on Ukraine's economy, and the GDP decreased by 1.9 percent by the end of 1998 and then by 0.4 percent in 1999. Buoyed by a significant real **devaluation** of the hryvnya in the wake of the Russian crisis, Ukraine's economy started to show signs of a new recovery in late 1999. In 2000, GDP grew 6.0 percent from 1999, with the highest growth rates achieved in **import-substituting** (textiles and food) and export-oriented industries (metallurgy and chemicals).

The nation's major industries are coal and electric power, ferrous and nonferrous metals, machinery and transport equipment, chemicals, and food-processing. Ukraine also has considerable agricultural exports. These include grains, sugar beets, sunflower seeds, vegetables, beef, and milk.

Over the past several years, **inflation** has been low, prices **liberalized**, and the currency, the hryvnya, relatively stable. The country's continual decline in industrial production has slowed down in recent years. The greatest economic achievement of the government has been to bring inflation down progressively from the hyperinflation of 1993—when inflation rose to 10,000 percent (making the currency essentially worthless)—to 10 percent in 1997. Inflation was even lower during the first half of 1998, but prices rose sharply in late 1998 after the steep drop in the Russian ruble led to a significant (though more modest) depreciation of the Ukrainian hryvnya. Total inflation for 1999 was 20 percent, and for 2000, 25.8 percent. In February 2000, the **exchange rate** was about 5.59 hryvnya per U.S. dollar.

The first 3 years of privatization, from January 1995 to January 1998, resulted in the selling off of 45,000 small businesses and 8,000 larger enterprises. By 2000, more than 67,000 enterprises had been privatized, including more than 7,000 medium-and large-scale industrial enterprises. For small-scale enterprises, privatization is virtually complete. The sale of larger enterprises has been slowed by a lack of supporting legislation for privatization, resistance from some local authorities and the management of large enterprises, and extensive parliamentary opposition. The main opposition to further privatization is the belief that such programs will result in higher unemployment.

Corruption is one of the biggest problems plaguing Ukraine's economy. According to the U.S. State Department, corruption is present in much of Ukraine's government, judiciary, and law enforcement, with no meaningful work being done to eradicate it. Such problems have been a major impediment to increased foreign investment.

POLITICS, GOVERNMENT, AND TAXATION

On August 24, 1991, after the collapse of the Soviet Union, Ukraine declared its independence, and the political system underwent rapid changes. Ukraine became a member of the **Commonwealth of Independent States** (CIS), a loose confederation of countries that were formerly states of the Soviet Union. In 1991, the first democratically elected President of Ukraine was the former chairman of the **Communist** Party, Leonid M. Kravchuk. He stayed in office until July 1994, when he lost the election to former Prime Minister Leonid Kuchma.

Ukraine has a parliamentary democratic government with separate executive, judicial, and legislative branches. The head of state is the president, who nominates the prime minister. The president is elected for a 5-year term. The prime minister must be confirmed by the parliament. The 450-member parliament initiates legislation, ratifies international agreements, and approves the budget. Its members are elected to 4-year terms. On June 28, 1996, Ukraine adopted a new constitution. The Constitution adopted a multi-party system, and legislative guarantees of civil and political rights for national minorities.

There are 8 major organized political forces in Ukraine. First, there is the Communist Party of Ukraine or Komunistychna Partiya Ukraine (KPU). The KPU is the strongest organized political force. It opposed the Ukrainian Constitution of 1996 and most economic reforms. They are supporters of closer ties with Russia. The second major group is the Popular Rukh of Ukraine or Narodny Rukh Ukraine (Rukh), established in 1989, which draws its support from the intelligentsia (the intellectual and professional class) and some political elites. Third, there is the Socialist Party (SP), which was established in 1991. The SP advocates for more state control of the key economic sectors and closer ties with Russia and the CIS. The SP formed a faction with the leftist Peasant Party, which was established in 1992.

The fourth main party is the Green Party (GP). Formed in the early 1990s, the Green Party supports environmentally-friendly policies, an overhauling of Ukraine's tax system to better accommodate business and consumer interests, and Ukrainian neutrality in most foreign policy matters. The People's Democratic Party (PDP) is the fifth major political group. The PDP advocates economic reform, including a reformed tax system, an improved climate for investment, integration into the world economy, and privatization and land reforms. They favor strong relationships with both Russia and the West. Hromada, established in 1993 by a group of former Communists is the sixth main group. They strongly oppose economic reforms.

The seventh significant political group is the Progressive Socialist Party (PSP), who split with the SP in 1997. They are anti-reform and are among the hard left of the political spectrum. The PSP want to rebuild a Soviet Socialist Ukraine, abolish the presidency, and establish closer ties with Russia and Belarus. They also oppose cooperation with NATO and international financial institutions like the International Monetary Fund (IMF) and the World Bank. The eighth and final faction is the Social Democratic Party (United) or SDP(U). The SDP(U) supports a "socially-oriented market economy," using market economics to generate resources for better social protection, the state-supervised sale of land, and closer ties with both Russia and the West.

The level of taxation is moderate when compared with that of the nations of Western Europe and slightly higher than tax rates in the United States. The maximum personal **income tax** rate is 30 percent. Corporate taxes range from 20 to 30 percent depending upon the size of the company's profits. Employers also must pay **social**

security taxes for their employees. These include the Social Insurance Fund, Pension Fund, and Employment Fund. These social security taxes are equal to an estimated 47.5 percent of wages and dramatically increase labor costs. For instance, for each worker earning $10 per hour, an employer would have to pay $10 in wages and $4.75 in taxes or $14.75 per hour. In addition to taxes on wages, Ukrainians must pay high taxes on the purchase of goods and services. This tax is known as the **value-added tax** (VAT) and the standard VAT rate is 20 percent. The VAT is charged on the majority of goods and services except insurance, reinsurance, and education. Ukraine also has high taxes on imported goods. These import **duties** range from 5 to 200 percent and there are **excise taxes** that range from 10 to 300 percent.

Ukraine's **foreign debt** stood at $12.6 billion in 2000. The largest amount is owed to Russia and Turkmenistan, primarily for past trade credits of gas deliveries, which have been rescheduled into long-term state credits. Ukraine owed approximately $5.07 billion to international financial institutions and bilateral export credit agencies.

Ukraine is a net recipient of foreign aid. In 1998, the IMF provided $2.2 billion to Ukraine. Since the mid-1990s, Ukraine has received an average of $500 million annually in aid. The European Union (EU) and the United States are the main providers of aid. The nation's large **external debt** ($12.6 billion in 2000) and continuing deficit are a drain on the Ukrainian economy. In proportion to GDP, Ukraine's debt is about twice that of comparable countries in Europe. In 2000, the deficit was 5 percent of GDP and required 3.5 percent of total GDP to make payments on the debt.

In 1999, the nation spent $500 million in defense outlays. Overall, military spending accounts for 1.4 percent of GDP. The Ukrainian military numbers approximately 500,000. In its effort to establish closer ties with the West, Ukraine joined NATO's Partnership-for-Peace Program. Ukrainian troops have joined in joint exercises with NATO and contributed troops to NATO's peacekeeping mission in Bosnia.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Ukraine enjoys an extensive though aging **infrastructure** that has received much government attention in the 1990s. The transport network of Ukraine is dominated by railways, which total 23,350 kilometers (14,510 miles). It also has 273,700 kilometers (170,077 miles) of highways, 86 percent of which are paved. In 1990, the total length of navigable waterways was 4,499 kilometers. (2,796 miles).

There is a comparably well-developed air transport communication system in Ukraine. In 2000, there were 718 airports, 114 of which had paved runways. The main international airport is at Kiev and the nation's main airline is Air Ukraine. In 1997, about 1.8 million people either landed at or departed from airports in Ukraine.

Ukraine has a powerful merchant and passenger fleet, operating in the basins of the Black Sea and Sea of Asov, and on the navigable rivers. In 1999, the merchant marine included 156 ships that were larger than 1,000 tons. This included 105 general cargo ships, 14 rail carrier vessels, and 11 passenger ships. The nation's main ports are Kerch, Kiev, Odessa, Sevastopol, and Reni.

An expanding array of tele- and radio communications are increasingly available and constantly improving, and new **joint-venture** companies provide modern technology development in this sphere. According to an estimate by the World Bank (2000–01), Ukraine has 54 daily newspapers (1996), 884 radios (1997), 490 televisions (1998), 191 telephone mainlines (1998), 2 mobile telephones (1998), and 13.8 personal computers (1998) per 1000 people. There are also 5.39 Internet hosts per 10,000 people (January 2000), or a total of 35 Internet service providers

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Ukraine	54	884	490	15.7	2	0.0	13.8	4.56	200
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Poland	113	523	413	83.3	50	N/A	43.9	40.86	2,100

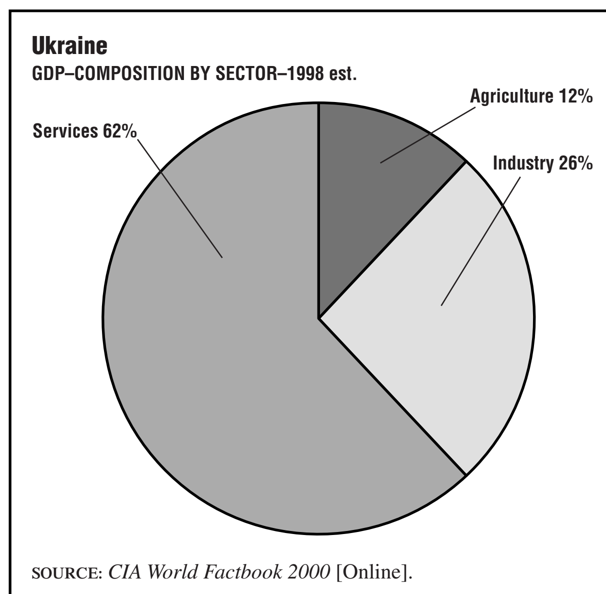
[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

In the Soviet period, Ukraine was a net exporter of electricity both to former Soviet states, and to Eastern Europe. After independence it became a net energy importer. Overall, Ukraine generated about 158 billion kilowatt-hours (kWh) of electricity in 1999, a 25 percent decline from 212 billion kWh in 1994. According to the World Bank, the electrical power consumption per capita in Ukraine has also drastically declined, from 4,308 kWh in 1990 to 2,449 kWh in 1997. With about 60 percent of Ukraine's electricity generated by fossil fuels (the remaining 40 percent being produced by nuclear and hydroelectric plants), this production decline has been exacerbated by problems in obtaining natural gas, oil, and coal supplies, mostly imported from Russia, who also provides Ukraine with nuclear fuel, for which Ukraine currently owes Russia $800 million. In 1998, Ukraine imported an estimated 344,000 barrels of oil per day and almost 2 trillion cubic feet of natural gas.

Ukraine's 5 nuclear power plants, with a capacity of 12.8 giga-watts (nearly one-quarter of the country's total capacity), generate around 70 billion kWh of energy (more than 40 percent of the country's power output). The construction of 2 new reactors (capacity 2 giga-watts) is in its final phase. In June 2000, Ukraine's nuclear power plants generated more than half of the nation's total electricity output, the first time that has happened since 1996, despite the fact that 5 of the nation's 14 nuclear reactors, with 24 percent of national capacity, were inactive in June. The 1986 Chernobyl nuclear accident cast serious doubts about the safety of nuclear reactors in Ukraine and their ability to meet the long-term power needs of the nation.

Another factor which has harmed the nation's electrical sector, next to import and capacity problems, has been the growing number of defaulting electricity consumers. A report in mid-1996 stated that 40,000 businesses owed the electric companies some $1 billion in energy bills, representing 30 percent of the electricity consumed in the country. Also, about 35 percent of Ukrainian families receive their electricity free by law. Largely as a result of this situation, the Ukrainian Ministry of Power Engineering and Electrification has described itself as bankrupt.



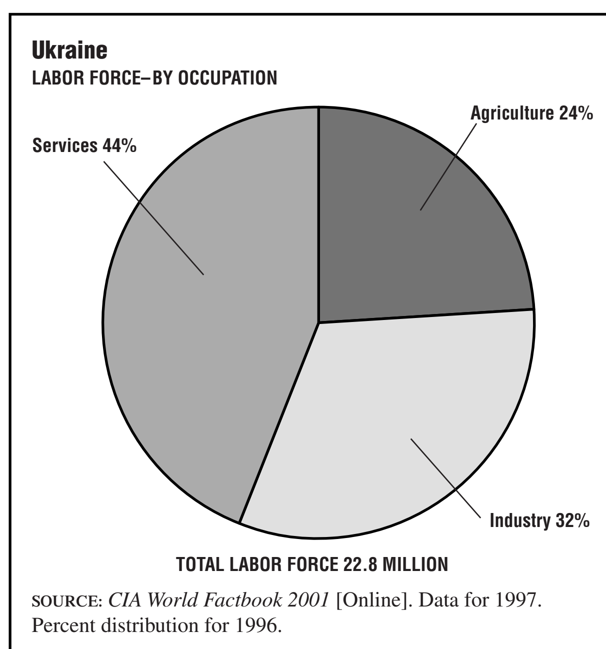
SOURCE: *CIA World Factbook 2000* [Online].

ECONOMIC SECTORS

Ukraine's economic sectors are diverse, but in need of new capital and investments to compete with sectors in the West. Due to the country's rich soil, agriculture accounts for a large percentage of GDP. Ukraine was once the breadbasket of the Soviet Union. Agriculture, including forestry and fishing, accounted for 14 percent of the total GDP in 1999. Industry, including mining, manufacturing and construction, accounted for 34 percent in the same period. Meanwhile, trade and other services accounted for 51 percent. The country's **labor force** in 1999 totaled 25 million people. The share of the labor force in industry, agriculture, and services in 1996 was 32 percent, 24 percent, and 44 percent, respectively.

AGRICULTURE

Ukraine is blessed with rich farming and forestry resources. According to the *Statistical Year Book of Ukraine* (1996), about 71 percent of the country's surface (41 million hectares) was used for agricultural activities.



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1997. Percent distribution for 1996.

About 80 percent of the agricultural area is arable land, two-thirds of it the agriculturally rich "black soil" (chernozem). The primary food harvest products are barley, maize, potatoes, rice, soybeans, sugar beets, and wheat. The primary meat products are beef and veal, lamb, pork, chicken, horse, and rabbit. In terms of value, the largest agricultural exports in 1998 were refined sugar, raw sugar, beef and veal, sunflower seed, and fish. The total value of agricultural exports in 1998 estimated $1.898 billion. The total value of agricultural imports in 1998 was $999 million. The largest single crop produced in 1999 was potatoes at 15.4 million metric tons. The number-two crop was sugar beets at 13.89 million metric tons, followed by wheat at 13.47 million metric tons. The main livestock product was beef and veal with 786,000 metric tons, followed by swine with 668,000 tons, and chicken with 194,500 tons.

In recent years, agricultural production has declined drastically because of a decrease in the number of tractors and combine harvesters in working order and to the lack of fertilizers and pesticides. According to official data, between 1991 and 1997, the number of tractors in use decreased from 497,300 to 361,000. (In order to operate efficiently, it is estimated that the country would need 515,000 tractors in use.) Similar shortfalls exist for harvesting combines. Between 1990 and 1997, the consumption of pesticides and fertilizers per hectare declined about 78 percent. From 1995 to 1999, crop production declined by an average of almost 10 percent per year, while livestock production declined by an average of 9 percent per year. These shortfalls in agricultural inputs reflect declining investment in agriculture, and feed directly into declining production.

Under communism, agricultural lands were held by the government and worked by the people, who owned no land. Privatization planned to shift most such land into the hands of individuals and farming collectives (jointly held farming cooperatives). By August 1995, the transfer of lands into private hands had begun. Over 8 million hectares of land had been privatized, with plots averaging 5 hectares. By 1996, most of the agricultural land in Ukraine was in collective and private hands, although 40 percent was still owned by the government. Household plots and private farms accounted for about 15 percent of the Ukrainian territory and they filled an important role in the delivery of products to the marketplace.

In general, the agricultural sector is experiencing serious internal difficulties, due to the transitional nature of the economy. A new policy and direction for Ukraine's agricultural sector is necessary. Agriculture poses the greatest challenge to the survival of Ukraine's political leaders, because almost half of the Ukraine's population live in rural areas.

INDUSTRY

Under the Soviet economic system, the Ukrainian industrial infrastructure was based around its rich mineral endowments. Heavy industry and the defense industry were predominant in Ukraine (Ukraine produced almost 25 percent of all Soviet military goods). Sizeable production of steel and pig iron was based on generous supplies of coal and iron ore. Other important heavy industrial products included ferro-alloys, non-ferrous metals, cement, mineral fertilizers, and building materials. Ukraine remains a significant producer of non-ferrous metals, automobiles, and machine tools. With the disappearance of the central command system, the former links between the economic sectors has diminished. The old distribution system has gone and industry cannot rely on regular state subsidies anymore. The Soviet military industrial complex has come to a practical standstill (but is recovering), and links with other former Soviet Republics have diminished. All these factors contributed to a lack of cash in the industrial sector, resulting in a depreciation of the national currency and price inflation.

MINING. Ukraine is rich in mineral deposits, including iron ore (of which it once produced 50 percent of the entire Soviet output), manganese ore (of which it produced 40 percent of world output during the Soviet era), mercury, titanium, and nickel.

Ukraine is one of the world's most important mineral producing countries, in terms of both the range and size of its reserves. There are nearly 8,000 separate deposits, harboring some 90 different minerals, of which about 20 are economically significant. About half of all the known deposits are under exploitation. Coal reserves in Ukraine amount to 47.1 billion tons. The annual domestic demand for coal as fuel is about 100 million tons, of which 85 percent can be satisfied by domestic production. Ukraine has oil and gas fields that meet 10 percent of her oil and 20 percent of her gas consumption, respectively. Ukraine contains natural gas reserves of 39.6 trillion cubic feet, but only about 20 percent of the country's demand is met by domestic production. Deposits of iron ore (estimated at 28 billion tons), manganese ore (3 billion tons), chalk and limestone (1.5 billion tons) are also large in Ukraine. The domestic industrial sector suffers from constant energy shortages and energy supply payment debts totaling about $792 million at the end of 1995.

MANUFACTURING. Following independence, Ukraine's manufacturing sector has steadily declined, from 36 percent of the GDP in 1990 to 29 percent of the GDP in 1999. In 1994, the output of light manufacturing decreased by about 34 percent and engineering by 28 percent. Primary production and semi-manufactured goods registered lower output falls in 1995. One of the main results of this has been a move towards primary produc-

tion in the Ukraine's industrial sector in recent years. Primary production consists of electricity, oil, gas, coal, and steel. This kind of production accounted for 53 percent of total industrial production in 1995, compared to 38 percent in 1990. Ukraine's manufactured goods have suffered greatly through the loss of former Soviet markets. Locally, their generally low quality has made them vulnerable to imports from the EU; at the same time, this low quality diminishes their viability as exports.

Since 1994, Ukraine has significantly increased its arms exports, from $20 million in 1994, to more than $100 million in 1995, to over $1 billion by the end of 1996. Ukraine merged 3 major arms export firms into a single company, Ukrspetsexport, in order to increase competitiveness in what is now its fastest-growing source of foreign exchange. The growth in the arms trade has been the result of the far lower costs of Ukrainian weapons than Western European or American arms.

The underperforming manufacturing sector is thought to be ripe for foreign investment. Growing domestic need for **consumer goods**, durable goods (appliances, etc.), and machinery, especially agricultural machinery, has encouraged investment across these sectors.

SERVICES

Contrary to the decline of the industrial and agricultural production, the contribution of services to GDP increased from 30 percent in 1990 to 51 percent in 1999. The most prominent segments of the service sector are tourism and financial services. The following services can be classified as relatively developed branches of service sectors in Ukraine: telecommunications services, banking services, advertising and public relations services, legal services, audit and accounting services, and tourism services. But the following service sectors are still quite underdeveloped: engineering, insurance, private health care, and security.

Transportation is another important sector of the services economy. Russia is highly dependent on Ukraine for its transport of gas to Europe. Ukraine has made several proposals in an effort to be included into the energy transport network for Caspian Sea energy resources. The dominant method of transporting goods in Ukraine is by trucks, though deteriorating roads and high fuel costs make trucking expensive.

TOURISM. Since independence in 1991, Ukraine has emerged as the most stable and peaceful country among the former states of the Soviet Union despite all her economic and political crises. Policy makers actively welcomed foreign investors, business people, and tourists. Ukraine is developing as one of the most active and diverse tourist countries in the former Soviet region. The nation offers a broad range and rich tapestry of high level cultural, historical, national-folklore, and environmental tourism. Strategically, Ukraine is situated in immediate proximity to the great tourist centers of Europe and the Mediterranean and is opportunely connected to them by air, railroad and sea transportation routes. The most popular tourist destinations in Ukraine are Kiev, the capital city; the Crimea, which is popular for its warm climate and many spas; and the Carpathian mountains, with their alpine sports, and historic and ethnic cultural sites.

According to the U.S. State Department, nearly 11 million people visited Ukraine in 1999 (down from 12 million in 1998 and 14.6 million in 1997). Ukraine received over 6.2 million foreign tourists, placing Ukraine in the top 25 most visited countries of the world. The share of the tourism sector to GDP was estimated at 8.6 percent ($3.8 billion) in 1998. In Crimea alone, proceeds from tourism make up to 40 percent of the Crimean government budget.

Ukraine's tourist industry has great potential to develop into a major source of foreign exchange generation by the 2000s. In view of Ukraine's critical need to develop viable **hard currency** in the economic sectors, the government and tourist industry are seeking to upgrade hotel and resort facilities to high international standards, in order to maximize the long-term potential of the industry and sufficiently harness the nation's diversified tourist market and to try to attract foreign investors.

The high number of tourists has not led to a high level of tourist services, however. As of 2001, Ukraine still lacks a major international hotel. Most tourist services lay in the hands of owners connected to local political bosses, who have sought to keep control of this sector by excluding outside investment. Of all visitors, 75 percent arrive from Russia. Russians' low service expectations have kept Ukraine insulated from the relatively higher expectations of Western tourists.

FINANCIAL SERVICES. The financial sector is relatively undeveloped in Ukraine. According to the report of the U.S. Embassy in Kiev, there are a variety of problems in this sector: setting up service projects requires legal endorsement; there is rampant corruption in the licensing and administrative approval process; the payments system is antiquated, with most Ukrainians having neither bank accounts or credit cards; and legal recourse in collecting on unpaid services is almost non-existent.

The Ukrainian banking system includes the central bank—the National Bank of Ukraine (NBU)—and an assortment of commercial banks. NBU responsibilities consist of monetary circulation, registration and oversight of commercial banks, and intervening in the currency market. As of January, 203 banks were registered in Ukraine, of which 165 banks are in actual operation, including 30 backed by foreign capital, and 9 with 100 percent foreign capital. With the exception of 2 state-owned banks,

Trade (expressed in millions of US$): Ukraine

	Exports	Imports
1994	10304	10748
1995	13316	16052
1996	14440	18639
1997	14232	17113
1998	12636	14675
1999	11581	11846

SOURCE: United Nations. *Monthly Bulletin of Statistics* (September 2000).

Oshchadbank and Ukreximbank, the banks are joint-stock companies or limited liability companies.

INTERNATIONAL TRADE

Ukraine's trade is still heavily oriented towards the CIS and especially to Russia. Its major trading partners are CIS countries, the EU nations, Central Europe, China, and the United States. Most imports of oil and gas are from Russia and Turkmenistan, while imports of technologies are mainly from Western countries. Exports, which are minimal for a developed country, consist mainly of raw materials and agricultural goods.

In 2000, exports totaled $14.6 billion and imports totaled $15 billion. Ukraine's main export markets are in Russia (24 percent), the European Union (30 percent), and the United States (5 percent). Its main importers are Russia (42 percent), the European Union (29 percent), and the United States (3 percent).

Ukraine remains interested in bilateral trade and economic cooperation with Russia and the CIS, but is careful to pass up any larger political or security relationship. As an Associate Member of the CIS, Ukraine has rejected all attempts to transform the CIS into a supra-national organization. As a result, Ukraine has refrained from joining the Russia-Belarus Union, the CIS Customs Union, and the Payments Union. However, mindful of the preference for bilateral relations with the CIS countries, in March 1998, Ukraine and Russia concluded an Interstate Economic Treaty.

Under the trade provisions of the PCA (EU-Ukraine Partnership and Co-operation Agreement), trade between Ukraine and the EU is in theory free of most restrictions. In practice, trade in steel and textiles are subject to special taxation schemes, and Ukraine is subject to actual or prospective EU anti-dumping measures for a variety of products, including silicon, carbide, and magnesium. (Anti-dumping measures keep a country from flooding the market with a product that it can produce much more cheaply than its competitors.)

Progress on an EU-Ukraine **free trade zone** most likely will not get underway until Ukraine is admitted to the World Trade Organization (WTO). Ukraine is continuing negotiations with the WTO on the basis of its initial offer and revised service offer. The EU supports Ukraine's eventual entry into the WTO, but does not believe that Ukraine yet meets the conditions for membership. WTO membership is an issue on which the United States and the EU consult and co-operate, as affirmed in the Joint Statement on Ukraine released at the December 1997 U.S.-EU summit.

MONEY

In 1996, Ukraine introduced the hryvnya (UAH) as a new national currency. The greatest success in regards to the economy has been the stabilization of the national currency. The hyperinflation (10,000 percent) of the early 1990s has been reduced to less than 20 percent. However, the hryvnya continues to depreciate in value. This is caused by the Asian and Russian financial crises of the late 1990s on the one hand, and Ukraine's current financial uncertainties and instability on the other. The value of the currency stood at UAH1.8295:$1 in 1996, but by February 2000, the value had slipped to UAH5.59:$1. The hryvnya lost 75 percent of its value to the dollar in 1999 alone. The hryvnya was badly affected by a fuel crisis in July 1999, when gasoline prices doubled over 1 week after imports from Russia declined. Price inflation reached about 25 percent by the end of 1999. The country's currency reserves diminished, as a result of trying to prop up the hryvnya. In early 1999, reserves stood at $2.34 billion, and by mid-1999 were reduced to $860 million. In order to shore up the hryvnya, in September of the same year the government decreed that Ukrainian banks had to keep at least 75 percent of their currency holdings in the national currency. After protests, the government relented and decreased the amount to 50 percent.

In 1991, legislation was enacted that created the nation's first stock market. By 1999, the market, known as the PFTS (the Ukrainian Broker/Dealer Association and Over-the-Counter Trading System), had 125 companies

Exchange rates: Ukraine

hryvnia per US$1	
Jan 2001	5.4331
2000	5.4402
1999	4.1304
1998	2.4495
1997	1.8617
1996	1.8295

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
Ukraine	N/A	N/A	N/A	1,979	837
United States	19,364	21,529	23,200	25,363	29,683
Russia	2,555	3,654	3,463	3,668	2,138
Poland	N/A	2,932	2,819	2,900	3,877

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

Distribution of Income or Consumption by Percentage Share: Ukraine

Lowest 10%	3.9
Lowest 20%	8.6
Second 20%	12.0
Third 20%	16.2
Fourth 20%	22.0
Highest 20%	41.2
Highest 10%	26.4

Survey year: 1996

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: *2000 World Development Indicators* [CD-ROM].

listed with a market value of $1.121 billion. The PFTS has an electronic trading system that is responsible for about 95 percent of all trades and investments. The PFTS is constrained by widespread public suspicion and mistrust and by inadequate trading and regulatory laws.

POVERTY AND WEALTH

For the majority of people, the standard of living has deteriorated since independence. According to the World Bank (2000–01), as much as 31.7 percent of the population was below the poverty level in 1995. However, by 1999, the CIA estimated that 50 percent of the population lived below the poverty level, which is based on an income of $50 per month. The average wage is 60 to 80 dollars per month, and for most, payment is delayed for several months. Wage **arrears** are an all too common feature of daily life. Because companies have seen their output in 1999 decrease to less than 40 percent of the 1991 level, they often have a difficult time paying their employees on time. Ukraine's **GDP per capita** has declined from $1,979 in 1990 to $837 in 1998. It is similar to the former Soviet States of central Asia and Caucasus and to many African and Middle Eastern countries.

For the majority of the population, the transition from the Soviet period has meant a catastrophic decline in living standards. According to the official government statistics, the cumulative decline measured in national income was about 60 percent between 1991 and 1999. Hence, someone earning the equivalent of $1,800 in 1990 only earned a salary comparable to $600 in 1999. In the same period, the average standards of living declined by about 80 percent. **Pensioners** and retirees were the most affected by these declines.

At the same time, several indicators show that the health status of the Ukrainian population has deteriorated in the years after the independence. Life expectancy at birth has decreased from 70 years to 67.7 years, with a greater fall in males (who reached 62 years) than in females (73 years). Life expectancy is 10 years shorter than the population of the EU. In addition, infant mortality has increased since 1989 and in 1998 was 17 per 1,000 live births. The lack of clean water is a big problem in Ukraine, resulting in disease and early deaths. Contagious diseases in Ukraine are cholera, dysentery, typhoid, hepatitis, and AIDS. Radiation from the now-closed Chernobyl nuclear power plant is also posing serious difficulties to the Ukrainian population.

WORKING CONDITIONS

The country's labor force in 1999 totaled 25 million people. The official unemployment rate in 1999 was 4.3

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
Ukraine	34	5	16	6	4	14	22
United States	13	9	9	4	6	8	51
Russia	28	11	16	7	15	8	16
Poland	28	4	19	6	1	8	34

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

percent, though this number is thought to significantly underestimate a large number of unregistered or unemployed workers. The minimum wage is $21.70 and the minimum pension for retirees and those on public assistance is only $4.70. The average wage is $41.60 per month. The very low wages paid in the country mean that many Ukrainians must work second or third jobs. Because many such jobs are in the informal sector, the wages and production earned there are not accounted for in government statistics. Some estimates conclude that the informal economy may be as large as 70 percent of the formal economy.

The Labor Code (the body of laws which govern labor standards, working conditions and wages) provides for a maximum 40-hour work-week, one 24-hour day of rest per week, and at least 24 days of paid vacation per year. The minimum employment age is 17 years. In certain non-hazardous industries, however, enterprises may negotiate with the government to hire employees between 14 and 17 years of age, with the consent of one parent.

Ukrainian law contains occupational safety and health standards, but these are frequently ignored in practice since there is little enforcement of the laws. Because of limited funding, there are few officials to inspect workplaces and the labor laws only provide minor punishments for violations (therefore many employers find it more affordable to pay the fines rather than upgrade working areas to meet government standards). In 1999, 913 people were killed and over 47,000 injured in accidents at work. Under the law, workers have a legal right to remove themselves from dangerous work situations without jeopardizing continued employment. However, many workers fear that if they leave their job they will not be able to find another.

Ukrainian workers have the right of association, and the right to organize and bargain collectively. Although officially they have these rights, the government is actively trying to stop the workers of some economic sectors from using these rights, such as in the nuclear industry. Forced or compulsory labor is prohibited by the Ukrainian constitution, however, there are some forms of compulsory labor. For example, the common use of army conscripts and youths in the alternative service for refurbishing and building private houses for army and government officials; also, students, whose studies have been paid for by the government, have to work in the **public sector** at government-designated jobs for 3 years or more to repay fully the cost of their education.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

700s A.D. The Kievan Rus state is created by Norse traders seeking commercial routes to the Middle East.

988. Prince Volodymyr accepts Christianity and begins the process of converting the Kievan state to his religion.

1237–1241. Conquest of Kiev by the Tatars.

1300s. Foundation of the Galician-Volynian principality. which included much of the territory of the former Kievan Rus. Lithuania, Poland, and Turkey begin to occupy regions of Kievan Rus.

1569. Treaty of Lublin between Lithuania and Poland allows further Polish expansion into what is now Ukraine.

1667. Ukraine is partitioned between Poland and Russia.

1793. Ukraine is reunited as part of the Russian Empire.

1917–18. During the Russian Revolution, Communists seize power in Ukraine. Three separate Ukrainian republics declare their independence.

1921. Poland absorbs the western Ukrainian republic, while the Soviet Union absorbs the remainder of Ukraine, making it a Soviet Republic.

1929. In an effort to suppress Ukrainian nationalism, the Soviets undertake a broad campaign which results in the arrests and murder of thousands of intellectuals, and political and church leaders.

1932–1933. In an effort to abolish private farms and force industrialization, the Soviets collectivize farms and force millions to leave their farms and settle on government-owned farms. A famine results and causes the death of an estimated 8 million rural Ukrainians.

1941–1944. Ukraine is occupied by German forces during World War II (1939–45), but returns to Soviet control after the war.

1950s. Forced industrialization reaches its peak as the Soviets try to transform the economy from an agrarian one to one based on manufacturing.

1954. The Crimea region is transferred to Ukraine by Soviet premier Nikita Khrushchev.

1972. New rounds of Soviet suppression result in the arrests of hundreds of Ukrainian nationalists.

1986. Chernobyl nuclear accident kills 30 and results in an estimated 1,800 cases of cancer caused by radiation exposure.

1990. The Ukrainian government declares national sovereignty.

1991. On August 24, Ukraine declares independence and becomes a founding member of the Commonwealth of Independent States (CIS).

1994. Ukraine joins NATO's Partnership-for-Peace Program.

1996. The United States and Ukraine agree to a joint investment treaty designed to protect U.S. investors in Ukraine.

1997. Russia and Ukraine agree to a treaty which divides the Black Sea fleet and its bases between the 2 nations. Romania and Ukraine sign a treaty on oil exploration in the Black Sea.

FUTURE TRENDS

During the 1990s, Ukraine achieved little economic growth, thanks largely to economic mismanagement and inherited structural problems. Some years after the government's "Program of Radical Reforms" in 1994, very little real structural transformation has taken place. The serious economic problems confronting Ukraine are of a deep structural nature and include modest industrial **restructuring**, inefficient privatization, a heavy state machinery, a narrow tax base, the rise of powerful criminals, controlling parts of the economy, and economic dependence on Russia. These factors have caused a large part of the economy to operate in the informal sector.

While foreign assistance is crucial in the transitional economic process, official flows of assistance in the longer term should be dwarfed by private capital flows if Ukraine creates a more favorable environment for the development of the **private sector**. Ukraine requires technology, management expertise, and access to international markets that only private businesses can provide. Although Ukraine is taking steps in adapting its trade regime to conform to the World Trade Organization's (WTO) membership requirements, progress is slow and difficult.

Ukraine's history and geography tie it to Russia, but its economic future lies with Western Europe. In order to ensure its integration into Western organizations such as the WTO and the EU, Ukraine has to implement a number of economic reforms. The most pressing of these reforms is continuing privatization and improvements in regulatory laws. Meanwhile, Ukrainian industry must transform itself from the production of primary materials such as steel and energy resources, materials in which Ukraine cannot compete with lower priced manufacturers, to refined or processed materials.

DEPENDENCIES

Ukraine has no territories or colonies.

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—Mehdi Parvizi Amineh

UNITED KINGDOM

United Kingdom of Great Britain and
Northern Ireland

CAPITAL: London.

MONETARY UNIT: Pound sterling (£). One pound equals 100 pence. Coins are in denominations of £2 and 1, as well as 50, 20, 10, 5, 2, and 1 pence. Currency comes in denominations of £50, 20, 10, and 5.

CHIEF EXPORTS: Manufactured goods, fuels, chemicals, food, beverages, and tobacco.

CHIEF IMPORTS: Manufactured goods, machinery, fuels, and foodstuffs.

GROSS DOMESTIC PRODUCT: US$1.36 trillion (2000 est.).

BALANCE OF TRADE: **Exports:** US$282 billion (2000 est.). **Imports:** US$324 billion (2000 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. The United Kingdom consists of a collection of islands which are located off the northwestern coast of Europe between the Atlantic Ocean and the North Sea. Its total area of 244,820 square kilometers (94,525 square miles) is shared by 4 main territories. The largest is England, with an area of 130,373 square kilometers (50,337 square miles). To the west of England is Wales, with 20,767 square kilometers (8,018 square miles), and to England's north is Scotland, with an area of 78,775 square kilometers (30,415 square miles). Northern Ireland occupies 14,120 square kilometers (5,452 square miles) on the island of Ireland. England, Wales, and Scotland are collectively and commonly known as Great Britain. The United Kingdom also includes numerous small islands. These include the Orkney Islands, the Shetland Islands, the Outer Hebrides, Skye, Mull, Arran, the Isle of Man, the Isles of Scilly, and the Channel Islands. From the southern coast of England to the north of Scotland is a distance of some 1,000 kilometers (622 miles) and the widest part of Great Britain is under 500 kilometers (311 miles). The total boundary length of 8,352 kilometers (5,190 miles) includes a coastline of 7,918 kilometers (4,920 miles) and a land boundary with the Irish Republic of 434 kilometers (270 miles). London is the capital and it is located in southeastern England. London has a population of some 7,000,000, including its suburbs. Birmingham is the United Kingdom's second-largest city, with 934,000 people.

POPULATION. In July of 2001, the population of the United Kingdom was estimated to be 59,647,790. The nation has the third-largest population in Europe and the eighteenth-largest in the world. Currently, the population growth rate is 0.23 percent. A low birth rate and **emigration** will cause the population to decrease to under 57 million by 2030. The birth rate has remained low since the early 1970s. The current rate is 11.76 births per 1,000 people and the fertility rate is 1.76 children born for each woman. The infant mortality rate is 5.63 deaths per 1,000 live births. The overall mortality rate is 10.38 deaths per 1,000. About 75 percent of the population lives in urban areas and about 40 percent lives in the southeast region of the country. Many regions of Northern Ireland and areas of Scotland remain essentially rural. The United Kingdom has a large elderly population (nearly 16 percent of the total population is over age 65). The elderly are the fastest growing segment of the British population. Over time, this will put additional strains on the kingdom's social security and medical systems. The life expectancy for males is 74.97 years and 80.49 years for females.

The English make up 81.5 percent of the population, followed by the Scots at 9.6 percent, the Irish at 2.4 percent, the Welsh at 1.9 percent, and the Ulster Irish at 1.8 percent. Since the demise of the British Empire in the mid-1900s, many former colonial citizens have **immigrated** to the United Kingdom. There is a sizable community of immigrants and descendants of immigrants who combine to account for 2.8 percent of the population. The largest ethnic minority groups are Indian, West

Indian, Pakistani, and Bangladeshi. About 40 percent of the ethnic community were born in the United Kingdom, and some 74 percent are of mixed ethnicity. One of the most significant differences between the English and minority communities is age. About 42 percent of the British and Irish population is under 30, while 60 percent of the West Indian population and 70 percent of those from the Indian subcontinent are under 30. Ethnic minorities are also geographically concentrated in the greater London area. Both Scotland and Northern Ireland have very small ethnic minorities (less than 0.8 percent of the total population). English is the official language of the United Kingdom. About 26 percent of the people of Wales speak Welsh and about 60,000 Scots, mainly in western Scotland, still speak the Scottish dialect of Gaelic. A small number of the Northern Irish continue to speak the Irish form of Gaelic.

Christianity is the dominant religion of the United Kingdom. Anglicans and Roman Catholics are largest Christian groups. There are 27 million Anglicans, 9 mil-

lion Roman Catholics, 800,000 Presbyterians and 760,000 Methodists. Immigration has resulted in a large non-Christian community. The Muslim community now numbers more than 1 million. In addition, there are some 400,000 Sikhs in the nation and 350,000 Hindus. The Jewish population is approximately 300,000. The United Kingdom has a history of religious strife between the Protestants and Catholics and while religious toleration is now widespread, conflict between the 2 groups continues in Northern Ireland.

OVERVIEW OF ECONOMY

During the 16th and 17th centuries, Great Britain became one of the world's foremost trading nations. The kingdom established colonies in India, Asia, the Caribbean, and North America. These colonies supplied raw materials to Great Britain, which then turned those resources into manufactured goods. These goods were then exported to markets in the colonies and around the world. As a result of this trading system, the United Kingdom was one of the first nations in the world to undergo an industrial revolution (a period of rapid industrial growth and a corresponding decline in agriculture). By the 1800s, the British industrial sector was the largest in the world. Economic expansion in Great Britain was fueled by the kingdom's empire, which at its height included one-quarter of the world's territory and almost one-third of its population. By 1900, rival economic powers such as Germany and the United States began to challenge British commercial advantages. The effects of World War I and World War II and the subsequent period of de-colonization in the 1950s and 1960s led to an erosion of British economic superiority. After decades of economic decline, the British economy began to rebound in the 1980s.

The British economy is currently one of the largest and most diversified in the world. In 1999, its GDP ranked seventh in the world. Its **GDP per capita** was US$21,800, which ranked twentieth in the world. When foreign investments are included, the British economy is the fourth-largest in the world and the second-largest in Europe. Its capital, London, ranks alongside New York as one of the globe's main financial centers. As such, the kingdom is one of the world's leading trading nations. The United Kingdom is also home to some of the largest international companies, including the oil company BP-Amoco (worth US$116 billion), British Telecommunications (US$92.58 billion), the telecommunications company Vodafone Airtouch (US$91.68 billion), HSBC Bank (US$69.56 billion) and the pharmaceutical company Glaxo Wellcome (US$61.53 billion). In addition to its economic advantages, the country has a variety of natural resources including oil, natural gas, coal, tin, limestone, iron ore, salt, clay, chalk, gypsum, lead, and silicia.

The robustness of the British economy has led to considerable foreign investment and prompted many foreign companies to relocate to the kingdom. It has also led a number of large multinational companies to merge with or acquire British companies. In 2000, there were 560 international mergers and acquisitions in the United Kingdom. These had a value of US$86 billion and represented 42 percent of all multinational mergers and acquisitions in the European Union (EU).

The British economy has experienced a period of prolonged growth since the early 1990s. For instance, from 1995 to 1999 the economy of the United Kingdom grew by a total of 10.6 percent. Growth rates have averaged more than 2.7 percent per year. GDP per capita increased during this period from US$18,714 to US$21,800. In 2000, the economy grew by 2.8 percent, although the economic slowdown in the United States has produced a slower rate of growth than economic analysts predicted. The subsequent economic recovery of the country has not proceeded evenly. Most of the recent growth has occurred in southern England. Areas of Scotland and Wales remain economically depressed, as does the region of Northern Ireland. While the United Kingdom as a whole receives significant amounts of foreign investment, religious strife in Northern Ireland has led most foreign firms to avoid the area. That region consequently has the highest unemployment rate in the United Kingdom.

Like many of the world's leading economies, the United Kingdom's economy is marked by a growing service sector and a declining industrial base. The kingdom is one of the few nations in the world that has the capability to compete with the United States in some of the leading high-tech sectors, including **e-commerce** (business and services bought and sold through the Internet) and telecommunications. The United Kingdom is also home to some of the world's largest banking and financial service firms. Agriculture in the United Kingdom remains a strong, but small component of the economy. British farmers are among the most productive in Europe, but recent problems with hoof and mouth disease and mad-cow disease have caused widespread declines in agricultural production. While the industrial sector is declining in relation to other areas, it is a diversified and productive component of the kingdom's economy. For instance, British Steel is the largest steel manufacturer in Europe and the third-largest producer in the world. Other major industries include aerospace, chemicals, clothing, communications equipment, the production of machine tools and electric power tools, railroad equipment, shipbuilding, textiles, and paper and paper products. The most productive industry in the United Kingdom is the energy sector, which contributes 10 percent of the kingdom's

GDP. The British produce coal, natural gas, and oil for both domestic use and export.

The British economy has 3 major problems that may limit future growth and long-term stability. First, British workers do not have the same levels of productivity as their American, European, or Japanese counterparts. This means that during a given period of time, British workers produce less of a product than workers in these other markets. Reasons for this include lower education rates for the British and less investment in new technology and manufacturing methods. Currently, wages are lower in the United Kingdom than these other areas. In addition to preventing **inflation**, the lower wages also continue to attract foreign investment, since investors pay less for labor. Second, the aging population will lead to a shortage of new workers beginning in the next decade. Immigration will alleviate some of this problem. However, the aging population's additional tax burden on the social security and health system will require increases in taxes or other government revenues. Third, and finally, the nation has had a **trade deficit** for some time. On average, the kingdom's trade deficit is 1.5 percent of GDP. In 1998, the trade deficit totaled US$35 billion. The strength of the British currency in relation to the euro (the new currency of the European Union) and the money of other nations has meant that imports into the kingdom are relatively inexpensive, while British exports are expensive.

POLITICS, GOVERNMENT, AND TAXATION

The United Kingdom is a democratic, constitutional monarchy. Queen Elizabeth II is the nation's monarch, and she serves as the head of state. Along with New Zealand and Israel, the United Kingdom is unique among the nations of the world in that it does not have a single formal written constitution. Instead, its constitution is based on a series of historical documents and traditional legal and political practices that are collectively known as English Common Law. The principal constitutional documents include the Magna Carta (1215), the Petition of Right (1628), the Bill of Rights (1689), and the Act of Settlement (1701). This gives the constitution great flexibility since, unlike the United States, there is no formal amendment process needed to change it. The Parliament can simply enact legislation that changes the nature of a particular area of the constitution. An example of an unwritten component of the constitution is the practice that the prime minister must be a member of the Parliament (which is not recorded as a law).

There are 2 main principles behind the unwritten constitution. These are the rule of law and parliamentary sovereignty. The rule of law is based on the principle that the government is not above the law and can only do what it has the legal power to do. Parliamentary sovereignty means that the Parliament can legally pass any law it wishes, and no person or institution can override it. Any law can be repealed or changed by Parliament. This makes the government more powerful than its counterparts in Western Europe or the United States.

While the monarch has a lot of power in principle, custom has dictated that such power is only used sparingly. The role of the monarch is now mainly ceremonial. The Queen also serves as the head of state for many former British colonies such as Antigua and Barbuda, Australia, the Bahamas, Belize, Canada, Jamaica, Mauritius, New Zealand, Papua New Guinea, St. Lucia, the Solomon Islands, and Tuvalu.

The government is led by the prime minister, who is appointed by the Queen. The prime minister is usually the leader of the largest political party in Parliament. Parliament itself is **bicameral** (it consists of 2 chambers). The upper chamber is known as the House of Lords and the lower chamber is known as the House of Commons. Parliament can pass laws for the United Kingdom as a whole or for any of its constituent parts, including the dependencies such as the Channel Islands.

The House of Lords is comprised of nobles, senior bishops, and senior judges known as law lords. The 1999 House of Lords Act reduced the number of hereditary peers to 92. (A peer is a lord. Hereditary peers pass their status to their heirs, and in turn, their heirs become lords. "Life peers" do not have hereditary titles, thus their heirs cannot inherit their status.) This reduced the size of the House of Lords from 1,200 seats in 1997 to 670 in 2000. There are no elections for the House of Lords, and with the exception of bishops who retire, members serve for life. The most substantial legislative power of the chamber is its delaying capability. The Lords may reject a motion from the Commons. The lower house must then wait a year to resubmit it. The House of Commons consists of 659 members who are elected by universal adult suffrage. Of the members, 529 are from England, 40 from Wales, 72 from Scotland and 18 from Northern Ireland. Each is elected from single-member districts for a 5-year period, although new elections can be called early at the discretion of the prime minister. (In single-member districts, 1 person is elected to serve the entire district. This is the system in the United Kingdom and the United States. Some countries use proportional districts, in which several representatives are elected. This guarantees some minority-party representation in all districts.)

One of the major goals of the government has been to give the regions of the United Kingdom more political power. By 1999, Scotland, Wales, and Northern Ireland had all been granted some degree of self-government and each area had a national legislative body. The kingdom's Parliament retains control over defense, foreign

policy, and social security systems. The regional assemblies have a high degree of control over education, the environment, and culture.

There are 2 main political parties in the United Kingdom, the Conservative Party and the Labour Party. The Conservatives, known popularly as the Tories, are a center-right party that supports lower taxes and a smaller role for government in the economy. The Labour Party is center-left. It has traditionally supported unions and government control of major industries, but has recently moved closer to the Tory position on a number of economic issues, including trade and state-ownership of industries. The United Kingdom also has a number of minor or regional parties, including the Liberal Democrats, Ulster Unionists, Sinn Fein, Scottish National Party, and Plaid Cymru (Welsh National Party).

Among the nations of Europe, the government of the United Kingdom has traditionally been the most supportive of free trade and free enterprise in the domestic market. Nonetheless, the influence of the government runs deeper than that of nations such as the United States. Since the late 1970s, the government has been engaged in a program to sell off state-owned companies. Examples of companies that have already been **privatized** include British Airways, British Aerospace, British Gas, British Steel, and British Telecom. One continuing problem for the British government is the ongoing effort to reform the National Health System (NHS) which provides health care for Britons. The popularity of NHS has made it difficult for the government to carry out reforms that are needed to keep the program **solvent**. The aging of the British population has placed new pressures on the NHS, and the Conservative Party has called for the privatization of the system in order to prevent a potential economic crisis in the future.

In 1999, the British government had revenues of US$541 billion and expenditures of US$507.5 billion. Government spending accounted for 36.3 percent of GDP in 1998, down from more than 40 percent just 2 years prior. From 1995 to 1998, the government had **budget deficits**, but in 1998, the government had a surplus of 1.6 percent, and it has had surpluses since then. About 11.3 percent of the workforce is employed by government at some level, whether it be the national, regional or local governments. Government revenues are augmented by the kingdom's considerable energy resources in the North Sea. Although most companies in the energy sector are privately owned, they pay licensing fees to the government in exchange for the right to produce oil and natural gas. Corporate tax rates in the United Kingdom are designed to encourage the growth of small businesses. The tax rate for large corporations is 31 percent. Smaller companies, those with revenues of less than £300,000, have a corporate rate of 21 percent. The United Kingdom and Luxembourg have the lowest corporate tax levels in the EU. Personal tax brackets range from 20 percent to 40 percent, depending on income levels. When personal and corporate taxes are combined, the kingdom has the lowest tax levels in the EU.

The United Kingdom is a net contributor of foreign aid. In 1997, it donated US$3.4 billion in aid. Military expenditures hover around 2.7 percent of the GDP. In 1998, this amounted to US$36.9 billion. In 1999, the British military numbered 209,000 personnel, with 110,000 in the army, 44,000 in the Royal Navy and 55,000 in the Royal Air Force (RAF). The United Kingdom is a member of the North Atlantic Treaty Organization (NATO, a military alliance of many western European countries plus the United States and Canada). Britain is one of the few nations in the world to possess nuclear weapons, although it has cut back on its total number of nuclear warheads since the end of the Cold War in 1991.

The United Kingdom is the closest military and economic ally of the United States. The 2 nations have a long history of security cooperation that includes being allies in both World Wars as well as the Cold War. The United Kingdom has also cooperated closely with the United States in the United Nations and in various international economic organizations. The kingdom is a member of the World Trade Organization (WTO), the Organization of Economically Developed Countries (OECD) and the Group of Eight Industrialized Nations. One area in which the United States and the United Kingdom are currently collaborating on is the development of a transatlantic free-trade area that would eliminate **tariffs** and **duties** on goods and services between the United States and Europe.

A deep debate within the government and British public is over adoption of the euro as a common currency. The United Kingdom is a member of the European Union, but when other members of the EU decided to replace their national currencies with the euro in 1999, the British opted out of the agreement. Those who support replacing the pound sterling with the euro argue that this would make trade with other EU nations easier and less expensive. Those who oppose the euro maintain that loss of the pound sterling would also mean loss of control over **monetary policy** and make the United Kingdom vulnerable to economic problems from the European continent.

Government policy continues to emphasize low inflation. In 1999, the kingdom's **inflation rate** was 2.3 percent, down a full percentage point from 1996. However, many economists contend that the official inflation rate is actually about one point lower than it should be. The government has also worked to lower unemployment, which stood at 6 percent in 1999. There are few restrictions on foreign companies in the United Kingdom,

and the government has adopted a variety of programs to attract foreign investment and foreign businesses. One result of these efforts is that the United Kingdom and the United States are the largest foreign investors in each other's markets. The only significant restrictions on foreign ownership of businesses are those firms in the broadcasting, air and maritime transport, fishing, and defense sectors. For instance, foreign ownership of a British airline is limited to 49 percent.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

The United Kingdom has one of the most developed and extensive **infrastructure** systems in the world. Increasingly, many aspects of the infrastructure, including roads, railways and the communication systems, are aging and in need of repair. Because of constraints on the government's budget, London has endeavored to transfer responsibility for the maintenance and construction of new roads to local and regional governments. There are also increasing efforts to transfer control of infrastructure projects to private industry. To achieve these transfers, the government has 2 main programs, Public-Private Partnerships (PPP) and Private Finance Initiatives (PFI). The 2 programs use public funds to establish private corporations that then engage in infrastructure projects. PPP and PFI programs mean that the private companies take any risks in these projects, but also retain any profits. The government has also initiated privatization programs in the kingdom's infrastructure. Telecommunications, utilities (including electricity), gas and water supply, and passenger rail service have all been privatized.

The United Kingdom has 371,603 kilometers (230,914 miles) of roadways. This includes 3,303 kilometers (2,052 miles) of expressways. There are few roads that are not paved in some fashion. The kingdom also has 16,878 kilometers (10,488 miles) of railways. The majority of this track is standard gauge and one-quarter of it is electrified. Northern Ireland has 342 kilometers (212 miles) of older 1.6 meter gauge track. The extensive road and railway networks facilitate the movement of goods throughout the kingdom. The large oil and natural gas fields in the North Sea have led to the construction of lengthy pipelines to transport energy resources from the fields to refineries in the kingdom. There are 933 kilometers (580 miles) of crude oil pipelines, 2,993 kilometers (1,860 miles) of pipelines for other types of petroleum products, and 12,800 kilometers (7,954 miles) of natural gas pipelines. There is also an extensive network of canals and waterways which total 3,200 kilometers (1,988 miles).

Since the United Kingdom is an island, it is dependent on the maritime and air transport of goods. The nation has some of the world's busiest ports such as London, Glasgow, Manchester, and Portsmouth. Other major ports include Aberdeen, Belfast, Cardiff, Dover, Falmouth, Hull, Leith, Liverpool, Peterhead, Scapa Flow, Tees, and Tyne. These ports handled some 4.08 million tons of cargo per year. The kingdom has a large merchant marine, which totaled 173 ships in 2000. Of these, 50 ships were petroleum tankers, 39 were container vessels, 33 were general cargo ships, and 10 were passenger cruise ships. The British account for 6 percent of the world's maritime trade. The United Kingdom has 498 airports, of which 357 have paved runways. There are also 12 heliports. The nation's largest national airline is British Air. In 1997, the British air market totaled 130 million passengers and 17.9 million tons of cargo. By 2015, that market is expected to total 300 million passengers.

One of the most significant infrastructure projects in the history of the kingdom was the completion in 1994 of the Channel Tunnel, popularly known as the "Chunnel." This 35-kilometer (22-mile) tunnel under the English Channel connects England and France. For the first time in its history, the United Kingdom had a direct, if limited, land route for the transport of goods and people to and from the continent. Since its opening, the amount of goods that are transported through the Chunnel has grown by almost 20 percent per year.

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
United Kingdom	329	1,436	645	45.9	252	33.9	263.0	270.60	12,500
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Germany	311	948	580	214.5	170	73.1	304.7	173.96	14,400
France	218	937	601	27.5	188	47.4	207.8	110.64	5,370

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

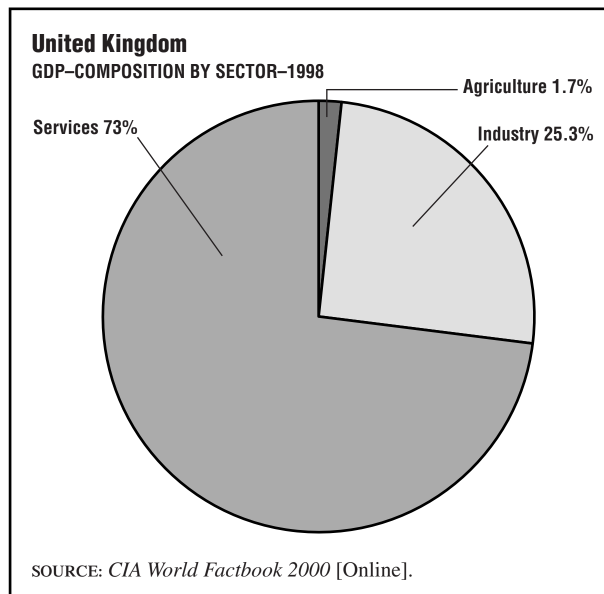
SOURCE: World Bank. *World Development Indicators 2000.*

The kingdom's communication systems are technologically advanced and sophisticated. The system has a mixture of underground cables, microwave relay systems, and fiber-optic links. The islands have 40 undersea cables that provide communications links with Europe and the Western Hemisphere. There is also an extensive satellite system that is supported by 10 earth relay stations. Mobile phone use has increased dramatically. Between 1993 and 1997, the number of cellular phone users increased by 294 percent. By 1998, there were 13 million mobile phones in use, but by 1999, that number had increased to 21.8 million. Internet usage has also increased substantially. In 1999, there were 364 Internet service providers. Approximately 8.6 million homes in the United Kingdom have Internet access (about 35 percent of all homes). This is 4 times the number of homes with Internet access from the previous 2 years. Two government-owned corporations, the British Broadcast Corporation (BBC) and the Independent Broadcasting Authority (IBA), provide television and radio service throughout the kingdom. The BBC also provides a world radio service with broadcasts in many languages. Increasingly, consumers are using satellite and cable television in order to access programming from other nations, particularly the United States.

Consumption of electricity in the United Kingdom was 333.012 billion kilowatt hours (kWh) in 1999. Domestic production of electricity that same year was 342.771 billion kWh. Electrical production was dominated by fossil fuels at 69.38 percent, followed by atomic power with 26.68 percent and hydroelectric generation at 1.55 percent. Renewable energy sources accounted for only 1.79 percent of production.

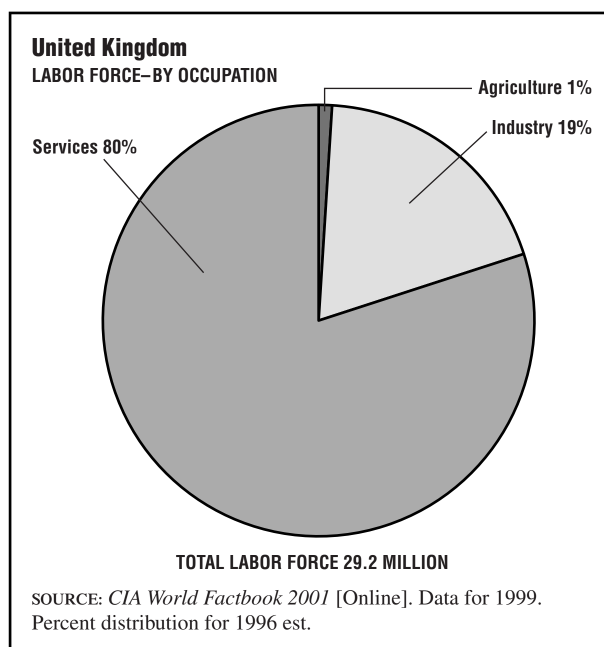
ECONOMIC SECTORS

The economic sectors of the United Kingdom follow the pattern of most economically developed nations. The economy is dominated by the service sector, while industry and agriculture continue to decline in overall importance. Services are dominated by the financial sector and telecommunications. British firms have done especially well in overseas markets. During the last half of the 1900s, industrial decline was greatest. While many nations around the world invested in new technology and built new manufacturing plants, British firms were handicapped by a heavy tax burden and high labor costs. By the 1970s, few British firms were able to compete. However, during the 1980s, government privatization programs and legislation that reduced taxes and **liberalized** corporate law helped strengthen British industry. Corporations in specific industries, including the aerospace, energy, and steel sectors, are competitive and include some of the world's largest international firms. British agriculture is highly productive and is able to meet most of the kingdom's domestic needs.



SOURCE: *CIA World Factbook 2000* [Online].

The agricultural sector declined significantly during the 1900s. It now accounts for only a small percentage of the nation's workforce and GDP. In 1999, agriculture and fishing accounted for 2 percent of employment and 1.7 percent of GDP. The industrial sector has also declined in recent years. In 1999, industry employed 22.1 percent of the workforce and contributed 25.3 percent of the kingdom's GDP. Throughout the 1990s industrial production, with the exception of the energy sector, declined. In 1999 industrial production decreased by 0.3 percent. In the



SOURCE: *CIA World Factbook 2001* [Online]. Data for 1999. Percent distribution for 1996 est.

same year, the service sector accounted for nearly 76 percent of employment and 73 percent of GDP.

AGRICULTURE

British agriculture is highly mechanized and productive. It is among the most efficient in Europe. With only 2 percent of the workforce, British agriculture and fishing provides 60 percent of the kingdom's food needs. In 1999, there were 500,000 tractors in use in the United Kingdom, 157,000 milking machines, and 47,000 harvesters. Large-scale agriculture is concentrated in the fertile soils of the southeast region of England. Diseases such as hoof and mouth disease and mad cow disease have led to declines in the livestock sector. In 1999, production in the sector declined by 3.78 percent. Concerns over the potential spread of these diseases have led to broad bans on the importation of British beef and veal by a variety of nations, including the EU countries and the United States.

In 1998, the total value of British agricultural exports was US$17.89 billion. Agricultural imports totaled US$30.76 billion. Approximately 18.5 million hectares are devoted to agriculture in the United Kingdom. Of this total, about 5 million hectares are used for crops and the rest for grazing livestock. In 1998, there were about 615,000 Britons engaged in agriculture for a living, of which approximately 80,000 were seasonal workers.

The primary crops include cereals, oilseeds, potatoes, and vegetables. Primary crop production in 1999 was 38.81 million metric tons. In 1996, production grew by some 15.43 percent, but there were declines of 1.14 percent in 1997 and 6.18 percent in 1998. These declines were stopped by a rise in production of 0.74 percent in 1999. Wheat is the largest individual crop. In 1999 total production of wheat amounted to 14.87 million metric tons. This marked a decline from previous years, including a recent high point of 16.1 million metric tons in 1996. Declines in wheat production have been driven by lower demand. The second largest crop is sugar beets. Production in 1999 was 10.33 million metric tons. That same year, potato production was 7.1 million metric tons and barley production was 6.5 million metric tons.

The primary livestock products include beef, veal, chicken, duck, goose, lamb, swine, and turkey. During the 1990s British beef and sheep farmers suffered from the outbreak of Bovine Spongiform Encephalopathy (BSE), commonly known as "mad cow" disease. The disease affects the nervous system of cattle and a similar disease, known as scrapie, affects sheep. Both are incurable. Ultimately, about 160,000 head of cattle were found to have BSE. No sooner had BSE been brought under control than a viral infection known as hoof and mouth or foot and mouth disease reached epidemic proportions. The disease is one of the most contagious in the world. By 2000, 408,000 cattle and sheep had been destroyed because of the disease and as many as 500,000 more faced future destruction. In an effort to prevent the spread of hoof and mouth disease, the government has ordered the inoculation of 200,000 cattle and the vaccination of an equal number of sheep. Concerns over the spread of foot and mouth disease have led most countries, including the EU nations and the United States, to ban imports of British livestock products.

In 1999, total livestock production was 3.59 million metric tons. Restrictions on the import of British beef and veal and the culling of herds in order to contain the spread of hoof and mouth disease have caused beef production to decline by one-third since 1995. Total beef production in 1999 was 678,000 metric tons. Lamb production has also declined since 1995 (by 20 percent) and production in 1999 was 361,000 metric tons. While there have been declines in these sectors, output of other livestock products has increased. Chicken production increased from 1.07 million metric tons in 1995 to 1.19 million tons in 1999, while swine output increased slightly from 1.01 million metric tons in 1995 to 1.04 million metric tons in 1999. The production of duck meat increased from 30,000 metric tons in 1995 to 41,000 metric tons in 1999. In 1998, there were 11.52 million head of cattle, 8.1 million pigs, 44.5 million sheep, and 61.4 million chickens and other fowl.

Fishing production in the United Kingdom increased from approximately 936,000 metric tons in 1993 to more than 1.1 million metric tons in 1999. In 1999, the total value of fish exports was US$1.3 billion. The main fish catches are cod, haddock, whiting, mackerel, herring, and shellfish. In 1998 haddock was the largest catch at 82,800 tons, followed by cod at 72,700 tons, and mackerel at 54,400 tons. Total shellfish catches exceeded 124,000 tons. The British fishing fleet numbered 7,639 ships in 1998, down from 11,189 in 1990. That same year there were about 18,000 people employed in the fishing sector. Exports of fish and shellfish amounted to £743.7 million.

For most of the 1900s, there was little significant production of forest products in the United Kingdom. Most of the land had either already been cleared or was owned by private or state entities. However, during the 1990s, production of forest products began to increase as the various species of trees on timber farms began to reach maturity. Production of forest products, mainly timber, increased from 7,093 metric tons to 10,094 metric tons in 1999.

INDUSTRY

British industry is a combination of publicly- and privately-owned companies. Since the 1980s, successive governments have worked to privatize most state-owned

industries, but concerns over unemployment and public opposition to further privatization has slowed future plans. Examples of industries that remain owned by the government include railways, ship building, and some steel companies. Major segments of British industry include energy, mining, manufacturing, and construction.

One of the strongest components of the British economy is the energy sector. The United Kingdom is a net exporter of energy. In addition to oil, the kingdom has abundant reserves of natural gas, coal, and atomic power. Most of the kingdom's energy resources are concentrated in the North Sea. Currently there are more than 100 active oil and natural gas fields. In addition to the British companies operating in the area, there are a number of international firms, including Texaco, Philips Petroleum, and Chevron. The main energy resource is oil. The kingdom's proven reserves of oil exceed 5 billion barrels. In 1999, oil production reached it highest level at an average of 2.95 million barrels per day at 15 major oil refineries. Continued international demand for oil will lead companies to maintain these high levels of output. One distinguishing characteristic of the British energy industry has been consolidation. Many medium- and small-sized companies have merged or been bought out. The natural gas industry has been marked by increasing liberalization following the 1986 privatization of the state-**monopoly** British Gas. This was followed by the 1994 privatization of the nation's coal industry. The coal sector has undergone a dramatic decline. Coal production fell from 119 million short tons in 1986 to 46 million short tons in 1999.

The mining of minerals has declined over the past thirty years as the stocks of various minerals have been depleted. However, because British companies have substantial refining capabilities, many have switched to the processing of imported minerals. The main minerals still being mined are lead and tin. There is also significant production of refined metals such as aluminum and steel. The United Kingdom has substantial production of minerals used for construction. These include clay, kaolin, and gypsum. Britain is a major cement producer. About 75 percent of the market is controlled by 2 companies, Blue Circle Cement and Castle Cement. Blue Circle also controls about 25 percent of the Canadian market. British Steel is Europe's largest steel producer with revenues of US$12 billion. In the United Kingdom, British Steel produces about 13 million metric tons of steel per year. However, competition from foreign companies has led to plans by the manufacturer for significant reductions in the number of workers over the next 5 years.

MANUFACTURING. The manufacturing sector in the United Kingdom is diverse and includes industries that range from aerospace to automobiles to chemicals. In 2000, there were 4.14 million Britons employed in manufacturing. There are 1,500 aerospace companies in the United Kingdom. British Aerospace manufacturers had revenues of US$12.8 billion, including exports of US$9.2 billion. About half of the British aerospace industry is geared toward the production of military aircraft and parts. Several British defense manufacturers, including British Aerospace (Bae), are the among the largest arms firms in the world. In 2000, the United Kingdom was the world's fourth-largest arms exporter. British weapons sales included missiles, ships, tanks, and aircraft. Most of the sales were concentrated to countries in the Middle East such as Kuwait, Saudi Arabia, and the United Arab Emirates.

The United Kingdom is also one of the foremost publishing centers in the world, publishing more than 50,000 book titles per year. Several major British publishers, including Pearson and Palgrave, have moved into the American market by purchasing U.S. firms. Automobile manufacturers have a long and productive history in the United Kingdom. However, many British firms have recently been purchased by foreign companies. For example, Jaguar and Aston Martin are now owned by Ford, while Rover is owned by BMW. The world-renowned Bentley is now owned by the German firm Volkswagen, and after 2003, BMW will own Rolls Royce automobiles. Japanese automobile manufacturers such as Nissan, Honda, and Toyota have plants in the United Kingdom, and produce a combined 700,000 cars per year. Automobile manufacturers and car part makers employ some 850,000 British workers. In 2000, UK firms produced 1.629 million cars. Of this number, 1.138 million were exported. British manufacturers also produced 185,905 commercial vehicles, mainly trucks. Unlike cars, most commercial vehicles are made for the domestic market (only 74,922 were exported in 2000).

The British chemical industry has averaged 5 percent annual growth since the early 1990s. Most of this growth has been concentrated in the pharmaceutical sector, where demand for new medical products has risen dramatically. The increased demand for prescription and over-the-counter drugs has led to a drug store market that includes some 12,000 pharmacies. The chemical sector was worth US$56 billion, of which US$12.6 billion was pharmaceuticals.

After several years of decline, the construction industry rebounded in 1999 because of dramatic increases in the housing market. After several years of strong economic growth and increases in wages, many workers began to purchase new homes, or add expansions to their existing homes in 1999. Government spending on new projects, including hospitals, public housing, and government buildings, has also helped stabilize the market. In 2000 there were 1.8 million Britons employed in construction.

SERVICES

The service sector dominates the British economy. Business and financial services alone provide jobs for 5.23 million Britons, and in overall terms, services provide employment for 21.36 million Britons. Much like this segment in the United States, the British service sector is highly diversified and marked by high levels of competition. This provides consumers with wide choices over products and keeps prices in check. One trend in some segments of the service sector has been the emergence of large companies and the disappearance of smaller firms. This is especially true in the **retail** and food sectors. Like their American counterparts, British consumers tend to prefer "one-stop" shopping at stores where they can find a variety of products that range from groceries to hardware to apparel. The result has been the decline of traditional supermarkets and department stores and the emergence of hyper-markets (large chain stores that combine the different products and services of a grocery store, pharmacy, hardware or automotive store, and a department store) such as Wal-Mart. The main elements of the service sector include telecommunications, financial services, retail, and tourism.

TELECOMMUNICATIONS. The British telecommunications sector is currently worth US$34 billion. This equates to 2 percent of GDP and 1.7 percent of consumer spending. About 96 percent of British homes have a telephone, and there is an increasing demand for second telephone lines for computer or fax access. The market is adding about 500,000 new telephone land-lines per year. British Telecom is no longer a state monopoly, but it still dominates the British telecommunications sector with about 80 percent of the business market and 64 percent of the consumer market. Many U.S. companies have had success in the United Kingdom's long distance market, including Sprint, MCI, and AT&T. There are 4 companies with licenses to offer cellular service. These include the British Telecom-owned BT Cellnet, Vodafone, One-2-One and Orange.

The United Kingdom has an expanding e-commerce market. In 1999, the market was worth US$3 billion. There are about 9,000 companies primarily involved in e-commerce, and 72,000 that do some business over the Internet. E-commerce companies range from booksellers to food delivery services. Meanwhile, the computer software market was worth US$10.3 billion. Personal computer use is expected to increase by 15 percent over the next few years. Computer software sales and supplies totaled US$39 billion in 2000.

FINANCIAL SERVICES. British insurance firms dominate the maritime insurance market and provide insurance for about 25 percent of the world's merchant ships. London is a major international center for buying and selling currencies from around the world; almost one-third of all foreign exchange transactions in the world take place in London. In addition, 25 percent of all banking assets in the EU are located in the United Kingdom and the kingdom's banks accounted for 21 percent of all cross-border lending. The prominence of the United Kingdom as an international financial center is reflected by the number of banks and financial institutions in the country. There are 420 different banks in the United Kingdom. Of these, 190 are incorporated in the kingdom, 103 are banks from the EU, and 127 are from other countries in the world. The British banking sector is worth £2.66 trillion. Banking employs 415,000 people, or about 1.7 percent of the workforce. The British banking sector is dominated by banking groups or consortia of several different individual banks. The largest of these is Lloyds TSB. Lloyds TSB is made up of 8 banks with 2,529 branches. The second largest bank group is Barclays, with 1,899 branches in the United Kingdom. There are 37 different American banks with branches in the United Kingdom, including branches of Citibank, Bank of America, American Express, and Bank Boston.

RETAIL. Franchises account for a significant share (one-third) of the British retail sector. This includes about 40 American franchises that employ about 30,000 workers in 3,000 stores and have revenues of US$1.65 billion. American specialty clothing stores such as The Gap, Calvin Klein, and Tommy Hilfiger have done especially well in the US$40 billion United Kingdom clothing and apparel market. Retail food sales in the kingdom in 1998 were US$81.5 billion. Five major supermarkets control about 70 percent of the retail food market. These 5 companies are Tesco, Sainsbury, Asda/Wal-Mart, Safeway, and Somerfield. Restaurant sales in 2000 were US$25 billion and bar sales (which include food since many British citizens eat at pubs that serve both food and alcohol) were US$30 billion. There are 12 American restaurant franchisers in the United Kingdom, ranging from Denny's to Subway to Kentucky Fried Chicken (KFC). McDonald's alone operates 750 restaurants in the United Kingdom.

TOURISM. The hotel industry in the United Kingdom is worth US$10 billion alone. There are 22,000 economy hotels in the country and 10,000 medium to high-class hotels. One demonstration of the strength of the hotel sector is the fact that occupancy rates average 80 percent nationwide. Travel Inn and Travelodge account for 75 percent of the low-budget hotels in the kingdom while international firms such as Holiday Inn and Sheraton constitute a significant percentage of the upper scale lodgings. In 1997, about 25.5 million tourists visited the United Kingdom. This represented a 28 percent increase since 1993. In 1997, tourist revenues amounted to US$20 billion.

Trade (expressed in billions of US$): United Kingdom

	Exports	Imports
1975	43.423	53.343
1980	110.134	115.545
1985	101.252	108.957
1990	185.172	222.977
1995	242.042	263.719
1998	271.865	314.106

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

INTERNATIONAL TRADE

The United Kingdom's economy is dependent on foreign trade. The government supports free and unrestricted trade and has championed international trade organizations such as the World Trade Organization and the EU. Because of its dependency on trade, the British have few restrictions on foreign trade and investment. Of the kingdom's 500 largest corporations, 60 are American. The United Kingdom's main trade partner is the EU. Some 58 percent of the kingdom's exports go to EU nations. Its main EU partners are Germany, which accounts for 12 percent of exports; France, with 12 percent; and the Netherlands with 8 percent. The United Kingdom's largest single market is the United States, which accounts for 13 percent of its exports. The United States also provides 14 percent of the kingdom's imports. As a combined group, the EU provides 53 percent of British imports. Germany provides 13 percent, France 9 percent, the Netherlands 7 percent, and Italy 5 percent. The United Kingdom has trade treaties with 90 different nations.

The strength of the British pound and the state of the economy has made the United Kingdom an attractive investment area for foreign investors. The kingdom is the world's second-largest destination for investment. About 30 percent of all foreign investment going into the EU is directed at the United Kingdom. The British also invest heavily in other nations. In 1998, the United Kingdom had US$120 billion invested abroad. The United States is the largest single investor in the United Kingdom and accounts for 44 percent of all foreign investment in the United Kingdom. In 1997, U.S. investment in the United Kingdom amounted to US$138.8 billion. The total U.S. investment in the United Kingdom is more than the total American investment in Germany, France, Italy, and the Netherlands combined. In overall terms, foreign investment accounted for 5 percent of GDP.

For several decades, the United Kingdom has had a trade deficit, as it has imported more goods and services than it has exported. In 1998, the trade deficit amounted to US$35 billion or 1.5 percent of GDP. However, because of the attractiveness of the kingdom to foreign investors, new investment capital continues to allow the British to fund this deficit because the new investment monies exceed the money the kingdom loses through its trade deficit.

Foreign companies provide 40 percent of British exports and they have a significant presence in the manufacturing sector. About 20 percent of manufacturing companies are foreign-owned and 16 percent of employment in the sector is tied to foreign firms. In 1998 there were 25,800 foreign companies in the United Kingdom. Among the major international companies in the United Kingdom are Dupont, with sales in 1998 of US$2.7 billion, the Swiss chemical company Ciba, with sales of US$2.3 billion, and Coca-Cola, with sales of US$2.1 billion.

In order to attract foreign businesses and foreign investment, the British government has adopted a variety of programs. For instance, the Parliament allows local and regional governments to establish enterprise zones. In these zones, companies receive exemptions from property taxes and reimbursement for costs involved in the construction of new factories or business locations. These inducements may be extended for up to 10 years. There are also programs that provide incentives for companies to locate in economically depressed urban areas that are known as "Assisted Areas." In 1998, the total value of these programs was US$315 million. There are 7 **free trade zones** in the United Kingdom (Birmingham, Humberside, Liverpool, Prestwick, Sheerness, Southampton, and Tilbury). These zones allow goods to be stored for shipment without tariffs or import duties.

MONEY

The British pound sterling has traditionally been one of the world's strongest currencies. In fact, the recent increase in value of the pound relative to other currencies such as the yen or the dollar has meant that goods imported are worth less than similar goods manufactured in the United Kingdom. It has also meant that British exports are more expensive than similar goods from other nations. In 1995, 1 U.S. dollar was equal to 0.6335 pounds. By 2000, 1 U.S. dollar was only equal to 0.6092 pounds.

London is one of the world's leading financial centers. The London Stock Exchange is the nation's largest stock exchange. In 1999, there were 1,945 companies listed on British stock markets. Total stock value in 1999 was US$2.93 trillion. While the British market is generally free and open, there are restrictions on foreign stock ownership of companies that the government still partially owns. In the case of state-owned companies, foreign ownership is limited to 49 percent of stock.

Exchange rates: United Kingdom

British pounds per US$1	
Jan 2001	0.6764
2000	0.6596
1999	0.6180
1998	0.6037
1997	0.6106
1996	0.6403

SOURCE: CIA *World Factbook 2001* [ONLINE].

GDP per Capita (US$)

Country	1975	1980	1985	1990	1998
United Kingdom	13,015	14,205	15,546	18,032	20,237
United States	19,364	21,529	23,200	25,363	29,683
Germany	N/A	N/A	N/A	N/A	31,141
France	18,730	21,374	22,510	25,624	27,975

SOURCE: United Nations. *Human Development Report 2000; Trends in human development and per capita income.*

In 1997, the government gave the Bank of England independence in currency matters. This means that the bank, not the government, is now responsible for monetary policy in the United Kingdom. The Bank sets the interest rates in the country and controls the amount of currency in circulation. One of the main policy goals of the bank is to keep inflation low, with a target of maintaining inflation at 2.3 percent. The bank has allowed the **foreign exchange reserves** of the United Kingdom to decline from US$42 billion in 1995 to US$32 billion in 1998 and US$29.8 billion in 1999. The reason for this decline has been the effort of the Bank of England to increase the amount of money in circulation (since 1995, the bank has increased the amount of currency by 7 percent per year). Partially because of these increases, inflation remains low—1.6 percent by government estimates in 2000.

POVERTY AND WEALTH

The United Kingdom has traditionally had deep divisions between the wealthy and poor. Unlike the United States, the middle class of the United Kingdom is smaller and there continues to be a more formal class system in the country. The United Kingdom has the highest degree of income inequality of any of the EU nations. The wealthiest 10 percent of the population controls 24.7 percent of the kingdom's wealth, while the poorest 10 percent controls only about 2.4 percent of wealth. Most significantly, since 1990 the poorest segment of the British population has seen a decline in income of about 8 percent, while the richest sector of the population has seen an increase in income of almost 68 percent. About 17 percent of the British population is considered to live in poverty. However, it should be noted that unlike most other developed nations, the United Kingdom does not have an official definition of poverty. Nonetheless, a government survey estimated that 22 percent of Britons were underpaid (paid at a rate that would not support the housing, food, and transportation needs of an individual).

The poor in the United Kingdom suffer from a variety of impediments that make it difficult to advance economically or socially. For instance, 20 percent of all Britons do not have a bank account. In addition, the infant mortality rate for the poor was 8.9 deaths per 1,000 births, while the rate for the middle class was 5.3 deaths per 1,000 live births, and only 4 deaths per 1,000 live births for the wealthiest families. Finally, the middle and upper classes have an average life expectancy that is 7 years longer than that of the poor. Poverty in the United Kingdom is partially alleviated by several social security programs. The most significant of these is the national health care system, or NHS. This provides essentially free health care to all Britons. However, recent economic problems with NHS has led to efforts to economize and some reduction in services. Studies continue to show that the more affluent parts of society have better health care since they can afford some private medical services.

The country's first minimum wage law did not go into effect until 1999. Since that time, government agencies have collected US$4 million for employees who were still paid less than the minimum wage of US$5.50 per hour. While poverty rates increased in the United Kingdom during the 1990s, the unemployment rate decreased. In 2000, unemployment stood at its lowest level since the 1970s at 6 percent. However, unemployment rates are higher among several groups including minorities, Catholics in Northern Ireland, and the country's

Distribution of Income or Consumption by Percentage Share: United Kingdom

Lowest 10%	2.6
Lowest 20%	6.6
Second 20%	11.5
Third 20%	16.3
Fourth 20%	22.7
Highest 20%	43.0
Highest 10%	27.3

Survey year: 1991

Note: This information refers to income shares by percentiles of the population and is ranked by per capita income.

SOURCE: *2000 World Development Indicators* [CD-ROM].

Household Consumption in PPP Terms

Country	All food	Clothing and footwear	Fuel and power[a]	Health care[b]	Education[b]	Transport & Communications	Other
United Kingdom	14	7	9	3	3	6	58
United States	13	9	9	4	6	8	51
Germany	14	6	7	2	10	7	53
France	22	7	9	3	8	12	40

Data represent percentage of consumption in PPP terms.
[a]Excludes energy used for transport.
[b]Includes government and private expenditures.

SOURCE: World Bank. *World Development Indicators 2000.*

youth. In order to help families who only earn minimum wage, the working families tax credit was established in 1999 to provide all families with a minimum weekly income of US$320. About 1.5 million British families receive some government assistance.

Poverty rates are highest among ethnic minorities. For instance, the poverty rate and unemployment is twice as high for people of African descent than it is for white Britons. Minorities receive only about 90 percent of the pay of their white counterparts in similar occupations. Although ethnic minorities make up only 2.8 percent of the population, they make up 12 percent of the poor. Women face even greater degrees of economic discrimination than do minorities, especially in hiring, promotion, and pay. On average, women receive only about 84 percent of the pay of their male counterparts who are working in the same jobs. A recent government report predicted that it would be the year 2040 before women gained **equity** in pay. About 44 percent of all women work, but women also have the highest rate of part-time work (45 percent of all women have only part-time jobs).

WORKING CONDITIONS

Under British law, all workers have the right to establish unions except those in law enforcement and the military. The 1999 Employment Relations Act reformed the regulations concerning unions and workers' rights. The law formalizes a worker's right to strike. In addition, the law mandates that all companies with 20 or more employees must allow unionization. About 30 percent of the British workforce is unionized. Union membership is highest in the construction and manufacturing sectors. The number of strikes in the United Kingdom has decreased by 43 percent since 1990. Among the 15 members of the EU, the United Kingdom had the sixth-lowest strike rate. On average, British companies lost 12 days per year per 1,000 workers due to strikes.

Forced labor is illegal, and children under the age of 16 are not allowed to be employed as industrial workers. The national minimum wage is US$5.50 per hour, but youths under the age of 18 may be paid a lower rate of US$4.75 per hour. Currently about 1.5 million British workers earn the minimum wage. New labor legislation enacted in 1999 established a 48-hour maximum work week. However, the average work week for most workers is between 37.5 and 40 hours. People employed in the financial sector tend to have shorter hours, while those employed in construction and other forms of manual labor have longer work weeks. Workers also receive mandatory rest periods after 4 hours of work each day and at least one day's rest per week (most Britons work a 5-day work week). Laws mandate additional pay for overtime work. In addition, national laws require that full-time workers receive a minimum of 4 weeks paid vacation per year.

Flexible work schedules (allowing workers to choose when to work their hours during the week) are becoming popular among both employers and employees. In 2000, 24 percent of all British workers reported some flexibility in their schedules. Workers who telecommute (use a computer to work from their home) make up 1 percent of the workforce.

One major problem that continues to affect British workers is a lack of mobility. British workers seldom change geographic location, even if they are unemployed. British workers are traditionally reluctant to change jobs and have one of the lowest rates of job transfer in the EU. In order to overcome this social phenomenon, the government has enacted a variety of worker retraining programs. Worker retraining in the United Kingdom increased by 8 percent from 1995 to 2000.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

600s B.C. Celts begin to settle the British Isles.

55–44 B.C. Under Julius Caesar, Rome invades and ultimately conquers Britain.

901. The West Saxons, under Alfred the Great, conquer most of England.

1066. The French duke William the Conqueror defeats the Saxon forces under Harold Godwin and establishes a Norman dynasty.

1154–1189. Henry II establishes the Angevin dynasty and consolidates royal power through a series of political and legal reforms. The nation also begins a period of economic growth.

1215. The Magna Carta is signed. The document gives increased political power to the kingdom's nobles while it reduces the power of the king. The Magna Carta forms one of the components of the kingdom's contemporary constitution.

1337. The Hundred Years' War with France begins.

1415. Scottish forces under Robert the Bruce win the Battle of Bannockburn, which guarantees Scottish independence for several centuries.

1509–1547. Henry VIII breaks with the Catholic Church and establishes Anglicanism as the official religion.

1588. Under Elizabeth I, the British become a global power and defeat the Spanish Armada. British merchants begin trading with India and North America.

1600s. Numerous colonies are established in North America and the Caribbean. Trade patterns develop in which Great Britain imports raw materials from its colonies which are converted into manufactured goods and sold back to the colonies.

1642–1649. Civil War between the Royalists—who support the Catholic King Charles I—and the Puritans results in the beheading of the king.

1660. The monarchy is restored under Charles II.

1688. The Stuarts are overthrown during the "Glorious Revolution." The English Bill of Rights is adopted and William and Mary of the House of Orange ascend to the throne.

1707. The Treaty for the Union of Scotland and England creates a single monarchy for the 2 countries.

1760–1820. The reign of George III witnesses the loss of colonies in North America, but the general expansion of the empire. The British lead the coalition that defeats Napoleon in 1815.

1800s. Wide expansion of the empire and industrialization takes place. There is significant emigration from the British Isles to North America and other colonial areas such as Australia.

1832. Slavery is abolished in the empire.

1890s. Nations such as Germany and the United States overtake Great Britain as the dominant industrial powers in the world.

1914–1918. World War I deals major blow to British imperial supremacy.

1922. The 26 counties of southern Ireland are granted independence and form the Irish Free State (later the Irish Republic).

1939–1945. World War II. Alone among the major Western European powers, the British hold out against the Axis and are one of the 3 main powers, along with the United States and the USSR, in the wartime coalition that defeats the Axis.

1945. Widespread economic **recession** extends throughout the United Kingdom and its empire.

1947. India and Pakistan are granted independence.

1948. The National Health System (NHS) is created. Independence is granted to Burma and Ceylon (now Sri Lanka).

1952. George VI dies and is succeeded by his daughter, who is crowned Elizabeth II.

1970. Oil is discovered in the North Sea.

1972. As unrest escalates into violence in Northern Ireland, direct rule is imposed by London.

1973. The United Kingdom joins the European Community (now the EU). The Bahamas gains independence.

1975. Full production of offshore oil in the North Sea begins.

1979. Conservatives return to power with a substantial majority under Margaret Thatcher, Western Europe's first female prime minister. Thatcher implements a number of economic reforms which privatize industries and cut corporate taxes.

1982. Argentine military forces invade the Falkland Islands. These forces are defeated by the British during the Falkland Islands War.

1986. The natural gas industry is privatized.

1987. Thatcher wins a third term and ultimately becomes the longest-serving prime minister since Lord Liverpool in the 19th century.

1990. Economic problems and the proposal for an unpopular poll tax cause John Major to replace Margaret Thatcher as prime minister. The United Kingdom participates in the coalition that defeats Iraq in the Persian Gulf War.

1994. The "Chunnel" inaugurates direct transportation between the United Kingdom and France via a tunnel

under the English Channel. The outbreak of "mad cow" disease (BSE) significantly harms British agriculture. The coal industry is privatized.

1997. Discontent over the economy leads the Labour Party to win a general election and Tony Blair becomes prime minister. The colony of Hong Kong is returned to China. The Bank of England is granted full autonomy in monetary matters.

1998. Scotland and Wales are granted limited self-government. The Good Friday Peace Accords in Northern Ireland establish a regional assembly.

1999. The House of Lords is reformed and reduced in size. The kingdom declines to join the European Monetary Union. The United Kingdom participates in the NATO-led military campaign against Serbia during the Kosovo Crisis.

2000. Unemployment reaches its lowest level since the 1970s (6 percent). Foot and mouth disease affects almost 50 percent of British livestock, devastating the beef and sheep sectors.

FUTURE TRENDS

The British economy is sound and the country is poised for future growth. As a member of the European Union, the kingdom is able to export goods and services to the 14 other major economies of Western Europe without paying significant tariffs or duties. EU membership and the country's low tax burden have made it attractive to foreign companies. The United Kingdom continues to lead the EU in direct foreign investment with US$274 billion, or 22.95 percent, of the EU total (the number-two country is France with US$174 billion, or 14.57 percent). The availability of inexpensive labor and the well-developed infrastructure of the kingdom will also sustain the investment of new capital and new companies.

Since English is the primary language of the Internet, software development, telecommunications, and pharmaceuticals, the United Kingdom will draw high-tech industries well into the next century. The linguistic and cultural ties between the United States and the United Kingdom mean that tourism will continue to be a strong component of the economy. The kingdom's energy sector will further propel the economy since world energy prices will remain high for the foreseeable future.

There are, however, a number of issues that continue to create doubt about the British economy. Questions over the United Kingdom's relationship to the EU have created uncertainty in the economy. The government has indicated that it would develop criteria that might ultimately lead to the United Kingdom joining the European Monetary Union and adopting the euro as the country's currency. However, there is deep public sentiment against adopting the euro. During the 1990s, the EU implemented a ban on British beef because of mad cow disease. Although the rest of the EU ended the ban in 1996, France continues to enforce restrictions on British imports. These actions have created a backlash among the public against the EU and increased economic cooperation with EU members such as France. In addition, the euro has declined in value by 20 percent when compared with the British pound. These factors continue to constrain the ability of the government to adopt the euro.

One of the main political problems facing the United Kingdom is the status of Northern Ireland. For centuries, there has been an ongoing conflict in Ireland between the Protestants and the Catholics. When Ireland became independent in 1921, the 6 northern, mostly Protestant, counties remained part of the United Kingdom and became known as Northern Ireland. Since then, the pro-Catholic Irish Republican Army (IRA) has waged a terrorist campaign to reunite the 2 areas of Ireland. After years of difficult negotiations, in 1999 the "Good Friday Agreement" brought together both Catholics and Protestants in a regional assembly led by an elected executive committee. Problems arising over the implementations of the Agreement have delayed the ability of the executive committee to become the government of the region. Continued uncertainty over the future of Northern Ireland has significantly constrained the region's economy, as few firms are willing to invest in the area. Unemployment in Northern Ireland is the highest in the United Kingdom at approximately 10 percent.

The final major problem confronting the United Kingdom is the aging of the workforce. As the elderly population of the country continues to expand, the need for younger workers will become acute. The aging population will place strains on the country's already overburdened social security system. The most pressing problem for the social security is the National Health System (NHS).

DEPENDENCIES

THE CHANNEL ISLANDS AND THE ISLE OF MAN. The United Kingdom has a number of territories that are known as British Crown Dependencies. These areas were once directly owned by the British monarch. The main Crown Dependencies include the Isle of Man and the islands of Jersey and Guernsey (which are known as the Channel Islands). These regions are part of the United Kingdom, but they enjoy a significant amount of political and economic freedom. The Queen is the head of state of these dependencies and appoints the head of the government. The Channel Islands each have an appointed lieutenant-governor, while the Isle of Man is led by a chief minister chosen by the Queen. Each dependency

has its own elected assembly, which may enact legislation that does not conflict with the laws of the United Kingdom. These laws are subject to approval by the head of government. The kingdom has responsibility for the defense and foreign policy of the dependency, and judges are appointed by the Lord Chancellor of England (who is the chief justice of both England and Wales). In the Channel Islands, the Queen also appoints the bailiff, who is the chief law-enforcement officer.

The Isle of Man has a total area of 572 square kilometers (221 square miles). It is located in the Irish Sea, between Great Britain and Ireland. It is 3 times the size of Washington, D.C. In 2001, the population of the Isle of Man was 73,489. The Channel Islands are located in the English Channel between France and the United Kingdom. Jersey is a single island with a size of 116 square kilometers (45 square miles) and a population of 89,361. Guernsey consists of 4 main islands and a number of smaller islands. It has an area of 194 square kilometers (75 square miles) and a population of 64,342. On the Isle of Man, the Manx dialect of the Celtic language is spoken alongside English. In the Channel Islands, some people still use a Norman French dialect, while French is still used in Jersey for official ceremonies.

Because of their degree of independence in local economic matters, each of the dependencies has enacted legislation which has made the particular territory attractive to international banking and financial firms. Incorporation fees are low, as are corporate taxes. Individual taxation is also lower, mainly in the case of **estate taxes**. This has led many Britons to transfer funds to bank accounts in the dependencies.

In 1998, the GDP of the Isle of Man was US$1.2 billion. The GDP per capita was US$16,000. Agriculture accounts for 1 percent of GDP and employs 3 percent of the population. Industry comprises 10 percent of the GDP and 21 percent of the workforce. Services account for 89 percent of GDP and 76 percent of workers. The dominant forces in the economy are **offshore banking** and tourism. The main exports are clothing, herring, shellfish and livestock. The island has an astoundingly low unemployment rate of 0.7 percent. The currency of the Island is the Manx pound, which is fixed at a one-for-one **exchange rate** with the British pound. The dependency's main trade partner is the United Kingdom

The GDP of Jersey in 1999 was US$2.2 billion. Its GDP per capita was US$24,800. Agriculture makes up 5 percent of GDP, while industry accounts for 2 percent and services make up 93 percent. The service sector also dominates employment with over 90 percent of the workforce. Financial services account for 60 percent of GDP, while tourism accounts for 24 percent. Dairy production is also significant. Exports include dairy products, electrical goods, foodstuffs and textiles. Jersey's unemployment rate is also extremely low at 0.7 percent. The Jersey pound is the currency of the island, with an exchange rate of one-to-one with the British pound. The area's main trade partners are the EU and the United Kingdom

In 1999, Guernsey's GDP was US$1.3 billion. Guernsey's GDP per capita was US$20,000. Financial services tower over other sectors of the economy and provide about 53 percent of GDP. In overall terms, agriculture accounts for 3 percent of the economy, industry 10 percent, and services 87 percent. The islands have **full employment** with an unemployment rate of only 0.5 percent. The main exports of the islands include tomatoes, flowers and ferns, sweet peppers, eggplants, and fruit. The Guernsey pound is the currency of the islands. It is fixed to the British pound at a one-to-one exchange rate. The main trading partners of Guernsey are the EU and the United Kingdom.

BERMUDA AND THE CARIBBEAN TERRITORIES. At its height in the early 1900s, the British Empire controlled one-fourth of the world's territory and one-third of its people. Following World War II, most of the British colonies became independent. Some of the few remaining colonial possessions are in the Caribbean and North Atlantic. These areas are known as Overseas Territories and include Bermuda, the British Virgin Islands, the Cayman Islands, and the Turks and Caicos Islands. In each of the Territories, the Queen is the head of state and she appoints a governor-general to represent her. In turn, the governor general appoints the head of the government from the largest political party or group in the area's elected assembly. The Territories have a high degree of independence on local matters, but the United Kingdom remains responsible for foreign policy and defense matters. The United Kingdom also provides economic assistance to the territories, mainly in the form of aid for infrastructure projects such as roads and ports. This political connection between the Territories and the United Kingdom has proven to be very popular. In 1995, the residents of Bermuda soundly rejected a referendum that would have granted the islands independence. After signing an agreement for independence that was supposed to go into effect in 1982, the government of the Turks and Caicos Islands worked out an arrangement to remain a Territory and forego independence.

Tourism is the mainstay of the economies of all of the islands, although in recent years, several Territories have developed significant financial sectors by adopting very liberal banking laws. These rules imposed low incorporation fees and low taxes on financial gains and allowed citizens of other countries to keep large accounts in international banks with little scrutiny.

Bermuda consists of a series of small islands in the Atlantic Ocean, east of North Carolina. It has an area of just 58 square kilometers (22 square miles) and is about

0.3 the size of Washington, D.C. In 2001, the islands had a population of 63,503. Its 2000 GDP was US$2.1 billion. This gives Bermuda one of the highest per capita GDPs in the world (US$33,000). Bermuda's economy is concentrated on tourism and international banking. Each year, Bermuda receives about 360,000 tourists and that sector accounts for about 28 percent of GDP. Financial services account for 45 percent of GDP. About 1 percent of GDP is based on agriculture, 10 percent on industry, and 89 percent on services. The Territories' main trade partners are the United Kingdom, the United States, and Mexico. In 1995, Bermuda received US$27.9 million in foreign aid, most of it from the United States and the United Kingdom. The currency is the Bermudan dollar which is fixed to the U.S. dollar at a one-for-one exchange rate.

The British Virgin Islands are located in the Caribbean, just east of Puerto Rico. The islands are 150 square kilometers (58 square miles) in size and had a population of 20,812 in 2001. The GDP of the Territory was US$311 million in 2000, and its GDP per capita was US$16,000. The economy is dependent on tourism, which contributed 45 percent of GDP in 1999. About 350,000 tourists, mostly Americans, visit the islands each year. Reforms enacted in 1997 have made the region a haven for international insurance companies, and some 200,000 insurance companies are registered in the islands because of their low incorporation fees and liberal insurance regulations. Agriculture accounts for 1.8 percent of GDP, while industry, mainly construction, accounts for 6.2 percent, and services account for 92 percent. The nation uses the American dollar as its official currency and its main trade partners are Puerto Rico, the U.S. Virgin Islands, and the United States. The nation receives about US$3 million per year in economic aid, mainly from the United Kingdom.

The Cayman Islands were part of Jamaica until 1962. When Jamaica became independent, the Cayman Islands decided to remain part of the United Kingdom. The Islands are located in the Caribbean between Cuba and Central America. There are 3 main islands that have a total area of 259 square kilometers (100 square miles). Unlike the other territories, the Cayman Islands have an appointed governor who acts as the head of government. The islands have no **direct taxation** and, as a result, have become a major center for international companies and banks. In 1999, the islands had 600 international banks and over 44,000 corporations. Nonetheless, tourism provides 70 percent of GDP. Total GDP in 1997 was US$930 million and per capita GDP was US$24,500. The Cayman's main trading partners are the United States, the United Kingdom, and Japan. The territory has its own currency, the Caymanian dollar, which in 1999 had an exchange rate of 1 Caymanian dollar to 0.89 U.S. dollars.

The Turks and Caicos Islands were under the jurisdiction of Jamaica until that colony became independent in 1962. The islands were then administered by the British governor of the Bahamas. Full independence for the Turks and Caicos was set for 1982, but popular pressure led to the Territories remaining part of the United Kingdom. The Territory consists of 30 small islands with a total area of 430 square kilometers (166 square miles). In 2001, their population was 18,122. The Turks and Caicos had a GDP of US$128 million in 1999. Its GDP per capita was US$7,300. Tourism is the dominant factor in the economy, although government employs about one-third of the population. In 1998, 93,000 tourists visited the islands. Most of these were Americans. The Territory uses the American dollar as its currency and the United States and the United Kingdom are its main trade partners. The Turks and Caicos receive about US$6 million annually in foreign aid, most of it from the United Kingdom.

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—Tom Lansford

VATICAN CITY

The Holy See
Santa Sede

MONETARY UNIT: Vatican lira. One lira equals 100 centesimi. There are coins of 10, 20, 50, 100, and 500 lire. The Vatican lira is at par with the Italian lira, which also circulates as valid currency within the Holy See. Conversely, Vatican coins—similar in value, size and denomination to those of Italy, but carrying an image of the head of the Pope—are legal tender in Italy, and in San Marino, another tiny city-state in Italian territory. Despite this reciprocal arrangement between Italy and the Holy See, their monetary systems are separate.

GROSS DOMESTIC PRODUCT: Despite having no balance of trade figures, the Holy See registers a gross domestic product (GDP), which was estimated at US$21 million for 1999. The singular nature of the Holy See's economic structure has yielded considerable sums of money. In 1997, the CIA *World Factbook* recorded state revenues of US$209.6 million, against expenditures (including capital outlays) of US$198.5 million, thus registering an impressive budget surplus of US$11.1 million.

BALANCE OF TRADE: The Holy See imports almost all agricultural produce and other foodstuffs and all manufactured goods from Italy, which supplies all its water, gas, and electricity. It has no agricultural or industrial sectors and exports nothing. It therefore has no balance of trade statistics.

COUNTRY OVERVIEW

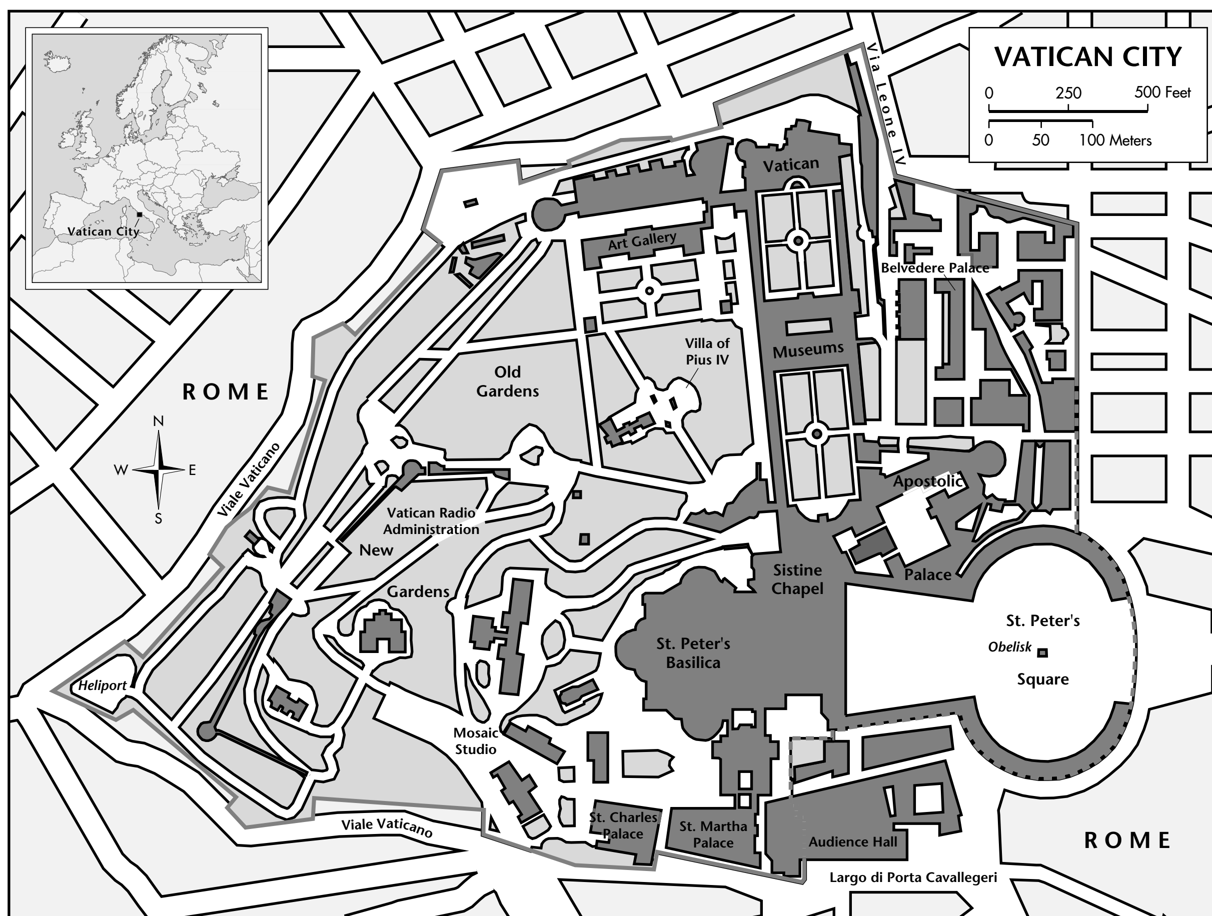
LOCATION AND SIZE. A Southern European state, the Holy See, or State of the Vatican City, is a landlocked urban enclave, situated entirely within the Italian capital city of Rome, which forms its only borders. With an area of only 0.44 square kilometers (0.17 square miles), it is approximately 0.7 times the size of The Mall in Washington, D.C. Outside the Vatican's walls, in Rome itself, is the Pope's summer residence, Castel Gandolfo, together with 13 other buildings that belong to Vatican City and fall under its jurisdiction. The length of the country's border, formed by medieval and renaissance walls except for St. Peter's Square in the southeast, is 3.2 kilometers (2.0 miles). The state, city, and capital are one and the same.

POPULATION. In July 2001, the population of Vatican City was estimated at 890, with an estimated growth rate of 1.15 percent. The birth rate is extremely low by the very nature of the Holy See, which exists primarily as the center of authority over the Roman Catholic Church throughout the world. Its citizenry is, therefore, largely ecclesiastical (relating to the Church), supplemented by (often elderly) officers and servants of the Church. However, other dignitaries, as well as priests, nuns, guards, and some 3,000 lay workers actually reside outside the Vatican. There is no such thing as Vatican nationality, although rights of citizenship are conferred on non-Italians, such as members of the Swiss Papal Guard who are the traditional sentries at the city gates. Passports, issued by the Holy See rather than the Vatican state, are for diplomatic purposes only, and possession of a Holy See diplomatic passport does not automatically entitle the holder to rights of entry, residency, or citizenship.

The official language of the state is Italian; the Papal Guard's language, which is made up of Swiss nationals, is German. Several other languages are spoken, and the official acts of the Holy See are documented in Latin.

OVERVIEW OF ECONOMY

The Holy See, often referred to as Vatican City or simply the Vatican, is the seat of the Roman Catholic Church and its ruler, the Supreme Pontiff or Pope. The Holy See is not only the world's smallest independent state, but the workings of its government and financial affairs are unique, as are its non-commercially based economic structures, which do not conform to any conventional



pattern. It is therefore not possible to examine or analyze the economy in terms of the usual sectors.

There is much confusion regarding the country's names, the Holy See and Vatican City. According to the country's permanent mission to the United Nations, the term Vatican City refers "to the physical or territorial base of the Holy See, almost a pedestal upon which is posed a much larger and unique independent and sovereign power: that of the Universal [Catholic] Church. . . . The State of Vatican City itself . . . possessed a personality under international law and, because of such, enters into international agreements. However, it is the Holy See which internationally represents Vatican City State." Since 1957, most agreements have been entered into by the Holy See as the supreme authority of the Catholic Church. The Holy See, then, refers to the governing bodies of the nation, while the term Vatican City refers to the physical nation.

The Holy See generates its substantial wealth through worldwide donations to the Church. These voluntary contributions are made by individuals of the Roman Catholic faith, and are known as Peter's Pence. The term dates back to the 8th century, when the custom of collecting money for the Church originated in the early English kingdom of Wessex, which imposed an annual tax of 1 penny (or pence) on each family to send to Rome. The custom spread, and nowadays, the largest sums are given by Catholics in the United States.

The Holy See has a special department to administer the funds that arrive annually and to distribute them according to the needs of organizations, charities, and individuals. However, because there are no rules governing when, how, or how much money is sent—or spent—it is not possible to give an accurate assessment of this income.

Additional revenues flow in from the massive number of tourists who visit the Vatican, and from international banking and financial activities that yield interest from substantial investments worldwide. A handful of small light-manufacturing enterprises within the state cater to particular domestic requirements such as printing of church publications, the production of uniforms for Vatican staff, the manufacture of religious mementos and mosaics for the tourist market, collectible items such as stamps and coins, and Vatican telephone cards.

Although the Vatican has never developed or promoted an organized tourist industry, tourism contributes

significantly to the economy of the tiny state. The Vatican is one of Europe's outstanding tourist attractions. The city is rich in history and priceless cultural treasures, and its unique geographical location makes for its effortless inclusion in the itinerary of any visitor to Rome. Aside from the Basilica of St. Peter's, visitors flock to the Sistine Chapel, whose magnificent ceiling frescoes by the Renaissance artist Michelangelo have been restored, and to the extensive Vatican museums and libraries. Substantial sums come from tourists' purchases of souvenirs (most of them religious in nature), postage stamps, coin issues, and publications, and from admission charges to the Vatican museums, which can accommodate 20,000 visitors daily.

The sale of stamps, in particular the sale of special series to stamp dealers and collectors, has turned into a sizable enterprise since these have great appeal and increase in value within weeks of their issue. A limited number of each series is sold to private dealers and collectors who place advance orders, and the rest to religious orders and other church institutions, which, in turn, sell them on to dealers at a handsome profit. Thus, both the Holy See and the Church as a whole derive considerable gain from the trade in stamps.

State expenditure relates to the maintenance of buildings and **infrastructure**, the financing of foreign visits made by the Pope or his emissaries, the running costs of diplomatic missions and overseas offices, financing of charities, and the publication of the state's newspaper, *L'Osservatore Romano*.

POLITICS, GOVERNMENT, AND TAXATION

The Holy See is a monarchical-sacerdotal state, which is to say that it operates as a monarchy in which the Pope is the "king" (monarchical), with senior members of the church hierarchy, appointed by the Pope, as the governing body (sacerdotal). The Pope himself is elected from candidates worldwide by 120 members of the College of Cardinals and is the chief of state as well as head of the Church. Appointed to office for life (the Polish cardinal, Karol Wojtila, became Pope John Paul II in 1978 and was still on the throne in 2001), the Pope has supreme executive, legislative, and judicial power over both the State of the Vatican City and the universal Roman Catholic Church. Given the wide scope of the Pontiff's authority, an intricate and complex structure of official agencies has been established to administer power within carefully designed categories. This structure is commonly known as the Roman Curia and its members are appointed and granted authority by the Pope.

The Holy See is recognized under international law and enters into certain international agreements, but, strictly speaking, it is not a civil state operating under civil laws, but an absolute monarchy in control of the Roman Catholic Church, ruling according to the Apostolic Constitution of 1967. It is as the Holy See rather than the State of the Vatican that the country sends and receives diplomatic representatives to and from around the world. The head of government, generally a cardinal or archbishop whose appointment and authority is conferred by the Pope, is the secretary of state. He presides over the Pontifical Commission, or cabinet. The legal system governing church matters is founded in canon, or ecclesiastical, law but judicial matters outside the Church are dealt with by the Italian judiciary in Rome.

There are no political parties in the country, but all cardinals under the age of 80 have the vote in electoral issues within the Church. Internally, the Swiss Guard has been responsible for the personal safety of the Pope since 1506, but in reality, its function is ceremonial and policing of the state is left to the Civil Guard. There is no military arm, and Italy takes responsibility for defense.

There are no taxes, no restrictions on the import or export of funds, and no customs or excise **duties** payable in the Vatican City. Employees of the Vatican pay no **income tax** and no customs duty on gasoline or goods that they buy in the Vatican. Non-Italians enjoy allowances on their monthly salaries.

The Holy See is a member of numerous international organizations and institutions, such as the International Telecommunications Satellite Organization (Intelsat), the Organization for Security and Co-operation in Europe (OSCE), and the United Nations High Commission for Refugees (UNHCR), although its status is sometimes that of an observer only. The Holy See is especially active within the framework of the United Nations (UN) and has permanent observer status at the UN's New York headquarters and Geneva offices. This also includes specialized UN branches such as the Food and Agriculture Organization in Rome, and the Educational, Scientific, and Cultural Organization in Paris. The Holy See has a member delegate attached to the International Atomic Energy Agency and the UN Industrial Development Organization in Vienna, and engages in diplomatic relations with the European Union (EU) in Brussels.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Vatican City has a heliport connecting to the Rome airport for the convenience of foreign visitors, and an 862-meter (about half a mile) rail track that connects to the Italian network at Rome's Saint Peter's station. This is used solely for carrying freight.

Regular telephone services within the Vatican began after it gained independence in 1929, when a number of telephones were installed via Rome's urban network to link various Vatican offices and residences. The state's first central telephone exchange, donated by American Catholics, was installed in 1930 and provided telephone service to approximately 360 end users. In 1960, this exchange was replaced by a new exchange with a capacity of 1,500 numbers, later expanding to 3,000. In June 1992, the Vatican's third central exchange was inaugurated, providing the city with a highly advanced state-of-the-art network, connecting 5,120 terminals, via optic fiber, to TelecomItalia's network and a radio link to extra-territorial zones.

The Vatican has its own post office, pharmacy, publishing house, influential radio station (Radio Vatican broadcasting throughout Europe), an Internet web site, an important observatory that hosts international astronomers' conferences, and a unique banking system that is central to the finances of the state.

SERVICES

There is no conventional service sector in the Holy See although, quite obviously, public service is provided by **retail** sales people, museum attendants, and other workers necessary to the smooth operation of the city. Financial services provide the most significant economic component of the sector, but again, they operate primarily to generate wealth for Church and state, benefitting only a few handpicked individuals outside of this. No opportunities for private business organizations or enterprises to operate independently are provided within the Vatican's confines.

The Administration of the Patrimony of the Holy See (APSA) manages the Holy See's cash and investments, including its patrimony and pension fund. There is a growing demand for public financial reporting, and Pope John Paul II has partly met this demand. A report, *Consolidated Financial Statements of the Holy See,* is prepared by the president of the Prefecture for the Economic Affairs of the Holy See, who acts as the Pope's treasurer. This report, however, only reveals details of the financial administration in the Holy See, a partial disclosure that conceals details of other accounts such as the Vatican Bank and the Vatican City State. It is known, though, that about half the income of the Vatican City State is used to help finance the Holy See.

The heart of the Vatican's finances is the Vatican Bank. The bank's official designation is that of The Institute for Works of Religion (IOR), a title that reveals its original purpose as a body charged with the financing of religious works. However, the Vatican Bank has evolved into a major financial institution, responsible for the investment and administration of all state funds, as well as dealing with the banking requirements of church officials, diplomats, and other servants of the state. The bank is not open to any individuals or corporations outside Vatican City.

The Holy See engages in substantial investments worldwide, which yield huge revenues in interest payments. Details of the state's financial activities tend to be shrouded in secrecy, but it is known that the main avenues of investment are banking, insurance, real estate, utilities, and building. The Holy See also has financial interests in the lucrative production of flour and spaghetti. Investment is largely directed towards companies that cater to basic human needs and are thus fundamentally sound, which contributes to the state's reputation as a prudent investor.

Apart from shares in private enterprise, the Holy See holds a large amount of government bonds and debentures (*titoli* and *obbligazioni*), and derives a percentage of its income from the rentals of apartments and shops. It owns several thousand hectares of land including some valuable building sites, particularly in the vicinity of Rome, and has gold reserves in Fort Knox.

POVERTY AND WEALTH

While it is not known how much personal wealth Vatican citizens have, the state is free of poverty. Although it is the smallest of all countries in terms of population, its estimated **GDP per capita** of $21,198 makes Vatican City the 18th wealthiest nation in the world per capita. Health and pension provisions are good, and average incomes and living standards of lay workers are generally comparable to—and in some cases, better than—those enjoyed by employees in Rome. No individual, whether or not they are a citizen of the Vatican, may own land within the borders of the state because it is the private domain of the Holy See.

Several hundred lay persons are engaged in secretarial, domestic, trade, and service jobs in the Vatican. The working week is reasonable, although high officials of the Secretariat of State keep longer hours then many senior business executives in other countries. Workers in the Vatican benefit from the numerous religious holidays, and Italians who work in the Holy See are exempt from military service. Swiss Guards are paid a relatively low salary, but are usually young men with private incomes. Civil Guards have higher salaries plus family allowances.

The most highly paid Vatican officials are the cardinals of the Curia. Immediately after appointment to the Curia, a cardinal has two-thirds of his first month's plate

(as his salary is known, from the days when he was paid with gold and silver coins presented on a silver plate) deducted and kept aside for his funeral expenses.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

The papacy has a very long and complex history, dating back to medieval times. Over the centuries, successive popes came to rule in Papal States across Europe (notably in France) as well as taking control of much of Italy in a secular as well as religious capacity for 1000 years. The present-day Italian capital of Rome was the capital of the Italian Papal State. In the 5th century, the Emperor Constantine I built the Basilica of St. Peter's. After this, Pope Symmachus built a palace nearby, but this did not become the Papal residence—the Vatican Palace—until 1377 when the papacy returned from its period of exile in Avignon, France.

It was from this time that a succession of popes—most notable among them Sixtus IV, Innocent VIII, Alexander VI, Leo X, and Clement VII—proved to be committed patrons of the arts, and were variously responsible for building and stocking the magnificent libraries and museums that can be seen today. From the 17th to the 19th centuries, the Papal residence was transferred to the Quirinal Palace, later Italy's royal palace, and now the official residence of the Italian president.

Papal rule ended with the Unification of Italy in 1870, when Victor Emmanuel became king of Italy, and the Papal territories, including Rome, were incorporated into the newly formed Italian state. The papacy retreated to the Vatican, where a succession of popes disputed their position with the Italian government.

In 1929, the Italian government and the Holy See finally reached agreement and signed a treaty recognizing the independence of the Holy See and creating the sovereign State of the Vatican City. Under this agreement, known as the Lateran Accords, the Italian government also awarded the Vatican 750 million lire in cash and 1 billion lire in government bonds as partial compensation for the papal territories annexed by Italy during the process of unification.

In 1984, a major reshuffle of offices in the Roman Curia resulted in the delegation of the routine administration of Vatican City to a pontifically appointed commission of 5 cardinals headed by the Secretariat of State.

FUTURE TRENDS

Despite the importance of the papacy to the Catholic Church and its role in international affairs, the Holy See's internal workings are little known to Catholics, to world leaders, or to the public at large. The Vatican Bank was the focus of several major financial scandals during the late 1970s and early 1980s, and while much effort has gone into repairing the damage to its reputation, the Vatican may well have to address public disquiet at its secrecy.

The question of who succeeds Pope John Paul II must, as with any papal succession, lend uncertainty to the Vatican since each successive pope rules according to his own principles. Perhaps the major cause for concern, therefore, is whether the papacy learns to adapt far more radically than it has done in the past to the huge changes in society at large. Increasingly, modern-day Catholics are finding the Church stance on issues such as birth control repressive, and if the Church is to retain the loyalty of its billion followers, it will have to modernize certain of its practices.

DEPENDENCIES

Vatican City has no territories or colonies.

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—Olga Kuznetsova

YUGOSLAVIA

Federal Republic of Yugoslavia
Federativna Republika Jugoslavijá

CAPITAL: Belgrade.

MONETARY UNIT: Yugoslav dinar. 1 New Dinar (YD) equals 100 pari (in Serbia). Montenegro made the German mark (DM equals 100 pfennige) legal currency alongside the YD in 1999.

CHIEF EXPORTS: Manufactured goods, food (grain) and live animals, raw materials, and metals.

CHIEF IMPORTS: Machinery and transport equipment, fuels and lubricants, manufactured goods, chemicals, food and live animals, and raw materials.

GROSS DOMESTIC PRODUCT: US$24.2 billion (2000 est.).

BALANCE OF TRADE: **Exports:** US$1.5 billion (1999 est.). **Imports:** US$3.3 billion (1999 est.).

COUNTRY OVERVIEW

LOCATION AND SIZE. Although the country is recognized by others, the United States does not officially recognize the federation consisting of Serbia and Montenegro as Yugoslavia; it calls the country "Serbia and Montenegro."

Located in southeastern Europe, bounded on the north by Hungary, on the northeast by Romania, on the southeast by Bulgaria, on the south by Albania and Macedonia, on the southwest by the Adriatic Sea, and on the west by Croatia, Bosnia, and Herzegovina, Yugoslavia has an area of 102,350 square kilometers (39,518 square miles). Serbia, including the province of Kosovo, accounts for 88,412 square kilometers (34,136 square miles) while Montenegro accounts for 13,938 square kilometers (5,382 square miles), 199 kilometers (124 miles) of which is coastline. The total area is slightly smaller than Kentucky (Serbia is slightly larger than Maine, Montenegro is slightly smaller than Connecticut). The capital, Belgrade, is situated on the Danube and Sava rivers in north-central Serbia. Until the early 1990s, Yugoslavia incorporated the republics of Serbia, Montenegro, Macedonia, Slovenia, Croatia, and Bosnia and Herzegovina. The territory has yet to resolve all the territorial disputes between the former Yugoslav republics.

POPULATION. The population was estimated to be 10,662,087 (Serbia—9,981,929; Montenegro—680,158) in July 2000. By 2001, the *World Factbook* estimated that the population had grown to 10,677,290. The numbers are not exact, however, because of the dislocations caused by the devastating Yugoslav wars and the ethnic cleansing (killing carried out on ethnic minorities by a majority group) that had raged from 1991 to 1999. In 1998, the population was estimated at 11,206,039, including a significant number of Serb refugees from Croatia and Bosnia. In 1999, a mass exodus of ethnic Albanians from the Serbian province of Kosovo into adjacent Albania and Macedonia occurred; most have since returned. The population growth rate in Serbia is positive, with a birth rate of 12.2 and a death rate of 11.08 per 1,000 population (estimated in 2000). In Montenegro, **emigration** caused a decline in the population, although in 2000 the estimated birth rate stood at 14.9 and the death rate at 7.9 per 1,000.

The ethnic composition before the recent wars included Serbs, 62.6 percent; Albanians, 16.5 percent; Montenegrins (close to Serbs), 5 percent; Hungarians, 3.3 percent; Muslims (or Bosniaks), 3 percent; along with Roma (Gypsies), Bulgarians, Croats, and other groups. Religions include Orthodox Christian (65 percent), Muslim (19 percent), Roman Catholic (4 percent), Protestant (1 percent), and others (11 percent). The population in Montenegro, and to some extent in Serbia, is young, with 22.05 percent below the age of 14 and 11.79 percent older than 65; in Serbia, 19.95 percent are below the age of 14 and 14.83 percent are older than 65. In 1997, 58 percent of the population lived in urban areas.

OVERVIEW OF ECONOMY

The Yugoslav economy is severely damaged due to more than 10 years of internal fighting and fighting among some republics that were formerly part of the federation. Prior to 1991, Serbia and Montenegro were 2 of 7 constituent republics of the Socialist Federal Republic of Yugoslavia (FRY). The disintegration of the federation in 1991–1992 and the secession (withdrawal from an organization in order to gain independence) of 4 republics, including the most prosperous ones, Slovenia and Croatia, were an economic disaster for the newly formed FRY (Serbia and Montenegro).

The republics struggled for control of the area and some, especially Serbia, mounted genocidal attacks on neighboring Kosovo. The conflicts led to market disruption, and international **sanctions**. Corrupt economic policies led to devastation, high **inflation**, and the reversal of market reforms that had started in the 1980s. Industry

was almost ruined, production was cut by more than 50 percent, the **gross domestic product (GDP) per capita** in 2000 was half of the 1989 level, and unemployment was up by 50 percent. Liquidity, large trade and fiscal deficits, and politically based economic inefficiencies threaten economic stability.

Serbian president Slobodan Milosevic led much of the area's troubles. The international community enforced strict sanctions against the area to try to stop the fighting and, finally, in 1999, NATO began a bombing campaign to end the internal fighting.

The international community welcomed the ouster of Milosevic in October 2000, and radical institutional and economic reforms were expected in 2001. The European Union (EU) opened up its market to imports of Yugoslav industrial and agricultural goods, and sanctions were lifted as the West accepted that the only way to stabilize the country was to help reintegrate it with the rest of Europe. Before the new government turns to reforms, however, companies and institutions must first be made operational. The almost continuous conflicts in the area have destroyed much of the country's **infrastructure**.

POLITICS, GOVERNMENT, AND TAXATION

Slavic republics had been separated for much of history by larger national powers, such as the Austro-Hungarian Empire in the 19th century. After World War II, Slovenia, Croatia, Serbia, Macedonia, and Montenegro, and Bosnia and Herzegovina were united. But the federation of these republics was far from easy. Although mostly Slavic republics, the populations in the republics were a blend of people with strong, differing cultural affinities that did not match territorial boundaries. By the 1990s, tensions between the republics led to the dissolution of Yugoslavia. The break was not clean, however, because people within the republics struggled to redraw the territorial boundaries along cultural lines. Ethnic Serbs in Bosnia and Herzegovina, for example, wished to join with Serbia. War between many of the republics led to severe political and economic disruption in the area.

In 1992, Serbia and Montenegro adopted a new constitution that set up a parliamentary government with a **bicameral** (2 house) legislature. Despite the new government, President Milosevic headed a dictatorial regime from 1987 to 2000. Milosevic's regime is responsible for much of the devastation caused by years of war from 1991 to 1999.

Following the presidential elections in September 2000, a popular uprising toppled Milosevic. The new president, Vojislav Kostunica, pledged a return to democracy and the rule of law. He promised to begin much needed reforms and to seek full reintegration into Europe. Furthermore, he secured Yugoslavia's return to the United Nations (UN) and admission to the International Monetary Fund (IMF).

Parliamentary elections in December 2000 brought to power the Democratic Coalition of Serbia (DOS), a reformist union of 18 parties and a trade union, led by Zoran Djindjic of the Democratic party, with 64 percent of the vote. Milosevic's Socialist Party of Serbia that ruled along with the ultra-nationalist Serbian Radical Party and the Yugoslav United Left garnered only 14 percent of the vote.

Recovery is expected to be long and painstaking. The DOS favors swift change, but Kostunica holds that it would jeopardize stability before a new legal framework is instituted. But the squabbles between the former Yugoslav republics are far from over. The UN Interim Administration Mission in Kosovo (UNMIK), established after the 1999 war, is now the authority in what was the former Autonomous Province of Kosovo and Metohija, and Albanian separatists are wreaking havoc in south Serbia, adjacent to Kosovo. Montenegro, which boycotted federal elections, continues its push toward independence. Bosnia and Herzegovina and Serbia, Serbia and Montenegro and Croatia, and Serbia and Montenegro and Macedonia have yet to resolve respective territorial issues.

The government's role in the economy is significant, as state enterprises owned more than 80 percent of the capital, and the **private sector** accounted for only 37 percent of GDP in 1996. Federal and republic governments have retained many formal and informal levers of authority over the economy, export and import licenses, credit, and jobs. The Montenegrin government has been more reform-oriented, and its law establishes tax exemptions, tax relief, and other privileges for foreign business activity.

INFRASTRUCTURE, POWER, AND COMMUNICATIONS

Serbia enjoys a central location in the Balkans, but the loss of markets and economic sanctions and NATO's (North Atlantic Treaty Organization) bombardment in 1999 devastated the transportation and communications sector; billions of dollars are needed for repair and modernization.

In 1997, the road network included 50,414 kilometers (31,326 miles) of roads (55 percent paved), with 380 kilometers (237 miles) of expressways, and 171 kilometers (106 miles) of semi-expressways. There were 4,031 kilometers (2,505 miles) of railroad tracks. Harbors on Montenegro's coast and at Belgrade serve as shipping centers, and plans to clear debris from the Danube left

Communications

Country	Newspapers	Radios	TV Sets[a]	Cable subscribers[a]	Mobile Phones[a]	Fax Machines[a]	Personal Computers[a]	Internet Hosts[b]	Internet Users[b]
	1996	1997	1998	1998	1998	1998	1998	1999	1999
Yugoslavia	107	297	259	N/A	23	1.9	18.8	7.65	80
United States	215	2,146	847	244.3	256	78.4	458.6	1,508.77	74,100
Russia	105	418	420	78.5	5	0.4	40.6	13.06	2,700
Romania	300	319	233	119.2	29	N/A	10.2	9.01	600

[a]Data are from International Telecommunication Union, *World Telecommunication Development Report 1999* and are per 1,000 people.
[b]Data are from the Internet Software Consortium (http://www.isc.org) and are per 10,000 people.

SOURCE: World Bank. *World Development Indicators 2000.*

by the bombing campaign will make trade along the river active again. The national airline, JAT, operates out of international airports in Belgrade and Podgorica, but under the 1992–1995 **embargo**, flights to Yugoslavia were banned, and the bombing of 1999 caused damage to civilian airports.

Before 1999, the country was self-sufficient in electricity from coal and hydropower. The sector is dominated by the state-owned **monopolies** of Serbia and Montenegro. The bombing in 1999 destroyed or damaged 14 power stations and 2 major oil refineries.

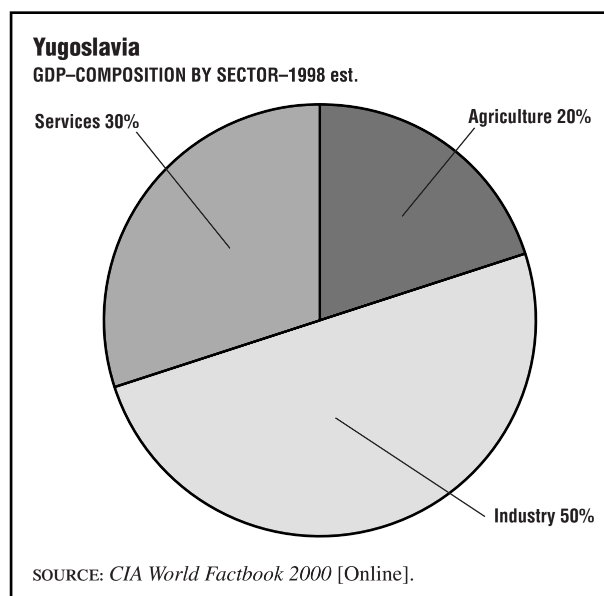
In 1997, the purchase of a 49 percent share of the Serbian Telecommunications Company PTT by the Italian company Stet and Greece's OTE pumped nearly US$1 billion into the budget. War and sanctions delayed modernization, but this has led to fast mobile telephone growth. Access to the Internet was introduced in 1997, and there are about 100,000 registered users and 150,000 personal computers.

ECONOMIC SECTORS

The sanctions of the 1990s hurt the economic sectors of Yugoslavia, especially industry. Unable to reach export markets or to import needed materials, many companies had to cease operations. Formerly one of the chief sources of copper in Europe, Serbia's mining industry also suffered during the 1990s, and many factories in the manufacturing sector became idle. But as sanctions were lifted, the industrial sector soon started up again. By 1998, the contributions of industry to the GDP were as follows: manufacturing and mining accounted for 33.9 percent; construction, 5.6 percent; agriculture, forestry, and fishing, 19.9 percent; trade, tourism, and catering, 18.7 percent; crafts, 9.9 percent; and transport and communications, 12 percent. Agriculture was estimated to account for 20 percent of GDP, industry 50 percent, and services 30 percent by 1998. The government hoped to encourage exports in agricultural goods, food processing, textiles, furniture, pharmaceuticals, metallic ores, and to boost tourism, particularly in Montenegro, in order to earn foreign exchange.

AGRICULTURE

Chief agricultural products include corn, sugar beets, wheat, potatoes, grapes, plums, cattle, pigs, and sheep. Vojvodina, in northern Serbia, contains the most fertile land. Cooperative farms in Yugoslavia did not take root under the **socialist** regime, but the government of Milosevic exported wheat and corn heavily (contributing 25 percent of Serbia's **hard currency**) and **bartered** grain for oil and gas from Iraq, Libya, Syria, and the Ukraine. This practice exploited farmers by paying them below-market prices and limiting their access to the free market. Farmers had no alternatives but to sell to state mills as most did not have storage facilities and permits to trade. Police harassed them, and if caught selling outside



SOURCE: *CIA World Factbook 2000* [Online].

state outlets, they were fined US$2,000. The drought in the summer of 2000 was considered the worst in 7 decades and food shortages threatened throughout the winter of 2000–2001, with the corn harvest about 50 percent lower compared to 1999. Sunflower seeds were also down by 60–70 percent, soya by 40–50 percent, and fodder crops by 40–50 percent. International humanitarian aid pledged by the European Union and other donors following Milosevic's removal in October 2000 may compensate for the shortages.

INDUSTRY

Unlike other former socialist countries with inappropriate concentration of heavy industry, Yugoslavia inherited a diversity of industries. Before the disintegration of the federation there were thriving metallurgy, chemicals, textiles, automobile, furniture, and food-processing sectors. Industrial output plunged by 70 percent over the 1990s. Although industry wasn't literally "wiped out," it became less commercial than in **communist** times. During the 1980s, the communist regime set up **joint ventures** with foreign companies. Then, during the wars, strategic firms were re-**nationalized**, most other companies remained in social ownership, and less than a third were private. By the end of 2000, there were indications that much of what had already been **privatized** by Milosevic might be re-nationalized.

Industry is considered about 50 percent over-staffed, and most firms are bankrupt. In 1996, overdue intercompany debt was nearly US$2 billion (roughly 30 percent of the sector's contribution to GDP). The biggest loss-makers were 30 large state and socially owned companies, responsible for more than 60 percent of all losses. The complex system of workers' ownership of companies, a legacy from the socialist past, confuses shareholder issues. Although Montenegro was affected by the same problems, its active privatization policy transferred all state-owned capital to government funds to attract foreign investment.

Among the industrial enterprises that have ties with foreign investors, but were bombed in 1999, were the Zastava factory in Kragujevac, maker of the Yugo automobiles, the Sloboda domestic appliances factory at Cacak, and the 14 Oktobar factory in Krusevac, the largest heavy machinery plant in the Balkans.

Copper, zinc, and lead mining were an important contributor to industry. The Trepca complex near Mitrovica in Kosovo was the main mining area. In 2000, it was taken over by the U.N. administration in Kosovo because of environmental and health hazards, provoking protest from Belgrade, which accused the U.N. of confiscating the mine. Negative environmental impact from mining in Serbia is considerable, but no serious measures were taken by the Milosevic regime to counter it. Additionally, rivers and soils throughout Serbia, and particularly in Kosovo, were heavily polluted by oil spills from destroyed refineries and radioactive, depleted uranium shell debris from the 1999 bombing campaign. Serious concerns arose in the Balkans and Western Europe about the health of the population and the international peacekeeping troops based in the region. Sizeable international assistance could help to improve the situation, but most likely only in a long-term scenario. Sustained recovery in Yugoslav industrial performance will require, apart from ending the isolation and instituting trade preferences, considerable foreign investment and new technologies to be brought into the country.

SERVICES

FINANCE. Yugoslavia has about 100 small commercial banks with **bad loans** amounting to more than US$4 billion. Under-capitalization (insufficient funds) is rampant and, according to official data, the assets of the 10 largest banks in Yugoslavia now total about US$3.5 billion, or 60 percent of all bank assets. Some experts estimate that even this modest number is overstated by approximately 25 percent, because the banking system is not sound. Around 50 percent of assets are of low quality (dubious receivables), while another 40 percent are non-performing (frozen). Confidence in banks was destroyed after the sequestration (seizure) by the state of the population's hard currency savings of US$3.4 billion for its war efforts in 1991–92 and the collapse of a series of **pyramid schemes** in the early 1990s. The repayment of the savings to depositors in dinars started in 2000, but most preferred to wait for future payments in hard currency. Many banks did not have hard currency and offered gold coins instead. The commercial banks put the blame on the National Bank of Yugoslavia (NBY, the central bank) for its failure to provide funds for the reimbursement.

TOURISM. Tourism is the most promising sector in Montenegro, given the short but beautiful stretch of Adriatic coastline, adjacent to Croatian Dalmatia, with numerous resorts and picturesque small towns. The sector was well developed before the wars, but is now in shambles. Some limited foreign investment, primarily from Slovenian companies, may be expected in the short run, but it will take longer to restore the one-time attractiveness of Montenegro for Western tourists. In Serbia, the importance of the sector was lower and is now negligible.

RETAIL. This sector was well developed and a major portion of it was privatized before the wars, but it contracted with the economic collapse of the 1990s. By 2000, some small **retail** stores were reopened and some experts hoped the success of small shops, such as gas stations and other

Trade (expressed in billions of US$): Yugoslavia

	Exports	Imports
1975	4.072	7.697
1980	8.978	15.076
1985	10.700	12.207
1990	14.308	18.871
1995	N/A	N/A
1998	N/A	N/A

SOURCE: International Monetary Fund. *International Financial Statistics Yearbook 1999.*

Exchange rates: Yugoslavia

Yugoslav New Dinars (YD) per US$1	
2000	N/A
1999	N/A
Dec 1998	10.0
Dec 1997	5.85
Sep 1996	5.02
early 1995	1.5

Note: Rates in table are official; black market rate: 14.5 (Dec 1998), 8.9 (Dec 1997), 2 to 3 (early 1995).

SOURCE: CIA *World Factbook 2001* [ONLINE].

retail stores, would support growth of medium and large retail companies.

INTERNATIONAL TRADE

International sanctions on Yugoslavia were implemented in 1991 with weapons embargoes. As the conflict in the area escalated, more sanctions were enforced and full trade was blocked from 1992 until 1994. Embargoes against weapons sales were again imposed between 1998 and 2001.

The sanctions had a dramatic effect on trade. Trade with the United States, for example, went from US$38.7 million worth of imports and US$5.9 million worth of exports in 1992 to US$1.7 million in exports and no imports in 1993. Trade with the United States improved as the sanctions were lifted in the late 1990s. In 1996, the United States exported US$46 million to Yugoslavia and imported US$8.2 million worth of goods. Yugoslavia's total trade in 1996 reached US$1.8 billion for exports and imports rose to US$4.1 billion. The trade numbers for 1999 were US$1.5 billion for exports and US$3.3 billion for imports.

The imbalance between exports and imports reflected the weakness of the economy and the export-oriented sectors. The lack of international recognition of the FRY made receiving loans, foreign investment, and trade credit difficult and, in turn, did nothing to help develop trade relations with other countries.

MONEY

Banking remains weak as many businesses owe large sums and show little inclination to pay them back to the banks, which are now largely insolvent. Over the first half of 2000, the 28 largest banks made a loss of US$190 million at the **black market exchange rate**, and most are unable to observe their own national banking regulations. Small banks were more cost-efficient and less vulnerable to political and business pressure. Some small steps towards reform and consolidation of the fragmented sector were taken in 1997, when 16 small banks and 4 large ones—Beogradska Banka, Investbanka, Agrobanka and Beobanka—were consolidated. The 20 banks together controlled about 75 percent of the market, and in 2000, the Montenegrin government passed a bill seeking stringent safeguards in the banking system. Radical **restructuring** of the banking sector is more likely now as Yugoslavia is restoring its membership in international financial institutions.

Capital markets are underdeveloped. The Belgrade Stock Exchange was established in 1989 and the Podgorica Stock Exchange in 1996. Given the current state of privatization, trading in securities is very limited and both exchanges operate primarily in short-term (30 days or less) commercial paper (notes) issued by large Yugoslav corporations.

In November 2000, Montenegro made the German mark legal tender. All payments between the 2 republics will be conducted in marks. The dinar was tied to the German mark in 1995 (at a fixed rate of 3.3 dinars per mark). The street exchange rate in mid-2000 was at about 3.5 dinars per mark (5.7 dinars per US$1), but analysts believe the dinar was overvalued by 30–50 percent. The black market in foreign currencies was robust, and inflation lowered the real income of salaried workers.

POVERTY AND WEALTH

Before 1991, Serbs and Montenegrins enjoyed a comparatively prosperous life, and their access to information, travel, and work abroad was easier than in most Eastern European countries. As a socialist economy, old Yugoslavia was generally more egalitarian than Western European countries. During the 1990s, as the economy collapsed, the majority of Serbs grew desperately poor. Average salaries in Serbia hit the bottom at US$40 per month in 2000. Payments to employees on state payrolls—health workers, teachers, soldiers, police, and **pen-**

GDP per Capita (US$)

Country	1996	1997	1998	1999	2000
Yugoslavia	N/A	2,280	2,300	1,800	2,300
United States	28,600	30,200	31,500	33,900	36,200
Russia	5,200	4,700	4,000	4,200	7,700
Romania	5,200	5,300	4,050	3,900	5,900

Note: Data are estimates.

SOURCE: *Handbook of the Nations*, 17th, 18th, 19th and 20th editions for 1996, 1997, 1998 and 1999 data; CIA *World Factbook 2001* [Online] for 2000 data.

sioners—were months overdue. The 1999 bombing of major cities led to many casualties and devastation. Health, education, and welfare were also seriously jeopardized, and energy shortages plagued the people. Widespread indignation fueled the mass protests of 1996 and the popular uprising that finally toppled Milosevic in October 2000.

At the same time, many members of Milosevic's inner circle amassed—through nepotism, corruption, and smuggling—largely illegitimate fortunes that the new government will work to recover from foreign bank accounts. The dictator's notorious playboy son, Marko, was particularly resented, and as soon as his father was out of office, many assets of his self-styled business empire were looted and burned by angry crowds.

WORKING CONDITIONS

About a quarter of Serbs are officially unemployed, but the number rises to 50 percent if people in insolvent companies are included. Over-staffing and underpayment in most remaining firms mean that few workers have real jobs. The way to provide people with sustainable livelihoods is to revive the companies with capacity to provide new jobs. These companies must end their isolation and become able to export. Labor activism was instrumental in ousting Milosevic and could hardly be underestimated as an economic factor in a country with largely socialist traditions. Unions will influence economic decisions, as workers, having taken control of their companies from Milosevic's managers, are pushing for reversal of the privatization schemes that benefited Milosevic's cronies. Revisions of these privatization deals seem more likely than elsewhere in Eastern Europe.

By late 1999, about 2 million people were employed in the state sector, about a million and a half in industry and agriculture, and the rest in education, government, and services. Slightly more than 300,000 were employed in private sector trade and services, and 560,000 were independent farmers, while up to 1 million, including most Serb refugees from Croatia, Bosnia, and Kosovo, engaged in subsistence agriculture and lived in deep poverty.

COUNTRY HISTORY AND ECONOMIC DEVELOPMENT

600s. Slavs settle in parts of the present Serbian and Montenegrin lands, comprising portions of the ancient Roman province of Illyricum, then ruled by Byzantium, from which the Slavs accept Orthodox Christianity.

1168. King Stefan Nemanja establishes the first kingdom of Serbia.

1331–55. Under King Stefan Dusan, Serbia acquires new lands as the feudal economy develops and gives way to decentralization.

1389. Ottomans rout a Christian army including Serbs under King Lazar at Kosovo Polje.

1459. Serbia is violently conquered by the Ottoman Empire and remains under its rule for nearly 4 centuries, while Montenegro, the one-time Serbian province of Zeta, remains virtually independent.

1815. A revolt frees most of Serbia from Ottoman domination; a Serbian national revival thrives. Serb nationalists aim at uniting all South Slavs under the Serbian state.

1912–13. In the Balkan Wars, Serbia annexes extensive territories, including the Sandjak, Kosovo, and the present-day Republic of Macedonia.

1914. Austria-Hungary starts World War I, occupying Serbia by 1915. The Serbian army and government flee.

1918. The Kingdom of the Serbs, Croats, and Slovenes (Kingdom of Yugoslavia from 1929) is proclaimed (it includes Montenegro).

1941. In World War II, Yugoslavia breaks up as Nazi Germany occupies Serbia. Serb nationalist Chetniks compete with Partisans led by Croatian communist Josip Broz Tito in resisting the Germans.

1945. Tito's communists proclaim the Federal People's Republic of Yugoslavia. Serbia and Montenegro become constituent socialist republics. In 1946, the regions of Kosovo and Metohija and Vojvodina become autonomous provinces.

1945–80. Yugoslavia's socialist economy develops, and heavy industry is stressed, but since the late 1950s economic control is decentralized, and some private initiative is allowed.

1987. Dissatisfaction with the federation grows among constituent republics after Tito's death. Serbia, led by President Milosevic, tries to impose control over them and revokes the autonomy of Kosovo (the 90 percent

ethnic Albanian province) and Vojvodina (where a sizeable ethnic Hungarian minority lives).

1991. Slovenia, Croatia, and Macedonia declare their independence, and Bosnia joins them in 1992. Serbia and Montenegro subsequently declare themselves the Federal Republic of Yugoslavia, which is not recognized by the international community. Its U.N. membership is suspended.

1991–95. The Milosevic regime plays an active role in the civil wars in Bosnia and Croatia and is severely criticized by the international community for military atrocities and the brutal oppression of domestic opposition and minorities.

1995. The Dayton peace accord puts an end to the war in Croatia and Bosnia.

1996. Mass demonstrations, led by the united democratic opposition against the Milosevic regime, begin.

1999. Mass expulsion of ethnic Albanians from Kosovo, to counter the underground insurgent Kosovo Liberation Army (UCK), provokes an international response, including bombing and the stationing of NATO and Russian peacekeepers in Kosovo while Montenegro declares the German mark official currency.

2000. Milosevic is defeated in presidential elections and democrat Vojislav Kostunica takes over. Montenegro aspires for independence, and Albanian separatists strike in southern Serbia. Readmission to the U.N. is approved; membership in the European Bank for Reconstruction and Development and in the IMF is expected. The Democratic Coalition of Serbia wins parliamentary elections in December, led by reformist Zoran Djindjic.

FUTURE TRENDS

Yugoslavia's economic problems will not disappear simply because it now has a democratically elected president. The new government faces the challenge of reconstruction, and the legacy of 10 years of war, sanctions, and corrupt officials' looting will take a considerable amount of time to reverse and will not occur without a substantial inflow of foreign capital. Trade relations can be normalized quickly and co-operation with the West can be energized with the swift resolution of pending political issues.

The government's tasks will include stabilization and economic reform, imposing law and order, and helping vulnerable sectors of society. They will be trying their best to attract **foreign direct investment** and to unfreeze the assets of the former Yugoslavia by reaching agreement with the other successor republics. The frozen private bank accounts in the names of Milosevic and his associates in Switzerland and elsewhere may be transferred back to the country, and immediate aid of US$172 million was pledged by the EU in late 2000 for medicine, heating, and food through the winter. The Stability Pact for South-eastern Europe, a regional development plan backed by the EU and the United States, the IMF, the World Bank, and regional banks will contribute to the reconstruction and reform process. The prosperity of Serbia and Montenegro will be crucial for establishing lasting peace in the Balkans.

DEPENDENCIES

Yugoslavia has no territories or colonies.

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—Valentin Hadjiyski

GLOSSARY

Advance Tax: A percentage of the previous year's tax bill which is paid at the beginning of the new fiscal year and later credited back at its end.

Agribusiness: Agricultural and livestock production on a large scale, often engaged in by large, multinational companies; also used to refer to the companies themselves.

Arrear: Usually plural, **arrears**. Unpaid, overdue debt.

Bad Loan: An unrecoverable loan; the amount cannot be reclaimed by the lender.

Balance of Payments: The measure of all the money coming into a country and all the money leaving the country in a given period, usually a year. The balance of payments includes merchandise exports and imports, the measure of which is called the **balance of trade**, as well as several other factors.

Balance of Trade: A measure of the value of exports and imports, not including services. When imports exceed exports, there is a trade deficit. When exports exceed imports, there is a trade surplus.

Bank of Issue: The bank that is given the right to issue and circulate currency in a country.

Barter System: An exchange of goods and/or services for other goods and/or services, rather than for money.

Bear Market: A sustained period of negative growth in the stock market.

Bicameral: A legislative body consisting of two houses or chambers.

Black Market: An informal market in which buyers and sellers can negotiate and exchange prohibited or illegal goods (such as exchanging local money for foreign currency). Black markets often exist to avoid government controls. *See also* **Informal Sector.**

Budget Deficit: A government budget deficit occurs when a government spends more money on government programs than it generates in revenues. Governments must borrow money or print currency to pay for this excess spending, thus creating potential financial difficulties. *See also* **Budget Surplus.**

Budget Surplus: A government budget surplus occurs when a government generates more revenues than it spends on government programs. Governments can adjust to surpluses by lowering tax rates, paying down the national debt, or stockpiling the money. *See also* **Budget Deficit.**

Cadre: A group of important and influential members of political parties who direct the actions of that party.

Capital Adequacy: The state of a bank having enough capital to maintain its loans and operating costs.

Capital Flight; also called **Capital Outflow:** Money sent abroad because investors fear that economic conditions within a country are too risky.

Capital Good: A manufactured good used in the production of other goods. For example, factories or machinery used to produce goods are considered capital goods.

Capitalism: An economic system based on the private ownership of the means of production and on an open system of competitive markets. It is assumed that producers in a capitalist system can use their skills and capital in the pursuit of profit.

Capital Outflow: *See* **Capital Flight.**

Cash Crop: An agricultural good produced for direct sale on the market.

Centrally-planned Economy: An economy in which the government exerts a great deal of control over economic planning, including the control of production, the allocation of goods, distribution, and prices. Common in **socialist** countries.

c.i.f.: Abbreviation of **cost, insurance, and freight**; a method of determining the value of imports or exports that includes cost, insurance, and freight in determining the total amount.

Commonwealth of Independent States (CIS): A loose union of 12 of the former republics of the Soviet Union, excluding Estonia, Latvia, and Lithuania.

Communism: An economic system in which the means of production and distribution are held in common by all

members of the society, and in which the rewards are distributed based on need. In actual communist countries, the state usually controls all the capital and land, and the economy is centrally planned. *See also* **Centrally-planned Economy.**

Consumer Good: A product sold directly to the end user, or consumer, such as food and clothing.

Crawling Peg: A fixed **exchange rate** between two currencies which is adjusted incrementally based on the movement of an economic indicator such as inflation.

Currency Board: An arrangement whereby a currency's value is fixed in some proportion to a strong foreign currency and such an exchange rate is guaranteed by the country's foreign exchange reserves.

Current Account Balance: The portion of the **balance of payments** that includes merchandise imports and exports (known as the **balance of trade**) plus imports and exports of services.

Debt Relief: Partial or full forgiveness of debts, offered to impoverished countries by lenders, usually after it becomes clear that continued payment on such debt is likely to ruin the country's economy.

Debt Service: Payment of interest on a loan or other debt. Debt servicing can be very expensive and debilitating for developing countries.

Deflation: Falling prices across an economy, expressed as a percentage per year. *See also* **Inflation.**

Dependency Ratio: The ratio of **pensioners** to the number of people employed.

Deregulation: A lessening of government restrictions on the economy.

Desertification: The progressive drying of the land.

Devaluation: An act by the government or central bank which decreases the official price of a nation's currency. When a currency is devalued, it can result in the country's exports becoming cheaper and more attractive.

Direct Tax: A tax levied directly on individuals or companies, such as income and property taxes. *See also* **Indirect Tax.**

Disposable Income: Those parts of a household income not needed for essentials such as food, healthcare, or housing costs. Disposable income may be saved, invested, or spent on non-essential goods.

Duty: A tax imposed on imported goods. *See also* **Indirect Tax.**

E-commerce: Economic activity conducted on the Internet.

Ecotourism: Tourism to natural and cultural areas which tries to minimize environmental impacts.

Embargo: A prohibition by a government against some or all trade with a foreign nation. *See also* **Sanctions.**

Emerging Market: A country with still evolving economic, social, and political structures that shows evidence of moving toward an open market system.

Emigration: To leave one's country to live elsewhere.

Enterprise Entry: The creation of new, predominantly small and medium size enterprises.

Enterprise Exit: The removal of businesses from an economy, either through bankruptcy or downsizing.

Equity: The value of all the shares in a company.

Estate Tax: A tax on inherited property and wealth.

Exchange Rate: The rate at which one country's currency is exchanged for that of another country.

Exchange Rate Mechanism (ERM): A mechanism set up in 1978 to handle fluctuations in the **exchange rates** of various European currencies. Each currency in the ERM may fluctuate only within agreed limits against any other currency.

Exchange Rate Regime: The mode of determining the **exchange rate** between the national currency and other major foreign currencies. In a fixed exchange rate regime, a currency is fixed or "pegged" to the currency of another, usually very stable currency, such as that of the United States. In a **floating** or flexible exchange rate regime, governments allow the value of their currency to be determined by supply and demand in the foreign exchange market.

Excise Tax: A tax on the sale or use of certain products or transactions, sometimes luxury or non-essential items.

Exclusive Economic Zone (EEZ): The area extending from a country's coastline over which that country has exclusive control of its resources.

External Debt: The total amount of money in a country's economy owed to enterprises and financial institutions outside the country.

Fiduciary: Related to a trust or trusteeship.

Fiscal Policy: The programs of a national government relating to spending on goods, services, **transfer payments**, and the tax system.

Fiscal Year: Any period of 12 consecutive months for which a company or a government calculates earnings, profits, and losses.

Fixed Exchange Rate: *See* **Exchange Rate Regime.**

Floating Exchange Rate: *See* **Exchange Rate Regime.**

Floor Price: The minimum price for a good or service which normally cannot be further reduced due to political, economic, or trade considerations.

f.o.b.: Abbreviation of **Free on board**; a method of determining the value of exports or imports that considers the value of goods excluding the cost of insurance and freight charges.

Foreign Debt: *See* **External Debt.**

Foreign Direct Investment (FDI): The total value of investment by foreign entities in a country, usually expressed on an annual or cumulative basis.

Foreign Exchange Reserves: The amount of money a country has in its treasury consisting of currency from foreign countries.

Free Market System: An economic system based on little government intervention and the freedom of private association and control of goods. *See also* **Capitalism.**

Free Trade Zone: Also called **Free Zone.** An industrial area where foreign companies may import, store, and sometimes export goods without paying taxes.

Full Employment: The level of employment at which a minimal amount of involuntary unemployment exists. It is considered the maximum level of employment in an economy.

Fully Convertible Currency: A currency that can be freely traded in international foreign exchanges for units of another currency.

GDP per Capita: Gross domestic product divided by the number of people in a country. GDP per capita is a convenient way to measure comparative international wealth.

Gini Index: An index used to measure the extent to which the distribution of income within an economy deviates from perfectly equal distribution. A score of 0 would mean perfect equality (with everyone having the same level of wealth) and 100 would signify perfect inequality (with a few extraordinarily wealthy people and the large majority living in dire poverty).

Glut: An excess of goods in a particular market, which typically causes the price of that good to fall.

Grey Economy: Economic activity that takes place in both the formal and **informal economy,** meaning that some but not all economic activity is reported to authorities such as tax collectors.

Gross Domestic Product (GDP): The total market value of all goods and services produced inside a country in a given year, which excludes money made by citizens or companies working abroad.

Gross National Product (GNP): The total market value of all goods and services produced in a year by a nation, including those goods produced by citizens or companies working abroad.

Guarantor: An institution or individual that guarantees to pay the debts of another institution or individual in the case of bankruptcy.

Guest Worker: Persons from a foreign country who are allowed to live in a host country so long as they are employed. Many guest workers send **remittances** to their native country.

Hard Currency: Money that can be exchanged on the foreign market and is stable enough to purchase goods from other countries.

Hawking: Selling wares, often pirated goods, in the **informal sector.**

Holding Company: A company that owns or controls several other companies.

Immigration: To move into a country that is not one's native country.

Import Substitution: A policy which calls for the local production of goods that have traditionally been imported. The goal of import substitution is to lessen a country's dependence on foreign suppliers.

Income Tax: A **direct tax** on an individual's earned income.

Indirect Tax: A tax which is not paid directly, but is passed on as part of the cost of an item or service. For instance, **tariffs** and **value-added taxes** are passed on to the consumer and included in the final price of the product. *See also* **Direct Tax.**

Inflation: A persistent increase in the average price of goods in an economy, usually accompanied by declining purchasing power of the national currency.

Inflation Rate: The rate at which prices rise from one period to the next.

Informal Sector: Also called **Informal Economy**. The part of an economy that lies outside government regulations and tax systems. It usually consists of small-scale and usually labor-intensive activities; it often includes illegal activities. *See also* **Black Market.**

Infrastructure: The system of public facilities, services, and resources in a country, including roads, railways, airports, power generation, and communication systems.

Intermediate Good: A good used as an ingredient or component in the production of other goods. For instance, wood pulp is used to produce paper.

Internally Displaced Person: A person fleeing danger (such as war or persecution) who has not crossed international boundaries. Those who relocate to another country are called "refugees."

Joint Sector: An economic sector in which private enterprise and the government invest jointly.

Joint Venture: A special economic initiative or company formed by a foreign firm and a domestic company, usually in a developing state. The domestic partner often holds a majority interest, thus allowing the host country to control the amount and kind of foreign economic activity. Can also be a simple joint operation by two or more companies.

Labor Force: Also called **Workforce**. The total number of people employed in a country plus the number of people unemployed and looking for a job.

Labor Mobility: The ability and readiness of workers to move to regions or sectors of higher growth within a country or economy.

Levy: A tax based on the assessed value of personal property and/or income.

Liberal Economy: An economy in which markets operate with minimal government interference and in which individual choice and private ownership are the guiding forces.

Liberalization: The opening of an economy to free competition and a self-regulating market, with minimal government-imposed regulations or limitations.

Liquidity: Generally, the amount of money on hand. When related to government, it refers to the amount of money in circulation.

Macroeconomics: Economic issues large enough to impact the nation as a whole.

Market Capitalization: The total market value of a company, expressed by multiplying the value of a company's outstanding shares by the current price of the stock.

Marxism: A set of economic and political theories based on the work of 19th century theorists Karl Marx and Friedrich Engels that holds that human history is a struggle between classes, especially those who own property and those who do not (the workers). Marxism provided the theoretical basis for the economic systems of modern **communism** and **socialism.**

Microcredit: The lending of small amounts of startup capital to the very poor as a way of helping them out of poverty. The World Bank and other aid agencies often make mircrocredit loans to small-scale entrepreneurs in the developing world.

Monetary Policy: A government policy designed to regulate the money supply and interest rates in an economy. These policies are usually determined by the central bank or treasury in order to react to or to anticipate inflationary trends and other factors that affect an economy. They are said to be "tight" when interest rates are raised and other measures are implemented in an effort to control inflation and stabilize currency values.

Monetized Economy: An economy based on money as opposed to barter.

Money Laundering: A method used by criminal organizations to hide income gained from illicit activities, such as drug smuggling, by manipulating banks to provide a legitimate explanation for the source of money.

Monopoly: A company or corporation that has exclusive control over the distribution and availability of a product or service.

Multinational Corporation (MNC): A corporation which has economic ties to or operations in two or more countries.

National Debt: The amount of money owed to lenders by a government. The debt occurs when a government spends more each year than it has raised through taxes. Thus, to spend more than it has, the government must borrow money from banks or through the issuance of bonds.

Nationalization: The movement of privately-owned (and usually foreign-owned) companies into government ownership. Companies have often been nationalized by the developing countries whose government argued that the foreign firms involved did not pay their fair share of the profits to the host country and unfairly exploited it in other ways.

Nomenklatura: The elite members of the Communist Party in communist nations, who were often given privileges not extended to ordinary citizens.

Nomenklatura Privatization: A system of **privatization** in communist nations that openly or covertly transferred ownership of state assets to the **nomenklatura.**

Non-performing Loan: A delinquent loan or one in danger of going into default.

Offshore Banking: Banking operations that offer financial services to people and companies from other countries, usually with associated tax benefits. Offshore banking operations are often suspected as a cover for **money laundering** or other illegal financial activities.

Overheated Economy: An economy that is growing at a very high annual rate, which leads to low interest rates, a high borrowing rate, and an abundance of money in the economy—all of which can lead to **inflation.**

Parastatal: A partly or wholly government-owned enterprise.

Participation Rate: The ratio between the labor force and the total population, which indicates how many people are either working or actively seeking work.

Pensioner: A retired person who lives off a government pension.

Price Control: Artificial limitation on the prices of goods set by the government, usually in a **centrally-planned economy.**

Price Index: An index that shows how the average price of a commodity or bundle of goods has changed over a period of time, usually by comparing their value in constant dollars.

Primary Commodity: A commodity, such as a particular crop or mineral, which is a natural rather than manufactured resource.

Private Sector: The part of an economy that is not directly controlled by the government, including businesses and households.

Privatization: The transition of a company or companies from state ownership or control to private ownership. Privatization often takes place in societies that are making a transition from a **socialist** or mixed-socialist economy to a **capitalist** economy.

Procurement: The purchase of goods or services by the government.

Progressive Taxation: An income taxation system in which tax rates rise in accordance with income levels. Thus, a person making a large salary will be taxed at a higher rate than someone who makes less money.

Proportional Representation: An electoral system whereby the number of legislative seats allocated to a particular political party is decided in proportion to the number of votes that party won in an election.

Protectionist Policy: A government policy used to protect local producers from competition from imported foreign goods. Countries may erect various trade barriers such as **tariffs** or quotas in an effort to protect domestic firms or products.

Public Sector: The part of the economy that is owned and operated by the government.

Purchasing Power Parity (PPP): The purchasing power parity method attempts to determine that relative purchasing power of different currencies over equivalent goods and services. For example, if it costs someone in the United States US$300 to buy a month's worth of groceries, but it costs someone in Ghana only US$100 to buy the same amount of groceries, then the person in Ghana can purchase three times as much for the same amount of money. This means that though the average citizen of Ghana may earn less money than the average citizen of the United States, that money buys more because goods and services cost less in Ghana. The PPP calculation attempts to account for these differences in prices and is used to calculate **GDP** and **GDP per capita** figures that are comparable across nations. Note: GDP figured at purchasing power parity may be three or more times as large as GDP figured at **exchange rate** parity.

Pyramid Scheme: Fraudulent investment strategy involving a series of buying and selling transactions that generate a paper profit, which, in turn, is used to buy more stocks. They were prevalent in Eastern Europe following the fall of the Soviet Union, and preyed on the average citizen's lack of understanding of **free-market** investment transactions.

Real GDP: The **gross domestic product** of a country expressed in constant prices which are determined by a baseline year. Real GDP thus ignores the effects of inflation and deflation and allows for comparisons over time.

Real Wage: Income measured in constant dollars, and thus corrected to account for the effects of inflation.

Recession: A period of negative growth in an economy, usually defined as two consecutive quarters of negative **GDP** growth. A recession is characterized by factors such as low consumer spending, low output, and high unemployment.

Re-export: An imported good that does not undergo any changes (e.g., not turned into a new product) before being exported.

Relative Income Poverty: This is a measure of the overall equality in income among employed workers. Relative income poverty is high when a high percentage of the sum of total income is concentrated in the hands of a small percentage of the working population, and it is low when income is more equally spread among all workers.

Remittance: Money that is sent back to people, usually relatives, living in the home country of a national working abroad.

Repatriation: Taking money out of a foreign country in which it had been invested and reinvesting it in the country where it originated.

Reserve Ratio: The percentage of a bank's assets in reserve against the possibility of customers withdrawing their deposited funds. Some governments impose a minimum percentage, usually enforced by a central bank in proportion to the total amount of currency in circulation.

Restructuring: A catch-all phrase for turning around a company, involving cutting costs, restoring finances, and improving products.

Retail: The sale of goods and services to individuals in small amounts.

Sanction: A penalty, often in the form of a trade restriction, placed on one country by one or several other countries as a penalty for an action by the country under sanctions. Sanctions are designed to force the country

experiencing them to change a policy, such as its human rights practices.

Shadow Economy: Economic interactions that are invisible to standard accounting and taxing procedures. See **Informal Economy.**

Sharecropper: A farmer who works someone else's land in exchange for a share of the crops they produce.

Smallholder: A farmer who has only a very small farm or plot of land.

Social Security Tax: A **direct tax** levied partly on the worker and partly on the employer in order to provide funds for a nation's **social welfare system.**

Social Welfare System: A set of government programs that provides for the needs of the unemployed, aged, disabled, or other groups deemed in need of government assistance.

Socialism: An economic system in which means of production and distribution are owned by the community, and profits are shared among the community. Countries with socialist economies put a premium on centralized control over an economy rather than allowing market forces to operate, and tend to have a relatively equal distribution of income.

Solvency: Financial stability.

Statist Economic Policy: A policy in **capitalist** or quasi-capitalist countries that favor state control or guidance of companies or sectors of the economy that are thought to be vital.

Strategic Industry: An industry considered extremely important to the well being of a country.

Structural Adjustment Program (SAP): A set of economic programs and policies aimed at stabilizing the overall structure of a troubled economy. Structural adjustment programs are often required by international lending agencies such as the World Bank and the International Monetary Fund. These programs often involve devaluing the currency, reducing government spending, and increasing exports.

Structural Unemployment: Unemployment caused by a mismatch between the needs of employers and the skills and training of the labor force.

Subsidy: A payment made by a government to an individual or company that produces a specific good or commodity. Some countries subsidize the production of certain agricultural crops, while others may subsidize mass transit or public art.

Subsistence Farming: Farming which generates only enough produce to feed the farmer's family, with little or nothing left over to sell.

Tariff: An **indirect tax** that is applied to an imported product or class of products.

Tax Haven: A place where investors shield their money from the national taxes of their own country. *See also* **Offshore Banking.**

Tax Holiday: A period of time in which businesses or investors enjoy exemptions from paying taxes. Tax holidays are offered as a lure to investment or business development.

Technocrat: Government official who is expert in specialized—usually technological—areas.

Trade Deficit: *See* **Balance of Trade.**

Trade Surplus: *See* **Balance of Trade.**

Transfer Payment: Cash paid directly to individuals by a government, usually as part of a **social welfare system.**

Transfer Pricing: A method used by foreign firms to overprice their overseas costs and thereby reduce their local tax liabilities.

Treasury Bill: Also called a **T-bill**. A guaranteed government investment bond sold to the public. They usually reach maturity after short periods, for example, three months or six months.

Trickle Down: An economic theory that contends that tax relief and other governmental incentives should be given primarily to the highest income earners in a society, on the assumption that their increased economic investment and other activity will provide benefits that "trickle down" to the lower- and middle-income wage-earners.

Turnover: The measure of trade activity in terms of the aggregated prices of all goods and services sold in the country during a year.

Two-tier Economy: An economy where skilled or educated workers enjoy a high standard of living, but unskilled workers are trapped in poverty.

Underemployment: A situation in which people are not reaching their economic potential because they are employed in low-paying or part-time jobs. For example, an engineer who is working in a fast food restaurant would be said to be experiencing underemployment.

Underground Economy: Economic transactions that are not reported to government, and therefore not taxable. **Informal sectors** and **black markets** are examples of underground economic activity.

Unicameral: A legislative body consisting of a single house or chamber.

United Nations Development Program (UNDP): The United Nations' principal provider of development advice, advocacy, and grant support.

Value Added: The increase in the value of a good at each stage in the production process. When a company adds value to its products it is able to gain a higher price for them, but it may be liable for a **value-added tax.**

Value-added Tax (VAT): A tax levied on the amount of **value added** to a total product at each stage of its manufacture.

Vertical Integration: Control over all stages of the production and distribution of a certain product. For example, if one company owns the mines, the steel plant, the transportation network, the factories, and the dealerships involved in making and selling automobiles, it is vertically integrated.

Voucher Privatization: A system for selling off state-owned companies in which citizens are given "vouchers" which they may invest in such companies. This system was devised to allow all citizens the opportunity to invest in formerly state-owned businesses; however, in practice many citizens invest their vouchers in voucher funds, which are professionally managed investment groups who amass vouchers in order to exert control over the direction of companies.

Welfare State: A government that assumes the responsibility for the well-being of its citizens by providing institutions and organizations that contribute to their care. *See also* **Social Welfare System.**

Workforce: *See* **Labor Force.**

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- Bolivia, **II:**54*f,* 57*t*
- Bosnia and Herzegovina, **IV:**66*f,* 68*t*
- Botswana, **I:**32*f,* 33*t*
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- Brunei Darussalam, **III:**68*f,* 71*t*
- Bulgaria, **IV:**75*f,* 78*t*
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- Portugal, **IV:**365*f,* 369*t*
- Puerto Rico, **II:**317*t*
- Qatar, **III:**478*f,* 480*t*
- Romania, **IV:**379*f,* 383*t*
- Russia, **IV:**393*f,* 399*t*
- Rwanda, **I:**368*f,* 369*t*
- St. Kitts and Nevis, **II:**325*f,* 328*t*
- St. Lucia, **II:**334*f,* 336*t*
- St. Vincent and the Grenadines, **II:**342*f,* 344*t*
- Samoa, **III:**485*f,* 488*t*
- San Marino, **IV:**409*t*
- São Tomé and Príncipe, **I:**376*f,* 378*t*
- Saudi Arabia, **III:**498*f,* 502*t*
- Senegal, **I:**385*f,* 388*t*
- Seychelles, **I:**396*f,* 398*t*
- Sierra Leone, **I:**404*f,* 406*t*
- Singapore, **III:**511*f,* 514*t*
- Slovakia, **IV:**414*f,* 418*t*
- Slovenia, **IV:**424*f,* 427*t*
- Solomon Islands, **III:**522*f,* 524*t*
- Somalia, **I:**413*f,* 415*t*
- South Africa, **I:**421*f,* 427*t*
- Spain, **IV:**438*f,* 442*t*

Gross Domestic Product (GDP) (*continued*)
- Sri Lanka, **III:**532*f,* 535*t*
- Sudan, **I:**436*f,* 439*t*
- Suriname, **II:**350*f,* 352*t*
- Swaziland, **I:**443*f,* 445*t*
- Sweden, **IV:**451*f,* 455*t*
- Switzerland, **IV:**465*f,* 470*t*
- Syria, **III:**543*f,* 547*t*
- Taiwan, **III:**556*f,* 563*t*
- Tajikistan, **III:**570*f,* 573*t*
- Tanzania, **I:**453*f,* 457*t*
- Thailand, **III:**582*f,* 588*t*
- Togo, **I:**467*f,* 469*t*
- Tonga, **III:**597*f,* 599*t*
- Trinidad and Tobago, **II:**358*f,* 360*t*
- Tunisia, **I:**476*f,* 479*t*
- Turkey, **III:**608*f,* 615*t*
- Turkmenistan, **III:**624*f,* 627*t*
- Tuvalu, **III:**635*t*
- Uganda, **I:**487*f,* 491*t*
- Ukraine, **IV:**479*f,* 483*t*
- United Arab Emirates, **III:**640*f,* 644*t*
- United Kingdom, **IV:**493*f,* 498*t*
- United States, **II:**368*f,* 374*t*
- Uruguay, **II:**385*f,* 387*t*
- Uzbekistan, **III:**651*f,* 654*t*
- Vanuatu, **III:**659*f,* 662*t*
- Venezuela, **II:**394*f,* 399*t*
- Vietnam, **III:**669*f,* 672*t*
- Yemen, **III:**680*f,* 682*t*
- Yugoslavia, **IV:**514*f,* 517*t*
- Zambia, **I:**499*f,* 502*t*
- Zimbabwe, **I:**509*f,* 512*t*
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- The Gambia, **I:**190
- Senegal, **I:**385

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- Chile, **II:**104
- Costa Rica, **II:**129
- Croatia, **IV:**91
- Denmark, **IV:**108–109
- Ecuador, **II:**167
- El Salvador, **II:**178
- Finland, **IV:**138–139
- Georgia, **IV:**162
- Germany, **IV:**165–166, 176–177
- Greece, **IV:**189
- Hong Kong, **III:**154
- Ireland, **IV:**224
- Japan, **III:**236
- Jordan, **III:**247–248
- Kazakhstan, **III:**261–262
- Malaysia, **III:**354
- Oman, **III:**425
- Pakistan, **III:**442
- Peru, **II:**312
- Philippines, **III:**470
- Poland, **IV:**354–355
- Romania, **IV:**383
- Spain, **IV:**443
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- Netherlands, **IV:**322
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House of Lords, United Kingdom, **IV:**490

Household consumption
- Albania, **IV:**6*t*
- Antigua and Barbuda, **II:**7*t*
- Argentina, **II:**20*t*
- Armenia, **IV:**22*t*
- Australia, **III:**21*t*
- Austria, **IV:**35*t*
- Azerbaijan, **III:**30*t*
- The Bahamas, **II:**30*t*
- Bahrain, **III:**38*t*
- Bangladesh, **III:**52*t*
- Belarus, **IV:**44*t*
- Belgium, **IV:**58*t*
- Belize, **II:**47*t*
- Benin, **I:**26*t*
- Bolivia, **II:**58*t*
- Botswana, **I:**34*t*
- Brazil, **II:**73*t*
- Bulgaria, **IV:**79*t*
- Cameroon, **I:**64*t*
- Canada, **II:**88*t*
- Chile, **II:**104*t*
- Congo, Republic of the, **I:**114*t*
- Côte d'Ivoire, **I:**125*t*
- Croatia, **IV:**91*t*
- Czech Republic, **IV:**102*t*
- Denmark, **IV:**115*t*
- Dominica, **II:**149*t*
- Ecuador, **II:**168*t*
- Egypt, **I:**146*t*
- Estonia, **IV:**124*t*
- Fiji, **III:**133*t*
- Finland, **IV:**137*t*
- France, **IV:**152*t*
- Gabon, **I:**184*t*
- Georgia, **IV:**161*t*
- Germany, **IV:**176*t*
- Greece, **IV:**190*t*
- Grenada, **II:**197*t*
- Guinea, **I:**212*t*
- Hong Kong, **III:**154*t*
- Hungary, **IV:**202*t*
- Iceland, **IV:**212*t*
- Indonesia, **III:**183*t*
- Ireland, **IV:**224*t*
- Israel, **III:**221*t*
- Italy, **IV:**241*t*

Jamaica, **II:**243*t*
Japan, **III:**237*t*
Jordan, **III:**248*t*
Kazakhstan, **III:**261*t*
Kenya, **I:**232*t*
Korea, South, **III:**292*t*
Kyrgyzstan, **III:**312*t*
Latvia, **IV:**252*t*
Lebanon, **III:**333*t*
Lithuania, **IV:**272*t*
Luxembourg, **IV:**283*t*
Macedonia, **IV:**290*t*
Madagascar, **I:**267*t*
Malawi, **I:**275*t*
Mali, **I:**283*t*
Mauritius, **I:**299*t*
Mexico, **II:**256*t*
Moldova, **IV:**307*t*
Mongolia, **III:**389*t*
Morocco, **I:**311*t*
Nepal, **III:**406*t*
Netherlands, **IV:**327*t*
New Zealand, **III:**417*t*
Nigeria, **I:**360*t*
Norway, **IV:**339*t*
Oman, **III:**426*t*
Pakistan, **III:**442*t*
Panama, **II:**287*t*
Peru, **II:**313*t*
Philippines, **III:**470*t*
Poland, **IV:**355*t*
Qatar, **III:**481*t*
Romania, **IV:**383*t*
Russia, **IV:**400*t*
St. Kitts and Nevis, **II:**328*t*
St. Lucia, **II:**337*t*
St. Vincent and the Grenadines, **II:**345*t*
Senegal, **I:**389*t*
Sierra Leone, **I:**407*t*
Singapore, **III:**515*t*
Slovakia, **IV:**418*t*
Slovenia, **IV:**427*t*
Spain, **IV:**443*t*
Sri Lanka, **III:**536*t*
Swaziland, **I:**446*t*
Sweden, **IV:**456*t*
Switzerland, **IV:**470*t*
Tajikistan, **III:**573*t*
Tanzania, **I:**458*t*
Thailand, **III:**588*t*
Trinidad and Tobago, **II:**361*t*
Tunisia, **I:**479*t*
Turkey, **III:**616*t*
Turkmenistan, **III:**628*t*
Ukraine, **IV:**483*t*
United Kingdom, **IV:**499*t*
United States, **II:**375*t*
Uruguay, **II:**388*t*
Uzbekistan, **III:**655*t*
Venezuela, **II:**399*t*
Vietnam, **III:**673*t*
Yemen, **III:**683*t*
Zambia, **I:**503*t*
Zimbabwe, **I:**512*t*
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Algeria, **I:**9*t*
Australia, **III:**21*t*
Austria, **IV:**34*t*
Bangladesh, **III:**52*t*
Belarus, **IV:**43*t*
Belgium, **IV:**58*t*
Bolivia, **II:**58*t*
Brazil, **II:**72*t*
Bulgaria, **IV:**79*t*
Burkina Faso, **I:**44*t*
Burundi, **I:**52*t*
Cambodia, **III:**91*t*
Canada, **II:**89*t*
Central African Republic, **I:**80*t*
China, **III:**107*t*
Colombia, **II:**117*t*
Costa Rica, **II:**129*t*
Côte d'Ivoire, **I:**124*t*
Croatia, **IV:**91*t*
Czech Republic, **IV:**101*t*
Denmark, **IV:**115*t*
Dominican Republic, **II:**157*t*
Ecuador, **II:**167*t*
Egypt, **I:**146*t*
El Salvador, **II:**178*t*
Estonia, **IV:**124*t*
Ethiopia, **I:**176*t*
Finland, **IV:**137*t*
France, **IV:**152*t*
The Gambia, **I:**192*t*
Germany, **IV:**176*t*
Ghana, **I:**202*t*
Greece, **IV:**189*t*
Guatemala, **II:**206*t*
Guinea, **I:**211*t*
Guinea-Bissau, **I:**221*t*
Guyana, **II:**214*t*
Honduras, **II:**232*t*
Hungary, **IV:**202*t*
India, **III:**168*t*
Indonesia, **III:**182*t*
Ireland, **IV:**223*t*
Israel, **III:**220*t*
Italy, **IV:**240*t*

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Jamaica, **II:**242*t*
Japan, **III:**236*t*
Jordan, **III:**248*t*
Kazakhstan, **III:**261*t*
Kenya, **I:**232*t*
Korea, South, **III:**292*t*
Kyrgyzstan, **III:**311*t*
Laos, **III:**323*t*
Latvia, **IV:**251*t*
Lesotho, **I:**241*t*
Lithuania, **IV:**271*t*
Luxembourg, **IV:**282*t*
Madagascar, **I:**266*t*
Malaysia, **III:**354*t*
Mali, **I:**282*t*
Mauritania, **I:**291*t*
Mexico, **II:**255*t*
Moldova, **IV:**306*t*
Mongolia, **III:**389*t*
Morocco, **I:**310*t*
Mozambique, **I:**322*t*
Nepal, **III:**405*t*
Netherlands, **IV:**326*t*
New Zealand, **III:**416*t*
Nicaragua, **II:**276*t*
Niger, **I:**343*t*
Nigeria, **I:**360*t*
Norway, **IV:**339*t*
Pakistan, **III:**441*t*
Panama, **II:**287*t*
Papua New Guinea, **III:**458*t*
Paraguay, **II:**300*t*
Peru, **II:**312*t*
Philippines, **III:**469*t*
Poland, **IV:**354*t*
Portugal, **IV:**370*t*
Romania, **IV:**383*t*
Russia, **IV:**399*t*
Rwanda, **I:**370*t*
St. Lucia, **II:**336*t*
Senegal, **I:**388*t*
Sierra Leone, **I:**406*t*
Slovakia, **IV:**418*t*
Slovenia, **IV:**427*t*
South Africa, **I:**427*t*
Spain, **IV:**442*t*
Sri Lanka, **III:**536*t*
Swaziland, **I:**446*t*
Sweden, **IV:**455*t*
Switzerland, **IV:**470*t*
Tanzania, **I:**458*t*
Thailand, **III:**588*t*
Trinidad and Tobago, **II:**360*t*
Tunisia, **I:**479*t*
Turkey, **III:**615*t*
Turkmenistan, **III:**628*t*
Uganda, **I:**492*t*
Ukraine, **IV:**483*t*
United Kingdom, **IV:**498*t*
United States, **II:**375*t*
Uruguay, **II:**388*t*
Uzbekistan, **III:**654*t*
Venezuela, **II:**399*t*
Vietnam, **III:**673*t*
Yemen, **III:**682*t*
Zambia, **I:**502*t*
Zimbabwe, **I:**512*t*
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Angola, **I:**18
Antigua and Barbuda, **II:**6, 6*t*
Argentina, **II:**18–19, 18*t*
Armenia, **IV:**21–22, 21*t*
Australia, **III:**19–20, 19*t*
Austria, **IV:**33, 33*t*
Azerbaijan, **III:**29, 29*t*
The Bahamas, **II:**29–30, 29*t*
Bahrain, **III:**37, 37*t*
Bangladesh, **III:**50, 50*t*
Barbados, **II:**37–38, 38*t*
Belarus, **IV:**42–43, 42*t*
Belgium, **IV:**56–57
Belize, **II:**46, 46*t*
Benin, **I:**25–26, 25*t*
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Bolivia, **II:**56–57, 56*t*
Bosnia and Herzegovina, **IV:**67
Botswana, **I:**33, 33*t*
Brazil, **II:**71, 71*t*
Brunei Darussalam, **III:**70, 70*t*
Bulgaria, **IV:**77, 77*t*
Burkina Faso, **I:**43, 43*t*
Burma, **III:**80–81, 80*t*
Burundi, **I:**51, 51*t*
Cambodia, **III:**90, 90*t*
Cameroon, **I:**63, 63*t*
Canada, **II:**86–87, 86*t*
Cape Verde, **I:**71, 71*t*
Central African Republic, **I:**79–80, 80*t*
Chad, **I:**88–89, 88*t*
Chile, **II:**102–103, 102*t*
China, **III:**104–105, 104*t*
Colombia, **II:**115–116, 115*t*
Comoros, **I:**95, 95*t*
Congo, Democratic Republic of the, **I:**104–105, 104*t*
Congo, Republic of the, **I:**113, 113*t*
Costa Rica, **II:**127–128, 127*t*
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Georgia, **IV:**160
Germany, **IV:**174–175, 175*t*
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Greece, **IV:**187–188, 187*t*
Grenada, **II:**195–196, 196*t*
Guatemala, **II:**204, 204*t*
Guinea, **I:**210–211
Guinea-Bissau, **I:**220, 220*t*
Guyana, **II:**213–214, 214*t*
Haiti, **II:**222, 222*t*
Honduras, **II:**230–231, 231*t*
Hong Kong, **III:**152–153, 153*t*
Hungary, **IV:**201, 201*t*
Iceland, **IV:**210–211, 211*t*
India, **III:**167, 167*t*
Indonesia, **III:**181, 181*t*
Iran, **III:**198–199, 198*t*
Iraq, **III:**209–210
Ireland, **IV:**222–223, 222*t*
Israel, **III:**219–220, 219*t*
Italy, **IV:**238–239, 238*t*
Jamaica, **II:**241–242, 241*t*
Japan, **III:**235, 235*t*
Jordan, **III:**246–247, 246*t*
Kazakhstan, **III:**259, 259*t*
Kenya, **I:**230–231, 230*t*
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Kyrgyzstan, **III:**310, 310*t*
Laos, **III:**321–322, 321*t*
Latvia, **IV:**250–251
Lebanon, **III:**332, 332*t*
Lesotho, **I:**240
Liberia, **I:**248, 248*t*
Libya, **I:**256, 256*t*
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Macedonia, **IV:**289
Madagascar, **I:**265–266, 265*t*
Malawi, **I:**273–274, 274*t*
Malaysia, **III:**352–353, 352*t*
Maldives, **III:**364, 364*t*
Mali, **I:**282, 282*t*
Malta, **IV:**297, 297*t*
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Mauritania, **I:**290, 290*t*
Mauritius, **I:**297–298, 298*t*
Mexico, **II:**253–254, 253*t*
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Moldova, **IV:**305
Monaco, **IV:**313
Mongolia, **III:**388, 388*t*
Morocco, **I:**309, 309*t*
Mozambique, **I:**320–321, 320*t*
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Nepal, **III:**403–404, 403*t*
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New Zealand, **III:**415, 415*t*
Nicaragua, **II:**275, 275*t*
Niger, **I:**342–343, 342*t*
Nigeria, **I:**359, 359*t*
Norway, **IV:**337–338, 338*t*
Oman, **III:**424–425, 424*t*
Pakistan, **III:**440, 440*t*
Palau, **III:**448
Panama, **II:**285–286, 285*t*
Papua New Guinea, **III:**457, 457*t*
Paraguay, **II:**298–299, 298*t*
Peru, **II:**311, 311*t*
Philippines, **III:**467–468, 467*t*
Poland, **IV:**352–353, 352*t*
Portugal, **IV:**368, 368*t*
Puerto Rico, **II:**319, 319*t*
Qatar, **III:**479–480, 480*t*
Romania, **IV:**382, 382*t*
Russia, **IV:**397, 397*t*
Rwanda, **I:**369, 369*t*
St. Kitts and Nevis, **II:**327, 327*t*
St. Lucia, **II:**335, 335*t*
St. Vincent and the Grenadines, **II:**343–344, 344*t*
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Saudi Arabia, **III:**501–502, 501*t*
Senegal, **I:**387–388, 387*t*
Seychelles, **I:**397, 397*t*
Sierra Leone, **I:**405–406, 405*t*
Singapore, **III:**513, 513*t*
Slovakia, **IV:**417
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Somalia, **I:**414
South Africa, **I:**425–426, 426*t*
Spain, **IV:**441, 441*t*
Sri Lanka, **III:**534–535, 534*t*
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